Q4FY12 Result Update

June 30, 2012

Hindalco Limited has recently declared its Consolidated Q4 FY12 results and we present an update on the same.

Q4 FY12 Consolidated Results:

Income Statement - consolidated	FY12	FY11	% Y-o-Y
Net Sales	803,930.1	718,008.0	12.0
Operating Income	4,283.6	4,014.7	6.7
Other income	7,830.7	5,133.3	52.5
Total Income	816,044.4	727,156.0	12.2
Stock in trade	6,632.9	(8,933.1)	(174.3)
% Of Net sales	0.8	-1.2	
Purchased of Finished Goods	2,071.1	5,223.2	(60.3)
% Of Net sales	0.3	0.7	
Consumption of raw material	504,017.9	456,412.8	10.4
% Of Net sales	62.7	63.6	
Employees cost	62,488.5	60,150.7	3.9
% Of Net sales	7.8	8.4	
Power & Fuel Cost	47,626.8	38,392.5	24.1
% Of Net sales	5.9	5.3	
Other expenditure	103,482.2	91,489.8	13.1
% Of Net sales	12.9	12.7	
Total Operating Expenditure	726,319.4	642,735.9	13.0
% Of Net sales	90.3	89.5	
EBITDA	89,725.0	84,420.1	6.3
Interest	17,579.8	18,393.4	(4.4)
Depreciation & Non cash charges	28,695.8	27,594.8	4.0
PBT	43,449.4	38,431.9	13.1
Taxation-	7,862.4	9,638.4	(18.4)
Net Profit	35,587.0	28,793.5	23.6
Minority Interest after tax	2,113.1	3,658.7	(42.2)
Share in Profit/Loss of associates	495.6	(571.1)	(186.8)
Adjusted Net Profit	33,969.5	24,563.7	38.3
Equity Capital (Face value Re 1)	1,914.6	1,914.6	
EPS	17.7	12.8	38.3
OPM (%)	10.1	11.0	
NPM (%)	4.2	3.4	

FY12 Consolidated Results Review:

- The consolidated revenues for FY12 at Rs 803.9 bn were up 12% y-o-y. The Indian operations registered a 11.5% Y-o-Y rise while Novelis registered a 5% Y-o-Y rise in the top line (in $ terms). The shipments from Novelis were down 4% for FY12 to 2838 Kt as against FY11.

- The consolidated operating margins for FY12 at 10.1% are down 80 bps as against FY11. This is due to increase in power and fuel cost (as a % of sale) - up 60 bps. The adjusted EBITDA for Novelis for FY12 is down 2% to USD 1.05 bn y-o-y. The EBITDA per ton for Novelis however has increased marginally to USD 371 per ton despite a fall in the shipments. The change in the product mix has resulted in the improvement in the EBITDA.

- The consolidated PAT at Rs 35.5 bn is up from a level of Rs 28.7 bn as of FY11. The consolidated interest cost for FY12 is down to Rs 17.5 bn from Rs 18.3 bn as of FY11 while the tax rate is also down to 18% for FY12 as against 25% for FY11. The depreciation charge however has increased by Rs 1101 mn to Rs 28.69 bn as of FY12.

- The Q4FY12 revenues for Novelis are down 12% to USD 2.6 bn on the back of a 9% drop in the shipments to 703 Kt. The shipments to Asian regions during Q4FY12 were down 18% on a y-o-y basis coupled with a 9% drop in the shipments to the North America region and 5% drop to the European region, which collectively resulted in a 9% drop in the volumes. The adjusted EBITDA for Novelis is down 17% to USD 233 mn. Novelis reported a net loss of USD 107 mn for the quarter.

Q4 FY12 Standalone Results:

Particulars (Rs Mn)	Q4 FY12	Q4 FY11	% Y-o-Y	Q3 FY12	% Q-o-Q	FY12	FY11	% Y-o-Y
Net Sales	75,633.3	67,607.5	11.9	65,902.3	14.8	263,530.6	236,268.7	11.5
Other Operating Income	837.4	856.6	(2.2)	567.4	47.6	2,437.2	2,323.4	4.9
Other Income	1,605.0	1051.2	52.7	900.6	78.2	6,157.9	3,474.9	77.2
Total Income	78,075.7	69,515.3	12.3	67,370.3	15.9	272,125.7	242,067.0	12.4
Raw Material Consumed	50,466.7	47,938.8	5.3	47,763.5	5.7	178,430.8	155,309.4	14.9
Stock Adjustment	2,681.6	(1,457.7)	(284.0)	(3,798.5)	(170.6)	(4,073.1)	(3,946.7)	3.2
Purchase of Finished Goods	12.4	268.8	(95.4)	2.4	416.7	2,059.8	5,222.2	-60.6
% Of Net Sales	69.5%	68.3%		66.1%		66.3%	65.6%	
Employee Expenses	2,677.8	2,812.3	(4.8)	3,039.7	(11.9)	11,133.5	10,403.9	7.0
% Of Net Sales	3.5%	4.1%		4.6%		4.2%	4.4%	
Power, Oil & Fuel	7,440.4	5,865.3	26.9	7,384.7	0.8	28,706.7	22,214.8	29.2
% Of Net Sales	9.7%	8.6%		11.1%		10.8%	9.3%	
Other Expenses	4,543.9	3,891.6	16.8	4,928.7	(7.8)	18,662.5	17,841.6	4.6
% Of Net Sales	5.9%	5.7%		7.4%		7.0%	7.5%	
TOTAL EXPENDITURE	67,822.8	59,319.1	14.3	59,320.5	14.3	234,920.2	207,045.2	13.5
PBIDT (Including OI)	10,252.9	10,196.2	0.6	8,049.8	27.4	37,205.5	35,021.8	6.2
PBIDT (Excluding OI)	8,647.9	9,145.0	(5.4)	7,149.2	21.0	31,047.6	31,546.9	-1.6
Interest	800.60	564.0	42.0	793.40	0.9	2,936.3	2,199.6	33.5
PBDT	9,452.3	9,632.2	(1.9)	7,256.4	30.3	34,269.2	32,822.2	4.4
Depreciation	1,657.90	1,759.7	(5.8)	1,747.20	(5.1)	6,899.7	6,874.8	0.4
PBT	7,794.4	7,872.5	(1.0)	5,509.2	41.5	27,369.5	25,947.4	5.5
Tax	1,394.5	901.7	54.7	1,002.3	39.1	4,997.5	4,578.2	9.2
Earlier Yrs written off/back	0	(112.9)		0		-	-	
Reported Profit After Tax	6,399.9	7,083.7	(9.7)	4,506.9	42.0	22,372.0	21,369.2	4.7
EPS	3.3	3.7	(9.7)	2.4	42.1	11.7	11.2	4.5
OPM (%)	11.30%	13.40%		10.80%		11.7%	13.2%	
NPM (%)	8.50%	10.50%		6.80%		8.50%	9.00%	

Q4 & FY12 Standalone Results Review and highlights:

- The standalone revenues for Q4FY12 at Rs 75.6 bn are up by 11.9% on a Y-o-Y basis. This is primarily on the back of a 13% Y-o-Y rise in the Aluminum revenues coupled with 11.2% rise in the copper revenues. The overall copper production has jumped 13.9% on a Y-o-Y basis while the copper realizations are down 2.4% on a Y-o-Y basis. The aluminum production is down 1.4% Y-o-Y while the realizations are up 14.7%. Destocking in Aluminium division also contributed to profitability during the quarter.

- For FY12 the revenues have risen 11.5% on the back of a 13.5% rise in the aluminum revenues coupled with a 10.5% rise in the copper segment sales. The total copper production for FY12 (copper cathodes and cc rods) is marginally down 0.7%. The copper cathodes volumes is down 1.5% for FY12 to 330,528 MT while the CC rods production is up 1.1% for FY12 to 144,553 MT. The aluminum production is up 3.6% for FY12 to 2,270,316 MT. The following table depicts the quarterly and yearly production trends.

Quarterly production Trends	Q4 FY12	Q4 FY11	% Y-o-Y	Q3 FY12	% Q-o-Q	FY12	FY11	% Y-o-Y
Copper Production (Tones)								
Copper Cathodes	94,472	84,961	11.2	87,748	7.7	330,528	335,598	-1.5
CC rods*	40,000	33,088	20.9	38,426	4.1	146,099	144,553	1.1
Total (Copper)	134,472	118,049	13.9	126,174	6.6	476,627	480,151	-0.7
Aluminum Production (Tones)								
Alumina	345,000	344,077	0.3	343,086	0.6	1,355,056	1,352,877	0.2
Aluminum metal	144,000	138,720	3.8	146,374	(1.6)	574,077	537,935	6.7
Wire Rods	25,247	23,152	9.0	25,247	-	98,339	64,307	52.9
FRP / foil	55,689	48,218	15.5	55,598	0.2	213,179	199,821	6.7
Extrusions	8,744	7,319	19.5	7,190	21.6	29,665	35,865	-17.3
Total	578,680	561,486	3.1	577,495	0.2	2,270,316	2,190,805	3.6

