May 2, 2018

Hindustan Zinc (HINZIN)

₹ 308

Sequential lower zinc CoP aids EBITDA...

- Hindustan Zinc reported a healthy set of Q4FY18 numbers. The performance was above our estimates. HZL reported operating income of ₹ 6277 crore (up 0.3% YoY, 6.0% QoQ, vs. our estimate of ₹6151 crore). Zinc sales volume for the quarter came in at ~210000 tonnes (down 3.2% YoY, up 5% QoQ, in-line with our estimate of ~210000 tonnes). Lead sales volumes came in at ~50000 tonnes (up 6.4% YoY, 8.7% QoQ, higher than our estimate of ~47000 tonnes). While the silver sales came in at ~167000 kg (up 23.7% YoY, 26.5% QoQ, vs. our estimate of ~135000 kg).
- The reported EBITDA margin came in at 57.7% (our estimate: 54.3%, Q3FY18: 54.8% and Q4FY17: 59.9%). The reported EBITDA stood at ₹3620 crore (down 3.4% YoY, up 11.6% QoQ, higher than our estimate of ₹3342 crore). The zinc metal cost of production per tonne before royalty (COP) during the quarter declined by 9.9% QoQ to ₹ 59569/tonne (US$925/tonne), which aided margin expansion.
- HZL reported an other income of ₹ 486 crore up 1% YoY, 63.1% QoQ (our estimate: ₹ 350 crore), exceptional item (expense) of ₹51 crore related to gratuity provision for earlier years. The resultant PAT stood at ₹ 2505 crore (down 18.1% YoY, up 12.3% QoQ).

Embarks upon the next phase of expansion...

Based on the long-term evaluation of assets and in consultation with global experts, the company is evaluating plans to increase its mined metal capacity from 1.2 million tonne (MT) to 1.5 MT. The board approved the Phase-I of this expansion which will increase the mined metal and smelting capacity from 1.2 MT to 1.35 MT through brownfield expansion of existing mines at an estimated capex of ~₹4500 crore. Phase-I includes incremental ore production capacity of 0.5 mtpa each at Rampura Agucha, Sindesar Khurd and Rajpura Dariba mines aggregating a total capacity of 5.0 mtpa, 6.5 mtpa and 2 mtpa respectively. The capacity of Zawar mines will be increased by 1.2 mtpa to 5.7 mtpa. Furthermore, the MoEF has given clearance for expansion of ore production at Kayad mine from 1 mtpa to 1.2 mtpa. The aforementioned projects will take the total ore production to 20.4 mtpa and mined metal capacity from 1.2 mtpa to 1.35 mtpa. The Phase-I expansion is likely to be completed in 3 years concurrently with the ongoing projects.

Huge reserve base, low CoP augurs well....

HZL has a huge reserve base, which provides strong earnings visibility. The total reserve and resource (R&R) as on March 31, 2018 was at 411.3 MT containing 35.7 MT of zinc-lead metal and 1 billion ounce (Moz) of silver. The overall mine life continues to be 25+ years. HZL's smelting assets are also in the lowest quartile on the global cost curve. The low cost advantage is attributable to its fully integrated nature of operations involving mines, smelter and captive power source. The smelters lie within the proximity of mines resulting in low transportation and shifting costs which augurs well for the company.

On strong footing; maintain BUY...

Hindustan Zinc reported a healthy set of Q4FY18 numbers primarily on account of a sharp sequential decline in zinc cost of production. For FY19E, the management has guided a slightly higher mined metal production for zinc-lead, while the silver production is guided at 650-700 tonnes. Going forward, we expect the topline and EBITDA to clock a CAGR of 11% and 15%, respectively, during FY18-20E. We continue to value the stock at 7x FY20E EV/EBITDA and arrive at a target price of ₹ 350. We maintain our **BUY** recommendation.

Rating matrix

Rating	:	Buy
Target	:	₹ 350
Target Period	:	12 months
Potential Upside	:	14%

What's Changed?

Target	Unchanged
EPS FY19E	Changed from ₹ 24.6 to ₹ 23.8
EPS FY20E	Chnanged from ₹ 26.5 to ₹ 28.6
Rating	Unchanged

Quarterly Performance

	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Revenue	6,277.0	6,260.2	0.3	5,922.0	6.0
EBITDA	3,620.0	3,748.1	-3.4	3,244.0	11.6
EBITDA (%)	57.7	59.9	-220 bps	54.8	289 bps
PAT	2,505.0	3,057.0	-18.1	2,230.0	12.3

Key Financials

₹ Crore	FY17	FY18E	FY19E	FY20E
Total Op. Income	17,273	22,084	23,663	27,256
EBITDA	9,738	12,272	13,232	16,179
Net Profit	8,316	9,276	10,051	12,080
EPS (₹)	19.7	22.0	23.8	28.6

