

Strong LME prices drives profit

21 Jan, 2015

CMP: Rs. 162
Target Price: Rs. 178
Recommendation: HOLD

Stock Info

BSE Group	A
BSE Code	500188
NSE Symbol	HINDZINC
Bloomberg	HZIN
Reuters	HZNC.BO
BSE Sensex	28,785
NSE Nifty	8,696

Market Info

Market Capital	Rs 68,281cr
Equity Capital	Rs 845cr
Avg. Trading Vol.	16,66,460
52 Wk High/ Low	184/115
Face Value	2

Shareholding Pattern (%)	(Dec 2014)
Promoters	64.9
Domestic Institutions	31.0
Foreign Institutions	2.3
Non Promoters Corp.	-
Public & Others	1.8
Govt. Holdings	29.5

Hindustan Zinc's (HZL) 3QFY15 performance was better than expected largely due to strong LME prices and higher other income (on account of mark to market treasury gains). HZL reported 10% yoy increase in mined metal production (242kt) due to higher production from Rampura Agucha mine and better ore grades. Integrated refined metal production of zinc-lead during the quarter was marginally lower by ~1% YoY.

The zinc metal cost of production before royalty during the quarter was Rs. 50,534 (\$817), which is lower by 8% (10% in USD terms) sequentially and 3% lower from a year ago. The y-o-y decrease in cost was due to higher mined metal production, lower diesel cost and higher acid credits, partly offset by lower linkage coal and increased employee expense on account of long-term wage agreement.

Revenues for the quarter were up 11.7% on YoY basis and stood at Rs 3853 crs. EBITDA was up by 14.6% on YoY basis to Rs 2089 crs. PAT was up by 38.1% to Rs 2379 crs.

On blended basis total operating cost was 16.1% higher at Rs. 80,409 per tonne on YoY basis. An EBITDA margin was up by 53bps to 54.2% on YoY basis. Higher margins are attributed to strong LME prices which were up by 13% and 19% for Zinc and Lead respectively.

Sindesar Khurd mine expansion is proceeding better than planned, although Rampura Agucha underground shaft project is behind schedule.

The Board has approved deepening of the open cast mine by 50 metres which will extend mine life to FY 2019-20 and ensure a stable transition from open pit to underground at Rampura Agucha. The pre-stripping work will start in the current quarter.

Company had cash & cash equivalent of Rs 28,980 crs as on 30 Sept, 2014.

Management had guided for marginal growth in mined metal production in FY15. However, silver production will decline marginally in FY 2015.

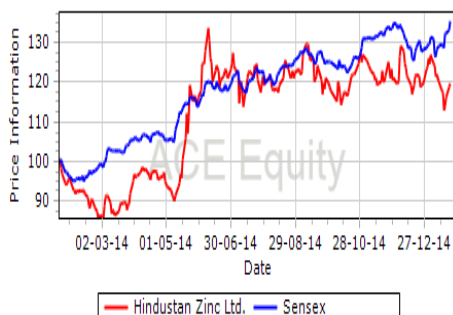
Valuations:

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 5.5x its FY16E and have arrived at fair value of Rs 178 per share. At CMP of Rs 162 the stock is trading at FY15E and FY16E EV/EBITDA of 5.0x and 4.7x. We recommend **Hold** rating on the stock.

Y/E March, (Rs in Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	12,700	13,636	15,555	16,175
EBIDTA	6,482	6,962	8,610	9,023
PAT	6,899	6,905	8,122	8,518
EPS	16.3	16.3	19.2	20.2
RONW (%)	21.4	18.5	18.6	16.9
P/E (X)	9.9	9.9	8.4	8.0
EV/EBITDA(X)	6.6	6.1	5.0	4.7

