

# Hindalco Industries

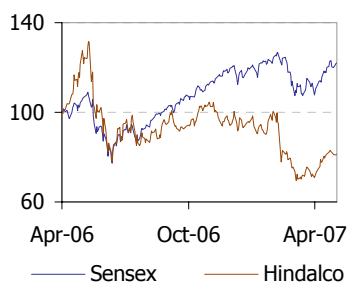
Relative to sector: **Underperformer**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 1,308mn\*  
Market cap : Rs 194bn  
52 week high/low : Rs 251/ Rs 125  
Avg. daily vol. (6mth) : 4.6mn shares  
Bloomberg code : HNDL IN  
Reuters code : HALC.BO

\*fully diluted equity

## Shareholding (%) Mar-07 QoQ chg

Shareholder	Mar-07 (%)	QoQ chg (%)
Promoters	27.1	0.3
FII's	18.6	(0.6)
MFs / UTI	2.9	(2.1)
Banks / FIs	11.8	0.6
Others	39.7	1.8

## Financial summary - (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2006	110,808	15,017	-	11.5	16	15.9	17.4	16.8	8.4	2.1
2007	183,130	27,145	-	20.8	81	6.3	24.5	22.3	3.3	1.7
2008E^	620,893	21,206	20	16.2	(22)	9.1	13.6	15.2	7.1	2.5
2009E^	611,745	24,372	18	18.6	15	7.9	12.3	11.5	6.7	2.5

Source: \*Consensus broker estimates, Company, ENAM EPS & DPS estimates on fully diluted equity; ^ Financials for consolidated Hindalco+ Novelis adjusted for dilution retrospectively

## NOVELIS – A DRAG ON PROFITABILITY

Hindalco reported Q4FY07 revenues of Rs 47.5bn, an increase of 34% YoY and 2% QoQ. EBITDA increased 34.3% YoY to Rs 11.1bn on the back of higher aluminum realizations, improved product mix and improvement in the copper division's profits; due to higher copper production and firm TCRC charges. Adjusted PAT for the quarter rose 52% YoY to Rs 7.9bn on account of significant improvements in the performance of the aluminum as well as the copper division.

## Q4FY07: Highlights

- Copper cathode production increased by ~22% YoY to 81,460 tonnes, from 66,748 tonnes in Q4FY06. (Details on Pg4)
- Aluminium profitability improved primarily on higher realizations & increased sales volumes of value added products. (Details on Pg 3)

## Copper & Aluminum Outlook

In the copper business, higher volumes and firm TCRC led to a recovery. In FY08 however, TCRC margins are likely to be under pressure on account of a tight supply in copper concentrates.

In FY07, the aluminum business benefited from improved product mix and firm pricing. Growth in aluminum demand in China on the back of higher investment is expected to offset the possible slow down of consumption in the US in FY08. Our FY08 price assumption for aluminum is USD 2,340 per tonne as compared to current spot price of ~USD 2,820 per tonne.

While we remain bullish on the outlook for aluminum over the next couple of years, Novelis acquisition, if it materializes, would cap the aluminum upside, as the company would be net short on aluminum and have fixed price can contracts. To factor in the revised USD: INR exchange assumptions, we revise our consolidated FY08E and FY09E earnings estimates to Rs 16.2 (Rs 16.6) and Rs 18.6 respectively. At CMP Rs 148, the stock trades at 9.1x FY08E earnings. We revise the rating on the stock to sector **Underperformer** from sector Neutral, as we believe larger upside exists in other companies in metal sector. We revise our price target to Rs 146 (target P/E of 9x FY08E – discount to non-ferrous peers).

## Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
<b>Net Sales</b>	<b>47,489</b>	<b>35,581</b>	<b>33.5</b>	<b>46,562</b>	<b>2.0</b>	<b>620,893</b>	<b>183,130</b>	<b>239.0</b>
<b>EBITDA</b>	<b>11,149</b>	<b>8,305</b>	<b>34.3</b>	<b>10,453</b>	<b>6.7</b>	<b>54,850</b>	<b>40,800</b>	<b>34.4</b>
Other income	1,233	743	65.9	584	111.1	11,760	3,701	217.7
<b>PBIDT</b>	<b>12,382</b>	<b>9,048</b>	<b>36.9</b>	<b>11,037</b>	<b>12.2</b>	<b>66,610</b>	<b>44,501</b>	<b>49.7</b>
Depreciation	1,451	1,443	0.6	1,384	4.8	14,716	5,529	166.2
Interest	577	624	(7.5)	698	(17.3)	21,259	2,424	777.0
<b>PBT</b>	<b>10,354</b>	<b>6,981</b>	<b>48.3</b>	<b>8,955</b>	<b>15.6</b>	<b>30,635</b>	<b>36,548</b>	<b>(16.2)</b>
Tax	2,366	1,711	38.3	2,516	(6.0)	10,102	9,403	7.4
Associates	-	-	-	-	-	674	-	-
<b>Adjusted PAT</b>	<b>7,988</b>	<b>5,270</b>	<b>51.6</b>	<b>6,439</b>	<b>24.1</b>	<b>21,206</b>	<b>27,145</b>	<b>(21.9)</b>
Extra ordinary income/ (exp.)	(775)	993	-	-	-	0	(1,502)	-
<b>Reported PAT</b>	<b>7,213</b>	<b>6,263</b>	<b>15.2</b>	<b>6,439</b>	<b>12.0</b>	<b>21,206</b>	<b>25,643</b>	<b>(17.3)</b>
No. of shares (mn)	1,160	1,160	-	1,160	-	1,308	1,308	-
EBITDA margins (%)	23.5	23.3	-	22.4	-	8.8	22.3	-
PBIDT margins (%)	26.1	25.4	-	23.7	-	10.7	24.3	-
<b>EPS - annualized (Rs.)</b>	<b>27.5</b>	<b>18.2</b>	<b>51.6</b>	<b>22.2</b>	<b>24.1</b>	<b>16.2 *</b>	<b>20.8 *</b>	<b>(21.9)</b>

Source: Company, ENAM Research; \* EPS is computed on fully diluted equity

## Segment Breakup

(Rs mn)	Quarter ended			Y/E
	Mar-07	Mar-06	% Chg	Mar-07
<b>Revenue</b>				
Aluminium	20,424	17,263	18.3	73,444
Copper	27,112	19,317	40.4	109,776
<b>TOTAL</b>	<b>47,536</b>	<b>36,580</b>	<b>30.0</b>	<b>183,220</b>
Less: Intersegment	(47)	(6)	-	(90)
<b>Net of Intersegment</b>	<b>47,489</b>	<b>36,574</b>	<b>29.8</b>	<b>183,130</b>
<b>EBIT</b>				
Aluminium	7,902	7,131	10.8	29,292
Copper	1,365	1,201	13.7	5,171
<b>TOTAL</b>	<b>9,267</b>	<b>8,332</b>	<b>11.2</b>	<b>34,463</b>
<b>Capital Employed</b>				
Aluminium	74,511	65,792	13.3	74,511
Copper	49,307	50,738	(2.8)	49,307
Other Unallocable	85,275	40,840	-	85,275
<b>TOTAL</b>	<b>209,093</b>	<b>157,370</b>	<b>32.8</b>	<b>209,093</b>

Source: Company, ENAM Research

### Aluminum division: Strong performance on the back of prices

Both Alumina and Aluminum continued to operate at high utilization levels and above their rated capacities. The division reported 114,334 tonnes, quarterly output of metal, marginally higher than Q3FY07. Revenue from value added products as a percent of total aluminum revenue was at 59% in FY07 vis-a-vis 57% during FY06. The Aluminum business reported a 10.8 YoY rise in EBIT in Q4FY07 on the back of higher realization and better product mix.

### Aluminum: Operating statistics - Production

(Tonnes)	Quarter ended					Y/E
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-07
Alumina	296,411	299,006	(0.9)	308,344	(7.1)	1,198,658
Aluminum metal	114,334	106,825	7.0	111,871	2.2	442,685
Wire rod	16,948	16,738	1.3	17,777	(4.7)	68,998
Rolled product	48,322	45,536	6.1	58,000	(16.7)	211,088
Extruded product	9,525	9,044	5.3	10,364	(8.1)	38,282
Aluminum foils	6,144	6,315	(2.7)	6,235	(1.5)	25,699

Source: Company, ENAM Research

### Aluminum Expansion

Hindalco plans to expand alumina capacity at Muri from 110ktpa to 450ktpa by the third quarter of the next fiscal. The company plans to expand the capacity at Hirakud from 65ktpa to 143ktpa. Phase I of the capacity expansion (65ktpa to 100ktpa) has been completed. Phase II of the capacity expansion (100ktpa to 143ktpa) is progressing as per schedule.

Work on the 1.5mtpa alumina project (Utkal Alumina) is also on track.