Valuation summary

	FY17	FY18E	FY19E	FY20E
P/E	15.9	14.2	13.1	10.9
Target P/E	17.8	15.9	14.7	12.2
EV / EBITDA	11.1	9.0	7.9	6.0
P/BV	4.3	3.7	3.1	2.6
RoNW	27.0	25.8	23.6	23.9
RoCE	26.9	34.0	31.5	32.3

Stock data

Particular	Amount
Market Capitalization (₹crore)	130,130
Total Debt (FY18) (₹crore)	-
Cash and Investments (FY18) (₹crore)	22,186
EV (₹ crore)	107,944
52 week H/L (₹)	340 / 227
Equity capital (₹ crore)	845.1
Face value (₹)	₹ 2

Price performance (%)

Return %	1M	3M	6M	12M
Hindustan Zinc	8.8	5.4	3.7	22.0
Vedanta	7.4	-12.3	-10.1	22.5
Hindalco Ind	9.8	-8.0	-11.9	18.2

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Akshay Kadam
akshay.kadam@icicisecurities.com

Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	Comments
Total Operating Income	6,277.0	6,151.4	6,260.2	0.3	5,922.0	6.0	The topline came in higher than our estimates
Other Income	486.0	350.0	481.1	1.0	298.0	63.1	Other Income came in higher than our estimates
Total Operating expense	2,657.0	2,809.1	2,512.1	5.8	2,678.0	-0.8	
EBITDA	3,620.0	3,342.3	3,748.1	-3.4	3,244.0	11.6	The lower zinc cost of production QoQ aided EBITDA, which came in higher than our estimates
EBITDA Margin (%)	57.7	54.3	59.9	-220 bps	54.8	289 bps	EBITDA margin came in higher than our estimates
Depreciation	459.0	480.0	532.1	-13.7	481.0	-4.6	
Interest	45.0	15.0	14.2	216.9	17.0	164.7	
Exceptional item	51.0	-	-	-	-	-	
PBT	3,551.0	3,197.3	3,682.9	-3.6	3,044.0	16.7	
Tax Outgo	1,046.0	1,055.1	625.9	67.1	814.0	28.5	
PAT	2,505.0	2,142.2	3,057.0	-18.1	2,230.0	12.3	PAT came in higher than our estimates
Key Metrics							
Zinc sales (tonne)	210,000	210,000	217000	-3.2	200000	5.0	Zinc sales volume came in line with our estimates
Lead sales (tonne)	50,000	47,000	47000	6.4	46000	8.7	Lead sales volume came in higher than our estimates
Silver sales (kg)	167,000	135,000	135000	23.7	132000	26.5	Silver sales volume came in higher than our estimates

Source: Company, ICICI Direct Research

Change in estimates

	FY18P	FY19E			FY20E			
(₹ Crore)		Old	New	% Change	Old	New	% Change	Comments
Total Op. Income	22,084	24,356	23,663	-2.8	25,843	27,256	5.5	Downward revised estimates for FY19E, upward revised for FY20E broadly on all parameters
EBITDA	12,272	13,741	13,232	-3.7	14,858	16,179	8.9	
EBITDA Margin (%)	55.6	56.4	55.9	-50 bps	57.5	59.4	187 bps	
PAT	9,276	10,378	10,051	-3.2	11,186	12,080	8.0	
EPS (₹)	22	24.6	23.8	-3.3	26.5	28.6	7.9	
LME Zinc (US$/tonne)	3,057	3,200	3,200	0.0	3,250	3,250	0.0	
LME Lead (US$/tonne)	2,379	2,400	2,400	0.0	2,450	2,450	0.0	
Currency US ($)	64	65	65	0.0	65	65	0.0	

Source: Company, ICICI Direct Research

Assumptions

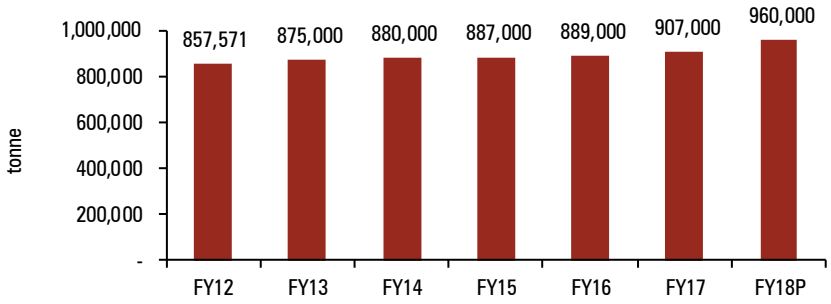
	Current			Earlier		Comments
	FY18P	FY19E	FY20E	FY18E	FY19E	
Zinc sales (tonne)	793,000	815,000	900,000	814,770	851,435	Upward revised sales volume estimates
Lead sales (tonne)	170,000	185,000	195,000	185,000	190,550	
Silver sales (kg)	555,000	700,000	900,000	555,000	650,000	
USD: INR	64	65	65	65	65	

Source: Company, ICICI Direct Research

Company Analysis

Hindustan Zinc is a leading manufacturer of zinc in India with an installed capacity of 823,000 tonnes. On the lead front, the company is the only lead metal manufacturer domestically with an installed capacity of 185,000 tonnes. Post meeting domestic metal demand, the company exports its metal produce. On the silver front, the company has an installed capacity of 5,00,000 kg.

