

November 20, 2015

Hindalco

Performance Highlights

Standalone (₹ cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%
Revenue	8,925	8,554	4.3	8,575	4.1
EBITDA	603	466	29.4	877	(31.3)
Margin (%)	6.8	5.4	131bp	10.2	(348)bp
Reported PAT	103	79	31.1	107	(3.7)

Source: Company, Angel Research

For 2QFY2016, Hindalco Industries (Hindalco)' standalone revenues came in 3% ahead of our expectations, but the EBITDA disappointed, coming in 16% below our estimate. Net sales increased 4.3% yoy to ₹8,841cr, vs our expectation of a 2.5% yoy decline, led by strong increase in aluminium volumes and higher credits from by-products in the copper division. The strong growth in volumes was diluted substantially by the sharp slide in commodity prices. Aluminum segment revenue increased 26% yoy whereas copper segment revenue declined 10% yoy. Copper volume growth also partially offset the decline in realizations.

Sharp jump in employee and other expenses resulted in the EBITDA margin coming in 180bp below our expectations at 6.8%. The EBITDA however increased 29% yoy to ₹603cr, led by lower than expected material costs. Depreciation and finance costs jumped sharply yoy and came in marginally ahead of our expectation. However, a sharp jump in other income on account of dividend received from subsidiaries and a one-off of ₹119cr, led the net profit to increase by 31% yoy to ₹103cr, well ahead of our expectation of ₹57cr.

Outlook and valuation: We expect aluminium prices to remain under pressure led by the huge oversupply situation and the Chinese slowdown. Pressure on realizations would continue to offset benefits from volume growth in the aluminium business. The stock is currently trading at EV/EBITDA of 8x on an FY2017E basis and the valuations are currently looking expensive. **We remain Neutral on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Revenue	80,193	87,695	1,04,281	1,08,125	1,15,206
% chg	(0.8)	9.4	18.9	3.7	6.5
Adj. net profit	2,751	2,202	(1,905)	1,132	1,827
% chg	(19.4)	(20.0)	(186.5)	(159.4)	61.4
Adj. EPS (₹)	14.4	10.7	(9.2)	5.5	8.8
OPM (%)	9.8	9.4	8.6	8.2	8.8
P/E (x)	5.0	7.4	19.0	14.3	8.9
P/BV (x)	0.4	0.4	0.4	0.4	0.4
RoE (%)	9.0	5.7	2.2	2.9	4.6
RoCE (%)	6.0	4.8	5.0	4.4	5.4
EV/Sales (x)	0.9	0.9	0.8	0.8	0.7
EV/EBITDA	8.7	9.2	8.9	9.3	8.0

Source: Company, Angel Research; Note: CMP as of November 19, 2015

NEUTRAL

CMP	₹78
Target Price	-

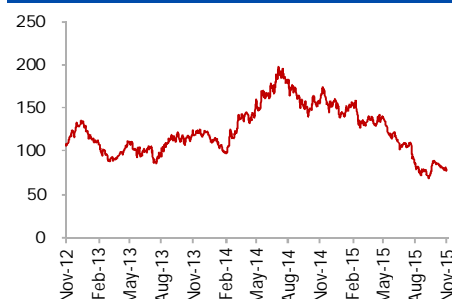
Investment Period	-
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Stock Info	
Sector	Metals/Mining
Market Cap (₹ cr)	16,210
Net Debt (₹ cr)	21,959
Beta	1.3
52 Week High / Low	176/68
Avg. Daily Volume	96,20,715
Face Value (₹)	1
BSE Sensex	25,842
Nifty	7,843
Reuters Code	HALC.BO
Bloomberg Code	HNDL IN

Shareholding Pattern (%)	
Promoters	37.0
MF / Banks / Indian FIs	18.0
FII / NRIs / OCBs	21.5
Indian Public / Others	23.6

Abs. (%)	3m	1yr	3yr
Sensex	(7.5)	(7.8)	40.9
Hindalco	(9.0)	(49.3)	(27.2)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 2QFY2016 performance (Standalone)

