

4QFY09 Result Update

CMP: INR 486

Target: INR 462

MARKET PERFORMER

Sector View	NEGATIVE
Company Risk	LOW
BSE Sensex	10,818
S&P Nifty	3,330
BSE Metals	6,736
Bloomberg Consensus (BUY/SELL/HOLD)	15 / 4 / 4
BSE Code	500188
NSE Code	HINDZINC
Bloomberg Code	HZ IN
Reuters	HZNC.BO
52 Wk High/Low (INR)	763 / 215
Equity (INR Mn)	4,225
Market Cap. (INR Mn)	2,06,279

Shareholding Pattern (%)

Foreign	1.47
Institutions	2.70
Government	29.54
Promoters	64.92
Public & Others	1.37

Returns (%)	Abs Perf	Relative to	
		Sensex	Metals
1 Month	12.29	-2.50	-8.15
3 Months	46.49	23.27	3.10
1 Year	-16.65	18.90	39.97

Relative Price Performance



Source: Khandwala Research, Bloomberg

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Zinc prices witnessed initial signs of recovery with first time improvement in average realization, after decline of the last eight consecutive quarters. Besides, LME zinc inventories have stabilized during the last two months after a steep rise from Oct'08. Despite zinc demand stabilizing at a lower level, HZL is better placed due to its low cost integrated operations and mammoth cash reserve of Rs 96.3 bn (Rs 228/share). In spite of gloomy price outlook near term, HZL is increasing capacity from 754,000 to 1,064,000 tonne by mid-2010.

4QFY09 Result Highlights

- ✓ Massive 52% and 60% YoY deterioration in zinc and lead prices along with 7.6% decline in lead volumes offset 25% INR depreciation and 11% volume growth in zinc segment. This resulted in 44% YoY decline in net sales to Rs 12,627 mn.
- ✓ Lower realization along with sharp rise in raw material cost particularly energy cost hampered the EBITDA margin to 46.0% from 66.3% and therefore EBITDA registered a whopping 61% YoY decline to Rs 5,813 mn. However, this is substantially higher than 3QFY09 considering EBITDA margin of 29.6% and EBITDA of Rs 3,051 mn.
- ✓ Huge cash pile enabled 21% jump in other income to Rs 1,942 mn.
- ✓ Higher other income and lower tax rate helped the company to restrict net profit decline to 53% YoY to Rs 5,515 mn. Effective tax rate decline to 20.7% in 4QFY09 from 25.3% in 4QFY08.

Valuation

HZL has outperformed Sensex as well as BSE Metal by 19% and 40% respectively during last one year. It has also given 126% return from its Oct'08 lows. On valuation front, HZL looks fairly rich with P/E of 9.2x and 7.5x for FY10E and FY11E earning respectively. Although, we remain positive on fundamental of the company considering cost leadership, timely execution and strong cash reserves, we believe investor would get an opportunity to enter at lower levels.

We continue our 'MARKET PERFORMER' rating despite increasing our target price from Rs 369 to Rs 462 (4x FY10 EV/EBITDA) in view of upward earning revision following INR depreciation and higher rating in view of time value of money and stable environment.

Financial Summary

Descriptions (INR Mn)	FY07	FY08	FY09	FY10E	FY11E
Total Income	87,920	87,294	66,128	62,828	72,071
EBITDA	64,070	54,632	28,461	21,615	28,908
PAT	44,420	43,961	27,276	22,571	27,728
EPS (INR)	105.1	104.0	64.6	53.4	65.6

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4QFY09 Operating Performance

- ✓ HZL produced 150,544 tonne of saleable zinc with a growth of 11% YoY primarily on account of the additional production from debottlenecked capacity, while saleable lead metal production was down 8% YoY to 15,691 tonne on account of an unplanned shutdown of the Ausmelt smelter in Jan'09.
- ✓ The mined zinc metal production was 175,438 tonne with a jump of 27% YoY mainly on account of the successful commissioning and ramp-up of the stream III concentrator at the Rampura Agucha mine, whereas mined lead metal production was 22,246 tonne, an spurt of 6% YoY.
- ✓ Silver production was 35,176 kg with an increase of 48% YoY largely on account of increased operational efficiencies and higher silver content in concentrates.
- ✓ Sales during Q4 were also augmented by the sale of 25,055 dry metric tonne of surplus lead concentrate.

FY09 Result Highlights

- ✓ An immense 48% & 42% YoY decline in zinc and lead prices offset volume growth of 29% and 4% in zinc & lead and 14% INR depreciation. This resulted in 28% YoY decline in net sales to Rs 56,816 mn during for full year.
- ✓ Lower prices with higher input cost led to sharp decline in EBITDA margin to 50.1% from 69.3% and therefore EBITDA registered 48% YoY declined to Rs 28,461 mn.
- ✓ Marginal rise in other income and lower tax rate facilitated the company to confine the net profit decline at 38% YoY to Rs 22,228 mn.
- ✓ The salable zinc and lead metal production was 551,724 tonne and 60,323 tonne, an increase of 29% and 4% respectively, over the corresponding prior period.
- ✓ The mined zinc and lead metal production was 651,494 tonne and 83,802 tonne, an increase of 18% and 8% respectively, over the corresponding prior period.
- ✓ Silver production was 105,055 kg with an increase of 31% YoY.

