

Ratings

CRISIL

An S&P Global Company

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Rating Rationale

November 09, 2020 | Mumbai

Hindustan Zinc Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.4400 Crore (Enhanced from Rs.2900 Crore)
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.8500 Crore Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.7500 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the company's bank facilities and debt programmes of Hindustan Zinc Limited (HZL).

The ratings continue to reflect the company's dominant position in the domestic zinc market, efficient and integrated operations, and strong financial risk profile. These strengths are partially offset by susceptibility to cyclicalities in the galvanised steel sector and exposure to geographical and product concentration in revenue.

After the temporary impact of the lockdown (because of Covid-19) on operations during the second-half of March 2020 and the first-half of April 2020, the company has witnessed significant ramp-up in production and is currently operating at almost full capacity utilisation. Also, increase in export (supported by low-cost operations) had offset decline in domestic demand during the lockdown.

Moderation in zinc price (average London Metal Exchange [LME] price of USD 1,961 per tonne in the first quarter of fiscal 2021 against USD 2,763 per tonne in the first quarter of fiscal 2020) and lower mined metal volume (202 kilotonnes (kt) against 213 kt) due to the lockdown led to decline in operating profit. Earnings before interest, tax, depreciation, and amortisation (EBITDA) was Rs 1,599 crore compared with Rs 2,480 crore. However, ramp-up in volume, increase in zinc and silver prices (zinc LME price of USD 2,335 per tonne and silver price of USD 24.3 per ounce in the second quarter of fiscal 2021), coupled with reduced cost of production, have supported improvement in EBITDA (Rs 2,952 crore) in the second quarter of the current fiscal. Increase in volume along with better cost efficiency should ensure healthy cash accrual in the second-half of fiscal 2021 and thereon.

Key Rating Drivers & Detailed Description

Strengths:

*** Dominant position in the domestic zinc market:** HZL has a mined metal capacity of around 1.2 million tonne per annum (tpa) and smelter capacities of 8,90,000 tpa for zinc, 205,000 tpa for lead, and 800 tpa for silver. It is the second-largest zinc-lead miner and fourth-largest zinc-lead smelter globally. With a market share of over 75% by volume, it enjoys a dominant position in the domestic zinc market. High entry barrier such as capital-intensive operations and lack of zinc ore mines lend a significant competitive edge to business risk profile. Presence in the global market also enhances revenue diversity; in fiscal 2020, export accounted for around 20% of turnover.

*** Integrated operations and high-grade reserves, leading to competitive cost position:** HZL's cost of production ranks in the first quartile globally (zinc metal cost, excluding royalty, was USD 965 per tonne in the first-half of fiscal 2021, reducing from USD 1,047 per tonne in fiscal 2020). High operating efficiency is driven by fully integrated operations (with captive power plant capacity of 474 megawatt) and low-cost, high-grade zinc reserves. As on March 31, 2020, net reserve and resources were 403 million tonnes, ensuring a long mine life of over 25 years. With access to bulk of lead-zinc deposits in Rajasthan through long-term agreements with the Government of India, the company should be able to sustain as a low-cost producer of zinc over the medium term.

*** Strong financial risk profile, driven by robust liquidity and conservative capital structure:** Financial risk profile is supported by large network and strong liquid surplus. Cash and equivalent stood at Rs 27,631 crore as on September 30, 2020. However, dividend payouts are generally high in order to support debt at Vedanta Resources Ltd (VRL; ultimate parent company of HZL). HZL has paid interim dividend of Rs 15,972 crore in year-to-date fiscal 2021. It had outstanding debt of Rs 9,870 crore (principal amount)

as on September 30, 2020 (Rs 611 crore as on March 31, 2020), raised to fund capital expenditure (capex) along with meeting temporary cash flow mismatches on account of dividend payouts. Despite the high dividend payout, financial metrics should remain strong over the medium term, backed by healthy profitability.

Weaknesses:

*** Exposure to cyclical in the galvanised steel sector:** Demand for zinc is closely linked to the galvanised steel industry, which consumes around 70% of the zinc produced in India. The steel industry depends on the growth of end-user segments such as automotive, consumer durables, batteries, home appliances, construction, and infrastructure. A downturn in any of these segments will reduce demand for galvanised steel. This has been witnessed during the current fiscal as the domestic demand for steel reduced due to the pandemic, prompting HZL to increase export, which is less profitable. Zinc also faces competition from substitutes such as aluminium and other alloys to produce galvanised steel. Furthermore, exposure to LME zinc and lead prices can lead to volatility in EBITDA.

