HDFC securities RETAIL RESEARCH

Stock Note | 18 Oct 2017

Hindustan Zinc Limited

Industry	CMP	Recommendation	Add on dips to	Sequential Targets	Time Horizon
Zinc & Allied Metals	Rs. 324	Buy at CMP and add on declines	Rs.288-292	Rs.364.5 & Rs.394	3-4 quarters

HDFC Scrip Code	HINZINEQNR
BSE Code	500188
NSE Code	HINDZINC
Bloomberg	HZ IN
CMP	Rs.324
Equity Capital (Rs Mn)	8450.6
Face Value (Rs)	2.0
Equity Share O/S (Mn)	4225.3
Market Cap (Rs crs)	136710
Book Value (Rs)	72.9
Avg. 52 Wk Volumes	207508
52 Week High	333.4
52 Week Low	226.7

Shareholding Pattern % (Sep 30, 2017)	
Promoters	64.9
Institutions	3.9
Non Institutions	31.2
Total	100.0

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Company Description:

Hindustan Zinc is a Vedanta Group company in zinc, lead and silver business. HZL is one of the world's largest integrated producers of zinc and is among leading global lead and silver producers. It is one of the lowest cost producers in the world and is well placed to serve the growing demand of Asian countries. HZL's core business comprises of mining and smelting of zinc and lead along with captive power generation. HZL has metal production capacity of over one million tonnes per annum with the key lead-zinc mines in Rampura Agucha and Sindesar Khurd; and key modern smelting complexes in Chanderiya and Dariba, all in the state of Rajasthan in India.

Investment Rationale:

- Global zinc deficit leading to zinc price rally entails good prospects for company being a captive mine owner.
- Good volume growth expected with ramp up of operations at various mines and shift to UG mining from OC mining.
- Higher expectation for Silver production improves company's prospects.
- Lower Cost of production accompanied with higher volumes could lead to positive operational leverage.
- Sustainable integrated operations with good R&R accretion make HZL a dependable company to bet on.
- Strong balance sheet with negligible debt, high FCF generation, good dividend yield etc. help company get attractive valuations.

Concerns:

- Restart of mines by Glencore and the mines in China may put a check on zinc prices rally.
- Change in royalty structure may adversely impact company's profitability.
- Regulatory and environmental compliance risks linger forever in this industry.
- Appreciating rupee may bring down company's revenue and margin prospects.

View and Valuation:

Being an integrated zinc metal producer having captive mines, HZL is one of the major beneficiaries from the recent rally in the zinc prices globally. The zinc prices are expected to remain strong over the next 4-6 quarters on account of the depleting supply coupled with increasing demand (zinc demand is a function of steel demand). Apart from the surge in zinc prices, another major upside potential lies for the company on account of its ramp up of operations at its various mines attempting to achieve 1.2 mTPA of capacities by FY20 (vs 1.0mTPA in FY17). This ramp up coupled with better margins on account of reducing costs as a result of higher positive operational leverage, could lead to the company delivering a good show at the PAT levels. Higher silver production with shift of operations to mines having higher lead content and set up of fumer plants may help company earn higher EBITDA and may help the stock to rerate. HZL has been efficient in maintaining its R&R (Reserves and Resources) over the years and this helps provide visibility on volume growth. Its record of higher than usual dividend yield makes it a safe bet in a commoditized industry.

In valuing the stock, we have applied a higher multiple (9.5-10.5xEV/EBITDA) to make up for the expectations in the zinc price hikes over the coming quarters. We have conservatively assumed the zinc prices to normalize at around 2800 USD/T over the next two years for our estimates (vs current 3 month average of $3062).

We feel investors could buy the stock at the CMP (8.1x FY19E EV/EBITDA) and add on dips to Rs.288-292 (7.0x FY19E EV/EBITDA) for sequential targets of Rs.364.4 (9.5x FY19E EV/EBITDA) and Rs.394.0 (10.5x FY19E EV/EBITDA) over the next 3-4 quarters.

Financial Summary:

Particulars	Standalone					Standalone			
(Rs Mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Net Sales	45760	25306	80.80%	62602	-26.90%	138535	186156	197506	218442
EBITDA	23840	11309	110.80%	37240	-36.00%	66406	97385	111315	124302
PAT	18760	10374	80.80%	30329	-38.10%	81666	83156	96362	106293
Diluted EPS	4.44	2.46	80.80%	7.18	-38.10%	19.3	19.7	22.8	25.2
P/E (x)						16.8	16.5	14.2	12.9
EV / EBITDA						14.9	11.3	9.4	8.0
RoE (%)						19.9%	24.4%	28.4%	26.3%

(Source: Company, HDFC sec)

Company Profile:

HZL is India's largest and the world's second largest integrated zinc-lead producer; and also one of the lowest cost zinc-lead producers in the world. It has mining, smelting and power operations in multiple locations throughout India. Company’s principal products are refined zinc metal and refined lead metal. In addition HZL also recovers silver and cadmium as by products. Zinc and lead metal produced at its world class Chanderiya Smelting complex are registered brands on the London Metal Exchange (LME). This re-emphasizes our capability and commitment to meet the world class standards.

