

Strong Zinc prices drive profit's

28 Oct, 2014

CMP: Rs. 171
Target Price: Rs. 186
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	500188
NSE Symbol	HINDZINC
Bloomberg	HZIN
Reuters	HZNC.BO
BSE Sensex	26,753
NSE Nifty	7,992

Market Info

Market Capital	Rs 72,253cr
Equity Capital	Rs 845cr
Avg. Trading Vol.	16,03,610
52 Wk High/ Low	184/115
Face Value	2

Shareholding Pattern (%) (Sep 2014)

Promoters	64.9
Domestic Institutions	31.0
Foreign Institutions	2.2
Non Promoters Corp.	-
Public & Others	1.9
Govt. Holdings	29.5

Hindustan Zinc's (HZL) 2QFY15 performance was better than expected largely due to strong LME prices (11.4% rise sequentially). HZL reported 4% yoy decline in mined metal production (213kt) due to higher excavation of waste as company is in transition phase towards underground mining. However, higher production is planned in H2FY15. Integrated refined metal production of zinc-lead during the quarter was lower by ~10.7% YoY, in-line with mined metal production.

Lower production volumes, planned shutdowns, increased employee expense on account of long-term wage agreement and higher mine development expenses impacted cost of production of zinc which went up from Rs 50,522(\$ 816) per ton to Rs 55,154(\$ 910) per ton. However, it was lower than previous quarter's Rs 60,093(\$ 1,005).

On blended basis total operating cost was 15.7% higher at Rs. 85,442 per tonne on YoY basis. An EBITDA margin was marginally lower by 30bps to 52.6% on YoY basis. Profit after tax came in at Rs 2,184cr and was higher by 29.9% on YoY basis. The increase is largely on account of higher LME prices.

During the quarter, environmental clearance was received for enhancement of production capacity of Kayad mine from 0.35 MTPA to 1.0 MTPA.

Company had cash & cash equivalent of Rs 27,475 crs as on 30 Sept, 2014.

Management had guided for marginal growth in mined metal and silver production in FY 2015. Integrated zinc-lead metal production is expected to witness a strong growth in H2 over H1, in sync with mined metal production growth.

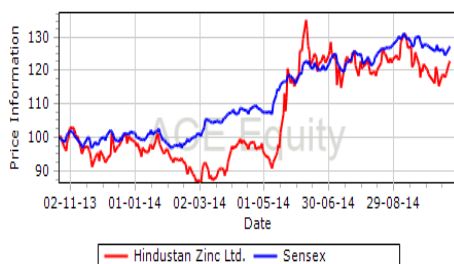
Valuations:

Volumes for Zinc and lead for HZL are expected to remain flat over next couple of years as we expect mining ramp up to happen gradually. We will be watchful of ramp up at RA mine and any delay in the same will act as a negative trigger for the stock. Nonetheless, our positive thesis on HZL is based on positive outlook on Zinc prices corroborated by falling surplus in the market.

We have valued stock on EV/EBITDA of 6x its FY16E and have arrived at fair value of Rs 186 per share. At CMP of Rs 171 the stock is trading at FY15E and FY16E EV/EBITDA of 5.5x and 5.3x. We recommend **Hold** rating on the stock.

Y/E March, (Rs in Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	12,526	13,459	15,173	15,606
EBIDTA	6,482	6,962	8,515	8,841
PAT	6,899	6,905	8,042	8,361
EPS	16.3	16.3	19.0	19.8
RONW (%)	21.4	18.5	18.4	16.7
P/E (X)	10.5	10.5	9.0	8.6
EV/EBITDA(X)	7.2	6.7	5.5	5.3

Source: Company data, Arihant Research





2QFY15 Results

Rs in Crore	Q2FY15	Q2FY14	YOY (%)	Q1FY15	QoQ (%)
Net Sales	3,802	3,559	6.8	3,007	26.4
Total Expenditure	1,803	1,676	7.6	1,655	8.9
EBITDA	2,000	1,883	6.2	1,352	47.9
EBITD Margins (%)	52.6%	52.9%		45.0%	
Other Income	697	267	161.0	717	-2.9
Interest	1	8	-83.7	8	-82.8
Depreciation	206	186	10.5	202	1.9
Extraordinary Items	-3	-20		0	
PBT	2,486	1,936	28.4	1,860	33.7
Tax	302	254	18.9	242	24.9
Tax rate (%)	12	13		13	
Profit After Tax	2,184	1,681	29.9	1,618	9
Net Profit Margin (%)	57	47		54	
EPS (Rs)	5.2	4.0	29.9	3.8	35.0

