

Hindalco Industries Ltd. (HNDL IN)

December 24th, 2009

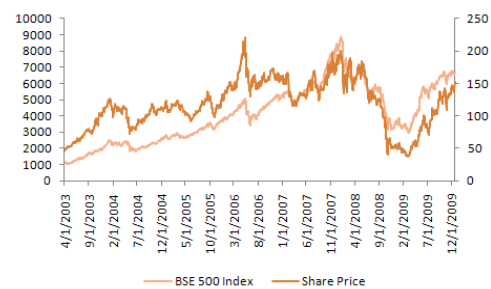
VISIT NOTE

Industry **Non ferrous metals**

Market Data

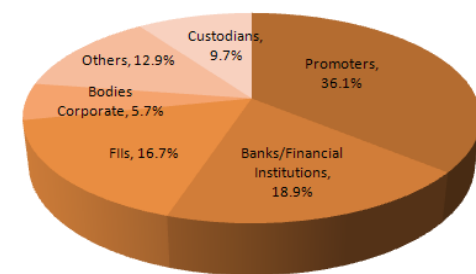
Market Cap (Rs.mn)	260,100
Share Cap (mn)	1,700
52 wk High/Low (Rs.)	155 /37
Avg. Volume (weekly)	1,618,618

Price Performance (RIC: HALC.BO, BB: HNDL IN)



Shareholding Pattern

(As on 30th September, 2009) (%)



Financials (Cons)	FY06	FY07	FY08	FY09
Net sales (Rs bn)	121	193	600	656
EBIDTA (Rs bn)	28	44	66	30
PBT (Rs bn)	20	37	30	-6
PAT (Rs bn)	16	27	22	5
EBIDTA margin	23.5%	22.9%	11.1%	4.5%
PAT margin	13.0%	13.9%	3.7%	0.7%
EPS (Rs)	16.0	26.7	17.0	3.2
Price/Earnings (x)	9.6	5.7	9.0	47.5
EV/EBIDTA (x)	8.7	3.5	5.3	14.0
Price/Bookvalue (x)	2.4	1.2	1.1	1.6

Aggressive domestic capacity expansion

Not Rated (CMP: Rs 153)

Market Cap: Rs 260bn; USD 5.5bn

We recently met the management of Hindalco Industries Ltd (HIL) to have an understanding of the corporate strategy and their expansion plans going forward. HIL appeared very confident to complete their expansion projects within the announced timeframe. We expect significant growth for HIL from FY12E onwards once most of the expanded capacities start operations. HIL doesn't expect any funding problem for their projects. In case of Novelis, we expect additional EBITDA margins ~USD50-60mn per quarter from Q4FY10, post completion of their Can ceiling price contract. To conclude, commissioning of new capacities and margin expansion in Novelis would be key triggers for future earnings growth.

Key take-aways from the meeting

Indian Operations

- HIL does not have any capacity expansion plans in its Copper business. HIL intends to increase its capacity utilization going forward, which was 70% during FY09. As of now, HIL has 430,000MT of effective copper smelting capacity, as it had shut down operations at one of its smelting facilities with a capacity of 70,000MT during FY07 due to lower TcRc.
- HIL is maintaining its project completion dates of Utkal Alumina, Aditya Aluminium, Mahan Aluminium and de-bottlenecking at Hirakud at July 2011, October 2011, July 2011 & July 2011 respectively.
- A Can rolling mill is expected to be transferred from Novelis' facility to the Indian operations at Hirakud, having an annual capacity of 250,000 - 300,000MT & is expected to start production during FY12.
- The company is not looking to raise additional equity funds as majority of the equity funding requirement has already been tied up. HIL has raised Rs 27.9bn through issuance of equity shares to QIBs resultant into equity dilution of ~11% post issue. HIL intends to raise additional funds requirements through debt. We expect HIL to raise ~Rs 173bn to part finance their project costs by FY12.

International Operations – Novelis

- Presently, Novelis is having approximately 3.1 to 3.2mn MT of rolling capacity. Currently it is operating at 90% peak capacity utilization & none of its plants are shut down at present.
- The premium charged on the selling product price (above the LME price) varies between USD500 to USD1800/MT depending upon the specifications of the product.
- Novelis does not have any capacity expansion plans for the next 2 years.
- Novelis production breakup: About 50% for the cans segment, 30% for the automobile industry and remaining for the packaging industry & others.
- The selling price of can sheets is presently restricted by Can price Ceiling contracts, which would expire in December 2009. Post expiry of these contracts, there would be an improvement in EBIDTA/MT as Novelis would no longer be bound by long term fix price contracts.
- Aluminium production estimate for FY10E is 2.7mn MT.
- The third quarter is generally a slack season, hence reported profits of Q3FY10E is expected to be lower than other quarters.
- Novelis has set up a sourcing centre via a JV to source cans for recycling.

