Hindalco Industries Ltd.

May 19th, 2015

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Hindalco Industries Ltd (Hindalco) is the metal flagship company of Aditya Birla group. Founded in 1958, the company is an industry leader in aluminium and copper business. Being known as the world's largest aluminium rolling company, Hindalco is also amongst Asia's biggest producers of primary aluminium. With the acquisition of US (Atlanta) based firm, Novelis Inc. in 2007, Hindalco has been able to position itself among the top five aluminium majors worldwide and the largest vertically integrated aluminium company in India. Hindalco has its footprints in 11 countries and its aluminium metal is accepted for delivery under the High Grade Aluminium Contract on the London Metal Exchange (LME). The company's copper quality standards are also internationally recognised and registered on the LME with Grade A accreditation.

Key Developments

Healthy numbers in Q3FY15

Supported by higher volumes and realisations from the aluminium business, Hindalco showcased a healthy performance in Q3FY15. The company recorded a growth of 18.3% YoY in its standalone total revenue at ₹86,030.3 mnled by volume growth of 37.3% YoY in aluminium. Higher production at its greenfield projects - Mahan, Aditya and Utkal boosted volumes, during the quarter. Net profit, on the other hand grew by 7.6% YoY to ₹3,593.6 mn as massive rise in interest cost by 170.9% YoY weighed on the bottom-line growth.

EBITDA margin expanded 210bps YoY in Q3FY15

As per the company's statement, Hindalco registered a decent growth in EBITDA margin in Q3FY15 led by higher LME aluminium prices and favourable premiums. The company witnessed a 210bps YoY expansion in margin to 10.7% in Q3FY15 as compared to 8.6% in the year-ago period. Growth in EBITDA margin was further aided by a considerable decline in raw material cost (as a percentage of total revenue) by 1,440bps YoY to 58.8% in Q3FY15 as against 73.2% in the corresponding period a year earlier.

Won three coal blocks in e-auction

Hindalco won three coal blocks, namely, Kathautia, Gare Palma IV/5 and Gare Palma IV/4in the recently held e-auction. All of the company's coal mines had been de-allocated following the cancellation of 214 coal mines by the Supreme Court. Earlier, Hindalco had Talabira-I block, Talabira-II and Mahan coal block. Besides, the company also lost some of its bauxite mines after another Supreme Court order limited lease extensions without license renewals.

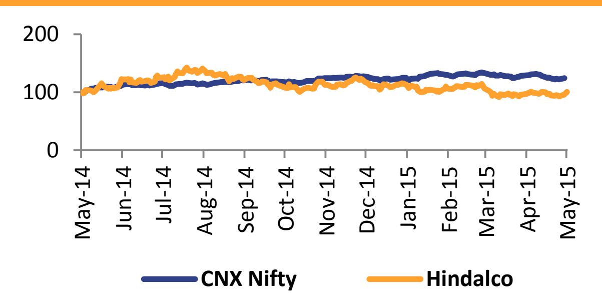
Market Data

CMP (₹)	**140.0**
Face Value	1.0
52 week H/L (₹)	198.9/123.1
Adj. all time High (₹)	198.9
Decline from 52WH (%)	29.6
Rise from 52WL (%)	13.7
Beta	1.3
Mkt. Cap (₹bn)	289.1
Enterprise Value (₹bn)	890.1

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14A
Revenue (₹bn)	808.2	801.9	877.0
EBITDA (₹bn)	79.7	78.0	80.8
Adj. Net Profit (₹bn)	34.0	30.3	25.7
Adj. EPS (₹)	17.7	15.8	12.5
Adj. P/E (x)	7.9	8.9	11.2
P/BV (x)	0.8	0.8	0.7
EV/EBITDA (x)	8.6	10.7	11.0
ROCE (%)	7.5	6.1	5.4
ROE (%)	10.6	8.6	6.3

One year Price Chart



Shareholding	Mar15	Dec14	Diff.
Promoters	37.0	37.0	-
DII	27.8	28.9	(1.1)
FII	13.6	12.7	0.9
Others	21.6	21.4	0.2

The Aditya Birla Group’s metal flagship company, Hindalco, is the world's largest aluminium rolling company and is one of the biggest producers of primary aluminium in Asia.