Source: Company data, Aриhant Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	12,526	13,459	15,173	15,606
YoY%	11.4	7.4	12.7	2.9
Other Operating Income	174	177	195	214
Income from Operations	12,700	13,636	15,367	15,820
Materials Consumed	681	346	347	364
Total Expenditure	6,218	6,674	6,853	6,979
Operating EBITDA	6,482	6,962	8,515	8,841
Operating EBITDA margin %	51.0	51.1	55.4	55.9
Depreciation	647	785	689	752
Operating EBIT	5,835	6,177	7,825	8,089
Other Income	2,032	1,899	1,678	1,811
Interest	29	45	43	63
PBT before exceptional item	7,838	8,031	9,461	9,836
PBT	7,820	7,970	9,461	9,836
Tax Expense	921	1,065	1,419	1,475
Reported Net Profit	6,899	6,905	8,042	8,361
YoY%	24.9	0.1	16.5	4.0
Effective Tax Rate	11.8	13.4	15.0	15.0
Reported EPS	16.3	16.3	19.0	19.8

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	7,820	7,970	9,461	9,836
Add Depr	647	785	689	752
Others	(1,893)	(1,764)	-	-
Total	6,575	6,991	10,150	10,589
Cash Taxes	(1,611)	(1,645)	(1,419)	(1,475)
Changes in Working Cap	(178)	190	141	(14)
Cash Flow from Operations	4,785	5,536	8,872	9,099
Investing Activities				
Change in investments	(1,514)	(2,208)	126	142
Capex	(1,756)	(1,813)	(2,500)	(3,000)
Cash Flow from Investing	(3,269)	(4,021)	(2,374)	(2,858)
Financing Activities				
Dividends + Taxes paid	(1,228)	(1,532)	(1,834)	(1,906)
Change in Non Curr Liab	(26.9)	(44.9)	-	-
Cash Flow from Financing	(1,255)	(1,577)	(1,834)	(1,906)
Opening Cash	29	290	3,031	7,696
Changes during year	261	(62)	4,664	4,335
Closing Cash	290	228	7,696	12,031
Reconciliation Cash and cash equivalent with the balance sheet	6,652	2,803		
Cash in Balance sheet	6,942	3,031	7,696	12,031

Source: Company data, Arihant Research

Balance Sheet, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Liabilities + Equity				
(a) Share capital	845	845	845	845
(b) Reserves and surplus	31,431	36,573	42,781	49,235
Shareholders' funds	32,276	37,418	43,626	50,080
Non-current liab & Prov	1,308	1,714	1,714	1,714
Current liabilities	1,882	2,545	2,727	2,765
Total - Equity and liabilities	35,465	41,677	48,067	54,560
Assets				
Non-current assets				
Fixed assets (incl CWIP)	9,566	10,688	12,326	14,386
Long Term Inv	3	3	3	3
Loans + Adv + Others	1,898	2,939	2,986	3,032
Other non-current assets	239	-	-	-
Current assets				
Investments	14,537	22,504	22,504	22,504
Cash	6,942	3,031	7,696	12,031
Other current assets	2,280	2,511	2,552	2,604
Sub-total - Current assets	23,760	28,046	32,752	37,138
Total - Assets	35,465	41,677	48,067	54,560

Ratio Analysis

	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	51.0	51.1	55.4	55.9
Operating EBIT%	46.6	45.9	51.6	51.8
PAT%	55.1	51.3	53.0	53.6
ROAE%	23.3	19.8	19.8	17.8
Du Pont ROAE breakup				
PAT / Sales	0.55	0.51	0.53	0.54
Sales / Avg Total Assets	0.39	0.35	0.34	0.30
Avg Total Assets / Avg Eqty	1.10	1.11	1.11	1.10
ROE	21.4	18.5	18.4	16.7
Other Ratios				
Current Ratio	12.6	11.0	12.0	13.4
Long Term Debt / Equity	-	-	-	-
EPS	16.3	16.3	19.0	19.8
DPS	3.1	3.5	3.6	3.8
Dividend Payout ratio	19.0	21.4	19.0	19.0
P/E	10.5	10.5	9.0	8.6
BVPS	76.4	88.6	103.2	118.5
P/BV	2.2	1.9	1.7	1.4



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Stock Rating Scale

	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	<-5%

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