

# Hindalco Industries

13 February 2013

Reuters: HALC.BO; Bloomberg: HNDL IN

## Novelis Disappoints; Retain Sell

Novelis, a 100% subsidiary of Hindalco Industries, posted a 13% YoY drop in adjusted EBITDA at US\$185mn, below our estimate of US\$231mn due to one-time costs related to implementation of enterprise resource planning (ERP) solution in North America to the tune of US\$39mn. On QoQ basis, adjusted EBITDA was down 33% due to seasonality and ERP implementation costs. Novelis has raised its FY13 capex guidance from US\$650mn-US\$700mn to around US\$750mn, while it has cut operating cash flow (OCF) before capex guidance from US\$600mn-US\$700mn to around US\$250mn-US\$300mn. Increase in working capital and pressure on profits led to a rise in total debt from US\$4.46bn at the end of 2QFY13 to US\$4.89bn at the end of 3QFY13. We have marginally tweaked our earnings estimates post factoring in 3QFY13 performance. We have retained our Sell rating on Hindalco Industries with an unchanged target price of Rs96.

**Novelis performance update:** Novelis posted a 2% YoY jump in aluminium volume at 694,000tn (in line with our estimate of 695,000tn) driven by Asia and South America regions. North American region reported a drop of 12% YoY due to volume lost on account of ERP implementation. Adjusted EBITDA/tn contracted 15% YoY to US\$267, resulting in a 13% YoY fall in adjusted EBITDA. EBITDA/tn got squeezed across the board, on YoY basis, except for the European region. On QoQ basis, EBITDA/tn improved in Asia and South America regions due to improved volume, while it was down in North America and Europe due to ERP implementation and seasonality.

**Novelis guidance:** The company reported a negative OCF before capex of US\$116mn in 3QFY13 and a positive US\$35mn in the 9MFY13 period. On account of subdued performance, the management lowered its OCF before capex guidance of US\$600mn-US\$700mn to US\$250mn-US\$300mn for FY13E. Novelis incurred a capex of US\$193mn in 3QFY13 and US\$538mn in the 9MFY13 period. The management has upped its capex guidance from US\$650mn-US\$700mn to around US\$750mn due to advance payment to take advantage of incentives. The debt/EBITDA ratio deteriorated from 4.5x at the end of 2QFY13 to 5.1x at the end of 3QFY13.

**Other highlights:** The management has indicated that it is facing pressure on margins in the Asian region due to competition from China. European region is also witnessing pressure due to subdued demand, particularly from South European region. Novelis has lined up ERP implementation for other facilities as well and over the long run, it plans to implement ERP at the company's entire operations. Novelis has commissioned its 220,000tn cold mill facility in Brazil in December 2012. It is looking at a volume of 50,000tn-60,000tn in FY14E from this (utilisation is likely to remain low due to subdued demand rather than slow ramp-up), which is expected to improve in the coming years due to upcoming events like Football World-Cup and Olympics.

## SELL

**Sector:** Non-ferrous

**CMP:** Rs113

**Target Price:** Rs96

**Downside:** 15%

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### Key Data

Current Shares O/S (mn)	1,914.6
Mkt Cap (Rsbn/US\$bn)	215.6/4.0
52 Wk H / L (Rs)	165/100
Daily Vol. (3M NSE Avg.)	7,439,573

### Price Performance (%)

	1 M	6 M	1 Yr
Hindalco	(11.4)	(7.2)	(27.8)
Nifty Index	(0.1)	11.1	10.3

Source: Bloomberg

Novelis March (US\$m)	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	9MFY12	9MFY13	YoY (%)
<b>Net sales</b>	<b>2,462</b>	<b>2,441</b>	<b>2,321</b>	<b>(5.7)</b>	<b>(4.9)</b>	<b>8,455</b>	<b>7,312</b>	<b>(13.5)</b>
Total expenses	2,329	2,192	2,148	(7.8)	(2.0)	7,796	6,656	(14.6)
% of sales	94.6	89.8	92.5	-	-	92.2	91.0	-
<b>EBITDA</b>	<b>133</b>	<b>249</b>	<b>173</b>	<b>30.1</b>	<b>(30.5)</b>	<b>659</b>	<b>656</b>	<b>(0.5)</b>
<b>EBITDAM (%)</b>	<b>5.4</b>	<b>10.2</b>	<b>7.5</b>	<b>-</b>	<b>-</b>	<b>7.8</b>	<b>9.0</b>	<b>-</b>
Depreciation	79	69	76	(3.8)	10.1	249	218	(12.4)
Interest costs	71	73	76	7.0	4.1	217	223	2.8
Other income	(4)	(20)	(7)	75.0	(65.0)	45	(2)	(104.4)
<b>PBT</b>	<b>(21)</b>	<b>87</b>	<b>14</b>	<b>(166.7)</b>	<b>(83.9)</b>	<b>238</b>	<b>213</b>	<b>(10.5)</b>
Provision for tax	(10)	37	11	(210.0)	(70.3)	42	69	64.3
Effective tax rate	47.6	42.5	78.6	-	-	17.6	32.4	-
<b>PAT before MI</b>	<b>(11)</b>	<b>50</b>	<b>3</b>	<b>(127.3)</b>	<b>(94.0)</b>	<b>196</b>	<b>144</b>	<b>(26.5)</b>
Minority interest	(1)	(1)	-	(100.0)	(100.0)	(26)	(1)	(96.2)
<b>PAT after MI</b>	<b>(12)</b>	<b>49</b>	<b>3</b>	<b>(125.0)</b>	<b>(93.9)</b>	<b>170</b>	<b>143</b>	<b>(15.9)</b>
<b>NPM (%)</b>	<b>(0.5)</b>	<b>2.0</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>2.0</b>	<b>2.0</b>	<b>-</b>