In order to ensure reliable and low-cost power for our operations, HZL has installed captive power plants to cater to the power requirement of our smelters and mines. Company has thermal captive power plants at Chanderiya, Dariba and Zawar, with power generation capacity of 474 MW. In addition, it also has 35.6 MW of diesel generation capacity and 35.4 MW of power generation capacity from waste heat recovered from roasters. All the waste heat projects are registered under the Rajasthan Renewable Energy Corporation as a source of renewable energy. With respect to our green energy initiative projects, it has successfully commissioned 273.5 MW wind power plants in the States of Gujarat, Karnataka, Maharashtra, Rajasthan and Tamil Nadu.

<u>Products</u>:

- **Zinc:**

  Company produces refined zinc metal, which is used in a number of applications including galvanising, oxides, die castings and alloys. The various grades of zinc produced by company include:

  - Special High Grade (SHG)

- Continuous Galvanising Grade (CGG)
- High Grade (HG)
- Prime Western (PW)

Special High Grade and High Grade zinc are available in standard ingots of 25 kgs and Jumbo ingots of 1,000 kgs each. Prime Western is also available in the standard ingots form of 25 kgs. About 13 million tonnes of zinc is produced annually worldwide. Around 58% of the amount is used for galvanizing to protect steel from corrosion. Approximately 14% is used the production of zinc die casting alloys. Nearly 9% of the zinc is also utilized for oxides and chemicals and about 10% is used in Brass semis and castings.

- **Lead:**
  HZL produces refined lead, which is LME registered under the brand name of "Vedanta 99.99". Lead metal is used in a number of applications including battery segment, lead-based pigments, and cathode ray tubes. HZL's refined lead metal is available in standard 24 kgs ingots.

- **Silver:**
  HZL is India's largest and one of the world's leading primary silver producers. It produces refined silver which is recovered as a by-product of lead metal. HZL produces high quality silver bullion having a minimum purity of 98.5% to 99.9% of silver; it is casted in the form of bricks weighing 30 kgs. Silver is used in a number of varied applications, with the most important uses of silver being the industrial and decorative uses, photography, and jewellery & silverware; together, these three categories represent more than 95 percent of annual silver consumption. Silver's unique properties restrict its substitution in most applications.

- **Cadmium:**
  HZL is India's largest cadmium producer. It recovers Cadmium from zinc smelting process as it is mainly found in association with zinc ores. It produces high quality cadmium pencils having a minimum purity of 99.95% to 99.99%; it is casted in the form of pencils weighing from 250 gms to 500 gms. The single most important use of cadmium is in the production of nickel-cadmium ("Ni-Cad") batteries. About three quarters of the cadmium consumed annually is used to make batteries. Cadmium is also useful in a number of other applications as paint pigments, low-temperature melting alloys, etc.

Mines:

- **Rampura Agucha Mine:**
  Since inception, approximately 74.9mt of ore, with an ore grade of 12.6% zinc and 1.9% lead, respectively, have been extracted from the open-pit mine. The reserves were 49.7mt as of 31 March 2017 with an average grade of 13.9% zinc and 1.9% lead in ore. HZL is evaluating the potential of this deeper mineralization. As of 31 March 2017, estimated mine life is at 13 years. At present, the mine is being operated through both open cast and underground routes and is expected to maintain production from Rampura Agucha Mine at 4mt in FY18. Rampura Agucha mine is in the midst of transition from open pit to underground mine production. The open cast mine is expected to reach end of life by end

FY18 or early FY19, thereafter it will become fully underground. The ongoing UG mine project includes a production shaft of 955 m depth, two declines from surface, two ventilation shafts and a paste fill plant.

- **Sindesar Khurd Mine:**
  The proven and probable reserves for the SK mine as of March 31, 2017 is 35.6mt with 4.2% zinc and 2.9% lead and 169 ppm of silver after depletion. Estimated mine life at Sindesar Khurd is around 12 years. Mine production began at the Sindesar Khurd mine in April 2006 and HZL's mining permit is valid until March 2049. Sindesar Khurd Mine's expansion is running ahead of schedule as it positions itself to significantly contribute to HZL's integrated lead and silver production offsetting lower output from Rampura Agucha Mine open cast. Besides, SK has the highest lead content in ore (next to Zawar UG) implying higher silver production hereon.

  The mine consists of multiple standalone deposits or auxiliary lenses, which provides three standalone production centres at present. Production from the main lode is functioning at 2.5 mtpa and the two auxiliary lenses, SKA2 and SKA6, are functioning at 1.5mtpa. Further addition of SKA14 lens is planned in FY18. On-going volume ramp-up and higher recoveries, the mine achieved a production of 3.66mtpa of ore during FY17 (vs. 2.97mtpa in FY16). The average silver grade during the year was 113 parts per million.

