

INDUSTRY	METALS		
<b>CMP (as on 20 Apr 2017)</b>	<b>Rs 282</b>		
<b>Target Price</b>	<b>Rs 254</b>		
Nifty	9,136		
Sensex	29,422		
<b>KEY STOCK DATA</b>			
Bloomberg	HZ IN		
No. of Shares (mn)	4,225		
MCap (Rs bn) / (\$ mn)	1,193 / 18,478		
6m avg traded value (Rs mn)	811		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 305 / 147</b>		
	3M	6M	12M
Absolute (%)	7.1	23.4	76.3
Relative (%)	(1.8)	18.8	62.4
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	64.92		
FIs & Local MFs	1.08		
FIIIs	2.64		
Public & Others	31.36		
<i>Source : BSE</i>			

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## Tailwinds continue

Hindustan Zinc (HZ) reported strong numbers (EBITDA: Rs 37.2bn, 2.8x YoY, 33.8% QoQ), driven by higher volumes (refined Zn 37.3% YoY, 2.8% QoQ) and strong pricing (LME Zn up 65% YoY). Zn cost of production remained stable at US\$800 levels despite higher coal/met-coke prices, led by higher volumes.

Zn has performed exceptionally well in past 12 months, led by production cuts (Century, Lisheen, Glencore) which drove deficits. Some of the capacity is now restarting/scaling up (China, Antamina in Peru, Nyrstar US ops) and coupled with slower growth in China, the deficit situation witnessed earlier may not hold.

HZL continues to guide for a strong uptick in volumes (~18% YoY) which will drive earnings. It is also well placed for an eventual scale-up to 1.2 mTPA (contained metal). However, at 9.2/7.5x FY18/19 EV/EBITDA it fully prices in the improvements. Our FY18/19 estimates remain unchanged (ref. page 3).

### Financial Summary

(Rs mn)	4QFY17	4QFY16	YoY (%)	1QFY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Net Sales	62,602	31,243	100.4	49,799	25.7	138,535	186,156	187,015	212,711
EBITDA	37,240	13,138	183.5	27,834	33.8	66,406	97,385	106,496	120,002
PAT	30,329	21,476	41.2	23,199	30.7	81,666	83,156	81,304	96,027
Diluted EPS (Rs)	7.18	5.08	41.2	5.49	30.7	19.3	19.7	19.2	22.7
P/E (x)						14.6	14.3	14.7	12.4
EV / EBITDA (x)						13.0	10.8	9.2	7.5
RoE (%)						20.2	24.1	23.4	23.1

Source: Company, HDFC sec Inst Research

Maintain NEUTRAL with a TP of Rs 254 (7.0x FY19 EV/EBITDA)

### Highlights of the quarter

- The expansion of SK mine from 3.0 to 4.5 mTPA ore production, beneficiation plant to 5 mTPA and Zawar to 4 mTPA will set HZ on track for 1.2 mTPA of mined metal production in FY20. HZL guides for a 950kT metal output in FY18 which should scale up to >1 mT in FY19 (our estimates). HZL is now a predominantly U/G miner (80% of the output) post shift of Rampura Agucha from O/C to U/G.
- The fumer plant in the Chanderiya smelter, to convert Jarosite (hazardous waste) into slag for the cement and construction industries, likely to be completed by March-18 with a capital cost of Rs 5.5bn.
- Near-term outlook:** Zn prices have softened from their peaks (US\$2,900+) and currently hover around US\$2,550. As a result 1QFY18 may see margins decline from the 4QFY17 levels.

**Strong volumes (mined metal up 37.3% QoQ) and better pricing (65.0% YoY, 10.0% QoQ) helped HZ clock an EBITDA margin of 59.5%**

### Quarterly Financials Snapshot

(Rs mn)	4QFY17	4QFY16	YoY (%)	1QFY17	QoQ (%)
<b>Income from operations</b>	<b>62,602</b>	<b>31,243</b>	<b>100.4</b>	<b>49,799</b>	<b>25.7</b>
Power & fuel	4,175	2,176		3,767	
Royalty	8,463	3,462		7,166	
Other expenses	12,724	12,462		11,033	
Total expenses	25,361	18,105		21,965	
<b>EBITDA</b>	<b>37,240</b>	<b>13,138</b>	<b>183.5</b>	<b>27,834</b>	<b>33.8</b>
Depreciation	5,321	2,011		4,589	
Other income	4,811	7,440	(35.3)	5,882	(18.2)
Interest expense	142	90		451	
PBT	36,589	18,477	98.0	28,676	27.6
Tax	6,259	(2,999)		5,477	
APAT	30,329	21,476	41.2	23,199	30.7

