

January 21, 2019

## Q3FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		ACCUMULATE	
Target Price	275		312	
Sales (Rs. m)	218,720	238,947	238,914	246,726
% Chng.			(8.5)	(3.2)
EBITDA (Rs. m)	110,758	119,703	126,774	126,103
% Chng.			(12.6)	(5.1)
EPS (Rs.)	19.0	20.8	21.7	21.8
% Chng.			(12.4)	(4.7)

### Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	220,840	215,427	218,720	238,947
EBITDA (Rs. m)	122,720	112,561	110,758	119,703
Margin (%)	55.6	52.3	50.6	50.1
PAT (Rs. m)	90,979	86,714	80,189	87,768
EPS (Rs.)	21.5	20.5	19.0	20.8
Gr. (%)	9.4	(4.7)	(7.5)	9.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	27.3	24.6	22.0	21.5
RoCE (%)	28.9	27.1	24.7	23.8
EV/Sales (x)	4.1	4.4	4.2	3.7
EV/EBITDA (x)	7.4	8.5	8.3	7.3
PE (x)	12.4	13.0	14.1	12.9
P/BV (x)	3.1	3.3	2.9	2.6

### Key Data

HZNC.BO | HZ IN

52-W High / Low	Rs.317 / Rs.242
Sensex / Nifty	36,579 / 10,962
Market Cap	Rs.1,130bn/ \$ 15,880m
Shares Outstanding	4,225m
3M Avg. Daily Value	Rs.605.37m

### Shareholding Pattern (%)

Promoter's	64.92
Foreign	1.53
Domestic Institution	2.44
Public & Others	31.11
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.5)	8.4	(3.9)
Relative	(4.7)	8.2	(6.7)

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## Continues to disappoint on volumes; Downgrade to Hold

**Hindustan Zinc (HZ) reported Q3FY19 earnings below our expectation due to lower than expected volumes and realisations, partially offset by lower costs. Earnings quality deteriorated further due to falling grades and poor mix. We downgrade our earnings estimates by 10%/5% for FY20e/FY21e to factor in lower volumes and higher costs. Deteriorating grade mix, peaked-out supply deficit and rising cost trajectory calls for valuation de-rating. We downgrade stock from ACCUMULATE to HOLD with revised TP of Rs275 (earlier Rs312), EV/EBITDA of 7.2x (earlier 8.0x) FY21e.**

- Miss on all counts except the cost:** Refined metal production fell 1.3% YoY (↑14% QoQ) to 242kt largely due to lower zinc volumes. Silver production rose 35% YoY (↑14% QoQ) to 178t driven by better silver grades. Realisations fell short of our estimate by 0.5% due to higher share of Lead and lower premiums. Unitary cost fell 4% QoQ (↑3% YoY) better than our estimate of 2% fall on the back of lower fuel costs. Marred by lower than expected volumes and weaker realisations, EBITDA came in below our estimates at Rs28.4bn (PLe:Rs29.5bn), +22% QoQ/↓13% YoY. Led by 96% YoY increase in other income because of MTM gains (due to fall in yields), PAT came in line with our estimates at Rs22.1bn, ↑22% QoQ/↓4% YoY.
- Key highlights of con-call: 1)** Lowered capex guidance to US\$350mn (earlier guided US\$400-US\$450mn) due to specific contractor related issues and delays in commissioning of shafts **2)** Delayed commissioning of shaft at Rampura Agucha (RA)/Sindesar Khurd (SK) mines by couple of quarters with revised timeline of Q2FY20/Q4FY19 **3)** On track to reach 1.2mtpa mined metal capacity by FY20 end **4)** Guided 4%-9% QoQ reduction in Zinc CoP to US\$900-950/t on the back of higher scale and softening of diesel and coal cost **5)** Ore grade improved to 8.2% from 8.0% in Q3FY18 **6)** Will announce new expansion plan to setup Fertilizer and Sulphuric Acid plant **7)** 1.5mtpa mill at Sindesar Khurd commissioned in Q3; 2mtpa mill at Zawar and Fumer project at Chanderia are expected to commission in Q4FY19 **8)** Lead metal's share would increase to ~24% from current 22% post completion of ongoing expansion **9)** Secured mere 3% of the linkage from Coal India in Quarter, witnessed improvement in supplies in January

