



Hindalco

STOCK INFO.	BLOOMBERG
BSE SENSEX: 19,838	HNDL IN
	REUTERS CODE
S&P CNX: 5,901	HALC.BO

31 October 2007

Neutral

Previous Recommendation: Neutral

Rs196

Equity Shares (m)	1,306.8
52-Week Range	208/125
1,6,12 Rel. Perf. (%)	-1/-6/-49
M.Cap. (Rs b)	256.1
M.Cap. (US\$ b)	6.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	199,548	28,006	24.2	77.5	8.1	1.9	22.8	18.8	1.3	5.8
3/08E	682,907	13,732	10.5	-56.5	18.7	1.7	9.0	7.0	0.8	8.7
3/09E	734,229	21,581	16.5	57.2	11.9	1.4	11.7	8.9	0.7	6.9

Consolidated

- Hindalco reported a PAT of Rs6.4b for 2QFY08, down 1% YoY, but much higher than our estimate of Rs5b due to lower energy costs and lower tax rate. Composition of other income shifted significantly in favor of tax-free treasury income, resulting in tax savings of Rs600m and lower tax rate of 22%.
- Net sales grew 7% YoY to Rs49.6b, driven by 14% growth in Copper business and 4% decline in Aluminum business. Copper volumes increased 18% YoY to 79,000 ton while Aluminum volumes increased 7.2% YoY to 118,000 ton. Average blended realization of Aluminum declined 11% YoY despite 3% higher prices on the LME due to 13% appreciation of the rupee against the dollar and lower duty protection (import duty down from 7.5% to 5%).
- EBITDA declined 6.6% YoY to Rs9.2b. Segmental EBIT of Aluminum declined just 1% due to savings in energy cost, in turn driven by availability of higher calorific value coal from existing mines. Segmental EBIT of Copper business declined 36% YoY due to poor Tc-Rcs despite higher volumes.
- We expect earnings to decline in 3QFY08 due to weaker Aluminum prices and falling Tc-Rcs. We are upgrading our PAT estimate for FY08 to Rs23b (earlier Rs19b) to factor in stronger 2QFY08 performance and savings in energy costs. Novelis results will be declared later and consolidated results will be available only at the end of the financial year. Interest expenses on bridge loan for acquisition of Novelis will not impact the results of either company and will also be known only at the end of the year. The stock trades at a P/E of 11.9x FY09E and EV/EBITDA of 6.9x FY09E. Maintain **Neutral**.

QUARTERLY PERFORMANCE (STANDALONE)

(RS MILLION)

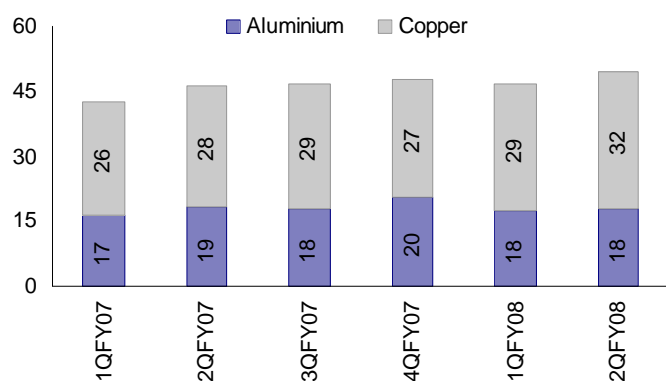
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	42,737	46,342	46,562	47,489	46,779	49,597	50,545	53,422	183,130	200,343
Change (YoY %)	93.6	74.2	62.0	29.8	9.5	7.0	8.6	12.5	60.7	9.4
Total Expenditure	33,403	36,478	36,109	36,340	37,936	40,380	42,296	44,596	142,330	165,208
EBITDA	9,334	9,864	10,453	11,149	8,843	9,217	8,249	8,826	40,800	35,135
Change (YoY %)	54.4	102.2	79.3	19.9	-5.3	-6.6	-21.1	-20.8	56.6	-13.9
As % of Net Sales	21.8	21.3	22.4	23.5	18.9	18.6	16.3	16.5	22.3	17.5
Interest	634	515	698	577	562	632	657	682	2,424	2,533
Depreciation	1,341	1,353	1,384	1,576	1,428	1,446	1,446	1,446	5,654	5,766
Other Income	776	1,108	584	1,233	1,246	1,098	700	700	3,701	3,744
PBT (before EO item)	8,135	9,104	8,955	10,229	8,099	8,237	6,846	7,398	36,423	30,580
Extra-ordinary Income	-	-727.0	-	(650)	-	-	-	-	-1,377.0	-
PBT (after EO item)	8,135	8,377	8,955	9,579	8,099	8,237	6,846	7,398	35,046	30,580
Total Tax	2,120	2,401	2,516	2,366	2,070	1,809	1,924	2,079	9,403	7,882
% Tax	26.1	28.7	28.1	24.7	25.6	22.0	28.1	28.1	26.8	25.8
Reported PAT	6,015	5,976	6,439	7,213	6,029	6,428	4,922	5,319	25,643	22,699
Adjusted PAT	6,015	6,495	6,439	7,702	6,029	6,428	4,922	5,319	26,651	22,699
Change (YoY %)	61.1	107.4	89.5	22.9	0.2	-1.0	-23.6	-30.9	61.2	-14.8

