HZL/2024-SECY/

January 22, 2024

BSE Limited
P.J. Towers, Dalal Street,
Mumbai – 400001

Kind Attn: - General Manager,
Dept. of Corporate Services

Scrip Code: 500188

National Stock Exchange of India Limited
"Exchange Plaza", Bandra – Kurla Complex
Mumbai 400051

Kind Attn: - Head- Listing & Corporate Communications

Trading Symbol: "HINDZINC"

Dear Sir/Madam,

Sub: - Earnings call Transcript for the Third Quarter and Nine months Ended December 31, 2023

Please find attached herewith the transcript of the earning call held on Friday, January 19, 2024 to discuss the financial performance of the Company for the third quarter and nine months ended December 31, 2023. The same is also made available on the Company's website at https://www.hzlindia.com/investors/reports-press-releases/.

Request you to take the information on record.

Thanking You,

Yours faithfully,
For Hindustan Zinc Limited

HARSHA KEDIA Digitally signed by HARSHA KEDIA Date: 2024.01.22 15:07:20 +05'30'

Harsha Kedia
Company Secretary & Compliance Officer

"Hindustan Zinc Limited

Q3 and 9M FY24 Earnings Conference Call"

January 19, 2024

MANAGEMENT: MR. ARUN MISRA – CHIEF EXECUTIVE OFFICER – HINDUSTAN ZINC LIMITED
MR. SANDEEP MODI – CHIEF FINANCIAL OFFICER – HINDUSTAN ZINC LIMITED
MS. JHALAK RASTOGI – ASSOCIATE DIRECTOR, INVESTOR RELATIONS – HINDUSTAN ZINC LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Hindustan Zinc's Third Quarter and 9 Months FY 2024 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Jhalak Rastogi, Associate Director, Investor Relations. Thank you, and over to you, ma'am.

Jhalak Rastogi: Thank you, Neerav. Good afternoon, everyone, and a very happy New Year. I welcome you all to Hindustan Zinc's Third Quarter and 9 Months Ending 31st December results briefing.

In this call, we will refer to Q3 FY'24 investor presentation available on our company's website. Please refer to the glossary and notes in the presentation for additional reference. Some of the information on this call may be forward-looking in nature and is covered by the safe harbor language on Slide number 2 of the said presentation.

Today on the call, we have with us our CEO, Mr. Arun Misra; and our CFO, Mr. Sandeep Modi. Mr. Misra will begin with an update on business performance, while Mr. Modi will walk you through financial performance, after which we'll open the floor for questions.

I now request Mr. Misra to begin today's call. Over to you, sir.

Arun Misra: Thank you, Jhalak. A very good afternoon to all of you, and I wish you and your families a happy New Year. Thank you for joining us today for the third quarter and 9 months FY'24 results briefing.

This quarter marked a noteworthy milestone for us as we celebrated remarkable achievement spanning across multiple facets of our business. Before delving into further details, I would like to initiate by addressing the crucial topic of safety. Our unwavering focus on safe operations, the dedication of our employees and our robust operational processes, coupled with consistent investment in safety measures and technology resulted in another quarter of fatality-free operations, making the fifth consecutive quarter with zero fatalities. Even as we look ahead, our commitment to safety remains resolute.

On this note, I'm happy to share that our all women mine rescue team took the limelight by securing the first place, outperforming 24 participating teams in the 52nd All India Mine Rescue Competition held in Telangana. Notably, our team stood out as the sole women squad in competition. It was a dual celebration as our all boys team also achieved a commendable third place in the competition.

On our sustainability journey, the company ascends the S&P Global Corporate Sustainability Assessment Leader Board claiming the highest spot with 238 companies in metals and mining sector in 2023. With a commendable score of 85 out of 100, we successfully climbed from 7th position to the top of the chart over the past 6 years, underscoring and reaffirming our steadfast commitment to ESG initiatives.

