

Hindustan Zinc

Estimate changes



TP change



Rating change



Bloomberg	HZ IN
Equity Shares (m)	4225
M.Cap.(INRb)/(USD\$b)	1830.4 / 21.2
52-Week Range (INR)	808 / 285
1, 6, 12 Rel. Per (%)	-1/-21/31
12M Avg Val (INR M)	1480

Financials Snapshot (INR b)

Y/E MARCH	FY25	FY26E	FY27E
Net Sales	336	371	379
EBITDA	171.7	208.5	214.9
PAT	101.4	131.7	135.4
EPS (INR)	24.0	31.2	32.0
GR. (%)	30.7	29.9	2.8
BV/Sh (INR)	30.0	49.1	69.2
Ratios			
ROE (%)	72.8	78.8	54.2
RoCE (%)	59.4	67.5	53.6
Valuations			
P/E (X)	18.0	13.9	13.5
P/BV (X)	14.4	8.8	6.2
EV/EBITDA (X)	10.6	8.3	7.5
Div Yield (%)	6.9	2.8	2.8

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	63.4	63.4	64.9
DII	32.0	32.7	32.5
FII	1.4	1.0	0.7
Others	3.2	2.9	1.9

FII Includes depository receipts

CMP: INR433

TP: INR460 (+6%)

Neutral

Revenue in line, beat on EBITDA; focuses on CoP

- Hindustan Zinc (HZ)'s revenue was INR86b (YoY/QoQ: +18%/+4%) vs. our estimate of INR82b. The growth was largely on account of higher zinc and silver prices and a strong dollar, marginally offset by lower metal volumes.
- EBITDA stood at INR45b (YoY/QoQ: +28%/+9%) against our estimate of INR41b, led by higher revenues and lower-than-expected cost of production (COP). EBITDA margin came in at 52.2% vs. 50% in 2QFY25.
- Zinc's COP for 3QFY25 stood at USD1,041/t (INR 87,960/t), -5% YoY and -3% QoQ. The improvement was led by higher metal grades and better domestic coal availability with lower costs, which were further supported by increased renewable energy and higher acid realizations.
- APAT stood at INR27b (YoY/QoQ: +32%/ +15%) vs. our est. of INR23b. For 9MFY25, revenue grew 17%, EBITDA grew 26%, and APAT rose 30% YoY.
- Mined metal for 3QFY25 stood at 265kt, -2% YoY, with lower ore production at Agucha and SK mines, partly offset by improved mined metal grades and mill recovery. However, it rose 3% QoQ driven by higher mined metal grades and an increase in production at Agucha and Zawar mines.
- Total refined metal production was flat YoY at 259 kt and was marginally down QoQ due to a planned maintenance shutdown.
- The refined Zinc volume stood at 204kt (YoY/QoQ: flat / +3%) and the refined Lead volume stood at 55kt (YoY/QoQ: -2% /-13%), lower due to pyro plant operations on lead mode for longer duration.
- Silver volume stood at 160t (YoY/QoQ: -19%/ -13%) on account of lower silver output input from SK Mine.

Key management commentary

- For FY25, the management retained its mined metal production guidance of 1,100-1,125kt and refined metal production of 1,075-1,100kt
- The management maintained its zinc CoP guidance of USD1,050-1,100/t for FY25 and was confident in meeting the lower end of the band.
- Silver volume guidance for FY25 is expected to be in the range of 700-710 tonnes vs earlier guidance of 750-775 tonnes.
- Zinc COP stood at USD1,041/t in 3QFY25 vs USD1,071/t in Q2FY25. Management targets to exit at USD1,000/t by FY26 end and below USD1,000/t by the end of FY27.

Valuation and view

- The performance was largely in line with our estimates. The company continues to focus on improving production with tight cost control. We retain our earnings estimates and expect HZ to maintain its focus on profitability.
- At CMP, HZ trades at 7.5x FY27E EV/EBITDA, and we believe the current valuation prices in all positive factors. **We reiterate our Neutral rating** with a TP of INR460 (premised on 8x EV/EBITDA on FY27 estimates).

