HZL/2023-SECY/

October 23, 2023

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: Earning call Transcript for the second quarter and half year ended September 30, 2023

Please find attached herewith the transcript of the earning call held on Friday, October 20, 2023 to discuss the financial performance of the Company for the second quarter and half year ended September 30, 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,

Rajendra Pandwal

Digitally signed by Rajendra Pandwal

(Rajendra Pandwal)
Company Secretary & Compliance Officer

Encl: - As above

"Hindustan Zinc Limited Q2 & H1 FY24 Earnings Conference Call"

October 20, 2023

MANAGEMENT: **MR. ARUN MISRA – CEO**
MR. SANDEEP MODI – CFO
MS. JHALAK RASTOGI – ASSOCIATE DIRECTOR, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Hindustan Zinc 2nd Quarter and half year FY2024 earnings conference call.

As a reminder, all participants' 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 this conference call, please signal an operator by pressing "*" then "0" 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. Over to you, ma'am.

Jhalak Rastogi: Good afternoon, everyone. I welcome you all to Hindustan Zinc's 2nd Quarter and half year ending 30th September 2023 results briefing. In this call, we will refer to the Q2 FY24 investor presentation available on our Company's website. Some of the information on this call may be forward looking in nature and is covered by the Safe Harbour language on slide number 2 of the said presentation.

Today on the call, we have with us 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 will open the floor for questions.

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

Arun Misra: Thankyou Jhalak. A very good afternoon to all of you. Thank you for joining us today for the 2nd Quarter and half year FY24 results briefing.

Before I begin today's Results Presentation, I would like to share some of the overarching priorities and themes that have been driving our success over the quarters:

On the safety front, it brings me satisfaction to report 1 year of fatality free operations. This is a testament to our unwavering commitment to safety, the dedication of our employees, and our robust operational processes. Our focused introspection of the key safety related learnings backed by automation and comprehensive safety training helped us strengthen the safety aspect of all our operations. Even as we look ahead, our commitment to safety remains resolute as we are determined to continue to invest in safety measures and technology to maintain this record.

As an update on ESG:

I am happy to share that Hindustan Zinc became the first metal and mining Company in India to have validated science-based targets in line with the 1.5-degree centigrade target of the Paris Agreement. Hindustan Zinc's ambitious target includes the commitment to reduce 50% of its absolute Scope 1 & 2 GHG emissions and further reduction of 25% of Scope-3 emissions by FY2030 from the base year of FY2020, and to achieve net zero emissions across the value chain by FY2050. Moving towards 5x water positive target by 2025, during the quarter, Hindustan

Zinc inaugurated 4,000 KLD zero liquid discharge plant at Zawar mines, reaffirming the Company's vision of Zero Waste and Zero Discharge.

Coming to an update on our ground CSR activities:

It gives me satisfaction to share the progress and impact of our community initiatives. In our efforts to promote education and empower individuals with different abilities, we organized a visual awareness campaign in Indian sign language, advanced life skill sessions, and various other activities as a part of international week of the deaf. As a part of our skill development program, Hindustan Zinc's Kaushal Kendra witnessed successful placement of 286 trainees during the quarter in varied trades and skills. I would also like to share that another player of our Zinc Football Academy has been selected to represent India in 2023 Under-16 Championship in Bhutan and 4 players selected for the Under-16 Boys National Team preparatory camp in Srinagar. Driven by inclusive growth and development, we continue to stride towards the 7 key thematic areas to steer our CSR efforts towards betterment of life in the communities including women empowerment, education, sustainable livelihood, health & water, environment & safety, sports, and community asset creation. A quick snapshot of developments made in the quarter are given on page #4 for reference.

Moving on to the markets:

Macroeconomic developments have been a dominant influence on base metal prices. The global landscape is marked by potential headwinds, including Chinese economic weakness, rising inflation in the US and Europe, and the upward trajectory of interest rates. However, amidst these challenges, there are positive indicators suggesting ease in supply chain disruptions and softening of supply side induced inflation. The global manufacturing PMI has increased from 48.7 in June to 49.1 in September. The S&P Global India manufacturing PMI dropped to 57.5 in September from 58.6 in August after rising sharply from 57.8 levels in June. Though the manufacturing activity in India is at a 5-month low, however, it remained strong with the new orders supporting growth. The Indian economy has shown resilience, supported by strong customer demand, advertising efforts, and expanded capacities.

