# Stock Note
# Hindustan Zinc Ltd.

August 29, 2022


RETAILRESEARCH

# Hindustan Zinc Ltd.

| Industry | LTP | Recommendation | Base Case Fair Value | Bull Case Fair Value | Time Horizon |
|---|---|---|---|---|---|
| Metals & Mining | Rs 285.3 | Buy in Rs 282-288 band and add on dips to Rs 252-257 band. | Rs 313 | Rs 339 | 2-3 quarters |

| | |
|---|---|
| HDFC Scrip Code | HINZINEQNR |
| BSE Code | 500188 |
| NSE Code | HINDZINC |
| Bloomberg | HZ:IN |
| CMP Aug 26, 2022 | 285.3 |
| Equity Capital (Rs cr) | 845 |
| Face Value (Rs) | 2 |
| Equity Share O/S (cr) | 422.5 |
| Market Cap (Rs cr) | 120539 |
| Book Value (Rs) | 81 |
| Avg. 52 Wk Volumes | 1273810 |
| 52 Week High (Rs) | 409 |
| 52 Week Low (Rs) | 242 |

| Share holding Pattern % (Jun, 2022) | |
|---|---|
| Promoters | 64.9 |
| Institutions | 33.4 |
| Non Institutions | 1.7 |
| Total | 100.0 |


* Refer at the end for explanation on Risk Ratings

**Fundamental Research Analyst**
Pranav Jain
pranav.jain@hdfcsec.com

## Our Take:

Incorporated in 1966, Hindustan Zinc Limited (HZL) is an Indian integrated mining and resources producer of zinc, lead, silver and cadmium and has a rich experience of more than five decades in Zinc- lead mining and smelting. It is a subsidiary of Vedanta Limited (~64.92% stake). HZL is the 2nd largest zinc-lead miner & one of the lowest-cost producers of zinc globally and India's largest & only integrated producer of zinc, lead and silver. It is also the world's 6th largest silver producer. It has a total captive power capacity of 586.59MW. The zinc business accounts for around ~70% of revenue and profitability. HZL has world's largest underground zinc mining operations at Rampura Agucha.

In FY22, the company reached its highest ever market share- ~83%, in primary zinc segments. By FY 2024-25, the company expects to further ramp-up capacity of underground mines to 1.35 Mtpa capacity. With commissioning of new zinc smelter of 150 kt capacity, zinc metal production will increase and contribute to achieve the targeted refined metal capacity. HZL also has plans to scale-up silver production to 800 MT and gradually to 1,000 MT in line with its vision to be in top 3 global primary silver producers from the 6th position currently. The Supreme Court of India has given the clearance for divestment of government's stake (~29.58%) in HZL. The government of India is working on the modalities for the sale of its stake.

## Valuation & Recommendation:

The company is working on the design and specifications for the next phase of expansion to 1.35/1.5 mtpa, which would be completed over the next 3-5 years and is expected to announce further details in H2FY23. We remain positive on HZL given its presence in the lower end of the global cost curve facilitated by high grade captive mines sufficient to meet requirements for decades, 100% captive power plants, sizeable scale, diversified revenue stream with strong balance sheet and high dividend pay-out.

We believe investors can buy the stock in the band of Rs 282-288 band (5.6x FY24E EV/EBITDA) and add on dips to Rs 252-257 band (4.85x FY24E EV/EBITDA) for base case fair value of Rs 313 (6.25x FY24E EV/EBITDA) and bull case fair value of Rs 339 (6.85x FY24E EV/EBITDA) in the next 2-3 quarters.

**Financial Summary:**

| Particulars (Rs cr) | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|---|---|---|---|
| Operating Income | 9387 | 6531 | 43.7 | 8797 | 6.7 | 22,629 | 29,440 | 32,651 | 33,217 |
| EBITDA | 5137 | 3558 | 44.4 | 4962 | 3.5 | 11,672 | 16,225 | 17,435 | 17,838 |
| APAT | 3092 | 1983 | 55.9 | 2928 | 5.6 | 7,980 | 9,629 | 10,856 | 11,713 |
| Diluted EPS (Rs) | 7.3 | 4.7 | 55.9 | 6.9 | 5.6 | 18.9 | 22.8 | 25.7 | 27.7 |
| RoE-% | | | | | | 22.0 | 28.9 | 31.0 | 31.8 |
| P/E (x) | | | | | | 15.1 | 12.5 | 11.1 | 10.3 |
| EV/EBITDA | | | | | | 9.0 | 6.3 | 5.7 | 5.6 |

*(Source: Company, HDFC sec)*

**Q1FY23 Result Review**

The revenue from operations during the quarter stood at Rs 9,387 crores, up ~43.7% YoY, led by higher zinc volumes and zinc LME prices, favorable exchange rates while partly offset by lower lead & silver volumes. EBITDA for the quarter stood at Rs 5,137 crores, an increase of ~44.4% YoY. The rise was primarily due to higher zinc & lead LME prices, higher silver prices and higher premiums. EBITDA margin was at ~54.7%, slightly up by ~25 bps on YoY basis. Adjusted PAT for the quarter stood at Rs 3,092 crores, up by ~55.9% YoY, led by higher volumes and higher metal prices.

Zinc cost of production (COP) before royalty was US$ 1,264 (Rs 97,423) per MT for the quarter, higher by ~18.1% (~23.4%) YoY and by 11.3% (~14.1%) sequentially. The COP was affected largely on account of higher coal prices, input commodity inflation, lower domestic coal (linkage) availability partially offset by higher volume, better Sulphuric Acid realizations & improved recoveries.

As per the company's hedging strategy it has sold forward ~21% (including sold in Q4FY22) of its expected zinc production for FY23. Further, no hedging has been done for lead. The management has stated there is a high uncertainty in global markets and it is prudent to keep booking part of sales volume on forwards and no currency hedging has been done for this specific hedging.