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Quarterly Performance

(INR b)

Y/E March	FY24				FY25E				FY24	FY25E	FY25 2QE	Vs. Est. %
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Mine prodn. (kt)	257	252	271	299	263	256	265	299	1,079	1,083		
Sales												
Zinc refined (kt)	208	185	203	221	211	198	201	218	817	828		
Lead refined (kt)	50	57	56	53	51	63	55	62	216	231		
Silver (tonnes)	179	181	197	179	167	184	160	168	736	679		
Net Sales	72.8	67.9	73.1	75.5	81.3	82.5	86.1	86.5	289.3	336.5	82.0	5.0
Change (YoY %)	(22.4)	(18.5)	(7.1)	(11.3)	11.6	21.5	17.8	14.6	(15.2)	16.3		
Change (QoQ %)	(14.4)	(6.7)	7.6	3.3	7.7	1.5	4.4	0.4				
EBITDA	33.5	31.4	35.2	36.5	39.5	41.2	45.0	46.0	136.6	171.7	40.5	11.0
Change (YoY %)	(34.8)	(28.8)	(5.0)	(14.2)	17.9	31.3	27.8	26.0	(22.0)	25.7		
Change (QoQ %)	(21.3)	(6.2)	12.2	3.6	8.1	4.5	9.1	2.2				
As % of Net Sales	46.0	46.2	48.2	48.3	48.5	50.0	52.2	53.2	47.2	51.0		
Finance cost	2.2	2.3	2.4	2.6	2.6	3.0	2.9	3.2	9.6	11.7		
DD&A	8.0	8.3	9.1	9.4	8.4	8.8	9.1	9.5	34.7	35.8		
Other Income	2.8	2.2	3.0	2.7	2.7	2.7	2.2	2.9	10.7	10.4		
PBT (before EO item)	26.1	23.1	26.7	27.2	31.1	32.1	35.3	36.1	103.1	134.7		
EO exp. (income)	-	-	-	-	-	(0.8)	-	-	-	(0.8)		
PBT	26.1	23.1	26.7	27.2	31.1	33.0	35.3	36.1	103.1	135.5		
Total Tax	6.5	5.8	6.4	6.9	7.7	8.0	8.5	9.0	25.5	33.3		
% Tax	24.8	25.0	24.0	25.2	24.7	24.4	24.1	25.1	24.7	24.5		
Reported PAT	19.6	17.3	20.3	20.4	23.5	24.9	26.8	27.1	77.6	102.2		
Adjusted PAT	19.6	17.3	20.3	20.4	23.5	24.1	26.8	27.1	77.6	101.4	23.1	16.1
Change (YoY %)	(36.5)	(35.5)	(5.9)	(21.1)	19.4	34.6	32.1	32.8	(26.2)	29.6		
Change (QoQ %)	(24.0)	(12.0)	17.3	0.5	15.1	(0.8)	15.1	1.1				



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Highlights from the management commentary

Performance guidance

- For FY25, the management retained its mined metal production guidance of 1,100-1,125kt and refined metal production of 1,075-1,100kt
- The decline in CoP during 3QFY25 was largely on account of better grades, softened coal and input commodity prices, and better linkage coal materialization. The management maintained its zinc CoP guidance of USD1,050-1,100/t for FY25 and was confident in meeting the lower end of the band.
- Silver volume guidance for FY25E is expected to be in the range of 700-710 tonnes vs earlier guidance of 750-775 tonnes.
- Hedging gain during the 9MFY25 period stood at INR580mn.
- Zinc COP stood at USD1,041/t in 3QFY25 vs USD1,071/t in Q2FY25. Management targets to exit USD1,000/t by FY26 end and below USD1,000/t by FY27 end.
- HZL has paid advance royalties of INR6.5b for FY25E.

Other highlights

- Mine development plan to reach 2mtpa run rate – HZL will be increasing its capacities from 1,200ktpa to 1,450ktpa in the first phase by FY28E and then add another 500-550ktpa single plant to achieve the targeted volumes. The total expected capex from this expansion is set to be between USD2-2.5b.
- Despite technical difficulties, the fumers are steadily ramping up. Design inefficiencies and possible problems with parts have been identified in the last 5-6 months. It should start giving good results by Q4FY25. The fumer has given around 5 tons of silver so far and is running at a 30% utilization level as per its designed capacity (expected to reach 60% by the end of FY25E).

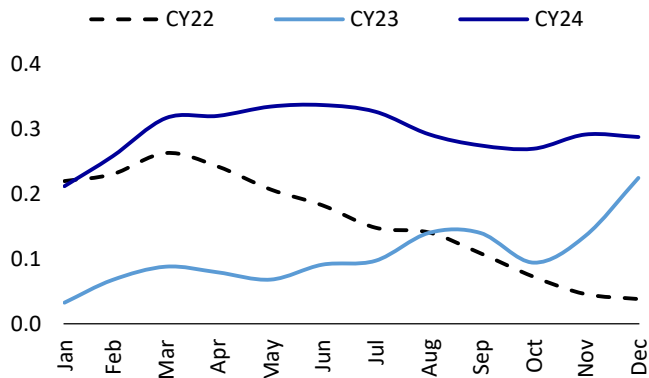
- About 18-20% of energy share will be RE by the end of the next quarter (dipped from 25% estimated earlier). The current share stands at 15%.
- Supreme Court ruling on retrospective taxes on royalties – a net impact of INR830m had been provided for in exceptional items in the 2QFY25 results. The company expects to see this as a reversal in the next quarter as no tax notices have been received.

