

Hindalco

Performance highlights

Particulars (Rs cr)	1QFY2011	1QFY2010	% chg (yoy)	4QFY2010	% chg (qoq)
Net sales	2,533	1,960	29.2	2,420	4.7
Adj. EBITDA	263	124	112.1	231	13.9
% margin	10.4	6.3	406bp	9.5	84bp
Net profit	50	143	(65.0)	(1)	-

Source: Company, Angel Research

Top-line growth aided by higher shipments: Novelis, Hindalco's subsidiary, reported strong set of numbers for 1QFY2011. The top line grew 29.2% yoy and 4.7% qoq to US \$2,533mn, as total shipments increased by 12.7% yoy and 3.0% qoq to 779kt. On a yoy basis, all regions registered an increase in volumes ranging from 8–18%. On a qoq basis, volumes were flat in Europe but grew by 0.4–13.1% in other regions.

Adj. EBITDA at an all-time high: Novelis reported adj. EBITDA of US \$263mn, up 112.1% yoy and 13.9% qoq. This increase was largely because of portfolio optimisation, increased pricing, higher usage of scrap, reduced energy costs and a 19% dip in SG&A expenses qoq. Consequently, adj. EBITDA/tonne touched its all-time high at US \$339/tonne. Management reiterated its guidance of adj. EBITDA exceeding US \$1bn. Interest expense declined by US \$5mn. Net profit came in at US \$50mn during the quarter.

Outlook and valuation: At the CMP of Rs164, the stock is trading at 6.1x FY2011E and 5.8x FY2012E EV/EBITDA. Management expects Novelis to benefit from increased demand for rolled products, which is expected to grow by 34% over the next five years led by Asia, Middle East and South America. Further, Hindalco is increasing its aluminium capacity in India over the next two–four years. **We maintain Buy on Hindalco with an SOTP Target Price of Rs204.**

Key financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net sales	65,415	60,563	63,659	67,521
% chg	9.6	(7.4)	5.1	6.1
Net profit	485	3,925	3,626	3,891
% chg	(79.7)	708.9	(7.6)	7.3
EPS (Rs)	2.9	20.5	18.9	20.3
EBITDA margin (%)	4.6	16.1	13.0	13.8
P/E (x)	58.0	8.1	8.7	8.1
P/BV (x)	1.8	1.4	1.2	1.1
RoE (%)	2.9	20.6	15.1	14.2
RoCE (%)	-	13.4	10.3	10.0
EV/Sales (x)	0.8	0.8	0.8	0.8
EV/EBITDA (x)	16.8	5.0	6.1	5.8

Source: Company, Angel Research

BUY

CMP	Rs164
Target Price	Rs204

Investment Period	12 months
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Stock Info

Sector	Base Metals
Market Cap (Rs cr)	31,346
Beta	1.9
52 Week High / Low	188/99
Avg. Daily Volume	2100162
Face Value (Rs)	1
BSE Sensex	18,220
Nifty	5,461
Reuters Code	HALC.BO
Bloomberg Code	HNDL@IN

Shareholding Pattern (%)

Promoters	32.1
MF / Banks / Indian Fls	15.9
FII / NRIs / OCBs	27.0
Indian Public / Others	25.0

Abs. (%)	3m	1yr	3yr
Sensex	5.1	21.4	22.5
Hindalco	(6.6)	60.6	19.4

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Exhibit 1: Novelis 1QFY2011 performance