The global zinc supply and demand forces remained underperforming. Globally, demand has been muted majorly due to the sluggish economy of the US, China, and Europe. However, the Indian economy remained optimistic. The specific infrastructure requirements continue to bolster and sustain zinc input requirements into the medium and long term. The Indian automobile industry is also on a growth trajectory, and India continues to remain a bright spot in the global steel industry.

Touching briefly on lead:

Lead prices increased during the quarter, averaging to $2,170 per tonne despite of the stalled Chinese economy growth on account of challenges in the real estate sector, the state subsidies and energy transition credits have been generating EV sales, including hybrids, thereby contributing to lead demand. Along with the supply side issues due to mine closure, demand continues to remain robust on the back of rising urbanization and industrialization in developing nations as well as increased vehicle usage. Growing telecom and infrastructure sectors will further increase the need for industrial batteries, fueling the domestic demand. During the quarter, LME and SHFE stocks swelled on the back of backwardations closing the quarter at 77,000 tonnes in LME and 71,000 tonnes in SHFE warehouses.

Coming to silver:

During the quarter, prices oscillated around $23 per troy ounce, closing the quarter with an average price of $23.6 per troy ounce. Silver prices remained influenced by a combination of geopolitical and technical factors including the dollar strength, gold prices, interest rate expectations, industrial demand, and geopolitical tensions in the Middle East. Ahead of the festive season, domestic demand for silver is expected to rise in the medium term. Industrial demand globally is expected to increase significantly due to new-age technological developments like vehicle electrification, investment in 5G infrastructure, and the ever-evolving solar panel technologies.

Now, coming to an update on operational performance:

I'm happy to report the highest ever first half mined metal of 509,000 tonnes. In the overall performance for the quarter, we achieved modest results influenced by the scheduled maintenance activities and we are now well positioned to enhance production with our facilities ready to deliver over 2,275,000 tonnes of metal. We have also started working towards 1.25 million tonnes of refined metal through various debottlenecking initiatives across the smelters, and we target to return with a more comprehensive plan in subsequent quarters.

While Sandeep will provide a detailed run-through of our business performance in a few minutes, I will take a moment to share recent developments in our investment front. During the quarter, I am pleased to inform you that our internal team commissioned India's first fumer plant in an innovative method and with the help of online support from Chinese experts. We also commissioned a 30,000 tonnes per annum alloy facility and the new concentrator in Rajpura Dariba mine increasing the production of zinc and lead MIC. The new roaster at Debari and our fertilizer projects are also on track. I am happy to share that our 450-megawatt renewable energy power delivery agreement with Serentica is also progressing well and is on track on completion of which over 50% of our energy requirement will be met through green power. For more details, please refer to page #9 of our investor presentation.

On our growth strategy for FY24, we remain laser focused on producing concentrate and metal as per the guidance optimizing cost and enhancing production efficiency to further strengthen our cost leadership globally. Based on the same, we are confident of delivering as per our guidance and would like to keep it unchanged.

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

Sandeep Modi: Thankyou Mr. Misra and a very good afternoon, everyone.

In the face of the current economic scenario, we posted a robust and steady financial performance in the 2nd Quarter of this financial year. The quarter was underscored by strengthening foundations, reinforcing the fundamental infrastructure and optimizing cost, resulting in strong cash delivery and sustainable growth. With a continuous cost reduction exercise while we continue to remain in the first decile of the global cost curve, happy to share that we delivered the third consecutive quarter of cost optimization and the lowest cost in the last 6 quarters, reflecting our resilience and adaptability in navigating the ever-changing business landscape.

As we delve into the details, I will share the Company's financial performance for the 2nd Quarter and half year ended September 2023.

