

## Hindalco Industries Ltd. INR 202

**Metals expand & so will their Manufacturers BUY**

May 16, 2008

**Company Background**

Hindalco Industries Ltd. (Hindalco), the flagship company of Aditya Birla Group, is an industry leader in aluminium & copper. It is one of the power house of metals & is considered as the world's largest aluminium rolling company, one of the biggest producers of primary aluminium in Asia & the world's largest custom smelter in Copper at a single location.

**Outlook of Aluminium & Copper Sector**

- ⇒ India caters to about 3% of the world's aluminium demand of 31.9 mn tn. India ranks 5<sup>th</sup> largest in bauxite with deposits of about 3 bn tn or 5% of world's deposits. It serves as a ready market for perpetually aluminium demanding nations like China.
- ⇒ Primary aluminium consumption rose by 9.9% in August 07 to 103,705 tn, in cumulative terms it increased by 11% to 51 mn tn.
- ⇒ The key consumer for aluminium industry are power, transportation, consumer durables, packaging & construction of which power sector a sector in domestic demand, is the highest consumer contributing 44%, followed by infrastructure, a priority sector with 17%, transportation about 10-12%, along with automobile sector which also showed a robust growth in car passenger sales (increased by 25%) & motor cycle market (which showed a sharp growth of 14%).
- ⇒ The growing demand of aluminium is highly supported by the government's electricity program as well were it is used in overhead high power transmission wires. Govt sector consumes about 31% of the total aluminium produced & is estimated to grow by more than 10% in future were its requirement could grow to 1.6 MT in the coming few years due to planned electrification program.
- ⇒ India exports more than 82,000 tn of aluminium annually. Aluminium demand tends to push back the supply owing to global increase in the aluminium production. It is expected that in the near future China will be the chief importer due to robust growth in its consumption; western countries also would not lie behind for consumption.
- ⇒ Copper is the key sector having an impact on Indian economy as it has a number of applications across several sector like telecom, power, construction, handicrafts, engineering, consumer durables etc.
- ⇒ Demand for copper is likely to continue which could touch a double digit figure as compared with about 5% globally, while in India it is has grown by 15% annually.
- ⇒ India has an installed capacity to manufacture around 100 mn tn copper a year, while the domestic demand is just 50 mn & the rest is being exported.
- ⇒ Copper smelter production recorded a string growth in FY 06-07, despite the tight concentrates market & low Tc/Rcs. In the CY08 it is expected that a new capacity of copper production would go on stream.

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**Info Codes**

Reuters	: HALC.BO
Bloomberg	: HNDLPP@IN
NSE	: HINDALCO
BSE	: 500440

**Market Data**

52 Wk Range (INR)	: 223 / 135
Shares in Issue (mn)	: 1159.3
Mkt. Cap (INR bn)	: 236.15
BSE 2 Wk Avg Volume	: 968215

**Share Holding Pattern (%)**

Promoters	: 31.42
MFs, FIs & Banks	: 15.09
FIIIs	: 13.04
Others	: 40.45

**Investment Theme**

Hindalco is on massive expansion plan of its aluminium business with capacities to increase by 3 fold in the next 3-4 years. Its expansion of Greenfield & Brownfield projects will help it increase its production capacity to ~1.5 mn tpa. Its copper unit at Dahej is the world's largest single location custom supplier copper smelter with a capacity of 0.5 mn tpa. Acquisition of Novelis gives Hindalco an instant access to world class technology for its rolled products. Most of the projects are to go on stream from FY09 which shows its growth visibility.

**Expect a Blast in the Furnace soon**

## Financial Updates

### ⇒ **March ended 08-09 (Standalone Figures)**

For the Mar 08, the company's Net Sales touched INR 192,010 mn up by nearly 5%. The Company however showed a Net Loss of 12% to INR 23,202 mn in comparison to previous FY. It EPS was around INR 21.9 as against INR 24.6 in last FY.