- The standalone operating margins at 11.3% are down 200 bps on a y-o-y basis. The fall in the margins could be attributable to the 120 bps rise in the raw material cost (as a % of sales) coupled with a 120 bps rise in the power cost (as a % of sales). The other expense was up by a 30 bps Y-o-Y. However the employee cost (as a % of sales) fell 60 bps Y-o-Y. The operating margins for FY12 at 11.7% were down 150 bps from a level of 13.2%as of FY11. The fall in the operating margins could be attributable to the 150 bps rise in the power and fuel cost. The raw material cost too is up 70 bps but was fully offset by a 20 bps and 50 bps decline in the employee cost and other expense (as a % of sales) respectively.

- The PAT for Q4FY12 at Rs 6.39 bn is down from a level of Rs 7 bn as of Q4FY11. This could be attributable to the higher tax provisioning at 17.9% for Q4 FY12 as against 11.5% for Q4FY11. Also the depreciation charge is down by Rs 101 mn while the interest charge is up by Rs 236.6 mn. The standalone PAT margins for FY12 are down 50 bps at 8.5%. The rise in the interest cost by Rs 737 mn and depreciation cost by Rs 24.9 mn have resulted in a lower PAT margins.

Key Developments:

- Novelis to build its first manufacturing plant in China:

  Novelis has planned to build its first automotive sheet manufacturing facility in China. Novelis has signed an agreement with the Changzhou National Hi-Tech District to build the plant. Since Novelis is one of the leading supplier of sheet metal to the Chinese automobile industry the setting up a plant could generate synergistic opportunities. The total outlay for the plant is around USD 100 mn with an installed capacity of 120,000 MT per year. The plant is likely to go on stream by late 2014.

  The new plant is located in the heart of the Changzhou National Hi-Tech District and it is close to vital rail lines and Changzhou deep water port on the Yangtze River. The plant is in the close vicinity of the other world-class business and commercial infrastructure. Novelis initially plans to ship rolled aluminum coils manufactured at its South Korean operations to the new facility in Changzhou for heat treatment and finishing before delivery to automotive customers within China as well as to other export markets. Novelis key customers in the auto space include established names like Audi, BMW, Chrysler, Ferrari, Ford, GM, Hyundai, Jaguar, Land Rover, Mercedes-Benz, Porsche, and Volvo, among others.

  Novelis expects demand for aluminum in the global automotive sector to grow at a CAGR of 25% over the next five years as auto manufacturers look for ways to make their vehicles more fuel-efficient. Setting up a manufacturing plant in China will position Novelis as the only aluminum sheet supplier capable of serving automotive customers in all major markets of the world. Novelis is the leader in automotive sheet supply in Europe where light-weight aluminum has become a popular alternative to steel for vehicle makers. Also the plant in China will enable the company to meet growing demand for auto sheet with a $200-million project to increase automotive sheet capacity by 200,000 tons per year. Therefore the commissioning of the new plant at China could enhance the company’s manufacturing capacity and hence the revenues. Also it could enhance the company’s global footprint.

- Capex delays continue:

  HIL has been suffering with capex delays from the past 18 months and is still confronting with the same. The company has deferred the commissioning dates of almost all its greenfield and brown field expansion plans. The delays in getting mining approvals and other clearances are the key reason for the postponement of the capex plans. Furthermore most of the expansion plans are unviable without associated mines and hence the mining clearances are vital for the new capacities to go on stream. The following table depicts the modified capex plans of the company:

Green Field Project	Details	Location	Commencement	Financing
Utkal Alumina	1.5 mn ton Alumina refinery with integrated bauxite mines	Rayagada, Orissa	End 2012	Financial Closure done.- Debt Rs 49.06 bn
Mahan Aluminum	359 KTPA Aluminum smelter, 900 MW CPP	Mahan, MP	End of 2012.	Financial Closure done.- Debt Rs 78.75 bn
Aditya Aluminum	359 KTPA Aluminum smelter, 900 MW CPP	Lapanga, Orissa	End 2013.	Equity portion tied up, USD 600 mn QIP
Aditya Refinery	1.5 mtpa Alumina refinery with integrated bauxite mines	Koraput, Orissa	End 2014	NA
Jharkhand Aluminum	359 KTPA Aluminum smelter, 900 MW CPP	Jharkhand	Mid 2015	NA