*** Exposure to regulations and concentration risk:** HZL faces high concentration risk in its business profile, as the zinc-lead business accounts for more than 75% of revenue and profitability. The company also faces regulatory risks as the entire business (all mines) is concentrated in Rajasthan. Royalty cost per tonne of mined metal has increased by more than 125% during the past six years.

Liquidity Superior

Cash and liquid investment stood at about Rs 27,631 crore as on September 30, 2020. The company had long-term debt of Rs 5,020 crore and commercial paper of Rs 4,850 crore as on September 30, 2020, mainly raised for capex and meeting temporary cash flow mismatch on account of dividend payments. Although continued assistance towards VRL's debt obligation would lead to significant dividend cash outflow, overall liquidity will remain strong given the robust cash accrual.

Outlook: Stable

CRISIL believes HZL will maintain its favourable capital structure and strong liquidity over the medium term, driven by its dominant position in the domestic market, high cash flow from the core business, and efficient and integrated operations.

Rating sensitivity factors

Downward factors:

- * Sustained negative free cash flow leading to net debt position
- * Significant increase in cost of production, including royalty payout, lowering profitability and adversely impacting business risk profile

About the Company

HZL was incorporated in 1966 as a public sector company. In fiscal 2003, the government divested 26% of its equity in HZL to Sterlite Industries Ltd (Sterlite Industries), which later made an open offer for an additional 20%. In fiscal 2004, Sterlite Industries acquired an additional 18.92% stake by exercising an option granted by the government to increase its stake to 64.9%. After the restructuring of the Vedanta group in India, HZL became a 64.9% subsidiary of Vedanta Ltd ('CRISIL AA/Negative/CRISIL A1+'). Based in Udaipur, Rajasthan, HZL has zinc and lead mines in Rampura Agucha, Sindesar Khurd, Rajpura Dariba, Zawar and Kayad; primary smelter operations at Chanderiya, Dariba and Debari (all in Rajasthan); and finished product facilities in Uttarakhand.

In the first-half of fiscal 2021, HZL reported revenue of Rs 9,649 crore and net profit of Rs 3,299 crore, against Rs 9,498 crore and Rs 3,846 crore, respectively, for the corresponding period in the previous fiscal.

Key Financial Indicators

Particulars	Unit	2020	2019
Revenue	Rs crore	18,658	21,187
Profit after tax (PAT)	Rs crore	6,805	7,956
PAT margin	%	36.5%	37.6%
Adjusted debt /adjusted networkth	Times	0.02	0.08
Interest coverage	Times	92.2	124.1

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments and are included (where applicable) in the Annexure -- Details of Instrument in this Rating Rationale. For more details on the CRISIL complexity levels, please visit www.crisil.com/complexity-levels.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Commercial paper	NA	NA	7-365 days	7500	NA	CRISIL A1+
NA	Fund-based facilities	NA	NA	NA	100	NA	CRISIL AAA/Stable
NA	Letter of credit [^]	NA	NA	NA	500	NA	CRISIL A1+
NA	Letter of credit ^{^^}	NA	NA	NA	650	NA	CRISIL A1+
NA	Cash credit [#]	NA	NA	NA	1000	NA	CRISIL AAA/Stable
NA	Overdraft	NA	NA	NA	200	NA	CRISIL AAA/Stable

NA	Overdraft*	NA	NA	NA	150	NA	CRISIL AAA/Stable
NA	Standby letter of credit@	NA	NA	NA	250	NA	CRISIL AAA/Stable
NA	Bill discounting	NA	NA	NA	50	NA	CRISIL AAA/Stable
NA	Rupee Term Loan	11-Aug-20	NA	11-Nov-22	1500	NA	CRISIL AAA/Stable
INE267A08012	Debentures	29-Sep-20	5.35%	29-Sep-23	3520	Simple	CRISIL AAA/Stable
NA	Debentures%	NA	NA	NA	4980	NA	CRISIL AAA/Stable

#Sublimit of bill discounting facility of Rs 700 crore, export packing credit (EPC) of Rs 500 crore and foreign usance bills of Rs 500 crore

^Sublimit of standby letter of credit (SBL) of Rs 100 crore and bank guarantee (BG) of Rs 150 crore

