

January 20, 2012

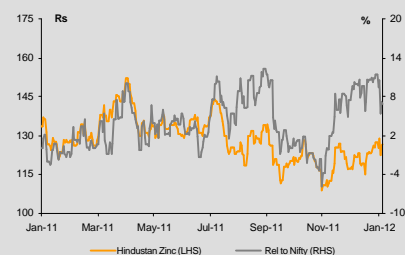
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 127	Rs 159
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,049
Sensex	16,739

### Price Performance

(%)	1M	3M	6M	12M
Absolute	5	5	(11)	(5)
Rel. to Nifty	(2)	6	(1)	7

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Metals & Mining
Bloomberg	HZ@IN
Equity Capital (Rs mn)	8451
Face Value(Rs)	2
No of shares o/s (mn)	4225
52 Week H/L	155/107
Market Cap (Rs bn/USD mn)	535/10,602
Daily Avg Volume (No of sh)	674027
Daily Avg Turnover (US\$m)	1.6

### Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	64.9	64.9	64.9
FII/NRI	1.4	1.4	1.5
Institutions	1.8	1.8	1.9
Private Corp	1.3	1.3	1.0
Public	30.7	30.7	30.7

Source: Capitaline

### Jagdish Agarwal

jagdish.agarwal@emkayglobal.com  
+91 22 6612 1381

### Goutam Chakraborty

goutam.chakraborty@emkayglobal.com  
+91 22 6612 1275

### Prince Poddar

prince.poddar@emkayglobal.com  
+91 22 6612 1238

- Revenue at Rs 27.9 bn up 6% on both YoY and QoQ basis broadly in line with estimates. The fall in LME was offset by depreciating rupee giving steady realizations
- EBITDA at Rs 14 bn was down 7% YoY and 12% QoQ primarily due to increased mining costs. EBITDA margin stood at 50% down 700 bps YoY basis and 1000 bps on QoQ basis
- APAT at Rs 12.8 bn, broadly in line with estimates was flat on YoY basis. The shortfall on account of lower margins was offset by higher other income Rs 3.9 bn (up 84%)
- We refine our FY12E and FY13E assumptions of LME and exchange rate. No change in earnings; retain BUY with a target price of Rs 159 (6x FY13 EV/ EBITDA)

### Steady operations, decline in LME offset by INR movement

While the zinc sales were steady at 190kt; the lead sales at 27kt showed an increase of 84% on QOQ essentially because of good ramp up of the new dariba smelter which got commissioned during June 2011. The COP of zinc without royalty was US\$785 per tonne. The dip in zinc LME to \$1897 (from \$2226 in Q2 FY12) and lead LME to \$1983 (from \$2462 in Q2FY12) was offset by INR depreciation, keeping the realizations steady. We believe, lead sales volume to ramp up from current levels going forward.

### Silver capacity at 500 tpa, ramping-up in FY13

With the commissioning of new 350 tpa silver refinery during December 2011, HZL has achieved a capacity of 500 tpa. During the quarter, the company produced 57 tons of silver which is the highest in a quarter. The contribution from silver business during the quarter at Rs 2.6 bn was 68% higher than the same quarter previous year. We however believe, the ramping up to full capacity would happen gradually and expect the production to be at 375 tons during FY13. The change in import duty structure on silver to 6% of value (from Rs 1500 per kg) during the Jan 2012 would also support their realizations which are on import parity basis.

### Expansion in an integrated manner

SK mines would ramp up to 2 mtpa capacity as scheduled by March 2012. Besides, developing existing mines, the company is actively exploring Greenfield projects through 23 prospecting licenses, 3 mining lease projects across different states. Dariba smelter would ramp up to full capacity by March 2012. Further expansions either Greenfield or inorganic growth is likely to be across the value chain. It has cash of Rs 162 bn.