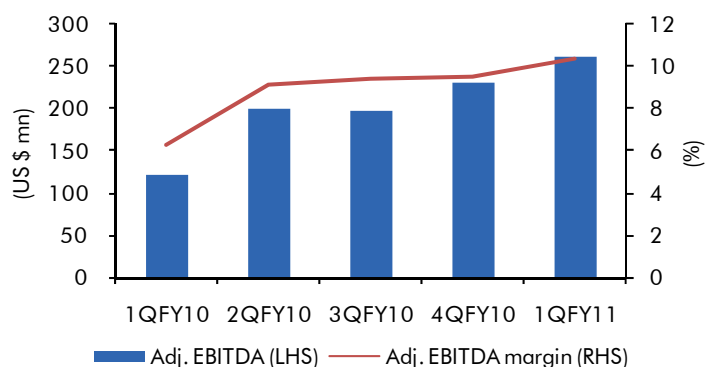
(US \$mn)	1QFY11	1QFY10	% yoy	FY2010	FY2009	% yoy
Net revenue	2,533	1,960	29.2	8,673	10,177	(15)
Cost of goods sold	2,208	1,533	44.0	7,190	9,251	(22.3)
(% of Net Sales)	87.2	78.2		82.9	90.9	
Gross profit	325	427	(23.9)	1,483	926	60.2
(% of Net Sales)	12.8	21.8		17.1	9.1	
Selling, general and administrative expenses	81	78	3.8	360	319	12.9
(% of Net Sales)	3.2	4.0		4.2	3.1	
Research and development expenses	9	8	12.5	38	41	(7.3)
(% of Net Sales)	0.4	0.4		0.4	0.4	
EBITDA	235	341	(31.1)	1,085	566	92
EBITDA margin (%)	9.3	17.4		12.5	5.6	
Restructuring charges	6	3	100.0	14	95	(85.3)
Depreciation	103	100	3.0	384	439	(12.5)
EBIT	126	238	(47.1)	687	32	2,046.9
(% of Net Sales)	5.0	12.1		7.9	0.3	
Other income/(Expense)	(7)	13	-	25	(86)	-
Net Interest expense	36	40	(10.0)	164	168	(2.4)
Unrealised gain/(loss) on derivative	(6)	72	-	194	(556)	-
Exceptional items	0	0	-	0	(1,218)	-
PBT	77	283	(72.8)	742	(1,996)	-
(% of Net Sales)	3.0	14.4		8.6	(19.6)	
Taxes	15	112	(86.6)	262	(246)	-
(% of PBT)	19.5	39.6		35.3	12.3	
PAT	62	171	(63.7)	480	(1,750)	-
(% of Net Sales)	2.4	8.7		5.5	(17.2)	
Less: Profit from associates	3	10	(70.0)	15	172	(91.3)
Less: Minority interest	9	18	(50.0)	60	(12)	-
Net Income	50	143	(65.0)	405	(1,910)	-

Source: Company, Angel Research

Key conference call takeaways

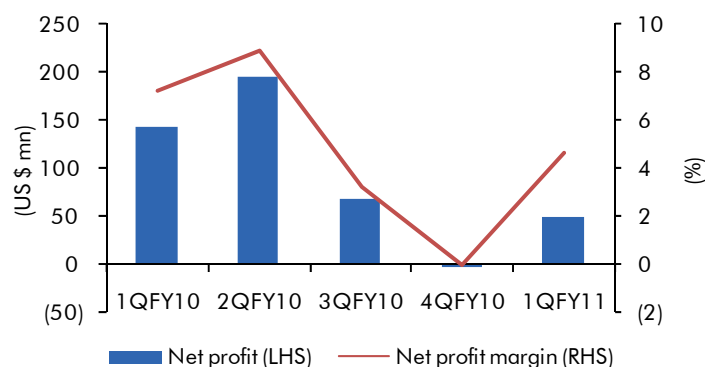
- Capex for the quarter stood at US \$23mn. The full year capex guidance is US \$250mn. While US \$120mn will be used as maintenance capex, US \$50mn will be spent on strategic projects, including de-bottlenecking of existing capacities. The balance will be spent on capacity expansion plan in South America, where the company is increasing capacity by 50% by FY2013E at a cost of US \$300mn.
- The management indicated that it is operating at ~100% utilisation levels. In the near term, volume growth of ~4–5% will be led by de-bottlenecking.
- Free cash flow was lower at US \$34mn in 1QFY2011 as compared to US \$213mn in 4QFY2010, as working capital requirements increased due to higher LME prices and volumes. However, management expects free cash flow in FY2011E to exceed US \$355mn.