## Operational Performance:

| Particulars | Q1FY23 | Q1FY22 | YoY (%) | Q4FY22 | QoQ (%) | FY22 | FY21 | YoY (%) |
|---|---|---|---|---|---|---|---|---|
| **Production Volume (kt)** | | | | | | | | |
| Mined Metal | 252 | 221 | 14 | 295 | -15 | 1017 | 972 | 5 |
| Refined Metal | | | | | | | | |
| Zinc (kt) | 206 | 188 | 10 | 211 | -2 | 776 | 715 | 9 |
| Saleable Lead (kt) | 54 | 48 | 13 | 49 | 10 | 191 | 214 | -11 |
| Saleable Silver (MT) | 177 | 161 | 10 | 162 | 9 | 647 | 706 | -8 |
| Wind Power (in million units) | 150 | 134 | 12 | 66 | 127 | 414 | 351 | 18 |
| | | | | | | | | |
| **Sales Volume** | | | | | | | | |
| Refined Zinc (kt) | 206 | 187 | 10 | 214 | -4 | 777 | 724 | 7 |
| Refined Lead (kt) | 54 | 49 | 10 | 49 | 10 | 192 | 216 | -11 |
| Silver (MT) | 177 | 160 | 11 | 162 | 9 | 647 | 735 | -12 |
| | | | | | | | | |
| Zinc CoP (Rs/MT)- Without Royalty | 97423 | 78952 | 23 | 85378 | 14 | 83511 | 70681 | 18 |
| Zinc CoP ($/MT)- Without Royalty | 1264 | 1070 | 18 | 1136 | 11 | 1122 | 954 | 18 |

*(Source: Company, HDFC sec)*

## Key developments and triggers:

**Update on various expansion and new projects**

**Announcement of new projects:** Recently, the company announced that the formation of wholly owned subsidiary for setting up of 5.0 ltpa fertilizer plant. For this fertilizer plant, it has planned a capacity of 5 lakhs tons at the initial level and plans to scale it up to 10 lakh tons. The capex for this plant is estimated at Rs 1300-1400 crores. It has also announced the setting of a new roaster plant with a capacity of 160 ktpa with an estimated capex of Rs 700-800 crores.

**Capacity expansion**: Its intermediate milestone of 1.35 MTPA expansion plan includes Zawar mine output to increase from 4 million tons to 8 million tons and Rajpura Dariba mine output to increase to 4 million tons from 1 million tons currently. The company has set target to increase its smelter production over 1 million tons. It currently has plans to expand capacity to 1.2 million tons, then 1.35 million tons and gradually increase to 1.5 million. The design work for 1.5 million tons will be completed by another 2 quarters. This will require investments to expand its mining operations to match its targeted refining capacities. It should be able to commence some of its projects like the melting and casting project, which would be carried out by its subsidiary- Hindustan Zinc Alloys Pvt Ltd and will add about 30Kt of value added products in its product portfolio. Target to scale-up silver production to 800 MT and gradually to 1,000 MT in line with its vision to be in top 3 global primary silver producers from the 6th position currently. Also the company’s intention of expanding beyond India remains intact.

**Expansion plan:**

| Particulars | Current Capacities (TPA) | Proposed Expansion (TPA) | Post Expansion (TPA) | Remarks |
|---|---|---|---|---|
| Zinc | 913000 | 350000-400000 | 1500000 | First Phase- 1.20 MTPA |
| Lead | 210000 | | | Second Phase- 1.35 MTPA |
| | | | | Third Phase- 1.50 MTPA |
| Silver | 800 | 200 | 1000 | By end of FY24E |

*(Source: Company, HDFC sec)*

**Fumer Commissioning**: NFC team arrived at site and cold commissioning of the equipment has started. Visa process for a few of the OEM & NFC experts is in advanced stage. The management expects silver volumes of ~50-60 kt from commencement of the plant in FY23.

**Update on acquisition of Zinc International Ltd**: The management said the acquisition of Zinc International Ltd from its parent company is still on the drawing board and necessary approvals are still pending. The management believes it can do a better job in managing the facility by sharing its best practices.

Rajpura Dariba Mill: Rajpura Dariba Mill revamping for 1.1 million tons per annum is underway. Civil construction is in advanced stage, order for all major supplies have been placed and commissioning is expected to complete by Q3FY23.

**Custom smelter project:** The company has not made much progress in its custom smelter project in Gujarat as the public hearing required to move ahead with the project has not been held yet. Once the public hearing is held, it will go ahead with other parts of this project, which includes land acquisition, consent to establish and placing orders for various equipment.

**Outlook for FY23**

The management has kept the guidance for FY23 unchanged and has guided a flat production in FY23, which implies that the mine output has reached its peak. Mined metal is expected to be between 1,050-1,075 kt & Refined metal production in the range of 1,000-1,025 kt. Saleable silver production is projected to be between 700-725 MT. Zinc cost of production in is expected to be in the range of $1,125-1,175/ MT. HZL expects costs to remain on an uptrend on a sequential basis, mainly on account of higher import coal cost. However, HZL expects to partially offset this increase from internal efficiencies and higher volumes in FY23. The management expects power costs to moderate going forward, on account of higher linkage coal supplies in the new few quarters. The management has maintained its guidance for capex of US$250- 300 million, which includes growth capex at US$125-150 million, largely pertaining to Rajpura Dariba mine revamping, alloy facility setup, new renewable energy power project.

**Mined metal production crossed 1-million mark in FY22**

The company recorded best ever mined metal production in FY22, crossing 1 million mark to reach at 1,017,000 tons in FY22, up by ~5% on YoY basis. This was supported by higher ore production across the mines. HZL also recorded its highest ever refined metal production at 967,000 tons in FY22, up ~4% on YoY basis. This was mainly due to better plant and concentrate availability. Lead production was lower due to changing mode of Pyro Plant (at CLZS) operations from Lead mode to Zinc-Lead mode. Saleable silver production stood at 647MT, down by ~8% on YoY basis in line with Lead metal production & reduction of silver WIP.

**Formation of new subsidiaries for value addition**

The company has announced formation of new subsidiary- Hind Zinc Alloy Pvt Ltd which will primarily be engaged in manufacturing of zinc alloys which are currently being imported. All orders for this new subsidiary has been placed and civil job has started at the site. The management expects commissioning of the same to be completed by Q4FY23. The management expects its domestic market share to further increase and also aims for import substitutions as far as zinc entering the country through the alloy route is concerned. This will add about 30KT of value added products to its product portfolio. This new facility will be set up in one of the existing operation locations with all environment friendly technologies. The main focus remains of developing the market for zinc alloys which will aid in expanding the business and gain better premiums going forward. For this purpose, the company has earmarked funds amounting to Rs 200 crores. Also, recently, the company announced formation of wholly owned subsidiary for setting up of 5 ltpa fertilizer plant.

**Healthy dividend pay-outs and liquidity**

The company has been consistent in paying healthy dividends since last many years. Hind Zinc paid dividend of Rs. 7,606 crores during FY22 and Rs 15,972 crores in FY21 (which includes dividend of FY20). Dividend pay-outs are expected to remain high in order to increase shareholders’ return as well as to support debt at Vedanta Resources Ltd (ultimate parent company of HZL). HZL has a clear focus on enhancing its shareholders returns. The company’s board has approved transfer of Rs. 10,380 crores to Retained Earnings from General Reserves of the company. This amount is likely to be utilized towards enhancing shareholders returns as these funds are in excess of its operation and business requirements.

