



# Hindalco

BSE SENSEX	S&P CNX	CMP: INR113	TP: INR151	Buy
18,817	5,724			
Bloomberg	HNDL IN			
Equity Shares (m)	1,990.0			
52-Week Range (INR)	165/100			
1,6,12 Rel. Perf. (%)	-9/-18/-26			
M.Cap. (INR b)	224.9			
M.Cap. (USD b)	4.1			

Consolidated

- Hindalco Industries' consolidated adjusted PAT at INR9.1b was in line with estimates. Standalone EBITDA increased 11% QoQ to INR5.2b and was 14% below estimate due to continued production disturbances at the aluminum smelters and increasing costs. Copper segment posted strong numbers.
- Interest expenses (standalone) fell sharply due to swap of a long term debt (against operating asset) with NCDs (against project), which attracts a varied accounting adjustment and is largely cosmetic.
- Novelis' adjusted EBITDA improved 7% QoQ to USD277m (4% above estimate) due to better margins, though rolled product volumes were flat at 719kt, against 3% QoQ expected growth. EBITDA per ton increased 7% QoQ to USD385/t, ahead of flat expectation.
- Strong demand in can and auto businesses and better operating cost management are mitigating headwinds at the cost front. While stronger regional premiums for ingots in Asian markets are affecting margins, weaker LME has reduced the recycling benefit.
- Novelis is on track to deliver projects across the world with USD1.4b capex (spent USD850m in 1HFY13).
- We reduce the consolidated FY14E EBITDA by 2% to factor the higher operating costs for Indian aluminum smelters. Indian aluminum volumes will improve in 2HFY13 as the operational issues get resolved; the 58ktpa Hirakud expansion, Mahan smelters and Utkal Alumina would add to volumes in FY14. Mahan coal block received stage 1 forest clearance, thus paving the path for further statutory clearances. FRP demand outlook remains strong in the longer term, though there may be near term pressures due to a slowing global economy.
- The stock is trading at FY14E EV/EBITDA of 6.5x. CWIP is estimated at INR285b, which is ~3x EBITDA. Valuations are attractive and we maintain a **Buy** with a target price of INR151.

## Quarterly Performance (Standalone)

Y/E March	FY12				FY13				FY12	FY13E	FY13	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		(%)
Alumina (Production, kt)	335	332	343	345	335	328	355	365	1,355	1,383	340	
Aluminium (sales, kt)	131	129	147	149	124	127	135	150	556	536	125	2
Copper (sales, kt)	73	75	84	94	71	73	86	95	325	325	80	-9
Avg LME Aluminium (USD/T)	2,618	2,450	2,115	2,225	1,985	1,900	2,000	2,100	2,352	1,996	1,900	
Net Sales	60,309	62,719	66,470	76,471	60,279	61,635	69,689	78,802	265,968	270,406	63,491	-3
EBITDA	8,671	6,692	7,149	8,648	4,631	5,153	6,052	8,602	31,160	24,438	5,962	-14
As % of Net Sales	14.4	10.7	10.8	11.3	7.7	8.4	8.7	10.9	11.7	9.0	9.4	-11.0
EBITDA - Aluminium	6761	4758	4532	5258	3415	2609	3746	6035	21,309	15,806	3815	-32
EBITDA-Copper	1,909	1,935	2,618	3,390	1,216	2,544	2,306	2,567	9,851	8,632	2,147	18
Interest	667	675	793	801	815	279	290	301	2,936	1,684	847	-67
Depreciation	1,754	1,741	1,747	1,658	1,705	1,728	1,782	1,824	6,900	7,038	1,776	-3
Other Income	1,779	1,761	901	1,605	3,014	1,324	919	1,637	6,046	6,894	1,796	-26
PBT (after EO item)	8,029	6,037	5,509	7,794	5,126	4,471	4,899	8,114	27,370	22,609	5,135	-13
Total Tax	1,589	1,012	1,002	1,395	878	882	1,029	1,704	4,998	4,493	1,078	-18
% Tax	19.8	16.8	18.2	17.9	17.1	19.7	21.0	21.0	18.3	19.9	21.0	-6.1
Reported PAT	6,440	5,025	4,507	6,400	4,248	3,589	3,870	6,410	22,372	18,117	4,057	
Adjusted PAT	6,440	5,025	4,507	6,400	4,248	3,589	3,870	6,410	22,372	18,117	4,057	-12
Novelis adj. EBITDA (USD m)	306	301	213	233	259	277	252	270	1,053	1,058	266	4
Consolidated adj. PAT	11,772	10,784	7,519	10,141	8,863	9,127	8,141	11,366	33,970	38,288	9,117	0

E: MOSL Estimates

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Investors are advised to refer through disclosures made at the end of the Research Report.