- **Zawar Mine:**
  Zawar consists of four mines namely, Mochia, Balaria, Zawar Mala and Baroi. Zawar produced 1.8mtpa in FY17 and plans are to increase it to 4mtpa by 2020. EC has been received for 4mt of ore production and equivalent beneficiation capacity. The lease for the mine is valid until 31 March 2030. The proven and probable reserves for the Zawar Group as of 31 March 2017 is 9.5 mt with 3.3% zinc and 1.8% lead.

- **Rajpura Dariba Mines:**
  The proven and probable ore reserves for the Rajpura Dariba mine as of 31 March 2017 are 9.0mt with 6.3% zinc and 1.5% lead. Estimated mine life of Rajpura Dariba is around eight years. HZL's Rajpura Dariba's mine lease is valid until May 2030. Rajpura Dariba Mine (RDM) achieved ore production of 0.75mt in FY17 (vs0.67mt in FY16). Ore production capacity at Rajpura Dariba Mine is planned to progressively increase to 1.20mtpa by FY19. Rajpura Dariba Mine is HZL's oldest mine with manual operations and has been slowly upgraded over time, achieving new levels of mechanization & automation and has migrated from 'Track' to 'Trackless' mining during the year.

- **Kayad Mines:**
  The Kayad mine ore production increased to 1 mn tons from 0.76 mn tons in FY16 and ore production increased to 94,000 tons from 85,900 tons in FY16. Kayad mine reached its maximum production capacity of 1 mtpa in FY17.

Investment Rationale:

Sustained rally in Zinc prices to auger well for the company:

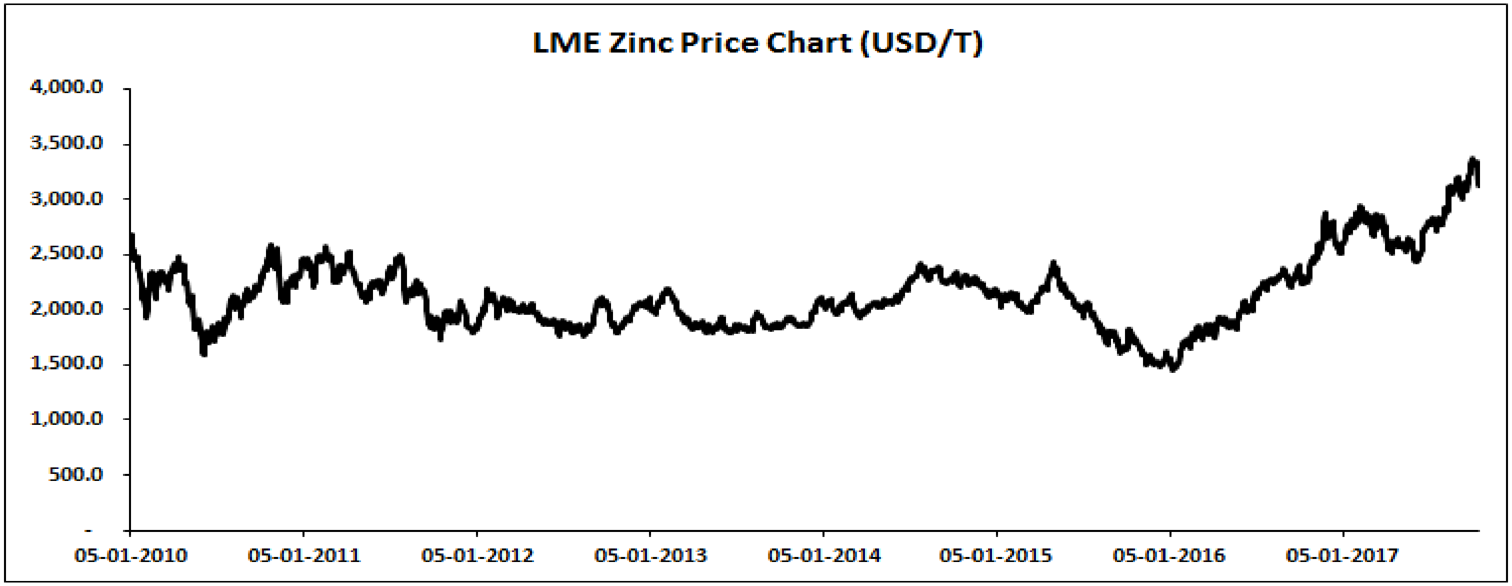
Spot LME zinc price at US$3,125/t is up 35% YoY and has increased 12% in the past two months. This is a sharp uptick from the average of US$1,828/t in FY16 and US$2,366/t in FY17. Falling exchange inventories, depleting mine supply, delays in restarting high-cost mines, especially by Glencore, and robust demand have largely driven this sharp increase. Restrictions on mining in China on environmental grounds are also leading to tightened supply in China.

Global zinc concentrate deficit widened in 2016 following closure of a few large mines (~900kt of supply) over 2015-16 and mine closures by Glencore (~500kt of supply) to support prices. Given resilient demand supported by strong demand from the auto and construction sectors and robust steel production in China, zinc concentrate is expected to remain in deficit in 2017.

