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Commissioned the new 350tpa Silver refinery

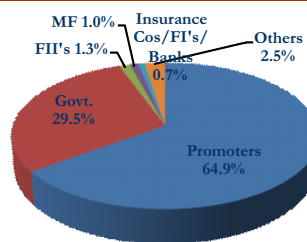
Recommendation	BUY
Target Price	144
CMP	126
Potential Upside(%)	14.4%
Industry	Mining & Non ferrous Metals
Market Cap (₹ Mn)	532,601
Shares O/S (Mn)	4,225
Face Value	2

Key Indices	
BSE Sensex	17085
BSE Metals	11320
NSE Nifty	5139

Stock Info	
BSE Code	HINDZINC
BSE Code No.	500188
NSE Code	HINDZINC
Bloomberg	HZ IN
Reuters Code	HZNC.BO
52-Week High	155
52-Week Low	107

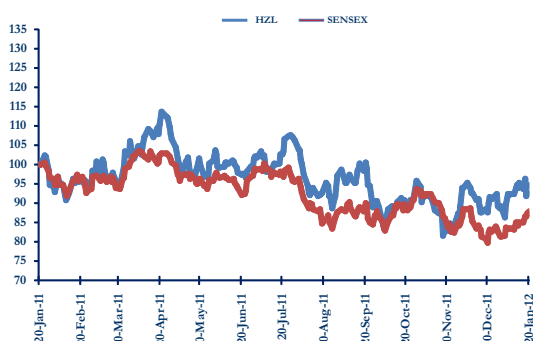
Market Stats	
Average Volumes	162,451
Average Trades	1,998
Average Turnover (₹ Mn)	27

Shareholding Chart (as on 30/09/2011)



Source: NSE, A C Choksi Institutional Research

Share Price Movement (1yr)



Source: BSE, A C Choksi Institutional Research

Hindustan Zinc Limited

3Q FY12 Result Review

Commissioned the new 350tpa Silver refinery-Decline in LME prices offset by benefits from rupee depreciation

Hindustan Zinc Ltd, the largest integrated zinc & lead producer in the country, has reported a rise of ~1.2% in the net profits for the quarter ended 31-12-11 over the same quarter last year to ~₹12,736 mn. The profits fell sequentially by 5.3%. During the first nine months of Fiscal 12, its PAT grew by ~31% to ₹41,132 mn as compared to ₹31,292 mn over 9MFY 11.

Basic and diluted EPS for 3QFY12 came in at ₹3.01 as compared to ₹3.05 for 3QFY11 and ₹3.18 for 2QFY12. The EPS for 9MFY12 was ₹9.73 versus 9MFY11 figure of ₹7.41. The EPS for FY11 was at ₹11.6.

The company's EBITDA for the quarter declined by ~7%(y-o-y) to ₹14,023 mn. The same figure for 9MFY12 was ₹44,594 mn (y-o-y growth of ~22%). The company registered a q-o-q de-growth of ~4.3% at the EBITDA level for 3QFY12.

The net sales for 3QFY12 increased to ₹27,468 mn; showing a growth of ~5.6% over 3QFY11. On a q-o-q sales increased by 5.9%. The sales growth was on account of higher lead and silver volumes.

Highest ever Lead & Silver volumes - Further ramp up in Q4

The mined metal production was marginally lower due slightly lower ore grade pockets. It de grew by 6% overall on y-o-y (-0.3% q-o-q). Refined Zinc production grew by 7.1% y-o-y and 3.2% q-o-q to 190,946 tonnes. The growth was mainly due to improved throughput and operational efficiencies.

It registered highest ever Lead production for the quarter. It grew by 116% as it was driven by the newly commissioned 100kt Dariba Lead smelter. It is currently at around 70% capacity. The production was 27,074 excluding captive(Q2FY12-15,657) growth of ~73% q-o-q. The management guides further ramp up on the lead smelter to an exit of 90% capacity for FY 12 end. During Q3 FY12, average Zinc and Lead LME prices were \$1,897/MT and \$1983/MT respectively, compared with \$2,315 MT and \$2390/MT, (down by ~18.1% & ~17.0%) in the corresponding quarter for FY11.

Silver production grew by 47.7% it was mainly on account of higher input from the mines and volume contribution from the new 350tpa silver refinery commissioned during the quarter. The production was 48,413 excluding captive(Q2FY12-42,081) growth of ~15% q-o-q. Current Silver ppm seen improving in coming quarters from the current 110-115 ppm. Average seen at 180 ppm. The average Silver cash settlement price as per London Bullion Market Association increased y-o-y to \$31.87/oz (declined q-o-q from \$38.80/oz in 2Q FY12) from \$26.43/oz in the corresponding prior quarter (up by ~21%).



