"Hindustan Zinc Limited Q3 FY-21 Earnings Conference Call"

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MANAGEMENT:	**MR. ARUN MISRA – CHIEF EXECUTIVE OFFICER, HINDUSTAN ZINC LIMITED** **MR. SWAYAM SAURABH – CHIEF FINANCIAL OFFICER, HINDUSTAN ZINC LIMITED** **MS. SHWETA ARORA – HEAD-INVESTOR RELATIONS, HINDUSTAN ZINC LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Zinc Limited Q3 FY21 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Shweta Arora – Head of Investor Relations at Hindustan Zinc Limited. Thank you and over to you, ma'am.

Shweta Arora: Good afternoon everyone and thank you all for joining us today for Hindustan Zinc's Third Quarter Fiscal 2021 Results call.

Today on the call we have with us our CEO, Mr. Arun Misra and our CFO Mr. Swayam Saurabh. Mr. Misra will begin with an update on business performance while Swayam will take you through financial performance after which we will open the floor for questions. I will now request Mr. Misra to begin today's call. Over to you, Mr. Misra.

Arun Misra: Thank you Shweta. Good afternoon and a very warm welcome to all of you. I trust that you and your families are safe and maintaining all precautions against the spread of COVID-19. I would like to begin today's presentation by sharing an excellent achievement on sustainability side. Hindustan Zinc is included in the list of A rated companies for climate change carbon disclosure project.

We are among the two companies in metal and mining sector across the globe which scored A rating in the climate change. I am humble to share that Hindustan Zinc is a part of business leader's group COP26 which is actively engaged in shaping the agenda for the 26^{th} meeting of countries that signed the United Nations' framework convention on climate change to be held at Glasgow UK in November 2021.

I am also happy to update you on Dow Jones Sustainability Index. We have maintained our first position in Asiapacific region in the metal and mining sector for third consecutive year and ranked 7^{th} globally in the metal and mining sector. At Hindustan Zinc we hold welfare of our communities surrounding our operations very close to our heart and always endeavors to get back and make a difference.

Our CSF team actively engages with the communities through various flagship projects to ensure that all efforts are directed in a meaningful manner and add value to their lives. I am proud to share that Hindustan Zinc has been identified as a responsible business of the year for its extemporary work in community development and awarded with Grant Thornton SABERA 2020.

This is reflective of the trust based harmonious relationship that we have nurtured with our communities over the years. Turning to update on operational performance during the quarter, I am happy to share that we have continued our winning streak from last quarter and touched a few milestones this quarter as well. We saw an ever highest ore production supported by proactive mine planning driven by increased use of technology and better targeting.

We also successfully managed our costs at lower levels and our nine months to debt cost is at the lowest levels since we transitioned to underground mining operations in March 2018. Coming to market updates. Global mine supply continued to face COVID related disruptions and significant production was lost in China, Peru, Bolivia and Mexico some of which is likely to be permanent in nature.

Mines across the world are facing operational challenges to ramp up production while complying with social distancing norms. According to Wood Mackenzie mine production in calendar year 2020 was down 3% and concentrated market remained in deficit to the order of 220 kilo tons as smelters were not severely impacted due to lower manpower requirements.

Marine logistics challenges also lead to supply shortages in the market. In China TCs for imported concentrates continue to fall and reached below $100 which might hamper refined output going forward. Global demand on the other hand is expected to have a V-shaped recovery. The manufacturing sector in China was the quickest to return to normal with industrial utilization rates back to pre-pandemic levels by May.

The real estate sector also saw a rapid return to normal and by October and November China’s retail sales were also back to normal. In the United States of America the new administration is likely to invest in upgrading infrastructures and to de-carbonize the economy both of which will support Zinc demand. Driven by this fundamental support, Zinc prices stays a strong rally during the quarter.

Prices peaked at $2,800 per ton while averaging at $2,628 per ton in quarter 3 up 10% Year-on-Year and 13% Quarter-on-Quarter. Various government financial stimulus and roll out of vaccination programs across the globe is expected to drive economy towards the faster recovery path. Wood Mackenzie estimates Zinc LME prices to average at $2,800 per ton in 2021.