Revenue from operations for the quarter was Rs. 6,791 crores, down 19% YoY, majorly on account of significantly lower zinc prices, lower zinc and silver volume, and differential strategic hedging impact, partly offset by better lead and silver prices and favorable exchange rates. Sequentially, revenue was down by 7%, primarily due to the lower zinc LME and plant shutdown which resulted in lower volume on account of scheduled maintenance activity, partly offset by improved lead and silver volumes.

For the first half of FY24, revenue from operations stood at Rs. 14,073 crores, down 21% YoY, primarily on account of lower zinc LME, metal production, and silver production and differential strategic hedging impact, partly offset by better lead and silver prices and favorable exchange rates. Zinc cost of production before royalty during the quarter was $1,137 per tonne, 5% better sequentially and 10% better YoY in US dollar terms. For H1 FY24, zinc COP was $1,167 per tonne, 7% better YoY. The cost improvement was mainly on account of softened coal and input commodity prices and better domestic coal availability and utilization, further supported by better grades sequentially. The resulting EBITDA for the quarter was Rs. 3,122 crores, down 29% YoY and 7% sequentially, mainly on account of lower revenue impacted by significantly lower zinc LME and volume, partly offset by improved cost. For the half year, EBITDA stood at Rs. 6,481 crores, down 33% YoY due to lower revenue, offset by improved cost. Please refer to EBITDA bit from slide #27 to #29 for further details.

Consolidated net profit for the quarter stood at Rs. 1,729 crores, down 35% YoY and 12% quarter-on-quarter. And for H1, it stood at Rs. 3,693 crores, down 36% YoY, primarily on account of lower EBITDA, offset by lower tax expenditure.

In regard to recent developments of corporate restructuring, I would like to inform that management has appointed external advisors to assist in evaluating various options and the work is still in progress. Way forward along with the possible options will be updated to the board upon completion of the evaluation exercise and recommendation by the Committee of Directors.

The effective tax rate for the quarter and the first half of FY24 is approximately 25% in accordance with the new regime.

Having demonstrated a constant cost control in our operations, we would like to reiterate the cost guidance and also keep our CAPEX guidance unchanged.

With this, I conclude my comments and we open the floor for your questions.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have a couple of questions. The first one is essentially on the cost. We have seen a very impressive performance on cost. The cost of production has declined year on year as well as quarter-on-quarter. I just wanted to get the overall drivers of that. Whether it was due to increased linkage materialization or due to lower coal cost or what are the key factors responsible for lower cost and how much of it is sustainable? Also, if you can give the outlook for Q3, that would be great.

Sandeep Modi: Thanks, Amit. The cost has 2-3 key aspects. One is, of course, the imported coal prices got softened. We were also able to secure some opportunistic coal parcels. That has also helped. Secondly, while you are right, linkage coal materialization, but at the same time, if you see historically Hindustan Zinc used to consume in the blend of 30:70. So, 30% was the maximum which we used to have linkage coal consumption. However, we modified our power plants in the last 1 year at Chanderiya and Dariba, which have given us flexibility to use almost 100% of the linkage coal in some of the units. So, I will say this is more from the initiatives and efficiency which Hindustan Zinc has developed in an innovative way. So, our overall coal basket in the quarter 2 this year has been that 45% blend was of the linkage coal. And we expect that 45% will depend upon the linkage materialization. But the flexibility which we have developed, it is something like which will be constantly favoring us. The second aspect which has been there in terms of specific coal consumption also has gone down. That is also an operational efficiency beneficial. Quarter-on-quarter if we see, our grade has also improved from 7.1% to 7.4%. These are the 3-4 factors which are the driving factors in terms of operational efficiency and the market factors. Of course, there are certain shutdowns which were planned in the quarter 2, which has also impacted the cost, which will not be there.

Coming to the overall cost guidance, given the $1,169 cost for the H1, which is well within our cost guidance of $1,125 to $1,175, given this cost trajectory, we believe that for the whole year, we should be towards the lower end of the cost guidance on a full-year basis.

Amit Dixit: The second question is essentially on grade improvement. You indicated that grade has improved from 7.1% to 7.4%. From the written commentary, it seems that Rampura Agucha production was down in this quarter. Even with Rampura Agucha production down, your grade has improved. If you can highlight what were the key drivers behind this grade improvement because traditionally we understood that Rampura Agucha has possibly the highest grade of zinc available.

