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Hindustan Zinc's demerger plan will unlock value amid soaring silver prices: Arun Misra, CEO

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Post silver prices hitting an all time high in India recently, he says, there is more credence to the belief that a demerger of the precious metals segment will be value accretive for all

BY ABHISHEK LAW



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October 26: Hindustan Zinc - the country's largest producer of the metal -- continues to pursue its demerger proposal with the Mines Ministry, says Arun Misra, CEO & Wholetime Director of the company. The demerger proposal includes having two separate entities -- one for zinc and the second for silver.

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Post silver prices hitting an all time high in India recently, he says, there is more credence to the belief that a demerger of the precious metals segment will be value accretive for all.

In an interview to businessline,
Misra talks about the ongoing
demerger proposals, the long
pending divestment plans of the
Centre, reducing cost of production
by switching to renewables, silver
and zinc price movement and
demand outlook, among others.



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Silver prices in India hit an all-time high recently. How do you see the development in the context of Hindustan Zinc's recent push towards ramping up its precious metals segment?

The current momentum in silver prices is driven by industrial demand, such as in expanding photovoltaic applications, followed by the jewellery and silverware segments.

As India's only and the world's third-largest silver producer, we are well-resourced to meet this rising demand with a world-class asset like the Sindesar Khurd Mine in Rajasthan.

It is the second-largest silverproducing mine globally. We remain bullish on silver and as the metal contributes significantly to our overall profit.

So, does it give credence to the demerger plans?

We have maintained that establishing a separate silver company through demerger will unlock value for all stakeholders and support long-term growth.

This precious metal vertical will be better positioned to capitalize on the market. We are the only producer of the metal (silver) from primary sources. This will help the proposed silver company to focus on its core strength, accelerating growth and unlocking value for shareholders.

But the proposal needs to be cleared by the Mines Ministry, one of your minority shareholders?

Yes. So, we have been in discussions with the Ministry on the proposed demerger and have submitted plans for a two company structure – zinc and silver being separate ones.

The Ministry is yet to give a go ahead. And discussions on various issues of the proposal are on.

And you are confident that this is a value accretive proposition?

Of course this will be value accretive for shareholders. When the first proposal for demerger was floated – which was a three-company structure; and discussed about a year back Hindustan Zinc's market capitalisation was \$16 billion.

It's already \$25 billion plus and I understand a lot of brokerage houses have given good target prices which indicates more value to be unlocked in coming times.

If we have two profitable companies – with one into precious metal – the combined market cap will be far higher. It will be a win-win situation for shareholders; and the Centre now gets ownership in two large profitable metal companies.

The Centre has been talking of divesting its stake in Hindustan Zinc. Is that a reason for the demerger being held back?

I do not think so. Demerger and divestment are two parallel discussions with each being separate from the other. But logically the divestment should come first.

On disinvestment, international roadshows are being planned by the Centre and as the majority shareholder we are also a part of these roadshows and divestment discussions. Government action is long overdue, and it could happen soon.

Overall, how do you expect zinc prices to play out for the remaining part of the fiscal?

Last time we spoke, I had predicted that zinc prices would hit the \$3,000 (per tonne) mark, latest by December. We are now in October and prices are either hitting the \$3,000 per tonne range or close to it. I believe this is the price which is here to stay now.

The average price range will continue to be \$3000-odd may be \$100 – 200 / tonne up if macro-economic issues play out positively post the US results.

Post the US elections, which gets over by December – Jan, we may see some price movement depending on how demand and infra push play out (and) the green drive there happens. This will have a cascading effect on the world market.

The Indian demand however remains robust – thanks to infra and improving auto demand - with us having a 78 per cent market share now, up from 71 per cent.

Any impact of West Asian crises or European economic slowdown?

We don't export to Europe, but there is sluggishness in the market. Yes we do operate in the South East Asian markets – Malaysia and Vietnam primarily.

There is some impact of high freight rates because of container availability issues, but nothing significant.

Cost of production came down in Q2 (July - Sept). What is the plan going forward?

Hindustan Zinc clocked the lowest ever Q2 (July - Sept) cost of production in the past 4 years at \$1,071/tonne; it stood at \$1,089 / tonne in H1 (six months). So, we are within the guidance range. And we should be closer to the \$1,050 / tonne range if not for the full year but for H2.

That is also because the share of renewables is increasing – from 8 per cent in Q1 to 14 per cent in Q2, at 17 per cent in Q3 and around 20 per cent by Q4-end. So automatically my costs go down.

On silver production, have you benefited from installation of the zinc fumer?

On the fumer, we did not get visas for the Chinese experts; and work on it – installation, operation and maintenance – had to be done remotely.

This technology was also new to us. But now we have taken the plant on shutdown – for revamping and debottlenecking – and it should be operational November onwards, and fully ramp up in Jan – Mar period.