Coming to domestic market:

As migrant workers return downstream manufacturing units reported achieving 90% to 100% plant utilization. Zinc apparent consumption in quarter 3 FY21 was up 6% to 7% on an Year-on-Year basis and 12% to 13% Quarter-on-Quarter basis. Consequently premiums also rose significantly. Major steel manufacturers have signaled a tremendous improvement in demand and hinted at strong quarterly results which also provided support to Zinc metal.

Finance Minister’s assurance to continue fuelling economic growth also offers a promising outlook for next 2 to 3 quarters for Zinc demand. Coming to silver, global investor interest remained weak during the quarter as short term macroeconomic outlook improved and with news of vaccine roll outs this drove investors to other high yielding asset classes subsequently silver prices were only up 1% at $24 per troy ounce.

Turning to operational update:

During the quarter, our mine metal production was up 4% from a year ago to 244 kilo tons on account of higher ore production resulting from better mine planning partially offset by low overall grades. Sequentially mine metal production grew 22% supported by higher ore production talking about nine months stood at performance mine metal were up 2% Year-on-Year.

Integrated metal production was at 235 kilo tons up 7% from a year ago and down 1% sequentially in line with the availability of mine metal with Zinc at 182 kilotons and lead at 52 kilotons. Saleable silver production was 183 metric tons showing 23% Year-on-Year on account of higher lead production partially offset by lower grade at SK Mine compared to a year ago.

Sequentially the production was down 10% due to lower lead production and dip in metal grades in SK Mine.

Coming to an update on our projects:

I am happy to share that environmental clearance that was recommended in the previous quarter by expert appraisal committee for Zawar mine expansion from 4 million tons to 4.8 million tons per annum has been received.

Chanderiya Zinc Smelter has also received environmental clearance for expansion from current 0.42 million tons per annum to 0.50 million tons per annum. As guided previously both the backfield plants at Zawar Mala and Mochia Mines were commissioned during the quarter. I am also happy to share an update on our ecommerce platform Evolve which was launched in September last year.

We have crossed 4,000 tons sale of metal through the online platform and able to reach out to MSME customers with life exchange benchmarked prices and as low as 1 ton delivery for Zinc and lead metals. We are delighted that the portal has been well received in the market and customers are transacting on daily basis. The online commerce portal has also received recognition for best ecommerce portal and technology innovation in various industry forums like CII and SAP Ace Awards.

Lastly an update on fumer commissioning due to ongoing COVID-19 disruptions including Visa restrictions for Chinese nationals final commissioning of fumer plant at Chanderia is not completed yet and efforts are ongoing for an early resumption. As my closing remark, I would like to draw your attention to our previously guided FY21 volumes for both mine metal and refined metals in the range of 925 kilo tons to 950 kilo tons each and silver at 650 metric tons.

I am happy to inform you that we are on track to achieve the previously guided numbers on metal volumes and given our strong performance we are likely to exceed our previously guided silver volumes. With this I handover to our CFO, Mr. Swayam Saurabh to update on the financial performance.

Swayam Saurabh: Thank you, Arun. Good afternoon and a very Happy New Year to everyone. As outlined by Arun we continued to strengthen our foundation of our core operation and our delivery on volumes while structurally bringing down the cost through various initiatives. As a management team our focus is further sharpened and we are approaching growth via streamlining operating processes and imbibing the culture of detailed planning and more importantly efficient execution.

We are constantly working towards the resilience of our assets so as to deliver consistent shareholder value throughout the economic lifecycles. In these uncertain times our strength lies in delivering strong free cash flow from operations which enable us to invest in the growth of our business consider new projects while also giving consistent returns to our shareholders.

We will always try to strike this delicate balance of generating long term value and distributing returns to our shareholders. I would also like to point out that while we have our unwavering focus to deliver on operational and financial excellence at the same time we remain equally cognizant to our ESG commitments and sustainability goals. I am happy and proud to see the emerging maturity of our sustainability initiatives.