Hindalco’s aluminium metal is accepted for delivery under the High Grade Aluminium Contract on the London Metal Exchange (LME).

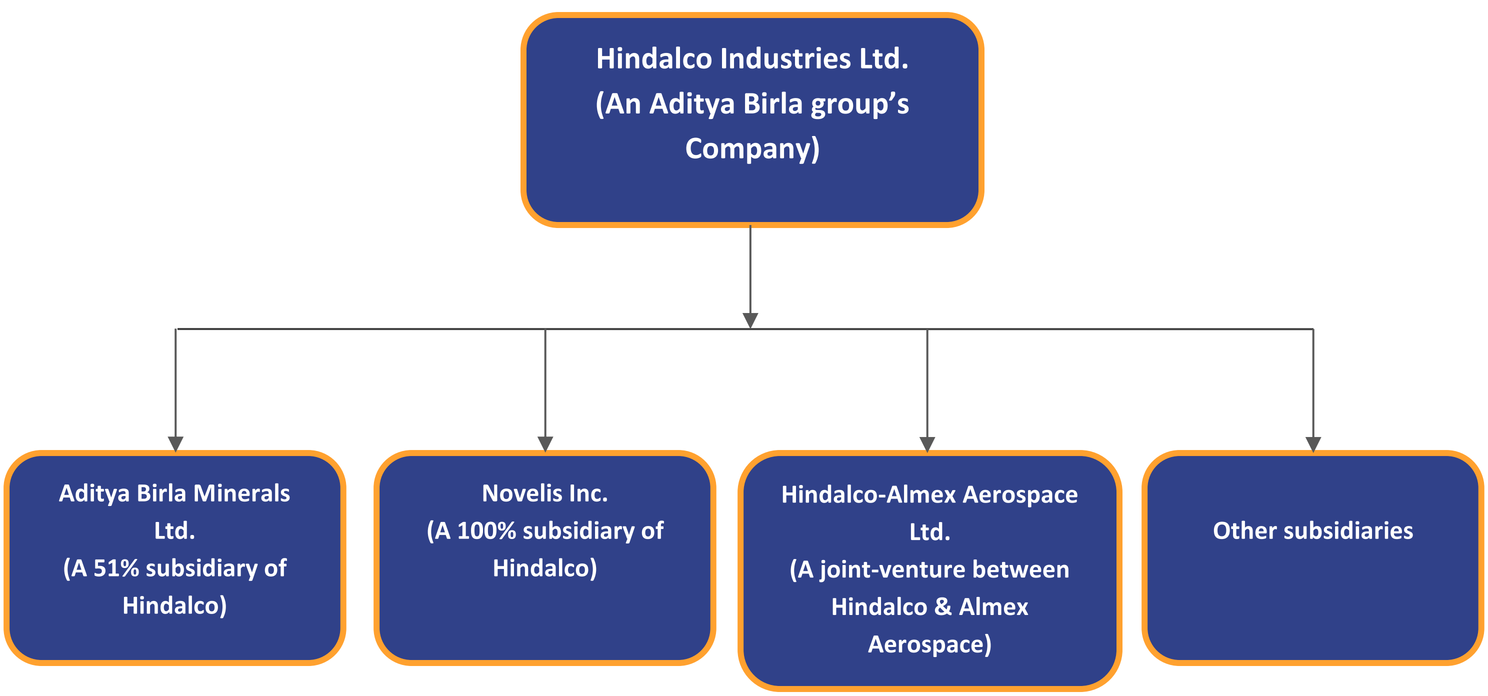
Business Overview

Hindalco, an industry leader in aluminium and copper, was established in 1958. The Aditya Birla Group’s metal flagship company, Hindalco, is the world's largest aluminium rolling company and is one of the biggest producers of primary aluminium in Asia. Its copper smelter is amongst the largest single location custom smelter globally. The acquisition of Atlanta based Novelis Inc. in 2007 has positioned the company among the top five aluminium majors worldwide and the largest vertically integrated aluminium company in India.

