

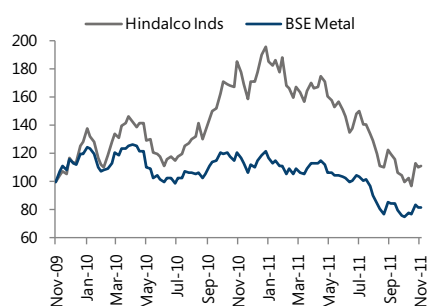
## Result Update - Q2FY12

### BUY

Reco	Maintained
CMP	₹ 129
Target Price	₹ 201
Upside Potential	56%

#### Price Performance

52 wk Hi/Lo	253/119
All time Hi/Lo	253/33
6 mnth Average Vol	7557487
Stock Beta	1.42



#### Valuation

	FY11	FY12P	FY13P
P/E (x)	9.98	9.11	8.35
P/BV (x)	0.8	0.8	0.7
RONW (%)	8.5	8.6	8.7
ROCE (%)	7.6	6.5	6.5

#### Peer Valuation (FY12)

	Ster	NALCO
PE	10.2	15.4
EV/EBITDA	6.5	8.8

#### Equity Data

Market Cap. (₹ bln)	247
Face value (₹)	1
No of shares o/s (mln)	1915

	Sep'10	Sep'11	Δ%
Promoters	32.08	32.06	-0.06
DFI's	15.73	14.10	-10.36
FII's	28.16	28.24	0.28
Public	24.03	25.60	6.53

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## Hindalco Industries

### Visible cost pressures

**Hindalco's Net sales came in line with our expectation however EBITDA and PAT disappointed due to escalation in material cost.**

#### Higher cost spoils the show

In spite of lower volumes in Copper, Hindalco's Net Sales for Q2FY12 grew by 7.2% y-o-y to ₹ 62205mln due to higher realization in both segments and higher aluminum volume. However escalation in coal cost and unavailability of high quality bauxite has taken a toll on company's EBITDA and Margin, which plunged by 4.2% & 133 bps to ₹ 6692mln & 10.7% respectively. However higher other income and lower tax rate helped the company to report 15.8% y-o-y jump in PAT to ₹ 5024mln.

#### Stable Performance from Novelis

In spite of turmoil in its main markets, the Novelis continues to deliver stable performance. Novelis touched Net Sales of \$2.88bln in Q2FY12 up 14.1% y-o-y due to stable volumes and increased realization. Novelis achieved Ad EBITA of \$301mln, while Ad EBITDA/ton stood at \$393/ton. Net Income for Q2FY12 stood at \$120mln. Going ahead the management has indicated that condition in Europe and North America remains very tepid which will impact company's volumes in the coming quarters. Thus the company has revised its Ad EBITDA guidance to \$ 1.10-1.15bln from earlier \$ 1.15-1.20bln.

#### Capex is on Schedule

In spite of deteriorating macro conditions, the capex program of both Hindalco's Indian operations and Novelis are on schedule. The company is all set to start its ambitious Mahan Smelter by Q4FY12. However the coal block and alumina sourcing for the project is yet to be finalized. Thus we have taken only 60000 tons of incremental production for FY13.

#### Valuation in line; Delays in projects may hurt growth

Post 50% correction in past six months due to ongoing credit crisis in western world, the company is now trading at P/E of 9.1x and 8.3x of its FY12E and FY13E earnings, while on EV/EBITDA basis; it is trading at 6.7x and 6.6x for FY12E and FY13E respectively. The valuation looks comfortable at these levels. However we are cautious about the growing speculation and volatility in the LME prices and sustainability of recovery in the western world. Though risk from delays in projects remains high, we foresee very marginal change in our assumptions as we have already factored in considerable delays in capex program. To factor in the changing macro condition, we have lowered our valuation multiples. We believe that the correction in stock is overdone and more than factors in all the negatives. Thus we continue to maintain our BUY recommendation with revised target price of ₹ 201.