As on 30th June 2022, the company’s gross investments and cash & cash equivalents were Rs 24,254 crores vs Rs 20,789 crores as on 31st March 2022. The company’s net investments as at June 30, 2022, was Rs. 21,439 crores as compared to Rs. 17,966 crores at end of March 2022. The company had an outstanding debt of Rs. 3,124 crores as on 31st March 2022 vs Rs. 7,178 crores in FY21. It has repaid Rs. 4,355 crores during FY22, supported by strong cash accruals.

**Competitive cost position due to high-grade reserves and integrated operations**
The company has long term agreements with Government of India which provides it access to bulk of lead-zinc deposits in Rajasthan. This should help the company to sustain its position as a low-cost producer of zinc over the medium-term. The Cost of production ranks in the first quartile globally for zinc. Excluding royalty, it stood at US$ 1122/ton in FY22 vs US$ 954/ton in FY21.

As on March 31, 2022, net reserve and resources were 447.9 million tons, ensuring a long mine life of over 25 years. Total Ore Reserves stand at 161.2 million tons (net of depletion of FY22 production of 16.34 million tons) at the end of FY22 (150.3 million tons at the end of FY21) due to focus on resource to reserve conversion during the year. Exclusive Mineral Resource totaled 286.73 million tons.

Total contained metal in Ore Reserves is 9.57 million tons of zinc, 2.45 million tons of lead and 298.4 million ounces of silver. The Mineral Resource contains 13.18 million tons of zinc, 5.86 million tons of lead & 576.3 million ounces of silver.

**Established dominant position in domestic market**
HZL is the second-largest zinc-lead miner and fourth-largest zinc-lead smelter globally. The company enjoys leadership position with around ~83% share by volume in the domestic zinc market. It has a mined metal capacity of around 1.2 million tons per annum and smelter capacities of 913,000 tons per annum for zinc, 210,000 for lead, 800 tons per annum for silver. The company has a competitive edge as there are high entry barriers in this industry due to capital-intensive operations and lack of zinc ore mines. HZL has global presence which enhances its revenue diversity and benefits it in times of weak Rupee. In FY22, the company sold ~60-62% of its total volume in domestic market.

**Pyro smelter operated in 'Zinc & Lead' mode in FY22**
The pyro smelter at can operate in both lead and zinc & lead mode. In FY21, the availability of lead concentrate was higher and so the smelter on only lead mode. In FY22, the smelter operated in zinc and lead mode, as the availability of zinc concentrate improved and also zinc LME were above $4000/t. which led to a decline in lead production on YoY basis. The management is working to debottleneck its smelters.

**Enhancing valued added product portfolio**
HZL is continuously scaling up Value Added Product (VAP) production in its primary metals portfolio. It produces two types of VAP – 1) Continuous Galvanizing Grade (CGG), which is used by Steel Galvanizing companies, with the final product finding use in construction, and 2) Hindustan Zinc Die Casting Alloy (HZDA), which is used by Die Casting companies, with the final product being utilized by the automobile and architectural sector. With both the construction and auto sector picking up along with renewed focus on smart city and infrastructure projects is generating high demand for customized products. Through its subsidiary Hind Zinc Alloy Pvt Ltd, it is focusing on meeting

domestic demand for zinc alloy products to enhance its VAP portfolio as a go-to-market strategy. Thereby, its share of VAP increased to 20.0% in FY 2021-22 from ~15.5% in the previous year and target to increase it to ~24% by FY 2024-25.

**Increasing per capita consumption of zinc**

HZL in collaboration with International Zinc Association (IZA) is working on multiple projects to increase zinc consumption in India. It is creating awareness on use of zinc as an alternate raw material in battery solutions and are in discussion with several experts globally on the availability of technology options for zinc-based batteries. The company's galvanized rebar segment is also picking pace and is working towards increasing consumer awareness alongside IZA. Additionally, rail track galvanization initiative is in an advanced stage and HZL remain optimistic of progress on this front from the Indian Railways. Another flagship initiative alongside IZA is to address zinc related deficiencies in agricultural soil. Towards this end, it has recently signed a Memorandum of Understanding (MoU) with Maharana Pratap University, Udaipur, a leading university in the Indian state of Rajasthan. The intent is to create awareness amongst the farming community on zinc fortification through field demonstration and capability building.

**Production cuts across the globe to benefit Indian zinc producers**

Indian zinc producers are set to gain as global smelters, especially in Europe, are cutting production due to a surge in energy costs, leading to a flare-up in prices. The shortage created in Europe has mainly affected the commodity cycle, and China – the world's largest metal producer – is unlikely to come to the rescue amidst domestic market tightness. Zinc prices surged to a two-month high of $2,840 per tonne after one of Europe's largest smelters announced it would halt production next month as the continent's energy crisis threatens to drastically impact heavy industries. Zinc has outperformed most of its peers, barring nickel. This development is positive for Indian zinc producers, but situation could change if the energy crisis eases or if demand was impacted.

**Industry overview & outlook (From Annual Report-FY22)**

**Zinc:** India's zinc consumption grew by 13% in FY 2021-22 to 630 kt, after witnessing a sharp fall of 15% during COVID-affected FY 2020-21. While demand in the first quarter (April-June 2021) shrank by 20% due to the second wave of the pandemic, it eventually picked up from the second half of FY 2021-22, demonstrating a 'V-shape' recovery. Much of this growth came from the infrastructure sector and huge government projects announced in the second half of the year. The Indian government's 5 trillion-dollar economy vision, the Steel Ministry's ambition to enhance India's steel production capacity by 2.5x to 300 Mt, 5G roll-out and target for 100% electrification are likely to further boost zinc demand. The Central Government's 6 lac crore asset monetization pipeline during FY 2022-25 is likely to give further impetus to zinc demand. Funds sourced from these initiatives are proposed to be channelized towards roads, railways, power generation and transmission, and telecom projects among others. These projects require significant use of galvanized steel, which will aid zinc demand. There is also a huge potential for galvanized sheets and various zinc alloys in the government's smart cities project, envisaged with modern real estate. Zinc, as an emerging technology, is also well poised for usage in battery application. Given the abundance of zinc in India, the metal is well-positioned to replace imported lithium ion battery applications, and thus further promoting India's self-reliance journey related to metal consumption.

