

## Zinc Update: April 2020

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### *Global scenario:*

After declining by 7.5% in 2016 global mine supply of zinc has remained stagnant at around 12.5-12.9 million tonnes in the last few years. Zinc market has been in deficit of ore supply since 2016 due to closure of several mines. New mine projects are coming in much slower than anticipated at the start of the year. This is likely to be on account of slowdown in demand from user industries, global economic slowdown, and lower commodity prices.

After years of strong growth, Chinese mine supply started to dip from 2016 onwards due to stringent environmental regulations adopted by the country. The closure of three large mines Lisheen in Ireland, Brunswick in Canada and Century in Australia between 2013 and 2016 as well as closure of Glencore's 500 thousand tonnes mine in 2016 led to significant tightness in zinc concentrate supply which was also the reason for rally in zinc prices during 2016 to 2018.

In 2019, mine supply increased in Australia (9.9%), but the impact has been offset by sharp declines of 4.8% in Peru (11%) and 3.5% in the United States (6.2%). China which is the world's largest zinc miner, accounting for a third of global supply reported just 1% growth in mine output. India's (5.5%) mine production fell by 5.2% in 2019.

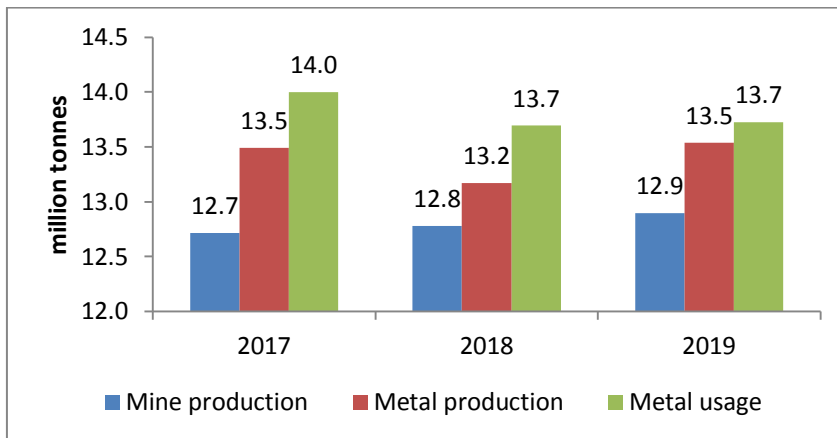
World primary zinc production stood at 13.5 million tonnes in 2019, which is an increase of 2.8% over the previous year. This was mainly due to 8.8% increase in China's production. The country produced 6.1 million tonnes of primary zinc in 2019. China's share in the world refined zinc production was around 46%. Production outside of China fell by 1.8%. India which is the third largest producer of primary zinc (with a share of 5.3%) reported 4.5% fall in its production to 712 thousand tonnes in 2019.

The global consumption of refined zinc remained flat at 13.7 million tonnes in 2019. China was the largest refined zinc consuming country, accounting for 48% of the total consumption, followed by USA (6.8%) and India (4.8%). While USA's zinc consumption grew by 8% to 937, China's consumption grew by just 1.1% to 6.6 million tonnes and India's consumption fell by 3.3% to 661 thousand tonnes in 2019.

The global market for refined zinc metal recorded a deficit of 189 thousand tonnes. Inventories of zinc held on major metal exchanges like London Metal Exchange (LME), Shanghai Futures Exchange (ShFE) and Chinese State Reserve Bureau (SRB) warehouses together with those reported by producers, consumers and merchants decreased by 81 thousand tonnes to 815 thousand tonnes.

Though the global zinc metal market remained in deficit in 2019 and metal stocks at exchanges reached critical low levels in 2019 it did not support prices which remained depressed due to the US-China trade and overall slowdown in the global economy. Zinc prices fell 12.7% to average US\$ 2,550 per tonne in 2019.

**Chart 1: World refined zinc supply and usage**



Source: ILZSG

**Indian Scenario:**

**Overview:**

Hindustan Zinc Ltd (HZL) is the largest zinc producer in India with a 79% market share in FY 2019. About 70-75% of its refined zinc production is sold in the Indian market, primarily to steel companies, with the rest being exported to countries in Asia and the Middle East

HZL is the only operative fully integrated producer of zinc in India. It is the fourth largest smelter globally with a smelting capacity of 900 thousand tonnes. It has eight zinc ore mines. All mining operations are located in Rajasthan. The Indian government holds 29.58% stake in the company and Vedanta holds 64.92%. Vedanta has shown interest in buying the remaining stake in the company. The company has been looking at a large scale expansion plans for its zinc business. Zinc is a cash flow positive business for Vedanta.

**Current Scenario:**

**Table 1: Zinc scenario in India**

	Apr-Jan 2019	Apr-Jan 2020	Y-o-y change
	thousand tonnes		
Production	579.3	578.3	-0.2%
Export	160.4	155.8	-2.9%
Import	96.3	87.9	-8.7%
Consumption	515.2	510.4	-0.9%

Source: Ministry of Mines, Ministry of Commerce

Consumption of zinc fell by 0.9% to 510.4 million tonnes in April-Jan FY20 vs the corresponding period of the previous year. The demand for zinc in India depends largely on the growth of the steel market as it accounts for 70% of the total consumption. Zinc is mainly used to galvanise steel to protect it from corrosion. Other uses include die-casting alloys, brass production, and oxides and chemicals.

