

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	HNDL.BO
Bloomberg code	HNDL.IN
Market cap. (US\$ mn)	9,850
6M avg. daily turnover (US\$ mn)	39.2
Issued shares (mn)	1,914
Target price (Rs)	302

Performance (%)	1M	3M	12M
Absolute	6	39	80
Relative	3	22	42

Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs.)	20.4	30.4
+/- (%)	201.7	48.5
PER (x)	11.2	7.5
PBV (x)	1.6	1.4
Dividend/Yield (%)	0.8	1.0
EV/Sales (x)	0.8	0.7
EV/EBITDA (x)	6.6	5.1

Major shareholders (%)

Promoters	32
FII's	28
MF's	3
BFSI's	12
Public & Others	25

Financial highlights: Novelis

(US\$ mn)	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	QoQ (%)	YoY (%)
Net Sales	2,181	2,112	2,420	2,533	2,524	(0.4)	15.7
Reported EBITDA	434	264	164	213	270	26.8	(37.8)
Adjusted EBITDA	200	199	231	263	290	10.3	45.0
Reported PAT	195	68	(1)	50	62	24.0	(68.2)

Hindalco (Novelis)

Maintain BUY

Price: Rs 228

BSE Index: 20,876

11 November 2010

2QFY11 Result – Novelis more than offsets standalone negative surprise

Strong results from Novelis; the adjusted EBITDA stood at US\$ 290 mn versus US\$ 263 mn in 1Q. Sales volumes for rolled products stood at 737,000 tonnes, lower by ~1% QoQ. Adjusted EBITDA per tonne was higher at US\$ 393 versus US\$ 338 in 1Q. The reported PAT stood at US\$ 62 mn versus US\$ 50 mn in 1Q, after paying a much higher tax rate (versus 1Q.)

Apparently, most of the profit growth QoQ has come on the back of higher other income and changes in the derivative loss/gain position. However, as is being universally accepted, we recognise the “adjusted” EBITDA figure (declared by the company) as the operational profit and note that it has been sequentially higher.

Highlights

(Rs mn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Rolled product sales ('000 tonnes)	650	693	649	716	746	737
EBITDA/tonne (US\$)	179	276	291	323	338	393

Some clarifications on Hindalco standalone results

Profits had underperformed our estimates primarily due to higher cost incidence in the aluminium business. This was due to higher expenses on account of commissioning of new pots in Belgaum, coal wastage leading to higher coal expenses due to monsoons, and cess imposition of Rs 50/tonne on coal. Out of these only the third factor (impact ~Rs 120 mn per quarter) is recurring.

Outlook and valuation

Excluding the typical seasonality in 3Q, going forward, Novelis expects continued strength across all of its regions. According to the COO: "While we are still running at capacity, we will release a meaningful amount of capacity in fiscal 2011 and plan to increase capacity, through de-bottlenecking, by 3 to 4% annually over the next few years with minimal capital investments".

We expect average LME aluminium price of US\$ 2,500/tonne from now to end FY12. Every US\$ 100/tonne increase in the LME aluminum price increases the consolidated EPS by Rs 2 (we assume Novelis to remain a totally pass-through business). We raise our consolidated EBITDA estimates for FY11 and FY12 by 6% and 3% on the back of the Novelis 2Q numbers and raise our target price for Hindalco from Rs 289 to Rs 302 (6.3x FY12E EV/EBITDA). Maintain Buy.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	654,146	607,221	723,899	813,972
<i>Growth (%)</i>	<i>9.6</i>	<i>(7.2)</i>	<i>19.2</i>	<i>12.4</i>
Operating expenses	(626,478)	(537,127)	(636,611)	(700,289)
Operating profit	27,668	70,094	87,288	113,682
Other operating income	2,105	–	2,758	3,279
EBITDA	29,774	70,094	90,047	116,962
<i>Growth (%)</i>	<i>(55.1)</i>	<i>135.4</i>	<i>28.5</i>	<i>29.9</i>
Depreciation	(30,378)	(27,836)	(27,996)	(33,057)
Other income	6,878	3,227	(2,216)	3,438
EBIT	6,274	45,485	59,835	87,342
Interest paid	(17,768)	(14,399)	(12,116)	(16,309)
Pre-tax profit (before non-recurring)	(11,494)	31,086	47,719	71,033
Non-recurring items	–	27,364	–	–
Pre-tax profit (after non-recurring)	(11,494)	58,450	47,719	71,033
Tax (current + deferred)	8,046	(19,319)	(10,392)	(15,081)
Net profit (before Minority Interest, Pref. Dividend, etc.)	(3,448)	39,131	37,326	55,952
Prior period adjustments	1,491	–	–	–
Minority interests	1,365	(4,264)	1,818	2,178
Reported PAT	(592)	34,867	39,144	58,130
Adjusted net profit	(592)	12,976	39,144	58,130
<i>Growth (%)</i>	<i>(102.5)</i>	<i>NA</i>	<i>201.7</i>	<i>48.5</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Cash and Marketable sec.	58,908	80,990	78,816	99,861
Other current assets	170,791	209,930	243,951	277,046
Investments	67,318	53,419	53,419	53,419
Net fixed assets	347,651	348,013	375,018	407,960
Total assets	644,668	692,353	751,204	838,287
Current liabilities	162,602	180,166	218,161	245,306
Total debt	283,098	239,987	227,987	232,987
Other non-current liab.	27,571	39,382	40,042	41,019
Total liabilities	473,270	459,535	486,191	519,312
Share capital	1,705	1,914	1,914	1,914
Reserves & surplus	156,832	213,533	252,677	310,808
Less: Misc. expenditure	(4)	(0)	(0)	(0)
Shareholders' funds	158,532	215,446	254,591	312,721
Minorities interests	12,866	17,372	10,423	6,254
Total equity & liab.	644,668	692,353	751,204	838,287
Capital employed	482,066	512,187	533,043	592,980