**Lead:** Lead consumption in India increased marginally from 1 Mt in CY 2020 to 1.11 Mt in CY 2021. Refined lead production increased from 1 Mt in CY 2020 to 1.14 Mt in CY 2021, of which 0.23 Mt was primary and 0.91 Mt secondary production. The country remains an attractive market for lead with demand likely to increase with an average growth of 6.4% until 2031, as estimated by WoodMac. The growth will be driven by the automotive sector and inverter battery market. Emerging opportunities like energy storage for electricity generated from photovoltaics (PV) will also drive demand, given India's ambitious plan to aggressively expand solar PV capacity by 2030.

LME started with a price of US$ 1,896/ton in March 2021 and touched US$ 2,513/ton in March 2022. Prices of lead have remained stagnant a range US$ 2,100-2,500/ton in FY 2021-22 and expected to remain within this range over the next financial year.

**Silver:** India is currently the world's third largest silver physical investment market after US and Germany. The silver bar market has been extremely successful, with around 15,000 tons of silver having been bought cumulatively over the last 10 years. The middle class Indian household regularly buys silver for investment and in the form of tableware and cutlery for household use. Silver purchase is considered a safety net for times of financial distress and hence, domestic consumption on the physical side is sizeable. Although new consumption themes are evolving and there is a growing popularity of e-commerce platforms including Amazon and Flipkart as an alternate destination for buying silver coins/bars, holding physical silver still involves space constraints and security concerns. The silver investment market is witnessing a slow change, with digital silver and silver ETFs both gaining popularity. The Securities and Exchange Board of India (SEBI) has allowed silver ETFs. Several mutual funds have launched silver ETFs, including Aditya Birla Sun Life, Nippon India and ICICI Prudential. All these factors together bode well for the silver investment market in India.

During FY 2021-22, silver moved from trading within a US$ 24-28 range for most of the first half of last year to fluctuating within a US$ 22-26 band during the second half. Still, the full-year 2021 average achieved a 22% y-o-y increase to a nine-year high of US$ 25.14. Russia's invasion of Ukraine in late February 2022, the conflict and its implications on trade and the world economy have become a principal driver of the global market. The price is expected to remain range bound in the US$ 21-US$ 25 band.

**Key risks & concerns:**

- Demand for zinc is closely linked to the galvanized steel industry, which consumes around ~70% of the zinc produced in India. The steel industry depends on the growth of end-user segments such as automotive, consumer durables, batteries, home appliances, construction and infrastructure. A downturn in any of these will reduce demand for galvanized steel. Zinc also faces competition from substitutes such as aluminum and other alloys to produce galvanized steel. Furthermore, exposure to LME zinc and lead prices can lead to volatility in EBITDA.

- Looming energy crisis in Europe, Inflationary pressures across the globe and shaky consumer confidence across the world with the latest troubles in China could impact demand for Zinc and in turn its prices.
- Concentration risk is likely to remain high as the zinc-lead business accounts for more than 75% of revenue and profitability.
- The company also faces geographical risks as the entire business (all mines) is concentrated in Rajasthan.
- Royalty cost per ton of mined metal has increased by more than 125% during the past six years.
- The fumer commissioning has been delayed by more than over a year now mainly due to impact of Covid-19 and continued tightening of visa rules for Chinese citizens. The management said the visa issues have now largely been sorted out. It expects commissioning of the fumer plant by end of H1FY23 and production is expected to start by Q3FY23. NFC team arrived at site and cold commissioning of the equipment has started. Visa process for few of the OEM & NFC experts is in advanced stage.
- In terms of coal mix, the company is supposed to have ~25%-30% of its coal requirements from linkages. However, due to the non-power sectors not getting prioritization by the Coal India currently in Q1FY23 it was ~8% of the linkage coal consumption mix vs ~3% in Q4FY22. Hence, this has put a pressure on coal cost and ultimately the power cost and overall. However, as per the management, in terms of the coal security, the company is fully secured in terms of the import coal parcel is concerned. Currently, coal constitutes ~35% of its total cost of production. HZL sources its coal requirements, majorly from South Africa, Indonesia and Australia.
- The Govt of India still holds 29.5% stake in HZL. The Cabinet Committee on Economic Affairs (CCEA) has approved the sale of the government's remaining stake in HZL. In case it opts to sell the stake via OFS, it could result in pressure on stock price due to discount offered and higher float possibility.

  In November 2021, the Supreme Court had allowed the government to divest its the remaining shareholding of 29.5 percent in Hindustan Zinc. The governments residual stake in HZL is valued around ~Rs 36,500 crores.
- Vedanta Ltd on June 8, 2022 said it has pledged a 5.8 % stake in subsidiary Hindustan Zinc Ltd (HZL) to raise a term loan of Rs 8,000cr. Further, to secure the term loan facility of Rs 8,000 Cr, Vedanta has created encumbrance in the form of pledge (5.77% of the paid-up share capital of HZL) and Non-disposable undertaking (50.10% of the paid-up share capital of HZL) in respect of its shareholding in HZL. Also, Vedanta has clarified that none of its shareholding in HZL is encumbered for any personal borrowing of any of the promoter or promoter group and it is an undertaking by Vedanta to continue to retain their current shareholding in HZL, for the comfort of the lenders.

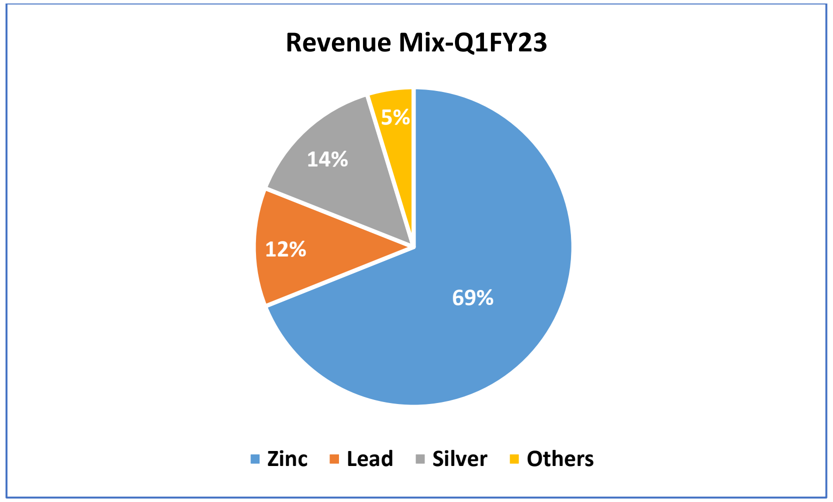
## Company Background:

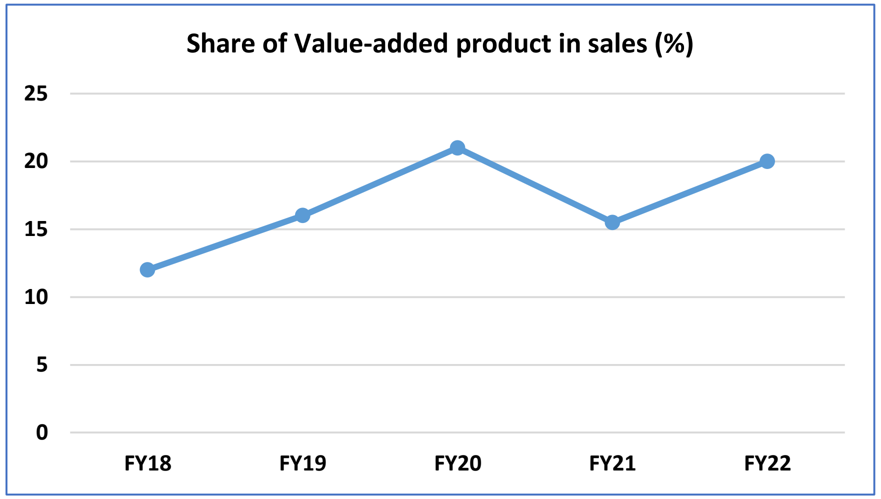
HZL was incorporated in 1966 as a public sector company. In fiscal 2003, the government divested 26% of its equity in HZL to Sterlite Industries Ltd, which later made an open offer for an additional 20%. In fiscal 2004, Sterlite Industries Ltd acquired an additional 18.92% stake by exercising an option granted by the government to increase its stake to 64.9%. After the restructuring of the Vedanta group in India, HZL became a 64.9% subsidiary of Vedanta Ltd. The Company's operations include approximately zinc-lead mines, zinc smelters, a lead smelter, a zinc-lead smelter, sulfuric acid plants, a silver refinery plant and captive power plants in the state of 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 the State of Uttarakhand. The Company also has wind power plants in the States of Rajasthan, Gujarat, Karnataka, Tamil Nadu and Maharashtra with a total capacity of 273.5MW. It has also solar, thermal and WHRB power capacity of 40.42MW/505.5MW/40.67MW respectively. Its key zinc and lead mines are in Rampura Agucha, Sindesar Khurd, Rajpura Dariba, Zawar and Kayad; primary smelter operations at Chanderiya, Dariba and Debari (all in Rajasthan); and finished product facilities in Uttarakhand. It is headquartered in Udaipur, Rajasthan.

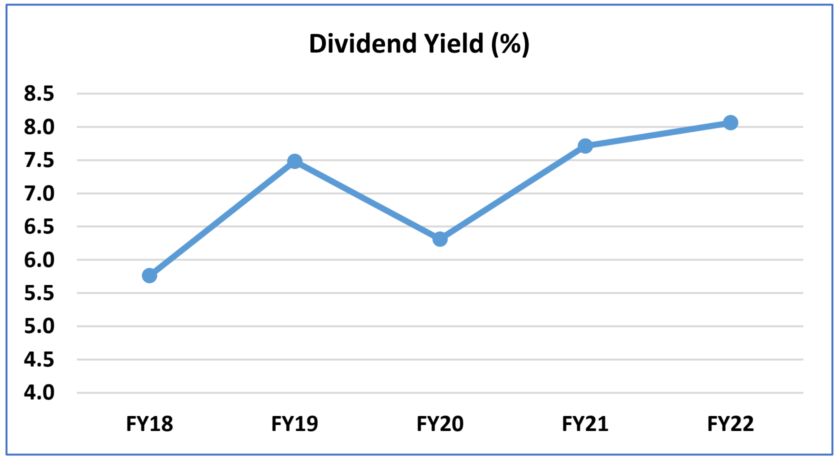
| Mined Metal (TPA) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|
| Zinc | 756 | 773 | 728 | 720 | 756 | 801 |
| Lead | 151 | 174 | 207 | 197 | 216 | 216 |
| Total | 907 | 947 | 936 | 917 | 972 | 1017 |

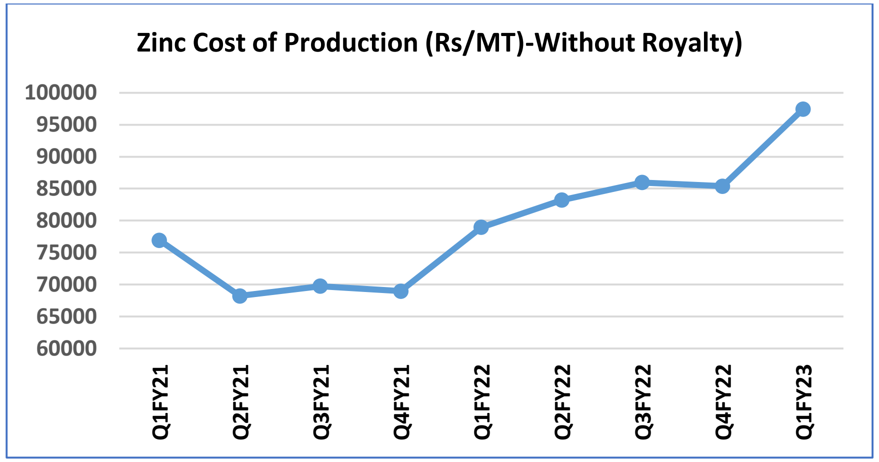
| Refined Metal (TPA) | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---|---|---|---|---|---|---|
| Zinc | 672 | 791 | 696 | 688 | 715 | 776 |
| Saleable Lead | 139 | 168 | 198 | 181 | 214 | 191 |
| Saleable Silver | 453 | 558 | 679 | 610 | 706 | 647 |