Source: Company, HDFC sec Inst Research

### Operational Data

Operational data (kT)	4QFY17	4QFY16	YoY (%)	1QFY17	QoQ (%)
Mined metal	312	188	66.0	276	13.0
Refined Zinc (Total)	217	158	37.3	211	2.8
Refined Lead (Total)	47	41	14.6	36	30.6
Refined Silver (Total, tonnes)	135	122	10.7	117	15.4

### Pricing (LME) (US\$/t)

Zn	2,770	1,679	65.0	2,518	10.0
Pb	2,269	1,744	30.1	2,150	5.5
Silver (US\$/oz.)	18	15	18.1	17	2.3
Zinc Cost of production (US\$/t)	794	853	(6.9)	861	(7.8)

Source: Company, HDFC sec Inst Research

### Valuation Matrix

Company	MCap (US\$ mn)	EV (US\$ mn)	Rating	TP (Rs)	EV/EBITDA (x)		P/E (x)		EBITDA margin (%)	
					FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Hindustan Zinc	18,626	14,730	NEU	254	9.2	7.5	14.7	12.4	56.9	56.4
Teck Resources	12,255	17,804	NR	NM	5.3	5.4	9.0	9.6	40.3	40.9
Korea Zinc	6,930	5,334	NR	NM	5.5	5.2	11.4	10.8	16.4	16.7
Nyrstar NV	509	1,468	NR	NM	3.5	3.4	8.8	5.0	9.8	11.0

Source: Company, HDFC sec Inst Research; Bloomberg

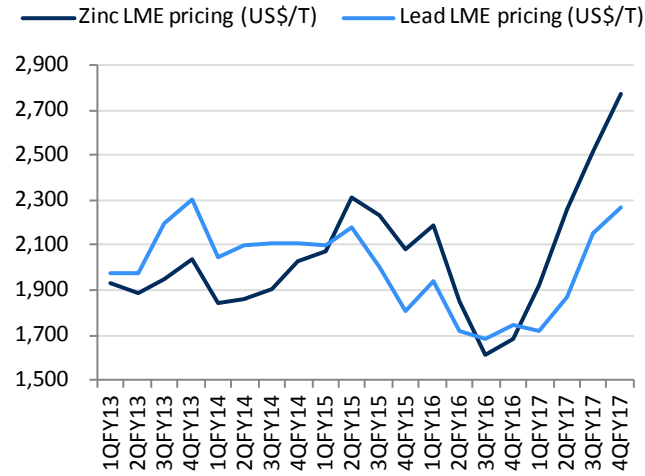
Note: Prices as of April 20, 2016 close. NR – Not rated NM – Not meaningful  
US\$-INR: 66.0

### Key Assumptions

	2015	2016	2017E	2018E	2019E
<b>Volumes</b>					
Zinc (kT)	734	759	732	771	867
Lead (kT)	135	152	159	186	210
Silver (T)	368	459	551	572	572
<b>LME-Assumptions (US\$/ton)</b>					
Zinc	2,178	1,829	2,475	2,500	2,600
Lead	2,024	1,768	1,900	2,200	2,200
Silver ((US\$/oz))	18.2	15.2	19.0	20.0	20.0
Rs/US\$ rate	61.1	65.5	68.0	66.0	66.0