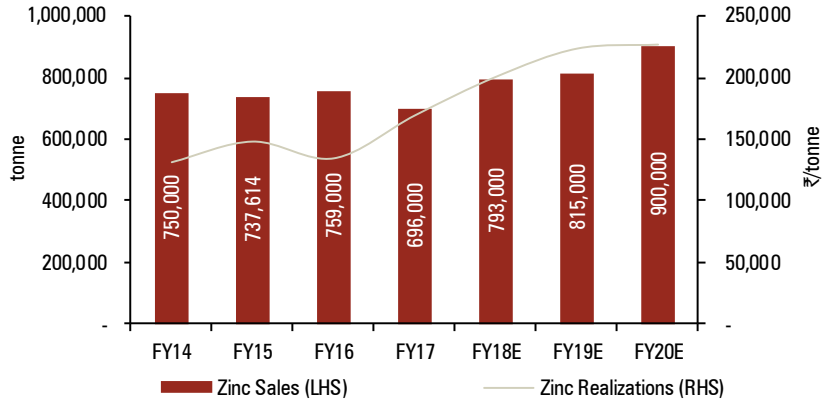
Exhibit 1: Zinc, lead (mined metal) production



*Source: Company, ICICI Direct Research, *Production numbers*

Exhibit 2: Zinc sales & realisations trend

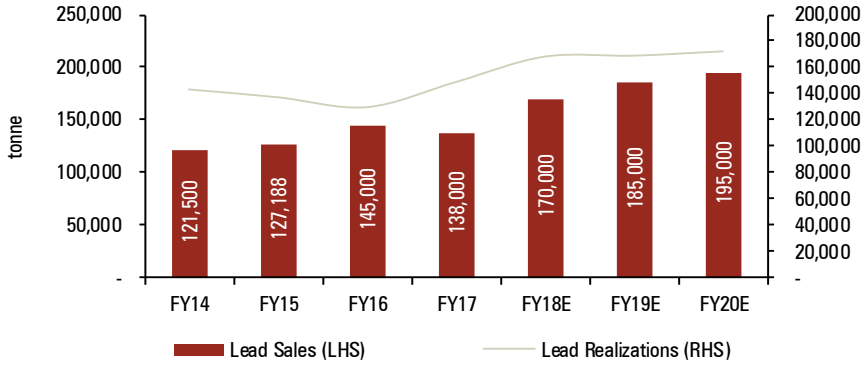
We expect zinc sales volumes to grow at a CAGR of 13.7% during FY17-20E



Source: Company, ICICI Direct Research

Exhibit 3: Lead sales & realisations trend

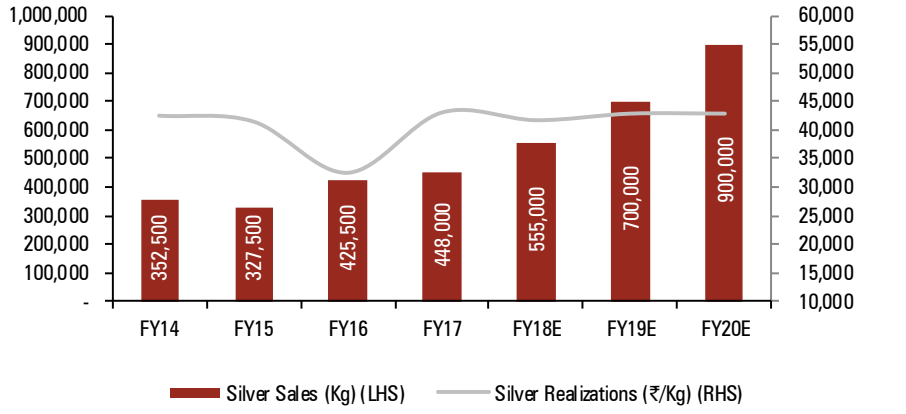
We expect lead sales volumes to grow at a CAGR of 18.9% during FY17-20E



