

August 1, 2006

HINDALCO INDUSTRIES LIMITED (Rs.157)
Buy

Market Cap. : Rs. 182.5 bn

Free float: 73.1%

Sensex: 10751.66

Sector: Non Ferrous Metals

Q1FY07 RESULT REVIEW

Increased volumes from copper smelters; buoyant aluminium and alumina prices and firm Tc/Rc margins were the drivers of Hindalco's impressive Q1FY07 results. Net Operating Revenues grew by 94% yoy, operating profits grew by 54% yoy while PAT grew by 85% yoy. We expect the company to sustain the performance for the remainder of the current financial year as we expect the aluminium and alumina realisations and Tc/Rc margins for copper to remain at remunerative levels. We reiterate Buy on the stock with a target price of Rs 203.

Key Highlights of Q1FY07 Results
Improved realisations drive revenues and EBIT in Aluminium Segment

Aluminium segment sales for the quarter were Rs.16.5 bn a growth of 23% yoy, while EBIT increased from Rs. 4.4 bn during Q1FY06 to Rs.7.1 bn during Q1FY07 - a growth of 63%. This was on account of improved realisations, and better product mix. Domestic Aluminium ingot realisation was at Rs. 122.5 per kg as against Rs. 90.4 per kg during Q1FY06. Alumina export realisation was at USD 596 per tonne as against USD 312 per tonne during Q1FY06. Production of Value Added Products witnessed an increase of 10%.

Higher volumes and firm Tc/Rc margins spur copper segment performance

Copper smelting volumes improved substantially despite a 30 day shutdown of Smelter II during May'06. This along with higher Tc/Rc margins spurred EBIT growth of the copper division. EBIT grew by 85% YoY from Rs. 529 mn during Q1FY06 to Rs.978 mn during the current quarter.

Table 1: Segmental Performance

	Amount Rs. in million					
	Aluminium			Copper		
	Q1FY07	Q1FY06	% Change	Q1FY07	Q1FY06	% Change
Net Sales and Operating Revenues	16542	13399	23	26217	8677	202
EBIT	7125	4384	63	978	529	85
EBIT Margin (%)	43.1	32.7		3.7	6.1	
Capital Employed	66735	54334	23	58243	41015	42
ROCE (%)	42.7	32.3		6.7	5.2	

Source: Company

Expansion projects on track

The brownfield expansion from 110,000 TPA to 450,000 TPA at Muri Alumina Refinery is expected to commence commissioning by the fourth quarter of FY07. Phase I of the brownfield expansion at Hirakud Smelter from 65,000 TPA to 100,000 TPA and augmenting the power capacity from 167.5 MW to 267.5MW, is on schedule. Phase II of the

expansion of smelting capacity from 100,000 TPA to 146,000 TPA and the power generation capacity from 267.5MW to 367.5MW is slated to be commissioned by the end of December 2007. The other projects, which are slated for commissioning during FY10, are on track in various stages of implementation.

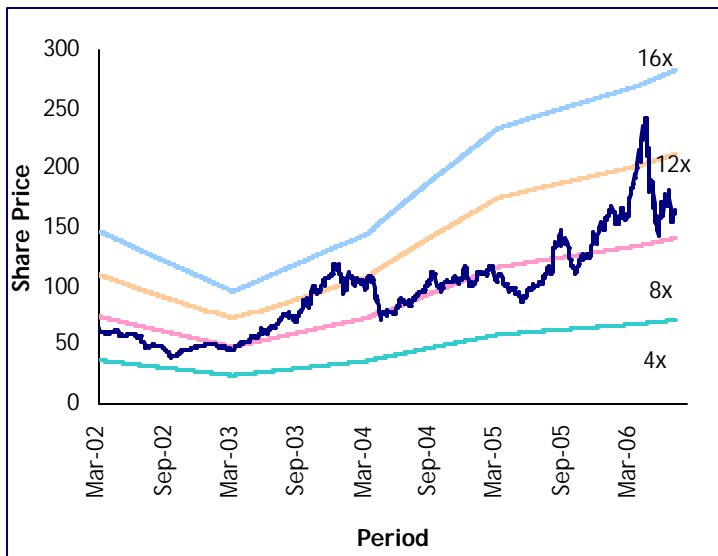
Outlook

We expect aluminium prices to remain firm for the rest of the year and maintain our price assumptions. With prices expected to come down from the next year, we expect a squeeze in operating margins and PAT as well. However, with additional capacities coming in the next one year, we expect additional volumes to provide some cushion against falling realisations. Tc/Rc margins have also been witnessing a marginal downtrend, but we expect them to remain at remunerative levels. We expect the company to deliver an EPS of Rs. 19.2 for the current financial year and Rs. 16.1 for FY08. Lower EPS during FY08 is on account of lower realisations and equity dilution undertaken to finance expansion projects.