We are developing processes that are well laid out to incorporate both financial and sustainable aspects in day-to-day business decision making. The same has started to show some green shoots as we embark on this journey to achieve the sustainability goals that we have set out for ourselves. We do recognize that there is still a lot of work to be done here and we will continue to take inspiration from the global best practices to stay ahead of the curve.

Coming to financial performance for the quarter:

The revenue from operations during the quarter witnessed an increase of 29% Year-on-Year and was at Rs. 6,033 crores due to higher zinc volumes which were up 6% Year-on-Year and an increase of 30% in lead volumes Year-on-Year. This was further supported by higher silver prices and volumes and higher zinc prices as well as rupee depreciation over the year.

However, some of these gains were offset by a fall in lead LME on a year-to-year basis. Compared to the previous quarter, revenue rose 7% primarily driven by higher zinc lead LME prices. Sequentially zinc LME rose 13% and lead LME increased 1%. This was further supported by higher metal premiums resulting from revival in domestic demand. Some of the gains were offset as price realizations were impacted by rupee appreciation Quarter-over-Quarter.

Reported zinc cost of production before royalty for the quarter was $946 per ton which was up 3% sequentially but down lower 12% from a year ago. This however includes a onetime employee cost which is equivalent to approximately $20 per ton and if you exclude that it takes it fairly closer to the last quarter's cost of production. All this is a result of our constant effort to bring down cost through structural optimization initiatives and maintain it at consistently low levels.

As outlined by Arun earlier we are proud to share that on a 9 monthly basis we are at the lowest cost in dollar terms since we transitioned to a fully underground mining operations. I would like to reiterate that extraordinarily efforts on all fronts including consumption, contracting, procurement and fixed cost optimization has resulted in this sustained reduction of cost is something we are confident will continue.

The resulting EBITDA for the quarter was Rs. 3,313 crores higher 45% from a year ago and 12% sequentially on account of higher revenue and well managed operating costs. Net profit for the quarter was Rs. 2,200 crores, a stellar increase of 36% from a year ago and up 13% sequentially. This was driven by recovery in metal prices, a strict cost discipline and slight volume gains.

Tax rate as guided in previous quarters is at an average of about 24.5%. The higher normalized level is due to change in income mix in light of lower interest rate environment. Now coming to our previously guided cost and CAPEX for the fiscal year, as you would have seen we have successfully reset our cost to a lower level and are confident to consistently keep Zinc cost of production down and given the strong performance we are likely to exceed our previously guided cost numbers to keep where we communicated earlier that the zinc cost of production will be below $1,000 per ton for this fiscal year.

This we are able to re-guide despite higher mine development expenditure and this is emerging out of the efforts which have been made around to bringing our cost structurally down. As for CAPEX we keep our guidance intact with the focused approach and exercise prudence in an uncertain business environment and strike a delicate balance between investing in growth while conserving the cash.

With this I open the floors for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session.

The first question is from the line of Sumangal Nevatia from Kotak Securities. Please go ahead.

Sumangal Nevatia: My first question is on the project. So the backfill plant which we have commissioned, what sort of volume and grade impacts can we expect from those plants in the coming quarters and the timeline for the sale? And secondly on the fumer project, I mean there has been continuously delay and we understand initially it was because of Covid, but these plants are operated across the globe by all the peers, so just not able to understand what sort of technical challenges we are facing in commissioning? So if you could just share some more light on that it will be very helpful.

Swayam Saurabh: So let me take the backfill plant question. Backfill plant would not necessarily translate into a better grade. Backfill plant would help us fill our stocks faster, and this would make our production process more consistent and disciplined, which would simply mean that my ability to forecast and meet that forecast consistently in term volume terms would be more accurate. It would also make mines stable to the life of the mine plant.

On fumer the delay is primarily on final commissioning and as it was also mentioned last quarter, we are facing some issues in terms of our Chinese contractor traveling out of China, and that is something we are looking to resolve. We think we should be able to complete remaining fumer work by end of this quarter latest by April and fumer should be operational by then.