Progress of Projects

- ✓ The construction activities for the 210,000 tonne zinc smelter and 100,000 tonne lead smelter with its associated 160 MW captive power plant is progressing well and is on schedule for completion by mid - 2010. The allied mining projects at various locations are also progressing on schedule for progressive commissioning from mid-2010.
- ✓ Post completion of these projects, HZL will be the world's largest integrated zinc - lead producer with a total capacity of 1,064,000 tonne. The total investment in these projects is estimated at Rs 36,000 mn.

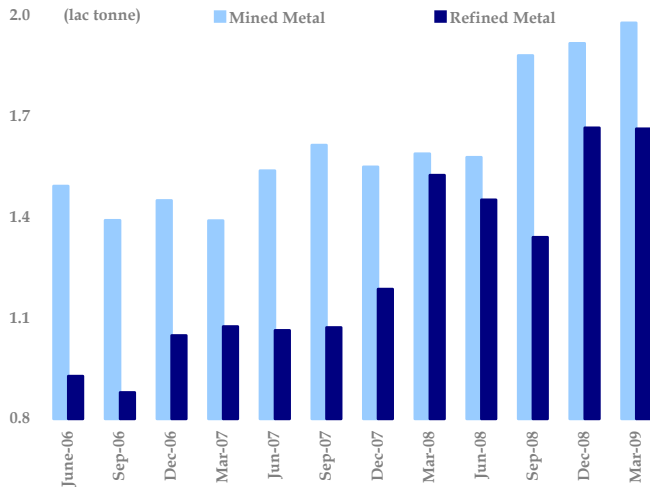
Cost of Production

- ✓ Cost of production for FY2009 was at the same level as in the previous year. During Q4, cost of production was higher compared with the corresponding prior quarter, primarily on account of lower by-product realizations.



Production

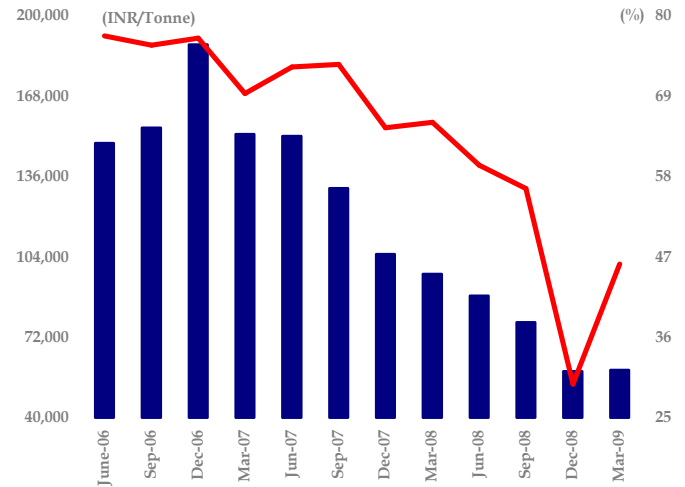
The company has been able to achieve significant volume growth during last quarter and this will continue with full benefit of expansion occurs in coming quarter along with new capacity addition by mid-2010.



Source: Bloomberg, Khandwala Research

Average LME Zinc Realization

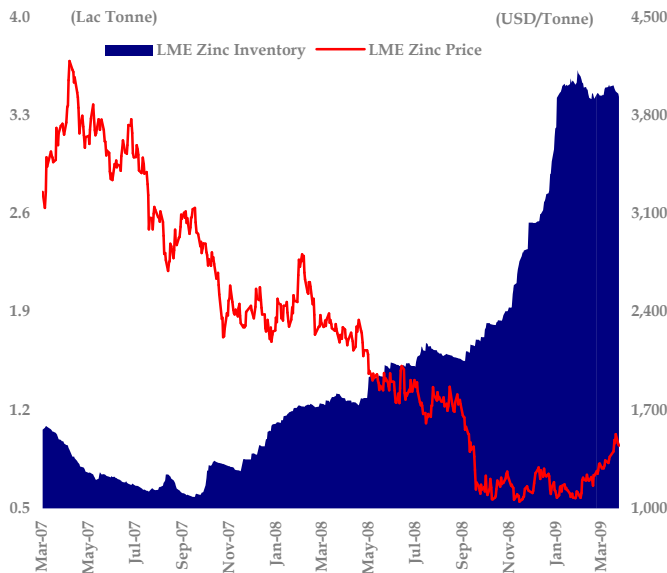
Zinc prices have been on a decline since Dec'06 quarter, however, this is the first quarter of higher realization from sequential quarters. We expect prices to stabilize at similar level with slight upward bias.