*(Source: Company, HDFC sec)*



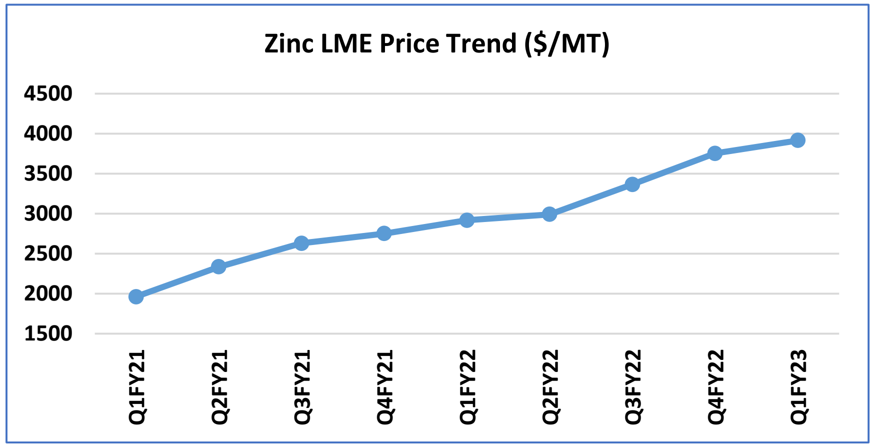



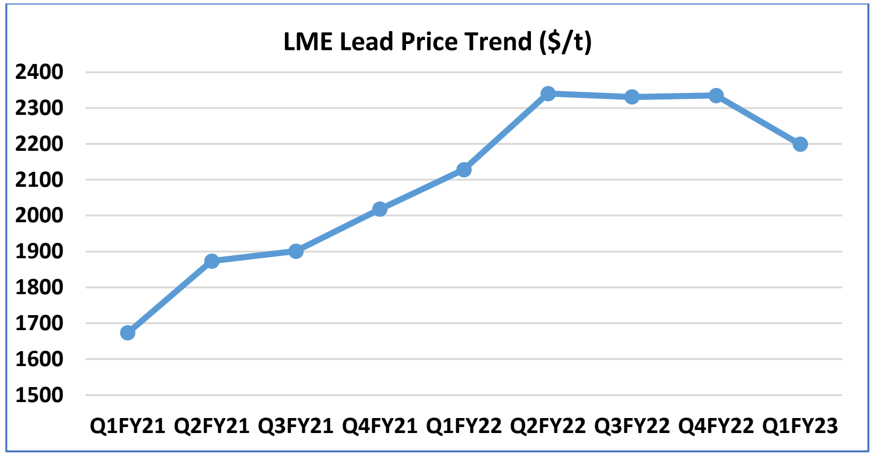



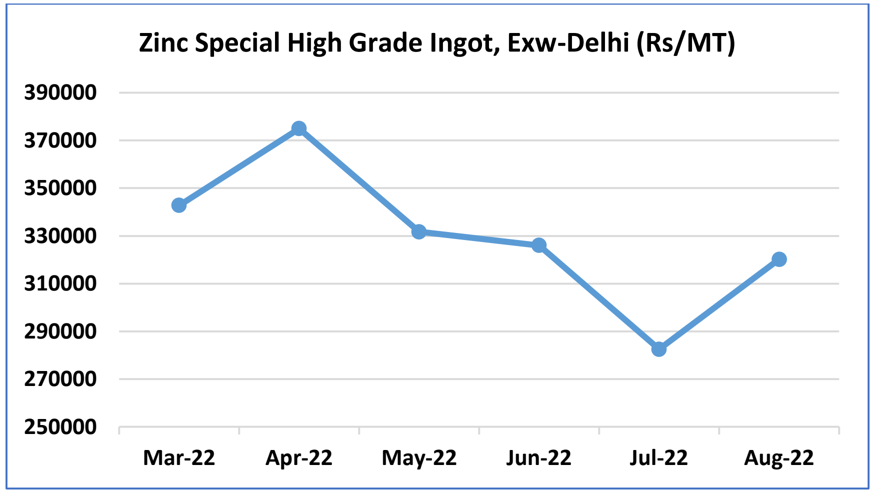



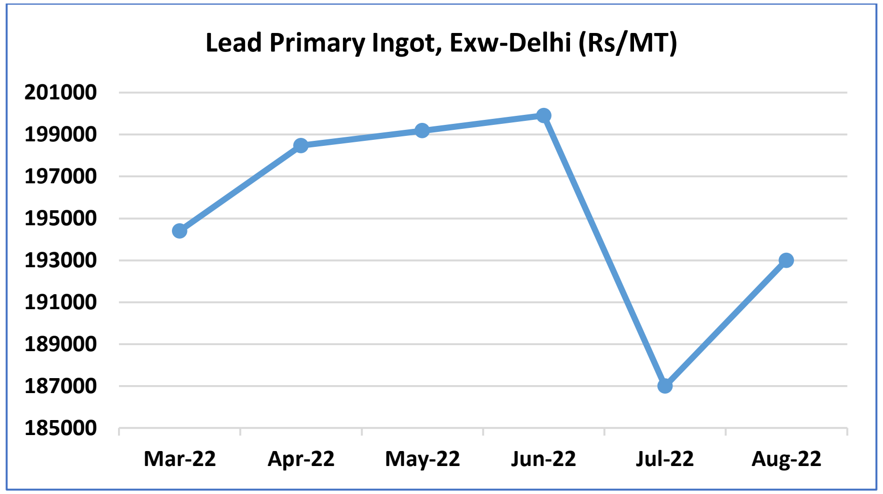

*(Source: Company, HDFC sec)*

**Metals price chart:**

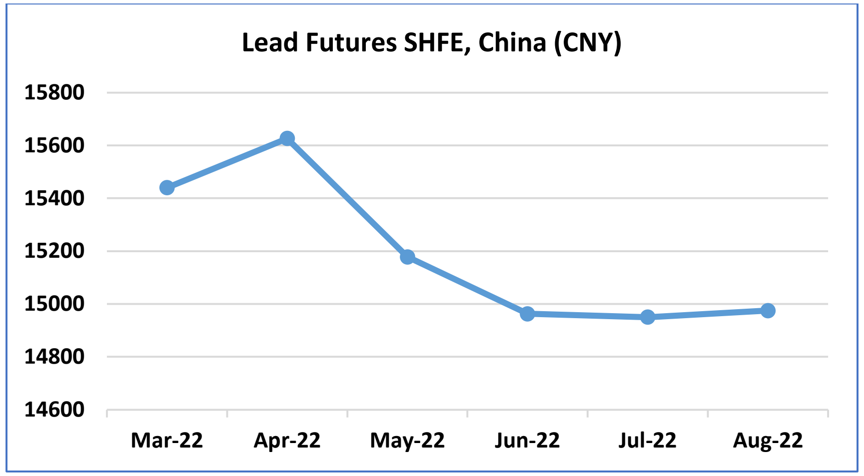


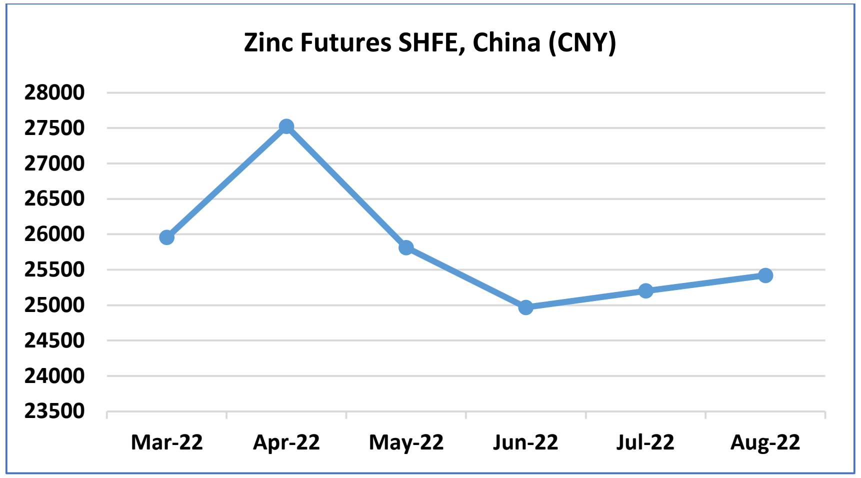



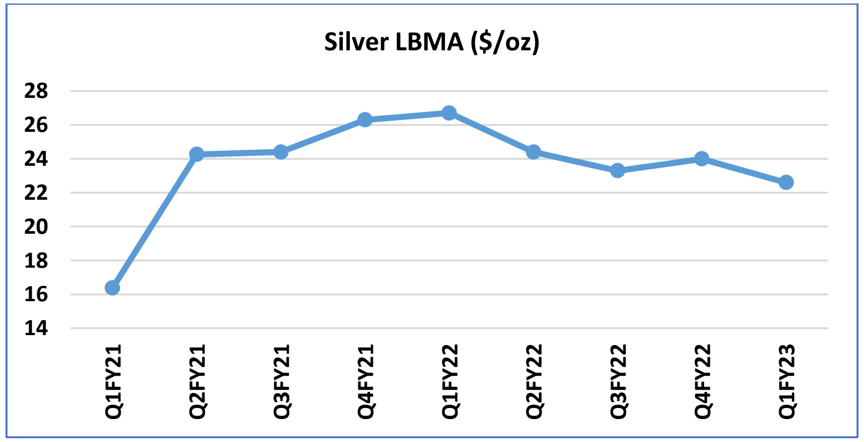



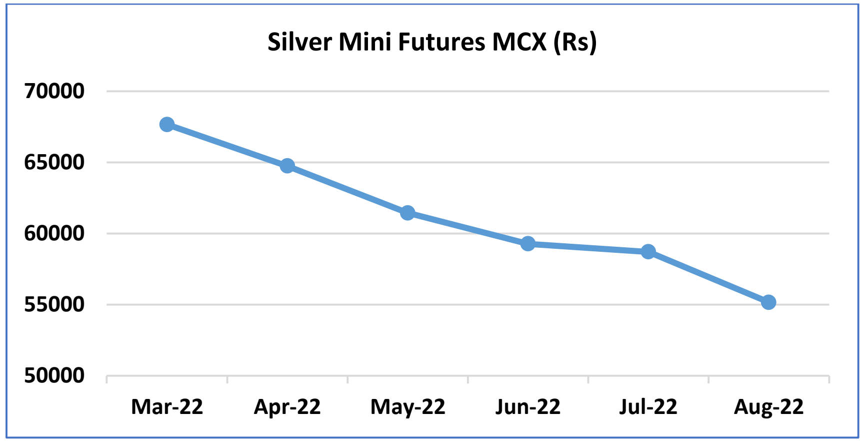




*(Source: Company, Steelmint, Investing.com)*




*(Source: Company, Steelmint, Investing.com)*

**Financials:**

**Income Statement**

| (Rs cr) | FY20 | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|
| **Net Revenues** | **18561** | **22629** | **29440** | **32651** | **33217** |
| ***Growth (%)*** | ***-12.1*** | ***21.9*** | ***30.1*** | ***10.9*** | ***1.7*** |
| Operating Expenses | 9714 | 10957 | 13215 | 15215 | 15380 |