### Hindalco standalone: below est; aluminum CoP still rising; copper business returns to normal

- Hindalco's standalone adjusted PAT at INR3.6b was below estimate of INR4b due to lower EBIT in the aluminum segment. This is despite the copper segment returning to normal level of margins, after a disappointment in 1QFY13.
- Net sales increased 2% QoQ to INR61.6b due to a 3% increase each in aluminum and copper sales volumes. Average realizations continue to benefit from strong spot premiums in the aluminum segment.
- EBITDA increased 11% QoQ to INR5.2b, below estimate of INR6b, as the cost of production of aluminum continues to rise due to the seasonal impact on coal cost during monsoons and lower production on account of operational disturbances. Sales volumes at 127kt were 2% better than estimate.
- Copper segment EBITDA at INR2.5b was slightly above estimate of INR2.1b and production 3% lower than estimate at 78kt (+10% QoQ).
- Copper EBITDA increased 109% QoQ to INR2.5b. EBIT increased from US\$8.9/lb in 1QFY13 to US\$23.3/lb in 2QFY13 (v/s US\$22.9/lb in 2QFY12). Copper sales volumes increased 3% QoQ to 73kt.
- Interest expenses saw a sharp decline due to paying off of certain high cost term debt pertaining to operational assets. Term debt has been replaced by project debt with NCDs. The interest expense thereon will be expensed along with projects' commercial production.
- Other income declined 56% QoQ to INR1.3b due to absence of dividends.
- Net debt increased by INR48b during 1HFY13 due to INR31b of capex and reduction in payables by INR10b.

#### Hindalco Aluminium Business (INR m)

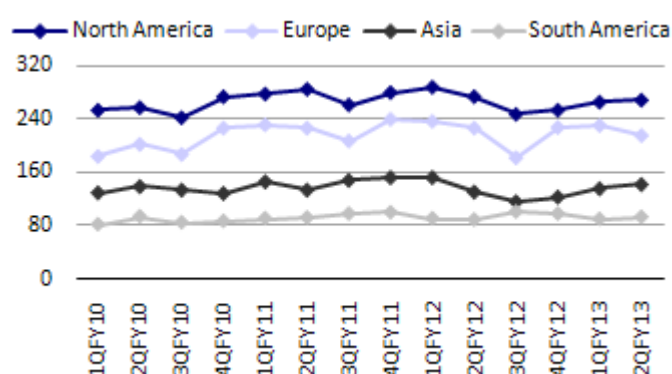
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13
<b>Segmental Revenue</b>	<b>20,931</b>	<b>22,132</b>	<b>22,362</b>	<b>24,986</b>	<b>20,626</b>	<b>21,049</b>	<b>22,916</b>	<b>26,735</b>
less: Alumina	1,660	2,020	1,980	2,170	2,930	2,160	2,160	2,160
(a) Revenue (only Aluminium products)	19,271	20,112	20,382	22,816	17,696	18,889	20,756	24,575
Sales (000 tons)	131	129	147	149	124	127	135	150
Realization (INR/ton)	147,110	155,907	138,652	152,942	142,862	148,732	153,748	163,836
EBITDA	6,761	4,758	4,532	5,258	3,415	2,609	3,746	6,035
Less: Alumina EBITDA (50% margin assumed)	830	1,010	990	1,085	1,465	1,080	1,080	1,080
(b) EBITDA (only Aluminium products)	5,931	3,748	3,542	4,173	1,950	1,529	2,666	4,955
Costs (a - b)	13,340	16,364	16,840	18,643	15,745	17,360	18,090	19,620
Aluminium costs (INR/ton)	101,833	126,854	114,559	124,968	127,116	136,692	134,000	130,800
USD/INR	44.7	45.4	51.0	50.2	54.5	55.5	54.0	54.0
LME (USD/ton)	2,618	2,450	2,115	2,225	1,985	1,900	2,000	2,100
<b>Aluminium costs (USD/ton)</b>	<b>2,276</b>	<b>2,794</b>	<b>2,246</b>	<b>2,491</b>	<b>2,332</b>	<b>2,463</b>	<b>2,481</b>	<b>2,422</b>
Realization (USD/ton)	3,288	3,434	2,719	3,049	2,621	2,680	2,847	3,034
Product premium over LME	670	984	604	824	636	780	847	934
<b>EBITDA per ton (USD)</b>	<b>1,012</b>	<b>640</b>	<b>472</b>	<b>558</b>	<b>289</b>	<b>217</b>	<b>366</b>	<b>612</b>
<b>~ COP (LME - EBITDA/t +150)</b>	<b>1,756</b>	<b>1,960</b>	<b>1,793</b>	<b>1,817</b>	<b>1,846</b>	<b>1,833</b>	<b>1,784</b>	<b>1,638</b>