Eric Martins

eric@systematixshares.com
(+91 22 3029 8253)

Rohit Jain

rohitj@systematixshares.com
(+91 22 3029 8269)

COMPANY OVERVIEW

Hindalco Industries Ltd. (HIL), a part of Aditya Birla Group, is India's largest producer of copper and aluminium. For CY08, HIL was the fifth largest aluminium producer in Asia and twelfth largest aluminium producer in the world in terms of volume.

Copper Business

In the copper production operations, HIL is a custom smelter and produces copper through smelting and refining copper from copper concentrate and converting refined copper cathode into continuous cast rod. HIL sources a portion of copper concentrate requirements from its own mines in Australia and the balance is sourced from third parties. HIL has three copper smelting facilities with an installed capacity of 0.5mn MT. The company has suspended operations at one of its copper smelter since October, 2006, as a result of scarcity of copper concentrate in the international markets and the resulting adverse change in TcRc.

HIL's copper operations are supported by two copper mines in Australia. During FY09, ~23.5% of HIL's copper concentrate requirements came from these two mines.

Table1: Company's sales in MT of copper products (Consolidated)

(MT)	FY07	FY08	FY09
Copper cathodes	196,586	185,774	156,004
Continuous cast rods	109,700	138,543	146,323
Total copper	306,286	324,317	302,327
Gold	10.5	9.2	4.5
Silver	48.7	53.5	36
Phosphatic fertilizers	220,935	148,250	175,308
Sulphuric acids	559,033	765,167	751,196

Source: Company

Aluminium Business

Domestic Operations

HIL's Indian aluminium operations are integrated and consist of bauxite mining (high quality), alumina refining, smelting and converting primary metal into value added products along with captive power plant with coal mining. HIL sells excess of alumina produced to third party. HIL sells primary aluminium in the form of ingots, billets and wire rods, value added products in the form of rolled products, extrusions and foils. HIL has production capacity of 1.5mn MT for alumina refinery and 0.488mn MT for aluminium smelting. HIL's Indian operations at Hirakud and Renukoot facilities are within 25th percentile of operating costs for production of aluminium globally.

As of March 31st, 2009, HIL had a total potential bauxite deposits of 442mn MT which comprised of proven reserves of 108mn MT, probable reserve of 194mn MT and possible reserve of 140mn MT. Total potential bauxite deposits includes 177mn MT of bauxite for which HIL has applied for mining leases in the States of Orissa, Maharashtra, Karnataka, Jharkhand and Chhattisgarh. HIL sourced 67.4% of bauxite requirements from these mines during FY09.

HIL sources majority of its coal requirement for Renuagar captive power plant from Coal India Ltd. and for Hirakud captive power plant from its own coal mine Talabira coalfields. As on March 31st, 2009, total coal reserves were 233mn MT which comprised proven reserves of 114mn MT and probable and possible reserve of 119mn MT.

International Operations

On May 15th, 2007, HIL acquired Novelis, the world's leading aluminium rolled products producer based on shipment volume for FY09. Through Novelis, HIL is the largest aluminium rolled products producer in Europe and South America, and the second largest producer in North America and Asia for FY09. Novelis is also the world leader in recycling used aluminium beverage cans (recycling ~39bn used beverage cans in FY09). Novelis operates 31 plants in 11 countries and produces aluminium sheet and light gauge products for customers in high-value markets. Approximately 32% of Novelis' aluminium rolled products produced were made with recycled aluminium in FY09 which consume ~5% of the energy needed to produce primary aluminium.

Table 2: Company's sales in MT of aluminium products (Consolidated)

(MT)	FY07	FY08	FY09
Hydrate and alumina	299,762	259,627	238,350
Primary aluminium (ingots/billets/wire rods)	207,042	369,418	486,822
Value added products (rolled, extrusion and foils)	234,313	2,890,700	2,977,247
Wheels (no.) – Stopped production from July 16, 09	188,772	173,537	144,368

Source: Company

Table3: Aluminium Capacity by FY12E

	FY09	FY10	FY11	FY12
Alumina	1,500,000	1,500,000	1,500,000	3,000,000
Primary aluminium	488,000	500,000	500,000	1,276,000
Value added aluminium	276,000	276,000	276,000	526,000

Source: Company

New Initiatives and Expansion Plans

Recently, HIL has completed expansion of its aluminium smelting capacity from 143,000MT to 155,000MT in August, 2009 at Hirakud in Orissa. Total aluminium smelting capacity has increased from 488,000MT to 500,000MT.