Given elevated zinc prices, high-cost capacities can become viable and lead to production restart at mines that had curtailed output owing to subdued prices. MMG's Dugald river mine in Australia (~210kt) and Vedanta's Gamsberg mine in South Africa are expected to commence production in 2018. Glencore's Mt Isa and McArthur River projects could restart in 2018, which may balance the zinc concentrate market.

Based on media reports, we understand that ~60% of zinc and lead mines in Sichuan province have been suspended since August 7th due to inspections by Chinese environment protection agencies. With 240kt production in 2016, Sichuan is one of China's key zinc and lead mining base. Similar inspections in other provinces (Qinghai, Xinjiang, Jilin, Zhejiang and Hainan) have also disrupted production. Moreover, commissioning of new mines in Sichuan and Hunan provinces has been slower.

Being a fully integrated zinc and lead metal producer with captive mines, company will enjoy the upmove in the zinc prices which would directly lead to better margin realizations for the company. With expected demand for zinc to remain strong domestically and globally and with surge in prices, company is expected to earn better profits in the coming quarters.



(Source: Bloomberg)

Good volume growth expected with ramp up of operations at various mines:

HZL's mined metal production increased 2% to 906,000 tons in FY2017 despite a fall in production from Rampura Agucha (RA) mines. Volumes from RA mine declined 7% to 528,000 tons in FY2017 largely due to lower open cast volumes—open pit volumes declined to 426,000 tons in FY2017 compared to 565,000 tons of RA mine production in FY2016, which were predominantly open pit volumes. Despite lower RA production, HZL's mined metal production increase was driven by (1) higher Sindesar Khurd mine (SK) volumes of 177,000 tons (+36,800 tons yoy) and (2) Zawar mine volumes of 69,000 tons (+10,800 tons yoy). The RA mine open cast production will be completed by FY2018/early FY2019 when the entire production will shift to underground mining operations. Post mine transition, we expect RA mine production to fall to 487,000 tons (528,000 tons in FY2017) and expect large production increases in SK mine and Zawar mine volumes.

Growth in HZL's mined metal volumes over the next three years will be largely contributed by the ramp-up of Sindesar Khurd and Zawar mines. Rampura Agucha mine volumes have already declined sharply reflected in lower overall mined grades and cost increases. The company shared the mine expansion plan in which it envisages expanding the underground mines capacity to 17.5 MT by FY20. The mines will witness a 100% transition to underground mining. Accordingly, the 1.2 MT mined metal capacity will be achieved by FY20 with a mine life (reserves & resources) of 25+ years. With regard to the smelting asset, the management indicated that debottlenecking will remain integrated and is progressing as per plan. The management is also planning the next phase of expansion, which would further take the mined metal capacity to 1.5 MT.

Mine wise expansion plans with their current status are as follows:

- **Rampura Agucha Mine:**
  Rampura Agucha mine is in the midst of transition from open pit to underground mine production. The open cast mine is expected to reach end of life by end FY18 or early FY19, thereafter it will become fully underground. The ongoing UG mine project includes a production shaft of 955 m depth, two declines from surface, two ventilation shafts and a paste fill plant. The sinking of main production shaft of 955 m depth has been completed and shaft furnishing work is progressing well. Further, offshaft lateral development will provide access to planned crusher and deeper levels that will serve as additional working areas in enhancing production at Rampura Agucha Mine UG. Of the two vertical ventilation shafts, north ventilation shaft sinking was completed last year while the south ventilation shaft sinking has been completed during the year, significantly enhancing the ventilation in the mine. Two additional raises have also been sunk catering to upfront ventilation to the underground workings. Cold commissioning of both production and service winders has also been completed. The main production shaft is expected to commence commercial production in FY 2019.

- **Sindesar Khurd Mine:**
  Sindesar Khurd Mine's expansion is running ahead of schedule as it positions itself to significantly contribute to HZL's integrated lead and silver production offsetting lower output from Rampura Agucha Mine open cast. SK Mine's current EC limit for ore production stands at 4.5MT and ore beneficiation at 5.0MT. Management has guided to increase its underground mine production from 4.5MT to 6.0MT; and simultaneously, increase beneficiation facility from 5.0MT to 6.5MT (of which 0.5MT will be from Bamnia Kalan and other nearby mines). The mining plan involves trackless

operations up to -55mRL level using 2 declines for hauling. Mining below this level will be done using shaft hoisting system as the depth of hoisting will be increasing and service ramp will be available for the movement of machineries & services. Shaft is scheduled to commence by Jul-18. The sinking of production shaft (1,050m depth) and off-shaft development work has been completed. The winder foundation work for the shaft has also been completed during the quarter and head gear erection is nearing completion. The mine is set to reach the enhanced targeted capacity of 4.5mtpa during the year.

- **Zawar Mine:**
  Zawar expansion was put on hold in FY17 because of lower LME. However, now the project has bene restarted comprising of several components including debottlenecking of the existing mill. The mine expansion includes three declines from the surface, infrastructure development at surface as well as underground and a changeover from conventional to mechanised operations. Management recently indicated Zawar complex will be upgraded to mega mining complex.

