



## Strong operational performance!

31<sup>st</sup> May, 2016

<b>CMP:</b>	<b>Rs. 103</b>
<b>Target Price:</b>	<b>Rs. 117</b>
<b>Recommendation:</b>	<b>ACCUMULATE</b>

## Stock Info

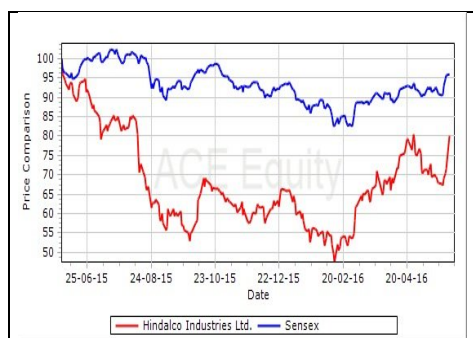
<b>BSE Group</b>	A
<b>BSE Code</b>	500440
<b>NSE Symbol</b>	HINDALCO
<b>Bloomberg</b>	HNDL.IN
<b>Reuters</b>	HALC.BO
<b>BSE Sensex</b>	26,629
<b>NSE Nifty</b>	8,150

## Market Info

<b>Market Capital</b>	Rs 21,248 cr
<b>Equity Capital</b>	Rs 207cr
<b>Avg. Trading Vol</b>	80,13,570
<b>52 Wk High/ Low</b>	130/59
<b>Face Value</b>	1

<b>Shareholding Pattern (%)</b>	<b>( Mar 2016)</b>
<b>Promoters</b>	37.7
<b>Domestic Institutions</b>	18.6
<b>Foreign Institutions</b>	20.3
<b>Others.</b>	23.4

## Price Vs Sensex Chart



## Standalone operations:

Revenues for the quarter were lower by 7.5 per cent as compared with the corresponding quarter of the previous financial year due to a sharp decline in aluminium and copper realisations. The average LME prices (USD) for aluminium and copper were lower by 16 per cent and 20 per cent respectively as compared with the previous year. In aluminium business the impact was much severe due to a sharp fall in the local market premium, which declined by around 75 per cent; and a sharp surge in imports of aluminium in the country.

However, a strong increase in aluminium volumes following the increased production and weaker Rupee enabled partially offset the impact of the drop in realisations. The lower cost of raw materials, especially energy inputs was a major relief during the quarter.

The YOY quarterly EBITDA at Rs.1,166 crore was higher by 5 per cent. This reflects a robust operational performance in the face of severe macro- economic headwinds. The PBT for the quarter (before exceptional items) at Rs.455 crore was 100 per cent higher than that in the corresponding quarter of the previous year due to strong operational gains. The net profit for Q4 FY16 at Rs.356 crore, was 123 per cent higher vis a vis Q4 FY15.

The copper segment continued to deliver a solid performance even as the production was lower. YoY cathode production for Q4 FY16 at 93 KT was lower by 7 per cent, while fertiliser (DAP) production declined by 36 per cent to 69 KT. The decline in copper cathode production was due to certain operational related issues in one of the smelters. These issues are being addressed through a planned maintenance shutdown. Yet on YoY basis, EBIT of copper segment was only marginally lower at Rs.377 crore.

## Novelis Inc:

Revenues decreased 11 per cent to \$9.9 billion in FY 2016, as higher shipments were more than offset by a 16 per cent decrease in average base aluminum prices and a 58 per cent decrease in local market premiums. For fiscal year 2016, the company recorded a net loss of \$38 million. Excluding tax effected special items; net income was \$131 million for the full year. The rapid decline in local market premiums over the early months of FY 2016 resulted in \$172 million in negative metal price lag for the full year, and was primarily responsible for the 12 per cent decrease in adjusted EBITDA to \$791 million in FY 2016. Excluding the impact of metal price lag in both years, adjusted EBITDA was \$963 million in FY 2016, up 7 per cent compared to \$896 million in FY 2015.

## UAIL :

The alumina refinery at UAIL produced 1.4 million tonne of alumina in FY16 compared to 1 mn tonne in FY15. Of this, 130 KT of alumina was sold outside and the balance was supplied to smelters at Hindalco. UAIL reported an EBITDA of Rs.714 crore. Its net loss stood at Rs.93 crore after accounting for interest charge of Rs.518 crore and depreciation of Rs.289 crore.

## Valuations:

We expect the company to do well going ahead on back of strong volume growth. However there has been little fall in prices but early to say that they have bottomed out. We have valued the company at 8.5 (x) FY17E EV/EBITDA and have arrived at fair price of Rs 117. We have "ACCUMULATE" rating on the stock. At current market price of Rs 103, the stock trades at EV/EBITDA & P/E Multiple of 8.2(x) & 25.5(x) its FY 17E.