**Exhibit 1: Q3FY19 Result Overview**

Rs mn	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	<b>55,400</b>	<b>59,220</b>	<b>(6.5)</b>	<b>47,770</b>	<b>156,270</b>	<b>158,070</b>	<b>(1.1)</b>
Raw material consumed	(250)	2,310	-	(1,050)	(890)	4,800	(118.5)
<i>% of Net Sales</i>	<i>-0.5</i>	<i>3.9</i>		<i>-2.2</i>	<i>-0.6</i>	<i>3.0</i>	
Power and fuel	4,930	4,290	14.9	4,380	13,710	12,110	13.2
<i>% of Net Sales</i>	<i>8.9</i>	<i>7.2</i>		<i>9.2</i>	<i>8.8</i>	<i>7.7</i>	
Mining Royalty Rates	6,700	7,020	(4.6)	6,280	19,290	18,180	6.1
<i>% of Net Sales</i>	<i>12.1</i>	<i>11.9</i>		<i>13.1</i>	<i>12.3</i>	<i>11.5</i>	
Employee Cost	2,150	1,950	10.3	2,450	6,920	5,940	16.5
<i>% of Net Sales</i>	<i>3.9</i>	<i>3.3</i>		<i>5.1</i>	<i>4.4</i>	<i>3.8</i>	
Selling, general and administrative	13,490	11,210	20.3	12,370	38,390	30,520	25.8
<i>% of Net Sales</i>	<i>24.4</i>	<i>18.9</i>		<i>25.9</i>	<i>24.6</i>	<i>19.3</i>	
Total Expenditure	27,020	26,780	0.9	24,430	77,420	71,550	8.2
EBITDA	<b>28,380</b>	<b>32,440</b>	<b>(12.5)</b>	<b>23,340</b>	<b>78,850</b>	<b>86,520</b>	<b>(8.9)</b>
<i>Margin (%)</i>	<i>51.2</i>	<i>54.8</i>		<i>48.9</i>	<i>50.5</i>	<i>54.7</i>	
Depreciation	4,890	3,730	31.1	4,540	13,300	10,580	25.7
Other income	5,500	2,810	95.7	3,940	12,430	12,810	(3.0)
EBIT	<b>28,990</b>	<b>31,520</b>	<b>(8.0)</b>	<b>22,740</b>	<b>77,980</b>	<b>88,750</b>	<b>(12.1)</b>
Interest	510	170	200.0	-	660	2,380	(72.3)
PBT	<b>28,480</b>	<b>31,350</b>	<b>(9.2)</b>	<b>22,740</b>	<b>77,320</b>	<b>86,370</b>	<b>(10.5)</b>
Extraordinary income/(expense)	-	-		-	-	2,910	
PBT (After EO)	28,480	31,350	(9.2)	22,740	77,320	89,280	(13.4)
Tax	6,370	8,370	(23.9)	4,590	17,880	21,700	(17.6)
<i>% PBT</i>	<i>22.4</i>	<i>26.7</i>		<i>20.2</i>	<i>23.1</i>	<i>24.3</i>	
Reported PAT	<b>22,110</b>	<b>22,980</b>	<b>(3.8)</b>	<b>18,150</b>	<b>59,440</b>	<b>67,580</b>	<b>(12.0)</b>
Adjusted PAT	<b>22,110</b>	<b>22,980</b>	<b>(3.8)</b>	<b>18,150</b>	<b>59,440</b>	<b>65,377</b>	<b>(9.1)</b>

