

HINDALCO INDUSTRIES

METALS / MINING

BUY

Target Price: Rs 270

Aluminum prices on upswing; maintain BUY

Q1FY18 standalone EBITDA at Rs 11.5 bn (down 7% YoY) was below our estimate and consensus estimates due to lower profits in Copper (lower TCs and acid realization). Standalone Aluminum EBITDA appears lower due to Alumina transfer pricing. Utkal Alumina's EBITDA jumped 3x YoY at Rs 3 bn.

Outlook: We remain bullish on Hindalco due to rising LME Aluminum price (currently at USD 2,030/t) and strong free cash flow generation over the next 3 years. Chinese government's effort to close smelting capacities (to reduce pollution) from this winter (Oct'17 onwards) will tighten up global Aluminum markets in H2FY18.

CMP : Rs 221
Potential Upside : 22%

MARKET DATA

No. of Shares : 2,243 mn
Free Float : 65%
Market Cap : Rs 495 bn
52-week High / Low : Rs 245 / Rs 139
Avg. Daily vol. (6mth) : 13.0 mn shares
Bloomberg Code : HNDL IB Equity
Promoters Holding : 35%
FII / DII : 27% / 19%

Key highlights

- ♦ **Aluminum business:** EBITDA reduced to Rs 8.8 bn (Rs 9.2 bn in Q4FY17 and Rs 8.7 bn in Q1FY17). The QoQ decline is mainly due to (1) Higher Alumina price from Utkal. However, this increase is negated on a consolidated basis as Utkal is a wholly-owned subsidiary; (2) Lower sales volume at 299 kt, as some sales routed to export was stuck at port. Management expect sales to surge to 329 kt in Q2
- ♦ **Copper business:** Cathode production rose 67% YoY (flat QoQ) at 109 kt despite maintenance shutdown. Segment EBITDA was Rs 3.2 bn (Rs 5 bn in Q4FY17) mainly on fall in TCs, lower acid realization and lower DAP production

Valuation: We have increased our FY18/19 LME Aluminum per ton estimate to USD 1,950/2,000 (current price USD 2,030/t) vs. USD 1,800/ 1,900 earlier. We revise our FY18/19 consolidated EPS estimate to Rs 22/27 (vs. Rs 20/26 earlier). Our revised SOTP-based target price is Rs 270 (22% upside from CMP of Rs 221) vs. Rs 246 earlier based on 6x EV/EBITDA for India operations and 6.5x EV/EBITDA for Novelis. Maintain **BUY**. *(Continued on page 2...)*

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs bn)	994	996	1,132	1,200
EBITDA (Rs bn)	88	124	151	159
Adj PAT (Rs bn)	8	19	51	59
Con. EPS* (Rs)	-	-	19	22
EPS (Rs)	4	9	23	27
Change YOY (%)	(72)	128	168	15
P/E (x)	52	23	9	7
RoE (%)	4	8	16	16
EV/E (x)	12	8	7	6
DPS (Rs)	1	1	1	1

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY17	FY18E	FY19E
LME Aluminium (USD/ton)	1,694	1,950	2,000
LME Copper (USD/ton)	5,162	6,000	6,200
Novelis EBITDA/ tonne	334	361	371
USD INR	67.0	65.0	66.3

Price performance

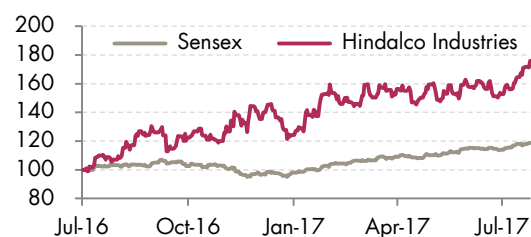


Exhibit 1: Results update

(Rs mn)	Quarter ended					12 months ended		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Net Sales	97,700	75,973	28.6	110,261	(11.4)	1,131,812	995,612	13.7
EBITDA	11,477	12,317	(6.8)	13,472	(14.8)	150,988	124,474	21.3
Other income	2,563	1,192	115.1	2,226	15.2	11,106	11,110	(0.0)
PBITD	14,041	13,509	3.9	15,698	(10.6)	162,094	135,584	19.6
Depreciation	3,792	3,382	12.1	3,802	(0.3)	43,908	44,572	(1.5)
Interest	4,878	5,996	(18.6)	5,411	(9.9)	43,288	57,424	(24.6)
PBT	5,371	4,131	30.0	6,485	(17.2)	74,898	33,587	123.0
Tax	1,566	1,189	31.8	1,457	7.5	24,605	14,326	71.7
Adjusted PAT	3,805	2,943	29.3	5,028	(24.3)	50,468	19,184	163.1
Extra ordinary income/ (exp.)	(910)	(2)	-	-	-	-	(187)	-
Reported PAT	2,895	2,941	(1.6)	5,028	(42.4)	50,468	18,997	165.7
No. of shares (mn)	2,227	1,913	-	2,227	-	2,227	2,227	-
EBITDA margin (%)	11.7	16.2	-	12.2	-	13.3	12.5	-
PBITD margin (%)	14.4	17.8	-	14.2	-	14.3	13.6	-
EPS - annualized (Rs.)	6.8	6.2	11.1	9.0	(24.3)	22.7	8.6	163.1

Source: Company, Axis Capital Note: Standalone quarterly financials don't include Utkal Alumina, thus full impact from alumina ramp-up not visible

(...Continued from page 1)