Update on capex

- 510kt of DAP/NPK fertilizer plant at Chanderiya is progressing as per timelines and will be commissioned by 4QFY26, which is expected to generate an EBITDA of INR4.5-5b and revenue to be in line with INR20b.
- The new roaster at Debari is on track and will be commissioned by 4QFY25
- Hindustan Zinc Alloy Plant has generated an EBITDA of INR430m for Q3FY25 with PAT of INR310m. At peak capacity, it should give INR2b of EBITDA on a full-year basis. Further, being a new company, the effective tax rate will be 17.44%.

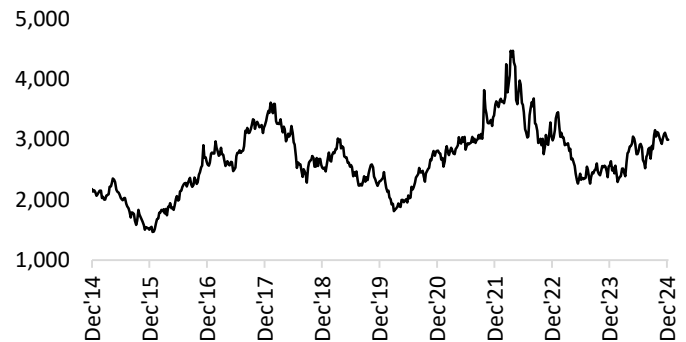
Story in charts

Exhibit 1: Zinc inventory trend (LME+SHFE)



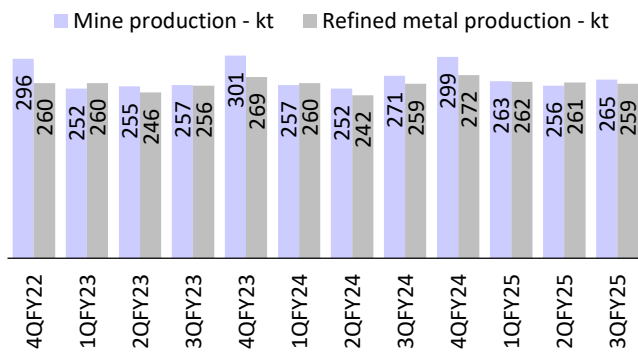
Source: MOFSL, Company

Exhibit 2: LME Zinc prices (USD/t)