Source: Company, PL

**Exhibit 2: Key Operating Metrics**

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
LME Zinc average (US\$/t)	2,631	3,236	(18.7)	2,537	2,760	2,932	(5.9)
LME Lead average (US\$/t)	1,964	2,492	(21.2)	2,104	2,152	2,329	(7.6)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	247,000	240,000	2.9	232,000	691,000	692,000	(0.1)
- Refined metal (Zinc+Lead)-tonnes	242,000	245,232	(1.3)	211,561	667,056	703,781	(5.2)
- Silver (kgs)	178,000	132,000	34.8	172,000	488,000	387,000	26.1
Sales volume							
- Refined Zinc	187,000	200,000	(6.5)	160,000	517,000	583,000	(11.3)
- Refined Lead	54,000	45,000	20.0	49,000	145,000	119,000	21.8
- Silver (kgs)	178,000	132,000	34.8	161,000	480,000	388,000	23.7

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>220,840</b>	<b>215,427</b>	<b>218,720</b>	<b>238,947</b>
YoY gr. (%)	27.9	(2.5)	1.5	9.2
Cost of Goods Sold	-	-	-	-
Gross Profit	220,840	215,427	218,720	238,947
Margin (%)	100.0	100.0	100.0	100.0
Employee Cost	7,760	9,584	9,967	10,366
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>122,720</b>	<b>112,561</b>	<b>110,758</b>	<b>119,703</b>
YoY gr. (%)	26.0	(8.3)	(1.6)	8.1
Margin (%)	55.6	52.3	50.6	50.1
Depreciation and Amortization	14,830	17,292	20,603	22,605
<b>EBIT</b>	<b>107,890</b>	<b>95,269</b>	<b>90,155</b>	<b>97,098</b>
Margin (%)	48.9	44.2	41.2	40.6
Net Interest	2,830	600	600	600
Other Income	17,510	20,184	16,655	19,751
<b>Profit Before Tax</b>	<b>124,970</b>	<b>114,853</b>	<b>106,210</b>	<b>116,249</b>
Margin (%)	56.6	53.3	48.6	48.7
Total Tax	32,210	28,139	26,022	28,481
Effective tax rate (%)	25.8	24.5	24.5	24.5
<b>Profit after tax</b>	<b>92,760</b>	<b>86,714</b>	<b>80,189</b>	<b>87,768</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>90,979</b>	<b>86,714</b>	<b>80,189</b>	<b>87,768</b>
YoY gr. (%)	9.4	(4.7)	(7.5)	9.5
Margin (%)	41.2	40.3	36.7	36.7
Extra Ord. Income / (Exp)	1,781	-	-	-
<b>Reported PAT</b>	<b>92,760</b>	<b>86,714</b>	<b>80,189</b>	<b>87,768</b>
YoY gr. (%)	11.5	(6.5)	(7.5)	9.5
Margin (%)	42.0	40.3	36.7	36.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	92,760	86,714	80,189	87,768
<b>Equity Shares O/s (m)</b>	<b>4,225</b>	<b>4,225</b>	<b>4,225</b>	<b>4,225</b>
<b>EPS (Rs)</b>	<b>21.5</b>	<b>20.5</b>	<b>19.0</b>	<b>20.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>206,570</b>	<b>251,570</b>	<b>291,570</b>	<b>296,570</b>
Tangibles	206,570	251,570	291,570	296,570
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>93,550</b>	<b>110,842</b>	<b>131,445</b>	<b>154,050</b>
Tangibles	93,550	110,842	131,445	154,050
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>113,020</b>	<b>140,728</b>	<b>160,125</b>	<b>142,520</b>
Tangibles	113,020	140,728	160,125	142,520
Intangibles	-	-	-	-
Capital Work In Progress	39,870	24,720	17,920	42,670
Goodwill	-	-	-	-
Non-Current Investments	150	150	150	150
Net Deferred tax assets	22,080	18,634	15,448	11,961
Other Non-Current Assets	12,770	12,770	12,770	12,770
<b>Current Assets</b>				
Investments	202,220	202,220	202,220	202,220
Inventories	13,790	14,564	14,779	16,154
Trade receivables	1,840	1,797	1,823	1,993
Cash & Bank Balance	19,640	(23,214)	9,616	52,960
Other Current Assets	110	110	110	110
<b>Total Assets</b>	<b>429,320</b>	<b>396,309</b>	<b>438,791</b>	<b>487,337</b>
<b>Equity</b>				
Equity Share Capital	8,451	8,451	8,451	8,451
Other Equity	350,870	335,872	377,455	422,968
<b>Total Networkth</b>	<b>359,321</b>	<b>344,323</b>	<b>385,905</b>	<b>431,418</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	1,340	1,340	1,340	1,340
Other non current liabilities	7,920	8,420	8,920	9,420
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	9,470	9,247	9,383	10,257
Other current liabilities	50,580	32,290	32,553	34,213
<b>Total Equity &amp; Liabilities</b>	<b>429,321</b>	<b>396,309</b>	<b>438,792</b>	<b>487,338</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	124,970	114,853	106,210	116,249
Add. Depreciation	14,830	17,292	20,603	22,605
Add. Interest	2,830	600	600	600
Less Financial Other Income	17,510	20,184	16,655	19,751
Add. Other	(18,920)	(20,184)	(16,655)	(19,751)
Op. profit before WC changes	123,710	112,561	110,758	119,703
Net Changes-WC	4,940	(883)	658	1,488
Direct tax	(30,280)	(24,693)	(22,835)	(24,994)
<b>Net cash from Op. activities</b>	<b>98,370</b>	<b>86,984</b>	<b>88,581</b>	<b>96,198</b>
Capital expenditures	(27,230)	(29,850)	(33,200)	(29,750)
Interest / Dividend Income	4,990	20,184	16,655	19,751
Others	46,200	-	-	-
<b>Net Cash from Inv. activities</b>	<b>23,960</b>	<b>(9,666)</b>	<b>(16,545)</b>	<b>(9,999)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(79,000)	-	-	-
Dividend paid	(104,690)	(119,572)	(38,606)	(42,255)
Interest paid	(2,800)	(600)	(600)	(600)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(186,490)</b>	<b>(120,172)</b>	<b>(39,206)</b>	<b>(42,855)</b>
<b>Net change in cash</b>	<b>(64,160)</b>	<b>(42,854)</b>	<b>32,830</b>	<b>43,344</b>
Free Cash Flow	71,140	57,134	55,381	66,448

