

- Flat topline growth of 1.9% during Q4FY07 to Rs15.7bn against Rs15.4bn in the corresponding period last year.
- Operating margins contract to 56.2% for the quarter against 62.7% last year
- Bottomline shrinks by 2.4% to Rs5.9bn for the quarter against Rs6.1bn last year

Financials Highlights

Period to	03/07	03/06	y-o-y Growth	q-o-q Growth	03/07	03/06	y-o-y Growth
(Rs mn)	(3)	(3)	(%)	(%)	(12)	(12)	(%)
Net sales	15,668	15,381	1.9	8.2	59,425	48,887	21.6
Expenditure	(6,869)	(5,734)	19.8	13.8	(24,081)	(23,112)	4.2
Operating profit	8,798	9,646	(8.8)	4.1	35,344	25,776	37.1
Other income	1,199	913	31.4	22.5	4,025	2,337	72.2
Interest	0	0	-	-	0	0	-
Depreciation	(819)	(923)	(11.3)	10.0	(3,121)	(3,816)	(18.2)
PBT	9,178	9,636	(4.7)	5.7	36,249	24,296	49.2
Tax	(3,270)	(3,580)	(8.7)	10.6	(12,440)	(8,674)	43.4
PAT	5,908	6,056	(2.4)	3.2	23,809	15,622	52.4
OPM (%)	56.2	62.7	(6.6)	(2.2)	59.5	52.7	6.8
Equity capital	6,443	6,443			6,443	6,443	
EPS Annualized (Rs)	36.7	37.6	(2.4)	3.2	37.0	24.2	52.4
NPM (%)	37.7	39.4			40.1	32.0	

Flat 1.9% topline growth for Q4FY07 but healthy 21.6% for FY07

Average price of aluminum on LME during Q4FY07 stood at US\$2,800 per ton against US\$2,420 per ton in Q4FY06, representing a year on year jump of 15.7%. Aluminium's share in revenues increased to 71.8% in Q4FY07 from 62% in the corresponding period last year. During the quarter the metal and chemical production was marginally lower by 1.2% and 1.1% to 88,820 tons and 395,700 tons respectively. Despite robust metal realization, topline witnessed a marginal growth of 1.9%, which was due to a 46.9% drop in alumina realizations.

Production and average realization statistics

Segments	03/07	03/06	y-o-y Growth (%)	q-o-q Growth (%)	03/07	03/06	y-o-y Growth (%)
Alumina	395,700	403,400	(1.9)	3.5	1,475,200	1,590,000	(7.2)
Aluminium	88,820	89,873	(1.2)	(1.1)	358,734	358,954	(0.1)
Electricity (mn units)	1,537	1,549	(0.8)	3.6	5,968	5,679	5.1
Aluminium (US\$ per ton)	2,800	2,420	15.7	3.0	2,663	2,028	31.3
Alumina (US\$ per ton)	322	607	(46.9)	34.2	373	500	(25.3)
Rs/US\$	44.2	44.4	(0.6)	(1.8)	45.3	44.3	2.2

Source: Company, Bloomberg, India Infoline Research

During FY07 the company registered a 21.6% growth in its topline, which was primarily due to 31.3% (y-o-y) higher aluminium realizations despite lower alumina production and realizations. This resulted into improving topline contribution by aluminium while that of alumina declined.

Segmental break up

	03/07	03/06	Growth	Sales	Contribution	03/07	03/06	Growth	Sales	Contribution
Segmental revenues (Rs mn)	(3)	(3)	(%)	(%)	(%)	(12)	(12)	(%)	(%)	(%)
Chemicals	5,366	10,197	(47.4)	34.2	66.3	28,025	25,762	8.8	47.2	52.7
Aluminium	11,248	9,541	17.9	71.8	62.0	43,628	33,734	29.3	73.4	69.0
Electricity	2,983	2,698	10.6	19.0	17.5	8,816	7,442	18.5	14.8	15.2
EBIT Margins (%)										
Chemicals	47.2	76.0	(28.8)			66.5	62.5	4.0		
Aluminium	39.9	4.3	35.6			28.3	19.2	9.1		
Electricity	52.9	40.4	12.5			36.9	15.2	21.7		
Total	58.6	62.7	(4.1)			61.0	49.7	11.3		

Source: Company

Operating margins contract during the quarter but expand for FY07

Captive generation of electricity helped the company witness a 120bps drop in power and fuel cost for the quarter and 480bps for the year. During the quarter costs have risen in absolute terms despite marginally lower production, hence putting pressure on margins. Although margins have contracted to 56.2% for Q4FY07 from 62.7% in the corresponding period last year, they are still strong.

