

## Mahan: Only one pot erected so far Renukoot: Gradual improvement

**Maintain estimates for FY12/13; Buy with TP of INR226**

- Targeting to commission 359ktpa smelting capacity at Mahan by January 2013 - ambitious, given that only one pot of the two lines of 180 pots each has been erected till now.
- Intends to increase metal production at the Renukoot plant by 10ktpa through efficiency improvement and debottlenecking.
- Maintain our earnings estimates for FY12 and FY13. Buy, with a target price of INR226.



### Mahan Aluminium site



### Pot work-in-progress at site



## Mahan: Only one pot erected so far though civil work at smelter is nearly complete; first 150MW CPP targeted by December

- HNDL is setting up a 359ktpa smelter along with a 900MW CPP in the Sidhi district of Madhya Pradesh over an area of ~3,700 acres. The smelter (360KA-AP36S technology from RTA) will consist of two pot lines of 180 pots each, capable of producing 2.7 tons of metal per pot per day. The state of the art (ALPSYS) pot controller will ensure high degree of automation. Manpower costs are estimated to be USD12/ton i.e. almost 1/5th of the existing smelting operations at Renukoot.
- Construction work on site is in full swing, as HNDL is targeting to commission 40 pots in the first line by December 2011 and the balance 140 pots of the first line will come on stream by July 2012. The second pot line is expected by January 2013. Over 10,000 workers are working on the site. The first cast house will consist of 360ktpa ingots and SOW ingots capacity. This is a very ambitious target - only one pot has been erected so far, though civil work is nearly complete.
- Though HNDL expects 204k tons of hot metal production in FY13, we believe that commercial production will take some time after first metal tapping and expect meaningful production to start only in 2HFY13. We have built in ~40k tons of production from Mahan in our estimates.
- Construction work at the 900MW CPP (6x150MW) is also in full swing. BTG and other equipment from BHEL have already reached the site and commissioning is under progress. The first unit of 150MW is likely to undergo hydraulic test in the first week of October. Coal and ash handling units are expected to be ready by December. Distribution line to connect output to the state grid is almost ready.
- HNDL intends to commission the first unit of 150MW by the end of December and the full 900MW will be ready by June 2012. Though this appears ambitious, we expect commissioning of the entire CPP by the end of 2QFY13.
- There is yet no clarity on the expected cost of production at Mahan, as both captive coal and bauxite remain elusive in the near term. HNDL is hopeful of receiving tapering coal linkage for the near-term CPP requirement and remains positive on developments related to Mahan coal block. Though the Mahan project was envisaged with sourcing of alumina from Utkal, it may have to depend on surplus alumina production at Belgaum and Muri in the interim. As a result, third party sale of alumina will decline.



## Renukoot: Focus on continuous improvement to reduce costs and increase production

- HNDL's aluminum smelting and refining operations at Renukoot started in 1962, with a 20ktpa metal smelter and 40ktpa alumina refinery. In 49 years, the plant has increased its capacities to 350ktpa of metal and 0.7mtpa of refinery through brownfield expansions and technology upgradation.
- ~30% of the bauxite required for the refinery (of the total ~3mtpa) is procured through external purchases under long-term contracts while the rest is sourced from captive mines in Jharkhand and Chhattisgarh.
- Over the last few years, the grade of captive bauxite has fallen from 42% to 38%. Total R&R of captive bauxite (including bauxite mines attached to Utkal project) mines is now 147m tons. HNDL has already applied for more leases in Jharkhand, Chhattisgarh and Madhya Pradesh, which will increase R&R to 443m tons.
- The 350ktpa smelting plant is based on AP technology and involves 2,139 pots, with 72KA capacity arranged in 11 lines, giving ~0.55 tons of production per pot per day. The increased pot capacity to 72KA from 52KA earlier is a result of continuous upgradation and improvement to increase efficiencies. The operations at Renukoot also contain downstream facilities, with fabrication units, which include extrusion products (35ktpa), wire rods, and rolled sheets (95ktpa).
- HNDL intends to increase metal production at the Renukoot plant by 10ktpa through efficiency improvement and debottlenecking. Over the next few years, it plans to increase smelting capacity at Renukoot by ~16% by utilizing full pot potential. In FY11, the plant produced 410ktpa of aluminum metal. HNDL arranged for additional alumina for this from its existing Muri and Belgaum refineries.
- Power required for the smelting operations is supplied through its 742MW captive power plant at Renusagar. ~60% of the coal required for the CPP is procured through linkage from NCL (Northern Coalfields of Coal India) and the rest through external purchases (e-auction and washed coal).