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Net Revenue</b>	<b>62,770</b>	<b>53,100</b>	<b>47,770</b>	<b>55,400</b>
YoY gr. (%)	9.0	16.0	(10.0)	(6.5)
Raw Material Expenses	180	410	(1,050)	(250)
Gross Profit	62,590	52,690	48,820	55,650
Margin (%)	99.7	99.2	102.2	100.5
<b>EBITDA</b>	<b>36,200</b>	<b>27,130</b>	<b>23,340</b>	<b>28,380</b>
YoY gr. (%)	11.6	(25.1)	(14.0)	21.6
Margin (%)	57.7	51.1	48.9	51.2
Depreciation / Depletion	4,590	3,870	4,540	4,890
<b>EBIT</b>	<b>31,610</b>	<b>23,260</b>	<b>18,800</b>	<b>23,490</b>
Margin (%)	50.4	43.8	39.4	42.4
Net Interest	450	150	-	510
Other Income	4,860	2,990	3,940	5,500
<b>Profit before Tax</b>	<b>35,510</b>	<b>26,100</b>	<b>22,740</b>	<b>28,480</b>
Margin (%)	56.6	49.2	47.6	51.4
Total Tax	10,460	6,920	4,590	6,370
Effective tax rate (%)	29.5	26.5	20.2	22.4
<b>Profit after Tax</b>	<b>25,050</b>	<b>19,180</b>	<b>18,150</b>	<b>22,110</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>25,410</b>	<b>19,180</b>	<b>18,150</b>	<b>22,110</b>
YoY gr. (%)	(0.8)	2.2	(23.1)	(3.8)
Margin (%)	40.5	36.1	38.0	39.9
Extra Ord. Income / (Exp)	(360)	-	-	-
<b>Reported PAT</b>	<b>25,050</b>	<b>19,180</b>	<b>18,150</b>	<b>22,110</b>
YoY gr. (%)	(2.2)	2.2	(29.8)	(3.8)
Margin (%)	39.9	36.1	38.0	39.9
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>25,050</b>	<b>19,180</b>	<b>18,150</b>	<b>22,110</b>
Avg. Shares O/s (m)	4,225	4,225	4,225	4,225
<b>EPS (Rs)</b>	<b>6.0</b>	<b>4.5</b>	<b>4.3</b>	<b>5.2</b>