Hindalco’s major products include standard and speciality grade alumina and hydrates, aluminium ingots, billets, wire rods, flat rolled products (FRP), extrusions and foil. The company's aluminium units across the globe encompass the entire range of operations, from bauxite mining, alumina refining and aluminium smelting to downstream rolling, extrusions, foils, along with captive power plants and coal mines. Itscopper unit produces copper cathodes, continuous cast copper rods and other by-products, such as gold, silver and diammonium phosphate (DAP) fertilisers.

Hindalco’s aluminium metal is accepted for delivery under the High Grade Aluminium Contract on the London Metal Exchange (LME). Their copper quality standards are also internationally recognised and registered on the LME with Grade A accreditation. Internationally, the company has operations in 11 countries.

Hindalco: corporate snapshot

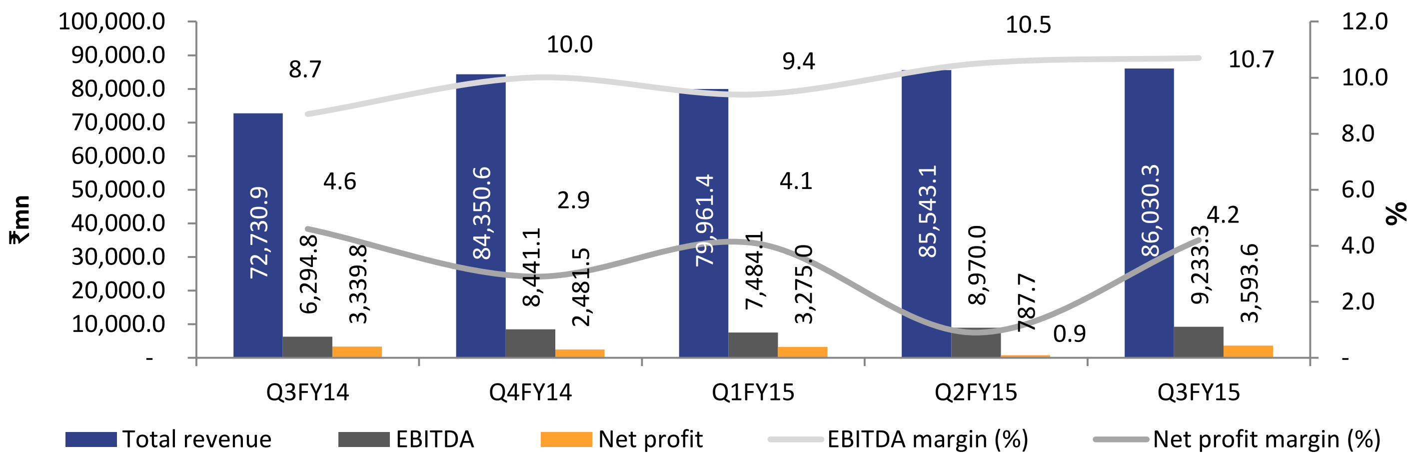


Recorded a growth of 18.3% YoY in its standalone total revenue at ₹86,030.3 mn in Q3FY15, supported by volume growth of 37.0% in aluminium.

Showcased a decent performance in Q3FY15

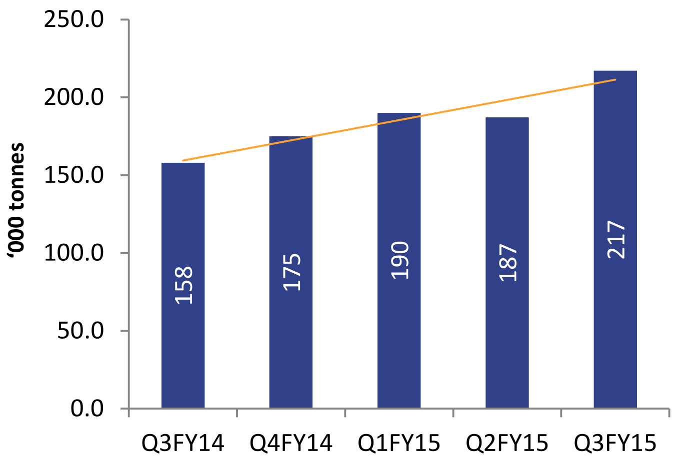
Logged 18.3% YoY growth in revenue led by healthy performance from aluminium business: The company recorded a growth of 18.3% YoY in its standalone total revenue at ₹86,030.3 mn in Q3FY15 as against ₹72,730.9 mn in the corresponding period a year ago, supported by volume growth of 37.3% in aluminium. Volume growth in aluminium business was primarily led by the ramp-up of production at Greenfield projects - Mahan, Aditya and Utkal.

