



Hindalco

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,782	HNDL IN
	REUTERS CODE
S&P CNX: 4,079	HALC.BO

9 May 2007

Under Review

Previous Recommendation: Buy

Rs144

Equity Shares (m)	1,159.3
52-Week Range	251/125
1,6,12 Rel. Perf. (%)	2/-26/-47
M.Cap. (Rs b)	167.4
M.Cap. (US\$ b)	4.1

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/SALES	EV/EBITDA
3/07A	199,548	28,006	24.2	77.5	6.0	1.4	22.8	18.8	1.0	4.5
3/08E	231,016	28,250	24.4	0.9	5.9	1.1	17.8	16.5	0.8	4.0
3/09E	273,314	32,336	27.9	14.5	5.2	0.9	17.2	16.9	0.7	3.6

During 4QFY07, Hindalco reported PAT of Rs7.21b, better than our estimate. Net sales grew 30% YoY to Rs47.5b and EBITDA increased 20% YoY to Rs11.1b. Depreciation has increased by 9% YoY to Rs1.6b due to capitalization of Cu-3 smelter and expansion of smelter at Hirakud. Excluding the acquisition expense of Rs650m, adjusted PAT grew 23% YoY to Rs7.7b.

Copper: Copper revenue increased by 40% YoY to Rs27.1b, driven by 15% higher blended realization and 22% higher volumes. Higher volumes resulted in segmental EBIT growth of 14% YoY to Rs1.36b despite EBIT declining 6% YoY from US\$18.2/lb to US\$17.1/lb.

Aluminum: Aluminum revenue increased by 18% YoY to Rs20.4b, driven by 12% increase in volumes to 120,000 ton and 5.6% increase in average realization to Rs170,000 per ton. Segmental EBIT increased by 11% YoY to Rs7.9b. EBIT/ton is estimated at US\$1,493. Share of value-added products in the product mix was 60%.

We estimate EPS (dilution for Novelis acquisition and earnings impact not factored) of Rs24.4 for FY08. Hindalco has aggressive plans to increase the capacity of primary aluminum from 0.5mtpa to 1.5mtpa in the next five years and it is in the process of acquiring Novelis. We expect more details on the financial impact of this acquisition in the next few weeks. We would be reviewing our estimates and recommendation post greater clarity on this deal.

QUARTERLY PERFORMANCE

(RS MILLION)

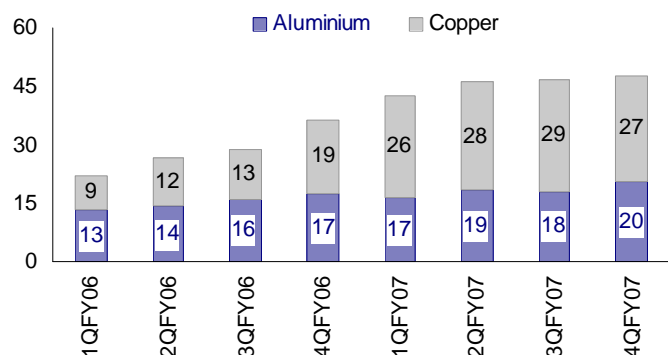
Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	22,078	26,608	28,737	36,574	42,737	46,342	46,562	47,489	113,964	183,130
Change (YoY %)	7.1	8.3	15.4	45.4	93.6	74.2	62.0	29.8	19.7	60.7
Total Expenditure	16,034	21,729	22,907	27,276	33,403	36,478	36,109	36,340	87,914	142,330
EBITDA	6,044	4,879	5,830	9,298	9,334	9,864	10,453	11,149	26,050	40,800
Change (YoY %)	31.1	-9.7	-9.8	47.9	54.4	102.2	79.3	19.9	14.4	56.6
As % of Net Sales	27.4	18.3	20.3	25.4	21.8	21.3	22.4	23.5	22.9	22.3
Interest	461	539	628	624	634	515	698	577	2,252	2,424
Depreciation	1,169	1,285	1,314	1,443	1,341	1,353	1,384	1,576	5,211	5,654
Other Income	336	927	433	743	776	1,108	584	1,233	2,439	3,701
PBT (before EO item)	4,750	3,982	4,321	7,974	8,135	9,104	8,955	10,229	21,027	36,423
Extra-ordinary Income	-	-	30.0	-	-	-727.0	-	(650)	30.2	-1,377.0
PBT (after EO item)	4,750	3,982	4,351	7,974	8,135	8,377	8,955	9,579	21,057	35,046
Total Tax	1,015	851	930	1,705	2,120	2,401	2,516	2,366	4,501	9,403
% Tax	21.4	21.4	21.4	21.4	26.1	28.7	28.1	24.7	21.4	26.8
Reported PAT	3,735	3,131	3,421	6,269	6,015	5,976	6,439	7,213	16,555	25,643
Adjusted PAT	3,735	3,131	3,397	6,269	6,015	6,495	6,439	7,702	16,532	26,651
Change (YoY %)	58.5	5.1	-5.9	37.4	61.1	107.4	89.5	22.9	23.8	61.2