#### Summary Financials

₹ in Mln	2010	2011	2012P	2013P
Net Sales	607,079	720,779	771,281	741,746
OPBDIT	97,458	80,017	81,574	91,421
Net Profit	39,255	24,564	26,911	29,361
EPS	20.5	12.8	14.1	15.3
Networth	215,376	290,158	313,506	339,082
Debt	239,987	276,920	331,920	386,920
Fixed Assets	348,013	455,361	531,090	623,033
Net Current Assets	51,718	63,008	69,856	62,719

**Q2FY12 & H1FY12 Standalone Results**

Description (INR Mln)	Q2FY12	Q2FY11	y-o-y	H1FY12	H1FY11	y-o-y
<b>Net Sales</b>	<b>62205</b>	<b>58028</b>	<b>7.2%</b>	<b>121995</b>	<b>109483</b>	<b>11.4%</b>
Other Operating Income	514	572	-10.1%	1032	899	14.8%
Total Income	62719	58599	7.0%	123027	110382	11.5%
<b>Expenditure</b>	<b>56026</b>	<b>51616</b>	<b>8.5%</b>	<b>107665</b>	<b>95074</b>	<b>13.2%</b>
Stock Adjustment	-5198	-269	1830.1%	-2956	1673	-276.7%
Purchases of Traded Goods	2040	2101	-2.9%	2045	3090	-33.8%
Raw Material Consumed	44191	36898	19.8%	80201	65179	23.0%
Power, Oil & Fuel	7528	5742	31.1%	13882	10841	28.0%
Employee Expenses	2915	2843	2.6%	5416	5121	5.8%
Other Expenses	4550	4302	5.8%	9078	9169	-1.0%
Total Expenditure	56026	51616	8.5%	107665	95074	13.2%
<b>EBITDA</b>	<b>6692</b>	<b>6984</b>	<b>-4.2%</b>	<b>15363</b>	<b>15308</b>	<b>0.4%</b>
EBITDA Margin (%)	10.8%	12.0%	-120 bps	12.59%	13.98%	-140 bps
Interest	675	526	28.3%	1342	1120	19.9%
Depreciation	1741	1718	1.4%	3495	3409	2.5%
Extra-ordinary Items	0	0		0	0	
Other Income	1761	821	114.5%	3540	1510	134.4%
<b>PBT</b>	<b>6037</b>	<b>5560</b>	<b>8.6%</b>	<b>14066</b>	<b>12290</b>	<b>14.5%</b>
Total Tax	1012	1222	-17.2%	2601	2608	-0.3%
<b>Net Profit (+)/Loss (-)</b>	<b>5025</b>	<b>4338</b>	<b>15.9%</b>	<b>11465</b>	<b>9682</b>	<b>18.4%</b>
EPS (INR)	2.63	2.27	15.9%	6.00	5.07	18.4%

**Result Highlights (Standalone)**

- ✓ Hindalco's Net Sale for Q2FY11 & H1FY12 has grown by 7.2% & 11.4% y-o-y to ₹ 62205mln & ₹121995mln respectively mainly due to higher realization.
- ✓ Higher energy cost and plummeting Tc/Rc has taken away decent top line performance and as a result company's EBITDA for Q2FY11 & H1FY12 de-grew by 4.2% & remained stable y-o-y to ₹ 6692mln & 15363mln respectively. EBITDA margin for the same period has fallen by 120 bps & 140 bps to 10.8% & 12.5% respectively
- ✓ During Q2FY12 & H1FY12, higher other income (+114% & 134.4% y-o-y due to dividend payment from one of its subsidiary) helped the company to report 15.9% & 18.4% y-o-y growth in net profit to ₹ 5025mln & 11465mln respectively.
- ✓ In Q2FY12 & H1FY12 the revenues from copper business only increased by 2.8% & 10.1% to ₹ 40618mln & ₹ 80020mln due to tepid volume growth. EBIT for the same period improved by 14.5% & 15.6% to ₹ 1475mln & ₹ 2927mln respectively due to improved by product credit.
- ✓ In Q2FY12 & H1FY12 the revenues from Aluminium business increased by 15.8% & 14.1% to ₹ 22132mln & ₹ 46063mln due to volume growth and higher realization. However EBIT for the same period only grew by 1.2% & 5.3% to ₹ 4288mln & ₹ 10279mln respectively due to multiple cost pressures.

