

## EARNINGS REVIEW

# Hindalco Industries (HALC.BO)

Neutral

Equity Research

## Above expectations: Higher volumes, better copper margins

### What surprised us

3QFY12 stand-alone net income of Rs4.5 bn (-2% yoy and -10% qoq) was 9% above GSe and 3% above Bloomberg consensus. EBITDA came in at Rs7.1 bn, 12% above Gse, on higher sales volume in both aluminium and copper and strong copper margins (from by-product credits). **Highlights: Aluminium (34% of sales, 57% of EBIT):** Alumina volumes improved (on easing bauxite constraints at Renukoot), driving higher aluminium volumes. Segment revenues grew 13% yoy on higher volumes and realisations (aided by INR depreciation). EBIT margin fell (down 550bp qoq; 960bp yoy) to 13.9% on higher energy and input costs. **Copper:** Copper volumes improved 9% yoy (after the planned shutdown in 2Q) and CCR volumes surged 44% yoy on robust demand from the cables segment. EBIT margins improved (+130bp yoy) on better by-product realizations and higher Tc/Rc rates. Management expects the Mahan smelter to be commissioned by 1QFY13 and Utkal Alumina by Dec 2012. Mahan coal block is still awaiting forest clearance. Novelis reported 3QFY12 adjusted EBITDA of \$137 mn and net loss of \$4 mn on lower volumes due to de-stocking in Europe and Asia. Novelis lowered FY12 EBITDA guidance to \$1.05bn-\$1.08bn (from \$1.1bn-\$1.15bn). The Board has approved allotment of warrants to promoters for up to 150mn shares per SEBI formula.

### What to do with the stock

We lower our FY12E-FY14E EPS 1% to 11% on lower Novelis earnings. We maintain our Neutral rating and 12-m P/B-based TP of Rs159. At a FY13E P/B of 0.8X with 9.7% ROE, risk/reward looks balanced. Risks: Higher LME prices (upside), delayed project execution (downside).

### Hindalco's 3QFY12 earnings summary

(Rs mn)	3QFY12A	2QFY12A	3QFY11A	3QFY12E	Y-o-Y %	Q-o-Q %	Vs GS
Sales	65,902	62,205	59,179	58,214	11.4%	5.9%	13.2%
EBITDA	7,149	6,692	7,401	6,404	-3.4%	6.8%	11.6%
EBITDA margin	10.8%	10.8%	12.5%	11.0%	(-166 bps)	+ 9 bps	(-15 bps)
Net Income	4,507	5,025	4,603	4,132	-2.1%	-10.3%	9.1%
Net income margin	6.8%	8.1%	7.8%	7.1%	(-94 bps)	(-124 bps)	(-26 bps)

Source: Company data, Goldman Sachs Research estimates

### INVESTMENT LIST MEMBERSHIP

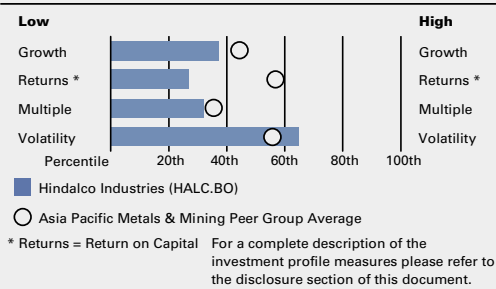
Neutral

### Coverage View: Neutral

**Pritesh Vinay**  
+91(22)6616-9038 pritesh.vinay@gs.com Goldman Sachs India SPL

**Kunal Singh, CFA**  
+91(80)6637-8724 kunal.singh@gs.com Goldman Sachs India SPL

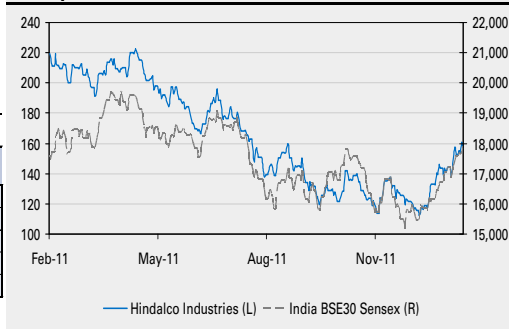
### Investment Profile



Key data	Current
Price (Rs)	158.75
12 month price target (Rs)	159.00
Market cap (Rs mn / US\$ mn)	303,812.6 / 6,180.7
Foreign ownership (%)	36.4

