

HINDUSTAN ZINC

COMPANY UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	486
12 month price target (INR)	403
52 Week High/Low	717/378
Market cap (INR bn/USD bn)	2,055/23.8
Free float (%)	36.5
Avg. daily value traded (INR mn)	1,619.4

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Sep-24
Promoter	63.42%	63.42%	63.42%
FII	1.42%	1.01%	1.01%
DII	4.14%	3.12%	3.12%
Others	31.02%	32.45%	32.45%

FINANCIALS

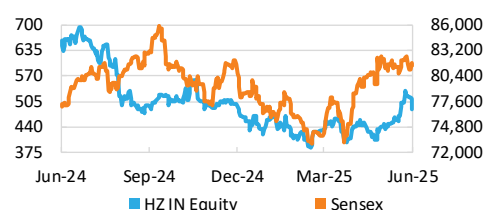
(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	2,89,340	3,39,690	3,60,546	3,72,064
EBITDA	1,36,610	1,72,960	1,93,966	2,03,890
Adjusted profit	77,870	1,02,790	1,17,468	1,22,983
Diluted EPS (INR)	18.4	24.3	27.8	29.1
EPS growth (%)	(26.0)	32.0	14.3	4.7
RoAE (%)	55.3	72.1	78.6	66.4
P/E (x)	26.4	20.0	17.5	16.7
EV/EBITDA (x)	9.9	11.9	10.7	10.2
Dividend yield (%)	2.7	6.0	4.1	4.1

CHANGE IN ESTIMATES

(INR mn)	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	3,60,546	3,72,064	0.0	0.0
EBITDA	1,93,966	2,03,890	0.0	0.0
Adjusted profit	1,17,468	1,22,983	0.0	0.0
Diluted EPS (INR)	27.8	29.1	0.0	0.0

PRICE PERFORMANCE



Embarks on growth capex

Hindustan Zinc (HZ) has announced growth capex of INR320–350bn to almost double its capacity to 2mtpa by FY31E. For now, it has approved Phase 1 capex of INR120bn, which will increase refined metal capacity to 1.38mtpa along with matching mined metal capacity.

We view this as a positive step as the new capex plan provides volume growth visibility—even though FY29 onwards with expected payback of more than five years at peak capacity utilisation. The announcement is a long-term growth enabler; near-term earnings are contingent on commodity prices only. HZ is trading expensive at 10.2x FY27E EV/EBITDA. We value the stock at 8x FY27E EV/EBITDA with an unchanged TP of INR403; reiterate 'REDUCE'.

Phase 1: A 250ktpa integrated refined zinc at capex of INR120bn

HZ has embarked on a journey to double its capacity in a phased manner. For now, the board has approved phase 1 of growth capex, wherein the company plans to set up 250ktpa refined zinc capacity at Debari along with matching mining capacity. It will increase refined zinc capacity from 919ktpa to 1,169ktpa (up 27%) and mined metal capacity by 330kt to 1.51mt (up 28%). Additionally, HZ would set up a fumer plant, which would enhance its silver refining capacity by 30tpa to 830tpa. The phase 1 capex is estimated to be INR120bn, out of which smelter and fumer would require INR62bn and mining INR58bn. The total smelter capex is cost efficient at ~USD2,900/t (versus global benchmark of USD3,500/t). It is expected to be completed in three years from the date of order placement, i.e. H1FY29E.

Phase 2: Expansion of refined capacity by 620ktpa to ~2mtpa

In phase 2, the company plans to increase refined zinc capacity further to 1.6mtpa (from 1.169ktpa), refined lead capacity from 210ktpa to 400ktpa and saleable silver capacity from 700tpa to 1,500tpa. The expansion project will require capex of INR200–230bn and shall be completed by FY31E. However, the project plan is subject to the Board's approval. Management stated they would provide an update on capex funding mix between internal accruals and debt as well other key details about the next phase of expansion in 30–45 days.

Capex: long-term growth enabler; near-term earnings to be price-driven

We view the capex announcement as a positive step as the company has delivered a refined metal volume CAGR of ~1.5% over FY16–25 and is already operating at near peak capacity utilisation. The new capacity expansion project provides visibility of future volume growth—H2FY29E onwards. We reckon the incremental investment at full capacity utilisation has potential to deliver an RoE of ~18% (versus FY25 RoE: 72%). We do believe growth capex is essential for the company, but it would turn out to be RoE-dilutive. All in all, we now argue the stock is trading expensive at 10.2x FY27E EV/EBITDA. The growth capex may lead to a lower dividend payout so we now factor in FY26E/27E DPS of INR20 (earlier INR25).