Source: Company Data, PL Research

**Key Financial Metrics**

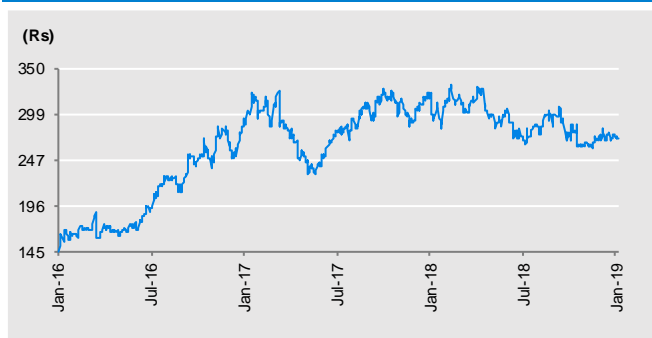
Y/e Mar	FY18	FY19E	FY20E	FY21E
<b>Per Share(Rs)</b>				
EPS	21.5	20.5	19.0	20.8
CEPS	25.0	24.6	23.9	26.1
BVPS	85.0	81.5	91.3	102.1
FCF	16.8	13.5	13.1	15.7
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	28.9	27.1	24.7	23.8
ROIC	52.9	41.6	44.4	47.8
RoE	27.3	24.6	22.0	21.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.6)	(0.5)	(0.5)	(0.6)
Net Working Capital (Days)	10	12	12	12
<b>Valuation(x)</b>				
PER	12.4	13.0	14.1	12.9
P/B	3.1	3.3	2.9	2.6
P/CEPS	10.7	10.9	11.2	10.2
EV/EBITDA	7.4	8.5	8.3	7.3
EV/Sales	4.1	4.4	4.2	3.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY18	FY19E	FY20E	FY21E
Mined Zinc metal prod-MIC tns	781,367	738,703	776,910	841,490
Mined Lead metal prod-MIC tns	171,090	217,554	242,195	269,687
Total Mines metal-MIC tns	952,457	956,257	1,019,105	1,111,177
Refined Zinc Vol. (tonnes)	793,000	710,633	748,172	810,364
Refined Lead Vol. (tonnes)	169,000	200,091	223,064	248,542
Total Refined metal-tns	962,000	910,724	971,236	1,058,905
Concentrate sales vol (MIC tns)				
Silver Sales Vol. (kg)	556,000	668,177	791,500	882,178
Zinc (US\$)-LME / tonne	3,042	2,700	2,550	2,550
Lead(US\$)-LME / tonne	2,377	2,160	1,913	1,913
Silver (Rs / Kg)	36,098	39,050	38,880	38,880
Cost per tonne of Refined metal (Zn+Pb)	101,996	112,950	111,160	112,611

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Apr-18	Accumulate	360	315
2	30-Apr-18	Accumulate	370	337
3	10-Jul-18	Accumulate	340	277
4	5-Oct-18	Accumulate	315	289
5	7-Jan-19	Accumulate	312	275

**Analyst Coverage Universe**

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,710	1,478
2	Ambuja Cement	Hold	220	218
3	Coal India	Hold	262	235
4	Heidelberg Cement India	BUY	200	150
5	Hindalco Industries	Accumulate	280	209
6	Hindustan Zinc	Accumulate	312	275
7	Jindal Steel & Power	BUY	239	152
8	JK Lakshmi Cement	Hold	340	315
9	JSW Steel	BUY	360	290
10	NMDC	Reduce	86	95
11	Shree Cement	Hold	17,500	16,900
12	Steel Authority of India	Hold	50	53
13	Tata Steel	BUY	785	486
14	The Ramco Cements	Hold	660	629
15	Ultratech Cement	Hold	4,040	3,927

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## ANALYST CERTIFICATION

### (Indian Clients)

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