| **EBITDA** | **8847** | **11672** | **16225** | **17435** | **17838** |
| ***Growth (%)*** | ***-17.1*** | ***31.9*** | ***39.0*** | ***7.5*** | ***2.3*** |
| ***EBITDA Margin (%)*** | ***47.7*** | ***51.6*** | ***55.1*** | ***53.4*** | ***53.7*** |
| Depreciation | 2279 | 2531 | 2917 | 2663 | 2423 |
| Other Income | 1934 | 1819 | 1216 | 1437 | 1528 |
| **EBIT** | **8502** | **10960** | **14524** | **16210** | **16942** |
| Interest expenses | 112 | 386 | 290 | 315 | 328 |
| **PBT** | **8390** | **10574** | **14100** | **15895** | **16614** |
| Tax | 1585 | 2594 | 4471 | 5039 | 4901 |
| **PAT** | **6805** | **7980** | **9629** | **10856** | **11713** |
| Share of Asso./Minority Int. | 0 | 0 | 0 | 0 | 0 |
| **Adj. PAT** | **6805** | **7980** | **9629** | **10856** | **11713** |
| ***Growth (%)*** | ***-14.5*** | ***17.3*** | ***20.7*** | ***12.7*** | ***7.9*** |
| EPS | 16.1 | 18.9 | 22.8 | 25.7 | 27.7 |