Exhibit 2: EBITDA margin trend



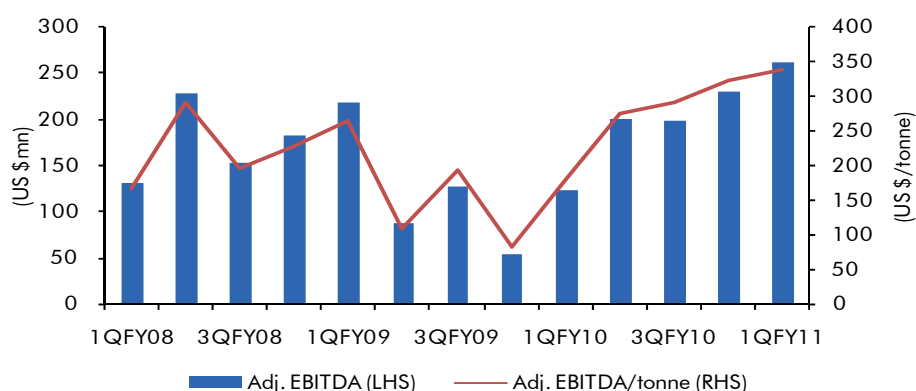
Source: Company, Angel Research

Exhibit 3: Net profit trend



Source: Company, Angel Research

Exhibit 4: Adj. EBITDA/tonne at an all-time high



Source: Company, Angel Research

Exhibit 5: Shipments across geographies higher yoy

(kt)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	% yoy	% qoq
Total sales	691	724	683	756	779	12.7	3.0
North America	261	266	254	282	283	8.4	0.4
Europe	212	218	204	250	249	17.5	(0.4)
Asia	130	140	134	130	147	13.1	13.1
South America	88	100	91	94	100	13.6	6.4

Source: Company, Angel Research

Exhibit 6: Average realisation

(US \$/tonne)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	% yoy	% qoq
Average realisation	2,836	3,012	3,092	3,201	3,252	14.6	1.6
North America	2,939	3,090	3,094	3,252	3,389	15.3	4.2
Europe	3,137	3,372	3,554	3,400	3,382	7.8	(0.5)
Asia	2,508	2,729	2,910	3,100	3,109	24.0	0.3
South America	2,318	2,520	2,582	2,734	2,770	19.5	1.3

Source: Company, Angel Research

Investment rationale

Aluminium capacity to increase 2–3 folds in the next 2–4 years

Hindalco is increasing its aluminium capacity by two–three folds in the next two–four years. The first commissioning is expected at Hirakud in 2QFY2011E, where capacity is being increased to 161ktpa in Phase-1 and to 213ktpa in Phase-2 by 4QFY2012E. Moreover, capacities at Mahan Aluminium and Aditya Aluminium are expected to come on stream by FY2012E. Consequently, we expect sales volume to grow at a 26.6% CAGR over FY2010–13E. Further, the company's Jharkhand Aluminium project is expected to be commissioned in 1QFY2014E.

On the alumina front, with the commissioning of the Utkal refinery in FY2012E, we expect alumina sales volume to grow at a 42.9% CAGR over FY2010–12E.

Moreover, these new capacities are coming at the lower end of the cost curve, and this is likely to further benefit the company in terms of cost reduction.

Exhibit 7: Expansion plans

		Project	Timeline
Smelter	Hirakud	Phase I (115kt–161kt)	2QFY11E
		Phase II (161kt–213kt)	4QFY12E
		Phase III (213kt–316kt)	-
		Mahan Aluminium	2QFY12E
		Aditya Aluminium	3QFY12E
		Jharkhand Aluminium	1QFY14E
Refinery		Utkal Alumina	2QFY12E
		Aditya Alumina	1QFY14E
		Belgaum Special Alumina Project	-

Source: Company, Angel Research

Turnaround at Novelis

Management expects Novelis to benefit from increased demand for rolled products, which is expected to grow by 34% over the next five years led by Asia, Middle East and South America. Further, Novelis is expanding its rolling capacity in Brazil at a capex of US \$300mn.

Outlook and valuation

At the CMP of Rs165, the stock is trading at 6.1x FY2011E and 5.8x FY2012E EV/EBITDA. We believe Hindalco is well placed to benefit from a) its aluminium expansion plans (capacity increasing by nearly two–three folds in the next two–four years), b) low production cost at its new capacities and c) as management expects Novelis to benefit from increased demand for rolled products, which is expected to grow by 34% over the next five years led by Asia, Middle East and South America. **We maintain Buy on the stock with a SOTP Target Price of Rs204.**

Exhibit 8: SOTP valuation

	FY2012E EV/ EBITDA (Rs cr)	Multiple	EV (Rs cr)	Stake (%)	Attributable EV	Value (Rs/share)
Hindalco (Standalone)	4,380	6.5	28,471	100	28,471	149
Novelis	4,945	5.5	27,196	100	27,196	142
Total EV			55,667		55,667	291
Less: Net debt (FY2011E)					18,896	99
Value of investments @25% discount					2,280	12
Value per share						204