Continuing on our decarbonization mission, we have forged strategic partnerships within the industry and commenced the deployment of electric and LNG vehicles in our operations. This series of strategic partnerships propel us forward in our decarbonization journey, bringing us closer to achieving our net zero and GHG emission targets. On community development front, our holistic strategy and people-led institution-based approach to CSR endeavors have earned us recognition among top 10 CSR companies in India. A quick snapshot of developments made in the quarter are given on Page 4 for reference.

Moving on to the markets. Though the quarter started on weaker market sentiments, news of Chinese central government's additional investment on infrastructure helped improve the market. In the quarter, Chinese economic grew 4.9% year-on-year on the back of a rally in industrial production. The US economy also demonstrated strength and resilience during the quarter, driven by robust customer spending and high service sector activity.

European economy in contrast has persistently struggled to regain strength. Further, the easing of inflationary pressure in some of the world's major economies also suggest that the global supply chain is returning to normal. The global manufacturing PMI dropped marginally from 49.2 in September to 49 in December, indicating a slight contraction in output. The S&P Global India Manufacturing PMI also fell from 57.5 in September to 54.9 in December.

Despite the decline, the December figure marked 30 months of the index remaining above 50, reflecting manufacturing expansion. Factory orders and output experienced a moderate yet notable rise accompanied by an enhanced business confidence in the upcoming year's outlook.

Zinc prices were marginally better this quarter despite the strengthening of US dollar attributed to incidents such as suspension of Nyrstar's Mid Tennessee mine, fire at the upcoming Kostenko mine, etcetera, pushing the prices above $2,600 per ton level during the quarter before closing at a monthly average of $2,500 per ton in December.

While the global production has been stressed, however, the impact of the same has been insufficient to overcome the faint demand, particularly in Europe. This resulted in a surplus of refined zinc in LME warehouses during the quarter.

Regarding the zinc outlook, usage anticipated rise in India, Mexico, China and Vietnam on the back of increased focus on infrastructure, while the demand in Europe and U.S.A. is likely to remain flat. Coming to lead, during the quarter, the price remained volatile, averaging $2,123 per ton, down 2% sequentially, up 1% year-on-year. This is consistent with the kind of surplus driven by secondary market despite a modest recovery in mines and primary smelter output.

Moving forward, net prices are expected to remain reasonably supported by healthy demand, driven by automotive industry and relatively tight supply due to recent suspensions. In domestic market, PLI schemes and emerging cash-rich middle-class families are expected to fuel the expansion of automobile industry, thereby supporting lead demand.

Coming to silver, prices averaged $23.2 per troy ounce, down 2% sequentially and up 10% year-on-year. In India, the industrial consumption of silver is relatively lower as compared to global levels and is expected to increase going forward on the back of new-age technological developments, like EVs and 5G, and shifting priorities towards renewable energy, etcetera. Silver market has been in deficit in 2023 for third consecutive year in a row, considering the current macroeconomic environment and the supply and demand dynamics, we hold a strong positive outlook for silver prices.

Coming to an update on the operational performance, I'm pleased to reaffirm that we achieved our highest ever 9-month mined metal and silver production. During the quarter, our emphasis on proactively maximizing silver production in response to heightened prices led to attainment of our highest level third quarter silver production at 197 tons, up 9% sequentially and 22% year-on-year. Anticipating significant potential in the silver industry, our consistent enhancements in silver production propelled the company's global ranking from 23rd in 2014 to fifth largest silver producer in 2023. Please refer to Slide 20 for further information.

I would also like to highlight that our company has an industry-leading 5 year production compounded annual growth rate of 4.3% in mined metal, 4.1% in refined metal and 3.9% in silver, showcasing a steadfast commitment to growth. This accomplishment is significant considering the backdrop of numerous mines and smelter closures and suspensions in the complex global business landscape.

Before handing over the call to Sandeep, I would like to give an update on the projects, the fumer and our alloy plants are under operations currently. Progress of the new roaster and fertilizer projects is also on track. Further based on the current run rate, ongoing developments, key structural changes and valuable learnings alongside an increased integration of technology, we are confident in our ability to deliver the projected volumes for the financial year.

With this, I hand over the call to Sandeep for an update on financial performance.

