January 06, 2025

Hindustan Zinc Limited: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	5,000.00	[ICRA]A1+; assigned
Total	5,000.00	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the robust business risk profile of Hindustan Zinc Limited (HZL), driven by its leading position in the domestic primary zinc production. HZL's integrated and cost-efficient operations and a healthy mineral reserve life of ~25 years strengthen its operating profile. The company is also increasing its renewable energy procurement in a phased manner, which is expected to benefit its cost structure in the medium term. The cost of zinc production (CoP, ex-royalty) is likely to remain around $1,050-1,100/MT in the upcoming fiscals. In addition, HZL's access to high-grade zinc, lead and silver reserves lends it a competitive advantage in the domestic market. In FY2024, the company reported zinc and lead grade of 5.69% and 1.68%, respectively, against 5.53% and 1.65%, respectively, in FY2023, contributing to lower CoP during the year.

HZL's financial risk profile remains strong, supported by a robust operating profitability and low gross debt position, resulting in healthy debt protection metrics with an interest coverage of ~14 times and a total debt/OPBITDA ratio of around 0.9x in H1 FY2025. The prices of metals viz. zinc and silver, remained strong on the London Metal Exchange (LME) in the current fiscal (an average increase of 15% during H1 FY2025 in zinc prices). This, coupled with the lower cost of production, is likely to result in a healthy OPBDITA of ~Rs. 17,000-18,000 crore in FY2025. While sizeable dividend payouts of ~Rs. 12,253 crore in the current fiscal (~Rs. 5,493 crore in FY2024) increased the reliance on short-term debt to some extent, the coverage metrics are expected to remain strong in the near to medium term. Further, ICRA expects the dividend outflow to moderate from the next fiscal and would remain a key monitorable.

HZL's strengths are also partially offset by its exposure to price risks and the inherent cyclicality in the metal industry. Also, the company remains exposed to the industry-wide risks pertaining to Government policies on land acquisition and environmental and forest clearances. ICRA also notes HZL's management plans to explore the potential demerger of HZL into multiple entities. However, no final decision has been made by the board yet and ICRA will continue to monitor the developments in this regard.

Key rating drivers and their description

Credit strengths

Leading market share in domestic zinc market - HZL has a ~80% market share in India's primary zinc industry. While the company continues to face competition from imports from nations like Korea and Japan, HZL's locational advantage helps it to maintain competitive prices on the back of its lower freight costs and shorter lead time.

Fully-integrated operations support sequential improvement in cost structure – HZL has fully integrated mining and metal operations comprising zinc, lead and silver mines, smelters and captive power plants, which together support its low cost of production. HZL has access to high-grade zinc reserves and, in FY2024, the company reported zinc and lead grade of 5.7% and 1.7%, respectively, against 5.5% and 1.6%, respectively, in FY2023, resulting in lower CoP during the year. With power and fuel costs comprising 35-40% of the overall operating costs, the company's ongoing transition to renewable energy through the power purchase agreements signed with Serentica Renewables India Private Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) is expected to further improve its CoP in the near to medium term. This apart, higher operational efficiency is also expected from the doubling of the capacity in the medium to long term, as per the company's growth capex plans.

Favourable domestic demand to support volume growth - ICRA expects the demand growth for non-ferrous metals like zinc and lead to remain healthy at 7-8% in FY2025. The healthy demand is likely to support the volume growth and realisations. The prices of metals viz. zinc and silver, remained strong on the London Metal Exchange (LME) in the current fiscal (an average increase of 15% during H1 FY2025, in zinc prices).

Strong financial risk profile – As on September 30, 2024, HZL's total consolidated debt stood at Rs.14,625 crore and its financial leverage (TD/OPBITDA) was at 0.9 times compared to a debt of Rs. 9,121 crore and TD/OPBITDA of 0.7 times by the end of FY2024. During H1 FY2025, the interest coverage remained at 14.4 times vis-à-vis 14.3 times in FY2024. While sizeable dividend payouts of ~Rs. 12,253 crore in the current fiscal (~Rs 5,493 crore in FY2024) increased the reliance on short-term debt to some extent, the coverage metrics are expected to remain strong in the near to medium term. Further, ICRA expects the dividend outflow to moderate from the next fiscal and would remain a key monitorable.

Credit challenges

Vulnerable to price risks and inherent cyclicality in metal industry – HZL's operations are exposed to the cyclical characteristics inherent in volatile metal prices, which causes swings in profitability and cash flows and increases the business risks. HZL's performance also remained closely linked to the galvanised steel industry, which consumes ~70% of India's primary zinc production, and is influenced by its inherent cyclicality. Nonetheless, the company's competitive cost position mitigates the risk to some extent.