Arun Misra: Agucha normally maintains their grade. The key change happened mainly at Zawar mine where the grade is normally expected to be around 4 to 4.5, but that goes down because of high dilution. This time in Zawar mine, the work on grade was very well. While Agucha maintained a grade of 13.3, Zawar maintained a grade of 4.6 which is far above than expected. Normally, they did a grade of 4.1. Key work that happened where the quantity in Zawar mine was increasing and at the same time, they maintained the grade and that's why the overall grade performance was better in quarter 2. It's not that Agucha grade had deteriorated. It remained about 13.3. The focus at a low LME environment is to minimize development required for production and maximize on the grade in every mine so that our overall cost of producing the metal in concentrate is the lowest. That's how you build the cost curve as far as the low LME environment is concerned. That strategy paid off in our operations in this quarter 2.

Amit Dixit: Sir, could you just repeat our grade?

Arun Misra: If I look at quarter 2 grade, in Agucha it is about 13.3 against 12.5 of quarter 1. And in quarter 2 of last year, it was also 13.3.

Sandeep Modi: And also if I add just to supplement Mr. Misra, SK grade has also improved from 4.8 to 5.2 on a quarter-on-quarter basis. And even YoY basis if I see, SK grade was 4.58 which is now 5.2.

Arun Misra: In all mines, the idea was to preserve grade, minimize dilution, and reduce development required so that you produce the same metal in concentrate at a lower cost. That strategy paid off.

Amit Dixit: Was it a case of you hitting selectively the richer base or is it because you actually took some….?

Arun Misra: I can do the mine planning of the sequencing and decide in a way to maximize ore production. I can also do the mine planning that slightly reduces ore production but of a better grade so that I can slow down progress in one particular section and increase the progress in another particular section. That flexibility is offered only when you have multiple locations inside the same mine. Today, Agucha mine has 4 mining locations in the same mine; it's not 1 mine, there are 4 mines inside. Zawar has got 4 different mines. Each of them has got 2 to 3 production centers. Those flexibilities we are enjoying because we could develop so many mining locations in the same mine over the last 2 to 3 years.

Moderator: The next question is from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Sir, I want to understand the fumers which we have commissioned. What is the ramp up timeline and when will be the next fumers coming in?

Arun Misra: This fumer is already on and is operating. Not that there is a particular ramp-up. The product that it is producing is going back to operations. And we will be reporting the production numbers separately from fumers, I think, in another 15 to 20 days' time. That is it. As far as new fumers are concerned, we are already working with technology suppliers and maybe in a month or two, we would be in a position to confirm placement of orders for another 3 sets of fumers.

Vikas Singh: Sir, my second question pertains to our 1.25 million tonne mined metal target. I just wanted to understand two things. We have in the last 4-5 years been trying to reach there, but our mining capacity has increased but not the metal capacity. What's the holdup there or technically are we facing some challenges? And what is the timeline for this 1.25?

Arun Misra: When we were expanding in that 1.2 million tonne project, purposefully we did not expand the smelters. We said the bottleneck is in the mines, let's expand the mines first, and once we can produce more than a million tonne of concentrate every year, then you know that the time has come for expansion of the smelters. We have produced more than a million tonne for 2 consecutive years. Every year we start with an opening stock of MIC for the smelters to process. Even as I speak today, we still have a good amount of about 12 to 13 days' requirement of metal in concentrate in hand for the smelters to operate. We are now looking at how to…. That's why we have commissioned the roaster project which will debottleneck our smelters. And then we are also coming back with more bottlenecking projects which will take smelting capacity to about 1.25 million tonnes or maybe 1.2 million tonnes. The mines are already expanded. Just we need to fast pedal the development part of it and that should produce more concentrate. No bottleneck in mines as of now.

Vikas Singh: Sir, since thermal coal prices are again inching up, any guidance in terms of 3Q or 4Q COP which you would like to give to us?