E: MOST Estimates

Volume growth drives revenues

Net sales grew 7% YoY to Rs49.6b, driven by 14% growth in Copper business and 4% decline in Aluminum business. Copper volumes increased 18% YoY to 79,000 ton while Aluminum volumes increased 7.2% YoY to 118,000 ton. Average blended realization of Aluminum declined 11% YoY despite 3% higher prices on the LME due to 13% appreciation of the rupee against the dollar and lower duty protection (import duty down from 7.5% to 5%).

SEGMENTAL REVENUE (RS B)



Source: Company/Motilal Oswal Securities

Copper: earnings decline less steep; by-products aid profitability

Segmental EBIT of Copper business declined 36% YoY due to sharp decline in TcRc and reduced duty differential at 3.1% (v/s 5.7% in 2QFY07), despite higher volumes. The realized EBIT (USC/lb), though substantially lower YoY, improved QoQ. The company sold more Gold and Silver during the quarter, which helped improve the profitability of this segment.

QUARTERLY TRENDS OF COPPER DIVISION

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08
Produc. (000 tons)	65	71	73	81	79	79
Change YoY (%)	51	26	65	22	23	11
Sales (000 tons)	66	67	76	82	78	79
Change YoY (%)	61	15	47	22	20	17
Revenue (Rs b)	26.2	27.8	28.6	27.1	29.3	31.8
Change YoY (%)	202	123	119	40	12	14
3M LME Avg. (\$/ton)	7,251	7,670	7,087	5,880	7,578	7,624
Change YoY (%)	114	104	65	19	5	-1
TcRc (USc/lb)	28.6	36.0	NA	NA	31.2	NA
EBIT (USc/lb)	14.8	28.6	21.3	17.1	15.7	18.0
EBIT (Rs b)	1.0	2.0	1.6	1.4	1.1	1.3
Change YoY (%)	85			14	15	-36

Source: Company/Motilal Oswal Securities

SALES VOLUMES (000 TON)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08		
						2QFY08	YOY (%)	QOQ (%)
Copper (Saleable)	66	67	76	82	78	79	17	0
Copper Cathodes	38	41	50	51	45	43	5	-3
CC Rods	28	26	25	31	34	35	37	5
DAP/NPK	74	56	37	54	38	30	-45	-19
Sulphuric Acid	107	145	154	154	173	206	42	19
Gold (RHS)	2,712	1,671	3,060	3,041	1,730	3,503	110	102
Silver (RHS)	9,065	11,528	8,896	19,227	9,477	13,165	14	39

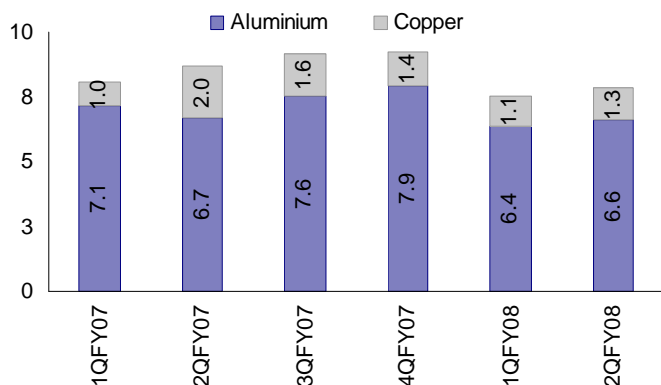
Source: Company/Motilal Oswal Securities