### Outlook and Valuations

At the CMP of Rs 127, the stock is trading at 8.0x its FY13E EPS and 4.2x FY13E EV/ EBITDA. We continue to value the stock at 6.0x EV/ EBITDA. Maintain BUY with a target price of Rs 159.

### Financials

(Rs mn)

YE-	Net	EBITDA		EPS	EPS	RoE		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	80,170	46,701	58.3	40,414	9.6	48.2	22.3	13.3	8.9	3.0
FY11	100,393	56,228	56.0	49,217	11.6	21.3	21.7	10.9	6.9	2.4
FY12E	110,591	61,196	55.3	56,063	13.2	13.8	20.9	9.6	5.8	2.0
FY13E	132,062	74,908	56.7	66,830	15.8	19.8	21.0	8.0	4.2	1.7

Source: Company, Emkay Research

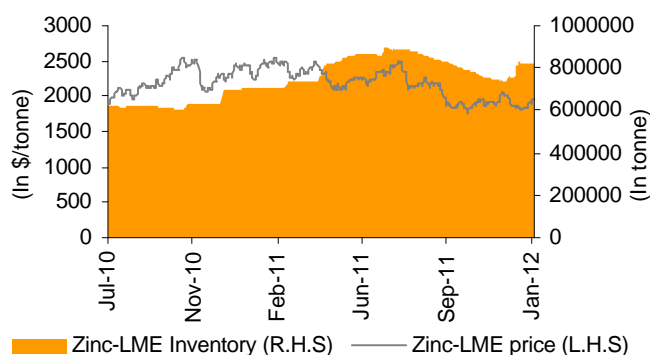
## Key Financials – Quarterly

(Rs mn)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
<b>Revenue</b>	<b>26,302</b>	<b>32,373</b>	<b>28,471</b>	<b>26,368</b>	<b>27,868</b>	<b>6.0</b>	<b>5.7</b>	<b>82,707</b>	<b>68,046</b>	<b>21.5</b>
<b>Expenditure</b>	<b>(11,229)</b>	<b>(12,686)</b>	<b>(12,548)</b>	<b>(12,548)</b>	<b>(13,845)</b>	<b>23.3</b>	<b>10.3</b>	<b>(38,113)</b>	<b>(31,503)</b>	<b>21.0</b>
as % of sales	42.7	39.2	44.1	44.1	49.7			46.1	46.3	
Mining & mfg expenses	(9,185)	(10,216)	(10,472)	(9,618)	(11,862)	29.1	23.3	<b>(31,952)</b>	<b>(25,354)</b>	26.0
as % of sales	34.9	31.6	36.8	36.8	42.6			38.6	37.3	
Employee Cost	(1,130)	(1,341)	(1,274)	(1,290)	(1,337)	18.3	3.6	<b>(3,902)</b>	<b>(3,767)</b>	3.6
as % of sales	4.3	4.1	4.5	4.5	4.8			4.7	5.5	
SGA & Other expenditure	(914)	(1,128)	(802)	(812)	(646)	(29.3)	(20.4)	<b>(2,260)</b>	<b>(2,382)</b>	(5.1)
as % of sales	3.5	3.5	2.8	2.8	2.3			2.7	3.5	
<b>EBITDA</b>	<b>15,073</b>	<b>19,687</b>	<b>15,923</b>	<b>15,923</b>	<b>14,023</b>	<b>(7.0)</b>	<b>(11.9)</b>	<b>44,594</b>	<b>36,543</b>	<b>22.0</b>
Depreciation	(1,195)	(1,271)	(1,345)	(1,455)	(1,591)	33.1	9.3	<b>(4,391)</b>	<b>(3,477)</b>	26.3
<b>EBIT</b>	<b>13,877</b>	<b>18,417</b>	<b>14,578</b>	<b>14,578</b>	<b>12,432</b>	<b>(10.4)</b>	<b>(14.7)</b>	<b>40,203</b>	<b>33,067</b>	<b>21.6</b>
Other Income	2,071	3,024	3,554	3,868	3,819	84.4	(1.3)	<b>11,240</b>	<b>5,496</b>	104.5
Interest	(1)	(133)	(65)	(120)	(87)	7,818.2	(27.6)	<b>(272)</b>	<b>(62)</b>	342.8
<b>PBT</b>	<b>15,947</b>	<b>21,308</b>	<b>18,066</b>	<b>18,066</b>	<b>16,164</b>	<b>1.4</b>	<b>(10.5)</b>	<b>51,170</b>	<b>38,501</b>	<b>32.9</b>
Total Tax	(3,051)	(3,594)	(3,073)	(3,255)	(3,363)	10.2	3.3	<b>(9,691)</b>	<b>(6,997)</b>	38.5
<b>Adjusted PAT</b>	<b>12,896</b>	<b>17,715</b>	<b>14,993</b>	<b>14,993</b>	<b>12,800</b>	<b>(0.7)</b>	<b>(14.6)</b>	<b>41,479</b>	<b>31,504</b>	<b>31.7</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
<b>Adj.PAT after MI</b>	<b>12,896</b>	<b>17,715</b>	<b>14,993</b>	<b>14,993</b>	<b>12,800</b>	<b>(0.7)</b>	<b>(14.6)</b>	<b>41,479</b>	<b>31,504</b>	<b>31.7</b>
<b>Extra ordinary items</b>	<b>-</b>	<b>-</b>	<b>(44)</b>	<b>(239)</b>	<b>(64)</b>	<b>-</b>	<b>-</b>	<b>(347)</b>	<b>(212)</b>	<b>-</b>
<b>Reported PAT</b>	<b>12,896</b>	<b>17,715</b>	<b>14,949</b>	<b>14,949</b>	<b>12,736</b>	<b>(1.2)</b>	<b>(14.8)</b>	<b>41,132</b>	<b>31,292</b>	<b>31.4</b>
<b>Reported EPS</b>	<b>3.1</b>	<b>4.2</b>	<b>3.5</b>	<b>3.2</b>	<b>3.0</b>	<b>(0.7)</b>	<b>(6.5)</b>	<b>9.8</b>	<b>7.4</b>	<b>32.5</b>