Sandeep Modi: Vikas, if you see my first question which I answered to Amit, as I said, we are currently at $1,169 which is well within the cost range of $1,125 to $1,175. And we are quite confident that given the Q3 and Q4 volumes will be up, we will be towards the lower end of the COP, which we would like to have a confidence to achieve. And thermal coal prices, I am not sure on what basis you are saying it is inching up; it is fluctuating. And for us, at the landed cost level, it is at the same level at which we procured in the quarter 2.

Vikas Singh: Sir, just one last question pertaining to industry. Given the zinc prices have been constantly falling, according to you what percentage of zinc production could have come under stress? And is it possible for you to tell us that is there any zinc production cuts we can experience going forward global level basically?

Sandeep Modi: As I know, only Tara mine of the Boliden that got shut. Apart from this, we did not hear any major cut in the zinc prices. I think everybody is taking the cut in the cost, and especially European smelters where the power cost is down. But since in India we having a unique advantage on both the power and labor, we continue to remain in the first decile of the cost.

Moderator: The next question is from the line of Love Sharma from JP Morgan. Please go ahead.

Love Sharma: Just a question around the NCLT update on the conversion of General Reserves into Retained Earnings. If you can share where that is standing. And secondly, the cash balance which we currently have, more than a billion dollars now, and the debt outstanding is kind of similar, how should we think in terms of the debt versus cash mix? Probably you would be doing some negative carry by holding this cash versus the debt on the books.

Sandeep Modi: In terms of NCLT, the next date of hearing is 8th November and this is more on the procedural aspects. And in terms of the cash and borrowing, you are right; the numbers are similar, but I would like to share that both our investments and borrowings are largely on the long-term basis. So, we don't have any negative carry. Specific number I can't tell, but on the post-tax basis, we don't have any negative carry.

Love Sharma: Can I just ask a followup? On the NCLT side, if you could just highlight what is the procedural aspect which is still remaining or pending at the NCLT level?

Sandeep Modi: Second motion has been gone to the NCLT. RoC was supposed to file the reply which I understand they have filed. The next date of hearing is on 8th November. And then accordingly, order can be reserved for the pronouncement. Let us hope for the best.

Love Sharma: So far as of now, if you just can update on the current value of the retained earnings on the books as of September 30th.

Sandeep Modi: Retained earnings at this point of time in the books is Rs. 2,400 crores.

Moderator: The next question is from the line of Santanu from Indianfertilizer. Please go ahead.

Santanu Saikia: I was just wondering we essentially work on the fertilizer sector. We were looking at your DAP/NPK plant. You said that you have now got a technology partner, and we just wanted to know more about it because the domestic rock phosphate is a big problem in terms of quality and also in terms of availability. We were wondering whether domestic rock is going to be enough because it's a large-sized DAP plant. I wanted to know what is the capacity of this DAP plant and what is the kind of investment that you are planning on it, when is it going to be commissioned, who is the technology partner that you have on-boarded, and what do you think is going to be the source of your rock phosphate? Because, of course, you will be manufacturing the sulphuric acid. That's what we were thinking we would ask.

Arun Misra: Your apprehension is very correct. As far as Indian rock phosphate is concerned and we being in Rajasthan, RSMM is the only source of rock phosphate, which is a state enterprise. And yes, there are issues. But we are in talks with RSMM for expanding their mines to produce rock phosphate for us, which Hindustan Zinc can extend their help. It's a matter of finalizing the agreement. And the second part is also putting up a beneficiation plant for upgrading the rock phosphate that RSMM has. That is one part. The second part is import. In our design, we have considered a certain percentage. If I remember the number correctly, around 40% to 50% of rock phosphate would be imported. As far as capacity is concerned, it is about 5 lakh tonnes per annum, half a million-tonne plant, in the first phase. Also, the design and utility has the capacity of absorbing or taking it up to 1 million tonne at a later date. Our construction partner is L&T and as far as technology partner is JESA. It's an American Company.

Santanu Saikia: When do you think this is going to be commissioned?

Arun Misra: It's under construction only. It will take another 18 months to 2 years' time.

Moderator: As there are no further questions, I now 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 the Investor Relations team.

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