

# Hindalco Industries

14 November 2014

Reuters: HALC.BO; Bloomberg: HNDL IN

## Strong Performance; Up TP, Upgrade To Accumulate

Hindalco Industries' (HIL) 2QFY15 EBITDA was 6%/1% above our/Bloomberg consensus estimates, respectively, because of robust performance from copper segment driven by strong Tc/Rc margins, which offset marginal disappointment in the aluminium segment. PAT was 83%/80% below our/Bloomberg consensus estimates, respectively, because of an exceptional loss. We have revised our standalone EBITDA estimates upward by 11%/14%/17%, primarily driven by strong copper performance, which led to 3%/3%/4% increase in consolidated EBITDA estimates, respectively. We have also rolled forward our valuation from March 2016 to September 2016, keeping the valuation multiple changed. Our revised TP of Rs146 (Rs124 earlier) is 4% below the CMP and, hence, we have upgraded HIL's rating to Accumulate (from Sell earlier). We have been negative on Hindalco because of subdued aluminium price assumption hitting the profitability of new projects. However, strong Tc/Rc margin than expected, firm aluminium prices coupled with strong physical premium and stable rupee have led to earnings upgrade and TP.

**Operational performance update:** HIL reported 41% YoY and 9% QoQ rise in alumina production at 531,000tn on ramp-up of Utkal refinery, but the performance remained subdued on a standalone basis, posting a 13% YoY drop in alumina output at 291,000tn. Utkal ramp-up remained impressive with a 15% QoQ growth at 240,000tn (64% capacity utilisation). Aluminium production was up 34% YoY at 187,000tn driven by Mahan unit expansion, while it was down 2% QoQ. At existing operations, HIL posted a modest 4% YoY growth at 138,000tn, while another 49,000tn output was added by greenfield projects (Mahan and Aditya). HIL sold 80,000tn alumina from standalone operations, up 14% YoY and 5% QoQ. It sold 183,000tn aluminium (118,000tn primary aluminium and 65,000tn value-added products) in 2QFY15, up 39% YoY and 3% QoQ. Copper output was strong with a 25% YoY jump, while it was flat on QoQ basis.

**Segment-wise highlights:** Aluminium segment posted 42% YoY and 10% QoQ jump in revenue, driven by higher volume from new facilities and strong realisation. Aluminium EBIT was up 104% YoY driven by higher strong realisation, but it was up just 6% QoQ despite higher volume and strong realisation following a steep increase in power and fuel costs. For 1HFY15, aluminium revenue was 39% YoY up, while aluminium EBIT was up 59% YoY. Copper segment's revenue was up 32% YoY and up 5% QoQ driven by higher volume. Copper EBIT was up 73% YoY and 31% QoQ driven by higher volume and strong Tc/Rc margin. For 1HFY15, copper revenue/EBIT were up 35%/128% YoY, respectively.

Standalone fin. (Rsmn) Y/E March	2QFY14	1QFY15	2QFY15	YoY (%)	QoQ (%)	1HFY14	1HFY15	YoY (%)
<b>Net sales</b>	<b>63,049</b>	<b>79,961</b>	<b>85,543</b>	<b>35.7</b>	<b>7.0</b>	<b>121,428</b>	<b>165,505</b>	<b>36.3</b>
Raw material costs	40,072	51,464	53,093	32.5	3.2	76,779	104,558	36.2
% of sales	63.6	64.4	62.1			63.2	63.2	
Power & fuel costs	8,822	11,368	12,939	46.7	13.8	16,884	24,307	44.0
% of sales	14.0	14.2	15.1			13.9	14.7	
Employee costs	3,608	3,482	3,973	10.1	14.1	6,633	7,454	12.4
% of sales	5.7	4.4	4.6			5.5	4.5	
Other operating expenses	5,148	6,163	6,569	27.6	6.6	10,949	12,732	16.3
% of sales	8.2	7.7	7.7			9.0	7.7	
<b>EBITDA</b>	<b>5,399</b>	<b>7,484</b>	<b>8,970</b>	<b>66.2</b>	<b>19.9</b>	<b>10,183</b>	<b>16,454</b>	<b>61.6</b>
<b>EBITDA margin (%)</b>	<b>8.6</b>	<b>9.4</b>	<b>10.5</b>			<b>8.4</b>	<b>9.9</b>	
Depreciation	1,964	1,871	1,960	(0.2)	4.8	3,794	3,831	1.0
Interest costs	1,832	3,376	3,857	110.6	14.3	3,319	7,233	117.9
Other income	2,798	2,163	2,234	(20.2)	3.3	7,078	4,397	(37.9)
Exceptional loss/(gain)	-	-	4,312			-	4,312	
<b>PBT</b>	<b>4,402</b>	<b>4,401</b>	<b>1,074</b>	<b>(75.6)</b>	<b>(75.6)</b>	<b>10,148</b>	<b>5,475</b>	<b>(46.1)</b>
Provision for tax	830	1,126	286	(65.6)	(74.6)	1,835	1,412	(23.1)
<b>Effective tax rate (%)</b>	<b>18.9</b>	<b>25.6</b>	<b>26.6</b>			<b>18.1</b>	<b>25.8</b>	
<b>PAT</b>	<b>3,571</b>	<b>3,275</b>	<b>788</b>	<b>(77.9)</b>	<b>(75.9)</b>	<b>8,312</b>	<b>4,063</b>	<b>(51.1)</b>
<b>NPM (%)</b>	<b>5.7</b>	<b>4.1</b>	<b>0.9</b>			<b>6.8</b>	<b>2.5</b>	
<b>EPS (Rs)</b>	<b>1.7</b>	<b>1.6</b>	<b>0.4</b>	<b>(77.9)</b>	<b>(75.9)</b>	<b>4.0</b>	<b>2.0</b>	<b>(51.1)</b>