Sandeep Modi: Thank you, Mr. Misra, and a very good afternoon, everyone. Firstly, I would like to extend my wishes for a joyous New Year to everyone as we connect for the first time in this year.

Speaking about the quarter that went by, the operational performance at Hindustan Zinc was notably positive as detailed by Mr. Misra. There was a favorable momentum observed in the economic variables as well. As a result of the ongoing cost optimization initiative in the company towards achieving the designed cost of $1,000 per ton, this quarter recorded the lowest cost in the past 10 quarters, achieving a sustained cost reduction in last 4 consecutive quarters.

The persistent improvement solidified our position as a global cost leader placing Hindustan Zinc in the first decile of the global zinc mining cost curve. Please refer Slide 24 for further details on the cost. Further, though it is challenging to achieve intermittent cost reduction, however, the crucial and the more complex aspect is sustaining it over an extended period, which is one of our main strategies to navigate through a so-called LME environment resiliently. As a result, our EBITDA margin increased from 46% in previous quarter to 49% in quarter 3 FY '24. It was supported by prioritizing silver production as well.

While the pursuit of better operational efficiencies continue, we are supplementing it with investment in diverse digitalization, automation solution, facilitating better value accruals in the upcoming quarters, providing a more comprehensive picture of the company's financial performance for the third quarter and the 9 months ended December '23.

Revenue from operations during the quarter was INR7,310 crores, 8% better sequentially on account of higher zinc prices and better zinc and silver volume, partly offset by lower lead and silver prices and volumes, though it was down 7% Y-o-Y due to significantly lower zinc prices and lower zinc volume partly offset by favorable exchange rate, higher lead and silver prices and volume.

For the 9 months, the revenue from operations stood at INR21,383 crores. It was impacted Y-o-Y due to reduced zinc prices and volume being partly offset by improved lead and silver volume and prices and favorable exchange rates.

Coming to the zinc cost of production before royalty, during the quarter, it was $1,095 per ton, 4% better sequentially and 15% better Y-o-Y in USD terms. For the 9 months FY '24, CoP was $1,142 per ton, 10% better Y-o-Y. The cost improvement was mainly on account of better volume, softened coal prices, operational efficiency, partly offset by lower acid realization due to market, further supported by better grades and better linkage coal availability and utilization year-on-year.

The resulting EBITDA for the quarter was INR3,559 crores, up 14% sequentially and impacted by revenue from operation and cost of production on a Y-o-Y basis, 4%. For the 9 months, EBITDA was INR10,040 crores, down 25% Y-o-Y, largely due to the lower LME. Please refer to EBITDA bridge from Slide number 26 to 28 for further details. Consolidated net profit for the quarter stood at INR2,028 crores, up 17% sequentially, though down 6% Y-o-Y, in line with EBITDA offset with tax expenses.

For the 9 months, the net profit stood at INR5,721 crores, down 28% Y-o-Y, primarily on account of lower EBITDA, partly offset by lower tax expenses. The effective tax rate for the third quarter is 24% in accordance with the new tax regime in which the company has already moved.

During the quarter, Hindustan Zinc has also paid an interim dividend of INR2,535 crores, contributing to the cumulative dividend payout of INR5,493 crores for the ongoing fiscal year, reflecting our commitment to deliver value-accretive returns to our shareholders.

Further, giving a sense of our commitment to nation building, we contribute almost 23% of revenue, 45% of EBITDA, 59% of profit before tax to the exchequer through the royalty and income tax alone. Highlighting the financial strategy implemented to leverage better silver prices, sliver segment now accounts for over 45% of our profit in FY '24 as compared to 27% in the last year, underscoring our commitment to maximize shareholder value.

Another noteworthy highlight of the year - the quarter - is that our market share in India's primary zinc market has increased from 75% to 7-quarter highest of 79%. Despite the challenges posed by the restrained market conditions globally, we successfully increased our market share significantly in India. As we entered into the New Year, we plan to intensify our efforts towards achieving our designed cost of $1,000 and reiterate our guidance.

With this, I'll conclude my comments and we open floor for questions. Thank you.