Sumangal Nevatia: Secondly on the volume growth part, I assume we would be ending this year at around 1.2 million tons grated capacity, so what sort of utilization and the ramp up schedule can we expect in next year FY ’22?

Arun Misra: So this year we were planning to have 1.2 million tons but since we lost considerable time in Quarter 1 and especially in the month of April due to Covid and the ramp up got affected because of Covid. Parallely to liberate the mine the development had to happen. This quarter we achieved a development figure of about 27 kilometers which is highest ever in a quarter, so we are on that path. So we are now currently poised to achieve the full year unaffected year if we have next year that should show a likelihood of achieving this 1.2 million ton goal.

Sumangal Nevatia: Without any disruption when can we expect a very strong volume growth next year given the current year had ended around 950?

Arun Misra: So currently we are at absolutely in the process, and Quarter 4 should show an exit rate of 1.2 million ton MIC which should then continue into the next year.

Swayam Saurabh: And I would like to add that although we have been able to show an exceptional recovery in terms of our volume in last two quarters, Covid has not completely gone. So I think our current focus is to get to a 1.2 million ton equivalent run rate in Quarter 4 and then from then all the development which is happening and the investments which has been done should translate into a significantly higher run rate for next year.

Sumangal Nevatia: Okay just a follow up. Domestic and export mix has that normalized to normal levels of around 25% export?

Arun Misra: So this was already a question last quarter and large part of normalization already happened last quarter where we saw from almost 65% to 70% export sale in Covid impacted quarter one going down to 29%. This quarter our exports are 26% and this has I think broadly reached the normal level.

Moderator: Thank you. The next question is from the line of Amit Dixit from Edelweiss. Please go ahead.

Amit Dixit: I have two questions. The first one is that in your prepared press release, there is a mention of grade issues at SK. Can you please elaborate more on that and whether these issues have been overcome? That is the first question.

Swayam Saurabh: So in a mine although we operate on an overall life of mine plan, the grade issues that transient as you go from level to level we would encounter grade issues. There is nothing wrong geologically or overall resource wise, but you will encounter lower product some quarter and we will also be compensated by higher grade in the other quarters, so it is part of that life of mine plan, and we have to transcend that journey. Overall grade would remain same over say 5 year period, but we will have these fluctuations from time to time. I do not see anything abnormally wrong that needs to be corrected.

Amit Dixit: Okay so what was the grade, can you share with us the grade that was there in this quarter and how does it compare with the last quarter?

Arun Misra: So the grade in this Quarter 3 is at 7.06% it is close to a percent decline versus Quarter 2 where it was 7.14%. Going forward, we think the grades should normalize go back to 7.15%, 7.2% levels something we have been guided in the past.

Amit Dixit: The second question is on the concentrate inventory. Is there some kind of inventory that we are carrying that would be reflected in mine metal sales in next quarter?

Arun Misra: There are no such plans.

Moderator: Thank you. The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: What was the $20 per ton higher employee cost because in the cost of production that you mentioned in your prepared remarks?

Arun Misra: It was a onetime payout which management decided to do across all grades to all employees, as a sort of goodwill gesture, sort of compensating for variable pay. This was a call taken by Hindustan Zinc management for the fact that people have been working through this Covid, sort of recognition but also kind of reinforcing our commitment back to them.

Indrajit Agarwal: So this entire thing will reverse in the subsequent quarters, right?

Arun Misra: No, so this is a one off cost, you should exclude this in projecting cost for future quarters.

Indrajit Agarwal: Okay and how do you see the impact of higher coal cost impacting the cost of production in fourth quarter and going ahead?

Arun Misra: Right, so this is something we are also watching closely. If you look at our coal mix in this quarter, we had used about 23% of domestic coal. But the imported coal which we had bought during last quarter indeed we are at less significantly economical prices then the price uptick we see right now in the market. So while Quarter 4 is something we are watching closely, we do not see a big impact plus also we believe that given the global focus which exist right now in moving towards cleaner greener energy.

Long term demand of coal is not going to change very significantly to drive price up in an extremely adverse way. So we are more balanced here. We do see a little bit of impact coming in Quarter 4, but we do think that in next 6, 12, 18 months coal prices should remain within the range.