## Valuations attractive; maintain Buy

We maintain our earnings estimates for FY12 and FY13. We factor in incremental metal production of ~40k tons and no alumina production from Utkal in our FY13 estimates. Over FY11-14, we expect volumes of both alumina and aluminum to grow at a strong CAGR of 22%, driving earnings growth. The entire benefits of the ongoing expansions in India (Mahan and Utkal) as well as Novelis are likely to come only in FY14. The stock is attractive at 1.1x FY13E BV, an EV of 5x FY13E EBITDA, and at a 44% discount to NAV. We value the stock at INR226 (EV of 7x FY13E EBITDA). Maintain **Buy**.

### Stock Info

Bloomberg	HNDL IN
Equity Shares (m)	1,990.0
52-Week Range (INR)	252/123
1,6,12 Rel. Perf. (%)	-14/-24/-17
M.Cap. (INR b)	250.7
M.Cap. (USD b)	5.1

### Hindalco: Valuation summary

Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (x)	P/BV (X)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA
3/10A	607,221	19,132	9.6	-19.0	-	-	17.2	8.6	-	-
3/11A	720,779	35,015	17.6	82.5	7.2	1.5	23.1	10.3	0.6	5.2
3/12E	798,576	36,755	18.5	5.0	6.8	1.3	20.1	9.7	0.6	5.3
3/13E	832,885	38,389	19.3	4.4	6.5	1.1	17.7	9.8	0.6	5.0

**Mahan Aluminium site photos**

**First unit of 900MW CPP expected to undergo hydrostatic test in first week of October**



**900MW CPP - other side**



**359ktpa smelter pot line - civil work nearly completed**



**Pot cells supplied by L&T Kanchipuram have started arriving**



## Hindalco: Financials and Valuation (consolidated)

## Income statement (INR million)

Y/E March	2010	2011	2012E	2013E
<b>Net sales</b>	<b>607,221</b>	<b>720,779</b>	<b>798,576</b>	<b>832,885</b>
Change (%)	-7.5	18.7	10.8	4.3
Total Expenses	536,753	634,893	707,561	734,537
<b>EBITDA</b>	<b>70,468</b>	<b>85,886</b>	<b>91,015</b>	<b>98,349</b>
% of Net Sales	11.6	11.9	11.4	11.8
Depn. & Amortization	27,836	27,500	27,059	27,149
<b>EBIT</b>	<b>42,632</b>	<b>58,386</b>	<b>63,957</b>	<b>71,199</b>
Net Interest	14,085	14,411	16,046	17,206
Other income	3,227	4,309	6,292	5,750
<b>PBT before EO</b>	<b>31,774</b>	<b>48,283</b>	<b>54,202</b>	<b>59,743</b>
EO income	30,034	-9,852		
<b>PBT after EO</b>	<b>61,808</b>	<b>38,432</b>	<b>54,202</b>	<b>59,743</b>
Tax	18,289	9,638	14,600	17,820
Rate (%)	29.6	25.1	26.9	29.8
<b>Reported PAT</b>	<b>43,519</b>	<b>28,793</b>	<b>39,602</b>	<b>41,923</b>
Minority interests	4,237	3,659	2,820	3,507
Share of asso.	-27	29	-27	-27
<b>Adjusted PAT</b>	<b>19,132</b>	<b>35,015</b>	<b>36,755</b>	<b>38,389</b>
Change (%)	-8.2	83.0	5.0	4.4

