

Hindalco Industries - Buy Investment overview

- Hindalco Industries is the world's largest aluminium rolling company and one of the biggest producers of primary aluminium in Asia.
- Its subsidiary, Novelis is investing approximately \$400 million to expand its aluminum rolling and recycling operations in South Korea in response to the growing demand in Asia and the Middle East.
- Hindalco Industries plans to invest Rs 10,000 crore this fiscal in its ongoing projects including Mahan Aluminium.
- Hindalco is India's largest manufacturer of the entire range of Aluminium flat rolled products which is likely to be in good demand

Business Overview

Hindalco Industries Limited, the metals flagship company of the Aditya Birla Group is the world's largest aluminium rolling company and one of the biggest producers of primary aluminium in Asia. Its copper smelter is the world's largest custom smelter at a single location.

Hindalco's captive bauxite mines in Jharkhand, Chhattisgarh, Maharashtra and Orissa, provide the raw material to its alumina refineries located at Belgaum in Karnataka, Muri in Jharkhand and Renukoot in Uttar Pradesh, India. These refineries produce standard alumina, standard hydrate and speciality aluminas and hydrates.

The company produces high-purity ingots through smelting. Alloy ingots of various grades are also produced and mainly used for the production of castings in the auto industry and in electrical applications. Both these products are re-melted and further processed into a large number of products for various downstream applications. Hindalco manufactures wire rods in a continuous casting and rolling process. Electrical conductor (EC) wire rods are used for the production of cables and ACSR and AAC conductors.

Hindalco as a leading player in the extrusions industry in India offers a wide range of alloys, including hard alloys and some special alloys for the defence and space sectors. It has two extrusion plants in India, one in Renukoot, Uttar Pradesh, and the other in Alupuram, Kerala with extrusions capacity of 31,000 tpa.

The company became the world's largest aluminium rolling company with its acquisition of Novelis, the global leader in value-added high-end aluminium flat rolled products and aluminium can recycling. The combined volume of sales of flat rolled products in the world market is about 3 million tonnes, and the market share is more than 20 per cent.

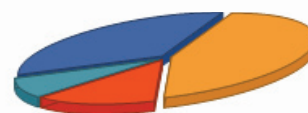
Financial Health

Hindalco Industries posted a 16 per cent jump in September quarter net profit to Rs 503 crore compared to Rs 434 crore in the corresponding period of FY11. The company's net sales grew by 7 per cent to Rs 6,272 crore from Rs 5,860 crore on the back of higher volume and improved realisation despite lower sale of value-added products.

Segment wise, Aluminium revenues grew 16 per cent at Rs 2,213 crore from Rs.1,911 crore in the same period last year, as a result of higher volumes and better LME aluminium prices. Though, Alumina production dipped

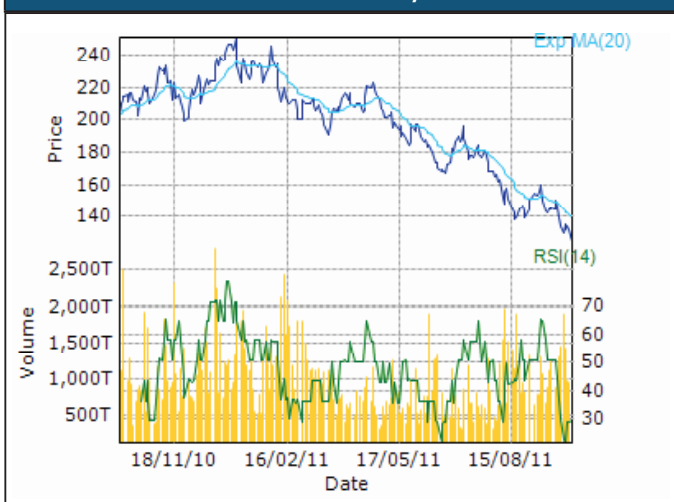
Stock Data	15/11/11
Current Mkt Price (Rs)	125.50
52 Week High	251.90
52 Week Low	119.50
Mkt Cap (Rs. in Cr.)	24078.00
Return in last one Month (%)	-3.54

Share Holding



32.06 Indian Promotor	43.67 Total Institutions
15 Total Non-Institutions	9.27 Depository Receipt

Performance in last one year



Y-o-Y Performance

Particulars	Mar 2011	Mar 2010	Change(%)
(Rs. in Million)			
Net Sales	23859.21	19522.09	22.22
Other Income	402.73	570.22	-29.37
Total Expenditure	20759.76	16878.39	23.00
Operating Profit	3502.18	3213.92	8.97
Interest	219.96	278.00	-20.88
Profits After Tax	2136.92	1915.63	11.55
Reserve & Surplus	0.00	0.00	6.45
Reported EPS(Rs)	11.16	10.01	11.50
Core EBITDA Margin (%)	12.23	12.85	-4.86

4 per cent due to constrained bauxite supply. While the Copper segment revenue posted a 16 per cent rise despite the company taking planned shutdown of its smelters.