Source: Bloomberg, Khandwala Research

LME Zinc Price and Inventory

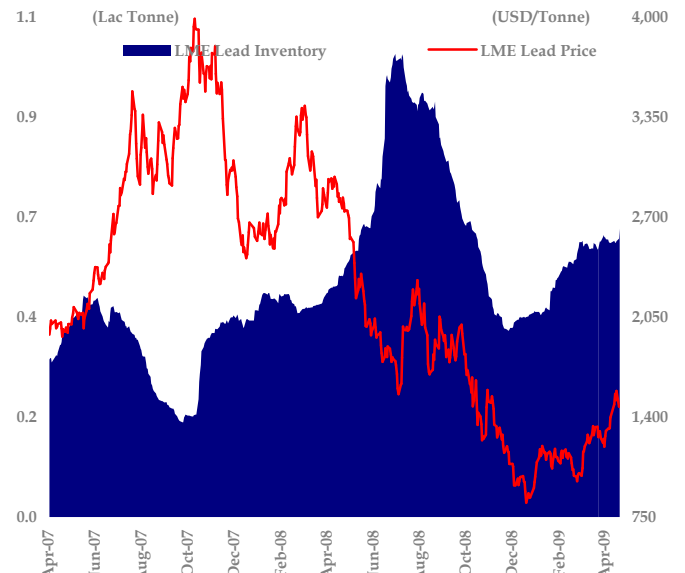
After 18 months of downward movement, Zinc price has shown stabilization in last 6 months and LME inventory has also stabilized during last two months.



Source: Bloomberg, Khandwala Research

LME Lead Price and Inventory

Lead price has been on downturn since Oct'07 but it has shown improvement in last 3 months. LME lead inventory has not seen much increase like other metals.



Source: Bloomberg, Khandwala Research



4QFY09 & FY09 Financial Results

Description (INR Mn)	4QFY09 Mar-09	4QFY08 Mar-08	Y-o-Y Growth	FY09 Mar-09	FY08 Mar-08	Y-o-Y Growth
Net Sales / Income from Operations	12,627	22,659	-44.3%	56,816	78,778	-27.9%
Other Operating Income	263	211	24.2%	1,107	833	32.9%
Other Income	1,942	1,600	21.4%	8,206	7,684	6.8%
Total Income	14,832	24,470	-39.4%	66,128	87,294	-24.2%
Expenditure						
(Increase) / Decrease in Stock-in-Trade and WIP	236	891	-73.5%	(244)	591	-141.3%
Mining and Manufacturing Expenses	4,427	3,936	12.5%	19,254	12,964	48.5%
Mining Royalty	836	1,155	-27.7%	3,642	5,111	-28.7%
Employees Cost	872	874	-0.3%	3,649	3,082	18.4%
Administrative, Selling and Other Expenditure	706	1,000	-29.4%	3,160	3,231	-2.2%
Total	7,076	7,855	-9.9%	29,461	24,978	17.9%
EBITDA	5,813	15,015	-61.3%	28,461	54,632	-47.9%
<i>EBITDA Margin</i>	46.0%	66.3%	-20.2%	50.1%	69.3%	-19.3%
Depreciation & Amortization	750	738	1.7%	2,853	2,220	28.5%
PBIT	7,005	15,877	-55.9%	33,814	60,095	-43.7%
Interest	49	49	-1.2%	232	242	-4.1%
PBT	6,956	15,827	-56.0%	33,582	59,854	-43.9%
Total Tax	1,442	4,005	-64.0%	6,306	15,893	-60.3%
PAT	5,515	11,822	-53.4%	27,276	43,961	-38.0%



Financials: Income Statement

Descriptions (INR Mn)	FY2007	FY2008	FY2009	FY2010E	FY2011E
Net Sales / Income from Operations	85,610	78,778	56,816	52,114	61,182
Other Operating Income	-	833	1,107	1,200	1,600
Other Income	2,310	7,684	8,206	9,514	9,289
Total Income	87,920	87,294	66,128	62,828	72,071
Expenditure					
(Increase) / Decrease in Stock-in-Trade and WIP	(570)	591	(244)	-	-
Mining and Manufacturing Expenses	10,410	12,964	19,254	21,341	22,725
Mining Royalty	6,440	5,111	3,642	3,362	3,714
Employees Cost	2,600	3,082	3,649	3,850	4,020
Administrative, Selling and Other Expenditure	2,660	3,231	3,160	3,146	3,415
Total	21,540	24,978	29,461	31,699	33,874
EBITDA	64,070	54,632	28,461	21,615	28,908
<i>EBITDA Margin</i>	<i>74.8%</i>	<i>69.3%</i>	<i>50.1%</i>	<i>41.5%</i>	<i>47.2%</i>
Depreciation & Amortization	1,560	2,220	2,853	3,063	3,765
PBIT	64,820	60,095	33,814	28,066	34,433
Interest	280	242	232	200	200
PBT	64,540	59,854	33,582	27,866	34,233
Total Tax	20,120	15,893	6,306	5,295	6,504
PAT	44,420	43,961	27,276	22,571	27,728



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