Shareholding Pattern (as on 30/09/2011)

	Shares	%
Promoters	2,743,154,310	64.9%
Govt.	1,247,950,590	29.5%
FII's	55,427,839	1.3%
MF	43,064,404	1.0%
Insurance Cos/FI's/Banks	31,043,303	0.7%
Others	104,678,554	2.5%
Total	4,225,319,000	100.0%

Top Shareholders	Shares in Mn	%
Sterlite Opportunities And Ventures Limited	2743.15	64.92%
The President Of India	1247.95	29.54%
Others	234.21	5.54%
Total	4225.32	100.00%

as on 30th Sep 2011

Source: NSE, A C Choksi Institutional Research

Margins and Cost Analysis

Its PAT Margins decreased by ~320 bps to 46.37%. The margins decreased by ~548 bps over q-o-q. The EBITDA margins declined by ~689 bps (y-o-y) and ~543 bps (q-o-q) to ~51.05%. This was primarily led by 387bps increase in its consumption of raw materials & 188bps increase in power and fuel and a decrease in inventory. The first two contributes more than 50% of its total operating cost. Other Income grew by ~84%.

Zinc COP excluding royalty stood at \$785/MT(40,300) as against \$847/MT (₹38,800) for the previous quarter. The effective tax rate for 3QFY12 increased by ~176 bps over 3QFY11 and by ~140 bps over 2QFY12.

Update on expansion projects

15 MW capacity is expected to be commissioned in early Q4 FY2012. The mine development work at proposed 1MT underground Kayar mine has commenced. Ramp up of SK mines on track to achieve 2 MT/pa capacity.

Cash & CE

Its current cash & cash equivalent is ₹162,550 mn.

Valuation & Outlook

We have a coverage on Hindustan Zinc Limited with a BUY Rating and target price of ₹144, valuing it at 4.60x FY2013E EV/EBITDA, giving it an upside potential of 14% from current price of ₹126. We expect HZL's Sales, EBITDA & PAT to grow at a 2 year CAGR of 17%, 16.6% & 19% respectively till FY 13E. We feel HZL is attractively priced at the current levels of ₹126 and offers a scope for a long term buy.