### ⇒ **4Q FY08**

For 4Q FY08, Hindalco reported a Net Sales of INR 50,102 mn as against INR 47,489 mn an increase of 5.5%. It Net Profit was INR 5,363 mn in comparison to previous year quarter to INR 7,213 mn. Its EBIDTA was INR 7,967 mn registering a downtrend of 620bps. Decrease in revenues was mainly due to increase in power & fuel cost, high staff expenses. Its Aluminium segment sales decline by 9% while copper sales volume showed some positive figures.

## Key Highlights

### ⇒ **Strong business background**

Hindalco enjoys a leadership position for its aluminium & copper business in India. It is one of the largest aluminium rolling company in the world & also one of the biggest producers of primary aluminium in Asia with its speciality in alumina, primary aluminium & various downstream products. The company is also one of the world's largest copper smelter unit located at Dahej, Gujarat with 0.5 mn tpa capacity & that too at a single location.

### ⇒ **Tie-up with NLC**

Hindalco, the country's biggest metal company has formed a JV with state-owned Mahanadi Coal & Neyveli Lignite Corporation to develop coal blocks for its thermal power project at its own captive power plant, as a part to feed its new aluminium project. It is expected that the group could have 15% stake in the JV, with 70% holding will remain with the Coal India subsidiary MLC & the rest 15% with Neyveli.

### ⇒ **Likely to acquire copper mines**

Hindalco has planned to purchase copper mines from abroad having its eye on the various countries like South America, Colombia, Peru & Argentina. With this acquisition the company has further planned to hike supply from its copper mines to meet 60% of its requirements from the current situation where it only supplies 40%. The company is also looking for reserves in the field of good quality bauxite.

### ⇒ **Metal king likely to enter the car market**

Hindalco, the country's largest aluminium company has a strategic plan to enter the car market for supplies, which has been so far dominated only by steel manufactures. The company will be soon preparing the different products for various segments of cars as a part of an integration process soon after the acquisition of Novelis (a USD 6 bn company). Hindalco will now make use of the Novelis Fusion Technology, a new process that simultaneously casts multiple alloy layers into a single aluminium rolling, ingot which is used in making lighter cars. Steel content in the car is currently estimated to be 60% of the total metal used in making the body of the car products which could be a beneficiary point for the company.

## Aluminium to set a new business

India has a huge reserves of high grade bauxite & it caters to about 3% of the world aluminium demand of 31.9 mn tn. There is wide boom in the power & automotive sector which has translated the future of the aluminium sector from bearish phase to bullish phase. This sector is gaining more attraction due to expected rise in prices on account of increased demand from China & Europe. The outlook of this sector seems could be much improved for Indian Companies because their competitors China & South Africa have restricted output growth due to shortage of power.

In China, the electricity supply balance is expected to tighten more & tariff discount to smelters have been removed due to which companies in China have limited their production of aluminium. Companies in China have decided to reduce their aluminium capacity output by more than 0.6 mn tn following power shortage.

Further BHP Biliton, which has a 1.3 mn tn aluminium capacity in South Africa, has recently decided to reduce its aluminium output by 120,000 tn for CY08 due to power shortage in South Africa

This would lead imbalance in global metal industry. Consequently, an average LME aluminium prices increased 12.2% QoQ to USD 2761 during Q4FY08, due to fall in the global aluminium production & the subsequent drop in its supply. On the other hand major aluminium players are on the expansion mode. The aluminium production which at the current stage is 1 mn tn p.a. is expected to further rise to 4 mn tn p.a. with an annual investments of INR 1,000 bn by various aluminium companies. Demand for aluminium is expected to grow by 6-8% over the next few years. Hindalco has a beneficiary point Novelis in its fold, but it had not started to show its true colours yet.

**Key Highlights (contd..)**⇒ **Joining hand with the giant player**

The AV Birla flagship Hindalco & the giant player in the power sector Tata Power Company would jointly develop a coal block in Jharkhand which will help both the companies in their up coming projects, by the way of supplying them with their related raw materials. The two of the companies will form a JV for the development of the mines, in which Hindalco will hold 70% of the venture. The Jharkhand government has recently allotted the mines for their projects.