E: MOST Estimates: Stanalone numbers

Strong metal prices, volume growth drive revenues

Net sales increased by 30% YoY to Rs47.5b, driven by strong metal prices and volume growth in both segments. EBITDA increased by 20% YoY to Rs11.1b. Depreciation has increased by 9% YoY to Rs1.6b due to capitalization of Cu-3 smelter and expansion of smelter at Hirakud. Excluding the acquisition expense of Rs650m, adjusted PAT grew by 23% YoY to Rs7.7b.

SEGMENTAL DISTRIBUTION OF REVENUE (RS B)



Source: Company/ Motilal Oswal Securities

Copper earnings declining due to falling Tc/Rc

Copper revenue increased by 40% YoY to Rs27.1b, driven by 15% higher blended realization and 22% higher volumes of 82,000 ton. Cu-2 (80,000 tpa) remained shut due to low Tc/Rc margins. Cu-3 (250,000 tpa) has been ramping up progressively. Copper production during the quarter increased by 19% YoY to 80,000 ton. Higher volumes resulted in segmental EBIT growth of 14% YoY to Rs1.36b despite EBIT declining 6% YoY from US\$18.2/lb to US\$17.1/lb.

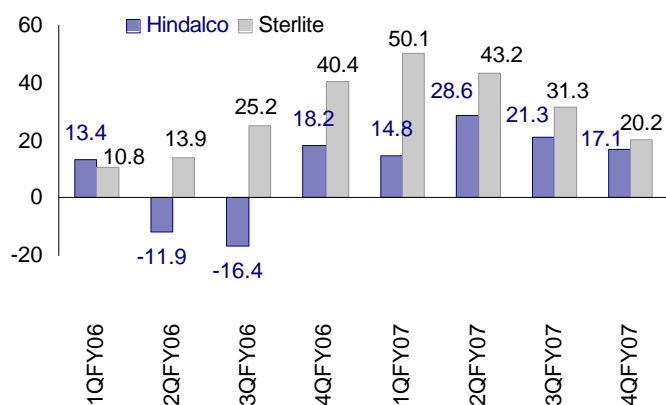
QUARTERLY TRENDS OF COPPER SEGMENT

	1QFY07	2QFY07	3QFY07	4QFY07
Production ('000 tons)	65	71	73	81
Change YoY (%)	51	26	65	22
Sales (000 tons)	66	67	76	82
Change YoY (%)	61	15	47	22
Revenue (Rs m)	26,217	27,825	28,622	27,112
Change YoY (%)	202	123	119	40
3M LME Avg. (US\$/ton)	7,251	7,670	7,087	5,880
Change YoY (%)	114	104	65	19
TcRc (US\$/lb)	28.6	36.0	N.A.	N.A.
EBIT (US\$/lb)	14.8	28.6	21.3	17.1
EBIT (Rs m)	978	1,960	1,595	1,365

Source: Company/ Motilal Oswal Securities

Copper segment EBIT margins declined by 120bp YoY to 5%. Falling tc/rc trend had a bearing on QoQ performance. Realized EBIT fell from US\$21.3/lb in 2QFY07 to US\$17.1/lb in 4QFY07.

