

Hindalco Industries

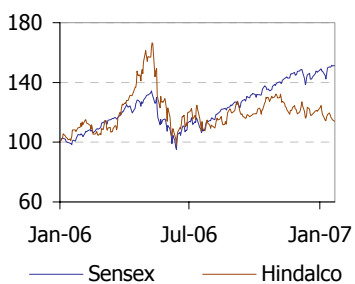
Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 1,160mn
Market cap	: Rs.203bn
52 week high/low	: Rs.251/ Rs.139
Avg. daily vol. (6mth)	: 5mn shares
Bloomberg code	: HNDL IN
Reuters code	: HALC.BO

Shareholding (%) Dec-06 QoQ chg

Promoters	: 26.8	0.0
FII's	: 19.1	1.2
MFs / UTI	: 5.0	(1.8)
Banks / FIs	: 11.3	0.1
Others	: 37.9	0.4

ROBUST PERFORMANCE CONTINUES

Hindalco's strong Q3FY07 performance reflects higher aluminium realizations, improved product mix and a recovery in the copper division's profits on the back of higher copper production and better TCRC charges. While EBITDA grew 79% YoY, adjusted PAT rose 116% YoY to Rs 6.4bn. This was on account of significant improvement in the performance of the aluminium as well as the copper division, the latter of which had witnessed lower production and operational losses in Q3FY06.

Q3FY07: Highlights

- Copper cathode production improved YoY by ~65% from 44,236 tonnes in Q3FY06 to 72,904 tonnes. Improved production & higher TCRC margins resulted in a turnaround. *(Details on Pg 4)*
- Aluminium profitability improved primarily on higher prices & increased sales volumes of value added products. *(Details on Pg 3)*

Copper & Aluminium Outlook

With increased volumes & higher TCRC charges, profitability of the copper division has recovered in FY07. In FY08 however, TCRC margins are likely to be under pressure on account of a tight supply in copper concentrates.

In FY07, the aluminum business has benefited from improved product mix and firm pricing. Completion of Phase I of the Hirakud smelter capacity expansion (65 ktpa to 100 ktpa) would contribute to incremental volumes in FY08. Growth in aluminium demand in China in FY08 is expected to offset the possible slow down of consumption in US. Our FY08 price assumption for aluminium is USD 2,340 per tonne as compared to current spot price of USD 2,916 per tonne.

We maintain our standalone FY07E and FY08E earnings estimates at Rs 23.1 and Rs 25.0 respectively. We believe its 51% subsidiary Aditya Birla Minerals will add another ~Rs 3.0 to the EPS. In our opinion the stock deserves premium valuations relative to the sector, on the back of sustainable earnings growth. At CMP Rs 175, the stock trades at 7x FY08E earnings. We maintain our sector **Outperformer** rating on the stock, with an unchanged price target of Rs 290.

Financial summary - Standalone

Y/E Mar	Sales (Rs.mn)	PAT (Rs. mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2005	92,994	12,985	-	11.2	46	10.9	33.9	35.7	6.0	1.8
2006	110,808	15,017	-	12.9	16	14.1	17.4	16.8	8.4	2.1
2007E	188,378	26,816	22.9	23.1	79	7.6	24.2	21.3	4.3	2.5
2008E	200,208	28,961	20.1	25.0	8	7.0	20.1	18.7	3.9	2.5

Source: *Consensus broker estimates, Company, ENAM EPS & DPS estimates on fully diluted equity