(` cr)	2QFY16	2QFY15	yoy%	1QFY16	qoq%	1HFY15	1HFY14	yoy%
Net Sales	8,841	8,473	4.3	8,517	3.8	17,358	16,403	5.8
Other operating income	84	81	2.9	58	44.4	142	147	(3.6)
Revenue	8,925	8,554	4.3	8,575	4.1	17,500	16,550	5.7
Raw material	5,301	5,309	(0.2)	4,889	8.4	10,190	10,456	(2.5)
% of net sales	59.4	62.1		57		58.2	63.2	
Employee Cost	446	397	12.4	380	17.3	827	745	10.9
% of net sales	5.0	4.6		4		4.7	4.5	
Other expenditure	2,574	2,382	8.1	2,428	6.0	5,003	4,135	21.0
% of net sales	28.8	27.8		28		28.6	25.0	
Total expenditure	8,322	8,089	2.9	7,698	8.1	16,020	15,336	4.5
% of net sales	93.2	94.6		90		91.5	92.7	
EBITDA	603	466	29.4	877	(31.3)	1,480	1,214	21.9
Margin (%)	6.8	5.4		10		8.5	7.3	112bp
Interest	616	386	59.7	602	2.4	1,218	723	68.3
Depreciation	296	196	50.9	332	(10.9)	628	383	63.9
Other income	418	223	86.9	194	114.8	612	440	39.2
Exceptional items	0	0		0		0	0	
Profit before tax	109	107	1.1	138	(21.4)	247	547	14.7
% of net sales	1.2	1.3		2		1.4	3.3	
Tax	5	29	(81.4)	31	(82.8)	36	141	(74.4)
% of PBT	4.9	26.6		22		14.7	25.8	
Adj. PAT	103	79	31.1	107	(3.7)	210	406	(48.2)

Source: Company, Angel Research

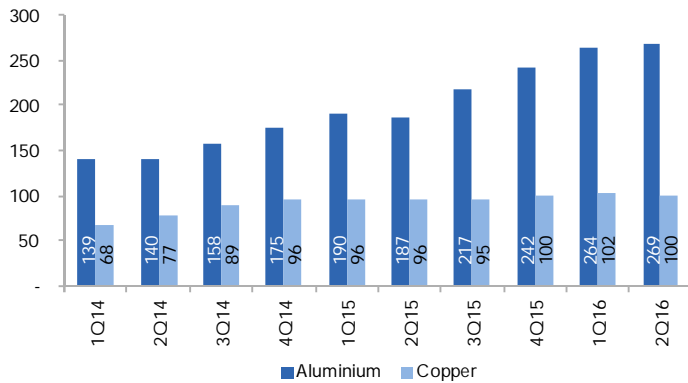
Exhibit 2: 2QFY2016 Actual vs. estimates

(` cr)	Actual	Estimates	Variation (%)
Revenue	8,841	8,336	3.1
EBITDA	603	720	(16.3)
EBITDA margin (%)	6.8	8.6	(180bp)
Net profit	103	57	82.4

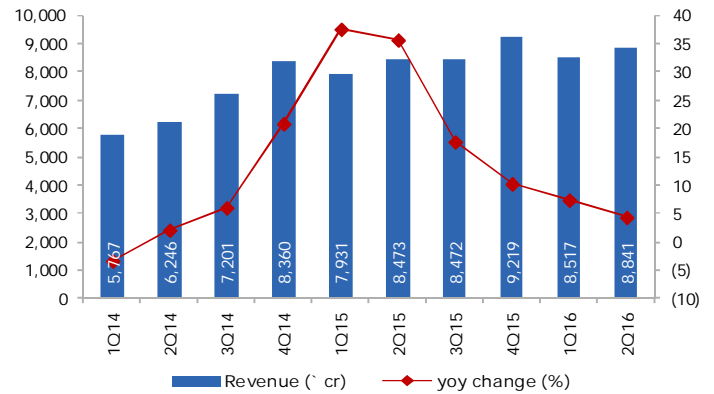
Source: Company, Angel Research

Result highlights
Revenue and EBITDA below our estimate

For 2QFY2016, Hindalco Industries (Hindalco)' standalone revenues came in 3% ahead of our expectations, but the EBITDA disappointed, coming in 16% below our estimate. Net sales increased 4.3% yoy to `8,841cr, vs our expectation of a 2.5% yoy decline, led by strong increase in aluminium volumes and higher credits from by-products in the copper division. The strong growth in volumes was diluted substantially by the sharp slide in commodity prices. Aluminum segment revenue increased 26% yoy whereas copper segment revenue declined 10% yoy. Copper volume growth also partially offset the decline in realizations.