Source: Company, ICICI Direct Research

We expect silver sales volumes to grow at a CAGR of 41.7% during FY17-20E

Exhibit 4: Silver sales & realisations trend



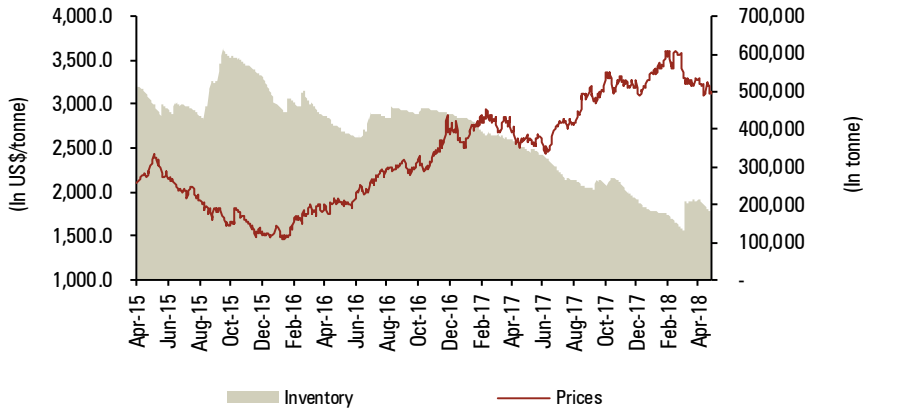
Source: Company, ICICI Direct Research

Metal pricing trend

On a quarterly average basis, in Q4FY18, zinc prices were at US$3413/tonne, up 22.9% YoY. As on May 1, 2018 the zinc prices were at $3043/tonne

According to ILZSG, the global demand for refined zinc metal is forecast to rise by 2% to 13.97 million tonne (MT) in 2018. The global zinc mine production is forecast to rise by 5.1% to 13.62 MT in 2018. The group continues to anticipate the global demand for refined zinc metal to comfortably exceed the supply in 2018 to the extent of 263000 tonnes (263 KT).

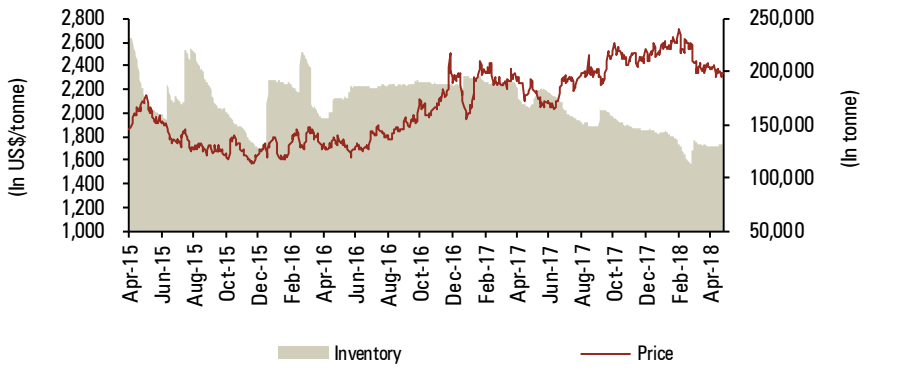
Exhibit 5: LME zinc prices (LHS) & inventory levels (RHS)



Source: Bloomberg, ICICI Direct Research

On a quarterly average basis, in Q4FY18, lead prices were at US$2518/tonne, up 10.6% YoY. As on May 1, 2018 the lead prices were at $2294/tonne

Exhibit 6 LME lead prices & inventory levels



Source: Bloomberg, ICICI Direct Research

Key Takeaways from Conference Call

Operational Performance

Q4FY18

- The total mined metal production during the quarter was at 255 kt (up 6% QoQ, down 18% YoY). The sequential increase in production was on account of higher ore grades while the YoY decrease was driven primarily by decline in overall ore grades due to transition from open cast to underground mining.
- The integrated lead metal production was at 50 kt up 9% QoQ and 11% YoY on account of higher mine feed and smelter efficiency. Integrated silver production was at 170 kt up 28% QoQ and 22% YoY due to higher silver feed and smelter efficiency. Integrated zinc metal production was 206 kt up 3% QoQ and down 4% YoY in line with availability of mined metal.
- During the quarter the cost of production before royalty (CoP) for zinc was at ₹59569/tonne (US$925/tonne) down ~10% QoQ. The sequential decline was driven by higher metal production, higher overall grades and increase in linkage coal.

FY18

- The production of mined metal, refined metal and silver for the year was in-line with the production guidance provided at the beginning of the year. Mined metal production for FY18 stood at 947 kt up 4% YoY. The production was driven by higher ore production from underground mines, partly offset by lower open cast production and lower ore grades.
- Integrated zinc, lead and silver production were higher by 18%, 21% and 23% on a YoY basis respectively, in line with the uniform flow of mined metal
- For full year FY18, the CoP stood at ₹63583/tonne (US$978/tonne) up 14% YoY primarily due to 38% increase in imported coal prices and metcoke prices and about 15% increase in diesel prices and lower grades, partly offset by higher metal production.