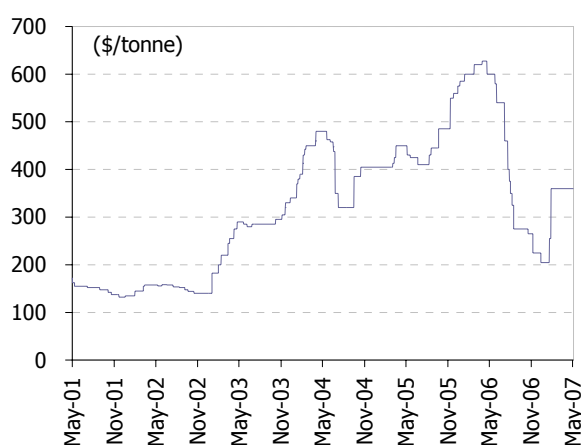
The Aditya Alumina & Aluminum greenfield project (1.5mtpa Alumina, 0.325mtpa Aluminum) is on track and the expected date of commissioning is September 2011. In principle, approval has been obtained for SEZ status for the smelter.

The company has also started work on a new greenfield project, Mahan, in Madhya Pradesh, which envisages setting up a 0.325mtpa aluminum smelter and a 750MW power plant with captive coal mines. The estimated cost of the project is Rs 77bn. Production of coal is likely to start from April 2009 and the plant is likely to be commissioned by November 2012.

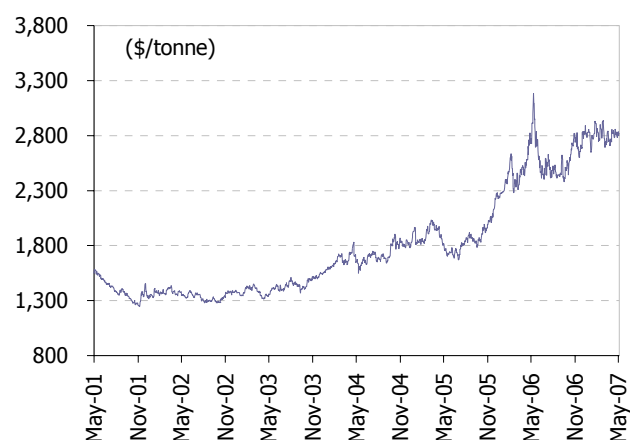
Hindalco has also signed an MOU with the Government of Jharkhand for setting up another 0.325mtpa aluminum smelter and 750MW power plant with captive coal mines at Lathehar. The estimated cost of this project is Rs 78bn and land acquisition is in progress.

## Alumina and Aluminum price trend

### Alumina: Spot price trend



### Aluminum: Spot price trend



Source: Bloomberg

## Copper division

### Operating performance:

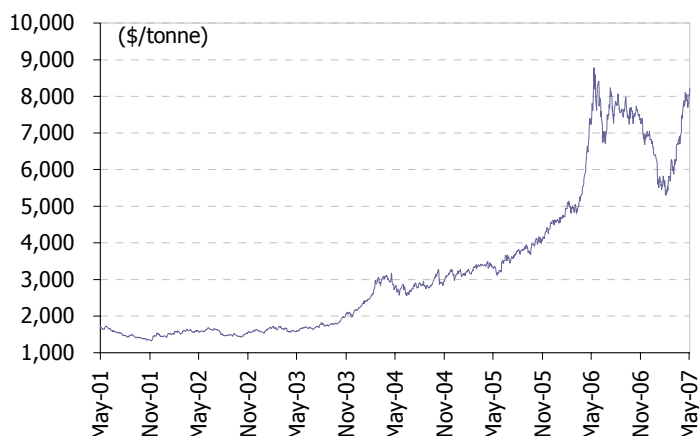
(Rs mn)	Quarter ended					Y/E
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-07
Net Sales	27,112	19,317	40.4	28,622	(5.3)	109,776
EBIT	1,365	1,201	13.7	1,595	(14.4)	5,171
Capital Employed	49,307	50,738	(2.8)	68,581	(28.1)	85,275
RoCE annualized (%)	11.07	9.5	-	9.30	-	6.06
EBIT Margin (%)	5.03	6.2	-	5.57	-	4.71

Source: Company

Copper division's EBIT increased 13.7% YoY to Rs 1.4 bn on the back of higher production and firm TCRC charges. Copper cathode production increased by ~22% YoY to 81,460 tonnes, from 66,748 tonnes in Q4FY06. Overall, copper sales revenue grew by 40.4% YoY. The copper business' profitability during the quarter improved due to higher TCRC and higher production.

Going forward, TCRC margins are likely to be under pressure on account of a tight supply in copper concentrates.

## Copper - Spot price trend



Source: Bloomberg

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