

Stable operating performance

CMP:	Rs.100
Target Price:	Rs.99
Recommendation:	Reduce

Stock Info

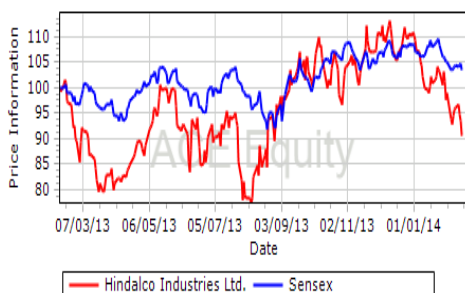
BSE Group	A
BSE Code	500440
NSE Symbol	HINDALCO
Bloomberg	HNDL.IN
Reuters	HALC.BO
BSE Sensex	20193
NSE Nifty	6001

Market Info

Market Capital	₹ 20689r
Equity Capital	₹ 207cr
Avg. Trading Vol	1069000
52 Wk High/ Low	127/83
Face Value	1

Shareholding Pattern (%) (Dec 2013)

Promoters	37.0
Domestic Institutions	13.3
Foreign Institutions	26.9
Others.	22.8



Date: 14-02-2014

Standalone operations:

Hindalco reported marginally higher numbers on better operating performance at its copper and aluminium divisions. Aluminium business reported marginal qoq drop in EBIT margins from 7.1% to 6.9%. This was primarily due to marginal qoq drop in LME prices and flat rupee. However, strong local premiums helped in arresting meaningful margin decline. Copper business, on the back of higher TC/RCs reported qoq improvement in EBIT margins from 6.0% to 6.2%. Overall standalone EBITDA margins thus rose 10bps qoq to 8.7%.

Production of both Alumina and Aluminium (ex-Mahan) improved qoq by 2.4% and 6% respectively to 342kts and 140kts. FRP production declined 2% qoq to 59.7kts. Trial runs at Mahan Aluminium and Utkal alumina going on well. Metal output from Mahan increased to 18.1kt, while Alumina output from Utkal was at 87kt. In case of copper, copper cathode production rose 15.6% qoq to 89kt, while DAP production rose 3.1%.

Novelis Inc:

Total Shipments improved 1.1% qoq to 721kts that was aided by higher auto shipments, higher production from Brazilian and Korean operations. However, shipments of Cans were lower due to weak demand from North American and European markets. Revenues were flat qoq at \$ 2.4bn. EBITDA declined qoq from \$219mn to \$183mn. Margins declined qoq from 9.0% to 7.6%. Decline in realisations and increased operating cost due to higher fixed costs related to expansions resulted in decline in margins. Management expects FY14 EBITDA to be in the range of \$900-925mn. Management expects ~110kt of incremental volumes in FY14 backed by capacity commissioning, strong automotive demand.

Valuations:

Novelis has been posting decent show quarter after quarter. Though company is expected to post strong volume growth post commissioning of ongoing expansion projects, weakness in Can demand from major markets may suppress overall volumes. In case of domestic operations, we expect earnings to come under pressure due to weak earning profile of new projects (*Mahan and Aditya Aluminium*). We have valued standalone operation and Novelis at FY15 EV/EBITDA(x) of 6.0 and ABML at 5.0x. We have valued investments at Rs 23 per share. Our SoTP value for Hindalco stands at Rs 99 per share and recommend reduce rating on the stock.

(Rs Cr)	FY13	FY14E	FY15E	FY16E
Net sales	80821	89955	100658	108282
EBITDA	7837	7285	9923	11154
PAT	3027	1784	2303	2713
EPS (Rs)	15.8	8.6	11.2	13.1
EPS Growth (%)	-11	-45	29	18
RoE (%)	8.7	4.5	5.5	6.2
P/E (x)	6	12	9	8
EV/EBITDA(x)	7.0	8.3	5.9	5.1



3QFY14 Results (Standalone)

Rs in Crore	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	7273	6872	5.8	6305	15.4
Expenditure	6644	6290	5.6	5765	15.2
EBITDA	629	582	8.1	540	16.6
EBITDA Margins (%)	8.7	8.5		8.6	
Other Income	204	318	-35.8	280	-27.0
Interest	165	169	-2.3	183	-9.8
Depreciation	200	188	6.1	196	1.8
Exceptional Items (Loss)	0	0		0	
PBT after exceptional items	469	543	-13.7	440	6.5
Tax	135	109	23.3	83	62.3
Tax rate (%)	29	20		19	
Net Profit	334	434	-23.0	357	-6.5
EPS (Rs)	1.6	2.1	-23.0	1.7	-6.5



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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