Higher volumes and realisations from aluminium business triggered ~18% rise in total revenue in Q3FY15

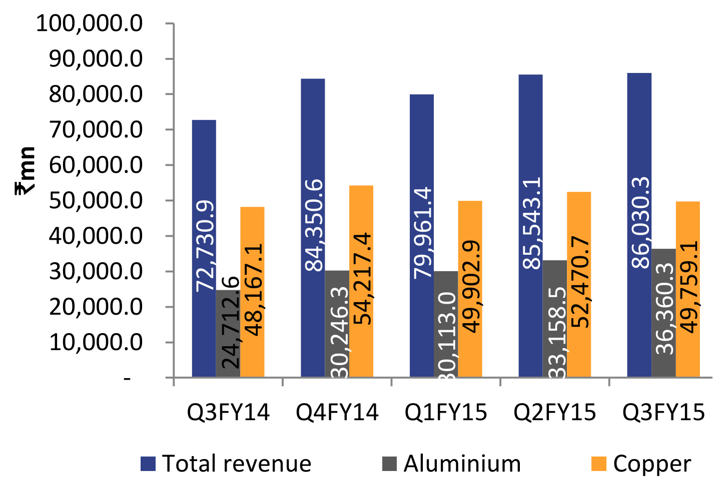


During the quarter, the aluminum business (contributed ~42% to total revenue)posted a revenue growth of 47.1% YoY to ₹36,360.3 mn compared to ₹24,712.6 mn in Q3FY14. The copper business, on the other hand (accounted for ~58% of the total revenue), reported a revenue growth of merely 3.3% YoY in Q3FY15 to ₹49,759.1 mn from ₹48,167.1 mn in Q3FY14.

Aluminium's volume growth stayed robust in Q3FY15- higher by ~37% YoY & ~16% QoQ



Copper business remained the major contributor to total revenue in Q3FY15 with ~58% share



** Total income is inclusive of inter-segment revenue*

Weighed by higher interest cost, Hindalco's net profit recorded a growth of 7.6% YoY to ₹3,593.6 mn in Q3FY15.

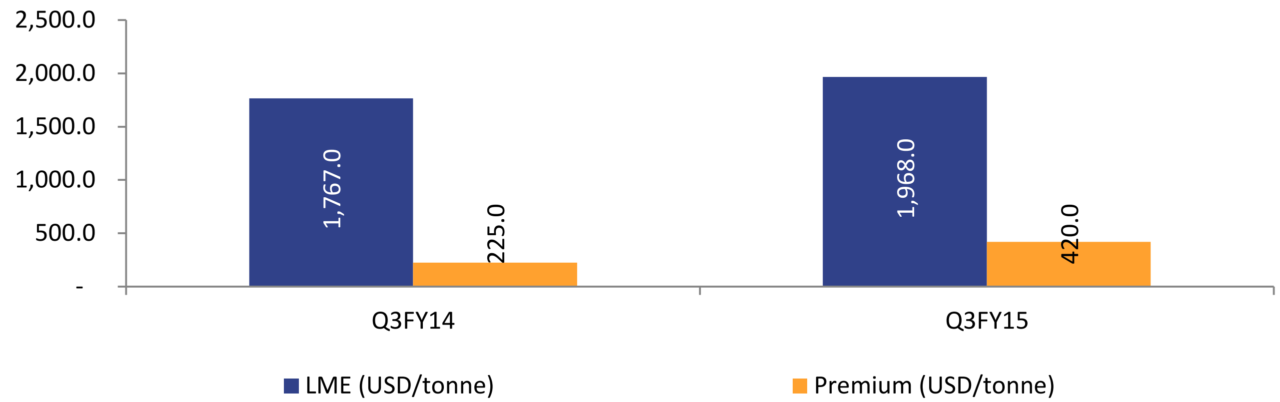
High financial cost - a drag on profitability: Notwithstanding, the robust growth in EBITDA, (up by ~47% YoY), the company witnessed a slower growth in its net profit by 7.6% YoY in Q3FY15 to ₹3,593.6 mn from ₹3,339.8 mn in Q3FY14, as a triple digit increase in interest cost by 170.9% YoY to ₹4,474.7 mn weighed on the bottom-line growth.