Demand from steel consuming sectors like automobiles, construction, electric etc remained weak in the current financial year FY20. Fall in zinc consumption was in line with slowdown in domestic steel production as well as general slowdown in manufacturing activity. India’s crude steel production grew by just 0.2% to 101.1 million tonnes in April-February FY20 as compared with the same period last year. Lower domestic consumption also led to fall in imports by 8.7% during the period.

Zinc production declined by 0.2% due to lower availability of mined metal. Mined metal production was down 3% YTD on account of lower grades at Kayad and Sindesar Khurd (SK) mines. HZL reported lower output from SK mine during the first half of the year due to geo tech challenges which affected production volumes.

**Prices:**

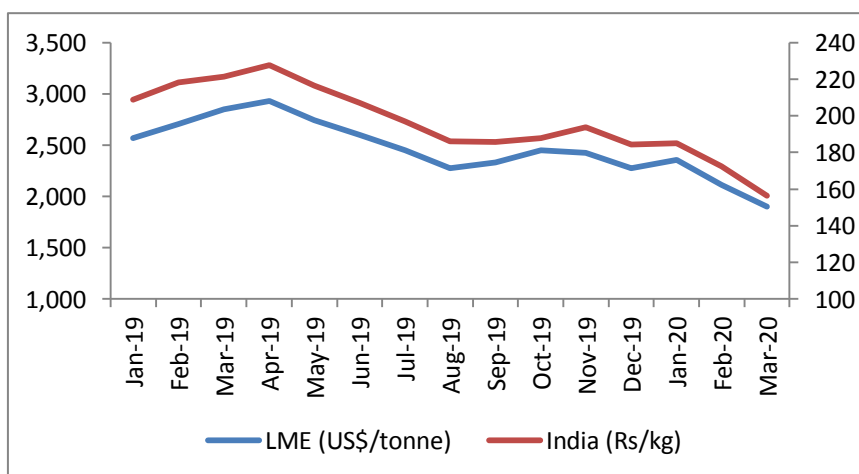
The US-China trade war kept zinc prices under pressure in 2019. Prices fell from US\$ 2,933 per tonne in April to US\$ 2,273 in December. Prices peaked in January 2020 to US\$ 2,454 per tonne after the two countries entered into Phase 1 trade deal however prices were once again pressured lowered by the outbreak of Coronavirus in China in December.

Zinc prices fell to its lowest level in 3 years at US\$ 1,899 per tonne in March 2020. Domestic prices followed the trend in the international prices and fell by 13% in FY20.

As demand from end-user industries have collapsed due to lockdowns and quarantine measures this lead to a sharp rise in inventories of zinc at the exchanges.

Inventory of zinc at the LME shot up from 51 thousand tonnes as at the end of December to 73 thousand tonnes in March 2020. Inventory of zinc at the ShFE also rose sharply from 28 thousand tonnes to 160 thousand tonnes since December 2019. Rising inventory, low demand put pressure on prices.

**Chart 1: Trend in international and domestic prices**



Source: LME

## Financial performance:

**Table 3: Hindustan Zinc financial performance**

	9MFY19	9MFY20	% change
Revenue	15,450	14,011	-9.3%
Expenses	16,870	15,634	-7.3%
EBITDA	7,950	6,888	-13%
Net profit	5,944	5,466	-8.0%

Source: Company report

HZL's revenue declined 9.3% in the 9MFY20 vs 9MFY19. This was mainly due to lower volumes as well as realisations. HZL reported 10% fall in sale of zinc and a 9% decline in zinc LME prices. On the other hand, the production cost (COP) of zinc increased by 5%. This was due to lower grades of ores, higher mine development expense, higher cement prices and lower acid credits, partly offset by lower power costs. The COP has been impacted by higher electricity duty on captive power plants from Rs 0.4 to Rs 0.6 per unit starting July 2019.

EBITDA was down 13% YTD primarily due to lower revenues.

As on December 31, the company's net cash and cash equivalent stood at Rs 19,513 crore as compared to Rs 16,952 crore at the end of FY19.

### **Outlook:**

**Demand slowdown due to Covid-19 will keep zinc prices depressed over the next quarter.**

**In the short term (April-June 2020), we expect international zinc prices to be in the range of US\$ 1,700-1,900 per tonne. Domestic prices are likely to follow the trend in the international prices.**

In the longer term, zinc industry is poised to perform well in line with the stable demand outlook for the Indian steel industry. Zinc consumption in India is 0.5 kg/capita as compared to China's consumption of around 5.0 kg/capita and the average global consumption- 1.9 kg/capita. The lower per capita consumption of zinc in India, coupled with government initiatives offers a favourable growth potential for the industry. Growth in the infrastructure, cosmetics, medicines, paints, rubber, surgical tools, plastics, textiles, soaps and batteries has stimulated the growth of the zinc industry over time.

Indian Railways has given a go ahead to use Indian zinc-coated rails wherever it is electrifying its tracks and fitted stations with galvanized roofs to replace asbestos sheets. Currently, only 35% of railway electrification is fitted with galvanized steel. This will drive demand for zinc.

Hindustan Zinc's mine production is expected to increase with the completion of its RA (Rampura Agucha) and SKM (Sindesar Khurd) mine which are in the final stages of completion.

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