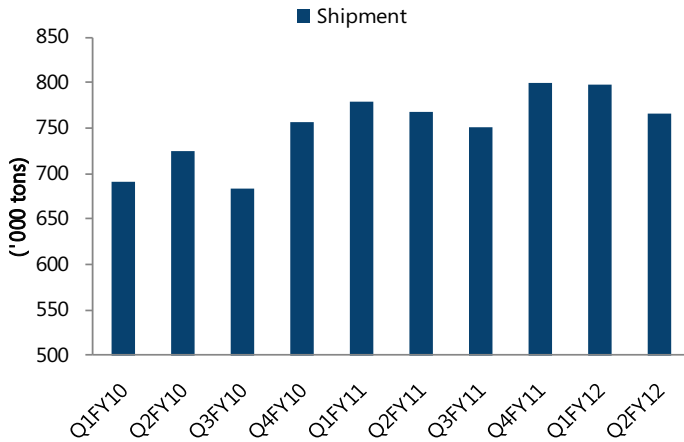
## Q2FY11 & H1FY12 Novelis Result Update

(\$ mln)	Q2FY12	Q2FY11	Y-o-Y	H1FY12	H1FY11	Y-o-Y
<b>Net Sales</b>	<b>2880</b>	<b>2,524</b>	<b>14.1%</b>	<b>5993</b>	<b>5057</b>	<b>19%</b>
Cost of Goods Sold	2549	2,188	16.5%	5257	4396	20%
Selling, general and administrative Exp's	91	97	-6.2%	186	178	4%
Total Exp	2640	2,285	15.5%	5443	4574	19%
<b>EBITDA</b>	<b>240</b>	<b>239</b>	<b>0.4%</b>	<b>550</b>	<b>483</b>	<b>14%</b>
EBITDA Margin	8.33%	0	-12.0%	0	0	-4%
Depreciation	81	104	-22.1%	170	207	-18%
R&D Expenses	12	9	33.3%	24	18	33%
PBIT	147	126	16.7%	356	258	38%
Interest & Finance Charges	73	37	97.3%	146	73	100%
(Gain) loss on change in derivative instruments	3	3	0.0%	5	6	-17%
Restructuring Charges	11	9	22.2%	30	15	100%
Other	-63	-52		-84	-39	
<b>PBT</b>	<b>123</b>	<b>129</b>	<b>-4.7%</b>	<b>259</b>	<b>203</b>	<b>28%</b>
Provision (benefit) for taxes on income (loss)	-7	56	-112.5%	52	71	-27%
<b>Net Profit after Tax</b>	<b>130</b>	<b>73</b>	<b>78.1%</b>	<b>207</b>	<b>132</b>	<b>57%</b>
Minority Interest	10	11	-9.1%	25	20	25%
PAT After MI	120	62	93.5%	182	112	63%

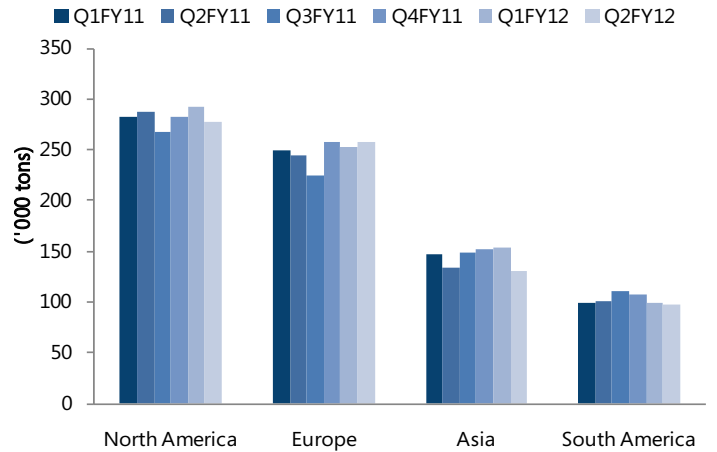
### Result Highlights (Novelis)

- ✓ During Q2FY12 Novelis shipped .765mt of Metal as compared with .767mt in Q2FY11 & .797mt in Q1FY12. The q-o-q decline in volumes has come from North America and South America. We believe that downtrend in volume to continue due to bad macro conditions in western world.
- ✓ Adjusted EBITDA for Q2FY12 & H1FY12 came at \$301mln & \$607mln respectively due to operational efficiency. Adjusted EBITDA/ton for Q2FY12 & H1FY12 came at \$ 393/ton & \$ 389/ton respectively.
- ✓ Net income for Q2FY12 & H1FY12 came at \$ 120mln & \$182mln respectively.
- ✓ The company is having ample liquidity of \$ 993mln to with hold the downtrend.
- ✓ The FCF before capex stood at \$ 237mln during the quarter
- ✓ Novelis has embarked an ambitious plan to increase its capacity by 1mt by FY15-16, through de-bottlenecking in all its geographies. Novelis plans to spend \$ 1.5bln in next three year to achieve its goal. The management indicated that larger part of this capex will be funded by internal accrual and minor debt. Total capex for Q2FY12 & H1FY12 stood at \$ 67mln & \$ 107mln.