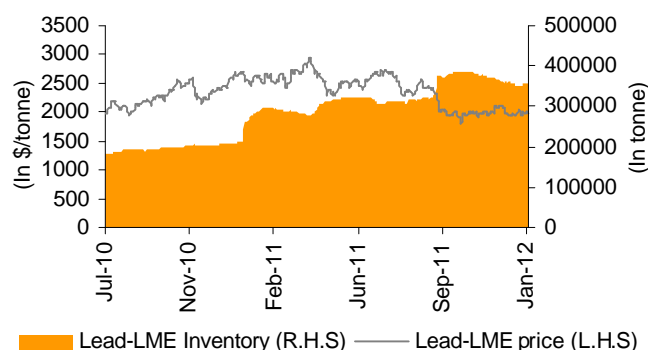
Margins (%)						(bps)	(bps)				(bps)
EBIDTA	57.3	60.8	55.9	60.4	50.3	(699)	(1,007)	53.9	53.7	21	
EBIT	52.8	56.9	51.2	55.3	44.6	(815)	(1,067)	48.6	48.6	1	
EBT	60.6	65.8	63.5	68.5	58.0	(263)	(1,052)	61.9	56.6	529	
PAT	49.0	54.7	52.7	56.9	45.9	(310)	(1,093)	50.2	46.3	385	
Effective Tax rate	19.1	16.9	17.0	18.0	20.8	167	279	18.9	18.2	77	