Company's other income surged by 115 percent at Rs 176.08 crore from Rs 82.10 crore, mainly driven by improved treasury yield and an enhanced corpus, consequent to return of capital from Novelis.

Industry Scenario

India is the fifth largest producer of aluminium in the world, having a capacity to produce more than 2.7 million tones of aluminium per year, accounting about 5% of the total aluminium production of the world. Aluminium Industry in India is a highly concentrated sector with few prominent players catering to the majority of the country's aluminium production. Industrial scale production of aluminium commenced in the country in the year 1938 with the commissioning of the Aluminum Corporation of India. This was followed by Hindustan Aluminum Corporation (Hindalco) which was set up in the state of Uttar Pradesh in 1959, with an output of 20,000 ton per annum, while in the year 1965 Malco, a public sector enterprise which had a production capacity of 10,000 ton per annum was commissioned.

Despite the lower per capita demand for the metal in India, there is a heavy demand for aluminium in the domestic market on account of the metal being used in large quantities across a number of industries. Of the total volume required by the domestic market, the power industry makes use of about 44% and the consumer durables and transportation industries consume about 10-12%, while the construction and packaging sectors buy about 17%.

The per capita consumption of aluminium metal at developed countries is estimated at about 20 to 30 kg. In most countries, the bauxite reserve has got almost depleted. The scenario in India is just the opposite. While the per capita consumption of the metal is only 1.3kg, the country has a huge reserve of good quality bauxite reserve. In addition, several factors including high GDP growth rate, skilled employees, highly encouraging Government policy and the favourable trade relations of the nation with a number of developed and developing countries ensures a bright future for the aluminium industry in the country.

Global aluminium consumption in Q1FY12 showed a robust growth of 9% vis-a-vis Q1FY11. There has been an increasing demand from all the major economies. Most aluminium refineries of the subcontinent are expected to be commissioned around 2020. These factors indicate that there is a highly promising future for the aluminium industry in the country further stimulated by the huge global market potential that will give a thrust to the industry.

Latest developments:

The company's existing joint venture agreement with Almex Inc. USA (Almex) in relation to Hindalco-Almex Aerospace Limited, a subsidiary of the company was terminated with effect from August 10, 2011 and the company acquired 8,011,000 out of 13,011,000 equity shares held by Almex in the JV.

Investment Rationale

- Hindalco Industries posted a 16 per cent jump in September quarter net profit on the back of on the back of higher volumes and improved realisations

Q-o-Q Performance			
(Rs. in Million)			
Particulars	Sep 2011	Sep 2010	Change(%)
Net Sales	6271.87	5859.94	7.03
Expenditure	5602.63	5161.59	8.54
Other Income	176.08	82.10	114.47
EBITDA	845.32	780.45	8.31
Interest	67.51	52.63	28.27
Net Profit	502.52	433.81	15.84
EBITDA Margin (%)	0.13	0.13	1.20
NPM (%)	0.08	0.07	8.23
EPS	2.62	2.27	15.42

Profit & Loss			
(Rs. in Million)			
Particulars	Mar 2011	Mar 2010	Change(%)
Net Sales	23859.21	19522.09	22.22
Total Income	24261.94	20092.31	20.75
Total Expenditure	20759.76	16878.39	23.00
Operating Profit	3502.18	3213.92	8.97
Profits After Tax	2136.92	1915.63	11.55

Balance Sheet			
(Rs. in Million)			
Particulars	Mar 2011	Mar 2010	Change(%)
Share Capital	191.46	191.37	0.05
Reserve & Surplus	29504.17	27715.61	6.45
Total Liabilities	36971.60	34267.87	7.89
Investments	18246.75	21480.83	-15.06
Current Liabilities	7194.10	5426.93	32.56
Net Current Assets	2963.91	2715.87	9.13
Total Assests	36971.60	34267.87	7.89

Key Ratios		
Particulars	Mar 2011	Mar 2010
Reported EPS (Rs)	11.16	10.01
Core EBITDA Margin (%)	12.23	12.85
EBIT Margin (%)	11.10	12.36
ROA (%)	6.00	5.77
ROE (%)	7.42	7.42
ROCE (%)	7.90	7.66
Price/Book (x)	1.35	1.25
Net Sales Growth (%)	22.22	7.15
EBIT Growth (%)	10.70	-16.01
PAT Growth (%)	11.55	-14.11
Total Debt/Mcap (%)	0.18	0.18