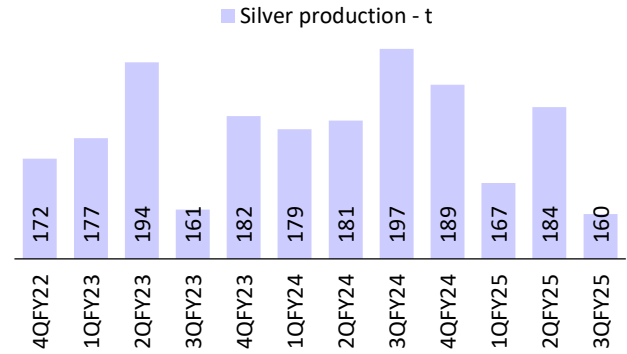
Source: MOFSL, Company

Exhibit 3: Mine production and refined metal production



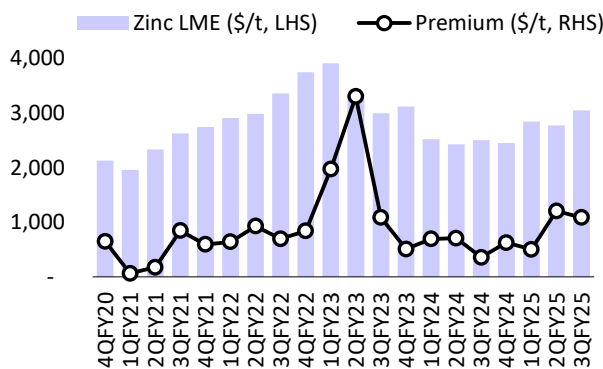
Source: MOFSL, Company

Exhibit 4: Silver production (t) declined QoQ



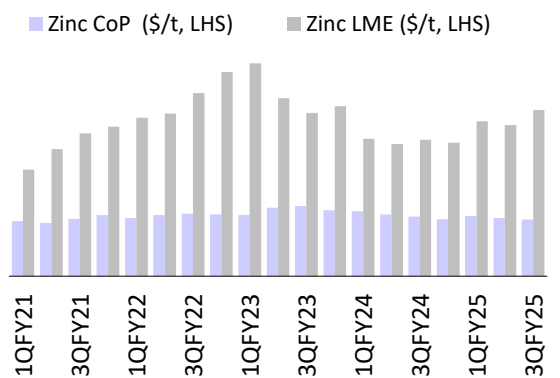
Source: MOFSL, Company

Exhibit 5: Premium sustained above USD250/t



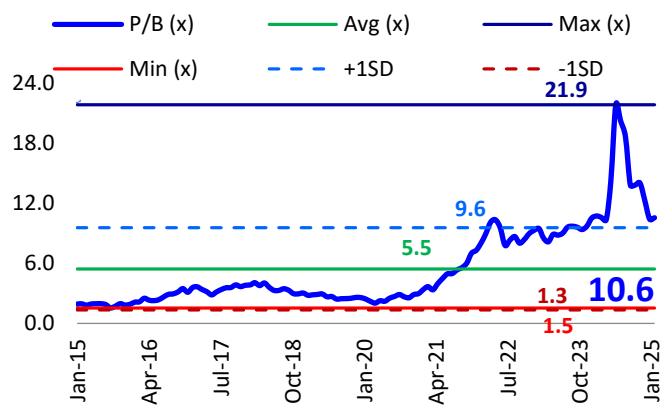
Source: MOFSL, Company

Exhibit 6: Zinc's CoP declined to USD1041/t vs. LME's at USD3055/t



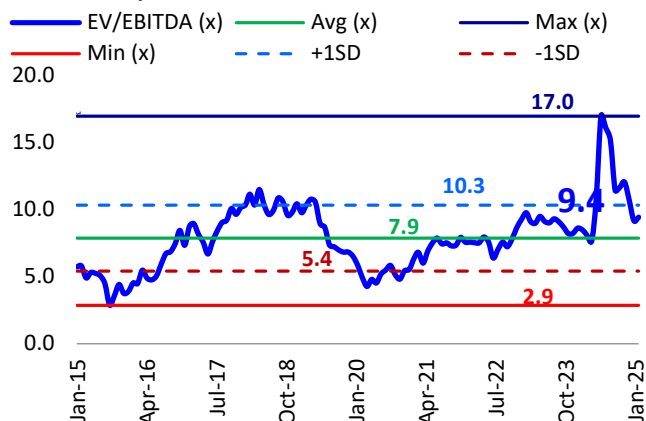
Source: MOFSL, Company

Exhibit 7: P/B ratio at elevated levels to justify high RoE



Source: MOFSL

Exhibit 8: EV/EBITDA trends



Source: MOFSL

Exhibit 9: Valuation

Valuation	UoM	FY27E
EBITDA	INR b	215
EV/EBITDA Multiple	x	8.0
Enterprise Value	INR b	1,719
Net Cash	INR b	210
Equity value	INR b	1,929
Shares outstanding	b	4.2
Target price (INR/sh; rounded-off)	INR/sh	460

Source: MOFSL

Financials and Valuation

Income Statement							(INR b)
Y/E March	FY21	FY22	FY23	FY25	FY26E	FY27E	FY27E
Net Sales	226	294	341	289	336	371	379
Total Expenses	110	132	166	153	165	162	164
EBITDA	117	162	175	137	172	208	215
DDA	25	29	33	35	36	39	41
EBIT	91	133	142	102	136	169	174
Finance cost	4	3	3	10	12	8	9
Other income	18	12	14	11	10	14	14
PBT	106	142	153	103	135	175	180
Tax	26	45	48	25	33	43	44
Rate (%)	24.5	31.4	31.2	24.7	24.7	24.7	24.7
PAT (before EO)	80	98	105	78	101	132	135
EO expense (Income)	0	1	0	0	1	0	0
Reported PAT	80	96	105	78	101	132	135
APAT	80	98	105	78	101	132	135
Change (YoY %)	17.3	22.3	7.7	-26.2	30.7	29.9	2.8