Table 4: Capacity Expansion Plans and Status

Project	Capacity	Project cost (Rs mn)	Spending till Sep 30th, 2009	Raw material linkages	Commencement date
Utkal Alumina Project	1.5mn MT - Alumina refinery 90MW - Cogeneration power plant	55,600	12,289	Yes	July, 2011
Aditya Aluminium Project	359,000MT - Aluminium smelter 900MW - Captive power plant	82,140	8,078	Yes	Oct, 2011
Mahan Aluminium Project	359,000MT - Aluminium smelter 900MW - Captive power plant	82,140	6,622	Yes	July, 2011
Hirakud Aluminium De-bottlenecking Project	Capacity expansion from 155,000MT to 213,000MT at Hirakud 100MW - Captive power plant	8,930	-	-	July, 2011
Hirakud Can Body Project	250,000MT - Rolling Mill	8,050	-	-	July, 2011
Aditya Refinery Project	1.5mn MT - Alumina refinery 90MW - Cogeneration power plant	53,000	-	Yes	June, 2013
Jharkand Aluminium Project	359,000MT - Aluminium smelter 900MW - Captive power plant	82,140	-	Yes	June, 2013
Belgaum Alumina De-bottlenecking Project	Capacity expansion from 138,000MT to 316,000MT of alumina refinery	4,500	-	-	Drawing board stage

Source: Company

Utkal Alumina Project

HIL is building a 90MW cogeneration power plant and 1.5mn MT alumina refinery in Tikri, Orissa, which, after de-bottlenecking, is intended to have a capacity of 2.0mn MT within three years of the refinery commencing operations. The refinery will be supplied by a 8.5mn MT bauxite mine located in close proximity to the refinery, which is expected to commence operations in 2010. The coal for the 90MW cogeneration power plant is intended to be supplied by a 1.0mn MT coal linkage. The total estimated cost of this project is Rs 55,600mn and HIL has incurred Rs 12,289mn in costs as of September 30, 2009.

Aditya Aluminium Project

The Aditya Aluminium project in Sambalpur, Orissa includes construction of a 359,000MT aluminium smelter and a 900MW captive power plant in Lapanga. HIL has entered into a joint venture with Mahanadi Coalfields Limited and Nevely Lignite Corporation Limited through which HIL will have rights to 3mn MT of coal per year from this coal mine. Initial production from the smelter is expected by October 2011. The total estimated cost of this project is Rs 82,140mn and HIL has incurred Rs 8,078mn in costs as of September 30, 2009.

Mahan Aluminium Project

HIL intends to build a 359,000MT aluminium smelter and a 900MW captive thermal power plant near Bargawan, Madhya Pradesh. The coal for the power plant is intended to be supplied through access to 3.6mn MT of coal through a joint venture with Essar Power. Initial production from the smelter is expected by July 2011. The total estimated cost of this project is Rs 82,140mn and HIL has incurred Rs 6,622mn in costs as of September 30, 2009.

Hirakud Aluminium De-bottlenecking Project

HIL plans to expand smelter capacity at aluminium smelter at Hirakud from 155,000MT to 213,000MT. HIL expects to complete the expansion of aluminium smelter at Hirakud by July, 2011. The project also includes developing captive power generation capacity of 100MW, increasing power generation capacity to 467.5MW. HIL has entered into a technology agreement for the use of GAMI technology in this facility. The total estimated cost of this project is Rs 8,930mn.

Hirakud Can Body Project

HIL intends to develop a can body stock source in Hirakud. HIL has shut down Novelis' plant at Rogerstone, U.K. and is in the process of transferring key equipment from the plant to Hirakud. HIL has completed the evaluation of undertaking such a transfer, obtained quotations for dismantling the equipment at Rogerstone and has commenced site selection activity in Hirakud. HIL intends to commence dismantling equipment shortly. HIL expects to complete the project in Hirakud by July 2011 at a total estimated cost of Rs 8,050mn.

Aditya Refinery Project

The Aditya Refinery project in Orissa includes the construction of a 1.5mn MT alumina refinery, which, after de-bottlenecking, is intended to have a capacity of 2.0mn MT within three years of the refinery commencing operations, and a 90MW cogeneration power plant. The refinery will be supplied with bauxite by a 4.2mn MT bauxite mine located at Kodingamali, three kilometres from the refinery. The total estimated cost of this project is Rs 53,000mn. The project is expected to be complete by June 2013.

Jharkhand Aluminium Project

HIL intends to build a 359,000MT aluminium smelter at Jharkhand. HIL has access to 3.6mn MT coal reserve at Auranga coal fields in Jharkhand through a joint venture with Tata Power to supply coal for a captive thermal power plant which is expected to have a capacity of 900MW. The total estimated cost of this project is Rs. 82,140mn. HIL expects to commission the smelter and captive power plant by June 2013.