⇒ **JV team deals with Airbus & Boeing**

Hindalco-Almex Aerospace (HAL), the JV team which manufactures specialty aluminium for the aerospace industry, has bagged a deal with the major aerospace suppliers Airbus & Boeing for its products used in their projects. This JV is likely to be 70:60 partnerships between HINDALCO & US based company Almex having its estimated plant of INR 1.5 bn. This plant is about to start in the CY08 having an initial capacity of 12,000 tons & which would later be increased a capacity of 46,000 tons p.a.

⇒ **HINDALCO's valuable acquisition**

Hindalco Industries Ltd completed its bid to acquire Utkal Alumina a JV with Alcan, which the company agreed to buy out 45% stake in the Canadian company. With this take over, Utkal Alumina is now 100% subsidiary of the company. It is expected that Hindalco & Alcan are jointly building a project with an estimated initial capex of INR 45,000 mn in which the Birla group could have 55% stake. This acquisition could be a valuable concern for HINDALCO as this could give an ownership of 195 mn tn of high grade bauxite (raw material used for making aluminium metal)

⇒ **Novelis to play a key role for HINDALCO**

Hindalco recently acquired aluminium player Novelis for USD 6 bn which holds 19% market share in global's aluminium rolled products. With this Hindalco will become a global integrated aluminium producer along with producing it at a low cost. Although Hindalco is considered as one of the lowest cost producer of aluminium in the world & this acquisition will help it to become a globally strong player. Novelis has been one of the major suppliers of high grade aluminium to one of the giant automobile industry Jaguar & Land Rover along with accessing valuable customers like General Motors & Coca Cola. Although steel has been widely used in high end cars, the world's major car industries are now adopting a turnaround strategy by substituting aluminium in cars, as it helps to lighten body weight. By adopting this option the car makers are now trying to sustain a long relationship with their suppliers which would directly help Hindalco to gain more clients & to increase this useful business. Novelis has been the leading supplier to most of the top auto companies & is the only one in North America & Europe for supplying of its related raw materials It would also help Hindalco to emerge as one of the biggest rolled aluminium products maker & one of the fifth largest integrated aluminium manufacturer across the globe. Novelis international presence will help Hindalco in spreading its wings in international markets as well.

**Company's expansion projects**

**Muri:** The company is likely to expand the production capacity of Muri Alumina refinery from current 111,000 tpa to 450,000 tpa. The production from this expanded facility is expected to be stepped up from CY08.

**Belgaum:** The allotment of the lease for bauxite mines for expansion of the alumina refinery capacity at Belgaum, Karnataka from 350 ktpa to 650 ktpa is still awaited.

**Aditya Aluminium:** This integrated project which encompasses 1-1.5 mtpa alumina refinery, 260,000 to 325,000 tpa smelter & 750 MW captive power plant is on its way as being planned. The smelter is expected to be commissioned by March 2011 & refinery by May 2011.

**Mahan:** This project with a smelter capacity of 325 ktpa & captive power plant (CPP) of 750 MW is on schedule. The company along with Essar Group has been allocated a coal block for its requirement of CPP, whose production is likely to start by October 2009. The smelter is expected to roll out by September 2012.

**Latehar:** Tubed coal mine have been allocated jointly with Tata Power for this project with a smelter capacity of 325 ktpa & Captive Power Plant of 750 MW & it is to be commissioned by March 2010.

**Utkal:** Work on Utkal Alumina's 1.5 mtpa alumina refinery is on its way. Mining activities is likely to start by March 2009 & commissioning to be expected by March 2010.

Hindalco (15%) along with Mahanadi Coalfields Ltd. (70%) & Neyvelli Lignite Corporation Ltd. (15%) coal blocks has been allocated to the Talabira II & III for jointly developing & mining coal for captive consumption.