Q4 FY16 Results (Standalone)

Rs in Crore Std	Q4FY16	Q4FY15	YOY (%)	Q3FY16	QoQ (%)
Net Sales	8,668	9,372	-7.5%	8,150	6.3%
Expenditure	7,501	8,524	-12.0%	7,479	0.3%
EBITDA	1,166	848	37.6%	672	73.7%
EBITDA Margins (%)	13.5%	9.0%		8.2%	
Other Income	204	230	-11.3%	250	-18.4%
Interest	575	466	23.2%	582	-1.3%
Depreciation	341	238	43.6%	308	10.8%
Exceptional Items	-	(146)		-	
PBT after EI	455	227	100.0%	31	1353.0%
Tax	98	68		(9)	
Tax rate (%)	22%	30%		-29%	
Reported PAT	356	160	123.4%	40	780.7%
Adj NPM	4.2%	1.7%		0.5%	

Financial Snapshot:

(Rs Cr)	FY14	FY15	FY16	FY17 E
Net Sales	87,695	1,04,281	1,00,054	1,08,648
EBITDA	8,286	8,945	8,724	10,168
EBITDA Margin %	9.4%	8.6%	8.7%	9.4%
PAT	2,175	854	263	833
EPS	10.5	4.1	1.3	4.0
RoE (%)	6	2	1	2.1
P/E (x)	13.5	31.2	69.0	25.5
EV/EBITDA (x)	11	10	10	8.2

Valuation:

	FY14	FY15	FY16	FY17 E
EV/EBITDA	11.0	9.9	9.6	8.5
EBITDA	8,286	8,945	8,724	10,168
EV	91,022	88,982	83,729	86,425
Cash/Bank	3,537	4,371	4,095	3,729
Debt	65,290	66,712	69,661	65,938
Market Cap	29,269	26,641	18,163	24,216
CMP				103.0
Target				117.3
Upside				13.9%



Profit & Loss Statement				
Y/E March (Rs Cr)	FY14	FY15	FY16	FY17 E
<b>Net Sales</b>	87,695	1,04,281	1,00,054	1,08,648
% chg	9%	19%	-4%	9%
<b>Total Expenditure</b>	79,409	95,337	91,330	98,480
<b>EBITDA</b>	8,286	8,945	8,724	10,168
EBITDA Margin %	9.4%	8.6%	8.7%	9.4%
Other Income	1,017	1,105	1,211	988
Depreciation	3,347	3,493	4,196	4,849
<b>EBIT</b>	5,957	6,556	5,739	6,307
Interest	2,702	4,178	5,047	5,233
<b>PBT before EI</b>	3,049	2,280	692	1,074
Exceptional item	396	1,940	171	-
<b>PBT</b>	2,653	340	521	1,074
Tax	525	256	515	215
Share in Associates	67	175	175	26
Minority Interest	20	(596)	(238)	52
<b>PAT</b>	2,175	854	263	833

Balance Sheet				
As on 31st March (Rs. cr)	FY14	FY15	FY16	FY17 E
<b>LIABILITIES</b>				
Share Capital	206	207	207	207
Reserves & Surplus	40,393	38,122	38,433	39,669
<b>Shareholder's Fund</b>	40,599	38,329	38,640	39,875
Non Current Liabilities	65,290	66,712	69,661	65,938
long term liabilities	53,944	55,386	58,176	54,777
Current Liabilities	31,505	37,143	32,056	35,297
<b>Total Liabilities</b>	1,39,181	1,43,139	1,40,968	1,42,870
<b>ASSETS</b>				
Fixed Assets	61,163	71,959	71,309	73,974
Capital Works in progress	22,882	13,914	13,985	13,106
Non Current Investments	6,270	5,726	6,558	5,051
Long Term Loans and Advances	2,456	2,369	1,522	2,902
Current Assets	44,266	47,252	45,435	46,128
<b>Total Assets</b>	1,39,181	1,43,139	1,40,968	1,42,870

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY14	FY15	FY16	FY17 E
<b>Operating Activities</b>				
PBT	2,653	340	521	1,074
Add Depreciation	3,347	3,493	4,196	4,849
Others	1,804	4,266	3,275	2,395
Total	7,804	8,100	7,992	8,318
Cash Taxes	(811)	(870)	(697)	(415)
Changes in Working Cap	962	(86)	(422)	(578)
<b>Cash Flow from Operations</b>	7,956	7,143	6,873	7,325
<b>Investing Activities</b>				
Change in investments	1,201	1,923	1,894	(1,124)
Capex	(9,316)	(5,716)	(4,308)	(5,169)
<b>Cash Flow from Investing</b>	(8,115)	(3,793)	(2,414)	(6,293)
<b>Financing Activities</b>				
Dividends + Taxes paid	(315)	(249)	(242)	(248)
Change in Non Curr Liab	1,807.4	(2,188.3)	(4,461.5)	(1,117.4)
<b>Cash Flow from Financing</b>	1,493	(2,437)	(4,703)	(1,365)
Opening Cash	2,184	3,537	4,371	4,095
Changes during year	1,334	913	(244)	(333)
translation	19	(80)	(32)	(33)
<b>Closing Cash</b>	3,537	4,371	4,095	3,729

Ratio Analysis				
	FY14	FY15	FY16	FY17 E
<b>Profitability</b>				
EBITDA Margin %	9.4	8.6	8.7	9.4
EBIT%	6.8	6.3	5.7	5.8
PAT%	2.5	0.8	0.3	0.8
<b>Du Pont ROE breakup</b>				
PAT/Sales	2.5	0.8	0.3	0.8
Sales / Avg Total Assets	0.7	0.7	0.7	0.8
Avg Total Assets / Avg Eqty	3.4	3.6	3.7	3.6
RoE (%)	5.8	2.2	0.7	2.1
<b>Other Ratios</b>				
Current Ratio	1.4	1.3	1.4	1.3
Debt / Equity	1.3	1.4	1.5	1.4
EPS	10.5	4.1	1.3	4.0
DPS	1.0	1.0	1.0	1.0
<b>Valuation ratios</b>				
P/E (x)	13.5	31.2	69.0	25.5
EV/EBITDA (x)	11.0	9.9	9.6	8.2
P/BV (x)	0.7	0.7	0.5	0.5
BVPS	196.6	185.6	187.1	193.1



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**Stock Rating Scale**

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

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