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	2,89,340	3,39,690	3,60,546	3,72,064
Raw Material Cost	(1,560)	(620)	0	0
Employee costs	8,260	8,780	9,219	9,680
Other expenses	77,484	84,176	81,096	82,209
EBITDA	1,36,610	1,72,960	1,93,966	2,03,890
Depreciation	34,660	36,340	37,067	37,437
Less: Interest expense	9,550	11,110	9,775	11,475
Add: Other income	11,030	9,960	9,500	9,000
Profit before tax	1,03,430	1,35,470	1,56,624	1,63,978
Prov for tax	25,560	31,850	39,156	40,994
Less: Other adj	0	(830)	0	0
Reported profit	77,870	1,02,790	1,17,468	1,22,983
Less: Excp.item (net)	0	0	0	0
Adjusted profit	77,870	1,02,790	1,17,468	1,22,983
Diluted shares o/s	4,225	4,225	4,225	4,225
Adjusted diluted EPS	18.4	24.3	27.8	29.1
DPS (INR)	13.0	29.0	20.0	20.0
Tax rate (%)	24.7	23.5	25.0	25.0

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
Zinc premium (USD/t)	196.0	249.0	250.0	250.0
Lead premium (USD/t)	158.0	174.0	180.0	180.0
Silver realisation (USD/ounce)	23.6	30.4	35.0	35.0
EBITDA margin (%)	47.2	50.9	53.8	54.8
Net profit margin (%)	26.9	30.3	32.6	33.1
Revenue growth (% YoY)	(15.1)	17.4	6.1	3.2
EBITDA growth (% YoY)	(22.0)	26.6	12.1	5.1
Adj. profit growth (%)	(26.0)	32.0	14.3	4.7

Assumptions (%)

Year to March	FY24A	FY25A	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	6.2
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	82.8	84.6	86.5	86.5
Mined metal volume (t)	10,79,000	10,95,000	11,29,302	11,44,808
Refined Zinc volume (t)	8,17,000	8,27,000	8,84,160	9,09,160
Lead volume (t)	2,16,000	2,25,000	2,20,000	2,20,000
Net Silver volume (kg)	7,46,000	6,87,000	7,05,000	7,50,000
LME Zinc (USD/t)	2,475	2,875	2,750	2,750
LME Lead (USD/t)	2,122	2,046	2,050	2,050

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	26.4	20.0	17.5	16.7
Price/BV (x)	13.5	15.4	12.4	10.0
EV/EBITDA (x)	9.9	11.9	10.7	10.2
Dividend yield (%)	2.7	6.0	4.1	4.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	8,450	8,450	8,450	8,450
Reserves	1,43,880	1,24,450	1,57,412	1,95,889
Shareholders funds	1,52,330	1,32,900	1,65,862	2,04,339
Minority interest	0	0	0	0
Borrowings	84,560	1,06,510	1,10,510	1,35,510
Trade payables	21,020	22,080	23,707	24,464
Other liabs & prov	30,160	28,240	28,240	28,240
Total liabilities	3,39,040	3,44,180	3,82,769	4,47,003
Net block	1,78,750	1,83,580	1,98,138	1,90,701
Intangible assets	1,800	1,300	1,300	1,300
Capital WIP	15,290	25,520	51,470	1,01,470
Total fixed assets	1,95,840	2,10,400	2,50,908	2,93,471
Non current inv	5,780	8,230	8,230	8,230
Cash/cash equivalent	1,00,470	93,230	89,156	1,09,933
Sundry debtors	1,610	1,120	1,976	2,039
Loans & advances	510	360	360	360
Other assets	24,340	21,720	22,656	23,287
Total assets	3,39,040	3,44,180	3,82,769	4,47,003

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
PBT	1,03,430	1,34,640	1,56,624	1,63,978
Add: Depreciation	34,660	36,340	37,067	37,437
Interest (net of tax)	1,650	3,920	0	0
Others	(2,730)	(1,020)	0	0
Less: Changes in WC	13,990	1,150	(527)	(137)
Operating cash flow	1,33,430	1,41,270	1,54,007	1,60,284
Less: Capex	(35,390)	(43,200)	(77,575)	(80,000)
Free cash flow	98,040	98,070	76,432	80,284