Higher Silver production to auger well for company:
As HZL's incremental production shifts toward lead heavy mines namely - SK and Zawar, the silver production of the company is expected to increase going forward. Management has recently guided with a detailed roadmap to 1000t of silver production with 85% (850 t from 452 t) of the volumes expected from increased ore output (lead heavy mines), 10% (additional 100 t) via recovery from fumers (detailed in next section), and 5% (additional 50 t) from recovery from tailings. HZL recently ordered the first of three fumers management had earlier guided on. Post potential SK / Zawar mine ramp-up and output from three fumers, silver output should reach close to 1000 t. With the current plan of silver production, HZL should rank amongst the top silver producers globally. Globally silver producing companies trade at premium multiples than the zinc industry players. This may result in bettering of company valuations on account silver business recognition amongst the investor community and re-rated multiple for same.

Expected reduction in COP with higher volumes to help company further improve its margins:
HZL aspires to be "the lowest cost producer" and against its earlier guidance of stable cost of production (COP), now guides for lower cost of production with gradual commissioning of shafts at RAM and SK mines at. The management expects production costs to decline to US$800/tonne in FY20 (ex-royalty costs) from US$830/tonne in FY17. HZL's smelting assets are 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. HZL has done a commendable job over last five years, wherein its cost structure has been largely flattish (exhibit below) despite declining ore grades and transitioning from OC to UG mining. Variables that have helped and would continue to help in lower costs include - higher production, better smelter efficiencies, and improved recoveries at ore / smelter level and also focus on recoveries from residue, reduced grid dependence on power, lowering employee costs by including VRS schemes, persistent focus on productivity variables. Incrementally, we see lot of focus on technology to drive efficiencies. However, in FY18, the cost of production is expected to increase marginally as transition happens to underground mining.

Sustainable integrated business with enough Reserve and Resource balance make HZL a dependable bet:

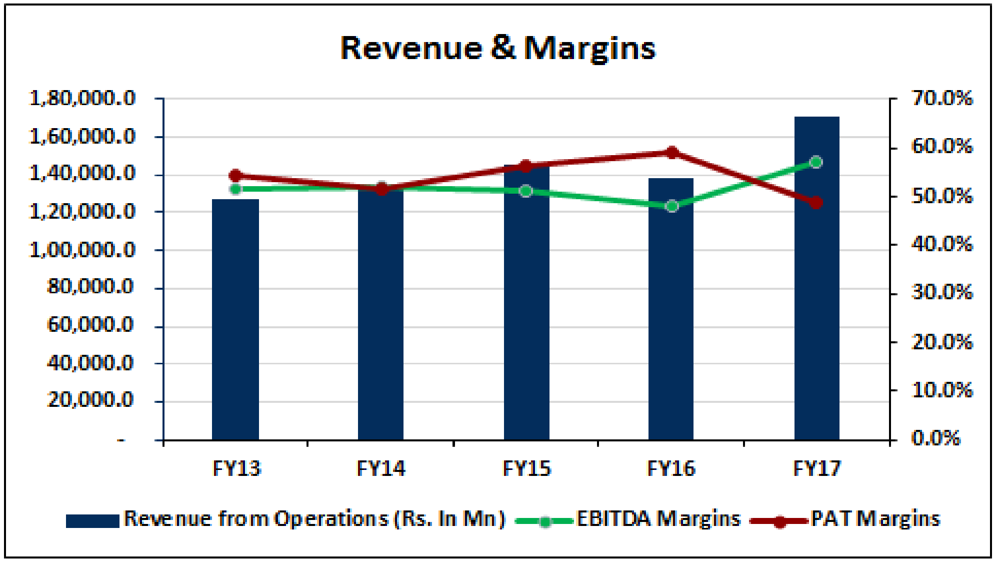
Hindustan Zinc strives to be an integrated business model wherein it minimizes sale of concentrate in the external market to capture value from the entire value chain i.e. from ore to refined metals. The same stands vindicated by its limited merchant concentrate sales. This helps company operate freely and derive highest value with the price curve of mined metals in its favor. Further, the company has a huge reserve base, which provides strong earnings visibility. The total reserve and resource (R&R) as on March 31, 2017 was at 404.4 MT containing 36.09 MT of zinc-lead metal and 1032 million ounce (Moz) of silver. The overall mine life continues to be 25+ years. A fully integrated mining business with its refined metals fetching good prices globally and a good R&R base make it a dependable bet in an otherwise volatile market.