	3/11	3/12E	3/13E	3/14E
<b>EPS (Rs) New</b>	<b>12.83</b>	<b>14.54</b>	<b>16.59</b>	<b>18.98</b>
EPS revision (%)	0.0	(11.0)	(0.9)	(6.4)
EPS growth (%)	(42.1)	13.3	14.1	14.4
<b>EPS (dil) (Rs) New</b>	<b>12.83</b>	<b>14.54</b>	<b>16.59</b>	<b>18.98</b>
P/E (X)	12.4	10.9	9.6	8.4
P/B (X)	1.0	1.0	0.8	0.7
EV/EBITDA (X)	7.0	6.6	5.7	5.1
Dividend yield (%)	0.9	0.8	0.8	0.8
ROE (%)	9.7	9.6	9.7	8.8
CROCI (%)	9.2	12.0	9.7	10.0

### Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	18.0	7.4	(27.7)
Rel. to India BSE30 Sensex	14.9	1.5	(28.7)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/09/2012 close.

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# Hindalco Industries: Summary Financials

Profit model (Rs mn)					Balance sheet (Rs mn)				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
<b>Total revenue</b>	<b>720,778.7</b>	<b>840,487.4</b>	<b>884,572.4</b>	<b>958,159.5</b>	Cash & equivalents	79,461.4	162,256.2	216,726.6	310,900.5
Cost of goods sold	(594,543.2)	(746,513.5)	(778,185.6)	(842,212.0)	Accounts receivable	79,995.7	92,108.2	96,939.4	105,003.8
SG&A	(73,718.7)	(36,025.3)	(38,516.1)	(43,236.6)	Inventory	140,955.8	182,076.5	189,801.4	205,417.6
R&D	0.0	0.0	0.0	0.0	Other current assets	33,333.5	33,455.6	35,120.7	38,283.4
Other operating profit/(expense)	0.0	(1,658.8)	(1,694.1)	(2,006.2)	<b>Total current assets</b>	<b>333,746.4</b>	<b>469,896.5</b>	<b>538,588.1</b>	<b>659,605.3</b>
<b>EBITDA</b>	<b>80,016.9</b>	<b>83,482.9</b>	<b>96,045.0</b>	<b>106,085.4</b>	Net PP&E	455,360.8	501,992.6	578,886.9	678,931.0
Depreciation & amortization	(27,500.1)	(27,193.1)	(29,868.5)	(35,380.8)	Net intangibles	0.1	0.1	0.1	0.1
<b>EBIT</b>	<b>52,516.8</b>	<b>56,289.8</b>	<b>66,176.5</b>	<b>70,704.6</b>	Total investments	54,650.9	54,650.9	54,650.9	54,650.9
Interest income	2,481.0	6,118.5	6,232.7	4,963.5	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(18,393.4)	(16,668.6)	(18,748.5)	(21,133.4)	<b>Total assets</b>	<b>843,758.2</b>	<b>1,026,540.1</b>	<b>1,172,125.9</b>	<b>1,393,187.2</b>
Income/(loss) from uncons. subs.	(571.1)	(554.1)	(564.0)	(564.0)	Accounts payable	129,804.6	153,393.2	159,901.2	173,057.3
Others	1,827.5	0.0	0.0	0.0	Short-term debt	22,298.8	34,981.9	48,155.6	66,560.1
<b>Pretax profits</b>	<b>37,860.8</b>	<b>45,185.5</b>	<b>53,096.7</b>	<b>53,970.8</b>	Other current liabilities	87,035.7	99,469.9	107,420.2	123,447.6
Income tax	(9,638.4)	(13,230.9)	(16,877.3)	(14,847.6)	<b>Total current liabilities</b>	<b>239,139.1</b>	<b>287,845.0</b>	<b>315,477.0</b>	<b>363,064.9</b>
Minorities	(3,658.7)	(4,123.8)	(4,457.5)	(2,781.5)	Long-term debt	254,620.9	370,368.8	414,066.3	478,317.6
<b>Net income pre-preferred dividends</b>	<b>24,563.7</b>	<b>27,830.8</b>	<b>31,761.9</b>	<b>36,341.7</b>	Other long-term liabilities	37,595.9	60,075.6	67,066.2	77,456.5
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	292,216.8	430,444.5	481,132.5	555,774.1
<b>Net income (pre-exceptionals)</b>	<b>24,563.7</b>	<b>27,830.8</b>	<b>31,761.9</b>	<b>36,341.7</b>	<b>Total liabilities</b>	<b>531,355.9</b>	<b>718,289.5</b>	<b>796,609.5</b>	<b>918,839.0</b>