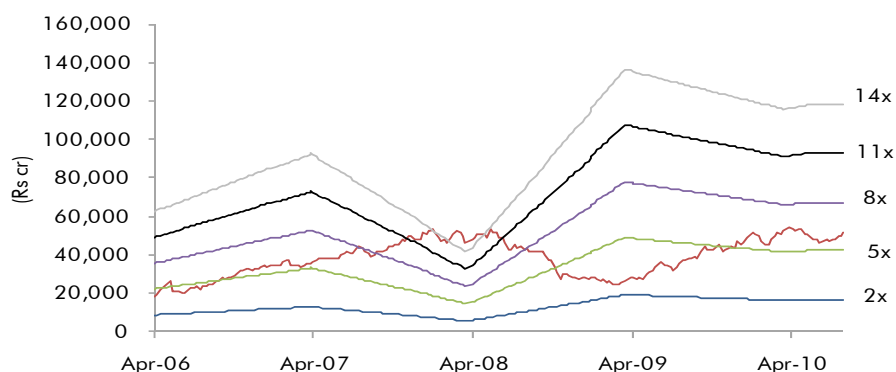
Source: Angel Research

Exhibit 9: Key assumptions

	FY2011E	FY2012E
Sales volume (tonnes)		
Aluminium	517,313	663,492
Copper	370,684	370,626
Alumina	280,000	316,650
LME prices (US \$/tonne)		
Aluminium	2,100	2,200
Copper	6,500	6,500
Alumina	315	330