## LME prices and inventory trend

## Zinc LME stabilizing, inventory on the rise



## Lead inventory and prices stabilizing



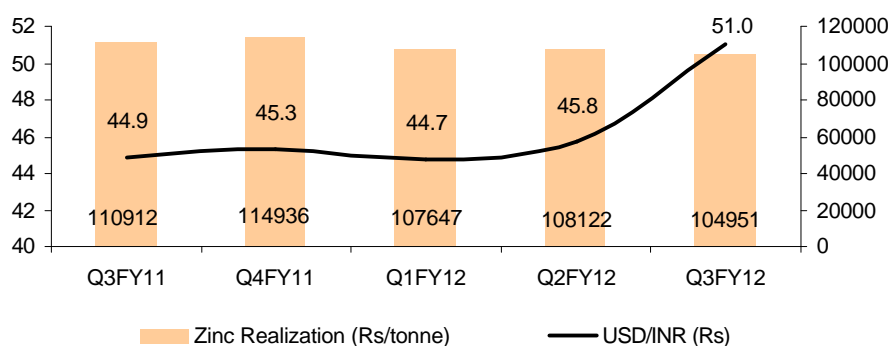
Source: Bloomberg, Emkay research

**Key takeaways from conference call:**

- The 100 ktpa lead smelter at Dariba currently operating at 70% capacity; to ramp up to 90% by Q4FY12. Once operations stabilize the smelting costs for lead operations would be \$350 per ton.
- SK Mine currently operating at 1.5 mt, to improve to 2.0 mt by Q4FY12
- Development work for Rampura Agucha mine underground operations to commence during late FY13 post which it will operate simultaneously both open pit and underground mine for 4-5 years. The cost at underground mine would be ~ US\$350/tonne. Current open pit cost is at \$280/tonne
- Impact of coal price hike estimated at \$ 15/tonne of metal
- The management expects the Zinc LME to show strength and settle around \$2,200 during FY13

**Zinc realization for HZL has remained stable over last few quarters**

While the Zinc LME has fallen steadily from \$2315/ ton in Q3FY11 to \$1897/ tone in Q3 FY12 the realizations have been steady in INR terms as the exchange rate also moved by 13.5% in the same period. The same is true for lead realizations.

**Zinc realization has remained stable even with falling LME due to weak INR****Revising assumptions to factor in LME volatility, INR depreciation**

We have revised our assumptions on LME and exchange rates to factor in the recent volatility. On the volume front, we have refined our FY12 assumptions for lead and silver, based on the recent operational performance of the company.

**Revised assumptions**

Parameters	FY12E		FY13E	
	Earlier	Revised	Earlier	Revised
<b>Sales volume (tonne)</b>				
Lead	75,235	83,920	135,100	No change
Silver	232	217	375	No change
<b>LME (US\$/ tonne)</b>				
Zinc	2,169	2,087	2,200	2,100
Lead	2,288	2,252	2,300	2,200
<b>Exchange rate (USD/INR)</b>	46.5	48	47	49

**Valuation**

While we have refined our assumptions for the volumes (lead and silver), LME volatility and INR depreciation into our estimates for Q4FY12 and FY13, the combined effect keeps our EPS estimates unchanged at Rs 13.2 FY12 and Rs 15.8 for FY13. At the CMP of Rs 127, the stock is trading at 8.0x its FY13E EPS and 4.2x FY13E EV/ EBITDA. We continue to value the stock at 6.0x EV/ EBITDA. Maintain BUY with a target price of Rs 159.

