

Industry : Metals

CMP : Rs.151.50

Price Target : Rs.201

Accumulate

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Highlights for the quarter

- Hindalco's performance for Q3FY07 was marked by higher realizations on aluminium with enhanced product mix of higher value added product sales and better Tc/Rc margins. Contribution of value added products increased from 59% in Q3FY06 to 67% in Q3FY07.

	Current
Recommendation	ACCU
CMP (INR)	151.50
Target Price (INR)	201.00

Key Data

Bloomberg	<u>HNDL@IN</u>
Reuters Code	HALC.BO
BSE Code	500440
NSE Code	HINDALCO
Face Value	10.00
Market Cap. (INR bn)	144.40
52 Week High (INR)	251.40
52 Week Low (INR)	138.15

Scrip Scan

Equity Rs.mn	1,042.00
FY07E EPS	23.92
FY08E EPS	22.68

Shareholding (31.12.06)

	(%)
Promoters	26.79
FII's	19.13
FIs	16.26
GDR	10.77
Public	27.05
Grand Total	100.00

	Production (in MT)		Sales (in MT)		Sales Revenues (in Rs.mn)	
	Q3FY07	Q3FY06	Q3FY07	Q3FY06	Q3FY07	Q3FY06
Aluminium	111871	108710	30409	37396	3,880.0	3,719.1
Redraw Rods	17777	17331	17436	17741	2,330.0	1,821.3
Rolled product	58000	49525	43453	39296	6,510.0	4,813.6
Extruded Products	10364	8356	10161	8499	1,630.0	1,063.7
Foil	6235	7354	6664	6765	1,430.0	1,264.3
Alumina	308344	310838	56998	101299	1,410.0	2,161.0
Copper Cathodes	72904	44236	50391	28515	15,647.6	5,516.0
Continuous Cast Copper Rods	24669	22679	25209	22961	9,278.8	5,532.0
Sulphuric Acid	190493	130399	153731	47356	135.7	87.6
DAP & Complex Fertilizers	39757	37449	37181	42907	565.5	580.3
Gold	3180	1922	3060	1781	2,759.2	1,214.5
Silver	10381	9090	8896	8909	164.4	100.7
Alloy Wheels	51364	49531	44065	61743	100.0	119.4

- Revenues at Rs.46562mn were 62% y-o-y and net profit at Rs.6439mn, which was 114.2% y-o-y. EBIDTA stood at 22.5% as against 20.3% in the previous year. EBIT margins for aluminium improved from 34.6% to 42.1% y-o-y and on copper from (6.5)% to 5.6% y-o-y. Realisation increased by 28.3% y-o-y for aluminium, 16% y-o-y for alumina and an average of 55% y-o-y for copper.
- The company has entered into a definitive agreement to acquire Novelis in an all-cash transaction at approximately US\$6bn, including approximately US \$2.40bn debt. Novelis is the global leader in aluminum rolled products and aluminum can recycling, with a global market share of about 19%. Hindalco has a 60% share in the currently small but potentially high-growth Indian market for rolled products. The finalisation of deal will require 66.66% approval from shareholders of Novelis Inc. followed by a Court approval. The conclusion of the same is likely to be done by Q1FY08.
- Hindalco has entered into a Joint Venture partnership with ALMEX USA. Inc, for the manufacture of High Strength Aluminium Alloys for applications in the aerospace, sporting goods and surface transport industries in which Hindalco has 70% equity participation, with ALMEX holding the balance 30%.

Valuation

The performance for Q4FY07 is likely to be driven by higher aluminium prices and long-term contracted Tc/Rc margins. The Novelis deal, pending approvals, is likely to maintain upward pressure on the stock price. At the CMP of Rs.146.5, the stock is trading at 6.1x FY07E and 6.5x FY08E stand-alone earnings. **We recommend "ACCUMULATE" and will review the target price subject to the conclusion of the Novelis deal.**

Quarterly Performance
(Rs.mn)

	Q3FY07	Q3FY06	Q1FY07	9mFY07	9mFY06
Revenues	46,562.0	28,737.0	46,342.0	135,641.0	77,408.0
<i>% Change (yoy)</i>	<i>62.0</i>			<i>75.2</i>	
Operating Expenses	36,109.0	22,907.0	36,478.0	105,990.0	60,656.0
EBIDTA	10,453.0	5,830.0	9,864.0	29,651.0	16,752.0
<i>% Change (yoy)</i>	<i>79.3</i>			<i>77.0</i>	
EBIDTA Margin (%)	22.4	20.3	21.3	21.9	21.6
Interest	698.0	628.0	515.0	1,847.0	1,628.0
Depreciation	1,384.0	1,314.0	2,080.0	4,805.0	3,768.0
Other Income	584.0	433.0	1,108.0	2,468.0	1,697.0
PBT	8,955.0	4,321.0	8,377.0	25,467.0	13,053.0
Tax	2,516.0	1,345.0	2,401.0	7,037.0	3,690.0
Extra-ordinary Items	-	(30.0)	-	-	(30.0)
PAT	6,439.0	3,006.0	5,976.0	18,430.0	9,393.0
<i>% Change (yoy)</i>	<i>114.2</i>			<i>96.2</i>	
Net Profit Margin (%)	13.8	10.5	12.9	13.6	12.1
Equity	1,042.0	928.0	986.0	1,042.0	928.0
EPS	6.2	3.2	6.1	17.7	10.1

