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Rating	Accumulate
Price	Rs318
Target Price	Rs370
Implied Upside	16.4%
Sensex	32,507
Nifty	10,185

(Prices as on October 23, 2017)

Trading data

Market Cap. (Rs bn)	1,342.8
Shares o/s (m)	4,225.3
3M Avg. Daily value (Rs m)	604.3

Major shareholders

Promoters	64.98%
Foreign	2.17%
Domestic Inst.	1.68%
Public & Other	31.16%

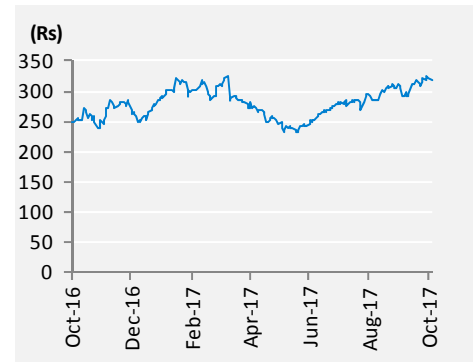
Stock Performance

(%)	1M	6M	12M
Absolute	8.6	16.2	39.3
Relative	8.3	5.7	23.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2018	22.8	23.3	-1.9
2019	22.3	25.8	-13.5

Price Performance (RIC: HZNC.BO, BB: HZ IN)



Source: Bloomberg

Hindustan Zinc (HZ) reported Q2FY18 earnings tad below our expectation due to lower than expected zinc volumes. Our earnings estimates remain unchanged for FY18E/FY19E on the back of firm outlook on Zinc prices and improved visibility on volumes from expansion. Driven by strong outlook on Zinc and quality assets, we maintain "Accumulate" with TP of Rs370 at an EV/EBITDA of 10x FY19E.

■ **Strong prices drive 24% QoQ growth in PAT:** Mined metal production rose 14% YoY (↓6% QoQ) to 219kt on the back of increased output from SK/Zawar mines. Thanks to higher mined metal output, refined metal/Silver output rose 27% YoY/31% YoY (↓0.8% QoQ/↑22% QoQ) to 230kt/140kt. Net revenue grew 16% QoQ at Rs53bn (PLe: Rs53.9bn), led by 4% increase in refined metal/silver volumes at 233kt/146kt (PLe:236kt/123kt) and 14% rise in Zinc prices. Thanks to higher realisations and stable cost, EBITDA rose 27% QoQ/53% YoY to Rs30.3bn (PLe:30.7bn). Impacted by higher tax rate and lower other income, Adj. PAT grew 24% QoQ/28% YoY to Rs23.2bn (PLe:Rs24.0bn).

■ **Key highlights of con-call: 1)** Reiterated FY18 production guidance of refined zinc-lead/silver at 950kt/500t **2)** On track to achieve 1.2m tonnes (t) mined metal capacity by FY20 **3)** Production from new shafts at Rampura Agucha (RA)/SK mines expected to commence from Q3FY19 with expected cost saving of US\$20-25/t **4)** Tied-up for 40% of coal requirement through linkage e-auction with estimated saving of US\$35/t over imported coal **5)** Hedged 220kt/30kt of zinc/lead at a price of US\$3,084/US\$2,418 **6)** Estimates deficit of 2mt zinc-lead production in 2018 **7)** Guided reduction in CoP to US\$830-930/t (US\$984/US\$979 in Q2/H1) in H2 on the back of linkage coal, higher scale and cost rationalisation initiatives.

Key financials (Y/e March)

	2016	2017	2018E	2019E
Revenues (Rs m)	143,429	171,174	210,923	226,706
Growth (%)	(1.7)	19.3	23.2	7.5
EBITDA (Rs m)	66,243	95,834	115,165	123,894
PAT (Rs m)	83,709	83,164	96,494	94,372
EPS (Rs)	19.8	19.7	22.8	22.3
Growth (%)	2.0	(0.7)	16.0	(2.2)
Net DPS (Rs)	27.8	29.4	22.8	22.3

Profitability & Valuation

	2016	2017	2018E	2019E
EBITDA margin (%)	46.2	56.0	54.6	54.6
RoE (%)	20.4	24.4	32.4	33.8
RoCE (%)	20.4	22.2	29.2	33.8
EV / sales (x)	6.9	6.4	4.8	4.5
EV / EBITDA (x)	14.9	11.5	10.4	9.9
PE (x)	16.0	16.1	13.9	14.2
P / BV (x)	3.6	4.4	4.7	5.0
Net dividend yield (%)	8.7	9.3	7.2	7.0

Source: Company Data; PL Research

Exhibit 1: Q2FY18 Result Overview (Rs m)