Source: Company, Nirmal Bang Institutional Equities Research

## ACCUMULATE

Sector: Non-ferrous

CMP: Rs152

Target Price: Rs146

Downside: 4%

Giriraj Daga

giriraj.daga@nirmalbang.com

+91-22-3926 8168

### Key Data

Current Shares O/S (mn)	2,064.7
Mkt Cap (Rsbn/US\$bn)	313.7/5.1
52 Wk H / L (Rs)	199/97
Daily Vol. (3M NSE Avg.)	10,705,360

### Price Performance (%)

	1 M	6 M	1 Yr
Hindalco Ind.	0.5	6.8	33.3
Nifty Index	6.0	17.6	39.5

Source: Bloomberg

## Exhibit 1: Consolidated financial summary

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	801,928	876,955	1,012,629	1,043,537	1,105,264
YoY (%)	(0.8)	9.4	15.5	3.1	5.9
EBITDA	78,368	82,863	103,633	111,243	116,308
EBITDA (%)	9.8	9.4	10.2	10.7	10.5
Adj. PAT	30,269	21,750	29,434	33,147	21,053
EPS (Rs)	15.8	10.5	14.3	16.1	10.2
YoY (%)	(10.9)	(33.4)	35.3	12.6	(36.5)
RoE (%)	9.0	5.7	7.0	7.4	4.4
RoCE (%)	5.6	4.5	5.3	5.2	5.0
P/E (x)	11.3	17.0	12.5	11.1	17.5
EV/EBITDA (x)	10.3	10.8	8.9	8.2	7.7

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Segment-wise performance

Description	2QFY14	1QFY15	2QFY15	YoY (%)	QoQ (%)	1HFY14	1HFY15	YoY (%)
<b>Segment-wise financials</b>								
<b>Revenue (Rsmn)</b>								
Aluminium	23,427	30,113	33,159	41.5	10.1	45,538	63,272	38.9
Copper	39,740	49,903	52,471	32.0	5.1	76,098	102,374	34.5
<b>Gross sales</b>	<b>63,167</b>	<b>80,016</b>	<b>85,629</b>	<b>35.6</b>	<b>7.0</b>	<b>121,636</b>	<b>165,645</b>	<b>36.2</b>
Less: Inter-segment transfer	118	55	86	(27.1)	58.0	208	141	(32.4)
<b>Net sales</b>	<b>63,049</b>	<b>79,961</b>	<b>85,543</b>	<b>35.7</b>	<b>7.0</b>	<b>121,428</b>	<b>165,505</b>	<b>36.3</b>
<b>EBIT (Rsmn)</b>								
Aluminium	1,661	3,199	3,387	103.8	5.9	4,151	6,586	58.6
Copper	2,390	3,168	4,137	73.1	30.6	3,201	7,305	128.2
Unallocable	2,182	1,410	1,720	(21.2)	22.0	6,114	3,130	(48.8)
<b>Total EBIT</b>	<b>6,233</b>	<b>7,777</b>	<b>9,243</b>	<b>48.3</b>	<b>18.9</b>	<b>13,466</b>	<b>17,020</b>	<b>26.4</b>