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	55.3	72.1	78.6	66.4
RoCE (%)	46.6	61.5	64.5	56.9
Inventory days	24	20	20	20
Receivable days	3	1	2	2
Payable days	26	23	23	24
Working cap (% sales)	1.1	(0.3)	(0.3)	(0.3)
Gross debt/equity (x)	0.6	0.8	0.7	0.7
Net debt/equity (x)	(0.1)	0.1	0.1	0.1
Interest coverage (x)	10.7	12.3	16.1	14.5

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	(26.0)	32.0	14.3	4.7
RoE (%)	55.3	72.1	78.6	66.4
EBITDA growth (%)	(22.0)	26.6	12.1	5.1
Payout ratio (%)	70.5	119.2	71.9	68.7

Conference call: Key highlights

- The International Zinc Association (IZA) has projected Indian zinc demand would double over the next five–ten years driven by significant investments in infrastructure, including steel production.
- The company will be able to hold its market share of 75–80% in India.
- HZ is in the first quartile of world’s cost curve, which provides cost advantage over peers.
- The company has announced phase 1 capex plan of INR120bn for refined zinc capacity expansion by 250ktpa to 1,169ktpa, supported by a matching increase in mined metal capacity. Post-completion, total mined metal/refined metal capacity will increase from 1.18mtpa/1.13mtpa to 1.51mtpa/1.38mtpa.
- The total phase 1 capex includes INR62bn for refined zinc capacity addition and fumer plant and INR58bn for mining capacity expansion. In the first phase, HZ would set up only a refined zinc smelter (lead expansion will be in phase 2).
- The expansion project is expected to be completed by H1FY29E. The capex (~INR120bn) will be in phases: FY26E: INR26bn; FY27E: INR50bn; FY28E: INR35bn; and FY29E: INR9bn.
- The project capex has payback period of more than five years post-full capacity utilisation.
- In phase 2, the company plans to increase refined zinc capacity further to 1.6mtpa, refined lead capacity from 210ktpa to 400ktpa and saleable silver capacity from 800tpa to 1,500tpa. The expansion project will require capex of INR200–230bn and is expected to be completed by FY31. However, the project plan is subject to the board’s approval. Management will update on the capex funding mix between internal accruals and debt as well other key details in 30–45 days.
- HZ is targeting to increase usage of renewable energy to 70% of total energy required by FY28E.
- The overall capex will be largely met through internal accruals. However, debt mix will be evaluated after determining the dividend payout level.

Exhibit 1: Phase 1 capex breakdown; zinc (including fumer) capacity at capex of ~USD2,900/t

Capex	(INR mn)	Remarks
Smelter	62,000	250ktpa refined zinc capacity including fumer project
Mining	58,000	
Total	1,20,000	

Source: Company, Nuvama Research

Exhibit 2: On full capacity utilisation (FY31), it has potential to generate RoE of 18% with a payback period of ~5 years

Particulars	Details	Remarks
Capex (INR mn)	1,20,000	includes zinc smelter, matching mining capacities along with fumer project
Exchange rate (USD/INR)	86.5	
Capex (USD mn)	1,387	
Zinc Capacity (000t)	250	
Volume (000t)	233	
EBITDA/t (USD)	1,500	
EBITDA (USD mn)	349	
EBITDA (INR mn)	32,489	
Depreciation	6,000	
PBT	28,811	
Tax	7,203	
PAT	21,608	
RoE (%)	18.0	
Payback period post full ramp up (years)	5	

Source: Company, Nuvama Research

Exhibit 3: Future capex breakdown

(INR mn)	FY26E	FY27E	FY28E	FY29E
Earlier capex (primarily on fertiliser and roaster plant)	21,625			
Capex on 250ktpa zinc smelter and associated mining facilities	25,950	50,000	35,000	9,050
Sustenance capex	30,000	30,000	30,000	30,000
Total capex	77,575	80,000	65,000	39,050

Source: Company, Nuvama Research; Note: Above includes only 1st phase capex of INR120bn; 2nd phase can have capex of INR200-230bn (details awaited)

Exhibit 4: Global peer companies' valuations; HZ trading at 10.2x FY27E EV/EBITDA (higher than average of global peers)