**Balance Sheet**

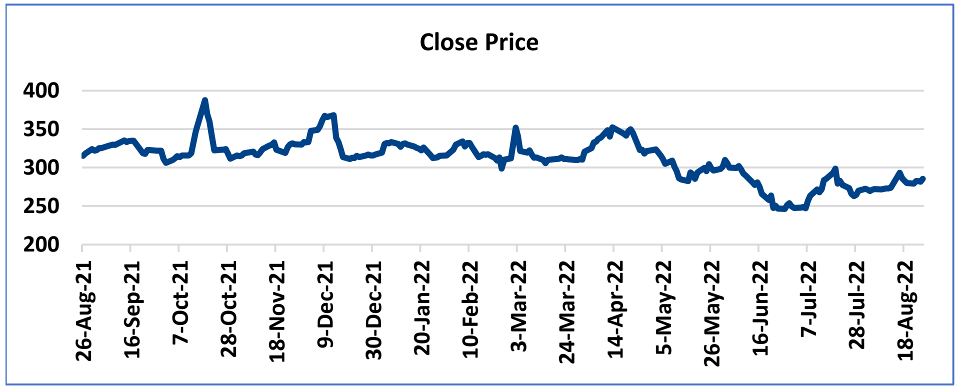
| As at March (Rs cr) | FY20 | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|
| **SOURCE OF FUNDS** | | | | | |
| Share Capital | 845 | 845 | 845 | 845 | 845 |
| Reserves | 39465 | 31468 | 33437 | 34998 | 36993 |
| **Shareholders' Funds** | **40310** | **32313** | **34282** | **35843** | **37838** |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 611 | 6473 | 2823 | 2023 | 1323 |
| Net Deferred Taxes | -1822 | -1058 | 942 | -560 | -433 |
| Other Non-curr. Liab. | 1090 | 1044 | 1030 | 1502 | 1528 |
| **Total Sources of Funds** | **40189** | **38772** | **39077** | **38808** | **40257** |
| **APPLICATION OF FUNDS** | | | | | |
| Net Block & Goodwill | 16469 | 16808 | 17396 | 16558 | 18280 |
| CWIP | 2489 | 1922 | 2075 | 1303 | 633 |
| Investments | 20329 | 12957 | 15052 | 15052 | 15052 |
| Other Non-Curr. Assets | 1382 | 1371 | 1217 | 1635 | 1663 |
| **Total Non-Current Assets** | **40669** | **33058** | **35740** | **34547** | **35627** |
| Inventories | 1835 | 1425 | 1953 | 2150 | 2250 |
| Debtors | 379 | 406 | 716 | 550 | 600 |
| Cash & Equivalents | 1918 | 9376 | 5763 | 7266 | 7741 |
| Other Current Assets | 352 | 404 | 499 | 502 | 552 |
| **Total Current Assets** | **4484** | **11611** | **8931** | **10468** | **11144** |
| Creditors | 1412 | 1545 | 2038 | 2100 | 2200 |
| Other Current Liab & Provisions | 3552 | 4352 | 3556 | 4108 | 4314 |
| **Total Current Liabilities** | **4964** | **5897** | **5594** | **6208** | **6514** |
| Net Current Assets | -480 | 5714 | 3337 | 4261 | 4630 |
| **Total Application of Funds** | **40189** | **38772** | **39077** | **38808** | **40257** |

*(Source: Company, HDFC sec)*

**Cash Flow Statement**

| (Rs Cr) | FY20 | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|
| Reported PBT | 8,390 | 10,574 | 14,100 | 15,895 | 16,614 |
| Non-operating & EO items | -1,908 | -1,807 | -1,027 | -1,437 | -1,528 |
| Interest Expenses | 112 | 386 | 290 | 315 | 328 |
| Depreciation | 2,279 | 2,531 | 2,917 | 2,663 | 2,423 |
| Working Capital Change | -1,117 | 638 | -1,198 | 579 | 106 |
| Tax Paid | -1,135 | -1,755 | -2,391 | -5,039 | -4,901 |
| **OPERATING CASH FLOW ( a )** | **6,621** | **10,567** | **12,691** | **12,976** | **13,043** |
| Capex | -3,618 | -2,427 | -2,968 | -2,500 | -3,350 |
| Free Cash Flow | 3,003 | 8,140 | 9,723 | 10,476 | 9,693 |
| Investments | 470 | 7,193 | -1,849 | 0 | 0 |
| Non-operating income | 500 | -7,201 | 5,663 | 1,437 | 1,528 |
| **INVESTING CASH FLOW ( b )** | **-2,648** | **-2,435** | **846** | **-1,063** | **-1,822** |
| Debt Issuance / (Repaid) | -1,924 | 6,524 | -4,315 | -800 | -700 |
| Interest Expenses | -170 | -244 | -332 | -315 | -328 |
| FCFE | 1,879 | 14,412 | 8,890 | 10,798 | 10,193 |
| Share Capital Issuance | 0 | 0 | 0 | 0 | 0 |
| Dividend | 0 | -15,972 | -7,606 | -9,295 | -9,718 |
| Others | -4 | -5 | -5 | 0 | 0 |
| **FINANCING CASH FLOW ( c )** | **-2,094** | **-9,692** | **-12,253** | **-10,410** | **-10,746** |
| **NET CASH FLOW (a+b+c)** | **1,879** | **-1,560** | **1,284** | **1,503** | **475** |

**One-Year Price Chart:**




**Key Ratios**

| Particulars | FY20 | FY21 | FY22 | FY23E | FY24E |
|---|---|---|---|---|---|
| **Profitability Ratios (%)** | | | | | |
| EBITDA Margin | 47.7 | 51.6 | 55.1 | 53.4 | 53.7 |
| EBIT Margin | 45.8 | 48.4 | 49.3 | 49.6 | 51.0 |
| APAT Margin | 36.7 | 35.3 | 32.7 | 33.2 | 35.3 |
| RoE | 18.4 | 22.0 | 28.9 | 31.0 | 31.8 |
| RoCE | 22.1 | 27.5 | 38.3 | 43.2 | 44.0 |
| **Solvency Ratio (x)** | | | | | |
| Net Debt/EBITDA | -0.1 | -0.2 | -0.2 | -0.3 | -0.4 |
| Net D/E | 0.0 | -0.1 | -0.1 | -0.1 | -0.2 |
| **PER SHARE DATA (Rs)** | | | | | |
| EPS | 16.1 | 18.9 | 22.8 | 25.7 | 27.7 |
| CEPS | 21.5 | 24.9 | 29.7 | 32.0 | 33.5 |
| BV | 95.4 | 76.5 | 81.1 | 84.8 | 89.6 |
| Dividend | 16.4 | 21.3 | 18.0 | 22.0 | 23.0 |
| **Turnover Ratios (days)** | | | | | |
| Debtor days | 6 | 6 | 7 | 7 | 6 |
| Inventory days | 33 | 26 | 21 | 23 | 24 |
| Creditors days | 25.4 | 24 | 22 | 23 | 24 |
| **VALUATION** | | | | | |
| P/E | 18 | 15.1 | 12.5 | 11.1 | 10.3 |
| P/BV | 3.0 | 3.7 | 3.5 | 3.4 | 3.2 |
| EV/EBITDA | 11.2 | 9.0 | 6.3 | 5.7 | 5.6 |
| EV / Revenues | 5.3 | 4.6 | 3.5 | 3.1 | 3.0 |
| Dividend Yield (%) | 5.8 | 7.5 | 6.3 | 7.7 | 8.1 |
| Dividend Pay-out (%) | 102.0 | 113.0 | 79.0 | 85.6 | 83.0 |

*(Source: Company, HDFC sec)*

PRANAV DHIRAJ JAIN

Digitally signed by PRANAV DHIRAJ JAIN
Date: 2022.08.29 09:03:59 +05'30'

## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600**

**HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193**