E: MOFSL estimates

Balance Sheet							(INR b)
Y/E March	FY21	FY22	FY23	FY25	FY26E	FY27E	FY27E
Share Capital	8	8	8	8	8	8	8
Reserves	315	334	121	144	118	199	284
Net Worth	323	343	129	152	127	208	292
Total Loans	65	28	119	85	83	81	79
Deferred Tax Liability	-11	9	23	23	22	22	21
Capital Employed	377	381	271	261	232	311	392
Gross Block	300	335	370	410	435	451	466
Less: Accum. Deprn.	132	161	194	229	264	304	345
Net Fixed Assets	168	174	176	182	171	147	122
Capital WIP	19	21	22	17	17	17	17
WC. Assets	259	252	156	140	123	227	334
Inventory	14	20	19	19	18	20	21
Account Receivables	4	7	4	2	5	5	5
Cash and Bank Balance	223	208	113	100	80	182	289
Loans and advances	18	17	21	19	19	19	19
WC. Liability & Prov.	69	66	84	78	78	80	81
Trade payables	15	20	21	21	21	23	23
Provisions & Others	54	46	63	57	57	57	57
Net WC. Assets	190	186	72	62	45	147	254
Appl. of Funds	377	381	271	261	232	311	392

E: MOFSL estimates

Financials and Valuation

Ratios							
Y/E March	FY21	FY22	FY23	FY25	FY26E	FY27E	FY27E
Basic (INR)							
EPS	18.9	23.1	24.9	18.4	24.0	31.2	32.0
Cash EPS	24.9	30.0	32.6	26.6	32.5	40.5	41.7
Book Value	76.5	81.1	30.6	36.0	30.0	49.1	69.2
DPS	21.3	18.0	75.5	15.0	30.0	12.0	12.0
Payout (incl. div. text)	112.7	77.9	303.5	81.7	125.0	38.5	37.4
Valuation (X)							
P/E	22.9	18.7	17.4	23.6	18.0	13.9	13.5
Cash P/E	17.4	14.4	13.3	16.3	13.3	10.7	10.4
Price/Book Value	7.4	5.6	5.4	6.3	5.4	4.7	4.3
EV/Sales	14.3	10.2	10.5	13.3	10.7	8.3	7.5
EV/EBITDA	4.9	4.2	17.4	3.5	6.9	2.8	2.8
Dividend Yield (%)	22.9	18.7	17.4	23.6	18.0	13.9	13.5
Profitability Ratios (%)							
ROE%	28.5	38.3	47.9	42.4	59.4	67.5	53.6
ROCE%	56.7	81.5	86.1	64.0	87.1	120.6	150.4
Turnover Ratios (%)							
Debtors (No. of days)	1.4	1.7	1.9	1.6	1.9	2.3	2.8
Inventory (No. of days)	7	9	4	5	5	5	5
Creditors (No. of days)	25	25	22	22	22	22	22
Leverage Ratios (%)							
Net Debt/ Equity (x)	-0.5	-0.5	0.0	(0.1)	0.0	(0.5)	(0.7)

E: MOFSL estimates

Cash Flow Statement								(INR b)
Y/E March	FY21	FY22	FY23	FY25	FY26E	FY27E	FY27E	
Adj EBITDA	117	162	175	137	172	208	215	
Non Cash Op. Exp (Inc)	0	1	2	16	-	-	-	
(Inc)/Dec in Wkg Cap	6	-12	6	(2)	(3)	(0)	(0)	
Tax Paid	-18	-24	-31	(18)	(34)	(44)	(45)	
CF. From Op Activity	106	127	151	133	135	164	170	
(Inc)/Dec in FA & CWIP	-24	-30	-35	(40)	(25)	(15)	(15)	
Free Cashflows	81	97	116	93	110	149	154	
Interest & Dividend Income	15	9	14	11	10	14	14	
others	-15	29	87	(5)	-	-	-	
CF. From Inv Activity	-24	8	66	(34)	(15)	(1)	(1)	
(Inc)/dec in Debt	65	-43	90	(34)	(2)	(2)	(2)	
Interest Paid	-160	-76	-319	(63)	(127)	(51)	(51)	
Dividend Paid (Incl. tax)	-2	-3	-3	(10)	(12)	(8)	(9)	
Others	0	0	0	8	-	-	-	
CF. From Fin Activity	-97	-123	-232	(99)	(140)	(61)	(61)	
(Inc)/dec in cash	-16	13	-15	(0)	(20)	102	107	
Add: Opening cash balance	19	3	16	1	1	(20)	82	
Adjustments	0	0	0	-	-	-	-	
Closing cash balance	3	16	1	1	(20)	82	189	
Bank balance and current investments	220	192	112	100	100	100	100	
Closing Balance	223	208	113	100	80	182	289	

E: MOFSL estimates

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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