Moderator: Thank you very much. The first question is from of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Sir, I wanted to understand the update on the business plan restructuring of the different divisions, where we are so far?

Arun Misra: Sure. Regarding the Hindustan Zinc being...

Management: Hindustan Zinc -- separation of divisions...

Arun Misra: Correct, correct. This is the Board. Board has discussed. Now it is between the government nominee directors and the other Board members. So I think government nominee directors are yet to communicate their agreement to the proposal. Once that is done, then we'll take it forward.

Vikas Singh: Understood. Sir, any timelines, which you have internally decided between which you wanted to complete that?

Arun Misra: I expect that before the next -- that is -- we are now sitting in January, before the next Board meeting, which can be anytime towards the end of March or April, that should be our internal timeline, we should be able to close it.

Vikas Singh: Understood, sir. Sir, second question pertains to our volume guidance. So given the 9 months production and sales, our asking rate is a little bit high. So one thing on the mined metal side. So do you think that we will at least meet the lower end of the guidance? And secondly, do you want to increase your guidance on the silver production, basically once -- since the fumers are now completed and they would be ramping up?

Arun Misra: So I think at the current rate of production, as you see, quarter 4 normally is the best-ever quarter that we will present. So achieving the guidance is not an issue to us. And just now, we would not be correcting the silver number because it's a matter of both our strategy of operations as well as the grade of silver that we get during mining. We maximized this quarter. Our quarter 4, with the mode of operations that we have selected, we will look at it. But my apprehension or expectation is silver number will be a shred better than what we have committed. And of course, mined metal and finished metal, we will achieve the guidance numbers.

Sandeep Modi: Just to supplement here, Sandeep here, if you even add the last quarter 4, which has been ever best always, and this quarter will be also the same story, even with that, against the guidance of $1,075 to $1,100, we are around sitting at a $1,085 kind of number. I think we are comfortably within the guidance rate. The similar is the story for the refined metal and silver. So we are quite confident to achieve the volume guidance.

Vikas Singh: Understood, sir. Sir, now that we have now run rate of silver is closer to 800 tons a year, what is the expected peak?

Arun Misra: What is the expected peak...

Vikas Singh: What is the expected peak in the silver production because I remember once we guided that, we wanted to reach 1,000 tons a year of silver. So anything on that?

Arun Misra: No, so the whole ore production has to go up. We can always play around with maximizing lead production, maximizing use of SK mines' concentrate and things like that. But overall, see, Hindustan Zinc to move from 700 tons to 800 tons, we need to move -- increase our current rate of metal production from, say, 1.05 million tons to 1.2 million tons. I see the target of when we achieve 1.2 million tons, we'll be comfortably achieving around 800 tons of silver. So that we can achieve. At 1.5 million tons, we should be getting closer to 1,000 tons.

Vikas Singh: Understood, sir. And just one last question, if I may ask, our Debari roaster, so any timeline for the completion of the same?

Arun Misra: By early quarter 4 of this financial year, so that may be anywhere between January to March, but we are planning to track it and bring it closer. Sorry, that is... Next financial year, which is January to March of 2025.

Vikas Singh: Okay. Next financial year, January to March.

Arun Misra: Yes, yes.

Vikas Singh: Okay. All the best for the future.

Moderator: Thank you. The next question is from the line of Pallav Agarwal from Antique Stockbroking. Please go ahead.

Pallav Agarwal: Good afternoon sir. So the first question was on how the domestic physical premiums have played out sequentially? So have you seen some drop over there?

Sandeep Modi: Pallav, so first of all, happy New Year. Pallav, I think the domestic market premium or export, both have been working in tandem with the market. And I don't think anything significantly has happened to the premium. It's all in line with the market and the competition.

Pallav Agarwal: Sure, sir. And what about, you are planning to increase a proportion of value-added products in the mix? So how has the progress been on that?

Arun Misra: So we had that -- alloy plant commissioning, which has happened. It is ramping up. And I think by next quarter, we will be able to report a healthy number of special products that we produce from the alloy plant, which will add to our value-added product number. But as of now, the way we produce value-added product in the standard mode, like last year, the numbers are not much, around 18% to 20% we have.