Capacity Expansion

- The announced mining projects are progressing in line with the target of reaching 1.2 million tonne (MT) of mined metal capacity by FY20.
- The capital mine development during the year was 38501 meters, an increase of 65% YoY
- The underground production at Rampura Agucha continues to ramp up strongly and achieved an ore production run-rate of 3 MT during the quarter. The south ventilation shaft system was commissioned during the quarter. Off shaft development is on track and production from shaft is expected to start in Q3FY19.
- During the quarter, Sindersar Khurd's main shaft equipping was completed and winder installation commenced. Production from the shaft is expected to start as per schedule in Q3FY19. Civil and structure erection for the new mill is ongoing and expected to be commissioned in Q2FY19.
- MoEF has given environment clearance for expansion of ore production at Kayad mine from 1 to 1.2 MT. At Zawar mine, civil construction for the new mill is progressing well and is expected to commission by Q4FY19. The fumer project is progressing as per schedule and expected to be commissioned in mid-FY19.
- As of March 31st, 2018 the R&R were estimated to be 411.3 MT, containing 35.7 MT of zinc-lead metal and 1.0 billion ounces of silver. The overall mine-life continues to be more than 25 years.

- Based on the long-term evaluation of assets and in consultation with global experts, the company is evaluating plans to increase its mined metal capacity from 1.2 million tonne (MT) to 1.5 MT. The board approved the Phase-I of this expansion which will increase the mined metal and smelting capacity from 1.2 MT to 1.35 MT through brownfield expansion of existing mines at an estimated capex of ~₹4500 crore. Phase-I includes incremental ore production capacity of 0.5 mtpa each at Rampura Agucha, Sindesar Khurd and Rajpura Dariba mines aggregating a total capacity of 5.0 mtpa, 6.5 mtpa and 2 mtpa respectively. The capacity of Zawar mines will be increased by 1.2 mtpa to 5.7 mtpa. Furthermore, the MoEF has given clearance for expansion of ore production at Kayad mine from 1 MT to 1.2 MT. The aforementioned projects will take the total ore production to 20.4 mtpa and mined metal capacity from 1.2 mtpa to 1.35 mtpa. The Phase-I expansion is likely to be completed in 3 years concurrently with the ongoing projects.

Outlook:

- Mined metal and refined zinc-lead production in FY 2019 is expected to be slightly higher compared to FY18. The silver production is expected to be in the range of 650 to 700 tonne
- COP before royalty is projected to be in the range of US$950-975/tonne in FY 2019. The Tax rate is expected to trend up while quarterly depreciation expense is expected to be in the range of ₹350-400 crore. The project capex on mining and smelter expansions is expected to be approximately US$400 million in FY19.

Other highlights

- The company has sold ~70 kt of zinc at a forward price of US$3076/tonne and ~15 kt of lead at a price of US$2374/tonne for Q1FY19.
- The aggregate interim dividend paid during FY18 was ₹8/share amounting to ₹4068 core including DDT. In the view of second interim dividend announced earlier, no final dividend was recommended.
- In FY 2018, we contributed ₹9,301 Crore to government treasury through royalties, taxes and dividends.
- As on March 31st 2018, the cash and cash equivalents stood at ₹20,395 crore invested in high quality debt instruments with the portfolio being rated "Tier –I" (implying Highest Safety) by CRISIL.

Outlook and valuation

Hindustan Zinc reported a healthy set of Q4FY18 numbers primarily on account of a sharp sequential decline in zinc cost of production. For FY19E, the management has guided a slightly higher mined metal production for zinc-lead, while the silver production is guided at 650-700 tonnes. Going forward, we expect the topline and EBITDA to clock a CAGR of 11% and 15%, respectively, in FY18-20E. We continue to value the stock at 7x FY20E EV/EBITDA and arrive at a target price of ₹ 350. We maintain **BUY** recommendation on the stock.

HZL's integrated business model ensures steady cash flows, which reiterates our positive stance on the company. Furthermore, HZL has strong balance sheet, healthy cash flow, lower CoP, net cash status and healthy dividend yield, which augurs well.

Exhibit 7: Target Price Calculation

Particulars	Amount
FY20E EBITDA (₹ Crore)	16,179
EV/EBITDA Multiple	7.0
EV (₹ Crore)	113,254
Debt (₹ crore)	-
Cash & Cash Equivalents (₹ crore)	34,518
Implied Equity Value (₹ crore)	147,773
No of Shares (crore)	423
Target Price (₹/share)	350