During Q4FY06 alumina prices were at its peak of US\$620 per ton, which have now reduced to US\$360 per ton during Q4FY07. The effect of this is also seen in declining EBIT margins for the segment to 47.2% during Q4FY07 from 76% in Q4FY06. However it was contrary for aluminum with prices registering a 15.7% improvement. This is witnessed from expanding EBIT margins for the segment for the quarter and year.

Average prices of alumina and aluminium for last 12 quarters

Period to	Alumina fob Europe	q-o-q	y-o-y	Aluminium	q-o-q	y-o-y
(US\$ per ton)		(%)	(%)		(%)	(%)
Q1FY05	458	8.9	62.5	1,678	1.7	21.5
Q2FY05	336	(26.6)	17.9	1,709	1.8	19.0
Q3FY05	401	19.4	28.8	1,828	7.0	20.9
Q4FY05	415	3.4	(1.4)	1,901	4.0	15.3
Q1FY06	434	4.5	(5.3)	1,790	(5.9)	6.6
Q2FY06	432	(0.3)	28.6	1,830	2.2	7.1
Q3FY06	530	22.5	32.0	2,072	13.3	13.4
Q4FY06	607	14.6	46.3	2,420	16.8	27.3
Q1FY07	583	(4.0)	34.4	2,652	9.6	48.2
Q2FY07	340	(41.6)	(21.3)	2,482	(6.4)	35.6
Q3FY07	240	(29.5)	(54.7)	2,719	9.6	31.2
Q4FY07	322	34.2	(46.9)	2,800	3.0	15.7

Source: Bloomberg, India Infoline Research

Cost analysis

Period to	03/07	03/06	Inc/Dec	Inc/Dec	03/07	03/06	Inc/Dec
As % of sales	(3)	(3)	y-o-y	q-o-q	(12)	(12)	y-o-y
Raw Material	11.6	8.4	3.2	1.3	9.2	9.6	(0.4)
Power and Fuel	13.7	14.9	(1.2)	(0.7)	14.3	19.2	(4.8)
Other Manufacturing Exps	10.8	8.1	2.7	(0.3)	10.6	11.8	(1.2)
Staff cost	7.8	6.0	1.8	1.8	6.5	6.8	(0.3)
Total Expenditure	43.8	37.3	6.6	2.2	40.5	47.3	(6.8)

Source: Company

Bottomline swells by 52.4% during FY07

With robust production and average realizations for the year coupled with lower depreciation for FY07 and zero interest, the company's bottomline witnessed a growth of 52.4%. Its bottomline grew to Rs23.8bn in FY07 from Rs15.6bn in the corresponding period last year. This translates into earnings of Rs37 for FY07. Net margins for the company also improved to 40.1% FY07 from 32% in the corresponding period last year.

Outlook

With capacities for alumina coming up globally, it is expected that demand-supply gap for the commodity will shrink over the year resulting into contracting realizations. In line with this softening in prices we expect prices of aluminium to also decline over the same period. Rising inventory levels at LME warehouses will also put some pressure on prices.

Published in April 2007. © India Infoline Ltd 2007-08.

This report is for information purposes only and does not construe to be any investment, legal or taxation advice. It is not intended as an offer or solicitation for the purchase and sale of any financial instrument. Any action taken by you on the basis of the information contained herein is your responsibility alone and India Infoline Ltd (hereinafter referred as IIL) and its subsidiaries or its employees or directors, associates will not be liable in any manner for the consequences of such action taken by you. We have exercised due diligence in checking the correctness and authenticity of the information contained herein, but do not represent that it is accurate or complete. IIL or any of its subsidiaries or associates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this publication. The recipients of this report should rely on their own investigations. IIL and/or its subsidiaries and/or directors, employees or associates may have interests or positions, financial or otherwise in the securities mentioned in this report.