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

Pallav Agarwal: I just had a question on how are the net cash moved during the quarter because I understand there would be the impact of a dividend payout. If you would just walk us through how the net debt has declined from about that has actually increased over the quarters?

Arun Misra: Yes sure, so I mean I will give you a very high rundown if you need any specific detail you can reach out to our Investor Relation team. Opening cash was Rs. 27, 631 crores. If you recall we paid a dividend of almost Rs 9,000 crores. We had generated an EBITDA of Rs. 3,114 crores. There slight working capital change, about Rs. 100 crores negative primarily locked in debtors which we should recover this quarter.

CAPEX and tax put together was about Rs. 1,300 crores which essentially translate into a free cash flow after CAPEX and working capital gains of Rs. 2,100 crores. And as I said that Rs. 2,100 crores, Rs. 9,000 crores dividend payout and there were some operational buyer’s credit Rs. 200 crores translating into a closing cash of Rs. 21,000 crores.

Pallav Agarwal: I am asking about the maintenance CAPEX for the year. You know you mentioned the project CAPEX will be between 100 million and 140 million. What could be the normal maintenance CAPEX?

Arun Misra: So we guided the total CAPEX to be in the range of about 330 million and out of that about 140 million was growth CAPEX. So about 190 million was sustaining CAPEX. Looking at where we stand at Quarter 3, we should be able to hold this CAPEX guidance.

Moderator: Thank you. The next question is from the line of Vishal Chandak from Emkay Global Financial Services. Please go ahead.

Vishal Chandak: Sir, my first question was with respect to the interest cost that has moved up sharply in this quarter. Has there been an uptick in the debt numbers and what are our plans on the balance sheet leverage going forward?

Arun Misra: So if you recall dividend payout was done in this quarter and something I have been mentioning also in the previous quarter that while we have quite significant in fact Rs. 21,000 crores odd cash an investment equivalent. They may not necessarily be liquid. And basically to manage the temporary cash flow mismatch, the borrowings were taken, borrowings as on December end is slightly above Rs. 10,000 crores which primarily was done to support this temporary cash flow mismatch.

Now going to what extent we are open to lever our balance sheet, if you look at our ability to generate cash, we probably do not need any debt. So any debt which will be taken would only be for a purpose where I do not have liquidity to support. I would like to leave it here.

Vishal Chandak: Sir, my second question is with respect to your expansion programs from 1.2 million tons to 1.35 million ton. So where are we in terms of those plans?

Swayam Saurabh: So right now we are totally focused on first fructifying that 1.2 million ton attainment, so that is the first milestone. At the same time we are on the drawing board to do the life of mine planning which should set us up for 1.35 million tons. To give you some supporting numbers, we are currently running in Quarter 3 at about 10 kilometer per month development mine development rate and if we have to achieve 1.35 million tons, we have to translate to about 13 kilometers to 14 kilometers per month of mine development rate.

So as we stand today, we are discussing with various business partners how do we achieve this 14 kilometer development rate which will in a way go to support 1.35 million ton but that would come only after we attain our goal of 1.2 million ton MIC production first.

Vishal Chandak: Sir, if I may squeeze in one question. Onetime expense you mentioned was about $20. What would be the actual number for that in the employee cost?

Arun Misra: Yes, it would be about Rs. 16 crores.

Vishal Chandak: Rs. 16 crores, that is impacting on the Q3?

Arun Misra: Sorry it would be about Rs. 35 crores.

Vishal Chandak: Rs. 35 crores, that is inbuilt in the Q3 numbers that is the employee cost?

Arun Misra: Yes, that is correct.

Moderator: Thank you. The next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: I have two questions. One is for Swayam sir. Sir, when you indicate we look to balance growth CAPEX versus conserving cash. Can you explain how we are looking at balancing these two variables? And just a related question over here. At what stage are we for Gujarat 300 KT smelter which has been announced and commissioning earlier was by 2022 and the refinery project in Rajasthan? So that was the first question.