## Financials (Consolidated)

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>80,170</b>	<b>100,393</b>	<b>110,591</b>	<b>132,062</b>
<i>Growth (%)</i>	<i>41.1</i>	<i>25.2</i>	<i>10.2</i>	<i>19.4</i>
<b>Expenditure</b>	<b>(33469)</b>	<b>(44165)</b>	<b>(49396)</b>	<b>(57154)</b>
Mining & Mfg. Cost	(25740)	(31351)	(38065)	(40197)
Employee Cost	(4574)	(5108)	(5590)	(7174)
Other Exp	(3156)	(7706)	(5740)	(9783)
<b>EBITDA</b>	<b>46,701</b>	<b>56,228</b>	<b>61,196</b>	<b>74,908</b>
<i>Growth (%)</i>	<i>70.8</i>	<i>20.4</i>	<i>8.8</i>	<i>22.4</i>
<b>EBITDA margin (%)</b>	<b>58.3</b>	<b>56.0</b>	<b>55.3</b>	<b>56.7</b>
Depreciation	-3342.5	-4747.4	-5626.1	-6145.1
<b>EBIT</b>	<b>43,358</b>	<b>51,481</b>	<b>55,569</b>	<b>68,763</b>
<b>EBIT margin (%)</b>	<b>54.1</b>	<b>51.3</b>	<b>50.2</b>	<b>52.1</b>
Other Income	7222	8521	14059	15119
Interest expenses	-439	-194	-332	-344
<b>PBT</b>	<b>50,141</b>	<b>59,807</b>	<b>69,297</b>	<b>83,538</b>
Tax	-9727	-10591	-13233	-16708
<i>Effective tax rate (%)</i>	<i>19.4</i>	<i>17.7</i>	<i>19.1</i>	<i>20.0</i>
<b>Adjusted PAT</b>	<b>40,414</b>	<b>49,217</b>	<b>56,063</b>	<b>66,830</b>
(Profit)/loss from JV's/Ass/MI				
<b>Adjusted PAT after MI</b>	<b>40,414</b>	<b>49,217</b>	<b>56,063</b>	<b>66,830</b>
<i>Growth (%)</i>	<i>48.2</i>	<i>21.8</i>	<i>13.9</i>	<i>19.2</i>
<b>Net Margin (%)</b>	<b>50.4</b>	<b>49.0</b>	<b>50.7</b>	<b>50.6</b>
E/O items	0	-211.6	-282.8	0
<b>Reported PAT</b>	<b>40,414</b>	<b>49,005</b>	<b>55,781</b>	<b>66,830</b>
<i>Growth (%)</i>	<i>48.2</i>	<i>21.3</i>	<i>13.8</i>	<i>19.8</i>

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	<b>50,141</b>	<b>51,287</b>	<b>55,237</b>	<b>68,419</b>
Depreciation	-3,343	-4,747	-5,626	-6,145
Interest Provided	-439	-194	-332	-344
Other Non-Cash items	1,492	9,652	25,361	27,753
Chg in working cap	767	-2,116	5,314	-1,142
Tax paid	-7,846	-11,163	-11,910	-15,037
<b>Operating Cashflow</b>	<b>40,772</b>	<b>42,719</b>	<b>68,044</b>	<b>73,504</b>
Capital expenditure	-23,897	-13,239	-20,000	-20,000
<b>Free Cash Flow</b>	<b>16,875</b>	<b>29,480</b>	<b>48,044</b>	<b>53,504</b>
Other income	-17,597	-10,732	-20,000	-20,000
Investments	-39,218	18,700	-20,000	-25,000
<b>Investing Cashflow</b>	<b>-56,815</b>	<b>7,968</b>	<b>-40,000</b>	<b>-45,000</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	433	-601	0	0
Interest Paid	439	194	332	344
Others	-1,977	-2,956	-15,163	-15,175
<b>Financing Cashflow</b>	<b>-1,874</b>	<b>-3,633</b>	<b>-14,831</b>	<b>-14,831</b>
<b>Net chg in cash</b>	<b>-17,916</b>	<b>47,054</b>	<b>13,214</b>	<b>13,673</b>
Opening cash position	27,192	9,275	56,329	69,543
<b>Closing cash position</b>	<b>9,275</b>	<b>56,329</b>	<b>69,543</b>	<b>83,216</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	4225	8451	8451	8451
Reserves & surplus	177,014	216,881	257,831	309,830
<b>Net worth</b>	<b>181,240</b>	<b>225,332</b>	<b>266,282</b>	<b>318,281</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	0	0	0	0
Unsecured Loans	605	4	4	4
<b>Loan Funds</b>	<b>605</b>	<b>4</b>	<b>4</b>	<b>4</b>
Net deferred tax liability	7112.3	9447	10770.3	12441.1
<b>Total Liabilities</b>	<b>188,957</b>	<b>234,783</b>	<b>277,056</b>	<b>330,726</b>
Gross Block	82,407	98,023	113,023	128,023
Less: Depreciation	-20,766	-25,481	-31,107	-37,252
<b>Net block</b>	<b>61,641</b>	<b>72,542</b>	<b>81,916</b>	<b>90,771</b>
CWIP	11130	8752	13752	18752
<b>Investment</b>	<b>109,492</b>	<b>93,346</b>	<b>113,346</b>	<b>138,346</b>
<b>Current Assets</b>	<b>19,953</b>	<b>75,889</b>	<b>86,748</b>	<b>102,294</b>
Inventories	4,587	9,948	9,729	10,144
Sundry debtors	1,518	2,089	2,094	2,502
Cash & bank balance	9,275	56,329	69,543	83,216
Loans & advances	4,572	7,523	5,383	6,433
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>13,258</b>	<b>15,747</b>	<b>18,707</b>	<b>19,437</b>
Current liabilities	9,863	10,076	13,036	13,766
Provisions	3,395	5,671	5,671	5,671
<b>Net current assets</b>	<b>6,695</b>	<b>60,143</b>	<b>68,042</b>	<b>82,857</b>
<b>Total Assets</b>	<b>188,957</b>	<b>234,783</b>	<b>277,056</b>	<b>330,726</b>

## Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	58.3	56.0	55.3	56.7
Net Margin	50.4	48.8	50.4	50.6
ROCE	21.4	20.9	20.1	20.2
ROE	22.3	21.7	20.9	21.0
RoIC	63.0	63.6	65.9	67.2
<b>Per Share Data (Rs)</b>				
EPS	9.6	11.6	13.2	15.8
CEPS	10.4	12.7	14.5	17.3
BVPS	42.9	53.3	63.0	75.3
DPS	0.6	1.0	3.0	3.0
<b>Valuations (x)</b>				
PER	13.3	10.9	9.6	8.0
P/CEPS	12.2	10.0	8.7	7.3
P/BV	3.0	2.4	2.0	1.7
EV/EBITDA	8.9	6.9	5.8	4.2
EV/Sales	5.2	3.8	3.2	2.4
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.00	0.00	0.00	0.00
Net Debt/EBITDA	0.01	0.00	0.00	0.00

**Recommendation History: Hindustan Zinc – HZ IN**

Date	Reports	Reco	CMP	Target
19/10/2011	<a href="#">Hindustan Zinc Q2FY12 Result Update</a>	Buy	121	159
21/07/2011	<a href="#">Hindustan Zinc Q1FY12 Result Update</a>	Buy	138	173
30/06/2011	<a href="#">Hindustan Zinc Initiating Coverage</a>	Buy	136	173

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
12/01/2012	<a href="#">Sterlite Industries Company Update</a>	Accumulate	102	162
16/12/2011	<a href="#">Hindalco Industries Initiating Coverage</a>	Accumulate	126	154
18/11/2011	<a href="#">Metals and Mining Sector Update</a>			
15/11/2011	<a href="#">Bhushan Steel Q2FY12 Result Update</a>	Hold	322	315

**Emkay Global Financial Services Ltd.**

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: [www.emkayglobal.com](http://www.emkayglobal.com)

**DISCLAIMER:** Emkay Global Financial Services Limited and its affiliates are a full-service, brokerage, investment banking, investment management, and financing group. We along with our affiliates are participants in virtually all securities trading markets in India. Our research professionals provide important input into our investment banking and other business selection processes. Investors may assume that Emkay Global Financial Services Limited and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Emkay Global Financial Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Emkay. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of Emkay or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.