**Key Highlights (contd....)**⇒ **Divisional performance**

**Aluminium division:** The performance of the Aluminium was affected mere due to 11% drop in metal realisation & sharp increase in its related raw material costs. Its Net Sales reported a 4% negative change while divisional EBIT fell by 31% for Q4 FY08, while EBIT Margin were 29% versus 39% on Y-o-Y basis. Actual sales volumes increased by 7% in FY08 as against FY07. The domestic Aluminium industry has grown by only 7% in FY07 as against 20% in FY06. One positive aspect is its high increase in sales volumes of some of its value added products.

Sales	Volumes			Revenues		
	Q4FY08	Q4FY07	Chg%	Q4FY08	Q4FY07	Chg %
Alumina	62,197	86,428	(28.0)	1,530	1,970	(22.3)
Prim. metal	41,394	41,531	(0.3)	4,650	5,370	(13.4)
Wire Rod	18,370	17,439	5.3	2,190	2,330	(6.0)
Roll prod	47,055	45,860	2.6	6,080	6,920	(12.1)
Extrusions	10,962	10,429	5.1	1,640	1,710	(4.1)
Foils	7,492	5,949	25.9	1,570	1,320	18.9
Wheels	43,532	46,118	(5.6)	90	100	(10.0)
Others	-	-	-	810	700	(15.7)

(Q4FY08 Aluminum division-performance)

**Copper Division:** For the Q4 FY08 its Copper business reported a Net Sales of INR 31,550 mn increasing by 16%, EBIT was INR 1,710 with its EBIT margins to 5.4% versus 5% in 4Q FY07. Its Cathode production rose by 12% to 324 KT for FY08, while Continuous Cast Rod production rose by 28% to 140 KT. Its EBIT grew by 25% on the back of higher production in domestic sales plus by its value added products.

Sales	Volumes			Revenues		
	Q4FY08	Q4FY07	Chg%	Q4FY08	Q4FY07	Chg%
Cu cathode	49,131	51,275	(4.2)	15,350	13,910	10.4
CC Rods	35,179	31,039	13.3	11,630	8,680	34.0
DAP/NPK	43,666	54,389	(19.7)	770	840	(8.3)
H <sub>2</sub> SO <sub>4</sub>	203,817	153,789	(32.5)	660	130	407.7
Gold	1,941	3,041	(36.2)	2,060	2800	(26.4)
Silver	16,326	19,227	(15.1)	340	360	(5.6)
Others	-	-	-	740	380	94.7

(Q4FY08 Copper division-performance)

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 05	Mar 06	Mar 07
Revenue (INR mn)	98584.2	116902	188107
<b>Rev. growth (%)</b>	52.77	18.58	60.91
EBITDA (INR mn)	26039.7	28220.5	42954.4
Net profit (INR mn)	13293.6	16555.5	25643.3
Shares outstanding (mn)	92.78	1159.3	1159.3
EPS (INR)	143.3	14.3	22.1
<b>EPS growth (%)</b>	57.95	(90.03)	54.89
P/E (x)	0.4	5.7	5.3
EV/ EBITDA	3.5	34.9	33.1
<b>ROCE (%)</b>	18.6	17	21.6

**Novelis An inside story**

Aditya Birla Group's owned flagship company Hindalco Industries Ltd, has acquired an Atlanta Based firm Novelis Inc. for an estimated figure of USD 6.0 bn. However the company will pay USD 44.93/share in cash for Novelis stocks & assuming to pay around USD 2.4 bn in the way of debt. Novelis is a global leader in aluminium rolled products & aluminium can recycling, having a share of 19% in global market, while Hindalco has 60% share in Indian market for its rolled products. In 2006 its shipments mainly include Beverage Cans (45%), Construct. / Industrial (18%), Foil / Packaging (17%), Transportation (9%), Litho (3%) & Others (7%). Novelis produces as estimated around 19% of the world's flat rolled aluminium products with annual production capacity of 2.8 mn tn & with its presence in more than 11 countries. Novelis is also a world leader in recycling of used aluminium beverage cans, as it recycles more than 35 bn cans annually. It is No. 1 rolled products producer in Europe, South America & Asia & ranks No. 2 producer in North America. Through its advanced production capabilities, it supplies aluminium sheets & foils to the automotive & transportation industries, beverage & food packaging, construction & industrial & printing markets. Novelis incurred a Net loss of USD 151 mn for the first quarter of FY08, as compared to Net Income of USD 6 mn during the same period a year ago.