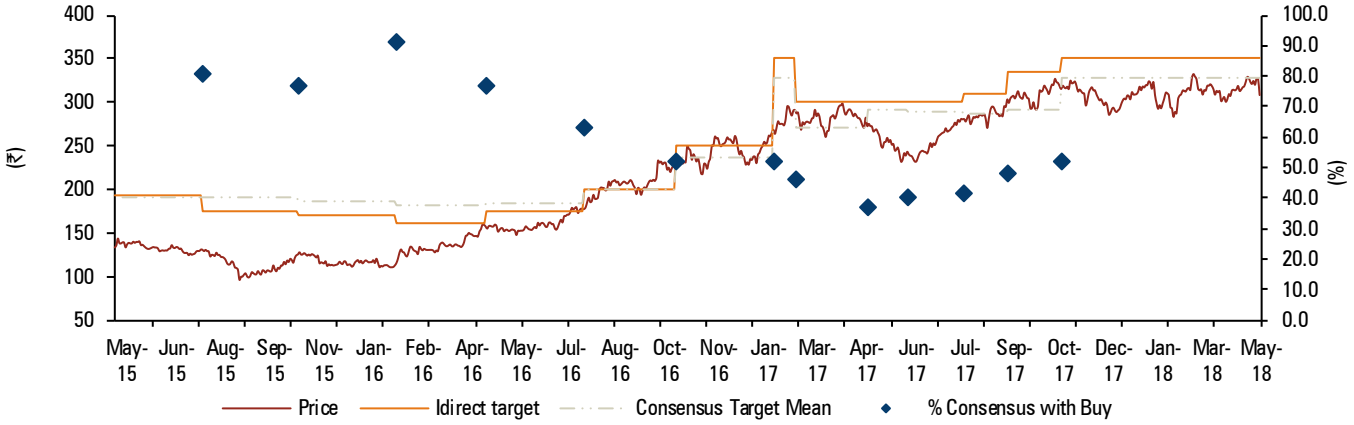
Source: Company, ICICI Direct Research

Exhibit 7: Valuation matrix

	Total Op Income (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	14,226	-3.8	19.3	0.0	16.2	14.6	21.8	21.6
FY17	17,273	21.4	19.7	1.8	15.9	11.1	27.0	26.9
FY18E	22,084	27.9	22.0	11.5	14.2	9.0	25.8	34.0
FY19E	23,663	7.1	23.8	8.3	13.1	7.9	23.6	31.5
FY20E	27,256	15.2	28.6	20.2	10.9	6.0	23.9	32.3

Source: Company, ICICI Direct Research

Recommendation History Vs Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Mar-10	Commissioned the 210,000 tonne per annum hydrometallurgical zinc smelter at Rajpura Dariba, increasing the zinc & lead metal production capacity to 964,000 tonne per annum (879,000 tonne of zinc and 85,000 tonne of lead)
May-10	Reports increase in resource & reserves by 33.7 million tonne (MT) to 298.6 MT
Mar-11	Splits shares in the ratio of 1:5 i.e. the face value gets reduced from ₹ 10 to ₹ 2 per share
Mar-11	Commissioned 1.5 MTPA concentrator at silver-rich Sindesar Khurd Mine; commissioned 160 MW (80X2) captive power plant at Dariba
Dec-11	Mines & Mineral (Development & Regulation) Bill introduced in Parliament. Proposes payment of amount equivalent to royalty for development of the areas in which the miners operate. Export duty increased to 30% iron ore exports from India
Mar-12	Commissions the 100 KTPA lead smelter at Dariba, increasing the lead production capacity to 185 KTPA; ramped-up Sindesar Khurd mine to 2.0 MTPA capacity; commissioned new silver refinery, increasing the silver refining capacity to 500 TPA
Mar-13	Announces next phase of growth plan to increase capacity to 1.2 million tonne per annum
Oct-13	The promoter group revises its offer for buying residual stake in the company from the Government of India
Jan-16	Aims to enhance ore and metal production to 14 million tonne per annum (MTPA) and 1.10 MTPA respectively; announces investment of ₹ 8000 crore in the next three to five years
Jan-16	Supreme Court stays proposed 29.54% stake sale by Government of India to Vedanta Resources
Mar-16	Declares special golden jubilee dividend of ₹ 24 per equity share of ₹ 2 each for FY16, a payout amounting to ₹ 9578.57 crore
Dec-16	The Environment Ministry approves an amendment to the environment clearance (EC) given to Hindustan Zinc to expand the production capacity of lead zinc to 4.5 million tonne (MT) (from earlier approved 3.75 MT) and ore beneficiation at Sindesar Khurd underground mine to 5 MT (from earlier approved 4.25 MT). Currently, zinc lead production capacity is 2 MT
Mar-17	The board of Hindustan Zinc has declared a second interim dividend of ₹27.5/share entailing an outlay of ₹ 13985 crore (dividend outlay: ₹ 11620 crore and dividend tax: ₹ 2365 crore). The government, which holds 29.5%, would receive ~₹ 5798 crore (dividend: ~₹ 3433 crore, dividend tax: ₹ 2365 crore). The parent company Vedanta will receive ~₹ 7553 crore from the dividend. Earlier, the company had declared an interim dividend of ₹ 1.9/share in October 2016