Companies	Year Ending	Market cap (USD mn)	1-yr fwd P/E	2-yr fwd P/E	1-yr fwd EV/EBITDA	2-yr fwd EV/EBITDA
Zinc						
Glencore	12/2024	46,075	19	12	5.7	4.9
Teck Resources	12/2024	19,288	26	21	6.4	5.3
Korea Zinc	12/2024	12,619	25	23	14.4	14.1
Boliden AB	12/2024	8,632	11	8	4.8	3.9
Average			20.7	16.4	7.8	7.1
Silver						
Fresnillo	12/2024	14,247	18	19	7.2	7.4
Wheaton Precious Metals Corp	12/2024	41,453	42	41	28	27
Pan American Silver	12/2024	10,590	19	16	7.4	6.6
Coeur d'Alene Mines	12/2024	5,854	14	14	7.9	6.6
Hochschild Mining	12/2024	1,682	9	6	3.7	2.8
Average			20.4	19.0	10.9	10.1

Source: Company, Nuvama Research

Exhibit 5: Key assumptions

Particulars	FY22	FY23	FY24	FY25	FY26E	FY27E
Average exchange rate (INR/USD)	74.5	80.3	82.8	84.6	86.5	86.5
LME Zinc (USD/t)	3,257	3,319	2,475	2,875	2,750	2,750
Zinc premium (USD/t)	251	350	196	249	250	250
LME Lead (USD/t)	2,285	2,101	2,122	2,046	2,050	2,050
Lead premium (USD/t)	199	209	158	174	180	180
Silver realisation (USD/ounce)	24.6	21.4	23.6	30.4	35.0	35.0
Mined metal volume (t)	10,17,000	10,62,000	10,79,000	10,95,000	11,29,301	11,44,808
Refined Zinc volume (t)	7,77,000	8,21,000	8,17,000	8,27,000	8,84,160	9,09,160
Lead volume (t)	1,92,000	2,11,000	2,16,000	2,25,000	2,20,000	2,20,000
Net Silver volume (kg)	6,47,000	7,14,000	7,46,000	6,87,000	7,05,000	7,50,000

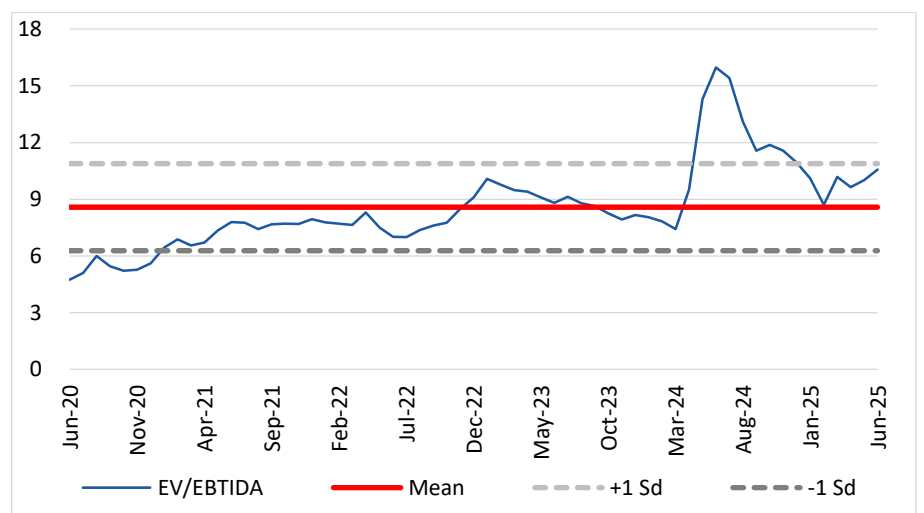
Source: Company, Nuvama Research

Exhibit 6: Valuation

Particulars (INR mn)	FY27E
EBITDA	2,03,890
Multiple (x)	8.0
Enterprise value	16,39,278
Average net debt	23,465
Implied Market-cap	16,15,812
No. of shares (mn)	4,225
Value (INR/share)	382
DPS (INR/share)	20
Target Price (INR/share)	403

Source: Company, Nuvama Research

Exhibit 7: Trading expensive; above 5-year average of 1Y forward EV/EBITDA



Source: Company, Nuvama Research

Company description

Hindustan Zinc Limited (HZL) is an India-based company, which is engaged in the mining and smelting of zinc, lead and silver metal in India. The company's segments are mining and smelting of zinc, lead and silver, and wind energy. HZL's operations include approximately five zinc-lead mines, over four zinc smelters, a lead smelter, a zinc-lead smelter, approximately seven sulphuric acid plants, a silver refinery plant and over six captive power plants in Rajasthan. In addition, the company also has a rock-phosphate mine in Maton near Udaipur in Rajasthan and zinc, lead, silver processing and refining facilities in Uttarakhand. HZL also has wind power plants in Rajasthan, Gujarat, Karnataka, Tamil Nadu and Maharashtra. It has a metal production capacity of over 1mtpa with its key lead-zinc mines in Rampura Agucha and Sindesar Khurd, and smelting complexes in Chanderiya and Dariba, all in the state of Rajasthan.