Q3 FY 12 (31st Dec 11) Result Highlights

HZL	<i>3Q FY12</i>	<i>3Q FY11</i>	<i>Growth</i>	<i>2Q FY12</i>	<i>Growth</i>	<i>9 M FY12</i>	<i>9 M FY11</i>	<i>Growth</i>	
Particulars	(₹ mn)	31-Dec-11	31-Dec-10	Yo Y	30-Sep-11	Q o Q	31-Dec-11	31-Dec-10	Yo Y
Net Sales		27,467.7	26,014.7	5.6%	25,934.9	5.9%	81616.1	67151.2	21.5%
(Increase)/decrease in stock in trade		131.3	-467.8	-	-452.3	-	783.7	-1557.6	-
Other Operating Income		400.4	286.9	39.6%	433.3	-7.6%	1090.9	868.7	25.58%
Employee cost		1,337.1	1,129.8	18.3%	1,290.4	3.6%	3901.6	3766.9	3.6%
<i>% of Net Sales</i>		<i>4.87%</i>	<i>4.34%</i>	<i>52</i>	<i>4.98%</i>	<i>-11</i>	<i>4.78%</i>	<i>5.61%</i>	<i>-83</i>
Consumption of raw materials, stores & spares		3,857.6	2,647.4	45.7%	2,712.8	42.2%	9148.4	7751.4	18.0%
<i>% of Net Sales</i>		<i>14.04%</i>	<i>10.18%</i>	<i>387</i>	<i>10.46%</i>	<i>358</i>	<i>11.21%</i>	<i>11.54%</i>	<i>-33</i>
Royalty		2,005.2	2,195.4	-8.7%	2,146.5	-6.6%	6087.4	5523.6	10.2%
<i>% of Net Sales</i>		<i>7.30%</i>	<i>8.44%</i>	<i>-114</i>	<i>8.28%</i>	<i>-98</i>	<i>7.46%</i>	<i>8.23%</i>	<i>-77</i>
Power & Fuel		3,176.6	2,520.3	26.0%	2,924.3	8.6%	9053.9	7378.2	22.7%
<i>% of Net Sales</i>		<i>11.56%</i>	<i>9.69%</i>	<i>188</i>	<i>11.28%</i>	<i>29</i>	<i>11.09%</i>	<i>10.99%</i>	<i>11</i>
Mining and Manufacturing Expenses		2,691.4	2,290.0	17.5%	2,286.6	17.7%	6878.2	6257.9	9.9%
<i>% of Net Sales</i>		<i>9.80%</i>	<i>8.80%</i>	<i>100</i>	<i>8.82%</i>	<i>98</i>	<i>8.43%</i>	<i>9.32%</i>	<i>-89</i>
Other Expenditure		646.1	914.0	-29.3%	811.9	-20.4%	2260.0	2356.5	-4.1%
<i>% of Net Sales</i>		<i>2.35%</i>	<i>3.51%</i>	<i>-116</i>	<i>3.13%</i>	<i>-78</i>	<i>2.77%</i>	<i>3.51%</i>	<i>-74</i>
Total Expenditure		13,845.3	11,229.1	23.3%	11,720.2	18.1%	38,113.2	31,476.9	21.1%
<i>% of Net Sales</i>		<i>50.41%</i>	<i>43.16%</i>	<i>724</i>	<i>45.19%</i>	<i>521</i>	<i>46.70%</i>	<i>46.87%</i>	<i>-18</i>
EBITDA		14,022.8	15,072.5	-7.0%	14,648.0	-4.3%	44,593.8	36,543.0	22.0%
<i>EBITDA Margin</i>		<i>51.05%</i>	<i>57.94%</i>	<i>-689</i>	<i>56.48%</i>	<i>-543</i>	<i>54.64%</i>	<i>54.42%</i>	<i>22</i>
Depreciation		1590.7	1195.4	33.1%	1455.2	9.3%	4391.2	3476.5	26.3%
EBIT		12,432.1	13,877.1	-10.4%	13,192.8	-5.8%	40,202.6	33,066.5	21.6%
<i>EBIT Margin</i>		<i>45.26%</i>	<i>53.34%</i>	<i>-808</i>	<i>50.87%</i>	<i>-561</i>	<i>49.26%</i>	<i>49.24%</i>	<i>2</i>
Other income		3,818.7	2,071.0	84.4%	3,867.8	-1.3%	11240.1	5495.7	104.5%
EBIT(including Other Income)		16,250.8	15,948.1	1.9%	17,060.6	-4.7%	51,442.7	38,562.2	33.4%
Interest Expense		87.1	1.1	7818.2%	120.3	-27.6%	272.3	61.5	2108000
Profit before tax & exceptionals		16,163.7	15,947.0	1.4%	16,940.3	-4.6%	51170.4	38500.7	32.9%
<i>% of Net Sales</i>		<i>58.85%</i>	<i>61.30%</i>	<i>-245</i>	<i>65.32%</i>	<i>-647</i>	<i>62.70%</i>	<i>57.33%</i>	<i>536</i>
Exceptional items		64.3	0.0	-	238.6	-	347.1	211.6	64.0%
PBT		16,099.4	15,947.0	1.0%	16,701.7	-3.6%	50,823.3	38,289.1	32.7%
<i>% of Net Sales</i>		<i>58.61%</i>	<i>61.30%</i>	<i>-269</i>	<i>64.40%</i>	<i>-579</i>	<i>62.27%</i>	<i>57.02%</i>	<i>525</i>
Tax		3,363.4	3,051.2	10.2%	3,254.8	3.3%	9691.3	6996.9	38.5%
<i>% of PBT</i>		<i>20.89%</i>	<i>19.13%</i>	<i>176</i>	<i>19.49%</i>	<i>140</i>	<i>19.07%</i>	<i>18.27%</i>	<i>79</i>
Profit after tax		12,736.0	12,895.8	-1.2%	13,446.9	-5.3%	41,132.0	31,292.2	31.4%
<i>PAT Margin</i>		<i>46.37%</i>	<i>49.57%</i>	<i>-320</i>	<i>51.85%</i>	<i>-548</i>	<i>50.40%</i>	<i>46.60%</i>	<i>380</i>
Paid up equity capital (Face value ₹ 2)		8,450.6	4,225.3	-	8,450.6	-	8,450.6	4,225.3	-
EPS(Basic and Diluted) (₹/share)		3.01	3.05	-1.2%	3.18	-5.3%	9.73	7.41	31.4%

Source: HZL, A C Choksi Institutional Research



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Disclosure of Interest	
Analyst ownership of the stock	NO
Broking Relationship with the company covered	NO
Investment Banking relationship with the company covered	NO
Discretionary Portfolio Management Services	NO