THE GAP IS NARROWING BETWEEN THE PERFORMANCE OF HINDALCO'S AND STERLITE SMELTER

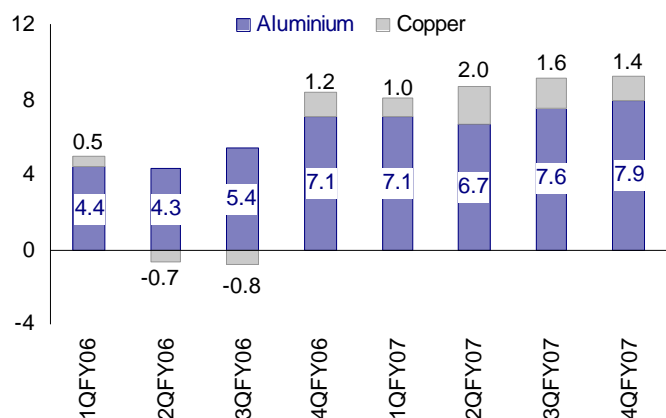


Source: Company/ Motilal Oswal Securities

Aluminum continues to dominate earnings

Aluminum revenue increased by 18% YoY to Rs20.4b, driven by 12% increase in volumes to 120,000 ton and 5.6% increase in average realization to Rs170,000 per ton. Segmental EBIT increased by 11% YoY to Rs7.9b. EBIT/ton is estimated at US\$1,493. Share of value-added products in the product mix was 60%.

SEGMENTAL DISTRIBUTION OF EARNINGS



Source: Company/ Motilal Oswal Securities

QUARTERLY TRENDS OF ALUMINIUM SEGMENT

	1QFY07	2QFY07	3QFY07	4QFY07
Production ('000 tons)	107	109	112	114
Change YoY (%)	1	2	3	7
Sales ('000 tons)	99	110	108	120
Change YoY (%)	-1	3	-1	12
Revenue (Rs m)	16,542	18,520	17,958	20,424
Change YoY (%)	23	31	15	18
3M LME Avg. (US\$/ton)	2,652	2,482	2,723	2,743
Change YoY (%)	48	36	31	13
EBIT (US\$/ton)	1,570	1,314	1,555	1,493
EBIT (Rs m)	7,125	6,710	7,555	7,902
Change YoY (%)	63	54	39	11
Share in Total Earnings (%)	88	77	83	85

Source: Company/ Motilal Oswal Securities

Progress of greenfield projects

- ☞ Utkal Alumina project of 1.5mtpa is progressing well and is likely to be completed by March 2009.
- ☞ Aditya greenfield project of 1.5mtpa alumina, 325ktpa aluminum and 750MW captive power is on track and has been awarded SEZ status. It is likely to be completed by September 2011.
- ☞ Mahan greenfield project of 325ktpa aluminum smelting, 750MW captive power supported by captive coal has also been awarded SEZ status. Coal block was allotted in JV with Essar group and production of coal is expected by April 2009. The project is likely to be completed by November 2012.

- ☞ Lathehar greenfield project of 325ktpa aluminum smelting, 750MW captive power supported by captive coal mines is progressing. Coal mine allotment has reached final stage.

Novelis acquisition: awaiting greater clarity

The Novelis acquisition, at EV of US\$6b, is being funded through US\$3.1b of dollar loan, US\$455m from liquidation of investments, and existing debt of US\$2.4b will be replaced by term loan of US\$1b and high yield bonds of US\$1.4b. The company did not divulge any details on the profitability of Novelis, as the acquisition is yet to be consummated. Novelis shareholders' approval is due on 10 May 2007.

Outlook and valuations

We estimate EPS (dilution for Novelis acquisition and earnings impact not factored) of Rs24.4 for FY08. Hindalco has aggressive plans to increase the capacity of primary aluminum from 0.5mtpa to 1.5mtpa in the next five years. It is in the process of acquiring Novelis, the largest producer of rolled products to ensure offtake of its primary aluminum even during adverse market conditions, as India is likely to be a surplus market. We expect more details on the financial impact of this acquisition in the next few weeks. We would be reviewing our estimates and recommendation post greater clarity on this deal.

Hindalco: an investment profile

Company description

Hindalco is the largest aluminum producer in India, with a market share of 45% and is the only player that converts 67% of metal production into value-added products including high-end products like aluminum foils and packaging material. Copper smelting capacity of 500ktpa is the largest in Asia. The copper division faced trouble during ramp-up due to frequent breakdown in the last two years. While this division is coming out of trouble, the company is tripling its aluminum production capacity in the next four years through a number of brownfield and greenfield expansions in India.