While LME spot prices averaged roughly USD 1,767/tonne in Q3FY14; these prices averaged ~USD 1,968/tonne in Q3FY15.

Healthy LME price and premiums continued to support margins

Hindalco reported healthy margin growth in Q3FY15 supported by higher LME aluminum prices and favorable premiums. While LME spot prices averaged roughly USD 1,767/tonne in Q3FY14; these prices averaged ~USD 1,968/tonne in Q3FY15. The impact of healthy LME prices was further augmented by rise in spot premiums. Spot premiums continued to increase from USD 225/tonne in Q3FY14 to USD 420/tonne in Q3FY15. During the quarter under review, Hindalco witnessed a 210bps YoY expansion in EBITDA margin at 10.7% as against 8.6% in Q3FY14. The margin expansion was also supported by a huge decline in raw material cost (as a percentage of total revenue) by 1,440bps YoY to 58.8% in Q3FY15 from 73.2% in the year-ago period.

LME and premium trend



During Q3FY15, while copper EBIT margin grew by 173bps YoY, aluminium EBITA margin reported a whopping 371bps YoY increase.

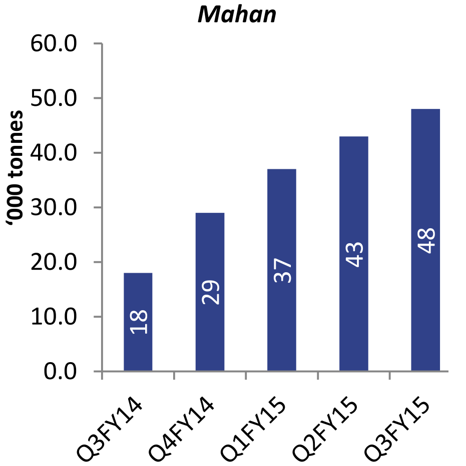
Separately, copper business continued to outperform with healthy EBIT margin, astreatment and refining charges(TcRc margins) continued to strengthen. The copper EBIT grew by 32.0% YoY to ₹3,960.0 mn in Q3FY15 with an expansion in EBIT margin by 173bps YoY to 8.0%. Aluminium business' EBIT, on the other hand, was higher by 126.5% at ₹3,850 mn with EBIT margin increasing by 371bps YoY on higher realisations and ramp-up in greenfield projects.

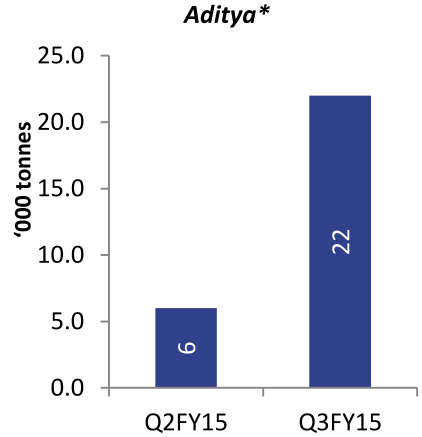
In Q3FY15, the Mahan, Utkal Alumina and Aditya Aluminium smelters produced 48,000 tonnes, 274,400 tonnes, and 22,000 tonnes, respectively.