Pallav Agarwal: Sure, sir. And I think you're targeting, I think, 25% to 30% if I recall...

Arun Misra: Correct. So that additional will come from our alloy plant also.

Pallav Agarwal: Sure, sir. So also just -- if you could just help us out with how the domestic coal availability is? And I believe you have tweaked the power plants to excel with domestic coal. So is that started showing results and what kind of cost improvements can we see from that?

Arun Misra: No. Our -- see, there are 2 parts to it. One part is general availability of domestic coal. It is not as good as it was in quarter 2. However, it is healthy. The percentage of domestic consumption is healthy.

Second, we have modified our power plants, which are now capable of digesting more and more domestic coal at higher end. So roughly, if I give you the percentage numbers, we were 45% earlier in quarter 2, which was reduced to 30% or 31%.

As we have been saying earlier that we require about 20 to 23% of the share of domestic coal the way the power plants are designed, but we are now able to digest up to 30%- 40% of domestic coal. This has, of course, helped us in reducing the power cost. Also, we have done at a domestic coal and more than 100% plant load factor kind of a performance. Our power costs are well within our target and which is actually has started reflecting on our overall cost of production, which has gone down.

Sandeep Modi: Pallav, so, power cost contribution to overall cost, which used to be 42% last year, has gone down to 35%.

Pallav Agarwal: Sure, sir. Okay. And probably this can, maybe -- we can -- probably there's room for further improvement, I guess, going...

Arun Misra: At the current level of power plant capacity to digest thermal, domestic coal, if we start getting, say, 45% domestic coal in our total coal mix, the cost will go down further.

Pallav Agarwal: Sure, sir. Sir, finally, if you could just help us with the broad outlook on zinc and lead pricing for CY '24, given that Chinese stimulus efforts really haven't probably had the effect that was expected. So, any sense, still we continue to see a lot of exports still coming out of China. So, is this any different in terms of zinc and lead, the domestic demand of it?

Arun Misra: No, no. Post-COVID world is such that it's very difficult to predict because earlier there was a firm equation between countries and one could predict what price will go up, what will come down. Today, you see even Chinese stimulus announcement, expenditure is not able to push the prices up, right? Europe has not recovered. Europe remains largely flat and very docile as far as economic growth is concerned. US has registered good growth, but also affected by inflation. Although the inflation numbers have started coming down, gas prices have started coming down, but still US is only geography, which is….

Moderator: Participants, please stay connected. Line for the management dropped. Ladies and gentlemen, please stay connected while we rejoin the management back to the call.

Ladies and gentlemen, thank you for your patience. We have the line for management reconnected. Sir, you may continue.

Arun Misra: Yes. So as I was saying, the overall export, geography-wise, Europe has not shown a very promising recovery, whereas US remains slightly more promising. Indian economy is still strong, perhaps one of the strongest economies among the developing countries. So we are focusing more and more on domestic sales compared to exports.

As far as predicting the prices is concerned, and under this condition, our prediction of the price moving closer to $3,000 has not materialized even in the month of December. So I won't hazard a guess. I would be happy if it continues at the current level, maybe plus or minus $50 for another quarter, I think that will help us out.

Pallav Agarwal: Sure sir. Thank you for the detailed answer.

Moderator: Thank you. The next question is from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: Good evening. Sir, just one question. So the cost of production has come down pretty well in this quarter as well. So any outlook there? We have kind of maintained the full year guidance. So how -- where could we see the CoP moving ahead?

Sandeep Modi: So Alok, we continue to remain the guidance of $1,125 to $1,175, but I can give you the assurance that we will be at the lower edge of the $1,125 to $1,175. And going forward, as I said, that this time, we clocked $1,095. So accordingly you can do your maths. But going forward, we believe that our -- we deserve towards the $1,000 cost design.

Alok Deora: Got it. And sir, the debt right now at the company level is, I think, INR10,000 crores or so. So where do we see that heading going ahead? So any comment on that?