REALIZATIONS (RS/TON)

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08		
						2QFY08	YOY (%)	QOQ (%)
Copper								
Copper Cathodes(RHS)	351,269	369,673	310,524	257,435	324,136	317,354	-14	-2
CC Rods(RHS)	321,069	368,859	368,075	254,841	333,244	356,022	-3	7
DAP/NPK	15,935	16,086	15,209	15,444	14,898	20,729	29	39
Sulphuric Acid	957	870	883	780	1,008	1,175	35	17
Gold (per 10 gms)	8,983	9,019	9,017	9,010	8,803	8,835	-2	0
Silver (per kg)	18,897	17,523	18,480	18,204	18,255	17,319	-1	-5

Source: Company/Motilal Oswal Securities

ALUMINIUM CONTINUES TO DOMINATE THE EARNINGS (RS B)



Source: Company/Motilal Oswal Securities

Aluminium: significant savings due to lower energy costs

Segmental EBIT of Aluminum declined just 1% due to savings in energy costs, in turn driven by availability of higher calorific value coal from existing mines. The shift in the product mix towards rolled products and extrusions continued, while alumina sales decreased significantly. The increase in mark-up prices for rolled and extrusion products further improved the earnings of the Aluminium division. The gains were partially offset due to 13% rupee appreciation and lower duty protection (import duty down from 7.5% to 5%). Purchase of third party Bauxite (generally less than 10% of requirement) too was minimal during the quarter, as unorganized players face difficulties during monsoons, leading to lower costs.

QUARTERLY TRENDS OF ALUMINIUM DIVISION

	1QFY07	2QFY07	3QFY07	4QFY07	1QFY08	2QFY08
Production (000 tons)	107	109	112	114	116	118
Change YoY (%)	1	2	3	7	8	8
Sales (000 tons)	99	110	108	120	107	119
Change YoY (%)	-1	3	-1	12	8	8
Revenue (Rs b)	16.5	18.5	18.0	20.4	17.5	17.9
Change YoY (%)	23	31	15	18	6	-4
3M LME Avg. (\$/ton)	2,652	2,482	2,723	2,743	2,762	2,625
Change YoY (%)	48	36	31	13	4	6
EBIT (US\$/ton)	1,570	1,314	1,555	1,493	1,444	1,371
EBIT (Rs b)	7.1	6.7	7.6	7.9	6.4	6.6
Change YoY (%)	63	54	39	11	-10	-1
Share in Total Earnings	88	77	83	85	85	84

Source: Motilal Oswal Securities

Muri & Hirakud expansion delayed

- ✎ Muri alumina refinery expansion to raise capacity from 100ktpa to 450ktpa is delayed and is now expected by December 2007
- ✎ Hirakud Smelter expansion to raise capacity from 100ktpa to 143ktpa too is delayed and is now expected by June 2008
- ✎ The Mahan Aluminium project, with a smelter capacity of 325ktpa and CPP of 750MW is on schedule and is expected to roll on by October 2011.
- ✎ Aditya Aluminium, with 1-1.5mtpa alumina refinery, 260-325ktpa Aluminum smelter and 750MW power plants is progressing well and expected to be completed by March 2011.
- ✎ Utkal Alumina, with a 1.5mtpa alumina refinery is underway and mining activities will start by March 2009. The commissioning of the plant is expected by March 2010.

Valuation; fairly valued

We expect earnings to decline in 3QFY08 due to weaker Aluminum prices and falling Tc-Rcs. We are upgrading our PAT estimate for FY08 to Rs23b (earlier Rs19b) to factor in stronger 2QFY08 performance and savings in energy costs. Novelis results will be declared later and consolidated results will be available only at the end of the financial year. Interest expenses on bridge loan for acquisition of Novelis will not impact the results of either company and will also be known only at the end of the year. The stock trades at a P/E of 11.9x FY09E and EV/EBITDA of 6.9x FY09E. Maintain **Neutral**.

Hindalco: an investment profile

Company description

Hindalco is the largest aluminum producer in India, with a market share of 45% and is the only player that converts 67% of metal production into value-added products including high-end products like aluminum foils and packaging material. Copper smelting capacity of 500ktpa is the largest in Asia. The copper division faced trouble during ramp-up due to frequent breakdown in the last two years. While this division is coming out of trouble, the company is tripling its aluminum production capacity in the next four years through a number of Brownfield and greenfield expansions in India.

