

Hindustan Zinc_(HZ IN)

In line operationally; lower tax drives net profits

INDIA | METALS | Quarterly Update

22 January 2016

Top takeaways from Q3FY16

- ✓ Sales were above estimate driven by higher volumes
- ✗ Operating profit and other income disappointed
- ✓ Lower tax rate (2.4% vs. our estimate of 16%) led to higher-than-expected net profits

Key highlights:

- Mined metal production at 228K was in line; concentrate inventory liquidation helped higher refined metal production (242K, +5% vs. estimate)
- Ramp up of SK-mine production led to higher lead (35KT, +12% vs. estimate) and silver (115 tonnes, +5% vs. estimate) volumes
- Zinc sales volumes (204KT, +2% vs. estimate) were in line.
- Cost excluding royalty (-2.5% vs. estimate) was offset by higher royalty (Rs 3.6bn, +3% vs. estimate)

Conference call takeaways

- ✓ Maintained FY16 mined metal and refined integrated metal production guidance of more than 900KT; silver production to exceed previous guidance of 350-400 tonnes, helped by faster ramp up of SK mine
- ✓ Kayar mine ramp up going strong with 1mn tonnes annual run-rate expected by FY16 end. SK mine ramped up an annual run-rate of 3mn tonnes in Q3FY16, a quarter earlier than originally planned
- ✗ Mining sequence at RampuraAgucha mine will see lower metal production for a couple of quarters; however, it is likely to be recovered in H2FY17
- ✗ Reviewing its expansions at Zawar and Rajpura Dariba mines due to prevailing low prices. However, this will be offset by higher output from SK and Kayar mines.
- ✓ Expects premiums to improve driven by supply shortages after major mine closures
- ✓ Renegotiating contracts to reduce existing costs
- ✓ FY16 tax rate will be around 11%, much lower than our earlier estimate of 16%. The rate is likely to increase in FY17 as the company comes out of MAT.
- Capex for FY16 will be US\$ 200-225mn; FY17 capex will be higher yoy.
- Cash & cash equivalents stood at Rs 326.4bn in December 2015 vs. Rs 345.7bn in September 2015.

Outlook and valuation: We marginally lower our volume estimates; expect the recent drop in LME prices to impact FY16 and FY17 profitability. We introduce our FY18 estimates – EPS of Rs 18.6. At the CMP of Rs 145, the stock trades at a P/E of 9x/8x our FY16/17 EPS of Rs 17.7/17.0 and EV/EBIDTA of 3.6x/3.1x. We retain our Buy rating with a revised TP of Rs 180 (from Rs 200 earlier).

BUY (Maintain)

CMP RS 145/ TARGET RS 180 (+24%)

COMPANY DATA

O/S SHARES (MN) :	4225
MARKET CAP (RSBN) :	615
MARKET CAP (USDBN) :	9.1
52 - WK HI/LO (RS) :	188 / 116
LIQUIDITY 3M (USDMMN) :	1.9
PAR VALUE (RS) :	2

SHARE HOLDING PATTERN, %

	Sep 15	Jun 15	Mar 15
PROMOTERS :	64.9	64.9	64.9
FII / NRI :	32.0	32.1	32.2
FI / MF :	1.7	1.5	1.4
NON PRO :	0.6	0.2	0.2
PUBLIC & OTHERS :	1.3	1.4	1.5

Key Financials

Rsmn	FY16E	FY17E	FY18E
Net Sales	138,571	137,004	145,929
EBIDTA	66,403	63,998	73,154
Net Profit	74,829	71,705	78,741
EPS, Rs	17.7	17.0	18.6
PER, x	8.2	8.6	7.8
EV/EBIDTA, x	4.0	3.6	2.6
P/BV, x	1.3	1.2	1.1
ROE, %	15.7	13.9	13.9

CHANGE IN ESTIMATES

Rsbm	Revised Est.		% Revision	
	FY16E	FY17E	FY16E	FY17E
Revenue	138,571	137,004	-4.2%	-17.5%
EBITDA	66,403	63,998	-5.7%	-25.4%
Core PAT	74,829	71,705	0.6%	-18.3%
EPS (Rs)	17.7	17.0	0.6%	-18.3%