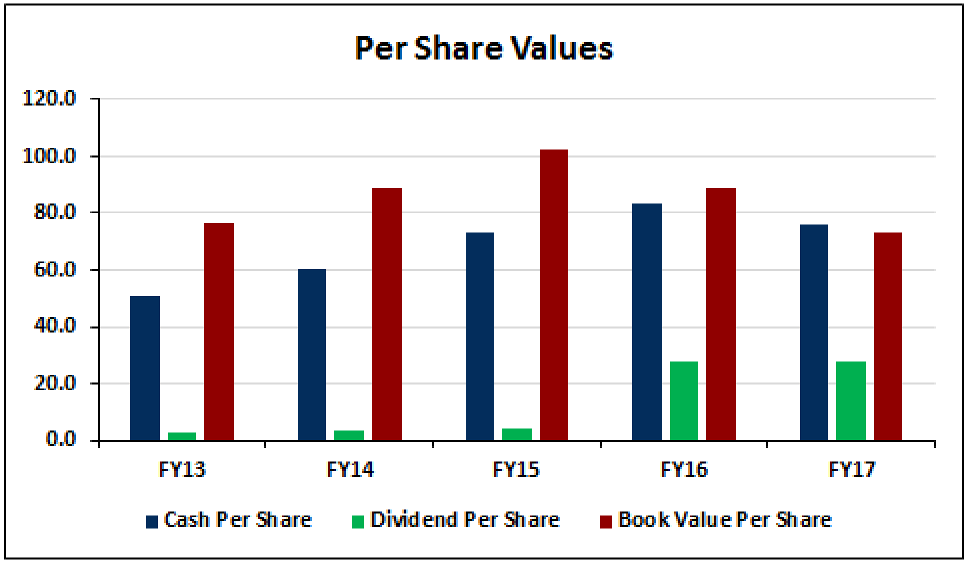
Fertilizer plant may effectively help company derive further value:

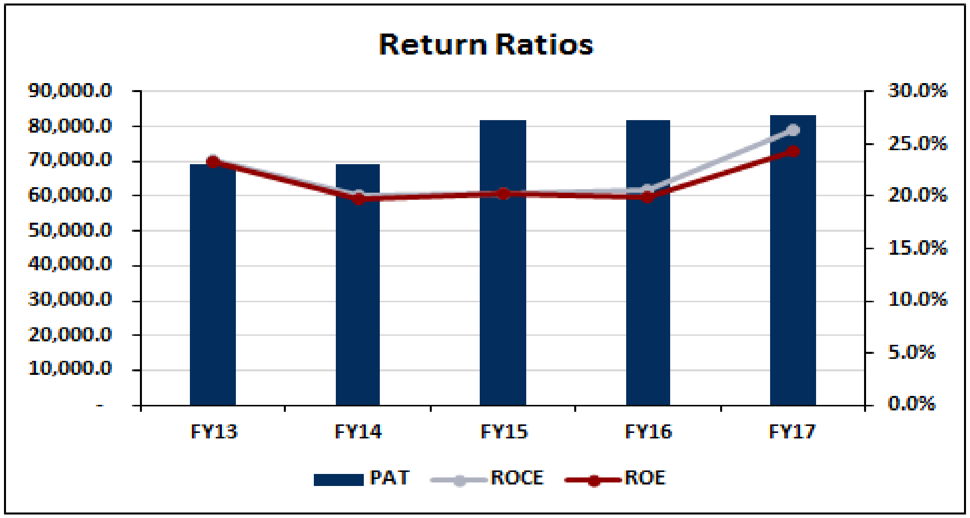
As per the company's regulatory filings, HZL has sought approvals for 1mtpa ammonium phosphate fertilizer plant. HZL produces 1.5mt+ sulphuric acid annual, has captive rock phosphate mine. In this manufacturing process, sulphuric acid produced could be converted to Phosphoric Acid and further to Di-ammonium Phosphate (DAP) fertilizer/ NPK/ Ammonium Sulphate by granulation with Ammonia & Potash. The bi-product Fluoro-Silicic Acid would be converted to Aluminum Fluoride & Gypsum can be sold to cement players locally. If and when this project is undertaken company may have to incur sizeable capex but would help it derive good value in the future.

Healthy Financials:

HZL has a strong balance sheet with negligible debts, large cash reserves, good return ratios, stable and recovering margins and good dividend yields. With bettering cash flow generation on account of higher realizations, company's position is to strengthen.







(Source: Company, HDFC sec)

Concerns:

Restart of mines by Glencore and the mines in China may put a check on zinc prices rally:

With surging zinc prices, the zinc facilities of large corporations which have been shut down on account of unviable operations may restart. Also, major mines in China have been shut down on account of environmental concerns which if restarted may put a check on the zinc prices and bring down company's profitability.

Change in royalty structure may adversely impact company's profitability:

HZL currently pays 10% of LME zinc for metal in ore and 14.5% of LME lead for metal, 7% for silver as royalty rates. Any increase in royalty rates directly impacts its profitability and may bring down its valuations.

Regulatory and environmental compliance risks linger forever in this industry:

Waste disposal and other regulatory compliance requirements is one of the risks attached with company's business and the same may dent its profitability.

Appreciating rupee may bring down company's revenue prospects:

HZL benchmarks its products on import parity pricing. Hence, INR appreciation remains a key risk for HZL.

Economic Slowdown:

Economic slowdown, though not very likely, but may bring down the level of activity in the automotive sector and the industrial and construction industry. In this case, since company majorly derives its income from a demand in these segments, the company's sales may be negatively impacted.