Source: Company, MOSL

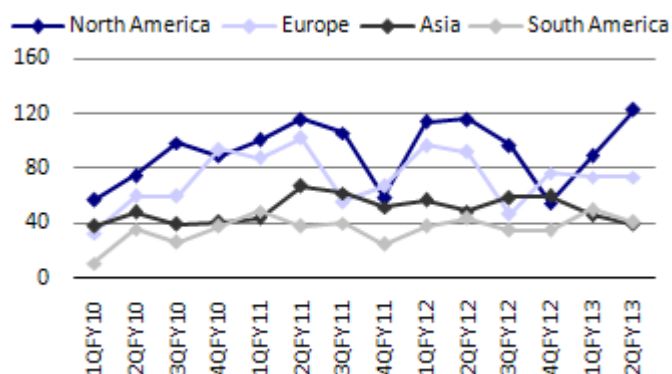
### Novelis: above est; strong can and auto demand mitigates reduced recycling benefit and stronger regional premiums on ingots

- Adjusted EBITDA improved 7% QoQ to USD277m and was 4% ahead of estimate due to better margins; however, rolled product volumes remained flat at 719kt, against expectation of 3% QoQ growth. EBITDA per ton increased 7% QoQ to USD385/t, ahead of flat expectation.
- Volumes declined by 15kt QoQ in Europe but were made up by higher volumes in Americas and Asia.
- Segmental income increased 38% QoQ to USD123m in North America due to strong demand from auto sector and steady demand from can business, which is the highest-ever since Hindalco acquired Novelis. Stronger conversion premium and product mix helped margins and offset the reduced scrap recycling benefit. Volumes were up 1%.
- Segmental income was flat QoQ at USD74m in Europe despite 6% lower volumes. Margins improved due to exiting the low margin foil business.
- Asia and South America witnessed a decline in segmental income of 15% QoQ to USD39m and 18% to USD41m, despite 4% and 3% higher volumes respectively. Asian markets are witnessing pricing pressure and higher regional premiums.

Geographical breakup of volumes (KT)



Geographical breakup of EBIT (USD M)



Source: Company, MOSL

#### Quarterly Performance (Novelis)

Y/E March	FY12				FY13				FY12	FY13E	FY13	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		(%)
Sales (000 tons)	767	720	648	703	722	719	720	750	2,838	2,911	740	-3
Net Sales	3,113	2,880	2,462	2,608	2,550	2,441	2,418	2,594	11,063	10,002	2,411	1
EBITDA (adjusted)	306	301	213	233	259	277	252	270	1,053	1,058	266	4
As % of Net Sales	9.8	10.5	8.7	8.9	10.2	11.3	10.4	10.4	9.5	10.6	11.0	
EBITDA per ton (USD)	399	418	329	331	359	385	350	360	371	363	360	7
Interest	73	73	71	73	73	72	72	72	290	289	73	-1
Depreciation	89	81	79	80	73	69	75	75	329	292	75	-8
PBT (before EO item)	144	147	63	80	113	136	105	123	434	477	118	15
Extra-ordinary Income	(8)	(24)	(84)	(189)	(1)	(49)	-	-	(305)	(50)	-	
PBT (after EO item)	136	123	-21	-109	112	87	105	123	129	427	118	
Total Tax	59	-7	-10	-3	21	37	32	37	39	126	36	
% Tax	43.4	-5.7	47.6	2.8	18.8	42.5	30.0	30.0	30.2	29.6	30.0	
PAT before minority	77	130	-11	-106	91	50	74	86	90	301	83	
Minority interest	15	10	1	1		1			27	1		
Reported PAT	62	120	-12	-107	91	49	74	86	63	300	83	
Adjusted PAT	116	124	56	72	80	95	74	87	368	335	86	10

