

Hindalco Industries

Vishal Mishra

+91 22 67069943

Vishal.mishra@investsmartindia.com

Shareholding (%)

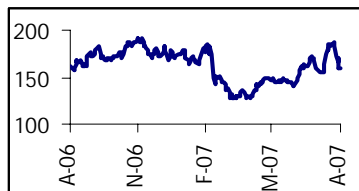
Promoters	31.4
FII's	13.5
MFs	2.3
Insurance co.	10.7
Others	42.1

Share price performance

52-week high/low (Rs)	193/120		
	-1m	-3m	-12m
Abs (%)	0.8	9.4	-0.7
Rel* (%)	-0.2	4.5	-37.6

*to Nifty

Stock chart



Rupee appreciation impacts margins

Hindalco Industries Ltd. (HIL) reported steady growth in net revenue during Q1FY08. While higher volumes, both in copper as well as aluminium business led to 9.5% YoY growth in net sales, operating profit margin was impacted due to drop in alumina prices, coupled with rupee appreciation impacting aluminium realisations.

At the current price, HIL is trading at a P/E of 8.6x FY08E. While capex led volume growth will continue going forward, we expect rupee appreciation to have a bearing on average realisations going forward. This apart, expected softening in copper TC/RC margin will have a further bearing on the company's performance. On consolidated basis, increase in interest burden and marginal profitability of Novelis will lead to a decline in next year's consolidated EPS. However, following the sharp decline in stock price post the acquisition, we believe the same has been factored in the stock price. Hence, we maintain 'Accumulate' rating on the stock.

Key highlights of Q1FY08 results:

High aluminium volumes drive revenue in this business; appreciating rupee is the dampener: HIL registered 9.5% YoY growth in net sales during Q1FY08. While revenue from the aluminium division was higher by 6.03% YoY, copper division revenue grew by 11.6%. Growth in the aluminium division was driven by an increase in volume. While alumina sales volume was up 11.8% YoY, primary metal sales were up 8.9%. Rolled products too witnessed 9% YoY increase during the quarter.

However, the benefits of volume growth were offset by rupee appreciation and correction in alumina prices. Despite 4% increase in LME aluminium prices, in rupee terms, average aluminium prices were lower by 6%. This was due to a 9.1% appreciation in rupee against the dollar, coupled with a reduction in customs duty on aluminium from 7.7% to 5.7%. On the other hand, spot alumina prices too were lower by 36% YoY at US\$352 per tonne. These factors had a bearing on the EBIT margin of the company's aluminium division, which declined from 43.1% in Q1FY07 to 36.6% in Q1FY08.

Accumulate Rs160

August 3, 2007

Market cap

Rs bn 158

US\$ mn 3,895

Avg 3m daily volume

5,500,408

Avg 3m daily value

USD mn 22

Shares outstanding (mn)

986

Reuters

HALC.BO/HINDALCO.NS

Bloomberg

HNDL IN

Sensex

14,986

Nifty

4,356

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- ▲ **Higher copper volume and TC/RC margin drive growth in copper division:** During Q1FY08, HIL's copper division witnessed an impressive 11.6% YoY growth in net revenue. The growth was driven by higher volumes and realisations. An improvement in TC/RC margin from 31.22c/lb to 28.8c/lb provided further fillip to the company's copper division EBIT margin, which improved from 3.7% in Q1FY07 to 3.8% during the quarter.

Table 1. Q1FY08 performance- aluminium division

Sales details	Volumes			Revenues			Realisations per unit		
	Q1FY08	Q1FY07	Change	Q1FY08	Q1FY07	Change	Q1FY08	Q1FY07	Change
Alumina	76,572	68,517	11.8%	1,629	1,830	-11.0%	21,270	26,709	-20.4%
Primary metal	32,390	29,752	8.9%	3,930	3,680	6.8%	121,334	123,689	-1.9%
Wire rod	17,317	16,635	4.1%	2,190	2,220	-1.4%	126,465	133,454	-5.2%
Rolled products	42,151	38,662	9.0%	6,100	5,730	6.5%	144,718	148,208	-2.4%
Extrusions	9,582	8,116	18.1%	1,520	1,290	17.8%	158,631	158,945	-0.2%
Foils	5,769	6,427	-10.2%	1,300	1,340	-3.0%	225,342	208,495	8.1%
Wheels	46,473	46,582	-0.2%	100	90	11.1%	2,152	1,932	11.4%
Others				770	370	108.1%			
Total sales	107,209	99,592		17,539	16,550				