^^Sublimit of BG of Rs 300 crore

@Sublimit of letter of credit (LC) of Rs 250 crore

*Sublimit of EPC/bill discounting/PCFC/BG/LC/SBL limit of Rs 150 crore

%Yet to be placed

Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	7500.00	CRISIL A1+	18-06-20	CRISIL A1+	22-02-19	CRISIL A1+	24-10-18	CRISIL A1+	15-09-17	CRISIL A1+	CRISIL A1+
				08-01-20	CRISIL A1+			23-03-18	CRISIL A1+	28-04-17	CRISIL A1+	
								12-03-18	CRISIL A1+	21-03-17	CRISIL A1+	
										28-02-17	CRISIL A1+	
Non Convertible Debentures	LT	3520.00 09-11-20	CRISIL AAA/Stable	18-06-20	CRISIL AAA/Stable		--		--		--	--
Short Term Debt	ST		--		--		--		--	15-09-17	Withdrawal	CRISIL A1+
										28-04-17	CRISIL A1+	
										21-03-17	CRISIL A1+	
										28-02-17	CRISIL A1+	
Fund-based Bank Facilities	LT/ST	3000.00	CRISIL AAA/Stable	18-06-20	CRISIL AAA/Stable	22-02-19	CRISIL AAA/Stable/ CRISIL A1+	24-10-18	CRISIL AAA/Stable/ CRISIL A1+	15-09-17	CRISIL AAA/Stable/ CRISIL A1+	CRISIL AAA/Stable/ CRISIL A1+
				08-01-20	CRISIL AAA/Stable/ CRISIL A1+			23-03-18	CRISIL AAA/Stable/ CRISIL A1+	28-04-17	CRISIL AAA/Stable/ CRISIL A1+	
								12-03-18	CRISIL AAA/Stable/ CRISIL A1+	21-03-17	CRISIL AAA/Stable/ CRISIL A1+	
										28-02-17	CRISIL AAA/Stable/ CRISIL A1+	
Non Fund-based Bank Facilities	LT/ST	1400.00	CRISIL AAA/Stable/ CRISIL A1+	18-06-20	CRISIL AAA/Stable/ CRISIL A1+	22-02-19	CRISIL A1+	24-10-18	CRISIL A1+	15-09-17	CRISIL AAA/Stable/ CRISIL A1+	CRISIL AAA/Stable/ CRISIL A1+
				08-01-20	CRISIL A1+			23-03-18	CRISIL A1+	28-04-17	CRISIL AAA/Stable/ CRISIL A1+	
								12-03-18	CRISIL AAA/Stable/ CRISIL A1+	21-03-17	CRISIL AAA/Stable/ CRISIL A1+	
										28-02-17	CRISIL AAA/Stable/ CRISIL A1+	

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating

Bill Discounting	50	CRISIL AAA/Stable	Bill Discounting	50	CRISIL AAA/Stable
Cash Credit#	1000	CRISIL AAA/Stable	Cash Credit#	1000	CRISIL AAA/Stable
Fund-Based Facilities	100	CRISIL AAA/Stable	Fund-Based Facilities	100	CRISIL AAA/Stable
Letter of Credit^	500	CRISIL A1+	Letter of Credit^	500	CRISIL A1+
Letter of Credit^^	650	CRISIL A1+	Letter of Credit^^	650	CRISIL A1+
Overdraft	200	CRISIL AAA/Stable	Overdraft	200	CRISIL AAA/Stable
Overdraft*	150	CRISIL AAA/Stable	Overdraft*	150	CRISIL AAA/Stable
Rupee Term Loan	1500	CRISIL AAA/Stable	Standby Letter of Credit@	250	CRISIL AAA/Stable
Standby Letter of Credit@	250	CRISIL AAA/Stable	--	0	--
Total	4400	--	Total	2900	--

#Sublimit of bill discounting facility of Rs 700 crore, EPC of Rs 500 crore and foreign usance bills of Rs 500 crore

^Sublimit of SBLC of Rs 100 crore and BG of Rs 150 crore

^^Sublimit of BG of Rs 300 crore

@Sublimit of LC of Rs 250 crore

*Sublimit of EPC/bill discounting/PCFC/BG/LC/SBLC limit of Rs 150 crore

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Mining Industry](#)

[CRISILs Criteria for rating short term debt](#)

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