E: MOSL Estimates

- Net debt increased by USD41m to USD4,235m due to increase in net working capital by USD83m and capex of USD178m. Operating activities generated cash flows of USD205m, before adjustment of working capital.
- Novelis is on track to deliver projects across the world with a capex of USD1.4b and has already spent USD850m in 1HFY13. Remaining USD550m will be spent over 2 years. FRP capacity will increase by 570kt, auto volumes will rise by 320kt and recycling capacity will increase by 855kt. Ground breaking at Germany and China was done during the quarter. For FY13, the total capex range has widened from USD650-700m to USD600-700m due to economic uncertainties.

#### Novelis: Investing in growth

Projects	Location	Cap addn. (ktpa)	Total capex (USD m)	CapEx (Usm)		Comm. date	Remarks
				FY12	FY13		
<b>FRP Projects</b>		<b>570</b>	<b>1,000</b>	<b>310</b>	<b>440</b>		
Rolling mill expansion - Can sheets	Brazil, S America	220	300	185	130	Dec-12	on time
Rolling mill and recycling expansion	S Korea, Asia	350	400	75	160	Dec-13	on time
Automotive (Heat treatment)	N America	200	200	50	100	Jun-13	on time
Automotive (Heat treatment)	China	120	100		50	Dec-14	on time
<b>Global recycling initiatives &amp; sustenance</b>		<b>855</b>	<b>400</b>	<b>38</b>	<b>60</b>		
(original capacity was 1200ktpa	Brazil, S America	190				Dec-13	on time
To increase recycled aluminum	Germany	400				Jan-15	on time
from 34% to 80% by 2020 )	Korea	265	75	38	37	Oct-12	completed
Others				153	100-200		
<b>Total</b>			<b>1,400</b>	<b>501</b>	<b>600-700</b>		

Source: Company, MOSL

## Hindalco: an investment profile

### Company description

Hindalco Industries (HNDL) is the largest aluminum producer in India and has captive bauxite mines from which it sources ~67% of requirements for its 1.5mtpa alumina refinery. Company also has a 0.54mtpa smelting capacity and is the largest maker of flat rolled aluminum products in India. After turning Novelis around in 2010, HNDL is focusing on tripling its aluminum production capacity in India in the next three years through brownfield and greenfield projects. Its copper smelting capacity of 500ktpa is the largest in Asia.

### Key investment arguments

- Company's new smelting capacities are coming up near energy sources and alumina facilities are near bauxite mines, thus ensuring low cost of production.
- We expect Novelis to deliver strong earnings growth, given its focus on high margin business, expansions in key markets and continued efforts to improve operating efficiencies across locations.

### Key investment risks

- An unexpected fall in aluminum prices, sluggish growth in developed countries and further delays in expansion activities could adversely impact earnings.

### Recent developments

- Mahan coal block has received stage I forest clearance.

### Valuation and view

- We value Hindalco at INR151 based on the SOTP method. Maintain Buy.

### Sector view

- With weak LME prices in the quarter, aluminium spot premium rose to all-time high levels. Weak demand resulted in capacity cuts by major aluminium producers. However, subsidies and benefits offered by the governments in Australia, China and Europe are ensuring that some of the high cost smelters work. We factor aluminium prices of USD1,996/t in FY13E and USD2,100 in FY14E.