Belgaum Alumina De-bottlenecking Project

HIL intends to increase production at our specials alumina facility at Belgaum from 138,000MT to 316,000MT. As part of the project, HIL also intends to construct an 18MW cogeneration power plant and a railway siding facility. The total estimated cost of this project is Rs 4,500mn. HIL is yet to finalise a completion date for this project.

Public holding more than 1% of Total no. of shares

Table5: Public Holding more than 1% of Total no. of shares

S.No.	Name of the Shareholder	%
1	Morgan Guaranty Trust Company of New York	9.74%
2	LIC of India	11.09%
3	Bajaj Allianz Life Insurance Company	2.14%
4	State Bank of India	1.10%
5	Franklin Templeton Investment Funds	2.65%
Total		26.72%

Source: Bombay Stock Exchange

Management Team of HIL

HIL's Board of directors comprises of 9 Non-Executive directors and 1 Managing Directors. Of these, 6 Directors are Independent Directors. Mr. D.Bhattacharya is the Managing Director of HIL.

For any queries contact us at:

Institutional Team

Sanjay Vaid	President – Institutional Equity	+91-22-3029 8052	sanjayvaid@systematixshares.com
Equity Sales			
Chirag Vora	VP – Sales	+91-22-3029 8092	chiragvora@systematixshares.com
Pankaj Karde	AVP – Sales	+91-22-3029 8265	pankajkarde@systematixshares.com
Derivatives			
Raghvendra Kedia	VP – Sales (Derivatives)	+91- 22- 3029 8091	rkeddia@systematixshares.com
Manoj Murlidharan	Sr. Derivatives Analyst	+ 91-22- 3029 8272	manojm@systematixshares.com
Nayan Narnoli	Derivatives Dealer	+ 91-22- 3029 8180	nayan@systematixshares.com
Sales Trading / Dealing			
Ronak Maniar	Sales Trader	+91- 22- 3029 8252	ronakm@systematixshares.com
Vinod Bhuvad	Sales Trader	+ 91-22- 3029 8267	vinodbhuvad@systematixshares.com
Vijayendra Devadiga	Trader	+ 91-22- 3029 8268	vijayendrad@systematixshares.com
Sneha Kamat	Dealer	+ 91-22- 3029 8268	snehakamat@systematixshares.com
Equity Research			Telephone: + 91-22- 3029 8000
RESEARCH ANALYST	SECTOR ALLOCATION	DIRECT Nos.	E-mail
Sudarshan Narasimhan	Sr. Vice President –Oil & Gas, Petrochemicals	+ 91-22- 3029 8293	sudarshan@systematixshares.com
Surya Narayan Patra	Sr. Assistant Vice President - Pharma	+ 91-22- 3029 8186	suryapatra@systematixshares.com
Madhu Babu	Sr. Analyst - IT, Telecom	+ 91-22- 3029 8258	madhu@systematixshares.com
Eric Martins	Sr. Analyst – Metals & Mining, Pipes	+ 91-22- 3029 8253	eric@systematixshares.com
Rabindra Nath Nayak	Sr. Analyst - Power, Gas Utilities	+ 91-22- 3029 8260	rabindranayak@systematixshares.com
Jyoti Khatri	Sr. Analyst - Banking	+ 91-22- 3029 8187	jyotikhatr@systematixshares.com
Ravikant Bhat	Analyst - Banking	+ 91-22- 3029 8256	ravikantb@systematixshares.com
Kavita Rawat	Analyst - Hotels, Retail, FMCG	+ 91-22- 3029 8259	kavitar@systematixshares.com
Rohit Jain	Analyst - Metals, Pipes	+ 91-22- 3029 8269	rohitj@systematixshares.com
Rahul Metkar	Analyst – Construction, Cement	+ 91-22- 3029 8254	rahulmetkar@systematixshares.com
Reshma Bathija	Analyst – Oil & Gas, Petrochemicals	+ 91-22- 3029 8294	reshmab@systematixshares.com
Vinod Birla	Associate	+ 91-22- 3029 8257	vinodbirla@systematixshares.com
Tulika Sagoo	Associate	+ 91-22- 3029 8292	tulikagoo@systematixshares.com

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BUY (B)	The stock's total return is expected to exceed 20% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to be within 10-20% over the next 12 months.
REDUCE (R)	The stock's total return is expected to be within 0-10% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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SYSTEMATIX SHARES & STOCKS (I) LTD.

Head Office J. K. Somani Building, 2nd Floor, British Hotel Lane,
Fort, Mumbai, Pin: 400001, Tel: +91 22 66198000, Fax: +91 22 66198029

Registered Office EGA Trade Center, 4th Floor, 809-, Poonamalle High Road,
Kilpauk, Chennai, Pin: 600010 Tel: +91 44 26612184/ 87/ 88 Fax: +91 44 26612190