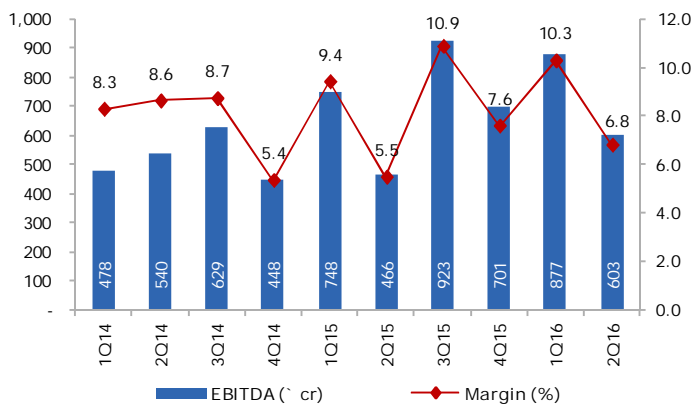
Exhibit 3: Production volumes (kt)


Source: Company, Angel Research

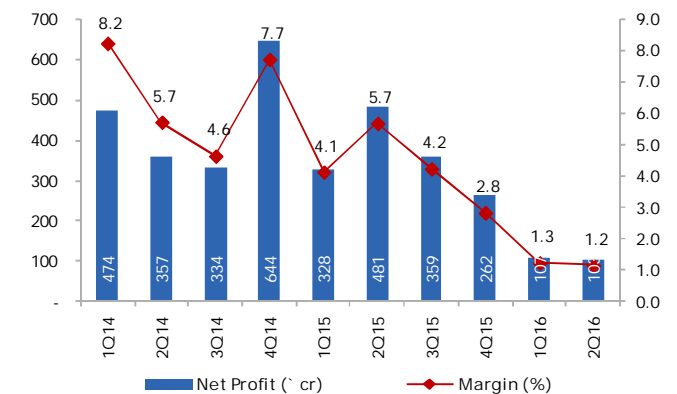
Exhibit 4: Sales growth continues to decline


Source: Company, Angel Research

Sharp jump in employee and other expenses resulted in the EBITDA margin coming in 180bp below our expectations at 6.8%. The EBITDA however increased 29% yoy to ₹603cr, led by lower than expected material costs. Depreciation and finance costs jumped sharply yoy and came in marginally ahead of our expectation. However, a sharp jump in other income on account of dividend received from subsidiaries and a one-off of ₹119cr, led the net profit to increase by 31% yoy to ₹103cr, well ahead of our expectation of ₹57cr.

Exhibit 5: EBITDA margin dips sequentially


Source: Company, Angel Research

Exhibit 6: Net profit margin near its recent lows


Source: Company, Angel Research

Novelis recorded a strong growth in rolled shipments in 2QFY2016 to 788kt led by a ramp-up in auto sheets. The Management indicated that demand continues to remain strong. EBITDA/tonne increased sharply to \$302, an increase of 3% yoy and 9% qoq.

Exhibit 7: Quarterly Performance Trend – Novelis

	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16
Rolled Shipments (kt)	713	721	753	770	765	757	758	768	788
EBITDA/Tonne (\$)	315	290	305	308	293	304	283	276	302

Source: Company, Angel Research

Investment arguments

Aluminium prices to remain under pressure

Aluminium and Copper prices have continued to slide over the last year led by a meltdown in overall commodity prices. As per the Management, while the aluminium market continues to increase at 4-5%, over-supply issues led by slowdown in Chinese demand continue to affect prices. With strong supply growth in China, global aluminum market is likely to be in a large surplus of over a million ton in the coming quarters. The Management believes that ~25% of global capacity is incurring cash losses at current realizations and the supply side has not adjusted to the global turmoil. Led by the oversupply and slow closure of smelters, we expect aluminium prices to continue to remain weak.