Source: Company data, Aриhant Research





3QFY15 Results

Rs in Crore	Q3FY15	Q3FY14	YOY (%)	Q2FY15	QoQ (%)
Net Sales	3,853	3,450	11.7	3,802	1.3
Total Expenditure	1,764	1,626	8.5	1,803	-2.2
EBITDA	2,089	1,824	14.6	2,000	4.5
EBITD Margins (%)	54.2%	52.9%		52.6%	
Other Income	812	424	91.6	697	16.6
Interest	1	10	-92.1	1	-39.7
Depreciation	209	210	-0.3	206	1.4
Extraordinary Items	0	0		-3	
PBT	2,692	2,028	32.7	2,486	8.3
Tax	312	305	2.3	302	3.2
Tax rate (%)	12	15		12	
Profit After Tax	2,379	1,723	38.1	2,184	5
Net Profit Margin (%)	62	50		57	
EPS (Rs)	5.6	4.1	38.1	5.2	9.0

Source: Company data, Arihant Research



Profit and Loss Account, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Net Sales	12,526	13,459	15,360	15,961
YoY%	11.4	7.4	14.1	4.0
Other Operating Income	174	177	195	214
Income from Operations	12,700	13,636	15,555	16,175
Materials Consumed	681	346	352	374
Total Expenditure	6,218	6,674	6,945	7,153
Operating EBITDA	6,482	6,962	8,610	9,023
Operating EBITDA margin %	51.0	51.1	55.4	55.8
Depreciation	647	785	689	752
Operating EBIT	5,835	6,177	7,920	8,270
Other Income	2,032	1,899	1,678	1,816
Interest	29	45	44	65
PBT before exceptional item	7,838	8,031	9,555	10,021
PBT	7,820	7,970	9,555	10,021
Tax Expense	921	1,065	1,433	1,503
Reported Net Profit	6,899	6,905	8,122	8,518
YoY%	24.9	0.1	17.6	4.9
Effective Tax Rate	11.8	13.4	15.0	15.0
Reported EPS	16.3	16.3	19.2	20.2

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	42,843	49,418
Shareholders' funds	32,276	37,418	43,688	50,264
Non-current liab & Prov	1,308	1,714	1,714	1,714
Current liabilities	1,882	2,545	2,747	2,802
Total - Equity and liabilities	35,465	41,677	48,149	54,780
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	7,749	12,197
Other current assets	2,280	2,511	2,581	2,658
Sub-total - Current assets	23,760	28,046	32,833	37,358
Total - Assets	35,465	41,677	48,149	54,780

Cash Flow Statement, Year Ending March

Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
PBT	7,820	7,970	9,555	10,021
Add Depr	647	785	689	752
Others	(1,893)	(1,764)	-	-
Total	6,575	6,991	10,245	10,773
Cash Taxes	(1,611)	(1,645)	(1,433)	(1,503)
Changes in Working Cap	(178)	190	132	(22)
Cash Flow from Operations	4,785	5,536	8,943	9,248
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)	(1,852)	(1,942)
Change in Non Curr Liab	(26.9)	(44.9)	-	-
Cash Flow from Financing	(1,255)	(1,577)	(1,852)	(1,942)
Opening Cash	29	290	3,031	7,749
Changes during year	261	(62)	4,718	4,448
Closing Cash	290	228	7,749	12,197
Reconciliation Cash and cash equivalent with the balance sheet	6,652	2,803		
Cash in Balance sheet	6,942	3,031	7,749	12,197

Ratio Analysis

	FY13	FY14	FY15 E	FY16 E
Profitability				
Operating EBITDA%	51.0	51.1	55.4	55.8
Operating EBIT%	46.6	45.9	51.6	51.8
PAT%	55.1	51.3	52.9	53.4
ROAE%	23.3	19.8	20.0	18.1
Du Pont ROAE breakup				
PAT / Sales	0.55	0.51	0.53	0.53
Sales / Avg Total Assets	0.39	0.35	0.34	0.31
Avg Total Assets / Avg Eqty	1.10	1.11	1.11	1.10
ROE	21.4	18.5	18.6	16.9
Other Ratios				
Current Ratio	12.6	11.0	12.0	13.3
Long Term Debt / Equity	-	-	-	-
EPS	16.3	16.3	19.2	20.2
DPS	3.1	3.5	3.7	3.8
Dividend Payout ratio	19.0	21.4	19.0	19.0
P/E	9.9	9.9	8.4	8.0
BVPS	76.4	88.6	103.4	119.0
P/BV	2.1	1.8	1.6	1.4

Source: Company data, Arihant Research



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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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