Key investment arguments

- Aggressive growth plan to triple aluminum capacity in four years through number of Brownfield and Greenfield projects. New smelting capacities are coming close to energy sources and alumina facilities would be set up close to bauxite mines, ensuring low cost of production.
- Operating efficiencies of copper smelter would improve; lower conversion cost along with strong volume growth.

Key investment risks

- Unexpected fall in aluminum prices could adversely impact earnings.

Recent developments

- Hindalco has completed the acquisition of 45 percent stake in Utkal Alumina International (Utkal) from Canadian metal giant Alcan for an undisclosed sum.

Valuation and view

- The stock trades at a PE of 11.9x FY09 and EV/EBITDA of 6.9x FY09. Maintain **Neutral**.

Sector view

- Demand for aluminum products in India is growing 9% per year and the momentum is likely to further accelerate in coming years. Global demand too is expected to post growth rate of 5%, led by strong growth in China. Copper tc/rc continues to trend lower and will adversely impact the earnings of custom smelter.

COMPARATIVE VALUATIONS

		HINDALCO	NALCO	STERLITE
P/E (x)	FY08E	18.7	10.7	19.6
	FY09E	11.9	11.0	17.5
P/BV (x)	FY08E	1.7	2.1	24.0
	FY09E	1.4	1.8	21.4
EV/Sales (x)	FY08E	0.8	3.1	1.7
	FY09E	0.7	3.4	1.3
EV/EBITDA (x)	FY08E	8.7	6.9	4.8
	FY09E	6.9	6.9	4.0

SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	31.4	31.4	26.8
Domestic Inst	13.4	13.7	17.9
Foreign	29.9	30.1	33.3
Others	25.2	24.8	22.0

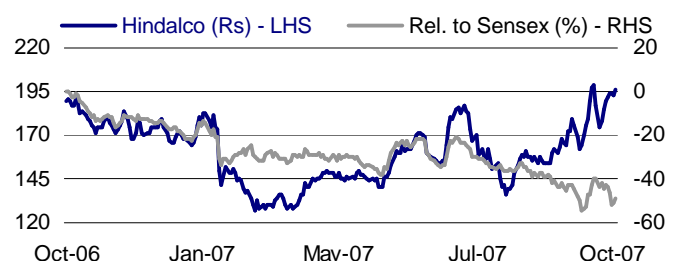
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	10.5	19.0	-44.7
FY09	16.5	17.8	-7.2

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
196	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT (CONSOLIDATED)					(RS MILLION)
Y/E MARCH	2005	2006	2007	2008E	2009E
Net sales	101,053	120,362	199,548	682,907	734,229
Change (%)	18.5	19.1	65.8	242.2	7.5
Total Expenses	76,748	91,913	153,542	622,507	660,173
EBITDA	24,306	28,449	46,006	60,400	74,056
% of Net Sales	24.1	23.6	23.1	8.8	10.1
Depn. & Amortization	6,325	7,959	8,404	21,636	21,665
EBIT	17,981	20,490	37,602	38,764	52,391
Net Interest	2,159	3,014	3,174	20,811	21,461
Other income	2,779	2,805	4,101	4,144	3,700
PBT before EO	18,600	20,281	38,529	22,098	34,631
EO income	585	24	-1,377	-3,936	
PBT after EO	19,186	20,305	37,152	18,162	34,631
Current tax	5,419	3,424	9,603	6,723	11,557
Deferred tax	809	980			
Tax	6,228	4,403	9,603	6,723	11,557
Rate (%)	32.5	21.7	25.8	37.0	33.4
Reported PAT	12,958	15,902	27,549	11,438	23,074
Minority interests	110	106	564	185	1,494
Adjusted PAT	12,452	15,777	28,006	13,732	21,581
Change (%)	25.2	26.7	77.5	-51.0	57.2