- ◆ **Debt reduction:** The company continues to focus on debt repayment and, prepaid Rs 54 bn till date in FY18. This includes entire proceeds from the recent Rs 33.5 bn QIP. We estimate debt repayment of Rs 95 bn and Rs 63 bn in FY18 and FY19 given healthy operating cash flow and minimal capex requirement
- ◆ **Coal linkage:** Hindalco won new coal linkage of 2.9 million tonne in Q1FY18, which the company believes to operationalize by Q3FY18.
- ◆ **Novelis (subsidiary of Hindalco):** Novelis' Q1FY18 EBITDA was at USD 287 mn (up 10% YoY). Revenue was up 16% YoY at USD 2.7 bn primarily due to (1) increase in FRP shipments by 4% YoY at 785 kt driven by higher auto products sales and (2) increase in average realization on higher average Aluminum prices and increased shipments of automotive shipments. Auto segment sales increased 16% YoY. Total adjusted EBITDA was up 8% at USD 268 mn mainly due to positive product mix towards premium products and cost reduction measures. EBITDA per ton at USD 345 was down 5% QoQ mainly due to high input costs

Financial summary (Consolidated)

Profit & loss (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	994	996	1,132	1,200
Other operating income	6	6	7	8
Total operating income	1,000	1,002	1,139	1,208
Cost of goods sold	(643)	(606)	(834)	(877)
Gross profit	357	396	305	330
<i>Gross margin (%)</i>	<i>36</i>	<i>40</i>	<i>27</i>	<i>28</i>
Total operating expenses	(269)	(272)	(154)	(171)
EBITDA	88	124	151	159
<i>EBITDA margin (%)</i>	<i>9</i>	<i>13</i>	<i>13</i>	<i>13</i>
Depreciation	(43)	(45)	(44)	(46)
EBIT	45	80	107	113
Net interest	(50)	(57)	(43)	(40)
Other income	12	11	11	13
Profit before tax	7	34	75	86
Total taxation	(5)	(14)	(25)	(28)
<i>Tax rate (%)</i>	<i>77</i>	<i>43</i>	<i>33</i>	<i>32</i>
Profit after tax	2	19	50	58
Minorities	4	-	-	-
Profit/ Loss associate co(s)	2	-	1	1
Adjusted net profit	8	19	51	59
<i>Adj. PAT margin (%)</i>	<i>1</i>	<i>2</i>	<i>5</i>	<i>5</i>
Net non-recurring items	(7)	-	-	-
Reported net profit	-	19	51	59

Balance sheet (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	2	2	2	2
Reserves & surplus	178	287	335	391
Net worth	180	289	337	393
Borrowing	690	689	595	532
Other non-current liabilities	17	20	20	20
Total liabilities	891	999	952	945
Gross fixed assets	956	1,036	1,078	1,105
Less: Depreciation	(316)	(361)	(404)	(450)
Net fixed assets	640	676	674	655
Add: Capital WIP	44	18	2	2
Total fixed assets	684	694	676	657
Total Investment	28	62	63	64
Inventory	167	183	185	186
Debtors	79	83	99	119
Cash & bank	121	172	100	91
Loans & advances	102	92	107	120
Current liabilities	290	286	279	292
Net current assets	179	243	213	224
Other non-current assets	-	-	-	-
Total assets	891	999	952	945

Source: Company, Axis Capital

Cash flow (Rs bn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	7	34	75	86
Depreciation & Amortisation	43	45	44	46
<i>Chg in working capital</i>	<i>22</i>	<i>(13)</i>	<i>(42)</i>	<i>(20)</i>
Cash flow from operations	128	109	96	124
<i>Capital expenditure</i>	<i>(40)</i>	<i>(22)</i>	<i>(26)</i>	<i>(27)</i>
Cash flow from investing	(40)	(22)	(26)	(27)
<i>Equity raised/ (repaid)</i>	<i>-</i>	<i>33</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(34)</i>	<i>(8)</i>	<i>(95)</i>	<i>(63)</i>
<i>Dividend paid</i>	<i>(2)</i>	<i>(3)</i>	<i>(3)</i>	<i>(4)</i>
Cash flow from financing	(87)	(35)	(141)	(107)
Net chg in cash	1	51	(72)	(9)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	4	9	23	27
CEPS (Rs)	(21)	(11)	3	6
DPS (Rs)	1	1	1	1
Dividend payout ratio (%)	463	13	5	5
GROWTH				
Net sales (%)	(4)	-	14	6
EBITDA (%)	(2)	42	21	5
Adj net profit (%)	(72)	146	168	15
FDEPS (%)	(72)	128	168	15
PERFORMANCE				
RoE (%)	4	8	16	16
RoCE (%)	6	10	12	13
EFFICIENCY				
Asset turnover (x)	1.3	1.3	1.4	1.4
Sales/ total assets (x)	0.8	0.8	0.9	1.0
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	29	30	32	36
Inventory days	67	76	68	65
Payable days	116	119	103	102
FINANCIAL STABILITY				
Total debt/ equity (x)	3.6	2.9	1.9	1.5
Net debt/ equity (x)	3.0	2.2	1.6	1.2
Current ratio (x)	1.6	1.8	1.8	1.8
Interest cover (x)	0.9	1.4	2.5	2.8
VALUATION				
PE (x)	52	23	9	7
EV/ EBITDA (x)	12.1	8.4	6.8	6.1
EV/ Net sales (x)	1.1	1.0	0.9	0.8
PB (x)	3	2	1	1
Dividend yield (%)	-	-	1	1
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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Research Team

Sr. No	Name	Designation	E-mail
1	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

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HOLD	Between 10% and -10%
SELL	Less than -10%

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