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(Rsbm)	Q3FY16	Q3FY15	yoy growth %	Q2FY16	qoq growth %	vs. expectations %	Comments
Total Operating Income	34,306	38,531	-11.0%	40,333	-14.9%	3.9%	Higher lead and silver volumes saw higher revenues
Operating Expenditure	19,523	17,639	10.7%	18,692	4.4%	7.8%	
Mining & Manufacturing Exps	11,971	10,360	15.5%	11,931	0.3%	10.6%	
Mining Royalty	3,632	3,695	-1.7%	3,062	18.6%	3.1%	
Other expense	3,919	3,584	9.3%	3,698	6.0%	4.0%	
Operating profits	14,783	20,892	-29.2%	21,641	-31.7%	-0.9%	
OPM (%)	43.1%	54.2%		53.7%		-4.6%	
Other Income	5,547	8,122	-31.7%	8,689	-36.2%	-6.1%	Lower MTM gains impacted
Depreciation	1,716	2,090	-17.9%	1,750	-1.9%	-4.3%	
Interest	51	8	546.8%	12	322.3%	322.3%	
PBT	18,562	26,916	-31.0%	28,568	-35.0%	-2.4%	
Tax	449	3,122	-85.6%	5,715	-92.2%	-85.3%	
Net Profit	18,114	23,794	-23.9%	22,853	-20.7%	13.4%	Lower tax rate led to the higher than estimated earnings

Financials

Income Statement

Y/E Mar, Rsmn	FY15	FY16e	FY17e	FY18e
Net sales	145,887	138,571	137,004	145,929
Growth, %	8	-5	-1	7
Other income	1,997	2,496	2,621	2,752
Total income	147,884	141,067	139,625	148,681
Raw material expenses	-3,753	-1,008	1,341	6,822
Employee expenses	-8,689	-8,200	-8,610	-9,471
Other Operating expenses	-61,246	-65,456	-68,358	-72,878
EBITDA (Core)	74,196	66,403	63,998	73,154
Growth, %	6.6	(10.5)	(3.6)	14.3
Margin, %	50.9	47.9	46.7	50.1
Depreciation	-6,442	-6,998	-7,448	-7,898
EBIT	67,754	59,405	56,550	65,256
Growth, %	9.7	(12.3)	(4.8)	15.4
Margin, %	46.4	42.9	41.3	44.7
Interest paid	-235	-250	-250	-250
Other Non-Operating Income	28,211	25,398	27,565	30,437
Non-recurring Items	-28	0	0	0
Pre-tax profit	95,701	84,553	83,866	95,443
Tax provided	-13,921	-9,724	-12,161	-16,703
Profit after tax	81,780	74,829	71,705	78,741
Adj. Net Profit	81,780	74,829	71,705	78,741
Growth, %	17.4	(8.5)	(4.2)	9.8
Net Profit (adjusted)	81,808	74,829	71,705	78,741
Unadj. shares (m)	4,225	4,225	4,225	4,225
Wtdavg shares (m)	4,225	4,225	4,225	4,225

Balance Sheet

Y/E Mar, Rsmn	FY15	FY16e	FY17e	FY18e
Cash & bank	35,315	32,233	21,227	30,992
Debtors	6,588	6,258	6,187	6,590
Inventory	12,118	11,510	11,380	12,121
Loans & advances	47,015	48,190	49,395	50,630
Other current assets	1,840	1,932	2,028	2,130
Total current assets	102,875	100,122	90,217	102,463
Investments	272,536	313,416	360,429	396,472
Gross fixed assets	145,505	155,505	165,505	175,505
Less: Depreciation	-51,043	-58,041	-65,489	-73,387
Add: Capital WIP	20,047	24,672	31,172	36,022
Net fixed assets	114,509	122,136	131,188	138,141
Total assets	489,920	535,674	581,834	637,075
Current liabilities	18,088	17,181	16,986	18,093
Provisions	13,115	15,083	17,345	19,947
Total current liabilities	31,203	32,263	34,331	38,040
Non-current liabilities	25,186	28,146	31,081	34,421
Total liabilities	56,389	60,409	65,412	72,461
Paid-up capital	8,451	8,451	8,451	8,451
Reserves & surplus	425,080	466,815	507,971	556,163
Shareholders' equity	433,531	475,265	516,422	564,614
Total equity & liabilities	489,920	535,674	581,834	637,075