BALANCE SHEET					(RS MILLION)
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	928	986	1,044	1,307	1,307
Reserves	75,098	92,296	121,602	151,642	183,172
Net Worth	76,026	93,282	122,646	152,948	184,479
Minority Interest	858	1,295	1,859	8,153	9,647
Total Loans	49,796	63,278	63,278	307,597	307,597
Deferred Tax Liability	11,342	12,281	12,281	87,352	87,352
Capital Employed	138,023	170,137	200,065	556,051	589,075
Gross Block	109,532	134,433	154,433	456,880	490,980
Less: Accum. Deprn.	39,065	46,002	54,406	76,042	97,707
Net Fixed Assets	70,467	88,431	100,027	380,838	393,273
Capital WIP	16,387	10,403	10,403	10,403	10,403
Investments	29,559	31,632	31,632	62,710	62,710
Curr. Assets	49,521	78,781	108,944	260,252	286,935
Inventory	26,970	44,975	48,223	117,799	124,655
Account Receivables	8,404	13,057	17,649	79,873	82,463
Cash and Bank Balance	4,730	10,423	25,586	35,849	50,419
Others	9,416	10,326	17,485	26,732	29,398
Curr. Liability & Prc	27,911	39,111	50,942	158,152	164,247
Account Payables	18,812	28,861	39,987	112,301	118,395
Provisions & Others	9,099	10,250	10,955	45,851	45,851
Net Current Assets	21,610	39,671	58,002	102,100	122,689
Appl. of Funds	138,023	170,137	200,065	556,051	589,075

E: Most Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
Basic (Rs)					
EPS	13.4	13.6	24.2	10.5	16.5
Cash EPS	20.8	20.6	31.0	25.3	34.2
BV/Share	81.9	80.5	105.8	117.0	141.2
DPS	2.0	1.9	2.4	2.6	2.6
Payout (%)	17.0	15.7	11.3	28.3	18.0
Valuation (x)					
P/E	14.6	14.4	8.1	18.7	11.9
Cash P/E	9.4	9.5	6.3	7.7	5.7
P/BV	2.4	2.4	1.9	1.7	1.4
EV/Sales	2.2	2.3	1.3	0.8	0.7
EV/EBITDA	9.3	9.8	5.8	8.7	6.9
Dividend Yield (%)	1.0	1.0	1.2	1.3	1.3
Return Ratios (%)					
RoE	16.4	16.9	22.8	9.0	11.7
RoCE	13.0	12.0	18.8	7.0	8.9
RoIC	13.9	13.6	21.1	5.5	7.5
Working Capital Ratios					
Asset Turnover (x)	0.7	0.7	1.0	1.2	1.2
Debtor (Days)	30.4	39.6	32.3	42.7	41.0
Inventory (Days)	26.7	37.4	24.2	17.2	17.0
Working Capital Turnov	16.7	24.3	16.2	9.7	9.8
Leverage Ratio (x)					
Current Ratio	1.8	2.0	2.1	1.6	1.7
Interest Cover Ratio	8.3	6.8	11.8	1.9	2.4
Debt/Equity	0.7	0.7	0.5	2.0	1.7

CASHFLOW STATEMENT					(RS MILLION)
Y/E MARCH	2005	2006	2007	2008E	2009E
Pre-tax Profit	19,076	20,199	36,588	17,977	33,137
Depreciation	6,325	7,959	8,404	21,636	21,665
(Inc)/Dec in Wkg. Cap.	-868	-12,367	-3,169	-33,835	-6,018
Tax Paid	-5,419	-3,424	-9,603	-6,723	-11,557
CF from Op. Activiti	19,114	12,368	32,220	-945	37,228
(Inc)/Dec in FA +CWIP	-54,657	-18,917	-20,000	-302,447	-34,100
(Pur)/Sale of Investmer	4,213	-2,074		-31,078	
CF from Inv. Activi	-50,444	-20,991	-20,000	-333,525	-34,100
Equity raised/(repaid)	3	58	58	263	
Chg in minorities	858	437	564	6,294	1,494
Debt raised/(repaid)	24,150	13,482		244,319	
Dividend (incl. tax)	-2,120	-2,473	-3,177	-3,880	-3,880
Other financing activitie	10,855	2,811	5,499	97,737	13,830
CF from Fin. Activi	33,747	14,316	2,943	344,733	11,443
(Inc)/Dec in Cash	2,417	5,693	15,163	10,263	14,571
Add: opening Balance	2,314	4,730	10,423	25,586	35,849
Closing Balance	4,730	10,423	25,586	35,849	50,419



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Disclosure of Interest Statement	Hindalco
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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