Novelis business remains stable

Novelis continues to see a steady ramp-up in shipments, led by its focus on the auto segment. The strategy of focusing on reducing weights of automobiles/cars has paid strong dividends to Novelis. The auto segment end user demand witnessed a 59% yoy growth for the quarter. We expect Novelis' volumes to continue to remain stable led by this focus. The recent expansion at Novelis is also progressing well, which is resulting in higher volumes. The company is also focusing on inventory rationalization which should help reduce working capital significantly and drive free cash flows for the company.

Outlook and valuation

We expect aluminium prices to remain under pressure led by the huge oversupply situation and the Chinese slowdown. Pressure on realizations would continue to offset benefits from volume growth in the aluminium business. The stock is currently trading at EV/EBITDA of 8x on an FY2017E basis and the valuations currently look expensive. **We remain Neutral on the stock.**

Company background

Hindalco Industries is an integrated player in the non-ferrous space with operations comprising bauxite mining, alumina refining and aluminum smelting to downstream rolling, extrusions, foils, along with captive power plants and coal mines. The company operates in two segments: Aluminium and Copper. The Aluminium segment consists of hydrate and alumina, aluminium and aluminium products. The Copper segment consists of continuous cast copper rods, copper cathode, sulphuric acid, DAP and complexes, gold, and silver. The company's projects include Greenfield as well as Brownfield projects. Its Greenfield expansion projects include Mahan Aluminum Project, Aditya Alumina and Aluminum Project, Utkal Alumina Project and Jharkhand Aluminum Project. Its Brownfield projects include primary metal and Alumina capacity.

Profit & Loss Statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	80,193	87,695	1,04,281	1,08,125	1,15,206
% chg	(0.8)	9.4	18.9	3.7	6.5
Total Expenditure	72,356	79,409	95,336	99,292	1,05,019
Raw Materials	48,545	53,388	64,932	67,325	71,734
Power & Fuel Cost	5,251	6,725	8,464	8,776	9,351
Employee Cost	6,526	6,745	7,906	8,197	8,734
Other Expenses	12,034	12,552	14,035	14,994	15,200
EBITDA	7,837	8,286	8,945	8,832	10,187
% chg	(4.3)	5.7	7.9	(1.3)	15.3
(% of Net Sales)	9.8	9.4	8.6	8.2	8.8
Depreciation & Amortisation	2,861	3,553	3,591	4,021	4,142
EBIT	4,976	4,733	5,354	4,811	6,045
% chg	(6.5)	(4.9)	13.1	(10.1)	25.7
(% of Net Sales)	6.2	5.4	5.1	4.4	5.2
Interest & other Charges	2,079	2,702	4,178	4,387	4,563
Other Income	1,012	1,017	1,105	1,050	1,060
Exceptional items	0	(396)	(1,940)	0	0
Profit before tax	3,909	2,653	340	1,473	2,542
% chg	(10.0)	(32.1)	(87.2)	333.0	72.6
Tax Expense	886	525	256	516	890
(% of PBT)	22.7	19.8	75.4	35.0	35.0
Recurring PAT	3,023	2,128	84	958	1,652
Minority Interest	(20)	20	(596)	0	0
Share of associates	15.8	(66.8)	(174.7)	(174.7)	(174.7)
Reported PAT	3,027	2,175	854	1,132	1,827
Adjusted PAT	2,751	2,202	(1,905)	1,132	1,827
% chg	(19.4)	(20.0)	(186.5)	(159.4)	61.4
(% of Net Sales)	3.4	2.5	(1.8)	1.0	1.6

Balance Sheet (Consolidated)