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Net Sales	53,090	35,000	51.7	45,760	98,850	60,300	63.9
Raw material consumed	1,240	(530)	-	1,250	2,490	1,200	107.5
<i>% of Net Sales</i>	<i>2.3</i>	<i>-1.5</i>		<i>2.7</i>	<i>2.5</i>	<i>2.0</i>	
Power and Fuel	3,950	2,280	73.2	3,870	7,820	3,960	97.5
<i>% of Net Sales</i>	<i>7.4</i>	<i>6.5</i>		<i>8.5</i>	<i>7.9</i>	<i>6.6</i>	
Mining Royalty Rates	5,670	4,430	28.0	5,490	11,160	7,060	58.1
<i>% of Net Sales</i>	<i>10.7</i>	<i>12.7</i>		<i>12.0</i>	<i>11.3</i>	<i>11.7</i>	
Employee Cost	2,250	1,810	24.3	1,740	3,990	3,540	12.7
<i>% of Net Sales</i>	<i>4.2</i>	<i>5.2</i>		<i>3.8</i>	<i>4.0</i>	<i>5.9</i>	
Selling, General and Administrative	9,740	7,300	33.4	9,570	19,310	13,520	42.8
<i>% of Net Sales</i>	<i>18.3</i>	<i>20.9</i>		<i>20.9</i>	<i>19.5</i>	<i>22.4</i>	
Total Expenditure	22,850	15,290	49.4	21,920	44,770	29,280	52.9
EBITDA	30,240	19,710	53.4	23,840	54,080	31,020	74.3
<i>Margin (%)</i>	<i>57.0</i>	<i>56.3</i>		<i>52.1</i>	<i>54.7</i>	<i>51.4</i>	
Depreciation	3,940	4,320	(8.8)	3,600	7,540	8,210	(8.2)
Other Income	4,870	7,700	(36.8)	5,300	10,170	14,040	(27.6)
EBIT	31,170	23,090	35.0	25,540	56,710	36,850	53.9
Interest	840	710	18.3	1,370	2,210	1,420	55.6
PBT	30,330	22,380	35.5	24,170	54,500	35,430	53.8
Extraordinary Income/(Expense)	2,910	1,060	-	-	2,910	1,060	
PBT (After EO)	33,240	23,440	41.8	24,170	57,410	36,490	57.3
Tax	7,790	4,420	76.2	5,410	13,200	7,100	85.9
<i>% PBT</i>	<i>23.4</i>	<i>18.9</i>		<i>22.4</i>	<i>23.0</i>	<i>19.5</i>	
Reported PAT	25,450	19,020	33.8	18,760	44,210	29,390	50.4
Adjusted PAT	23,222	18,160	27.9	18,760	41,969	28,536	47.1

Source: Company Data, PL Research

Exhibit 2: Key Operating metrics

Y/e March	Q2FY18	Q2FY17	YoY gr. (%)	Q1FY18	H1FY18	H1FY17	YoY gr. (%)
Production volume							
- Mined metal (Zinc+Lead)-tonnes	219,000	192,000	14.1	233,000	452,000	319,000	41.7
- Refined metal (Zinc+Lead)-tonnes	226,592	180,788	25.3	228,367	454,959	307,347	48.0
- Silver (kgs)	140,000	107,000	30.8	115,000	255,000	196,000	30.1
Sales volume							
- Refined Zinc	193,000	148,000	30.4	190,000	383,000	268,000	42.9
- Refined Lead	40,000	32,000	25.0	34,000	74,000	55,000	34.5
- Silver (kgs)	146,000	108,000	35.2	110,000	256,000	196,000	30.6

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2016	2017	2018E	2019E
Net Revenue	143,429	171,174	210,923	226,706
Raw Material Expenses	—	—	—	—
Gross Profit	143,429	171,174	210,923	226,706
Employee Cost	7,739	7,220	8,520	9,031
Other Expenses	69,447	68,120	87,238	93,782
EBITDA	66,243	95,834	115,165	123,894
Depr. & Amortization	7,369	18,110	15,431	16,163
Net Interest	169	2,020	3,321	—
Other Income	27,530	26,300	28,905	14,830
Profit before Tax	86,234	102,004	125,318	122,561
Total Tax	4,480	18,840	28,823	28,189
Profit after Tax	81,754	83,164	96,494	94,372
Ex-Od items / Min. Int.	(1,955)	—	—	—
Adj. PAT	83,709	83,164	96,494	94,372
Avg. Shares O/S (m)	4,225.3	4,225.3	4,225.3	4,225.3
EPS (Rs.)	19.8	19.7	22.8	22.3

Cash Flow Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
C/F from Operations	64,510	75,770	102,473	100,660
C/F from Investing	(10,240)	(16,600)	2,905	(11,370)
C/F from Financing	(32,140)	(112,550)	(280,452)	(113,586)
Inc. / Dec. in Cash	22,130	(53,380)	(175,074)	(24,296)
Opening Cash	500	510	83,800	(91,274)
Closing Cash	510	1,890	(91,274)	(115,570)
FCFF	203,328	46,144	39,267	68,652
FCFE	203,328	125,224	(39,813)	68,652