**Novelis Regional Overview**

Country Name	Sale (mn)	Market Positn	Shipnts (KT)
N.America	3721	# 2	1209
Europe	3851	# 1	1086
Asia	1711	# 1	505
S.America	889	# 1	313

(Source: Company data)

## Financial Statements

### Income Statement

(INR mn)

Year ended 31 <sup>st</sup>	Mar 05	Mar 06	% Chg	Mar 07	% Chg
Total Sales + Excise	104637.1	124834.3	19.30	198804.8	59.25
Other Income	3518.8	2891.2	(17.84)	5386.9	86.32
Change in Stocks	2556.5	10363.0	305.36	4438.8	(57.17)
Raw Material Con.	49176.6	69268.0	40.86	115866.6	67.27
Employee Exp.	4131.2	5868.9	42.06	6661.3	13.50
Excise	9571.7	10823.5	13.08	16084.7	48.61
Other Exp.	21793.2	23907.6	9.70	27063.5	13.20
Operating Exp.	82116.2	99505.0	21.18	161237.3	62.04
Operating Profit	22520.9	25329.3	12.47	37567.5	48.32
Total Interest	1649.6	1996.7	21.04	1829.1	(8.39)
Gross Profit	24390.1	26223.8	7.52	41125.3	56.82
Net Depreciation	4632.6	5166.8	11.53	5528.0	6.99
Total Taxation	6463.9	4501.5	(30.36)	9954.0	121.13
Net Profit/Loss	13293.6	16555.5	24.54	25643.3	54.89

### Four Years Balance Sheet

(INR mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 04	Mar 05	Mar 06	Mar 07
<b>SOURCES OF FUNDS</b>	<b>94225.0</b>	<b>114665.9</b>	<b>144866.4</b>	<b>197659.2</b>
Equity Share capital	924.8	927.8	985.7	1043.2
Share Application Money	0.0	0.0	31.0	4.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	67654.2	75738.1	95076.9	123137.1
Loan Funds	17259.4	29523.4	28480.4	64102.1
Unsecured Loans	8386.6	8476.6	20292.4	9372.8
<b>USES OF FUNDS</b>	<b>94225.0</b>	<b>114665.9</b>	<b>144866.4</b>	<b>197659.2</b>
Gross Block	66367.1	86326.6	102279.5	109767.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	19112.1	30517.9	34844.5	40028.6
Net Block	47255.0	55808.7	67435.0	69739.1
Capital Work in Progress	4676.6	13229.8	8329.2	14764.2
Investments	33772.1	37021.5	39713.0	88047.8
<b>Net Current assets</b>				
Current Assets	29119.1	44764.4	73151.0	77167.2
Less : Current Liabilities	20745.0	36479.0	44214.7	52418.8
Total Net Current Assets	8374.1	8285.4	28936.3	24748.4
Misc. Expenses not written	147.2	320.5	452.9	359.7
<b>NOTE</b>				
Bk Val Unquoted Investments	31357.7	34587.2	36896.2	76670.8
Mkt Val. Quoted Investments	16902.0	8025.9	14002.3	51592.8
Contingent Liabilities	24754.6	22300.7	22594.4	14481.1
Dividend (%)	165	200	220	170

