



Hindalco Industries – Reduce Exposure

We expect the price may come down to Rs.42 from the current range of Rs.50

- Our major concern is on Novelis because the demand for aluminium (Al) rolled products is slowing down in the US and the Europe.
- The industry leader Alcoa had reported a 20% decline in Al rolled products sales in December 2008 and has projected that the demand may decline by 2% in 2009 because of a 9 –12 % demand fall in the US and Europe. Around 70 % of Novelis’s deliveries are to these regions.
- Based on these facts, we expect a minor loss to Novelis in 2009 because of lower volume and profit margin. The volume is expected to fall by 20% in the second half of 2009 and a 7% drop in FY 10. The EBITDA per ton is expected to decline by 25% in 2009 due to weak demand and its negative effects on profit margins.
- On the other hand, Hindalco’s domestic operations would be slightly better than our earlier expectations. This is because of decreasing raw material cost and a moderate improvement in aluminium prices. It has been estimated that the raw material cost would be lower by 10 – 40% because of the price fall of major inputs. On the other side, aluminium prices are slowly picking up after bottoming out by December 2008. These factors along with a depreciating rupee may help the company to report a better than expected EPS for FY 10. However, the consolidated EPS of the company for FY 10 is expected to fall by 40% and the target price is reduced by 38% to Rs.42.
- The target price cut has also been affected by production shutdowns in Australia followed by weak copper prices.
- The estimated earnings for FY 09 has been reduced to Rs. 4.46 and it would be Rs.4.39 for FY 10.

DISCLAIMER: The base material used for presenting information and views in this report has been sourced from BNP Paribas Securities India Private Limited (BNPPSIPL), a company jointly promoted by subsidiaries of BNP Paribas SA and Geojit Financial Services Ltd (GFSL). Neither BNPPSIPL nor GFSL or any of its Group companies, affiliates, subsidiaries or that of any of its shareholders accept any liability arising from the use of this report and the views and observations contained herein. While every effort is made to ensure the accuracy and completeness of information contained herein, GFSL or any of its group or associate companies or its affiliates take no guarantee and assume no liability for any errors or omissions of the information contained herein. Information contained herein cannot be the basis for any claim, demand or cause of action.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security. We are not soliciting any action based on this material. It is for the general information of retail clients of GFSL. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions. This material is intended for retail clients only and not for any other category of clients, including but not limited to institutional clients. Opinion expressed herein is our current opinion as of the date appearing on this report only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis is focused on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have 'long' or 'short' positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein.

We or any of the group or associate or subsidiary companies affiliated to us and / or to any of our shareholders may from time to time solicit or perform investment banking, or other services for, any company mentioned in this document.

We do not undertake to advise any change in our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Geojit, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Geojit and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.