Exposure to regulatory risks - While HZL has a demonstrated track record in the metal and mining business, the company remains exposed to industry-wide risks pertaining to Government policies on land acquisition, environmental and forest clearance, etc that may adversely impact its operations in case of any adverse ruling. ICRA also notes that several mining leases are set to expire in 2030, and HZL's ability to renew these leases along with any associated cost increase will be a key factor in determining the long-term profitability.

Environment and Social Risks

HZL has a dominant position in the metal and mining sectors with presence across commodities such as zinc, lead and silver. This exposes HZL to the risks of strict regulations or investments in alternative, environment-friendly mining, smelting technologies. The metal and mining sectors have a significant impact on the environment owing to their high greenhouse gas (GHG) emissions, waste generation and water consumption. This is because of the energy-intensive manufacturing process and its high dependence on natural resources such as coal. Increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards may lead to higher costs for metals manufacturers in the medium term, impacting the overall profitability. This in turn leads to a greater focus on reducing the carbon footprint through various technological interventions, like expanding the share of renewables in the energy sourcing mix.

Social risks pertain to the health and safety aspects of employees involved in mining and manufacturing activities. Casualties/accidents at operating units due to gaps in safety practices could lead to production outages and invite penal action from regulatory bodies. The sector is exposed to labour-related risks and risks of protests/social issues with local communities, which might impact the expansion/modernisation plans. Also, the adverse impact of environmental pollution in nearby localities could trigger local criticism.

Liquidity position: Strong

HZL's liquidity position is expected to remain strong, with cash and liquid investments of ~Rs.7,946 crore as on September 30, 2024, excluding the unutilised fund-based limits. ICRA expects HZL's consolidated cash flow from operations, accumulated liquid cash and bank balances to remain adequate to meet its expected annual consolidated capex requirement of ~Rs. 5,000 crore and the company's repayment obligations. The high dividend outflows in the current fiscal have been supported by the company's large portfolio of liquid investments, and any elevated dividend outflow, going forward, remains a key monitorable.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on HZL's ratings could arise in case of a sustained weakening of operating profitability, and/or any large debt-funded capex or elevated dividend payout that would weaken the company's liquidity position and increase its leverage, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Non-Ferrous Metals (Primary Producers)
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated. As on March 31, 2024, HZL had five subsidiaries and one joint venture

About the company

Hindustan Zinc Limited is an integrated mining and metal producer of zinc, lead and silver. HZL operates out of Rajasthan, with its headquarters in Udaipur and mining facilities spread across the north Indian state. HZL is India's largest integrated producer of zinc, lead and silver. It is also the second-largest zinc producer, and third-largest silver producer, globally. HZL's facilities include: (i) the Zawar group of mines (ii) the Rajpura Dariba, Sindesar Khurd, Rampura Agucha and Kayad mines in Rajasthan (iii) zinc-lead processing facilities which include a smelter at Debari, Chanderiya and Dariba in Rajasthan (iv) a silver refinery at Pantnagar in Uttarakhand. As on date, VDL holds a 63.4% stake in the company, while ~28% is held by Government of India.

Key financial indicators (audited)

	FY2023	FY2024	H1FY2025*
Operating income	34,098	28,932	16,382
PAT	10,230	7,390	4,672
OPBDIT/OI	51.4%	47.3%	49.3%
PAT/OI	30.0%	25.5%	28.5%
Total outside liabilities/Tangible net worth (times)	1.7	1.2	3.3
Total debt/OPBDIT (times)	0.7	0.7	0.9
Interest coverage (times)	52.6	14.3	14.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past thre years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Jan 06, 2025	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short term	5,000.00	[ICRA]A1+	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper^	NA	NA	FY2024	5,000.00	[ICRA]A1+

Source: Company;^ Yet to be placed

Annexure II: List of entities considered for consolidated analysis

Company Name	HZL's Ownership	Consolidation Approach
Hindustan Zinc alloys Private Limited	100.00%	Full Consolidation
Vedanta Zinc Football and Sports Foundation	100.00%	Full Consolidation
Zinc India Foundation	100.00%	Full Consolidation
Hindustan Zinc Fertisiliers Private Limited	100.00%	Full Consolidation
Hindmetal Exploration Services Private Limited	100.00%	Full Consolidation
Madanppur South Coal Company Limited	18.05%	Equity Method

Source: HZL annual report FY2024

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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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