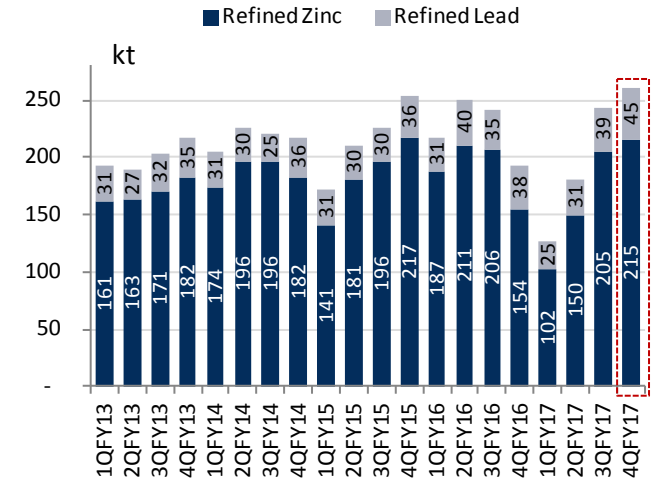
Source: Company, HDFC sec Inst Research

**Zn & Lead Pricing**



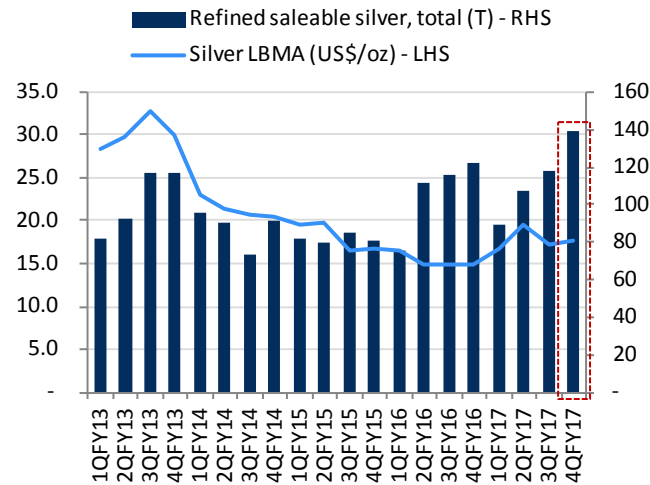
Source: Company, HDFC sec Inst Research

**Total Zn & Lead Volumes**



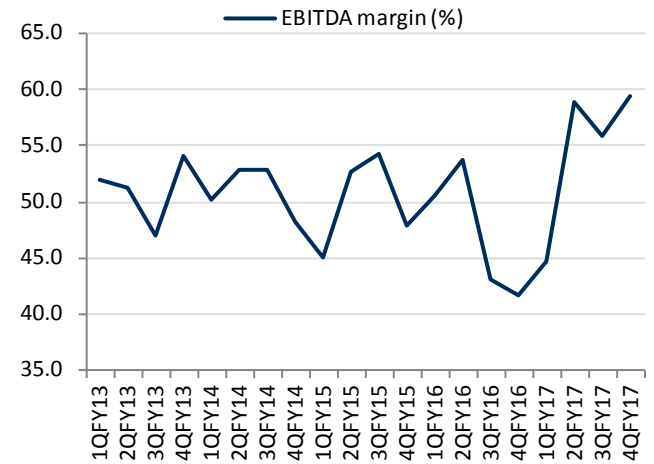
Source: Company, HDFC sec Inst Research

**Silver LBMA Pricing & Volumes**



Source: Company, HDFC sec Inst Research

**EBITDA Margins (%)**



Source: Company, HDFC sec Inst Research

## Income Statement

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net sales</b>	<b>145,111</b>	<b>138,535</b>	<b>186,156</b>	<b>187,015</b>	<b>212,711</b>
<b>Growth %</b>	<b>8.2</b>	<b>(4.5)</b>	<b>34.4</b>	<b>0.5</b>	<b>13.7</b>
Material and Mining Expenses	59,854	62,616	61,783	70,953	82,365
Employee Expenses	8,689	7,862	7,220	7,581	7,960
SG&A Expenses	3,192	3,302	3,349	3,731	4,330
Other operating expenses	1,955	2,079	18,243	2,292	2,407
<b>Operating profits</b>	<b>71,421</b>	<b>62,677</b>	<b>95,561</b>	<b>102,458</b>	<b>115,649</b>
<b>Operating Profit Margin (%)</b>	<b>49.2</b>	<b>45.2</b>	<b>51.3</b>	<b>54.8</b>	<b>54.4</b>
Other operating income	2,772	3,729	1,824	4,039	4,353
<b>EBITDA</b>	<b>74,193</b>	<b>66,406</b>	<b>97,385</b>	<b>106,496</b>	<b>120,002</b>
<b>EBITDA %</b>	<b>51.1</b>	<b>47.9</b>	<b>52.3</b>	<b>56.9</b>	<b>56.4</b>
<b>EBITDA Growth %</b>	<b>6.6</b>	<b>(10.5)</b>	<b>46.7</b>	<b>9.4</b>	<b>12.7</b>
Depreciation	6,442	7,126	18,112	20,994	22,094
<b>EBIT</b>	<b>67,751</b>	<b>59,280</b>	<b>79,273</b>	<b>85,502</b>	<b>97,907</b>
Other Income (including EO items)	28,183	26,993	24,737	18,904	25,374
Interest	235	169	2,017	169	169
<b>PBT</b>	<b>95,699</b>	<b>86,104</b>	<b>101,993</b>	<b>104,236</b>	<b>123,112</b>
Tax	13,921	4,438	18,837	22,932	27,085
<b>RPAT</b>	<b>81,778</b>	<b>81,666</b>	<b>83,156</b>	<b>81,304</b>	<b>96,027</b>
<b>APAT</b>	<b>81,778</b>	<b>81,666</b>	<b>83,156</b>	<b>81,304</b>	<b>96,027</b>
<b>APAT Growth (%)</b>	<b>18.4</b>	<b>(0.1)</b>	<b>1.8</b>	<b>(2.2)</b>	<b>18.1</b>
<b>Adjusted EPS (Rs.)</b>	<b>19.4</b>	<b>19.3</b>	<b>19.7</b>	<b>19.2</b>	<b>22.7</b>
<b>EPS Growth (%)</b>	<b>18.4</b>	<b>(0.1)</b>	<b>1.8</b>	<b>(2.2)</b>	<b>18.1</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet

Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
<b>SOURCES OF FUNDS</b>					
Share Capital	8,451	8,451	8,451	8,451	8,451
Reserves	425,080	365,401	308,707	370,440	443,352
<b>Total Shareholders Funds</b>	<b>433,531</b>	<b>373,852</b>	<b>317,157</b>	<b>378,890</b>	<b>451,802</b>
<b>Total Debt</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Deferred Taxes	25,186	25,713	25,713	25,713	25,713
Long term Provisions & Others	1,321	1,118	1,118	1,118	1,118
<b>TOTAL SOURCES OF FUNDS</b>	<b>460,038</b>	<b>400,683</b>	<b>343,988</b>	<b>405,721</b>	<b>478,633</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	94,462	99,413	111,301	100,307	88,212
CWIP	23,340	26,814	20,614	23,814	27,014
LT Loans and Advances	40,080	55,317	55,317	55,317	55,317
<b>Total Non-current Assets</b>	<b>157,882</b>	<b>181,545</b>	<b>187,233</b>	<b>179,438</b>	<b>170,544</b>
Inventories	12,118	10,582	13,905	14,133	16,057
Debtors	6,588	2,441	3,090	3,141	3,568
Other Current Assets	5,481	5,520	5,520	5,520	5,520
Cash & Equivalents	307,851	352,351	166,457	235,875	316,755
<b>Total Current Assets</b>	<b>332,038</b>	<b>370,894</b>	<b>188,972</b>	<b>258,668</b>	<b>341,900</b>
Creditors	6,308	7,788	10,300	10,469	11,894
Other Current Liabilities & Provns	23,574	143,968	21,902	21,902	21,902
<b>Total Current Liabilities</b>	<b>29,882</b>	<b>151,756</b>	<b>32,202</b>	<b>32,371</b>	<b>33,796</b>
<b>Net Current Assets</b>	<b>302,156</b>	<b>219,138</b>	<b>156,770</b>	<b>226,297</b>	<b>308,104</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>460,038</b>	<b>400,683</b>	<b>343,988</b>	<b>405,721</b>	<b>478,633</b>