Income Statement

	(Rs.bn)			
	FY05	FY06	FY07E	FY08E
Revenues	104.8	124.8	195.6	216.6
% Ch. YoY	54.1	19.0	56.8	10.8
Total Expenditure	82.0	98.7	156.0	177.2
% Ch. YoY	54.1	20.3	58.0	13.6
% of total sales	78.3	79.1	79.8	81.8
Raw Materials	43.7	55.7	100.7	116.4
Excise Duty	9.6	10.8	17.6	19.5
Power & Fuel	15.4	18.0	20.5	22.7
Other Manufacturing Expenses	4.9	5.3	6.9	7.0
Employee Cost	4.1	4.6	5.3	6.0
Selling and Admn Exp	4.4	4.4	5.0	5.5
Operating Profit	22.8	26.1	39.6	39.4
% Ch. YoY	53.9	14.4	52.1	-0.5
% of total sales	21.7	20.9	20.3	18.2
Interest	1.7	2.3	2.9	3.1
% Ch. YoY	5.5	32.5	30.2	5.7
PBDT	21.1	23.8	36.7	36.3
Depreciation	4.6	5.2	5.9	7.4
% Ch. YoY	46.0	12.5	13.2	25.4
PBT before Other Income	16.4	18.6	30.8	28.9
Other Income	2.7	2.4	3.4	3.5
% Ch. YoY	10.4	-9.7	38.8	3.4
PBT after Other Income	19.1	21.0	34.2	32.4
Tax	5.8	4.5	10.6	10.0
% Ch. YoY	41.3	-21.7	135.3	-5.2
% of PBT	30.0	21.4	31.0	31.0
APAT	13.4	16.5	23.6	22.4
% Ch. YoY	59.5	23.5	42.7	-5.2
% of total sales	12.8	13.3	12.1	10.3

Balance Sheet

	(Rs.bn)			
	FY05	FY06	FY07E	FY08E
SOURCES OF FUNDS				
Equity share capital	0.9	1.0	1.0	1.0
Reserves & Surplus	75.7	95.1	115.8	135.1
Equity share holders funds	76.7	96.1	116.8	136.1
Secured Loans	29.5	28.5	36.1	23.8
Un Secured Loans	8.5	20.6	22.5	23.8
Total Loan funds	38.0	49.0	58.6	47.7
Deferred Tax	11.3	12.3	14.3	16.1
Capital Employed	126.0	157.4	189.8	199.9
APPLICATION OF FUNDS				
Gross Block	87.7	104.2	122.5	160.2
Less: Depreciation	31.7	36.4	42.3	49.7
Net Block	56.0	67.8	80.3	110.5
Capital WIP	13.2	8.3	37.7	14.0
Investments	37.0	39.7	40.2	40.2
Inventories	23.8	41.0	39.1	43.3
Sundry Debtors	7.9	12.5	12.3	17.3
Cash & Bank Bal	4.0	9.2	8.9	8.2
Loans & Advances	9.1	10.4	10.5	10.5
Curr Assets, Loans & Adv	44.8	73.0	70.8	79.2
Curr Liabilities	16.8	22.0	30.2	34.9
Provision	8.4	9.5	8.9	9.1
Curr Liab & Prov	25.2	31.5	39.1	44.1
Net Current Assets	19.6	41.5	31.7	35.2
Miscellaneous Exp	0.1	0.1	-	-
Total Assets	126.0	157.4	189.8	199.9

Ratios

	FY05	FY06	FY07E	FY08E
Valuation				
EPS (Rs.)	14.4	16.8	23.9	22.7
CEPS (Rs.)	19.4	22.1	29.9	30.2
BVPS (Rs)	82.6	97.5	118.5	138.1
PER (x)	10.2	8.7	6.1	6.5
PEG (x)	0.2	0.6	0.2	-1.5
P/CEPS (x)	7.5	6.6	4.9	4.9
P/BV (x)	1.8	1.5	1.2	1.1
EV/EBITDA (x)	7.6	7.4	5.1	4.9
EV/Net Sales (x)	1.7	1.6	1.0	0.9
Growth (%)				
Net Sales	54.1	19.0	56.8	10.8
Adjusted Net Profit	59.5	23.5	42.7	-5.2
EBITDA	53.9	14.4	52.1	-0.5
EPS	59.0	16.2	42.7	-5.2
CEPS	55.3	13.6	35.6	1.0
Gross Fixed Assets	31.8	18.8	17.6	30.8
Capital Employed	20.9	25.0	20.5	5.3
Profitability				
ROCE (%)	18.1	16.6	20.9	19.7
ROE (%)	17.5	17.2	20.2	16.4
EBIDTA Margin (%)	21.7	20.9	20.3	18.2
EBDTA Margin (%)	20.1	19.1	18.8	16.8
Net Profit Margin (%)	12.8	13.3	12.1	10.3
Tax/PBT (%)	30.0	21.4	31.0	31.0
Turnover				
Avg. Collection Period (Days)	27.0	37.0	23.0	29.0
Avg. Payment Period (Days)	88.0	92.0	73.0	74.0
Net Fixed Assets (x)	1.9	1.8	2.4	2.0
Total Assets (x)	0.8	0.8	1.0	1.1
Other Financial Ratios				
Interest Coverage (x)	13.4	11.6	13.5	12.7
Debt to Equity Ratio (x)	0.5	0.5	0.5	0.4
Basic Data				
Sh. Price	146.5	146.5	146.5	146.5
Market Capitalisation (Rs.bn)	135.9	144.4	144.4	144.4
Enterprise Value (Rs.bn)	173.9	193.4	203.0	192.1



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