Key Financial Metrics

Y/e March	2016	2017	2018E	2019E
Growth				
Revenue (%)	(1.7)	19.3	23.2	7.5
EBITDA (%)	(8.6)	44.7	20.2	7.6
PAT (%)	2.0	(0.7)	16.0	(2.2)
EPS (%)	2.0	(0.7)	16.0	(2.2)
Profitability				
EBITDA Margin (%)	46.2	56.0	54.6	54.6
PAT Margin (%)	58.4	48.6	45.7	41.6
RoCE (%)	20.4	22.2	29.2	33.8
RoE (%)	20.4	24.4	32.4	33.8
Balance Sheet				
Net Debt : Equity	(0.9)	(0.8)	(1.1)	(1.2)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	16.0	16.1	13.9	14.2
P / B (x)	3.6	4.4	4.7	5.0
EV / EBITDA (x)	14.9	11.5	10.4	9.9
EV / Sales (x)	6.9	6.4	4.8	4.5
Earnings Quality				
Eff. Tax Rate	5.2	18.5	23.0	23.0
Other Inc / PBT	33.5	25.8	23.1	12.1
Eff. Depr. Rate (%)	4.5	10.1	8.4	7.1
FCFE / PAT	242.9	150.6	(41.3)	72.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2016	2017	2018E	2019E
Shareholder's Funds	373,851	308,051	288,404	269,190
Total Debt	—	79,080	—	—
Other Liabilities	1,140	1,700	3,580	5,418
Total Liabilities	374,991	388,831	291,984	274,608
Net Fixed Assets	131,320	134,940	145,509	155,546
Goodwill	—	—	—	—
Investments	—	—	(175,074)	(199,370)
Net Current Assets	243,670	253,890	321,548	318,432
<i>Cash & Equivalents</i>	<i>352,740</i>	<i>321,630</i>	<i>321,630</i>	<i>321,630</i>
<i>Other Current Assets</i>	<i>47,890</i>	<i>61,380</i>	<i>56,972</i>	<i>58,198</i>
<i>Current Liabilities</i>	<i>156,960</i>	<i>129,120</i>	<i>57,053</i>	<i>61,397</i>
Other Assets	—	—	—	—
Total Assets	374,990	388,830	291,983	274,608

Quarterly Financials (Rs m)

Y/e March	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Revenue	49,824	62,602	45,760	53,090
EBITDA	27,834	37,480	23,840	30,240
<i>% of revenue</i>	<i>55.9</i>	<i>59.9</i>	<i>52.1</i>	<i>57.0</i>
Depr. & Amortization	4,589	5,321	3,600	3,940
Net Interest	451	142	1,370	840
Other Income	5,882	4,811	5,300	4,870
Profit before Tax	28,676	36,829	24,170	33,240
Total Tax	5,477	6,259	5,410	7,790
Profit after Tax	23,199	30,570	18,760	25,450
Adj. PAT	23,199	30,570	18,760	23,222

Key Operating Metrics

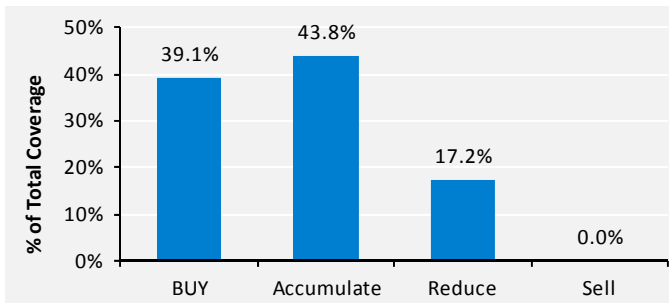
Y/e March	2016	2017	2018E	2019E
Mined Zinc metal prod-MIC tns	744,200	756,000	821,268	848,989
Mined Lead metal prod-MIC tns	144,500	150,000	165,682	179,852
Total Mines metal-MIC tns	888,700	906,000	986,950	1,028,842
Refined Zinc Vol. (tonnes)	760,400	696,000	780,204	806,540
Refined Lead Vol. (tonnes)	145,417	138,253	149,028	162,134
Total Refined metal-tns	905,817	834,253	929,232	968,674
Concentrate sales vol (MIC tns)	—	48,644	1	—
Silver Sales Vol. (kg)	426,000	449,000	482,722	525,768
Zinc (US\$)-LME / tonne	1,829	2,370	2,960	3,000
Lead(US\$)-LME / tonne	1,768	2,007	2,262	2,340
Silver (Rs / Kg)	33,274	35,175	36,400	36,960
Cost per tonne of Refined metal (Zn+Pb)	83,118	90,308	103,051	106,137

Source: Company Data, PL Research.

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