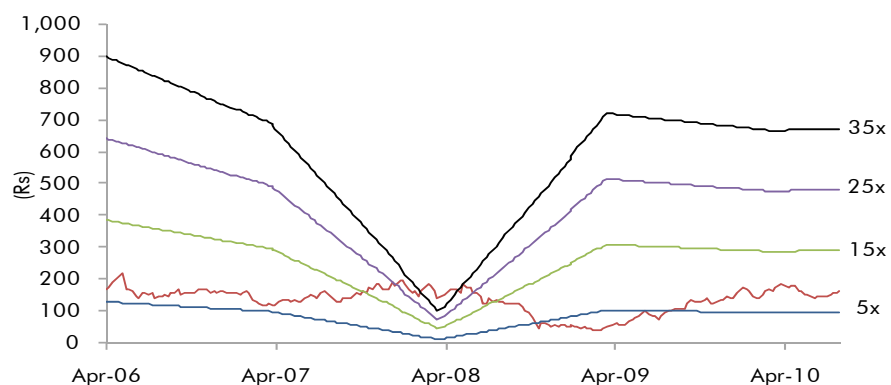
Source: Company, Angel Research

Exhibit 10: EV/EBITDA band



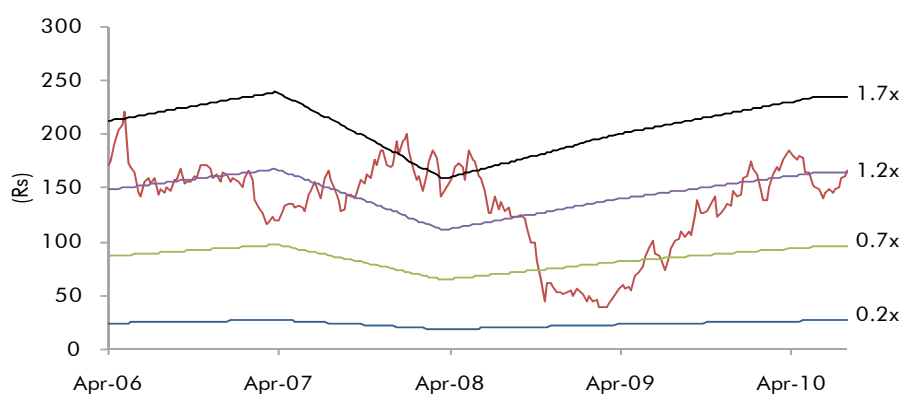
Source: Bloomberg, Angel Research

Exhibit 11: P/E band



Source: Bloomberg, Angel Research

Exhibit 12: P/BV band



Source: Bloomberg, Angel Research

Exhibit 13: Recommendation summary

Companies	CMP (Rs)	Target Price (Rs)	Reco.	Mcap (Rs cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
SAIL	197	-	Neutral	81,224	-	13.0	11.4	2.2	1.9	8.5	7.4	17.9	17.6	16.3	16.9
Tata Steel	538	697	Buy	47,691	29.6	8.8	9.4	1.5	1.3	6.8	6.2	17.9	14.7	11.8	11.7
JSW Steel	1,132	1,344	Buy	28,932	18.7	14.9	11.4	1.5	1.3	7.0	5.5	13.9	12.4	12.5	12.6
Sesa Goa	377	-	Neutral	31,316	-	7.4	7.7	2.6	2.0	4.1	3.3	45.9	31.5	43.7	34.7
NMDC	262	244	Reduce	103,995	(7.0)	15.6	12.3	5.3	4.0	9.7	7.1	39.3	37.1	52.2	49.2
Hindalco	164	204	Buy	31,346	24.5	8.6	8.1	1.2	1.1	6.1	5.7	15.1	14.2	10.3	10.0
Nalco	426	316	Sell	27,415	(25.7)	26.9	22.8	2.5	2.3	15.6	12.2	9.7	10.7	10.7	12.5
Sterlite	175	228	Buy	58,867	30.1	12.3	8.9	1.3	1.2	6.5	4.4	11.6	14.2	11.1	14.1
Hindustan Zinc	1,149	1,227	Accumulate	48,551	6.8	11.9	9.2	2.2	1.8	7.0	4.6	20.4	21.6	20.7	22.3

Source: Company, Angel Research

Profit & Loss Statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net sales	19,059	59,696	65,415	60,563	63,659	67,521
Other operating income	257	317	211	160	110	110
Total operating income	19,316	60,013	65,625	60,722	63,769	67,631
% chg	60.5	210.7	9.4	(7.5)	5.0	6.1
Total expenditure	14,886	53,378	62,648	50,976	55,484	58,306
EBITDA	4,431	6,635	2,977	9,746	8,284	9,325
% chg	55.7	49.8	(55.1)	227.3	(15.0)	12.6
(% of Net sales)	23.2	11.1	4.6	16.1	13.0	13.8
Depreciation	865	2,457	3,038	2,784	2,294	2,789
EBIT	3,566	4,179	(60)	6,962	5,991	6,536
% chg	74.0	17.2	-	-	(14.0)	9.1
(% of Net sales)	18.7	7.0	(0.1)	11.5	9.4	9.7
Interest charges	313	1,849	1,232	1,104	1,157	1,324
Other income	409	656	688	323	400	400
(% of PBT)	11.2	22.0	(113.7)	5.2	7.6	7.1
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	3,662	2,985	(605)	6,181	5,233	5,612
% chg	80.5	(18.5)	-	-	(15.3)	7.2
Extra. Inc/(Expense)	-	-	-	-	-	-
PBT (reported)	3,662	2,985	(605)	6,181	5,233	5,612
Tax	958	362	(954)	1,829	1,495	1,608
(% of PBT)	26.2	12.1	-	29.6	28.6	28.7
PAT (reported)	2,703	2,624	349	4,352	3,738	4,003
Add: Earnings of asso.	(0.5)	(15.9)	(35.3)	(2.7)	-	-
Less: Minority interest	(16.1)	(220.6)	171.8	(423.7)	(112.5)	(112.5)
Extra. Expense/(Inc.)	-	-	-	-	-	-
PAT after MI (reported)	2,686	2,387	485	3,925	3,626	3,891
ADJ. PAT	2,686	2,387	485	3,925	3,626	3,891
% chg	70.3	(11.1)	(79.7)	708.9	(7.6)	7.3
(% of Net sales)	13.9	4.0	0.7	6.5	5.7	5.8
Basic EPS (Rs)	26.7	20.5	3.2	21.7	18.9	20.3
Fully Diluted EPS (Rs)	25.8	19.5	2.9	20.5	18.9	20.3
% chg	60.9	(24.4)	(85.3)	618.8	(7.6)	7.3

Balance Sheet (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity share capital	104	123	170	191	191	191
Reserves & surplus	12,818	17,085	15,684	22,096	25,454	29,076
Shareholders' funds	12,922	17,208	15,854	22,288	25,645	29,267
Share warrants	-	139	-	-	-	-
Minority interest	857	1,617	1,287	1,710	1,823	1,935
Total loans	8,452	32,352	28,310	28,810	30,810	35,810
Deferred tax liability	1,171	4,951	2,757	2,757	2,757	2,757
Total liabilities	23,403	56,267	48,207	55,565	61,035	69,769
APPLICATION OF FUNDS						
Gross block	14,111	34,187	38,332	40,332	42,462	59,092
Less: Acc. depreciation	5,035	7,373	10,807	13,590	15,884	18,673
Net Block	9,077	26,814	27,525	26,741	26,577	40,419
Capital work-in-progress	1,917	2,457	2,949	5,449	9,944	2,939
Goodwill	263	8,833	4,291	4,291	4,291	4,291
Investments	7,875	13,892	10,431	10,431	10,431	10,431
Current assets	8,668	21,474	19,271	23,184	24,242	26,527
Cash	1,034	1,717	2,192	7,692	7,670	9,365
Loans & advances	1,151	1,859	1,827	1,817	1,591	1,350
Other	6,483	17,899	15,252	13,675	14,980	15,811
Current liabilities	4,401	17,204	16,260	14,532	14,451	14,838
Net current assets	4,267	4,271	3,011	8,652	9,791	11,689
Mis. exp. not written off	4.2	1.0	0.4	0.4	0.4	0.4
Total assets	23,403	56,267	48,207	55,565	61,035	69,769