Table 2. Q1FY08 performance - copper division

Sales details	Volumes			Revenues			Realisations per unit		
	Q1FY08	Q1FY07	Change	Q1FY08	Q1FY07	Change	Q1FY08	Q1FY07	Change
Copper cathodes	38,013	44,688	17.6%	8,482	14,485	70.8%	223,129	324,136	45.3%
CC rods	27,571	33,729	22.3%	5,977	11,240	88.1%	216,771	333,244	53.7%
DAP/NPK	73,700	37,656	-48.9%	1,357	561	-58.7%	18,416	14,898	-19.1%
Sulphuric acid	106,672	172,653	61.9%	147	174	18.1%	1,382	1,008	-27.1%
Gold	2,712	1,730	-36.2%	2,064	1,523	-26.2%	761,140	880,347	15.7%
Silver	9,065	9,477	4.5%	118	173	47.1%	12,971	18,255	40.7%
Others				128	1,106	764.1%			
Total sales				18,272.8	29,262.0	60.1%			

Source table 1 & 2: IISL research, company

- ▲ **Operating profit margin at 18.9%:** Given the impact of rupee appreciation on average aluminium realisations, coupled with the drop in TC/RC margin; the overall operating profit declined from 21.8% in Q1FY07 to 18.9% in Q1FY08. Operating profit stood at Rs 8.8 bn (down 5.3% YoY).
- ▲ **Higher other income and lower interest lead to a flat bottomline:** Despite the decline in operating profit, HIL reported flat net profit in view of an increase in other income and lower interest costs. While other income increased due to higher treasury (from Rs 34.6 bn to Rs 49.3 bn), coupled with an increase in pre-tax treasury yield (from 8.7% to 11.86%); interest cost declined 11.4% YoY due to sourcing of internal accruals for funding the increase in working capital requirements of Birla Copper, decrease in interest rate for foreign currency borrowings due to weakening of dollar and repayment of some loans. This has resulted in the company reporting net profit of Rs 6 bn during Q1FY08.

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- ▲ **Novelis acquisition complete; to acquire 45% stake in Utkal:** Hindalco had made an offer to acquire Canada-based Novelis at an enterprise value of US\$6bn. During the quarter, the company completed the acquisition. This apart, the company is also acquiring 45% stake in Alcan's Utkal aluminium refinery.
- ▲ **Valuation:** At the current price, HIL is trading at a P/E of 8.6x FY08E. While capex led volume growth will continue going forward, we expect rupee appreciation to have a bearing on average realisations going forward. This apart, expected softening in copper TC/RC margin will have a further bearing on the company's performance. On consolidated basis, increase in interest burden and marginal profitability of Novelis will lead to a decline in next year's consolidated EPS. However, following the sharp decline in stock price post the acquisition, we believe the same has been factored in the stock price. Hence, we maintain 'Accumulate' rating on the stock.

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Table 3. Quarterly result table

Rs mn	Q1FY08	Q1FY07	YoY (%)	Q4FY07	QoQ (%)
Net Sales	46,779.0	42,737.0	9.5	47,489.0	(1.5)
Total Expenses	37,936.0	33,403.0	13.6	36,990.0	2.6
Inc / Dec in stock	(2,302.0)	(9,659.0)	(76.2)	3,612.0	(163.7)
Raw material consumed	31,090.0	34,310.0	(9.4)	23,386.0	32.9
Staff cost	1,321.0	1,149.0	15.0	1,465.0	(9.8)
Other manufacturing expenses	4,230.0	6,315.0	(33.0)	4,297.0	(1.6)
Other expenditure	3,597.0	1,288.0	179.3	4,230.0	(15.0)
EBIDTA	8,843.0	9,334.0	(5.3)	10,499.0	(15.8)
Other Income	1,246.0	776.0	60.6	1,233.0	1.1
PBIDT	10,089.0	10,110.0	(0.2)	11,732.0	(14.0)
Interest	562.0	634.0	(11.4)	577.0	(2.6)
Depreciation	1,428.0	1,341.0	6.5	1,576.0	(9.4)
PBT	8,099.0	8,135.0	(0.4)	9,579.0	(15.5)
Tax	1,662.0	1,945.0	(14.6)	2,394.0	(30.6)
Deferred	408.0	175.0	133.1	(28.0)	(1,557.1)
PAT	6,029.0	6,015.0	0.2	7,213.0	(16.4)
Extra-ordinary item	0.0	0.0		0.0	
Adjusted PAT	6,029.0	6,015.0	0.2	7,213.0	(16.4)
Equity	1,111.0	986.0		1,043.0	
EPS	5.4	6.1	(11.0)	6.9	(21.5)
Key Ratios (%)					
EBIDTA Margin	18.9	21.8		22.1	
Interest / Sales	1.2	1.5		1.2	
Tax / PBT	25.6	26.1		24.7	
NPM	12.9	14.1		15.2	

Source: IISL research, company

Table 4. Quarterly segmental report

Rs mn	Q1FY08	Q1FY07	YoY %	Q4FY07	QoQ %
Aluminium					
Sales	17,539	16,542	6.03	20,424	-14.1
EBIT	6,423	7,125	-9.85	7,902	-18.7
EBIT margin (%)	36.6	43.1		38.7	
Copper					
Sales	29,262	26,217	11.61	27,112	7.9
EBIT	1,123	978		1,365	-17.7
EBIT margin (%)	3.8	3.7		5.0	

Source: IISL research, company

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