

SELL

Price	Rs100
Target Price	Rs75
Investment Period	12 Months

Stock Info

Sector	Aluminium
Market Cap (Rs cr)	17,041
Beta	1.1
52 WK High / Low	134 / 37
Avg Daily Volume	2768206
Face Value (Rs)	1
BSE Sensex	15,670
Nifty	4,636
BSE Code	500440
NSE Code	HINDALCO
Reuters Code	HALC.BO
Bloomberg Code	HNDL@IN

Shareholding Pattern (%)

Promoters	36.1
MF/Banks/Indian FIs	26.8
FII/ NRIs/ OCBs	25.7
Indian Public/others	11.4

Abs.	3m	1yr	3yr
Sensex (%)	37.4	9.2	45.9
Hindalco (%)	86.1	(21.8)	(31.5)

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Performance Highlights

- Topline de-grew on lower LME prices; Rupee depreciation cushions the fall:** In 1QFY2010, Hindalco posted de-growth of 16% yoy in its standalone Top-line to Rs3,899cr (Rs4,648cr), which came in better than our estimate of Rs3,421cr. This was mainly due to lower Aluminum, Alumina and Copper prices yoy, which fell by 49.4%, 49.2% and 43.8% yoy, respectively. However, the Rupee depreciation of 17% yoy, during the quarter, supported domestic realisations. In 1QFY2010, Revenues of the Aluminum business de-grew by 27% to Rs1,421cr (Rs1,943cr), mainly due to lower Aluminium prices. However, the fall in the Copper Revenues was comparatively lower at 8.4% yoy to Rs2,480cr (Rs2,707cr), on account of higher copper volumes during the quarter.
- Net derivatives gain boosted Margins:** Hindalco reported a decline of a mere 100bp yoy in its standalone EBITDA margin, during the quarter, at 19.4% (20.4%), as against our estimate of 11%. However, it is to be noted that the margins were higher due to net derivatives gain of Rs143cr, which has been adjusted in other expenditure. Excluding that, the EBITDA Margin stood at 15.4%, still above our estimates. Additionally, the Margin was higher due to an 11.7% yoy decline in power costs during the quarter. The EBIT Margin of Aluminium business declined by 660bp to 32.0% (38.6%). However, the EBIT margin for the Copper business improved substantially to 6.3% (2.7%).
- Net Profit substantially ahead of estimate:** During 1QFY2010, the Standalone Net profit declined by 31% yoy to Rs481cr (Rs697cr), on lower LME prices. However, the Profit came in well above our estimate of Rs242cr. It is to be noted that the profit is higher due to a net derivatives gain of Rs143cr, which has been adjusted above the operating line items. A lower tax provisioning, which was at 19.8% (25.1%), also supported the Bottom-line to some extent.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	59,696	65,415	54,433	59,248
% chg	209.0	9.6	(16.8)	8.8
Net Profit	2,193	485	658	1,483
% chg	(18.3)	(77.9)	35.6	125.3
FDEPS (Rs)	17.0	3.2	3.9	8.7
OPM (%)	10.6	4.2	7.4	9.1
P/E (x)	5.9	31.1	25.9	11.5
P/BV (x)	0.7	0.8	0.8	0.7
RoE (%)	15.3	1.8	3.1	6.5
RoCE (%)	12.1	1.1	3.9	6.3
EV/Sales (x)	0.7	0.7	0.8	0.7
EV/EBITDA	6.9	15.4	10.8	7.8

Source: Company, Angel Research; Note: Price as on July 31, 2009

Expansion Plans well on track

Smelter Expansion at Hirakud, from 1,43,000 to 1,55,000tpa, has been completed during the quarter, and further expansion, from 1,55,000tpa to 2,06,600tpa, is under progress. All the other Hindalco's Brown and Greenfield expansions are on schedule. Hindalco is adding around 3.6mn tonnes of Alumina, 1.15mn tonne of Aluminum and 3,000MW of power capacities through its Greenfield and Brownfield expansions at different locations.

Exhibit 1: Capacity Build-up (Tonnes)					
	Location	Current Capacity	Capacity Additions	Expanded Capacity	Completion Date
Brownfield Expansion					
Alumina Refinery	Muri	1,10,000	3,40,000	4,50,000	Commissioned
	Belgaum	3,50,000	3,00,000	6,50,000	April 2009
Aluminium	Hirakud	1,43,000	12,000	1,55,000	August 2009
Power (MW)	Hirakud	267.5	100	367.5	Commissioned
Greenfield Expansion					
Alumina Refinery	Utkal	0	15,00,000	15,00,000	July 2011
	Aditya	0	15,00,000	15,00,000	June 2013
Aluminium	Aditya	0	3,58,000	3,58,000	Oct 2011
	Mahan	0	3,58,000	3,58,000	July 2011
	Sonahatu-Jharkhand	0	3,58,000	3,58,000	June 2013
Power (MW)	Aditya	0	900	900	Oct 2011
	Mahan	0	900	900	July 2011
	Sonahatu-Jharkhand	0	900	900	June 2013