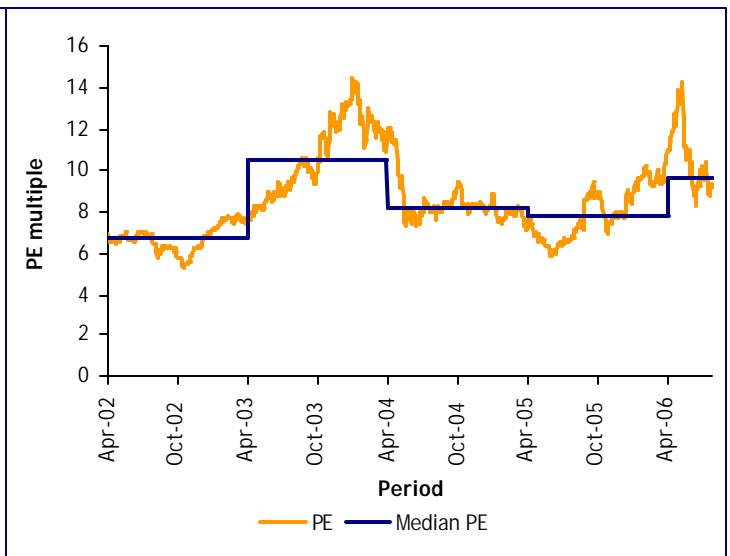
Valuations

At the current market price of Rs. 157, the stock trades at a PE multiple of 8.2X FY07P earnings and 9.8X FY08 earnings. Historically, the stock has traded at a median PE multiple of 9 times its one year forward earnings. The earnings projected for FY07 and FY08 are fully diluted after accounting for additional equity infusion, the benefit of which would be reflected only after FY08. Considering the aggressive expansion pipeline that has been lined up and the proven ability of the company to execute projects within planned costs and stipulated timelines, we believe that a PE multiple of 12 is justified to capture the future growth potential. Investments in its subsidiaries would contribute Rs. 10 per share of the company. We therefore reiterate Buy on the stock with a 12-18 months price target of Rs. 203.

PE Band Chart



PE Chart



Source: UTISEL research

Standalone Financial Summary

Amount Rupees in million

	Q1FY07	Q1FY06	Growth YoY %	Q4FY06	Growth QoQ %	FY06	FY07P	FY08P
Net Operating Revenues	42737	22078	93.6	36574	16.9	113965	179987	176180
Operating Expenditure	33403	16034	108.3	27276	22.5	87914	145611	144098
Raw Materials Consumed	24651	8871	177.9	18732	31.6	55695	109149	106492
Manufacturing Expenses	6315	5193	21.6	6217	1.6	23223	25345	26218
Employee Remuneration & Benefit	1149	1092	5.2	1230	(6.6)	4628	4998	5398
Other Expenditure	1288	878	46.7	1097	17.4	4368	6120	5990
Operating Profit	9334	6044	54.4	9298	0.4	26051	34376	32082
Operating Margins (%)	21.8	27.4		25.4		22.9	19.1	18.2
Other Income	776	336	131.0	743	4.4	2439	2300	2300
EBITDA	10110	6380	58.5	10041	0.7	28490	36676	34382
EBITDA Margins (%)	23.7	28.9		27.5		25.0	20.4	19.5
Depreciation	1341	1169	14.7	1443	(7.1)	5211	5187	5561
EBIT	8769	5211	68.3	8598	2.0	23278	31489	28821
EBIT Margins (%)	20.5	23.6		23.5		20.4	17.5	16.4
Interest	634	461	37.5	624	1.6	2252	2242	1624
Profit Before Tax and Ex. Items	8135	4750	71.3	7974	2.0	21027	29247	27197
Extraordinary Items						30	-	-
Profit Before Tax	8135	4750		7974		21057	29247	27197
Tax	2120	1501	41.2	1711	23.9	4501	9209	8527
Current Tax	1925	1275	51.0	1224	(95.8)	3241	7961	7269
Fringe Benefit Tax	175	14	1150.0	30	3,733.3	101	105	113
Deferred Tax	20	212	(90.6)	457	(119.8)	1160	1143	1145
PAT	6015	3249	85.1	6263	(98.6)	16556	20038	18670
PAT Margins (%)	14.1	14.7		17.1		14.5	11.1	10.6
Share Capital (Rs. In mn.)	986	928		986		986	1044	1160
EPS	6.1	3.5		6.4		16.8	19.2	16.1

Anant Katare

(91 22) 67515911 / anant.katare@utisel.com

Ajit Dange

(91 22) 67515913 / ajit.dange@utisel.com

P.S.Subramaniam

(91 22) 67515914 / p.s.subramaniam@utisel.com

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