### Comparative valuations

		Hindalco	Nalco	Sterlite
P/E (x)	FY13E	5.9	26.6	5.0
	FY14E	5.5	14.0	5.6
P/BV (x)	FY13E	1.1	1.0	0.7
	FY14E	0.9	1.0	0.7
EV/Sales (x)	FY13E	0.8	1.2	0.7
	FY14E	0.7	1.0	0.6
EV/EBITDA (x)	FY13E	7.1	13.8	3.6
	FY14E	6.4	5.9	3.2

### EPS: MOSL forecast v/s consensus (INR)

	MOSL forecast	Consensus forecast	Variation (%)
FY13	19.2	15.0	28.1
FY14	20.5	16.5	24.4

### Target price and recommendation

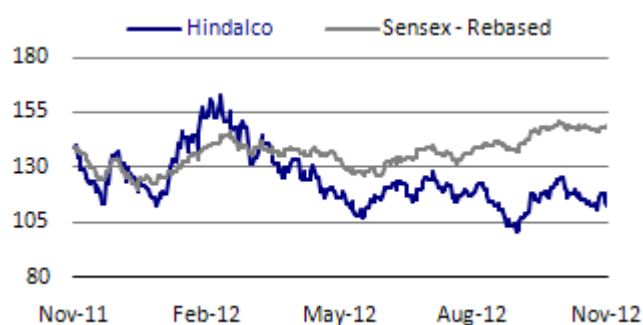
Current Price (INR)	*Target Price (INR)	Upside (%)	Reco.
113	151	33.6	Buy

5.0x FY14 EV/EBITDA and 50% discount to CWIP

### Shareholding Pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	32.1	32.1	32.1
Domestic Inst	14.8	15.2	14.1
Foreign	37.3	36.5	39.4
Others	15.9	16.2	14.4

### Stock performance (1 year)



## Financials and Valuation

Income Statement (Consolidated)		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net sales	720,779	808,214	815,139	850,640	
Change (%)	18.7	12.1	0.9	4.4	
Total Expenses	634,910	726,316	727,935	752,224	
<b>EBITDA</b>	<b>85,868</b>	<b>81,897</b>	<b>87,203</b>	<b>98,416</b>	
% of Net Sales	11.9	10.1	10.7	11.6	
Depn. & Amortization	27,500	28,699	25,145	27,644	
<b>EBIT</b>	<b>58,368</b>	<b>53,199</b>	<b>62,058</b>	<b>70,772</b>	
Net Interest	14,411	17,579	17,435	21,083	
Other income	4,309	7,831	7,435	4,905	
<b>PBT before EO</b>	<b>48,266</b>	<b>43,450</b>	<b>52,058</b>	<b>54,594</b>	
EO income	-9,834		-2,725		
<b>PBT after EO</b>	<b>38,432</b>	<b>43,450</b>	<b>49,333</b>	<b>54,594</b>	
Tax	9,638	7,862	12,655	12,689	
Rate (%)	25.1	18.1	25.7	23.2	
<b>Reported PAT</b>	<b>28,793</b>	<b>35,587</b>	<b>36,678</b>	<b>41,905</b>	
Minority interests	3,659	2,113	1,144	1,089	
Share of asso.	29	496	29	29	
<b>Adjusted PAT</b>	<b>34,998</b>	<b>33,970</b>	<b>38,288</b>	<b>40,844</b>	
Change (%)	279.5	-2.9	12.7	6.7	

## Balance Sheet

Y/E March	2011	2012	2013E	2014E
Share Capital	1,990	1,991	1,991	1,991
Reserves	288,243	317,123	349,192	386,543
<b>Net Worth</b>	<b>290,233</b>	<b>319,113</b>	<b>351,183</b>	<b>388,534</b>
Minority Interest	22,169	17,091	18,234	19,324
Total Loans	294,602	410,419	450,419	460,419
Deferred Tax Liability	37,596	36,050	40,030	43,648
<b>Capital Employed</b>	<b>644,601</b>	<b>782,673</b>	<b>859,867</b>	<b>911,925</b>
Gross Block	392,654	428,945	480,162	626,262
Less: Accum. Deprn.	158,014	186,608	211,752	239,396
<b>Net Fixed Assets</b>	<b>234,640</b>	<b>242,338</b>	<b>268,410</b>	<b>386,866</b>
Goodwill on consolida	123,940	150,097	150,097	150,097
Capital WIP	92,518	227,981	304,264	228,657
Investments	18,742	17,483	17,483	17,483
<b>Curr. Assets</b>	<b>378,856</b>	<b>376,124</b>	<b>353,587</b>	<b>367,779</b>
Inventory	137,420	132,460	134,376	140,413
Account Receivables	75,411	80,172	82,578	86,104
Cash and Bank Balance	80,680	81,556	54,696	59,325
Others	85,346	81,937	81,937	81,937
<b>Curr. Liability &amp; Prov.</b>	<b>204,095</b>	<b>231,350</b>	<b>233,974</b>	<b>238,957</b>
Account Payables	104,334	110,522	113,146	118,129
Provisions & Others	99,761	120,828	120,828	120,828
<b>Net Current Assets</b>	<b>174,761</b>	<b>144,775</b>	<b>119,613</b>	<b>128,823</b>
<b>Appl. of Funds</b>	<b>644,601</b>	<b>782,673</b>	<b>859,867</b>	<b>911,925</b>