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Investor Name	Latest Filing Da	% O/S	Position (M)	Change (M)
1	Vedanta Resources PLC	31-Mar-18	64.9	2743.2	0.0
2	Government of India	31-Mar-18	29.5	1248.0	0.0
3	Goldman Sachs Asset Management International	31-Mar-18	0.3	13.2	-1.4
4	Janus Henderson Investors [Activist]	31-Mar-18	0.3	11.9	0.0
5	The Vanguard Group, Inc.	31-Mar-18	0.2	8.0	-0.3
6	L&T Investment Management Limited	31-Mar-18	0.2	7.3	0.3
7	Aditya Birla Sun Life AMC Limited	31-Mar-18	0.2	6.9	-3.3
8	UTI Asset Management Co. Ltd.	31-Mar-18	0.2	6.8	-0.2
9	Pictet Asset Management Ltd.	31-Dec-17	0.1	4.9	0.0
10	SBI Funds Management Pvt. Ltd.	31-Mar-18	0.1	4.3	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	64.9	64.9	64.9	64.9	64.9
FII	2.6	2.1	2.2	2.2	2.3
DII	30.6	31.2	31.2	31.3	31.1
Others	1.8	1.8	1.8	1.7	1.7

Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Goldman Sachs Asset Management (US)	2.85m	0.58m	Aditya Birla Sun Life AMC Limited	-15.14m	-3.28m
Edelweiss Asset Management Ltd.	2.18m	0.47m	ICICI Prudential Asset Management Co. Ltd.	-11.58m	-2.51m
L&T Investment Management Limited	1.44m	0.31m	Invesco PowerShares Capital Management LLC	-7.19m	-1.49m
IDFC Asset Management Company Private Limited	1.42m	0.31m	Goldman Sachs Asset Management International	-6.48m	-1.41m
BNP Paribas Asset Management India Pvt. Ltd.	0.53m	0.12m	Grantham Mayo Van Otterloo & Co LLC	-5.87m	-1.26m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY17	FY18E	FY19E	FY20E
Net Sales	17117.0	22084.0	23423.3	26980.2
Other Operating Income	156.0	0.0	239.3	275.5
Total Operating Income	17,273.0	22,084.0	23,662.5	27,255.7
Growth (%)	21.4	27.9	7.1	15.2
Mining & Mfg Expenses	6,812.5	4,798.0	8,805.5	9,324.5
Employee Expenses	722.0	776.0	999.8	1,095.0
Admin & Selling expenses	0.0	4,238.0	624.9	657.0
Total Operating Expenditure	7,534.6	9,812.0	10,430.1	11,076.5
EBITDA	9,738.4	12,272.0	13,232.4	16,179.2
Growth (%)	46.6	26.0	7.8	22.3
Depreciation	1,811.2	1,483.0	1,641.4	1,821.4
Interest	201.7	283.0	20.0	18.0
Other Income	2,473.7	1,751.0	1,850.0	1,950.0
PBT	10,199.2	12,257.0	13,421.0	16,289.7
Exceptional Item	0.0	240.0	0.0	0.0
Total Tax	1,883.7	3,221.0	3,370.4	4,210.1
PAT	8,315.6	9,276.0	10,050.5	12,079.7
Growth (%)	1.8	11.5	8.3	20.2
EPS (₹)	19.7	22.0	23.8	28.6

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(Year-end March)	FY17	FY18E	FY19E	FY20E
Profit after Tax	8,315.6	9,276.0	10,050.5	12,079.7
Add: Depreciation	1,811.2	1,483.0	1,641.4	1,821.4
(Inc)/dec in Current Assets	1,136.4	4,611.1	-1,550.7	-343.2
Inc/(dec) in CL and Provisions	-2,092.5	-7,078.1	-1,897.9	32.3
Others	-2,571.3	0.0	0.0	0.0
CF from operating activities	6,599.4	8,292.0	8,243.3	13,590.3
(Inc)/dec in Investments	3,208.8	11,751.8	-3,000.0	-4,000.0
(Inc)/dec in Fixed Assets	-2,571.3	-2,940.7	-2,700.0	-2,500.0
Others	0.0	-4,267.0	4,265.1	1.9
CF from investing activities	637.5	4,544.0	-1,434.9	-6,498.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	7,796.0	-7,907.8	0.0	0.0
Dividend paid & dividend tax	-15,286.5	-3,954.9	-3,527.5	-4,239.7
Inc/(dec) in Share Cap	390.3	-193.7	193.7	0.0
Others	0.0	994.8	-994.9	0.1
CF from financing activities	-7,100.2	-11,061.4	-4,328.8	-4,239.6
Net Cash flow	136.8	1,774.6	2,479.7	2,852.6
Opening Cash	52.7	189.4	1,964.0	4,445.7
Closing Cash	189.4	1,964.0	4,443.7	7,296.3