Completed three major Greenfield projects

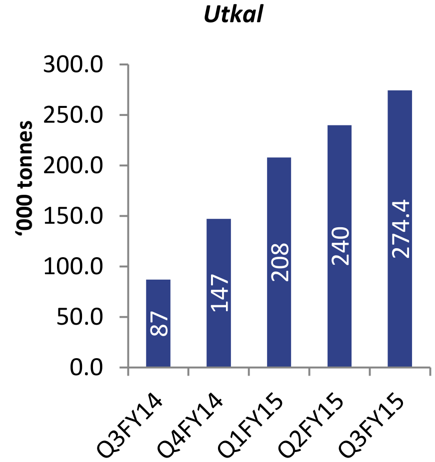
Hindalco has delivered three greenfield projects namely, the Mahan Aluminium and Utkal Alumina and Aditya Aluminium, during FY14. In Q3FY15, the Mahan, Utkal Alumina and Aditya Aluminium smelters produced 48,000 tonnes, 274,400 tonnes, and 22,000 tonnes, respectively.

Production details of greenfield projects





*Started contributing from Q2FY15



Novelis: Shifting portfolio to premium products (Auto & Speciality)

Novelis, a 100% subsidiary of the company acquired in 2007, has been a consistent contributor to the company's profitability.

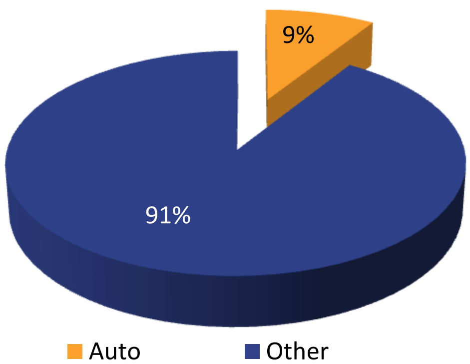
Novelis, a 100% subsidiary of Hindalco acquired in 2007, has been a consistent contributor to the company's profitability. Revenue from Novelis, during Q3FY15 grew by 18% to USD 2.8 bn (compared to USD 2.4 bn in the year-ago period), driven by 5% increase in shipments of rolled aluminium products to 757 kilo tonnes (kt) for the third quarter of the fiscal, compared to 721 kt in the prior year period. All four regions, where Novelis operates i.e. South America, Asia, Europe and North America, reported an increase in shipments year-on-year. Higher metal prices also contributed to the increase in revenue.

Novelis reported a triple digit rise in net profit to USD 46 mn in Q3FY15 as against USD 13 mn in the year-ago period.

During Q3FY15, the overseas subsidiary reported an adj. EBITDA of USD 236 mn, up 16% YoY, compared to USD 203 mn in the same period a year ago. This was as a result of its strategy to adopt a new business model wherein, Novelis has shifted its portfolio to more premium products in high-growth markets and has advanced its recycling operations. The company also achieved its mid-decade goal of having 50% recycled content in its products in Q3FY15. Finally, Novelis reported a triple digit rise in net profit to USD 46 mn in Q3FY15 as against USD 13 mn in the year-ago period.

Evolution of auto segment in Novelis' portfolio

Auto as a % of total FRP shipments, as in FY14



Secured three coal blocks in the recently held e-auction

In a bid to win coal blocks in the recently held e-auction, Hindalco bid aggressively. The company managed to win three blocks, namely, Kathautia, Gare Palma IV/5 and Gare Palma IV/4. These blocks together have a cumulative annual production capacity of 2.8 mn tonnes per annum (MTPA).

Hindalco's all coal mines have been de-allocated after the Supreme Court cancelled the allocation of 214 coal mines, terming the allocation process between 1993 and 2010 as arbitrary and illegal.