View and Valuation:

Being an integrated zinc metal producer having captive mines, HZL is one of the major beneficiaries from the recent rally in the zinc prices globally. The zinc prices are expected to remain strong over the next 4-6 quarters on account of the depleting supply coupled with increasing demand (zinc demand is a function of steel demand). Apart from the surge in zinc prices, another major upside potential lies for the company on account of its ramp up of operations at its various mines attempting to achieve 1.2 mTPA of capacities by FY20 (vs 1.0mTPA in FY17). This ramp up coupled with better margins on account of reducing costs as a result of higher positive operational leverage, could lead to the company delivering a good show at the PAT levels. Higher silver production with shift of operations to mines having higher lead content and set up of fumer plants may help company earn higher EBITDA and may help the stock to rerate. HZL has been efficient in maintaining its R&R (Reserves and Resources) over the years and this helps provide visibility on volume growth. Its record of higher than usual dividend yield makes it a safe bet in a commoditized industry.

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Quarterly Financials -

(Rs mn)	Q1FY18	Q1FY17	YoY	Q4FY17	QoQ
Income from operations	45760	25306	80.8%	62602	-26.9%
Power & fuel	3870	1681	130.2%	4175	-7.3%
Royalty	5490	2634	108.4%	8463	-35.1%
Other expenses	12560	9683	29.7%	12724	-1.3%
Total expenses	21920	13998	56.6%	25361	-13.6%
EBITDA	23840	11309	110.8%	37240	-36.0%
Depreciation	3600	3644	-1.2%	5321	-32.3%
Other income	5300	6101	-13.1%	4811	10.2%
Interest expense	1370	712	92.4%	142	866.1%
PBT	24170	13053	85.2%	36589	-33.9%
Tax	5410	2680	101.9%	6259	-13.6%
APAT	18760	10374	80.8%	30329	-38.1%
E/o (post tax	0	5	-100.0%	-240	-100.0%
RPAT	18760	10369	80.9%	30569	-38.6%

Financials -

Profit & Loss –

Rs. In Mn	FY16	FY17	FY18E	FY19E
Net sales	138535	170460	197506	218442
Material & Mining Exp	62616	62279	76825	84051
Employee Expenses	7862	7220	6290	6604
SG&A Expenses	3302	3310	3889	4407
Other operating expenses	2079	2530	2300	2414
Operating profits	62677	95121	108203	120966
Operating Profit Margin	45.2	55.8	54.8	55.4
Other operating income	3729	2270	3113	3336
EBITDA	66406	97391	111315	124302
Depreciation	7126	18112	11368	13067
EBIT	59280	79279	99947	111234
Other Income (including	26993	24740	23763	28794
Interest	169	2017	169	169
PBT	86104	102002	123541	139859
Tax	4438	18840	27179	33566
RPAT	81666	83162	96362	106293
EO (Loss) / Profit	(301)	-	-	-
APAT	81967	83162	96362	106293
Adjusted EPS (Rs.)	19.3	19.7	22.8	25.2

Cash Flow Statement –

Rs. In Mn	FY16	FY17	FY18E	FY19E
Reported PBT	86104	102002	123541	139859
Non-operating & EO items	(27295)	(24740)	(23763)	(28794)
Interest expenses	169	2017	169	169
Depreciation	7126	18112	11368	13067
Working Capital Change	30185	2180	1799	2313
Tax paid	(17856)	(23380)	(24708)	(27972)
OPERATING CASH FLOW (a)	78434	76191	88407	98643
Capex	(16270)	(21340)	(22750)	(26000)
Free cash flow (FCF)	62164	54851	65657	72643
Investments	-	-	-	-
Non-operating Income	27295	24740	23763	28794
INVESTING CASH FLOW (b)	11025	3400	1013	2794
Debt Issuance/(Repaid)	(13530)	153219	(79080)	-
Interest expenses	(169)	(2017)	(169)	(169)
FCFE	75760	230793	10170	101268
Share Capital Issuance	-	-	-	-
Dividend	(32000)	(261903)	(34794)	(38379)
FINANCING CASH FLOW (c)	(45699)	(110701)	(114043)	(38549)
NET CASH FLOW (a+b+c)	43760	(31110)	(24623)	62889
EO Items/Others	(10)	-	-	-
Closing Cash & Equivalents	352740	321630	297007	359895