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Mar-07E	Mar-06	% Chg
Net Sales	46,562	28,727	62.1	46,342	0.5	188,378	110,808	70.0
EBITDA	10,453	5,830	79.3	9,864	6.0	44,028	25,013	76.0
Other income	584	433	34.9	1,108	(47.3)	3,308	1,924	72.0
PBIDT	11,037	6,263	76.2	10,972	0.6	47,337	26,937	75.7
Depreciation	1,384	1,314	5.3	1,353	2.3	5,840	5,167	13.0
Interest	698	628	11.1	515	35.5	3,187	2,252	41.5
PBT	8,955	4,321	107.2	9,104	(1.6)	38,309	19,518	96.3
Tax	2,516	989	154.4	2,401	4.8	11,493	4,501	155.3
Adjusted PAT	6,439	2,976	116.4	6,703	(3.9)	26,816	15,017	78.6
Extra ordinary income/ (exp.)*	0	30	-	(727)	-	0	1,539	-
Reported PAT	6,439	3,362	91.5	5,976	7.7	26,816	16,556	62.0
No. of shares (mn)	1,160	1,160	-	1,160	-	1,160	1,160	-
EBITDA margins (%)	22.4	20.3	-	21.3	-	23.4	22.6	-
PBIDT margins (%)	23.7	21.8	-	23.7	-	25.1	24.3	-
EPS - annualized (Rs.)	22.2	11.5	93.2	23.1	(3.9)	23.1	12.9	78.6

Source: Company, ENAM Research; *Extraordinary expense in Sept 06 quarter is an impairment charge, ^ EPS is computed on fully diluted equity

Segment Breakup

(Rs. mn)	Quarter ended			Y/E
	Dec-06	Dec-05	% Chg	Mar-06
Revenue				
Aluminium	17,958	15,634	14.9	60,423
Copper	28,622	13,084	118.8	53,542
TOTAL	46,580	28,718	62.2	113,965
Less: Intersegment	(18)	9	-	-
Net of Intersegment	46,562	28,727	62.1	113,965
EBIT				
Aluminium	7,555	5,421	39.4	21,281
Copper	1,595	(845)	-	193
TOTAL	9,150	4,576	99.9	21,474
Capital Employed				
Aluminium	70,734	58,512	20.9	65,792
Copper	68,581	46,727	46.8	50,738
Other Unallocable	73,765	39,501	86.7	40,840
TOTAL	213,080	144,740	47.2	157,370

Source: Company, ENAM Research

Aluminium division: Strong performance on the back of prices

Both Alumina and Aluminium continued to operate at high utilization levels and above their rated capacities. The division reported 111,871 tonnes, quarterly output of metal, marginally higher than Q2FY07. Value added production as a percent of total primary metal production was at 67% vis-a-vis 59% during Q3 FY06. The Aluminium business reported a 39% YoY rise in EBIT on the back of higher realization and better product mix.

Aluminium: Operating statistics - Production

(Tonnes)	Quarter ended					Y/E Mar-06
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	
Alumina	308,344	309,066	(0.2)	290,462	6.2	1,203,383
Aluminium metal	111,871	108,947	2.7	109,324	2.3	429,140
Wire rod	17,777	17,364	2.4	17,255	3.0	67,730
Rolled product	58,000	49,485	17.2	52,794	9.9	190,580
Extruded product	10,364	8,370	23.8	9,848	5.2	32,328
Aluminium foils	6,235	6,644	(6.2)	6,715	(7.1)	26,184

Source: Company, ENAM Research

Aluminium Expansion

Hindalco plans to expand alumina capacity at Muri from 110ktpa to 450 ktpa by the first quarter of FY08. The company plans to expand the capacity at Hirakud from 65 ktpa to 143 ktpa. Phase I of the capacity expansion (65 ktpa to 100 ktpa) has been completed. The phase II of the capacity expansion (100 ktpa to 143 ktpa) is scheduled to go on stream by end of March 08.

Work on the 1.5 mtpa alumina project (Utkal Alumina) is also on track.

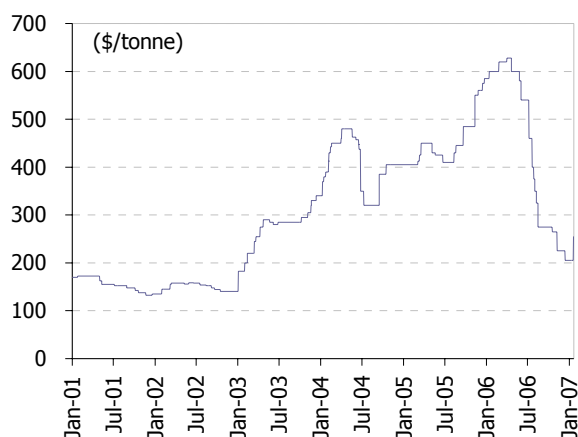
Land acquisition for the Aditya Alumina & Aluminium greenfield project (1.5 mtpa Alumina, 0.325 mtpa Aluminium) is expected to be completed by June 07. In principle approval has been obtained for SEZ status for the smelter.

