

Stable operating performance

14th Nov, 2014

CMP: Rs.157
Target Price: Rs.166
Recommendation: HOLD

Stock Info

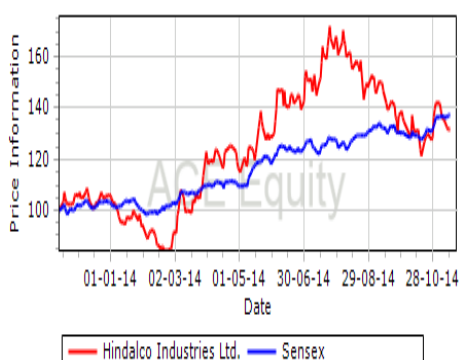
BSE Group	A
BSE Code	500440
NSE Symbol	HINDALCO
Bloomberg	HNDL.IN
Reuters	HALC.BO
BSE Sensex	28,047
NSE Nifty	8,390

Market Info

Market Capital	Rs 32,500cr
Equity Capital	Rs 206cr
Avg. Trading Vol	1,00,74,620
52 Wk High/ Low	199/97
Face Value	1

Shareholding Pattern (%) (Sep 2014)

Promoters	37.0
Domestic Institutions	11.8
Foreign Institutions	29.5
Others.	21.7



Standalone operations:

Hindalco reported rise in its EBITDA margin to 10.5% from 8.6% on YoY basis largely due to strong realisations. Revenues increased by 35.7% on the back of higher premium (over LME prices) and higher volumes (new capacities becoming operational). LME prices for Aluminium for the quarter increased to \$ 1,989 from \$ 1,781/t premium also increased to \$ 404/t from \$ 252/t. however, Rupee was lower (60.6/\$ from 62.25/\$). PAT however was lower by 77.9% on YoY basis at 79 crs largely due to exceptional item of Rs 431 crs. Exceptional items include 1) Rs 563 cr towards additional levy of Rs 295/ton on extracted coal. 2) Rs 258 crs towards provision in diminution in value of ABML. 3) Foreign exchange gain of Rs 361 crs. 4) Rs 29 crs on account of reversal of entry tax in the state of UP. Copper business, on the back of higher TC/RCs reported YoY improvement in EBIT margins to 7.9% from 6.0%. Copper cathode volumes increased to 96 KT from 77 KT on YoY basis, CCR volume increased to 37.6 KT from 35.7KT and DAP production increased to 74 KT from 65 KT.

Production of Alumina increased by 41% YoY to 531kt. Aluminium production increased by 34% YoY to 187kt. Higher production was on the back of ramping of capacities at Utkal, Mahan and Aditya smelter.

Novelis Inc:

Total Shipments improved 7.0% YoY to 765kt. Shipments increased across the regions. Shipments were up by 7% to South American markets, up 19% to Asian markets, up 4% to European markets and up 9% to North American markets. Revenues were up by 17% YoY at \$ 2.8bn. EBITDA increased 1% YoY to \$230mn. Cash flow before capex became positive and stood at \$18mn. Management expects share of Auto in product portfolio to increase to 17% in FY17 and 25% in FY20 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. Auction of de-allocated mines remain the key for the company. 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 166 per share and recommend **HOLD** rating on the stock.

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	80,193	87,695	1,10,321	1,18,623
EBITDA	7,837	8,286	10,353	11,927
EBITDA%	9.8	9.4	9.4	10.1
Reported PAT	3,027	2,175	2,450	2,659
Reported EPS	15.8	10.5	11.9	12.9
EPS Growth (%)	-10.9	-33.4	12.6	8.5
Adj RONW (%)	8.7	5.4	5.8	6.0
P/E (x)	10.0	14.9	13.3	12.2
EV/EBITDA (x)	8.5	8.5	6.7	5.7

Source: Company data, Arihant Research



Q2FY15 Results (Standalone)

Rs in Crore Std	Q2FY15	Q2FY14	YOY (%)	Q1FY15	QoQ (%)
Net Sales	8,554	6,305	35.7%	7,996	7.0%
Expenditure	7,657	5,765	32.8%	7,248	5.7%
EBITDA	897	540	66.2%	748	19.9%
EBITDA Margins (%)	10.5%	8.6%		9.4%	
Other Income	223	280	-20.2%	216	3.3%
Interest	386	183	110.6%	338	14.3%
Depreciation	196	196	-0.2%	187	4.8%
Exceptional Items	(431)	-		-	
PBT after EI	107	440	-75.6%	440	-75.6%
Tax	29	83	-65.6%	113	-74.6%
Tax rate (%)	27%	19%		26%	
Reported PAT	79	357	-77.9%	328	-75.9%
Adj NPM	0.9%	5.7%		4.1%	

Source: Company data, Arihant Research

Profit & Loss Statement

Y/E March (Rs Cr)	FY13	FY14	FY15E	FY16E
Net Sales	80,193	87,695	1,10,321	1,18,623
% chg	-0.8%	9.4%	25.8%	7.5%
Total Expenditure	72,356	79,409	99,968	1,06,696
% chg	-0.4%	9.7%	25.9%	6.7%
EBITDA	7,837	8,286	10,353	11,927
EBITDA Margin %	9.8%	9.4%	9.4%	10.1%
Other Income	1,012	1,017	1,137	1,325
Depreciation	2,822	3,553	4,049	4,540
EBIT	6027	5751	7441	8712
Interest	2,079	2,702	3,628	4,376
PBT before EI	3,909	3,049	3,813	4,336
Exceptional item	-	396	531	-
PBT	3,909	2,653	3,282	4,336
Tax	886	525	1,257	1,677
Reported PAT	3,027	2,175	2,025	2,659
% chg	-10.9%	-28.1%	-6.9%	31.3%

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	41,518	43,866
Shareholder's Fund	34,789	40,011	41,725	44,072
Non Current Liabilities	60,349	61,710	61,032	59,483
Current Liabilities	23,151	20,011	22,614	23,995
Total Liabilities	1,20,590	1,23,492	1,27,130	1,29,309
ASSETS				
Fixed Assets	37,925	37,788	49,778	50,778
Capital Works in progress	33,749	23,677	6,931	2,807
Non Current Investments	5,806	5,806	5,806	5,806
Long Term Loans and Advances	3,170	1,885	1,964	2,015
Current Assets	39,108	42,096	50,412	55,664
Total Assets	1,20,590	1,23,492	1,27,130	1,29,309



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Stock Rating Scale

	Absolute Return
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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