E: MOSL Estimates

## Ratios

Y/E March	2011	2012	2013E	2014E
<b>Basic (INR)</b>				
EPS	17.6	17.1	19.2	20.5
Cash EPS	28.3	32.3	31.1	34.9
BV/Share (adj.)	83.6	84.9	101.0	119.8
DPS	1.5	1.5	1.5	1.5
Payout (%)	8.5	8.8	7.8	7.3
<b>Valuation (x)</b>				
P/E		6.6	5.9	5.5
Cash P/E		3.5	3.6	3.2
P/BV		1.3	1.1	0.9
EV/Sales		0.7	0.8	0.7
EV/EBITDA		6.8	7.1	6.4
Dividend Yield (%)		1.3	1.3	1.3
<b>Return Ratios (%)</b>				
EBITDA Margins (%)	11.9	10.1	10.7	11.6
Net Profit Margins (%)	4.9	4.2	4.7	4.8
RoE	23.1	20.3	20.7	18.6
RoCE (pre-tax)	10.1	7.5	7.6	8.0
RoIC (pre-tax)	14.5	11.7	13.2	13.0
<b>Working Capital Ratios</b>				
Fixed Asset Turnover (x)	1.8	1.9	1.7	1.4
Asset Turnover (x)	1.1	1.0	0.9	0.9
Debtor (Days)	38.2	36.2	37.0	36.9
Inventory (Days)	69.6	59.8	60.2	60.2
Payable (Days)	52.8	49.9	50.7	50.7
<b>Leverage Ratio (x)</b>				
Current Ratio	1.9	1.6	1.5	1.5
Interest Cover Ratio	4.1	3.0	3.6	3.4
Debt/Equity	1.3	1.9	2.0	1.7

## Cash Flow Statement

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
EBITDA	85,868	81,897	87,203	98,416	
Non - cash expense	-3,393	14,415	-2,725		
tax paid	-13,131	-10,901	-8,675	-9,071	
Change in working Capi	-7,084	-9,322	-1,698	-4,581	
<b>CF from Op. Activity</b>	<b>62,260</b>	<b>76,090</b>	<b>74,105</b>	<b>84,764</b>	
(Inc)/Dec in FA + CWIP	-77,598	-124,007	-127,500	-70,493	
(Pur)/Sale of Investmer	1,847	-13,277	7,464	4,933	
Others	4,945	-5,660			
<b>CF from Inv. Activity</b>	<b>-70,806</b>	<b>-142,945</b>	<b>-120,036</b>	<b>-65,559</b>	
Equity raised/(repaid)	99	10,861			
Debt raised/(repaid)	37,384	89,511	40,000	10,000	
Interest	-25,410	-28,531	-17,435	-21,083	
Dividend (incl. tax)	-3,838	-4,110	-3,494	-3,494	
<b>CF from Fin. Activity</b>	<b>8,236</b>	<b>67,731</b>	<b>19,072</b>	<b>-14,576</b>	
<b>(Inc)/Dec in Cash</b>	<b>-310</b>	<b>876</b>	<b>-26,859</b>	<b>4,629</b>	
Add: Opening Balance	80,990	80,680	81,556	54,696	
<b>Closing Balance</b>	<b>80,680</b>	<b>81,556</b>	<b>54,696</b>	<b>59,325</b>	

**N O T E S**

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