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Balance Sheet (Consolidated)

₹mn	FY12A	FY13A	FY14A
Share Capital	1,914.8	1,914.8	2,064.8
Reserve and surplus	311,785.3	345,974.5	403,927.5
Money received against share warrants	5,413.1	5,413.1	-
Share capital money pending allotment	-	-	56.0
Net Worth	**319,113.2**	**353,302.4**	**406,048.3**
Minority Interest	17,090.5	17,592.7	17,805.3
Total debt	408,585.5	562,992.9	633,483.5
Provisions	66,658.3	73,085.1	75,521.8
Deferred tax liability	36,050.1	34,676.8	31,888.7
Other non-current liabilities	14,600.3	13,336.2	11,583.0
Other current liabilities	151,924.5	150,913.8	203,626.4
Total Equity & Liabilities	**1,014,022.4**	**1,205,899.9**	**1,379,957.0**
Fixed assets	580,983.7	717,626.6	842,227.3
Investments	105,510.2	126,009.7	129,610.8
Loans& advances	59,323.4	64,169.2	69,945.0
Deferred tax asset	-	-	138.7
Other non-current assets	8,216.1	7,493.7	7,668.2
Other current assets	259,989.0	290,600.7	330,367.0
Total assets	**1,014,022.4**	**1,205,899.9**	**1,379,957.0**

Profit & Loss Account (Consolidated)

₹mn	FY12A	FY13A	FY14A
Total revenue	**808,213.7**	**801,928.0**	**876,954.9**
Expenses	728,563.5	723,952.0	796,151.7
EBITDA	**79,650.2**	**77,976.0**	**80,803.2**
Other Income	7,830.7	10,122.3	10,172.0
Depreciation	26,451.7	28,219.2	33,468.3
Exceptional Item	-	-	3,959.8
EBIT	**61,029.2**	**59,879.1**	**53,547.1**
Interest	17,579.8	20,791.1	27,015.9
Profit Before Tax	**43,449.4**	**39,088.0**	**26,531.2**
Tax	7,862.4	8,857.4	5,249.2
Profit after tax	**35,587.0**	**30,230.6**	**21,282.0**
Minority Interest	2,113.1	(195.9)	200.3
Share of profit/(loss) of asso.	495.6	(157.6)	668.4
Net Profit	**33,969.5**	**30,268.9**	**21,750.1**
Adj. Net Profit	**33,969.5**	**30,268.9**	**25,709.9**

Cash Flow (Consolidated)

Y/E	FY12A	FY13A	FY14A
Net profit/loss before extraordinary items and tax	**43,449.4**	**39,088.**	**26,531.2**
Net cashflow from operating activities	76,089.5	29,775.7	79,557.2
Net cash used in investing activities	(13,2203)	(13,7650.5)	(81,146.9)
Net cash used from financing activities	62,370.5	10,2779	14,925.9
Foreign exchange gains/losses	(619.4)	(357.3)	193
Net inc/dec in cash and cash equivalents	**5,638.1**	**(5,453.1)**	**13,529.2**
Cash and cash equivalents begin of year	21,656.8	27,294.9	21,842.5
Cash and cash equivalents end of year	27,294.9	21,841.8	35,371.7

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14A
EBITDA Margin (%)	9.9	9.7	9.2
EBIT Margin (%)	7.6	7.5	6.6
NPM (%)	4.2	3.8	2.5
Adj. NPM	4.2	3.8	2.9
ROCE (%)	7.5	6.1	5.4
ROE (%)	10.6	8.6	6.3
EPS (₹)	17.7	15.8	10.5
Adj. EPS (₹)	17.7	15.8	12.5
P/E (x)	7.9	8.9	13.3
Adj. P/E (x)	7.9	8.9	11.2
BVPS (₹)	166.7	184.5	196.6
P/BVPS (x)	0.8	0.8	0.7
EV/Net sales (x)	0.8	1.0	1.0
EV/EBITDA (x)	8.6	10.7	11.0

Financial performance snapshot

Hindalco registered revenue growth at a CAGR of ~7% over FY11-14. While total revenue of the company grew by 9.4% YoY to ₹876,954.9 mn in FY14, total operating expenses grew by 10.0% YoY to ₹796,151.7 mn. As a percentage of total revenue, expenses surged 90.8% in FY14 compared to 90.3% in FY13. EBITDA margin, as a result, contracted 51bps YoY to 9.2% in FY14 as against 9.7% in the year-ago period. Net profit, for the year under review, declined 28.1% YoY to ₹21,750.1 mn. After adjusting for the one-time exceptional item, net profit for the company stood at ₹25,709.9 mn.

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