Cash flow statement (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	3,662	2,985	(605)	6,181	5,233	5,612
Depreciation	865	2,457	3,038	2,784	2,294	2,789
Change in working capital	(535)	758	2,931	(141)	(1,161)	(203)
Less: Other income	24	135	61	-	-	-
Direct taxes paid	590	935	843	1,829	1,495	1,608
Cash flow from operations	3,426	5,400	4,581	6,995	4,871	6,589
(Inc.)/ Dec. in fixed assets	(2,191)	(16,653)	(2,890)	(4,500)	(6,625)	(9,625)
(Inc.)/ Dec. in investments	(4,620)	(2,150)	4,907	-	-	-
(Inc.)/ Dec. in loans and advances	-	-	-	-	-	-
Other income	(416)	(731)	(910)	-	-	-
Cash flow from investing	(6,394)	(18,072)	2,928	(4,500)	(6,625)	(9,625)
Issue of equity	1,871	2,524	5,062	2,777	-	-
Inc./(Dec.) in loans	2,202	12,712	(9,195)	500.0	2,000.0	5,000.0
Dividend paid	452	10	353	269	269	269
Others	717	2,312	2,245	2.7	-	-
Cash flow from financing	2,903	12,915	(6,731)	3,006	1,731	4,731
Inc./(Dec.) in cash	(65)	242	778	5,501	(22)	1,695
Opening cash bal.	1,075	1,467	1,405	2,192	7,692	7,670
Closing cash bal.	1,010	1,709	2,183	7,692	7,670	9,365

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	6.4	8.5	58.0	8.1	8.7	8.1
P/CEPS	4.9	4.2	8.0	4.7	5.3	4.7
P/BV	1.3	1.2	1.8	1.4	1.2	1.1
Dividend yield (%)	1.0	1.1	0.8	0.8	0.8	0.8
EV/Sales	0.9	0.7	0.8	0.8	0.8	0.8
EV/EBITDA	3.9	6.2	16.8	5.0	6.1	5.8
EV/Total assets	1.9	1.5	1.8	1.8	1.9	1.3
Per share data (Rs)						
EPS (Basic)	26.7	20.5	3.2	21.7	18.9	20.3
EPS (fully diluted)	25.8	19.5	2.9	20.5	18.9	20.3
Cash EPS	34.0	39.5	20.7	35.1	30.9	34.9
DPS	1.7	1.9	1.4	1.4	1.4	1.4
Book value	123.9	140.3	93.2	116.5	134.0	152.9
DuPont analysis						
EBIT margin	18.7	7.0	-	11.5	9.4	9.7
Tax retention ratio (%)	73.8	87.9	-	70.4	71.4	71.3
Asset turnover (x)	1.4	2.0	1.5	1.4	1.4	1.3
RoC (Post-tax)	18.9	12.3	-	11.5	9.2	8.9
Cost of debt (post tax)	4.9	9.5	5.2	5.1	5.5	6.2
Leverage (x)	0.0	1.2	1.4	0.8	0.7	0.8
Operating RoE	19.0	15.8	-	16.4	12.0	10.9
Returns (%)						
RoCE (Pre-tax)	17.6	10.5	-	13.4	10.3	10.0
Angel RoC (pre-tax)	28.3	15.1	-	18.1	15.5	14.1
RoE	24.1	15.8	2.9	20.6	15.1	14.2
Turnover ratios (x)						
Asset turnover (gross block)	1.4	2.5	1.8	1.5	1.5	1.3
Inventory (days)	118	76	50	50	50	50
Receivables (days)	30	41	37	40	42	42
Payables (days)	66	72	55	55	50	50
WC cycle (days)	66	34	36	35	38	41
Solvency ratios (x)						
Net debt to equity	0.0	1.2	1.4	0.8	0.7	0.8
Net debt to EBITDA	0.0	3.2	7.3	1.7	2.3	2.4
Interest coverage	11.4	2.3	-	6.3	5.2	4.9

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Disclosure of Interest Statement

	Hindalco
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	