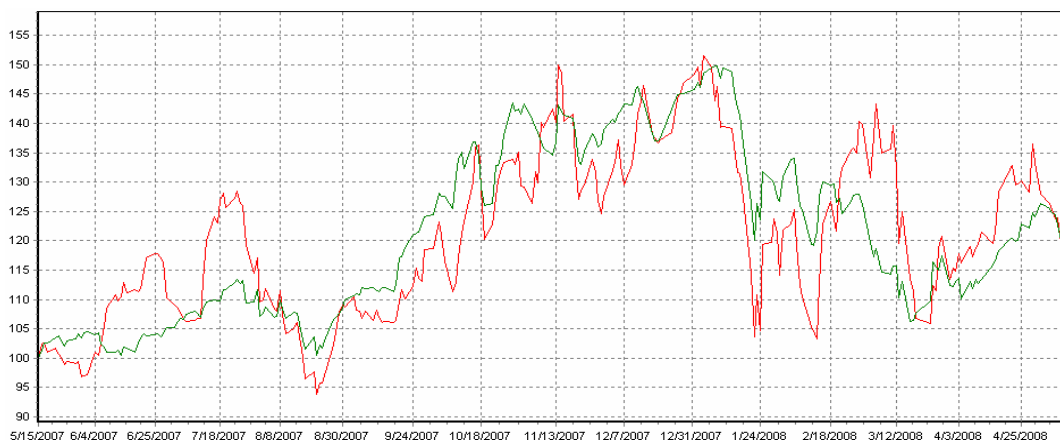


## Quarterly Income Sheet

(INR mn)

Quarter ended	Mar 07	June 07	Sep 07	Dec 07
Net Sales	47489.0	46779.0	49597.0	45317.0
Cost Of Sales	33438.0	34339.0	37242.0	34611.0
Operating Profit	14051.0	12440.0	12355.0	10706.0
Recurring Income	1233.0	1246.0	1098.0	1143.0
Adjusted PBDIT	15284.0	13686.0	13453.0	11849.0
Financial Expenses	577.0	562.0	632.0	622.0
Depreciation	1451.0	1428.0	1446.0	1460.0
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	13256.0	11696.0	11375.0	9767.0
Tax Charges	2366.0	2070.0	1809.0	1640.0
Adjusted PAT	10890.0	9626.0	9566.0	8127.0
Non Recurring Items	(97.0)	0.0	0.0	0.0
Other Non Cash Adjust	3580.0	3597.0	3138.0	2700.0
Net Profit	7213.0	6029.0	6428.0	5427.0

## 52 Wk – Index Relative Percentage Appreciation



Hindalco with Sensex

## Risks Associated

The metal companies revenues fluctuates mainly due to changes in commodity price changes from international as well as domestic environment while exchange rates & interest rates are other two concerns for these companies. Commodities prices are also affected due to high increase in power costs thus increasing their capital costs. Delays in completion of the projects or expansion mode could also cost high expenditure. Adverse changes in the currency exchange rates could have a negative effect on the financial results & the competitiveness of various metals products could also affect the companies. Low cost metals offered from international players could one of the biggest risks for the domestic players.

## In a Nutshell

Hindalco, the flagship company of the Aditya Birla group is one of the largest aluminium rolling company in the world & also one of the biggest producer of primary aluminium along with having the world's largest copper smelter. It has established itself as one of the global intergrated aluminium producer with low cost alumina & aluminium production facilities by acquiring Novelis, one of the biggest global player in aluminium section for USD 6 bn. The company along with Mahanadi Coal & Neyveli Lignite Corporation has entered into a JV for its related projects of an estimated amount of USD 1.8 bn which includes projects like 1 MT alumina refinery, a 25 mn tn aluminium smelter & 660 MW captive power plant. Recently Hindalco captured a 100% stake in Utkal Alumina which will give it the ownership of 195 mn tn of high grade bauxite. Its has also planned to expand alumina capacity at Muri & Hirakud. In the present situation world metal markets are facing problem with the main competitors China & South Africa are facing power shortages which is likely to affect their production facilities of aluminium, which is a positive sign for the Indian aluminium companies.

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## Rating Interpretation

<b>Buy</b>	: Expected to appreciate more than 20% over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate up to 20% over 12-months	<b>Sell</b>	: Expected to depreciate more than 10% over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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