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Standalone results summary

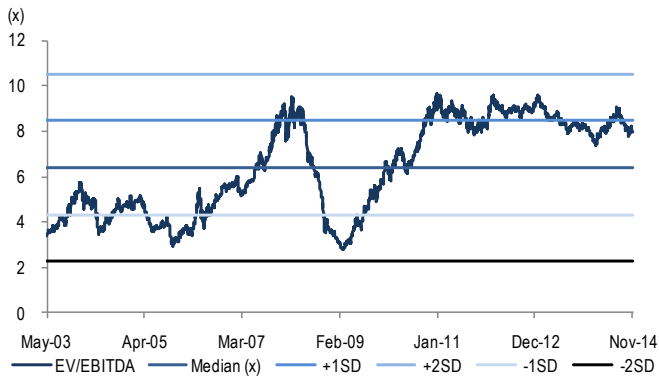
Description (Rsmn)	2QFY14	1QFY15	2QFY15	YoY(%)	QoQ(%)	2QFY15E	Devi. (%)	2QFY15BBE	Devi. (%)
Revenue	63,049	79,961	85,543	35.7	7.0	80,326	6.5	83,079	3.0
EBITDA	5,399	7,484	8,970	66.2	19.9	8,458	6.1	8,898	0.8
PAT	3,571	3,275	788	(77.9)	(75.9)	4,631	(83.0)	3,936	(80.0)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

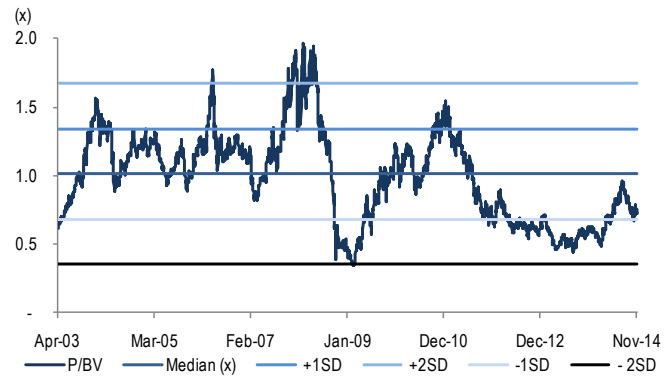
## Exhibit 4: Valuation summary

Description (Rsmn)	Standalone business and Utkal alumina	Novelis	Group investment at a 30% discount and other businesses
EV/EBITDA (x)	6.0	6.5	-
EBITDA	38,700	69,216	-
EV	232,199	449,904	-
Debt	350,279	324,950	-
Cash	96,554	21,257	-
Capital-work-in-progress	126,858	10,408	-
Long-term employee provision	-	42,629	-
Market capitalisation	105,333	113,989	-
Equity share capital	2,065	2,065	-
Per share value (Rs)	51.0	55.2	40.0
<b>Target price (Rs)</b>			<b>146.3</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 5: One-year forward EV/EBITDA multiple**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 6: One-year forward P/BV multiple**


Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 7: Change in our earnings estimates**

	Earlier estimates			New estimates			Change (%)		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
<b>Segment-wise revenue (Rsmn)</b>									
Aluminium	131,951	156,314	177,274	132,653	156,314	177,274	0.5	-	-
Copper	194,163	178,901	178,346	202,240	183,816	183,242	4.2	2.7	2.7
<b>Total</b>	<b>326,114</b>	<b>335,215</b>	<b>355,620</b>	<b>334,893</b>	<b>340,130</b>	<b>360,516</b>	<b>2.7</b>	<b>1.5</b>	<b>1.4</b>
Less Inter-segment	445	560	600	401	560	600	(9.9)	-	-
<b>Net turnover</b>	<b>325,670</b>	<b>334,655</b>	<b>355,020</b>	<b>334,492</b>	<b>339,570</b>	<b>359,916</b>	<b>2.7</b>	<b>1.5</b>	<b>1.4</b>
<b>Standalone financials (Rsmn)</b>									
Net sales	325,670	334,655	355,020	334,492	339,570	359,916	2.7	1.5	1.4
EBITDA	33,606	34,050	33,130	37,257	38,725	38,674	10.9	13.7	16.7
PAT	7,520	6,341	(11,249)	11,423	10,149	(6,462)	51.9	60.1	(42.6)
<b>Novelis operational data</b>									
Rolled product volume (mt)	3.14	3.34	3.54	3.13	3.33	3.53	(0.3)	(0.2)	(0.2)
Adjusted EBITDA (US\$/tn)	327	348	361	320	348	361	(2.1)	(0.1)	(0.1)
<b>Novelis financials (US\$mn)</b>									
Net sales	10,948	12,138	13,080	11,301	12,110	13,052	3.2	(0.2)	(0.2)
Adjusted EBITDA	1,025	1,161	1,275	1,000	1,157	1,272	(2.4)	(0.3)	(0.2)
PAT	205	294	371	194	295	372	(5.1)	0.6	0.3
<b>Consolidated financials (Rsmn)</b>									
Net sales	977,117	1,040,218	1,101,977	1,012,629	1,043,537	1,105,264	3.6	0.3	0.3
EBITDA	100,695	107,599	112,202	103,633	111,243	116,308	2.9	3.4	3.7
PAT	25,864	29,630	16,777	29,434	33,147	21,053	13.8	11.9	25.5