Y/E March (Cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	191	206	207	207	207
Reserves & Surplus	35,139	40,398	38,122	38,831	40,234
Shareholders Funds	35,330	40,605	38,329	39,037	40,441
Minority Interest	1,759	1,781	956	956	956
Total Loans	56,951	64,756	68,468	71,468	71,468
Deferred Tax Liability	3,468	3,175	2,555	2,761	3,117
Other Long term liabilities	7,024	6,972	7,377	7,746	8,133
Total Liabilities	1,04,533	1,17,288	1,17,685	1,21,969	1,24,115
APPLICATION OF FUNDS					
Gross Block	60,054	87,914	1,01,940	1,07,037	1,09,178
Less: Acc. Depreciation	22,126	26,750	29,982	34,003	38,145
Net Block	37,929	61,163	71,959	73,034	71,033
Capital Work-in-Progress	33,834	23,059	14,111	14,817	14,965
Goodwill	0	0	0	0	0
Investments	12,601	12,961	12,346	12,768	13,198
Current Assets	32,307	37,575	40,632	43,748	47,003
Cash	3,775	5,021	5,309	5,522	5,752
Inventories	14,332	16,694	18,451	19,190	20,968
Debtor	8,952	9,235	9,186	10,927	11,642
Other	5,247	6,625	7,685	8,109	8,640
Current liabilities	16,057	20,694	24,061	25,231	25,057
Net Current Assets	16,250	16,881	16,571	18,517	21,945
Other Assets	3,919.5	3,223.2	2,697.7	2,832.6	2,974.2
Total Assets	1,04,533	1,17,288	1,17,685	1,21,969	1,24,115

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	3,909	2,653	340	1,473	2,542
Depreciation	2,813	3,322	3,459	4,021	4,142
Change in Working Capital	(3,874)	962	(86)	(1,733)	(3,199)
Others	1,477	1,977	4,558	409	420
Direct taxes paid	(1,348)	(959)	(1,128)	(309)	(534)
Cash Flow from Operations	2,977	7,956	7,143	3,861	3,372
(Inc.)/ Dec. in Fixed Assets	(11,871)	(9,424)	(5,978)	(5,803)	(2,289)
(Inc.)/ Dec. in Investments	(1,562)	532	1,051	(596)	(605)
Others	657	689	508		
Cash Flow from Investing	(12,776)	(8,202)	(4,418)	(6,399)	(2,894)
Issue of Equity	8	1,630	5	-	-
Inc./(Dec.) in loans	14,336	4,869	2,832	3,000	-
Dividend Paid (Incl. Tax)	(398)	(315)	(249)	(249)	(249)
Others	(3,668)	(4,691)	(5,025)		
Cash Flow from Financing	10,278	1,493	(2,437)	2,751	(249)
Inc./(Dec.) in Cash	479	1,246	288	213	229
Opening Cash balances	3,296	3,775	5,021	5,309	5,522
Closing Cash balances	3,775	5,021	5,309	5,522	5,752

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Per Share Data (₹)					
Reported EPS	15.8	10.5	4.1	5.5	8.8
Adjusted EPS	14.4	10.7	(9.2)	5.5	8.8
Cash EPS	30.7	27.7	21.5	25.0	28.9
DPS	1.6	1.0	1.0	1.0	1.0
Book Value	184.5	196.7	185.6	189.0	195.8
Valuation Ratio (x)					
P/E (on FDEPS)	5.0	7.4	19.0	14.3	8.9
P/CEPS	2.5	2.8	3.6	3.1	2.7
P/BV	0.4	0.4	0.4	0.4	0.4
Dividend yield (%)	2.0	1.3	1.3	1.3	1.3
EV/Sales	0.9	0.9	0.8	0.8	0.7
EV/EBITDA	8.7	9.2	8.9	9.3	8.0
EV/Total Assets	0.7	0.6	0.7	0.7	0.7
Returns (%)					
ROCE	6.0	4.8	5.0	4.4	5.4
ROE	9.0	5.7	2.2	2.9	4.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.4	1.2	1.1	1.0	1.1
Inventory (days)	62.8	64.6	61.5	63.5	63.6
Receivables (days)	38.6	37.8	32.2	33.9	35.8
Payables (days)	73.9	76.5	78.3	83.2	79.7
WC cycle (ex-cash) (days)	47.6	50.6	40.5	40.9	46.2
Solvency ratios (x)					
Net debt to equity	1.5	1.5	1.6	1.7	1.6
Net debt to EBITDA	0.9	0.9	0.9	0.9	0.9
Interest Coverage (EBIT / Interest)	2.4	1.8	1.3	1.1	1.3

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Disclosure of Interest Statement	Hindalco
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)