Key investment arguments

- ⚡ Aggressive growth plan to triple aluminum capacity in four years through number of brownfield and greenfield projects. New smelting capacities are coming close to energy sources and alumina facilities would be set up close to bauxite mines, ensuring low cost of production.
- ⚡ Operating efficiencies of copper smelter would improve; lower conversion cost along with strong volume growth.

Key investment risks

- ⚡ Unexpected fall in aluminum prices could adversely impact earnings.

COMPARATIVE VALUATIONS

		HINDALCO	NALCO	STERLITE
P/E (x)	FY08E	5.9	9.1	7.5
	FY09E	5.2	9.1	7.5
P/BV (x)	FY08E	1.1	1.8	1.6
	FY09E	0.9	1.5	1.2
EV/Sales (x)	FY08E	0.8	2.6	1.1
	FY09E	0.7	2.4	0.9
EV/EBITDA (x)	FY08E	4.0	4.8	3.4
	FY09E	3.6	4.6	3.3

SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	27.1	26.8	26.9
Domestic Inst	14.7	16.2	16.9
Foreign	33.3	33.5	38.2
Others	24.9	23.5	18.1

Recent developments

- ⚡ Acquired Novelis at an enterprise value of US\$6b. Novelis is the largest converter in the aluminum business globally, with a market share of 19%.

Valuation and view

- ⚡ We estimate EPS (dilution for Novelis acquisition and earnings impact not factored) of Rs24.4 for FY08. Hindalco has aggressive plans to increase the capacity of primary aluminum from 0.5mtpa to 1.5mtpa in the next five years and it is in the process of acquiring Novelis. We expect more details on the financial impact of this acquisition in the next few weeks. We would be reviewing our estimates and recommendation post greater clarity on this deal.

Sector view

- ⚡ Demand for aluminum products in India is growing 9% per year and the momentum is likely to further accelerate in coming years. Global demand too is expected to post growth rate of 5%, led by strong growth in China. Copper tc/rc appears to have bottomed out, as high cost smelters have started shutting.

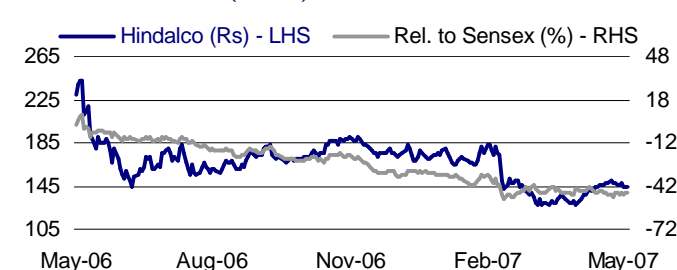
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	24.4	18.7	30.7
FY09	27.9	17.7	57.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
144	-	-	Under Review

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net sales	101,053	120,362	199,548	231,016	273,314	
Change (%)	18.5	19.1	65.8	15.8	18.3	
Total Expenses	76,748	91,913	153,542	183,418	219,558	
EBITDA	24,306	28,449	46,006	47,598	53,756	
% of Net Sales	24.1	23.6	23.1	20.6	19.7	
Depn. & Amortization	6,325	7,959	8,404	8,650	8,750	
EBIT	17,981	20,490	37,602	38,948	45,006	
Net Interest	2,159	3,014	3,174	3,133	3,508	
Other income	2,779	2,805	4,101	3,700	3,700	
PBT before EO	18,600	20,281	38,529	39,515	45,198	
EO income	585	24	-1,377			
PBT after EO	19,186	20,305	37,152	39,515	45,198	
Current tax	5,419	3,424	9,603	10,588	12,185	
Deferred tax	809	980				
Tax	6,228	4,403	9,603	10,588	12,185	
Rate (%)	32.5	21.7	25.8	26.8	27.0	
Reported PAT	12,958	15,902	27,549	28,927	33,013	
Minority interests	110	106	564	677	677	
Adjusted PAT	12,452	15,777	28,006	28,250	32,336	
Change (%)	25.2	26.7	77.5	0.9	14.5	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	928	986	1,044	1,159	1,159	
Reserves	75,098	92,296	121,602	157,407	186,300	
Net Worth	76,026	93,282	122,646	158,566	187,460	
Minority Interest	858	1,295	1,859	2,536	3,213	
Total Loans	49,796	63,278	63,278	63,278	63,278	
Deferred Tax Liability	11,342	12,281	12,281	12,281	12,281	
Capital Employed	138,023	170,137	200,065	236,662	266,232	
Gross Block	109,532	134,433	154,433	179,433	209,433	
Less: Accum. Deprn.	39,065	46,002	54,406	63,056	71,806	
Net Fixed Assets	70,467	88,431	100,027	116,377	137,627	
Capital WIP	16,387	10,403	10,403	10,403	10,403	
Investments	29,559	31,632	31,632	31,632	31,632	
Curr. Assets	49,521	78,781	108,944	135,596	153,386	
Inventory	26,970	44,975	48,223	56,135	66,788	
Account Receivables	8,404	13,057	17,649	20,259	24,283	
Cash and Bank Balance	4,730	10,423	25,586	39,031	38,000	
Others	9,416	10,326	17,485	20,172	24,314	
Curr. Liability & Prov.	27,911	39,111	50,942	57,346	66,816	
Account Payables	18,812	28,861	39,987	46,127	55,596	
Provisions & Others	9,099	10,250	10,955	11,219	11,219	
Net Current Assets	21,610	39,671	58,002	78,250	86,570	
Appl. of Funds	138,023	170,137	200,065	236,662	266,232	