The company has also started work on a new greenfield project in Madhya Pradesh, which envisages setting up a 0.325 mtpa aluminium smelter and a 750 MW power plant with captive coal mines. Estimated cost of the project is Rs 77 bn.

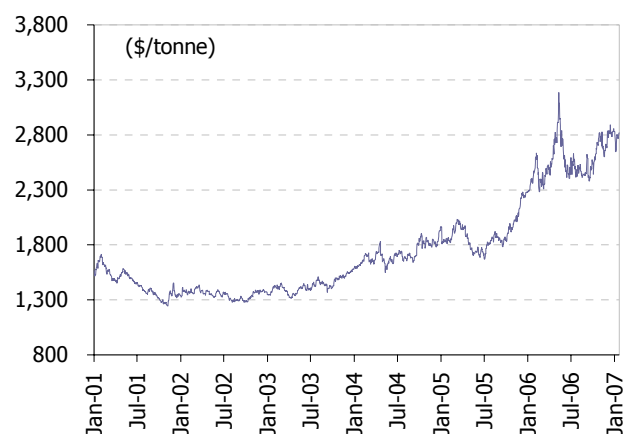
Hindalco has also signed an MOU with the Government of Jharkhand for setting up another 0.325 mtpa aluminium smelter and 750 MW of power plant with captive coal mines. Estimated cost of this project is Rs 78 bn.

Alumina and Aluminium price trend

Alumina: Spot price trend



Aluminum: Spot price trend



Source: Bloomberg

Copper division

Operating performance:

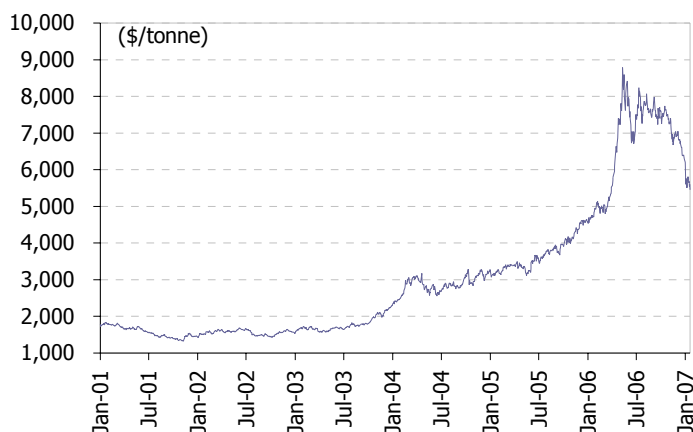
(Rs.mn)	Quarter ended					Y/E
	Dec-06	Dec-05	% Chg	Sep-06	% Chg	Mar-06
Net Sales	28,622	13,084	118.8	27,825	2.9	53,542
EBIT	1,595	(845)	-	1,233	29.4	193
Capital Employed	68,581	46,727	46.8	73,242	(6.4)	50,738
RoCE annualized (%)	9.3	(7.2)	-	6.7	-	1.5
EBIT Margin (%)	5.6	(6.5)	-	4.4	-	0.4

Source: Company

Copper division's EBIT swing of Rs 2,440 mn (YoY) is largely due to higher copper production and better TCRC charges. Copper cathode production increased by ~65% to 72,904 tonnes from 44,236 tonnes in Q3FY06. Sales volume during Q3FY07 was 50,391 tonnes of copper cathode and 25,209 tonnes of CC rods – a rise of 76% YoY and 9.8% YoY respectively. Overall, copper sales revenue grew by 119% YoY. The copper business' profitability during the quarter improved due to higher TCRC and higher production.

Going forward, TCRC margins are likely to be under pressure on account of a tight supply in copper concentrates.

Copper - Spot price trend



Source: Bloomberg

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