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	(11,494)	58,450	47,719	71,033
Depreciation	30,378	27,836	27,996	33,057
Change in working capital	17,348	(21,575)	3,975	(5,950)
Total tax paid	(13,896)	(7,508)	(9,732)	(14,105)
Cash flow from oper. (a)	22,335	57,203	69,957	84,036
Capital expenditure	(36,920)	(22,539)	(55,000)	(66,000)
Change in investments	(25,084)	13,898	–	–
Others	39,934	(5,655)	(0)	–
Cash flow from inv. (b)	(22,070)	(14,296)	(55,000)	(66,000)
Free cash flow (a+b)	265	42,907	14,957	18,036
Equity raised/(repaid)	(37,311)	(7,900)	–	–
Debt raised/(repaid)	(40,427)	(43,111)	(12,000)	5,000
Dividend (incl. tax)	(2,686)	(3,012)	(4,032)	(4,928)
Others	25,210	2,930	(206)	2,934
Cash flow from fin. (c)	(55,214)	(51,094)	(16,237)	3,006
Net chg in cash (a+b+c)	(54,948)	(8,187)	(1,280)	21,042

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
Adjusted EPS (Rs)	(0.3)	6.8	20.4	30.4
Growth	(101.8)	NA	201.7	48.5
Book NAV/share (Rs)	100.8	121.6	138.4	166.6
Dividend/share (Rs)	1.4	1.3	1.8	2.2
Dividend payout ratio	(454.0)	23.2	10.3	8.5
Tax	70.0	33.1	21.8	21.2
EBITDA margin	4.5	11.5	12.4	14.3
EBIT margin	1.0	7.5	8.2	10.7
RoCE	1.2	9.1	11.4	15.5
Net debt/Equity	130.8	68.3	56.3	41.7

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	NA	33.7	11.2	7.5
PCE	13.0	10.7	6.5	4.8
Price/Book	2.3	1.9	1.6	1.4
Yield (%)	0.6	0.6	0.8	1.0
EV/Net sales	0.9	1.0	0.8	0.7
EV/EBITDA	20.0	8.5	6.6	5.1

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	(0.1)	2.1	5.4	7.1
Asset turnover	0.9	0.9	1.0	1.0
Leverage factor	3.8	3.3	2.9	2.7
Return on equity (%)	(0.3)	6.4	15.7	19.9

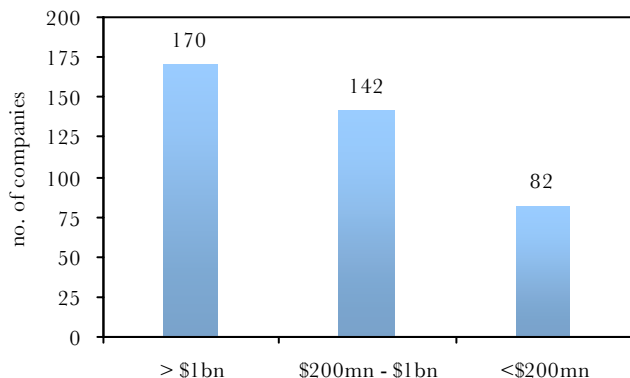
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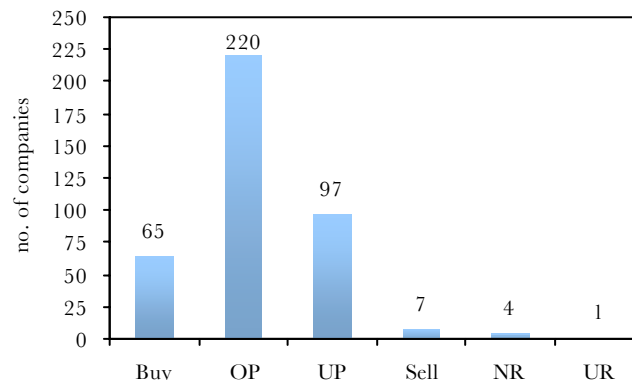
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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