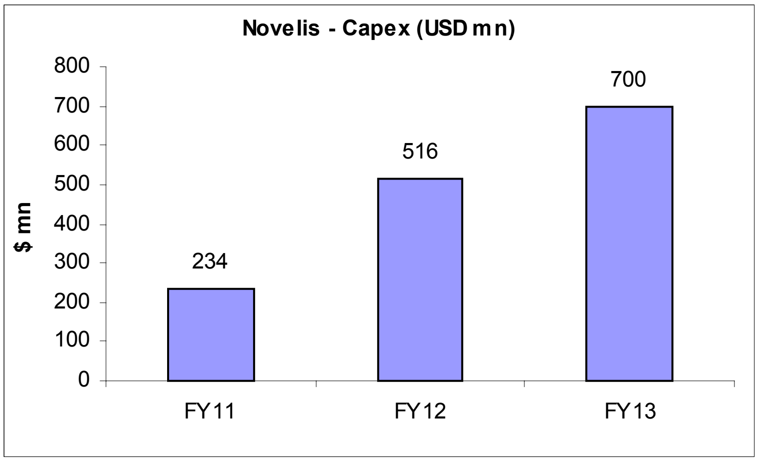
Brown field Project	Details	Status
Hirakaud-Smelter	Capacity to be increased from 161 KTPA to 213 KTPA	Commencement by end of 2012
	Captive Power Plant with a 100 MW capacity	
Hirakaud-Flat Rolled Products	Transfer of flat rolled products plant of Novelis from Rogerstone, UK.	end of 2012
Belgaum Special Alumina	Capacity expansion from 189 KTPA to 301 KTPA.	Project is under execution
	Set up a coal based Co-generation plant	

Even assuming that Mahan coal block receives clearance from the Cabinet in the near future, the captive coal mine is not expected to commence production until the next 18 months while the Mahan smelter is expected to be ready for commissioning in H1 FY13. Also there has been little progress on the procedural clearance process for the company's Auranga coal mine and Talbira coal mine, which could cater to the captive requirements of the upcoming Aditya and Jharkhand projects, respectively. While forest clearance is pending for Auranga mine, Talbira mine has received no major clearances as of now. The Jharkhand capex has not yet started and Aditya is at an advanced stage of completion, with commissioning due for FY13, while evidently coal availability from Auranga has low visibility currently. Therefore any further delay in the capex plans of the company could adversely impact the overall performance in the future.

Simultaneously, the capex plans at Novelis are progressing as per schedule and the company is set to exit CY12 with incremental capacity of 200 Kt. The following chart depicts the expansion plans at Novelis.

Region	Capacity Expansion	Project Cost	Commencement
North America	1100 Kt to 1360 Kt	USD 1.5 bn across the next three years	FY 16 progressively.
South America	400 Kt to 650 Kt		
Europe	900 Kt to 990 Kt		
Asia Pacific	600 Kt to 1000 Kt		

Of the above the company has already incurred a capex of USD 516 mn in FY12. The following chart depicts the capex trends for the past three years for Novelis:



The capex for FY13 is towards the mill expansion at the Brazillian and South Korean facilities, automotive capacity increases in the North America and China and global recycling initiatives. Therefore the expansion plan offers visibility for growth in the near future.

Other Developments:

- HIL has allocated 150 mn warrants on a preferential basis to its promoters group on the 22nd March 2012 which entitles them to apply for and obtain 1 equity share of Rs 1 each at a price of Rs 144.35 per share against each such warrant at any time after the date of the allotment in one or more trenches. HIL has received 25% of the amount upfront against each such warrant.

- HIL has received Rs 698.10 mn during Q4FY12 from its subsidiary A V Minerals (Netherlands) on account of return of capital due to reduction of the nominal value of the shares. The amount is adjusted in the carrying cost of investments and a forex gain of Rs 29.5 mn has been netted off from other expenses.