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(Year-end March)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	845.1	845	845.1	845.1
Reserve and Surplus	29,959.5	35,087	41,803.7	49,643.7
Total Shareholders funds	30,804.6	35,932	42,648.8	50,488.8
Total Debt	7,907.8	0.0	0.0	0.0
Deferred Tax Liability	0.0	0.0	0.0	0.1
Minority Interest / Others	0.1	994.9	0.0	0.0
Total Liabilities	38,712.4	36,927.0	42,648.8	50,488.9
Assets				
Gross Block	16,118.2	16,318.2	18,238.2	20,238.2
Less: Acc Depreciation	6,125.2	5,016.2	6,657.6	8,479.1
Net Block	9,993.0	11,302.0	11,580.6	11,759.1
Capital WIP	3,071.3	3,220.0	4,000.0	4,500.0
Total Fixed Assets	13,064.3	14,522.0	15,580.6	16,259.1
Investments	31,973.8	20,222.0	23,222.0	27,222.0
Inventory	1,935.8	1,379.0	1,187.9	1,325.3
Trade receivables	136.0	184.0	320.9	369.6
Loans and Advances	20.1	0.0	1,729.0	1,778.4
Other Current Assets	4,476.2	394.0	269.9	377.6
Cash	189.4	1,964.0	4,443.7	7,296.3
Total Current Assets	6,757.5	3,921.0	7,951.4	11,147.2
Trade payables	946.5	947.0	1026.8	1182.7
Other current liabilities	12,008.2	5,058.0	3,080.3	2,956.7
Provisions	128.4	0.0	0.0	0.0
Current Liabilities & Prov	13,083.1	6,005.0	4,107.1	4,139.4
Net Current Assets	-6,325.6	-2,084.0	3,844.3	7,007.7
Others Assets	0.0	4,267.0	1.9	0.0
Application of Funds	38,712.4	36,927.0	42,648.8	50,488.9

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	19.7	22.0	23.8	28.6
Cash EPS	24.0	25.5	27.7	32.9
BV	72.9	85.0	100.9	119.5
DPS	29.4	8.0	7.1	8.6
Cash Per Share (Incl Invst)	38.0	52.5	65.5	81.7
Operating Ratios (%)				
EBITDA Margin	56.4	55.6	55.9	59.4
PBT / Total Op. income	59.0	55.5	56.7	59.8
PAT Margin	48.1	42.0	42.5	44.3
Inventory days	41	23	18	17
Debtor days	2.9	3.0	4.9	4.9
Creditor days	20	16	16	16
Return Ratios (%)				
RoE	27.0	25.8	23.6	23.9
RoCE	26.9	34.0	31.5	32.3
RoIC	227.9	148.7	105.6	125.2
Valuation Ratios (x)				
P/E	15.9	14.2	13.1	10.9
EV / EBITDA	11.1	9.0	7.9	6.0
EV / Net Sales	6.2	5.0	4.4	3.6
Market Cap / Sales	7.6	6.0	5.6	4.8
Price to Book Value	4.3	3.7	3.1	2.6
Solvency Ratios				
Debt/EBITDA	0.8	0.0	0.0	0.0
Debt / Equity	0.3	0.0	0.0	0.0
Current Ratio	0.5	0.3	0.9	0.9
Quick Ratio	0.4	0.1	0.6	0.6

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Metals & Mining)

Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating	(₹ Cr)	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Coal India	281	325	Hold	174149	14.9	15.1	19.1	19.7	19.5	15.4	10.5	10.0	7.8	33.5	38.3	48.4	37.8	36.8	42.9
Hindalco	246	295	Buy	54784	8.4	18.9	25.8	29.5	13.2	9.7	8.4	7.3	6.0	6.9	8.7	10.6	4.1	8.9	10.4
Hindustan Zinc	308	350	Buy	130130	19.7	22.0	23.8	15.7	14.0	12.9	10.9	8.8	7.7	26.9	34.0	31.5	27.0	25.8	23.6
JSW Steel	315	335	Buy	76021	14.3	19.9	24.7	20.9	15.1	12.1	9.3	8.4	7.4	13.4	14.5	15.5	15.3	18.2	18.8
NMDC	124	145	Buy	39155	8.2	12.7	13.4	16.5	10.6	10.1	9.4	6.1	5.7	15.1	20.5	21.0	11.5	15.7	15.0
Vedanta	283	375	Buy	83924	15.1	25.3	35.9	21.3	12.8	9.0	6.0	5.3	4.1	12.1	13.9	16.5	9.3	13.9	16.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

Disclaimer

ANALYST CERTIFICATION

We /I, Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, *inter alia,* engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Dewang Sanghavi MBA (FIN) and Akshay Kadam MBA (FIN), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed 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, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.