Peer group comparison (Rs. crore)

*latest based on last traded price

Company	Year End	Net Sales	PBDIT	PAT	PATM%	EPS	P/E*
Hindalco Inds.	201103	23859.21	3099.45	2136.92	8.95	11.16	10.41
National Aluminium	201103	5964.55	1602.47	1069.30	17.92	4.14	14.05
Madras Aluminium	201103	434.00	118.89	187.56	43.21	16.67	6.95
Ess Dee Aluminium	201103	646.56	154.15	107.56	16.63	33.56	6.87

despite lower sales of value added products. The adverse impact of strong inflationary pressures largely in energy products and rupee appreciation were mitigated by improved operating efficiencies in both its copper and aluminium businesses. Higher value-added by-product credit and TcRc in the copper business also contributed towards sustaining the company's performance. Further going the company has earmarked \$ 6.5 billion towards its domestic and international expansion plans. The company has already embarked on an ambitious growth path both in India and globally for next three years which includes -- brownfield and greenfield -- projects in India and capacity additions at Novelis' existing plants in various countries.

- The company's Mahan Aluminium Project of 359 KTPA aluminium smelter, along with a 900-MW CPP is coming up in Bargawan, Sidhi district of Madhya Pradesh, over an area of around 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 project is in full swing and the company 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. Hindalco Industries plans to invest Rs 10,000 crore this fiscal in its ongoing projects including Mahan Aluminium, Aditya Alumina and Aluminium and Utkal Alumina in Orissa. The company will also invest Rs 700 crore this fiscal to enhance capacity at the Dahej unit of its subsidiary Birla Copper, which produces cathodes, continuous cast copper rods and precious metals.
- The Forest Advisory Committee of the Ministry of Environment and Forests (MoEF) has recommended that the forest diversion proposal for Mahan Coal block be rejected. However the minister has referred the matter to a Group of Ministers (GoM) which has been constituted for the purpose of deciding on forest clearance for coal blocks, including that for Mahan. The management has expressed its optimism that Mahan Coal Block would soon get the green signal with the Government deciding to scrap the concept of 'go and no go' zones after Ministry of Coal, accepted that the categorisation of 'go and no-go' did not have any legal sanctity. However the company is in talks with Coal India for alternative supply as the Work on the Mahan project has been delayed by three months.
- In a recent development, Hindalco's subsidiary Novelis,

the world's largest producer of rolled aluminum, opened a new office in the Shanghai World Financial Center to expand the company's presence in Asia that will help in further capitalizing on this significant opportunity. With an expansion underway in Korea, combined with the move into China, the company will be aptly able to serve rapidly growing consumer demand in Asia for high-margin can, automotive and specialty products. Novelis is currently investing approximately \$400 million to expand its aluminum rolling and recycling operations in South Korea in response to the growing demand for its products in Asia and the Middle East. The rolling expansion, which will include investments in both hot rolling and cold rolling operations, will increase Novelis' aluminum sheet capacity in Asia to one million metric tons annually. Novelis operates an Asian regional head office in Seoul, South Korea, leading operations and sales for its three manufacturing facilities in South Korea and Malaysia. The company expects global demand from cars to grow at a combined rate of 25 per cent a year over the next five years. Novelis supplies more than half of all flat-rolled aluminum products used by the automotive sector to make parts such as doors and roofs, so it becomes a tremendous growth opportunity for the company.

- At the CMP of Rs 125.50, Hindalco Industries is trading at a P/E multiple of 10.41x and EV/EBIDTA of 8.39, and 6.72x P/E (FY12) and EV/EBIDTA of 5.48x (FY12) we recommend 'BUY' in the scrip with a price target of Rs 184 for a long term outlook. Hindalco has put domestic green-field projects on the fast track and its whole expansion plans are in full swing. There is incremental volume expected of both alumina and aluminum in coming 1-2 years and the company expects its export revenue to be Rs 75.16 billion for this year, 31 per cent total revenue. Its subsidiary Novelis too is showing good growth prospects and it sees a good demand rise from auto sector as carmakers are using more aluminum because of a combination of new legislation in Europe and the US, and is rapidly rise in growing world. Above all, Aluminum has been growing at a much faster pace than other comparable materials, however on domestic front the slowing industry growth will remain a concern on the back of rising inflation as the growth in the infrastructure and capital goods sector was slower than the GDP growth and that might impede the growth to some extent and all its expansion will be completed only in FY13-14.

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