Source: Company, HDFC sec Inst Research

**Cash Flow**

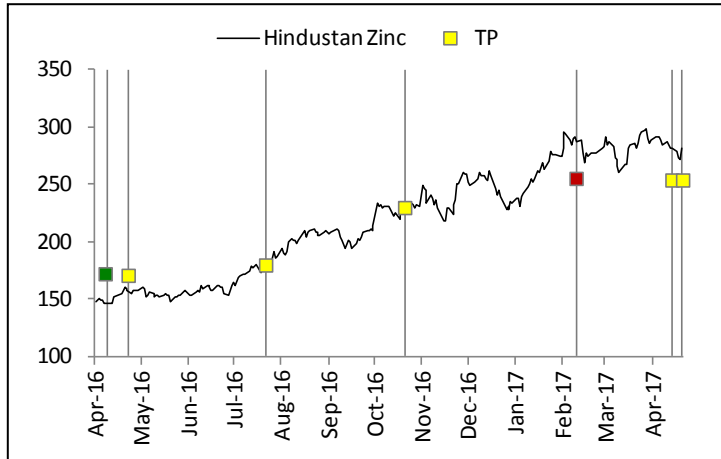
Year ending March (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Reported PBT	95,699	86,104	101,993	104,236	123,112
Non-operating & EO items	(19,634)	(27,596)	(24,737)	(18,904)	(25,374)
Interest expenses	235	169	2,017	169	169
Depreciation	6,442	7,126	18,112	20,994	22,094
Working Capital Change	(4,923)	15,572	(1,460)	(109)	(926)
Tax paid	(19,846)	(18,543)	(18,837)	(22,932)	(27,085)
<b>OPERATING CASH FLOW ( a )</b>	<b>57,973</b>	<b>62,833</b>	<b>77,088</b>	<b>83,455</b>	<b>91,991</b>
Capex	(16,555)	(15,228)	(23,800)	(13,200)	(13,200)
Free cash flow (FCF)	41,418	47,605	53,288	70,255	78,791
Investments	28	0	0	0	0
Non-operating Income	28,211	27,295	24,737	18,904	25,374
<b>INVESTING CASH FLOW ( b )</b>	<b>11,684</b>	<b>12,067</b>	<b>937</b>	<b>5,704</b>	<b>12,174</b>
Debt Issuance/(Repaid)	0	0	0	0	0
Interest expenses	(235)	(169)	(2,017)	(169)	(169)
FCFE	11,919	12,236	2,954	5,873	12,343
Share Capital Issuance	0	0	0	0	0
Dividend	(18,785)	(32,000)	(261,903)	(19,571)	(23,115)
<b>FINANCING CASH FLOW ( c )</b>	<b>(19,020)</b>	<b>(32,169)</b>	<b>(263,920)</b>	<b>(19,740)</b>	<b>(23,285)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>50,637</b>	<b>42,731</b>	<b>(185,895)</b>	<b>69,418</b>	<b>80,880</b>
EO Items/Others	1,864	1,770			
<b>Closing Cash &amp; Equivalents</b>	<b>307,851</b>	<b>352,352</b>	<b>166,457</b>	<b>235,875</b>	<b>316,755</b>

Source: Company, HDFC sec Inst Research

**Key Ratios**

	FY15	FY16	FY17	FY18E	FY19E
<b>PROFITABILITY (%)</b>					
EBITDA Margin	51.1	47.9	52.3	56.9	56.4
APAT Margin	56.4	58.9	44.7	43.5	45.1
RoE	20.2	20.2	24.1	23.4	23.1
Core RoCE	69.0	112.8	99.0	55.6	69.4
RoCE	20.3	20.3	24.5	23.4	23.2
<b>EFFICIENCY</b>					
Tax Rate (%)	14.5	5.2	18.5	22.0	22.0
Asset Turnover (x)	0.9	0.7	0.9	0.9	1.1
Inventory (days)	30	27	27	27	27
Debtors (days)	16	6	6	6	6
Payables (days)	16	20	20	20	20
Cash Conversion Cycle (days)	31	13	13	13	13
Debt/EBITDA (x)	-	-	-	-	-
Net D/E	-	-	-	-	-
Interest Coverage	-	-	-	-	-
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	19.4	19.3	19.7	19.2	22.7
CEPS (Rs/sh)	20.9	21.0	24.0	24.2	28.0
DPS (Rs/sh)	4.4	27.8	27.5	3.8	4.5
BV (Rs/sh)	102.6	88.5	75.1	89.7	106.9
<b>VALUATION</b>					
P/E	14.6	14.6	14.3	14.7	12.4
P/BV	2.8	3.2	3.8	3.1	2.6
EV/EBITDA	12.4	13.0	10.8	9.2	7.5
OCF/EV (%)	6.5	7.5	7.5	8.7	10.5
FCF/EV (%)	4.6	5.7	5.2	7.3	9.0
FCFE/Market Cap (%)	4.5	5.0	4.5	6.4	7.6
Dividend Yield (%)	1.6	9.8	9.7	1.4	1.6

Source: Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
8-Apr-16	146	BUY	171
22-Apr-16	172	NEU	171
21-Jul-16	194	NEU	180
21-Oct-16	250	NEU	230
13-Feb-17	314	SELL	254
13-Apr-17	282	NEU	254
21-Apr-17	282	NEU	254

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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