Investment theme

We see the stock price discounting the current robust LME zinc prices and production ramp up. Company embarks on growth plan and guides capacity expansion by 250ktpa in zinc but by 1HFY29. HZL is expected to generate strong free cash flow through to FY27E.

Key risks

- HZL's share price is sensitive to LME zinc/silver prices
- Higher-than-estimated LME prices in the event of a demand uptick or production cuts are a key upside risks
- Lower than expected volume growth
- INR depreciation and/or higher metal premiums
- Full stake sale of Gol at one go/Sell stake by Vedanta

Additional Data

Management

Chairperson	Ms Priya Agarwal
Executive Director	Mr Arun Misra
Chief Financial Officer	Mr Sandeep Modi
Company Secretary	Ms. Aashima V Khanna
Auditor	S.R. Batliboi & Co LLP

Holdings – Top 10*

	% Holding		% Holding
Vanguard Group	0.28	wisdon tree	0.06
life insurance	2.76	ICICI Pru	0.02
Blackrock	0.09	Nippon Life AMC	0.01
State Street Co	0.01	Motilal Oswal A	0.01
DSP Investments	0.02		

*Latest public data

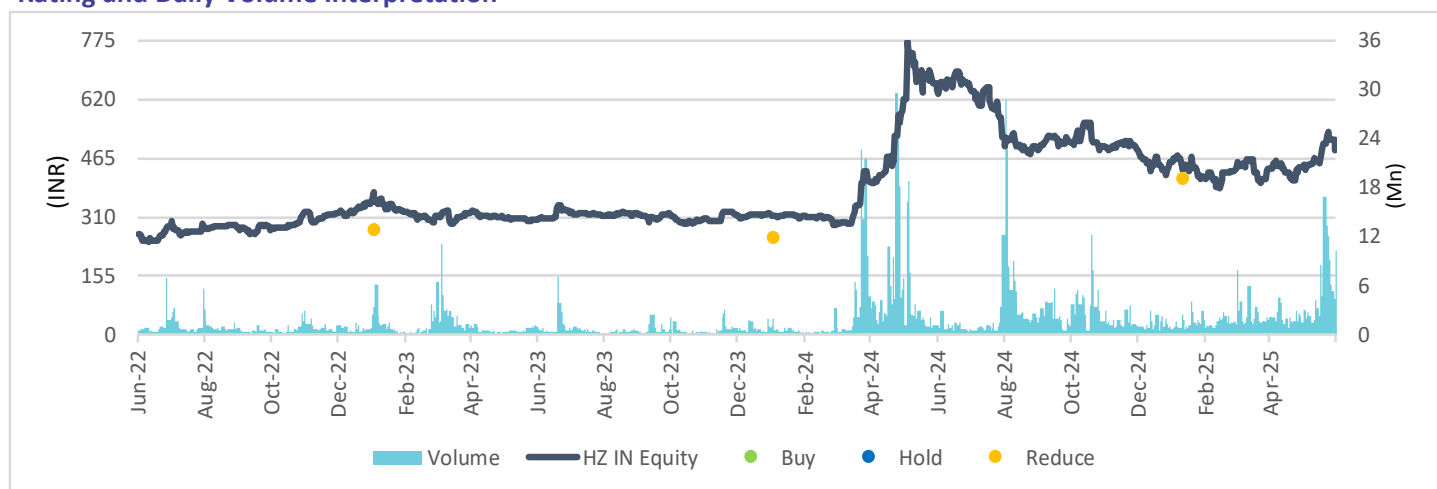
Recent Company Research

Date	Title	Price	Reco
25-Apr-25	Low CoP supports earnings growth; <i>Result Update</i>	445	Reduce
28-Jan-25	Higher prices drive earnings; CoP down; <i>Result Update</i>	442	Reduce
18-Oct-24	Price and cost support earnings; <i>Result Update</i>	499	Reduce

Recent Sector Research

Date	Name of Co./Sector	Title
12-Jun-25	Coal India	Volume dips; cost to increase; <i>Company Update</i>
29-May-25	SAIL	Margins to move up; debt under control; <i>Result Update</i>
28-May-25	NMDC	Volume growth underway; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	203
Hold	<15% and >-5%	62
Reduce	<-5%	37

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