- Effective FY12, HIL has changed its accounting policy for gains/losses arising out of actuarial valuation of long-term employee benefits and post employment benefits pertaining to one of its overseas subsidiaries (Novelis). Upto FY11, the actuarial gains/losses were accounted for in the P&L account, but following the change in the accounting policy these gains/losses along with related deferred tax were adjusted against reserves and surplus. As a result, employee expenses were lower by Rs10,149mn, tax expenses higher by Rs 2,999mn, net profit higher by Rs 7,150mn and reserves and surplus higher by Rs 444mn.

- Hindalco had created business reconstruction reserve (BRR) in FY09 for adjustment of certain specified expenses. Accordingly cost in connections with exiting certain business have been adjusted against the BRR in the consolidated statements. During FY12, the company booked Rs 5,363 mn of other expenses from this reserve. Consequently, tax expenses were higher by Rs 358.6 mn and PAT was higher by Rs 5,004.7 mn.

Conclusion:

HIL is the flagship company of Aditya Birla Group primarily focusing on aluminum and copper manufacturing. The company's presence across the globe encompasses the entire gamut of operations, from bauxite mining, alumina refining and aluminum smelting to downstream rolling, extrusions, foils, along with captive power plants and coal mines. The company's copper unit, Birla Copper, produces copper cathodes, continuous cast copper rods and other by-products, such as gold, silver and DAP fertilizers. HIL's aluminum metal is broadly categorized as High Grade Aluminium Contract on the London Metal Exchange (LME) while the company's copper quality standards are also internationally acclaimed and recognized and registered on the LME with Grade “A” accreditation. HIL is the largest producer of primary aluminium in Asia. Also the company is known as one of the most cost-efficient manufacturer of aluminum globally. HIL has a strong presence across the aluminium value chain. Further synergies in operations have given the company a dominant share of the domestic value-added products market. In India, the company enjoys a leadership position with a domestic market share of 85% and a global market share of 6% in specialty alumina and hydrates as well as in primary aluminum and downstream semi-fabricated products.

The consolidated revenues for FY12 at Rs 803.9 bn were up 12% as against FY11. The Indian operations registered a top line growth of 11.5% on the back of a 13.5% rise in the aluminum revenues coupled with a 10.5% rise in the copper segment sales. Novelis on the other hand registered a 5% rise in the revenues (in $ terms). The consolidated operating margins for FY12 at 10.1% are down 80 bps as against FY11. The standalone operating margins for FY12 at 11.7% were down 150 bps from a level of 13.2% as of FY11. The fall in the operating margins could be attributable to the 150 bps rise in the power and fuel cost (as a % of sales). The consolidated PAT at Rs 35.5 bn is up from a level of Rs 28.7 bn as of FY11 on the back of a drop in the interest cost and tax rate. The standalone PAT margins for FY12 are down 50 bps at 8.5% on the back of rise in the interest cost and depreciation charge.

The demand for aluminum is fast rising from the automobile, power, and beverage cans and electronics industries. In order to capitalize on the increasing demand the company has embarked on a massive capex plan in the domestic and the overseas markets. HIL has planned to invest USD 6.5 bn over the next three years in the domestic as well as global operations. Post the expansion the company ‘s aluminum-smelting capacity will touch around 1.7 Million-tons while the alumina refining capacity could reach 6 Million-tons. Of the USD 6.5 bn capex, USD 5 bn is towards the domestic operations while the balance USD 1.5 bn is towards expansion at Novelis. HIL is in the midst of a brown field expansion at its Hirakaud facility and Belgium special alumina facility. Simultaneously the company is also in the process of setting up a green-filed project in its Orissa and M.P facilities. HIL is in setting up a 1.5 mn ton alumina refinery and a 359 ktpa aluminum smelter coupled with a 900 MW captive power plant at Orissa, while it is also setting up a 359 ktpa smelter at Mahan, M.P. However the company has been marred with consistent capex delays since the past 18 months. HIL has almost delayed most of its green field and brown field plans by around 1-2 year. The delays in getting mining approvals and other clearances are the key reason for the postponement of the capex plans. Furthermore most of the expansion plans are unviable without associated mines and hence the mining clearances are vital for the new capacities to go on stream. Therefore any further delay in the capex plans of the company could adversely impact the overall performance in the future.

Consolidated net debt in FY12 increased from Rs.213 bn to Rs.327 bn, while standalone net debt rose from Rs.36 bn to Rs.93 bn. Hindalco has also routed some expenses through the reserves account (listed above) thus protecting its profit and loss account from getting impacted.