Cash Flow

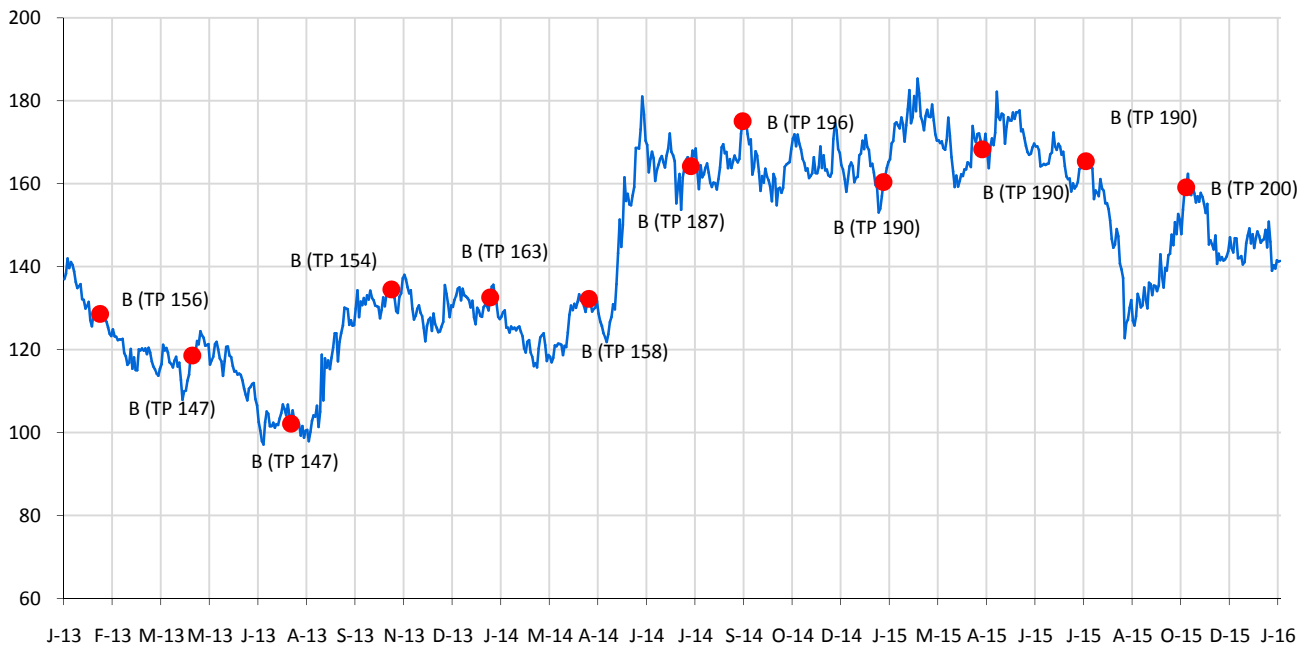
Y/E Mar, Rsmn	FY15	FY16e	FY17e	FY18e
Pre-tax profit	95,701	84,553	83,866	95,443
Depreciation	6,442	6,998	7,448	7,898
Chg in working capital	-7,860	731	968	1,228
Total tax paid	-5,316	-6,764	-9,225	-13,362
Other operating activities	-23	0	0	0
Cash flow from operating activities	88,944	85,517	83,056	91,207
Capital expenditure	-14,069	-14,625	-16,500	-14,850
Chg in investments	-47,472	-40,880	-47,012	-36,043
Cash flow from investing activities	-61,541	-55,505	-63,512	-50,893
Free cash flow	27,403	30,012	19,544	40,314
Dividend (incl. tax)	-22,403	-33,095	-30,549	-30,549
Cash flow from financing activities	-22,403	-33,095	-30,549	-30,549
Net chg in cash	5,001	-3,083	-11,005	9,765

Valuation Ratios

	FY15	FY16e	FY17e	FY18e
Per Share data				
EPS (INR)	19.4	17.7	17.0	18.6
Growth, %	17.4	(8.5)	(4.2)	9.8
Book NAV/share (INR)	102.6	112.5	122.2	133.6
FDEPS (INR)	19.4	17.7	17.0	18.6
CEPS (INR)	20.9	19.4	18.7	20.5
CFPS (INR)	14.4	14.2	13.1	14.4
DPS (INR)	4.4	6.5	6.0	6.0
Return ratios				
Return on assets (%)	18.1	14.6	12.9	12.9
Return on equity (%)	18.9	15.7	13.9	13.9
Return on capital employed (%)	18.8	15.1	13.3	13.3
Turnover ratios				
Asset turnover (x)	0.9	0.8	0.8	0.8
Sales/Total assets (x)	0.3	0.3	0.2	0.2
Sales/Net FA (x)	1.3	1.2	1.1	1.1
Working capital/Sales (x)	0.3	0.4	0.4	0.4
Working capital days	123.8	133.6	138.5	133.5
Liquidity ratios				
Current ratio (x)	5.7	5.8	5.3	5.7
Quick ratio (x)	5.0	5.2	4.6	5.0
Interest cover (x)	288.2	237.6	226.2	261.0
Dividend cover (x)	4.4	2.7	2.8	3.1
Net debt/Equity (%)	(71.0)	(72.7)	(73.9)	(75.7)
Valuation				
PER (x)	7.5	8.2	8.6	7.8
Price/Book (x)	1.4	1.3	1.2	1.1
Yield (%)	3.0	4.5	4.1	4.1
EV/Net sales (x)	2.1	1.9	1.7	1.3
EV/EBITDA (x)	4.1	4.0	3.6	2.6
EV/EBIT (x)	4.5	4.5	4.1	2.9

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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