Source: Company, Angel Research

Outlook and Valuation

LME Aluminium prices have recovered by around 49% from the bottom, and are currently hovering in the range of US \$1,867/tonne. However, we believe that the aluminium prices will remain weak due to weak fundamentals and a huge inventory of around 4.4mn tonnes at the LME. We expect LME Aluminium prices to average at US \$1,600/tonne in FY2010E, and at US \$1,800/tonne in FY2011E (from US \$2,267/tonne in FY2009).

Copper prices have rebounded significantly due to heavy buying from China. China's SRB has been buying metals in the last couple of months, which led to inventory draw-downs at the LME and led to increasing prices. Notably, LME Copper prices have recovered by more than 80% from the bottom, and are currently hovering in the range of US \$5,700/tonne.

We upgrade our FY2010E profit estimates by almost 110% for Hindalco, on account of net derivatives gain of Rs143cr, better-than-expected copper volumes, lower-than-expected power costs, and due to lower-than-expected interest costs. We also upgrade our FY2011E profit estimates by 11.5% to factor in better copper volumes. At the CMP, Hindalco is trading at an EV/EBITDA of 10.8x and 7.8x on FY2010E and FY2011E EBITDA, and a P/E of 25.9X and 11.5x on FY2010E and FY2011E EPS. We believe that the weak outlook for the company's Aluminium and Copper businesses, due to the declining LME prices, weak Tc/Rc Margins and the expected decline in the demand for Aluminium, would impact the company's performance, going ahead. Though, Novelis's fixed price contracts, which are expected to expire in December 2009, the company is unlikely to turnaround in the near future due to low demand and lower aluminium prices. **Hence, we maintain a Sell view on the stock, with a Target Price of Rs75, at which the stock will trade at an EV/EBITDA of 7x and a P/E of 8.7x, on FY2011E estimates.**

Exhibit 2: 1QFY2010 Performance (Standalone)

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	3,899	4,648	(16.1)	18,220	19,201	(5.1)
Raw Materials	2,512	2,671	(6.0)	11,060	12,007	(7.9)
(% of Net Sales)	64.4	57.5		60.7	62.5	
Power & Fuel	421	477	(11.7)	2,232	1,911	16.8
(% of Net Sales)	10.8	10.3		12.2	10.0	
Staff Costs	207.0	186.1	11.2	667.6	621.2	7.5
(% of Net Sales)	5.3	4.0		3.7	3.2	
Other Expenditure	1.8	364.7	(99.5)	1,225	1,261	(2.9)
(% of Net Sales)	-	7.8		6.7	6.6	
Total Expenditure	3,142	3,698	(15.1)	15,184	15,800	(3.9)
Operating Profit	758	949	(20.2)	3,036	3,401	(10.7)
OPM (%)	19.4	20.4		16.7	17.7	
Interest	68.2	76.1	(10.4)	336.9	280.6	20.1
Depreciation	165.3	156.8	5.4	645.3	587.8	9.8
Other Income	75.3	214.7	(64.9)	636.7	492.9	29.2
Profit before Tax	600	931	(35.6)	2,690	3,026	(11.1)
(% of Net Sales)	15.4	20.0		14.8	15.8	
Current Tax	119.0	234.0	(49.1)	460.1	164.7	179.4
(% of PBT)	19.8	25.1		17.1	5.4	
Profit After Tax	481	697	(31.0)	2,230	2,861	(22.0)
(% of Net Sales)	12.3	15.0		12.2	14.9	
FDEPS (Rs)	2.8	5.1	(44.9)	14.8	22.1	(33.0)

Source: Company, Angel Research

Exhibit 3: Segment-wise Performance

	1QFY2010	1QFY2009	yoy %	FY2009	FY2008	yoy %
Aluminium						
Revenues	1,421	1,943	(26.9)	7,604	7,145	6.4
EBIT	455	750	(39.3)	2,158	2,423	(10.9)
EBIT Margins (%)	32.0	38.6		28.4	33.9	
Copper						
Revenues	2,480	2,707	(8.4)	10,625	12,066	(11.9)
EBIT	156	74	110.8	379	503	(24.7)
EBIT Margins (%)	6.3	2.7		3.6	4.2	
Total						
Revenues	3,901	4,650	(16.1)	18,229	19,211	(5.1)
EBIT	611	824	(25.8)	2,537	2,926	(13.3)
EBIT Margins (%)	15.7	17.7		13.9	15.2	

Source: Company, Angel Research



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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

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