Source: Company, Nirmal Bang Institutional Equities Research

## Financials (consolidated)

### Exhibit 8: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
<b>Revenue</b>	<b>801,928</b>	<b>876,955</b>	<b>1,012,629</b>	<b>1,043,537</b>	<b>1,105,264</b>
YoY growth (%)	(0.8)	9.4	15.5	3.1	5.9
Total expenditure	723,560	794,092	908,996	932,293	988,956
% of sales	90.2	90.6	89.8	89.3	89.5
<b>EBITDA</b>	<b>78,368</b>	<b>82,863</b>	<b>103,633</b>	<b>111,243</b>	<b>116,308</b>
EBITDA margin (%)	9.8	9.4	10.2	10.7	10.5
Depreciation	28,611	35,528	38,704	45,315	51,448
<b>EBIT</b>	<b>49,757</b>	<b>47,335</b>	<b>64,929</b>	<b>65,929</b>	<b>64,860</b>
Interest expenses	20,791	27,016	34,649	37,457	51,645
Other income	10,122	10,172	9,286	10,548	10,051
Exceptional loss/(gain)	-	3,960	4,313	-	-
<b>PBT</b>	<b>39,088</b>	<b>26,531</b>	<b>35,253</b>	<b>39,020</b>	<b>23,266</b>
Provision for tax	8,857	5,249	8,108	8,975	5,351
Effective tax rate (%)	22.7	19.8	23.0	23.0	23.0
<b>PAT before MI</b>	<b>30,231</b>	<b>21,282</b>	<b>27,145</b>	<b>30,046</b>	<b>17,915</b>
MI & profit of associate cos.	(38)	(468)	(2,289)	(3,101)	(3,138)
<b>PAT after MI</b>	<b>30,269</b>	<b>21,750</b>	<b>29,434</b>	<b>33,147</b>	<b>21,053</b>
YoY growth (%)	(10.9)	(28.1)	35.3	12.6	(36.5)
PAT margin (%)	3.7	2.5	2.9	3.1	1.9