Sandeep Modi: So if you see at the net debt level, we are around INR360 crores. And given the healthy cash flow generation, so during this year, we have generated a free cash flow of INR6,900 crores, which is also the post growth capex and RE power investment of INR1,000 crores, out of which INR5,500 crores were distributed as a dividend and INR1,400 crores was used for the debt reduction. So even we safely assume the EBITDA of the Q4 and even at current level LME, I'm confident that minimum by INR2,000 crores, this debt reduction will happen in the Q4.

Alok Deora: Got it sir. Thank you so much. That's it from my side.

Moderator: Thank you. Next question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Congratulations on a good set of numbers. I have a couple of questions. The first one is essentially on fumer. So with the commissioning of fumer project and with it streamlining by end of Q4 FY '24, what kind of additional production we can expect from fumer?

Arun Misra: So we had a plan from the fumer about 30 tons of silver in the year. I think that level we will achieve by the end of Q4. And next year, full year, we'll be taking that into consideration while we plan the numbers.

Amit Dixit: So that means next year, sir, we are already running at silver production of roughly 197. Of course, that is driven by increased -- one of the smelters running in lead mode only. So is it fair to assume that next year we could be like in -- above north of 800 in silver, roughly?

Sandeep Modi: I won't hazard a guess, but if you say this year, if we close at close to around, say, 720, which would add another 30 to that or if we close at 700, we will add another 30 to it. Whatever we close at, we'll be adding another 30 to that and then produce accordingly.

Amit Dixit: Okay. The second one is a bookkeeping question, sir. Only if you could just mention the revenue and capital mine development this quarter?

Sandeep Modi: So, revenue and capital mine development both were around 13 kilometers per -- so each -- so that was a revenue and capital mine development in this quarter.

Amit Dixit: Okay. And another one, sir, if I may. Maybe I missed it because I joined the call a little bit late. You mentioned in the prepared remarks about the improvement in grade. So what was the average grade realized in this quarter?

Sandeep Modi: So this quarter, it was around 7.4, and it is a Y-o-Y higher. Last quarter Y-o-Y was 6.96. This time, it is 7.36.

Moderator: Thank you. Next question is from the line of Shweta Dikshit from Systematix Group. Please go ahead.

Shweta Dikshit: I wanted to know, could you throw some light on the operational details of the zinc alloy plant, like the volumes? And what was the realization in margin that can be expected going forward? And you mentioned something about it could contribute to 20% to 25%. What were -- I missed. What contribution were you talking about there?

Arun Misra: No, no. We are talking about one value-added product. Currently, we're at about 18% to 20% of our -- and the total product is value-added product. In the definition that we now value-added product is to be, which can be Jumbo, which can be HDZA, which can be Zamak3, Zamak5 but mostly produce Zamak3.

Going forward, over 30,000 tons per annum value-added products will be produced separately by the alloy plant. As of now, it has just been commissioned. It is still going through the treating issues of the plant that has. And we believe that by quarter 4, it will be stabilized. And next year, full year, when we look at, it will surely add another 30,000 tons of production and take our value-added production percentage from 20% to maybe 25%.

Shweta Dikshit: Okay, sir. That's it from my side. Thank you.

Moderator: Thank you. Next question is from the line of Shivang Chauhan from Barclays. Please go ahead.

Shivang Chauhan: I have a quick one on if you would have an update on the transfer balance NCLT, on hearing that was supposed to happen, any update on that you could provide?

Sandeep Modi: Yes, Shivang, first of all, happy New Year. We had GR to RE last hearing on January 24 at the NCLT Jaipur, this is a second motion, and the hearing went very well, almost for 1.5 hours. We expect the order to be passed maybe in February. So the next date of hearing is 15th February '24, all are procedural in nature. Given the size and the rare kind of thing, it's taking time.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Jhalak Rastogi for closing comments.

Jhalak Rastogi: Thank you, everyone. With this, we close today's earnings call. For any follow-up questions or clarifications on the results, please feel free to reach out to Investor Relations team. Thank you.

Moderator: Thank you very much. On behalf of Hindustan Zinc, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.