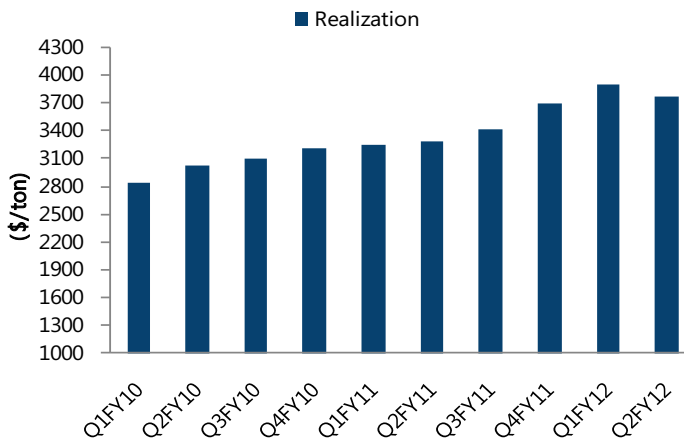
## Shipments



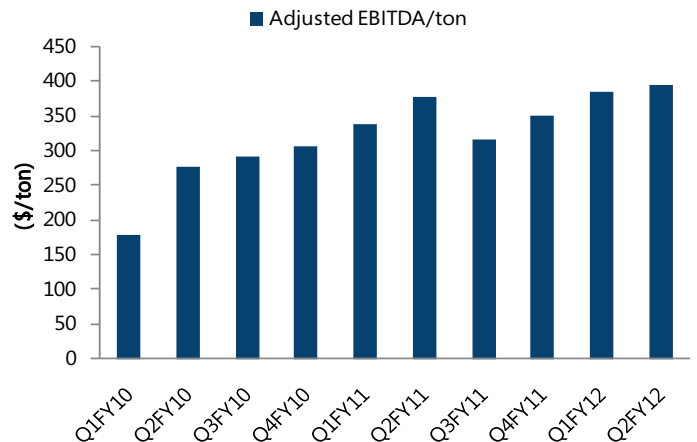
## Regional Volume



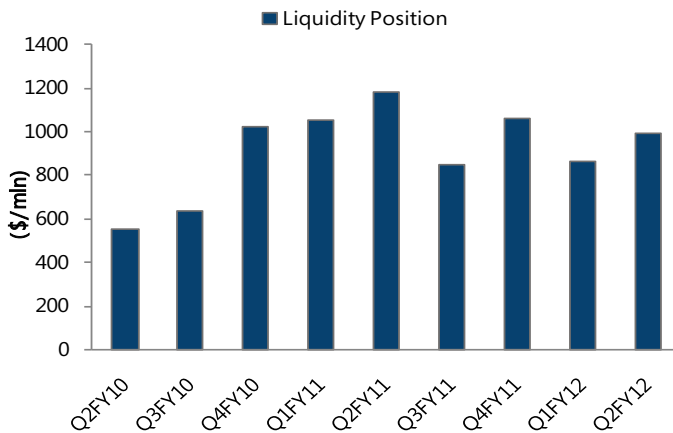
## Realization (\$/ton)