Balance Sheet –

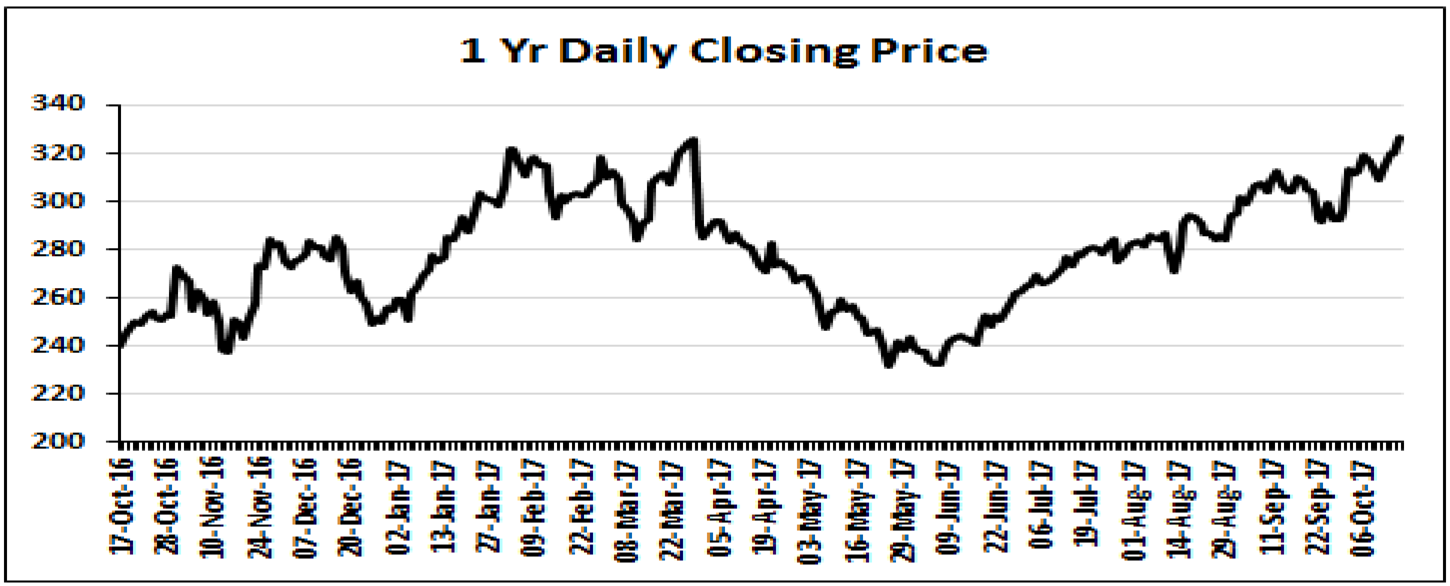
As at March	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS				
Share Capital	8450	8450	8450	8450
Reserves	365400	299600	361168	429081
Total SH Funds	373850	308050	369618	437531
Long Term Debt	-	-	-	-
Short Term Debt	1010.0	80010.0	930.0	930.0
Total Debt	1010	80010	930	930
Deferred Taxes	(24980)	(27480)	(25009)	(19415)
Other Non-Current Liabili	5820	6670	6670	6670
SOURCES OF FUNDS	355700	367250	352209	425717
APPLICATION OF FUNDS				
Net Block	107040	104230	107862	124794

KEY RATIOS	FY16	FY17	FY18E	FY19E
PROFITABILITY (%)				
EBITDA Margin	47.9	57.1	56.4	56.9
APAT Margin	59.2	48.8	48.8	48.7
RoE	19.9	24.4	28.4	26.3
Core RoCE	121.0	(555.0)	890.1	176.0
RoCE	20.6	26.3	30.1	27.4
EFFICIENCY				
Tax Rate (%)	5.2	18.5	22.0	24.0
Asset Turnover (x)	0.9	1.1	1.1	1.2
Inventory (days)	27.1	40.9	35.0	30.0
Debtors (days)	2.7	2.9	3.0	3.0
Payables (days)	23.9	25.5	25.5	25.5

CWIP	24280	30710	38460	34460
Investments	-	-	-	-
Other Non-Current Assets	6520	9040	9040	9040
Total Non-current Assets	137840	143980	155362	168294
Inventories	10580	19360	19237	18228
Debtors	1070	1360	1649	1823
Other Current Assets	4740	4140	4140	4140
Cash & Equivalents	352740	321630	297007	359895
Total Current Assets	369130	346490	322033	384086
Creditors	9310	12050	14016	15494
Other Current Liabilities	141960	111170	111170	111170
Total Current Liabilities	151270	123220	125186	126664
Net Current Assets	217860	223270	196847	257422
APPLICATION OF FUNDS	355700	367250	352209	425717

Cash Conver. -Days	6.0	18.3	12.5	7.5
PER SHARE DATA				
EPS (Rs/sh)	19.3	19.7	22.8	25.2
CEPS (Rs/sh)	21.0	24.0	25.5	28.2
DPS (Rs/sh)	27.8	27.5	6.8	7.5
BV (Rs/sh)	88.5	72.9	87.5	103.5
VALUATION				
P/E	16.8	16.5	14.2	12.9
P/BV	3.7	4.4	3.7	3.1
EV/EBITDA	14.9	11.3	9.4	8.0
OCF/EV (%)	0.1	0.1	0.1	0.1
FCF/EV (%)	0.1	0.1	0.1	0.1
FCFE/Market Cap (%)	0.1	0.2	0.0	0.1
Dividend Yield (%)	8.6	8.5	2.1	2.3

One Year Price Chart



(Source: Company, HDFC sec)

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