Post-tax exceptionals	0.0	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>24,563.7</b>	<b>27,830.8</b>	<b>31,761.9</b>	<b>36,341.7</b>	<b>Total common equity</b>	<b>290,232.9</b>	<b>290,205.0</b>	<b>361,922.5</b>	<b>463,541.7</b>
EPS (basic, pre-exception) (Rs)	12.84	14.54	16.60	18.99	Minority interest	22,169.4	18,045.6	13,588.0	10,806.5
EPS (basic, post-exception) (Rs)	12.84	14.54	16.60	18.99	<b>Total liabilities &amp; equity</b>	<b>843,758.2</b>	<b>1,026,540.1</b>	<b>1,172,125.9</b>	<b>1,393,187.2</b>
EPS (diluted, post-exception) (Rs)	12.83	14.54	16.59	18.98	<b>BVPS (Rs)</b>	<b>151.65</b>	<b>151.57</b>	<b>189.04</b>	<b>242.11</b>
DPS (Rs)	1.50	1.25	1.25	1.25					
Dividend payout ratio (%)	11.7	8.6	7.5	6.6					
Free cash flow yield (%)	(10.4)	(13.3)	0.1	4.5					
Growth & margins (%)					Ratios				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Sales growth	18.7	16.6	5.2	8.3	CROCI (%)	9.2	12.0	9.7	10.0
EBITDA growth	(17.9)	4.3	15.0	10.5	ROE (%)	9.7	9.6	9.7	8.8
EBIT growth	(24.6)	7.2	17.6	6.8	ROA (%)	3.2	3.0	2.9	2.8
Net income growth	(37.4)	13.3	14.1	14.4	ROACE (%)	8.9	7.4	7.6	7.6
EPS growth	(42.1)	13.3	14.1	14.4	Inventory days	77.9	79.0	87.2	85.6
Gross margin	17.5	11.2	12.0	12.1	Receivables days	36.8	37.4	39.0	38.5
EBITDA margin	11.1	9.9	10.9	11.1	Payable days	69.7	69.2	73.5	72.1
EBIT margin	7.3	6.7	7.5	7.4	Net debt/equity (%)	63.2	78.9	65.4	49.3
					Interest cover - EBIT (X)	3.3	5.3	5.3	4.4
Cash flow statement (Rs mn)					Valuation				
	3/11	3/12E	3/13E	3/14E		3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	24,563.7	27,830.8	31,761.9	36,341.7	P/E (analyst) (X)	12.4	10.9	9.6	8.4
D&A add-back	27,500.1	27,193.1	29,868.5	35,380.8	P/B (X)	1.0	1.0	0.8	0.7
Minorities interests add-back	3,658.7	4,123.8	4,457.5	2,781.5	EV/EBITDA (X)	7.0	6.6	5.7	5.1
Net (inc)/dec working capital	(7,680.3)	(17,332.4)	237.0	2,340.2	EV/GCI (X)	0.8	0.7	0.6	0.5
Other operating cash flow	(9,718.7)	23,033.8	7,554.6	10,954.3	Dividend yield (%)	0.9	0.8	0.8	0.8
<b>Cash flow from operations</b>	<b>38,323.5</b>	<b>64,849.1</b>	<b>73,879.5</b>	<b>87,798.5</b>					
Capital expenditures	(78,658.4)	(107,705.0)	(73,500.0)	(73,500.0)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	10,084.4	0.0	0.0	0.0					
<b>Cash flow from investments</b>	<b>(68,574.0)</b>	<b>(107,705.0)</b>	<b>(73,500.0)</b>	<b>(73,500.0)</b>					
Dividends paid (common & pref)	(3,837.9)	(2,780.3)	(2,780.3)	(2,780.3)					
Inc/(dec) in debt	37,384.4	128,431.0	56,871.2	82,655.7					
Common stock issuance (repurchase)	99.0	0.0	0.0	0.0					
Other financing cash flows	(4,923.5)	0.0	0.0	0.0					
<b>Cash flow from financing</b>	<b>28,722.0</b>	<b>125,650.7</b>	<b>54,090.9</b>	<b>79,875.4</b>					
<b>Total cash flow</b>	<b>(1,528.5)</b>	<b>82,794.8</b>	<b>54,470.4</b>	<b>94,173.9</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

### Pritesh Vinay

pritesh.vinay@gs.com

### Kunal Singh, CFA

kunal.singh@gs.com

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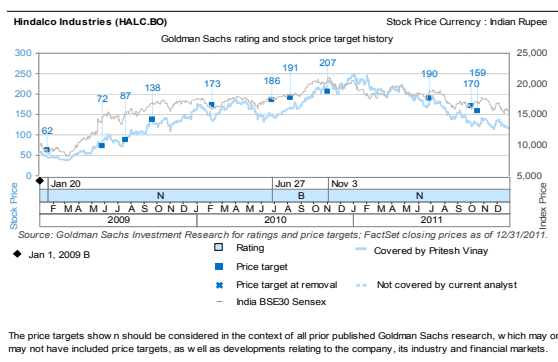
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