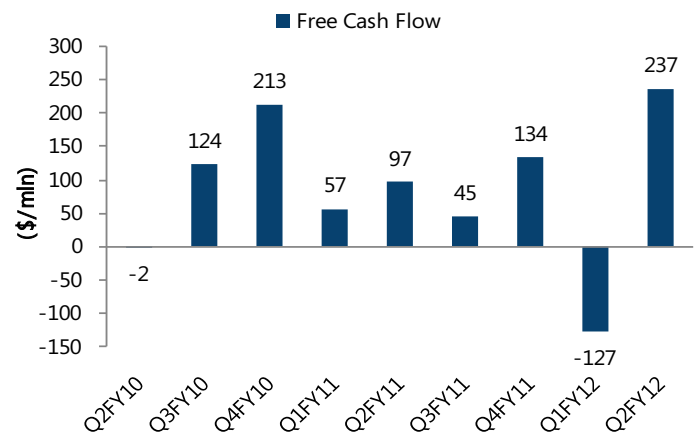
## Adjusted EBITDA/Ton (\$/ton)



## Liquidity Position



## Free Cash Flow



Source - Company, MSFL Research

**Capex Details**

Project Name	Facilities	Project Cost	Exp DOC	Funding
<b>Brownfield Project</b>				
Hirakund	Smelter 155kt to 161kt	-	Completed in Q4FY11	-
	Smelter 161kt to 213kt & CPP of 100 MW		Q4FY12	
	Smelter 213kt to 360kt & CPP of 500 MW		The EC is in Place	
Hirakund FRP	FRP plant from Rogerstone UK	-	Q3FY12	-
Begaum Alumina	Special plan Expansion from 189kt to 301kt			
<b>Greenfield project</b>				
Aditya Aluminium	359ktpa smelter	9,200cr	Early 2013	Equity funding tied up after USD 600mln QIP
	900MW power plant	(Exc. Fin. cost)		
Mahan Aluminium	359ktpa smelter	10,500cr	Q4FY12	D/E is 0.75
	900MW power plant	(inc. fin. cost)		Loan size is 7875cr
				Tenor (Door to Door) is 12.75 yr
Utkal Alumina	1,500ktpa refinery	7009cr	H2FY13	D/E is 0.70
		(inc. fin. cost)		Loan size is 4906cr
				Tenor (Door to Door) is 12 yr
Jharkhand Aluminium	359ktpa aluminium smelter	10,000cr	Mid 2015	-
	900 mw captive thermal power plant	(Exc. Fin. cost)		
Aditya Refinery	1.5mtpa aluminium refinery	6,000cr	End 2014	-
Aluminium (Orissa)	359ktpa smelter	(Exc. Fin. cost)		
	900 mw Captive power plant			
<b>Novelis</b>				
North America	1100Kt to 1360Kt			Largely internal Accruals
South America	400Kt to 650Kt	\$ 1.5bln for Next Three years	By FY16 Progressively	
Europe	900Kt to 990Kt			
Asia Pacific	600Kt to 1000Kt			

Source - Company, MSFL Research

## Financial Summary (Consolidated)

## Profit &amp; Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Net Sales</b>	<b>659,630</b>	<b>607,079</b>	<b>720,779</b>	<b>771,281</b>	<b>741,746</b>
Total Expenditure	629,934	509,621	640,762	689,707	650,324
<b>EBIDTA</b>	<b>29,695</b>	<b>97,458</b>	<b>80,017</b>	<b>81,574</b>	<b>91,421</b>
EBIDTA Margin (%)	4.5%	16.1%	11.1%	10.6%	12.3%
Depreciation	30,295	27,815	27,246	29,270	33,057
EBIT	-600	69,643	52,771	52,303	58,364
Interest cost	12,280	11,041	18,393	15,221	17,971
Operating Profit	-12,880	58,602	34,378	37,083	40,393
Other Income	6,914	3,227	4,309	5,000	5,000
Extraordinary Item	82.5	21.0	254.6	0.0	0.0
<b>PBT</b>	<b>-6,049</b>	<b>61,808</b>	<b>38,432</b>	<b>42,083</b>	<b>45,393</b>
Tax	-9,538	18,289	9,638	10,941	11,802
<b>PAT (After MI)</b>	<b>4,839</b>	<b>39,255</b>	<b>24,564</b>	<b>26,911</b>	<b>29,361</b>
PAT Margin (%)	0.7%	6.5%	3.4%	3.5%	4.0%
EPS	2.8	20.5	12.8	14.1	15.3
Sales Growth (%)	9.9%	-8.0%	18.7%	7.0%	-3.8%
EBITDA Growth (%)	-55.2%	228.2%	-17.9%	1.9%	12.1%
PAT Growth (%)	0.0%	711.2%	-37.4%	9.6%	9.1%

## Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Sources of Funds</b>					
Share Capital	1,705	1,914	1,915	1,915	1,915
Reserves & Surplus	155,837	213,462	288,243	311,591	337,167
<b>Networth</b>	<b>157,542</b>	<b>215,376</b>	<b>290,158</b>	<b>313,506</b>	<b>339,082</b>
Secured Loans	130,246	107,627	137,358	192,358	247,358
Unsecured Loans	152,851	132,360	139,562	139,562	139,562
<b>Total Loans</b>	<b>283,098</b>	<b>239,987</b>	<b>276,920</b>	<b>331,920</b>	<b>386,920</b>
Deferred Tax Liability	28,106	39,382	37,596	37,596	37,596
Minority Interest	12,911	17,443	22,245	25,904	29,562
<b>TOTAL</b>	<b>481,656</b>	<b>512,187</b>	<b>626,918</b>	<b>708,925</b>	<b>793,160</b>
<b>Application of Funds</b>					
Net Fixed Assets	347,651	348,013	455,361	531,090	623,033
Investment	103,893	112,455	108,549	107,978	107,407
Goodwill	0	0	0	0	0
Current Assets	202,394	231,884	279,848	299,628	284,131
Current Liabilities	172,287	180,166	216,840	229,772	221,411
<b>Net Current Assets</b>	<b>30,107</b>	<b>51,718</b>	<b>63,008</b>	<b>69,856</b>	<b>62,719</b>
Misc Expense not w/o	4	0	0	0	0
<b>TOTAL</b>	<b>481,655</b>	<b>512,187</b>	<b>626,918</b>	<b>708,925</b>	<b>793,160</b>

**Cash Flow**

Particulars (₹ in mln)	2009	2010	2011P	2012P	2013P
Internal accruals	48,744	61,657	82,425	86,574	96,421
(Inc)/Dec in Net Current Assets	2,591	-5,984	-7,031	-2,023	-3,922
<b>Cash flow from Operations</b>	<b>42,903</b>	<b>49,321</b>	<b>62,263</b>	<b>73,610</b>	<b>80,698</b>
Inc/(Dec) in Debt	-91,954	-3,209	37,384	55,000	55,000
Inc/(Dec) in Equity	50,623	27,543	99	0	0
<b>Cash flow from Financing</b>	<b>-67,313</b>	<b>4,284</b>	<b>8,253</b>	<b>36,216</b>	<b>33,244</b>
Fixed Asset formation	-26,747	-42,756	-78,658	-105,000	-125,000
Inc/(Dec) in Investment	49,072	-16,143	5,074	0	0
<b>Cash flow from Investment</b>	<b>32,188</b>	<b>-54,368</b>	<b>-67,104</b>	<b>-105,000</b>	<b>-125,000</b>
<b>Net Change in Cash</b>	<b>7,778</b>	<b>-764</b>	<b>3,413</b>	<b>4,826</b>	<b>-11,059</b>

**Ratio**

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	45.09	6.24	9.98	9.11	8.35
P/BV	1.4	1.1	0.8	0.8	0.7
EV/EBIDTA	16.1	4.8	6.2	6.7	6.7
EV/Sales	0.7	0.8	0.7	0.7	0.8
Dividend Yield (%)	1.05%	1.05%	1.17%	1.25%	1.33%
EPS	2.8	20.5	12.8	14.1	15.3
DPS	1.35	1.35	1.50	1.60	1.70
Book Value	92	113	152	164	177
Adj. ROE	3.9%	11.0%	7.6%	6.5%	6.5%
Adj. ROCE	3.1%	18.2%	8.5%	8.6%	8.7%

**Solvency Ratio (x)**

Debt/Equity	1.80	1.11	0.95	1.06	1.14
Net Debt/EBIDTA	9.53	2.46	3.46	4.07	4.23

**Turnover Ratio (x)**

Asset Turnover	1.49	1.32	1.54	1.55	1.33
Fixed Asset Turnover	1.83	1.75	1.79	1.56	1.29
Current Ratio	1.17	1.29	1.29	1.30	1.28
Inventory (days)	49	81	80	78	81
Debtors (days)	37.0	39.4	40.7	42.0	43.0
Creditors (days)	63.4	93.8	93.8	94.0	95.0

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## Key ratings:

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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