E: Most Estimates

RATIOS						
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Basic (Rs)						
EPS	13.4	13.6	24.2	24.4	27.9	
Cash EPS	20.8	20.6	31.0	32.4	36.0	
BV/Share	819	80.5	105.8	136.8	161.7	
DPS	2.0	1.9	2.4	2.6	2.6	
Payout (%)	17.0	15.7	11.3	12.2	10.6	
Valuation (x)						
P/E		10.6	6.0	5.9	5.2	
Cash P/E		7.0	4.7	4.5	4.0	
P/BV		1.8	1.4	1.1	0.9	
EV/Sales		1.8	1.0	0.8	0.7	
EV/EBITDA		7.7	4.5	4.0	3.6	
Dividend Yield (%)		1.3	1.7	1.8	1.8	
Return Ratios (%)						
RoE	16.4	16.9	22.8	17.8	17.2	
RoCE	13.0	12.0	18.8	16.5	16.9	
Working Capital Ratios						
Asset Turnover (x)	0.7	0.7	1.0	1.0	1.0	
Debtor (Days)	30.4	39.6	32.3	32.0	32.4	
Inventory (Days)	26.7	37.4	24.2	24.3	24.4	
Working Capital Turnover (x)	16.7	24.3	16.2	17.0	17.8	
Leverage Ratio (x)						
Current Ratio	1.8	2.0	2.1	2.4	2.3	
Interest Cover Ratio	8.3	6.8	11.8	12.4	12.8	
Debt/Equity	0.7	0.7	0.5	0.4	0.3	

CASHFLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Pre-tax Profit	19,076	20,199	36,588	38,838	44,521	
Depreciation	6,325	7,959	8,404	8,650	8,750	
(Inc)/Dec in Wkg. Cap.	-868	-12,367	-3,169	-6,803	-9,351	
Tax Paid	-5,419	-3,424	-9,603	-10,588	-12,185	
CF from Op. Activity	19,114	12,368	32,220	30,097	31,735	
(Inc)/Dec in FA + CWIP	-54,657	-18,917	-20,000	-25,000	-30,000	
(Pur)/Sale of Investments	4,213	-2,074				
CF from Inv. Activity	-50,444	-20,991	-20,000	-25,000	-30,000	
Equity raised/(repaid)	3	58	58	116		
Chg in minorities	858	437	564	677	677	
Debt raised/(repaid)	24,150	13,482				
Dividend (incl. tax)	-2,120	-2,473	-3,177	-3,442	-3,442	
Other financing activities	10,855	2,811	5,499	10,997		
CF from Fin. Activity	33,747	14,316	2,943	8,348	-2,765	
(Inc)/Dec in Cash	2,417	5,693	15,163	13,444	-1,031	
Add: opening Balance	2,314	4,730	10,423	25,586	39,031	
Closing Balance	4,730	10,423	25,586	39,031	38,000	



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Disclosure of Interest Statement	Hindalco
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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