

Stable operating performance

CMP: Rs.179
Target Price: Rs.200
Recommendation: HOLD

Stock Info

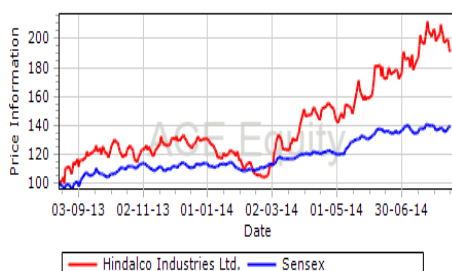
BSE Group	A
BSE Code	500440
NSE Symbol	HINDALCO
Bloomberg	HNDL.IN
Reuters	HALC.BO
BSE Sensex	26,103
NSE Nifty	7,792

Market Info

Market Capital	Rs 36,857cr
Equity Capital	Rs 206cr
Avg. Trading Vol	1,01,32,020
52 Wk High/ Low	199/91
Face Value	1

Shareholding Pattern (%) (June 2014)

Promoters	37.0
Domestic Institutions	14.1
Foreign Institutions	27.6
Others.	21.3



Date: 18-08-2014

Standalone operations:

Hindalco reported rise in its EBITDA margin to 9.4% from 8.2% on YoY basis largely due to decline in other expenses. Revenues increased by 37% on the back of higher premium (over LME prices) and higher volumes (new capacities becoming operational). LME prices for the quarter reduced from \$ 1834/t to \$1,798/t but the impact was more than offset by higher premium (\$ 367/t from \$ 247/t) and lower Rupee (59.35/\$ from 55.94). PAT decreased by 30.9% to Rs 328 crs largely due to increase in Interest outgo which was along the expected lines. Copper business, on the back of higher TC/RCS reported YoY improvement in EBIT margins to 6.3% from 2.2% (margins was lower due to planned shutdown). Copper cathode volumes increased to 96 kt from 68 kt on YoY basis. However, DAP production declined to 36 kt from 56 kt owing to annual and expansion related shutdown.

On comparable basis production of Alumina declined by 16.6% YoY to 291kt. Production suffered due to availability of bauxite at Renukoot plant. Aluminum (ex-Mahan) on comparable basis improved marginally by 0.6% YoY to 145kt. Total Alumina production (including Greenfield project) was 499kt whereas for Aluminum it was 190kt.

Novelis Inc:

Total Shipments improved 9.0% YoY to 770kt. Shipments increased across the regions. Shipments were up by 22% to South American markets, up 13% to Asian markets, up 4% to European markets and up 5% to North American markets. Revenues were up by 12% YoY at \$ 2.7bn. EBITDA increased 15% YoY to \$235mn. However, cash flow before capex remained negative \$39mn. Management expects share of Auto in product portfolio to increase to 17% in FY17 from 9% in FY14 due to light-weighting trend.

Valuations:

Novelis has been posting decent show quarter after quarter. Also domestic operations are performing well, with copper business expected to continue its robust performance and aluminum business poised for growth after completion of capex and start of production at new bauxite mine, Utkal alumina refinery and Aditya & Mahan smelter. We have valued Novelis at 6.0x FY16 EV/EBITDA and domestic operations at 5.0x FY16 EV/EBITDA. We have valued investments at Rs 23 per share (25% disc to book value). Our SoTP value for Hindalco stands at Rs 200 per share and recommend **HOLD** rating on the stock.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	80,193	87,695	1,05,828	1,15,274
EBITDA	7,837	8,286	11,025	12,853
EBITDA%	9.8	9.4	10.4	11.1
Reported PAT	3,027	2,175	2,913	3,354
Reported EPS	15.8	10.5	14.1	16.2
EPS Growth (%)	-10.9	-33.4	33.9	15.1
Adj RONW (%)	8.7	5.4	6.8	7.3
P/E (x)	11.3	16.9	12.7	11.0
EV/EBITDA (x)	9.0	9.0	6.7	5.6

Source: Company data, Arihant Research



Q1FY15 Results (Standalone)

Rs in Crore Std	Q1FY15	Q1FY14	YOY (%)	Q4FY14	QoQ (%)
Net Sales	7,996	5,838	37.0%	8,435	-5.2%
Expenditure	7,248	5,359	35.2%	7,591	-4.5%
EBITDA	748	478	56.4%	844	-11.3%
EBITDA Margins (%)	9.4%	8.2%		10.0%	
Other Income	216	428	-49.5%	212	1.8%
Interest	338	149	127.0%	215	57.3%
Depreciation	187	183	2.2%	244	-23.4%
Exceptional Items	-	-		(396)	
PBT after EI	440	575	-23.4%	202	117.9%
Tax	113	101	12.0%	(46)	-343.6%
Tax rate (%)	26%	17%		-23%	
Reported PAT	328	474	-30.9%	248	32.0%
Adj NPM	4%	8%		3%	

Source: Company data, Arihant Research

Profit & Loss Statement

Y/E March (Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	80,193	87,695	1,05,828	1,15,274
% chg	-0.8%	9.4%	20.7%	8.9%
Total Expenditure	72,356	79,409	94,803	1,02,422
% chg	-0.4%	9.7%	19.4%	8.0%
EBITDA	7,837	8,286	11,025	12,853
EBITDA Margin %	9.8%	9.4%	10.4%	11.1%
Other Income	1,012	1,017	1,108	1,289
Depreciation	2,822	3,553	4,049	4,540
EBIT	6027	5751	8084	9601
Interest	2,079	2,702	3,597	4,309
PBT before EI	3,909	3,049	4,487	5,292
Exceptional item	-	396	-	-
PBT	3,909	2,653	4,487	5,292
Tax	886	525	1,574	1,938
Reported PAT	3,027	2,175	2,913	3,354
% chg	-10.9%	-28.1%	33.9%	15.1%

Source: Company data, Arihant Research

Balance Sheet

As on 31st March (Rs. cr)	FY13	FY14E	FY15E	FY16E
LIABILITIES				
Share Capital	191	206	206	206
Reserves & Surplus	34,597	39,805	42,407	45,449
Shareholder's Fund	34,789	40,011	42,613	45,655
Non Current Liabilites	60,349	61,638	61,157	59,663
Current Liabilities	23,151	19,905	21,873	23,362
Total Liabilities	1,20,590	1,23,313	1,27,403	1,30,439
ASSETS				
Fixed Assets	37,925	37,754	49,778	50,778
Capital Works in progress	33,749	23,668	6,931	2,807
Non Current Investments	5,806	5,806	5,806	5,806
Long Term Loans and Advances	3,170	1,855	1,947	1,994
Current Assets	39,108	41,991	50,701	56,814
Total Assets	1,20,590	1,23,313	1,27,403	1,30,439



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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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