We have revised our top line estimates upwards for FY13 while we have revised downwards FY13 EBITDA and PAT estimates considering the rising input costs and sluggish demand growth.

In our Nifty series report dated Jan 19, 2012 we had stated that “we feel that the stock could trade in the range of Rs 120 (7.25x FY13E EPS) to Rs 149 (9x FY13E EPS) for the next quarter”. Post the issue of this report the stock touched a high of Rs.164.90 on Feb 15, 2012 and a low of Rs.105.50 on May 23, 2012.

We think that the stock could trade in the Rs.106-142 band (4.7 – 5.5 FY13 EV/EBITDA) for the next quarter.

Segmental:

Particulars-Standalone (Rs mn)	FY11	FY12
Segment Revenues:		
Aluminum	79,651.4	90,411.7
% Of total	33%	34%
Copper	159,021.1	175,745.6
% Of total	66.6%	66.0%
Total	238,672.5	266,157.3
Less: inter segment revenues	80.4	189.5
Net Sales	238,592.1	265,967.8
Segment Results:		
Aluminum	20,036.7	18,216.8
EBIT %	25.2%	20.1%
Copper	6,016.4	8,016.3
EBIT %	3.8%	4.6%
Total	26,053.1	26,233.1
EBIT %	10.9%	9.9%
Less: Interest	2,199.6	2,936.3
Add: Unallocated income (net of Expense)	2,093.9	4,072.7

PBT	25,947.4	27,369.5
Capital Employed		
Aluminum	157,941.5	240,137.7
Copper	54,979.8	51,185.1
Others	-	-
Total	212,921.3	291,322.8
Unallocated / Corporate	187,353.5	186,981.9
Total Capital employed	400,274.8	478,304.7

Particulars-Consolidated (Rs mn)	**FY11**	**FY12**
Segment Revenues:		
Aluminum	562,085.1	621,191.0
% Of total	78%	77%
Copper	158,873.5	183,789.9
% Of total	22.0%	22.7%
Others	2,378.3	6,145.4
% Of total	0.3%	0.8%
Total	723,336.9	811,126.3
Less: inter segment revenues	1,314.2	2,912.6
Net Sales	722,022.7	808,213.7
Segment Results:		
Aluminum	44,692.7	44,952.4
EBIT %	8.0%	7.2%
Copper	10,822.3	11,193.5
EBIT %	6.8%	6.1%
Others	653.2	829.7
EBIT %	27.5%	13.5%
Total	56,168.2	56,975.6
EBIT %	7.8%	7.0%
Less: Interest	18,393.5	17,579.8
Add: Unallocated income	657.1	4,053.6
PBT	38,431.8	43,449.4
Capital Employed		
Aluminum	443,596.0	586,275.5
Copper	77,843.8	78,407.4
Others	2,935.6	11,442.5
Total	524,375.4	676,125.4
Unallocated / Corporate	120,225.1	106,547.4
Total Capital employed	644,600.5	782,672.8

Quick Estimates – (Consolidated)

Particulars (Rs mn)	**FY11**	**FY12E**	**FY12A**	**FY13-OE**	**FY13-RE**
Net Sales	718,008.0	775,064.0	803,930.1	804,650.0	860,520.0
Total Income	727,156.0	775,064.0	816,044.4	804,650.0	860,520.0
EBITDA	79,286.8	83,257.0	81,894.3	95,450.0	93,797.0
PAT	28,793.5	31,467.8	35,587.0	35,437.5	34,497.8
PAT (after minority interest)	24,563.7	27,667.8	33,969.5	31,637.5	31,840.0
EPS	12.8	14.5	17.7	16.5	16.6
OPM (%)	11.0%	10.7%	10.2%	11.9%	10.9%
NPM (%)	3.4%	3.6%	4.2%	3.9%	3.7%
P/E (x)	9.34	8.29	6.75	7.25	7.2

(OE=Original estimates, RE=Revised Estimates)

SOTP

Business (FY13E)	EBITDA (Rs mn)	Multiple (x)	EV (Rs mn)
HIL Consol	93,797.0	5	468,985.0
Total EV			468,985.0
Debt (consol)			497,500.0
Market Cap			145,985.0
Value per share			76.2
Quoted investments (per Share)		30% Hair cut	12.8
Un-Quoted investments (per Share)			28.8
Fair Value (Rs per share)			**117.8**

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