Arun Misra: Sure so the simplest way to balance Ritesh is change your hurdle rates. It automatically helps you reprioritize. That is what we did when we were hit by Covid, but I also mentioned back in Quarter 1 that we are very clear. Anything to do with growth of 1.2, 1.35, 1.5 remains untouched but there were other CAPEX which you know we basically relooked at.

Looking at the fact that we are getting back to normal, we at management team would also look at going into 2021 should we be holding such a high hurdle rate or should we relook at it. And that is something we would look to do going into maybe March or April.

Swayam Saurabh: On Gujarat smelter, the current stage we are in is after signing up the MoU with Government of Gujarat, we have hit the ground on community engagement. We are also going through the process of environmental clearance. At the same time the design engineering work is on and within very short time post Board approval we will be coming to you and inform you regarding the project CAPEX outlay and the deliverables. As for the timeline is concerned, that is given and that stays firm at FY'22.

Arun Misra: Yes and as part of this validation we will also know exact return of this project which would allow us to take a final decision.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain: Sir, I had two questions. One is that you mentioned that you have got some EC approvals for increasing mine plan in SK and also the Chanderiya smelter. So are you going to take up these projects soon or this is just for future backup?

Swayam Saurabh: So as far as my Zawar one it is immediately because see as we go towards 1.2 million tons, some of the mines the reserves will slowly getting exhausted and the other mines have to ramp up. That is one. Second is grid balancing between different mines will call for increasing more productions in different mines.

Zawar is the first target where next year we should see a big uptick on the ore production, that is why the environmental clearance is there and that will be useful. Similarly in Chanderiya once we go to the MIC level of 1.2 million tons automatically the smelting requirement goes up and wherever the balance was not permitting we have taken the clearances which will impacting in Chanderiya smelter. And then Rajpura Dariba also has got a 2 million ton clearance. So we will try to maximize up to 2 million ton in RD mine as well.

Rahul Jain: Right. And sir, the government is proposing to change mining laws, so about two, three proposals that come to mind the captive, non-captive removal and second is the cancellation of the 500 same licenses. So how do we look at it as an opportunity or will it get impacted by these proposals which are there?

Swayam Saurabh: So as of now, all our captive mine status of the mines which were there prior to amalgamation of those changes they are not impacted. You are perhaps referring to 10A (2)(b) cases which are previously allotted. So that is we are already under the jurisdiction or legal jurisdiction and we would wait for the court verdict on how that will apply on the newly made changes on 10A (2)(b) cases.

Rahul Jain: Can you tell us what exactly what details are there?

Swayam Saurabh: Details in the sense there were mines for which the PL were granted, beforehand and then there were confusion after the 2015 amendments came whether those PLs are valid or not valid. We have a certain view whereas some of the relevant agencies have another view. So those are depending upon the judgment that we get with which we will proceed. These are under legal purview now.

Rahul Jain: So you are saying it may not get impacted by the amendment or it will remain separate? Is that the right way of looking at it?

Swayam Saurabh: Yes, that is what is our firm belief.

Moderator: Thank you. We take the last question, a follow up from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: Hi sir, can you throw some light on zinc demand in India how has it been in the past quarter and how do you see it going forward domestic zinc demand?

Swayam Saurabh: Correct, so post Covid the domestic zinc demand is increasing and it is also accompanied by the strong turnaround in the steel sector and if the steel companies are looking at posting best ever results in the Quarter 3 that is what we expect them to post. That should actually show that the wind is in our favor in consumption of zinc domestically and we are seeing that in the market that customers have come back to us in bigger quantities and we are able to now able to touch newer customers who are looking for our metal.

Arun Misra: And just to add if you look at the entire spectrum of infra sector and also what is expected in terms of upcoming budget, we think there is lot more positivity of the infra push which will translate into a better zinc demand.

Moderator: Thank you. I now hand the conference over to Ms. Shweta Arora for closing comments.

Shweta Arora: Thanks everyone for joining us on the call today. For any further questions or clarifications, please feel free to reach out to the Investor Relations team. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Hindustan Zinc Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.