Source: Company

## Exhibit 1: Consolidated financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	607,079	722,023	808,214	790,077	862,531
YoY (%)	(8.0)	18.9	11.9	(2.2)	9.2
EBITDA	85,865	79,287	81,894	81,881	96,218
EBITDA (%)	14.1	11.0	10.1	10.4	11.2
Adj PAT	39,255	24,564	33,970	32,337	27,793
EPS (Rs)	20.5	12.8	17.7	16.9	13.5
YoY (%)	620.9	(37.5)	38.3	(4.8)	(20.3)
RoE (%)	18.2	8.5	10.6	9.3	7.2
RoCE (%)	4.8	3.7	3.7	3.6	3.3
P/E (x)	5.5	8.8	6.3	6.7	8.4
EV/EBITDA (x)	4.4	5.4	6.6	7.8	7.5

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Novelis operational highlights

Description	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	9MFY12	9MFY13	YoY (%)
Total shipment ('000tn)	682	754	694	1.8	(8.0)	2,244	2,196	(2.1)
Adjusted EBITDA (US\$m)	213	277	185	(13.1)	(33.2)	820	721	(12.1)
Adjusted EBITDA (US\$/tn)	312	367	267	(14.6)	(27.4)	365	328	(10.2)

Source: Company

## Exhibit 3: Segment wise performance

Y/E March	3QFY12	2QFY13	3QFY13	YoY (%)	QoQ (%)	9MFY12	9MFY13	YoY (%)
<b>Shipment (kt)</b>								
North America	250	273	221	(11.6)	(19.0)	820	763	(7.0)
Europe	202	228	202	0.0	(11.4)	713	668	(6.3)
Asia	123	142	140	13.8	(1.4)	407	418	2.7
South America	107	111	131	22.4	18.0	304	347	14.1
<b>Revenues (US\$m)</b>								
North America	912	906	765	(16.1)	(15.6)	3,146	2,591	(17.6)
Europe	804	769	736	(8.5)	(4.3)	2,916	2,368	(18.8)
Asia	398	435	446	12.1	2.5	1,432	1,309	(8.6)
South America	321	310	375	16.8	21.0	942	993	5.4
<b>Realisation (US\$/tn)</b>								
North America	3,648	3,319	3,462	(5.1)	4.3	3,837	3,396	(11.5)
Europe	3,980	3,373	3,644	(8.5)	8.0	4,090	3,545	(13.3)
Asia	3,236	3,063	3,186	(1.5)	4.0	3,518	3,132	(11.0)
South America	3,000	2,793	2,863	(4.6)	2.5	3,099	2,862	(7.6)
<b>Adj. EBIDTA (US\$m)</b>								
North America	94	123	51	(45.7)	(58.5)	324	263	(18.8)
Europe	24	74	42	75.0	(43.2)	213	190	(10.8)
Asia	43	39	42	(2.3)	7.7	149	127	(14.8)
South America	52	41	50	(3.8)	22.0	154	141	(8.4)
<b>Adj. EBIDTA (US\$/tn)</b>								
North America	376	451	231	(38.6)	(48.8)	395	345	(12.8)
Europe	119	325	208	75.0	(35.9)	299	284	(4.8)
Asia	350	275	300	(14.2)	9.2	366	304	(17.0)
South America	486	369	382	(21.5)	3.3	507	406	(19.8)

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 4: Change in our earnings estimates

Description (Rsmn)	Earlier assumptions		New assumptions		Change (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Sales volume (tn)</b>						
Alumina	247,200	144,180	244,840	144,180	(1.0)	0.0
Aluminium	570,000	753,000	564,000	753,000	(1.1)	0.0
Copper	315,361	346,804	314,361	346,804	(0.3)	0.0
<b>Standalone segment revenue</b>						
Aluminium	87,684	108,488	88,311	108,488	0.7	0.0
Copper	165,413	180,780	164,304	180,780	(0.7)	0.0
<b>Total</b>	<b>253,097</b>	<b>289,268</b>	<b>252,616</b>	<b>289,268</b>	<b>(0.2)</b>	<b>0.0</b>
Less Inter-segment	198	120	214	120	7.9	0.0
<b>Net turnover</b>	<b>252,899</b>	<b>289,148</b>	<b>252,402</b>	<b>289,148</b>	<b>(0.2)</b>	<b>0.0</b>
<b>Standalone financials</b>						
Net sales	252,899	289,148	252,402	289,148	(0.2)	0.0
EBITDA	23,843	31,716	22,770	31,716	(4.5)	0.0
PAT	16,615	11,519	16,567	11,519	(0.3)	0.0
<b>Novelis estimates</b>						
Volume (mt)	2.97	3.16	2.97	3.15	(0.0)	(0.4)
Adj. EBITDA/tn (US\$)	349	341	341	340	(2.1)	(0.2)
<b>Consolidated financials</b>						
Net sales	780,686	864,837	790,077	862,531	1.2	(0.3)
EBITDA	84,824	96,558	81,881	96,218	(3.5)	(0.4)
PAT	32,398	27,172	32,337	27,793	(0.2)	2.3

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
17 April 2012	Sell	124	110
8 May 2012	Sell	118	111
25 May 2012	Sell	111	107
16 August 2012	Sell	120	103
7 November 2012	Sell	112	96

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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