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Share capital	1,915	2,121	2,121	2,121	2,121
Equity warrants	5,413	-	-	-	-
Reserves and surplus	345,975	403,928	430,462	461,193	482,246
<b>Shareholders' funds</b>	<b>353,302</b>	<b>406,048</b>	<b>432,583</b>	<b>463,314</b>	<b>484,367</b>
Short-term loan	64,421	94,043	103,447	108,619	114,050
Long-term loan	504,640	545,513	579,664	569,912	564,505
<b>Total loans</b>	<b>569,061</b>	<b>639,555</b>	<b>683,111</b>	<b>678,531</b>	<b>678,555</b>
Minority interest	17,593	17,805	17,478	16,788	16,062
Deferred tax liability	34,677	31,750	30,534	29,188	28,385
<b>Total capital employed</b>	<b>974,633</b>	<b>1,095,159</b>	<b>1,163,706</b>	<b>1,187,821</b>	<b>1,207,369</b>
Gross block	482,107	748,947	838,865	1,038,968	1,128,862
Less: Acc depreciation	221,255	267,361	300,973	337,352	383,867
Net block	260,852	481,586	537,892	701,616	744,994
Capital WIP	338,311	230,593	211,668	60,295	4,464
<b>Net fixed assets</b>	<b>599,162</b>	<b>712,178</b>	<b>749,560</b>	<b>761,911</b>	<b>749,458</b>
Goodwill at consolidation	118,397	130,049	130,049	130,049	130,049
Investments	126,137	129,611	121,572	119,984	118,395
Cash and bank balance	37,695	50,213	72,140	80,210	100,510
Inventories	143,317	166,943	168,524	174,682	183,237
Debtors	89,523	92,348	115,065	119,470	126,925
Other CA and loans & adv.	91,664	98,477	98,808	98,989	100,800
<b>Total CA and loans &amp; adv.</b>	<b>362,199</b>	<b>407,980</b>	<b>454,538</b>	<b>473,351</b>	<b>511,472</b>
Creditors	96,129	129,970	162,307	165,570	172,712
Other current liabilities	62,124	79,168	62,309	63,755	62,288
Provisions	73,010	75,522	67,397	68,150	67,007
<b>Net current assets</b>	<b>130,936</b>	<b>123,321</b>	<b>162,525</b>	<b>175,877</b>	<b>209,466</b>
<b>Total assets</b>	<b>974,633</b>	<b>1,095,159</b>	<b>1,163,706</b>	<b>1,187,821</b>	<b>1,207,369</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
EBIT	49,757	47,335	64,929	65,929	64,860
(Inc.)/dec. in working capital	(38,741)	9,623	(15,887)	(4,874)	(10,950)
<b>Cash flow from operations</b>	<b>11,016</b>	<b>56,958</b>	<b>49,042</b>	<b>61,055</b>	<b>53,910</b>
Other income	4,834	5,464	9,286	10,548	10,051
Depreciation	28,219	33,468	38,704	45,315	51,448
Interest paid (-)	36,728	46,919	44,402	44,105	51,645
Tax paid (-)	13,478	9,586	9,324	10,321	6,154
Dividends paid (-)	3,977	3,149	3,382	2,899	2,416
<b>Net cash from operations</b>	<b>(10,114)</b>	<b>36,237</b>	<b>39,923</b>	<b>59,593</b>	<b>55,194</b>
Capital expenditure (-)	117,103	93,161	76,086	57,666	38,995
<b>Net cash after capex</b>	<b>(127,217)</b>	<b>(56,924)</b>	<b>(36,162)</b>	<b>1,927</b>	<b>16,199</b>
Inc./(dec.) in short-term debt	20,651	27,179	9,404	5,172	5,431
Inc./(dec.) in long-term debt	122,705	21,510	34,152	(9,752)	(5,407)
(Inc.)/dec. in investments	(15,622)	5,316	-	-	-
Equity issue/(buyback)	-	16,300	-	-	-
<b>Cash from financial activities</b>	<b>127,734</b>	<b>70,305</b>	<b>43,556</b>	<b>(4,580)</b>	<b>24</b>
Others	4,218	(863)	14,534	10,722	(1,619)
Opening cash	32,960	37,695	50,213	72,140	80,210
Closing cash	37,695	50,213	72,140	80,210	100,510
Change in cash	4,735	12,518	21,927	8,069	20,300

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 11: Key ratios

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
<b>Per share (Rs)</b>					
EPS	15.8	10.5	14.3	16.1	10.2
Book value	184.5	196.7	209.5	224.4	234.6
<b>Valuation (x)</b>					
P/E	11.3	17.0	12.5	11.1	17.5
P/BV	1.0	0.9	0.9	0.8	0.8
EV/EBITDA	10.3	10.8	8.9	8.2	7.7
EV/sales	1.0	1.0	0.9	0.9	0.8
M-cap/sales	0.4	0.4	0.4	0.4	0.3
<b>Return ratios (%)</b>					
RoCE	5.6	4.5	5.3	5.2	5.0
RoCE excluding CWIP	8.5	6.3	6.6	5.9	5.2
RoE	9.0	5.7	7.0	7.4	4.4
<b>Margin ratios (%)</b>					
EBITDA margin	9.8	9.4	10.2	10.7	10.5
PBIT margin	6.2	5.4	6.4	6.3	5.9
PBT margin	4.8	3.4	3.9	3.7	2.1
PAT margin	3.7	2.5	2.9	3.1	1.9
<b>Turnover ratios</b>					
Asset turnover ratio (x)	1.7	1.2	1.2	1.0	1.0
Avg. collection period (days)	40.7	38.4	41.5	41.8	41.9
Avg. payment period (days)	48.5	59.7	65.2	64.8	63.7
<b>Solvency ratios (x)</b>					
Debt-equity ratio	1.6	1.6	1.6	1.5	1.4
Interest coverage ratio	3.8	3.1	3.0	3.0	2.3

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2012	Sell	124	110
8 May 2012	Sell	118	111
25 May 2012	Sell	111	107
16 August 2012	Sell	120	103
7 November 2012	Sell	112	96
8 April 2013	Sell	90	75
14 August 2013	Sell	91	72
13 November 2013	Sell	111	84
14 February 2014	Sell	100	77
19 May 2014	Sell	141	100
18 August 2014	Sell	179	141
26 September 2014	Sell	156	124
14 November 2014	Accumulate	152	146

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

['Access our reports on Bloomberg Type NBIE <GO>'](#)

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830
Umesh Bharadia	Dealing Desk	umesh.bharadia@nirmalbang.com	+91-22-39268226

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 3926 8000/1  
 Fax. : 022 3926 8010