## Balance sheet (INR million)

Y/E March	2010	2011	2012E	2013E
Share Capital	1,984	1,990	1,990	1,990
Reserves	213,462	288,243	321,570	356,530
<b>Net Worth</b>	<b>215,446</b>	<b>290,233</b>	<b>323,560</b>	<b>358,520</b>
Minority Interest	17,372	22,169	22,169	22,169
Total Loans	239,987	276,920	296,920	321,920
Deferred Tax Liability	39,382	37,596	46,350	54,582
<b>Capital Employed</b>	<b>512,187</b>	<b>626,918</b>	<b>688,998</b>	<b>757,191</b>
Gross Block	375,915	392,654	426,334	459,334
Less: Accum. Deprn.	130,243	158,014	185,073	212,223
<b>Net Fixed Assets</b>	<b>245,672</b>	<b>234,640</b>	<b>241,261</b>	<b>247,111</b>
Goodwill on consol.	79,101	123,940	123,940	123,940
Capital WIP	58,008	131,308	182,583	225,251
Investments	18,652	20,124	20,124	20,124
<b>Curr. Assets</b>	<b>290,920</b>	<b>333,746</b>	<b>302,532</b>	<b>327,734</b>
Inventory	112,754	140,956	128,129	132,356
Account Receivables	65,437	79,996	75,686	79,124
Cash and Bank Bal.	80,990	79,461	65,383	82,921
Others	31,739	33,334	33,334	33,334
<b>Curr. Liab. &amp; Prov.</b>	<b>180,166</b>	<b>216,840</b>	<b>181,441</b>	<b>186,970</b>
Account Payables	130,996	164,692	129,470	134,999
Provisions & Others	49,169	52,149	51,971	51,971
<b>Net Curr. Assets</b>	<b>110,755</b>	<b>116,906</b>	<b>121,091</b>	<b>140,764</b>
<b>Appl. of Funds</b>	<b>512,187</b>	<b>626,918</b>	<b>688,998</b>	<b>757,191</b>

E: MOSL Estimates

## Ratio

Y/E March	2010	2011	2012E	2013E
<b>Basic (INR)</b>				
<b>EPS</b>	<b>9.6</b>	<b>17.6</b>	<b>18.5</b>	<b>19.3</b>
Cash EPS	36.0	28.3	33.5	34.7
BV/Share (adj.)	68.7	83.6	100.3	117.9
DPS	1.4	1.5	1.5	1.5
Payout (%)	14.0	8.5	8.1	7.8

## Valuation (x)

P/E		7.2	6.8	6.5
Cash P/E		4.5	3.8	3.6
P/BV		1.5	1.3	1.1
EV/Sales		0.6	0.6	0.6
EV/EBITDA		5.2	5.3	5.0
Dividend Yield (%)		1.2	1.2	1.2

## Return Ratios (%)

RoE	17.2	23.1	20.1	17.7
RoCE (pre-tax)	8.6	10.3	9.7	9.8
RoIC (pre-tax)	11.8	15.6	15.7	16.8

## Growth (%)

Sales	-7.5	18.7	10.8	4.3
EBITDA	31.4	21.9	6.0	8.1
PAT	-8.2	83.0	5.0	4.4

## Leverage Ratio (x)

Current Ratio	1.6	1.5	1.7	1.8
Interest Cover Ratio	3.0	4.1	4.0	4.1
Debt/Equity	1.2	1.2	1.2	1.0

## Cash flow statement (INR million)

Y/E March	2010	2011	2012E	2013E
<b>EBITDA</b>	<b>70,468</b>	<b>85,886</b>	<b>91,015</b>	<b>98,349</b>
Non-cash items EBITDA	-8,811	-3,461		
Tax paid	-6,353	-13,131	-5,846	-9,587
Change in Wkg. Capital	-5,984	-7,031	-18,263	-2,136
<b>CF fr. Op. Activity</b>	<b>49,321</b>	<b>62,263</b>	<b>66,906</b>	<b>86,626</b>
(Inc)/Dec in FA+CWIP	-41,708	-77,171	-84,955	-75,669
(Pur)/Sale of Inv.&yield	4,741	5,143	3,445	2,216
<b>CF fr. Inv. Activity</b>	<b>-36,967</b>	<b>-72,027</b>	<b>-81,510</b>	<b>-73,453</b>
Equity raised/(repaid)	27,539	99		
Debt raised/(repaid)	-3,209	37,384	20,000	25,000
Interest	-16,771	-25,410	-16,046	-17,206
Dividend (incl. tax)	-3,274	-3,838	-3,429	-3,429
<b>CF from Fin. Activity</b>	<b>4,284</b>	<b>8,236</b>	<b>525</b>	<b>4,365</b>
<b>(Inc)/Dec in Cash</b>	<b>16,637</b>	<b>-1,528</b>	<b>-14,078</b>	<b>17,538</b>
Add: opening Balance	64,353	80,990	79,461	65,383
<b>Closing Balance</b>	<b>80,990</b>	<b>79,461</b>	<b>65,383</b>	<b>82,921</b>

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