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Hindalco announces Q1FY 2010-11 results

		Vs. Q1 FY10
Revenues	Rs. 5,178 crore	33% ↑
PBITDA	Rs. 901 crore	8% ↑
PAT	Rs. 534 crore	11% ↑

Strong Q1 with sharp increase in Sales, PBITDA and Net Income

Financial Highlights

(In Rs. crore)	Quarter ended	Quarter Ended
	30-Jun-10	30-Jun-09
Net sales and operating revenue	5,178	3,897
Other income	69	75
Profit before depreciation, interest and tax	901	833
Depreciation	169	165
Interest and finance charges	59	68
Profit before tax	673	600
Provision for taxes	139	119
Net profit	534	481
Basic EPS*	2.79	2.83

*EPS is lower on account of higher equity capital at Rs. 191.37 crore post QIP vs. Rs. 170.05 crore in Q1FY09.

Hindalco Industries Ltd, an Aditya Birla Group company, today announced its unaudited financial results for the quarter ended June 30, 2010. Its performance in the quarter has been significantly better than the comparable quarter in the previous year.

Net sales at Rs.5,178 crore in Q1FY11 were up 33% over Q1FY10, driven by higher volumes, better product/geographic mix and improved realisation. Additionally its low cost advantage, arising from integration and captive coal for own power generation for the Hirakud smelter, cushioned the adverse impact of spiralling cost escalations of crude and crude derivatives as well as purchased coal for Renukoot and plummeting Copper TcRc

The company also benefitted from higher Aluminium LME and better by-product realisation in its Copper Business. Other income and interest/ financing charges were constrained by lower returns on investment and lower average interest rate respectively.

Profit before tax is higher by 12% at Rs. 673 crore vis-à-vis Rs.600 crore in Q1FY10. Net profit is at Rs. 534 crore as against Rs. 481 crore in Q1FY10.

Business Segment Results

Of the total revenues of Rs.5,178 crore, Aluminium Business contributed Rs.1,867 crore with an EBIT of Rs.552 crore. Aluminium sales were higher on the back of higher volume, better mix, along with better LME compared to

Q1FY10. These benefits were eroded partly by the appreciating Rupee and higher energy cost. The increase of 32% in revenue translated into an EBIT gain of 21% at Rs. 552 crore in Q1FY11 from Rs. 455 crore in Q1FY10.

In the Copper Business, revenues were higher at Rs.3,314 crore up by 34% from Rs.2,479 crore in Q1FY10, mainly on account of higher copper LME. However, the Copper Business being a custom smelting operation, with offset hedging program, was not significantly impacted by the gain or loss on changes in LME. Lower TcRc, higher energy cost and appreciating Rupee dented the margins, despite better efficiencies and improved mix. **The Copper Business performance is to be seen in the light of planned shutdown of a Smelter for 24 days in April'10. The results of Copper Business, adjusted for this shutdown, are superior compared to Q1FY10.**

Hirakud Outage: Operations of Aluminium Smelter at Hirakud have been affected in July, 2010 due to heavy rains and continuous bad weather including lightning. A team of experts have now completed the assessment of the situation and have formulated an action plan for quick revival of operations as well as certain remedial actions for the future. In line with the action plan, currently under implementation, electrolytic cells taken out of circuit will be restarted in a phased manner. This exercise is expected to be completed by end August, 2010. As a consequence of this unforeseen outage, Hirakud Aluminium production is expected to be lower by around 20,000 MT for the current fiscal. Efforts are being made to contain the impact of the loss by appropriate management action to optimize profitability across all other business segments of the Company. The Company has a comprehensive mega insurance policy which covers property damage and business interruptions.

Strategic Initiatives

Utkal Alumina International Limited [UAIL]: UAIL, which is a 100% subsidiary of Hindalco, is setting up a 1.5 mtpa alumina refinery in Rayagada district of Orissa. The project will feed the alumina requirements of the Mahan and the Aditya smelters presently under construction.

Hindalco has successfully achieved the financial closure of UAIL with the signing of a common loan agreement of Rs. 4,906 crore on July 28, 2010. This constitutes the entire debt requirement of the project. The loan documents were signed in Bhubaneswar by a group of 28 banks. The syndication is led by IDBI Bank with SBI Caps and The Royal Bank of Scotland NV as joint arrangers and book runners.

The equity requirement for this project has already been tied up.

This project is expandable to 3 mtpa at relatively lower incremental capital cost.

This is a significant milestone in Hindalco's strategy to grow its alumina capacity and play the entire value chain in Aluminium.

Operational review

Aluminium

Total Alumina and Metal production is up by 9% and 3% respectively. Wire Rod production also rose up by 6% in Q1FY11. Downstream production grew by 4 % and 9% each in the case of Flat Rolled Products and Extrusions respectively, compared to Q1FY10.

Production (MT)	Q1 FY11	Q1 FY10
Alumina	341,419	311,917
Metal	140,061	135,439
Wire Rod	23,326	22,104
Flat Rolled Products	51,373	49,304
Extrusions	9,617	8,812

Copper

Quarterly cathode production has been lower due to the planned smelter shutdown. The value added CCR production is up 38% on the back of increased capacity.

Production (MT)	Q1 FY11	Q1 FY10
Copper cathodes	76,309	79,782
CC rods (own production)	40,708	29,461

Brownfield Expansion Projects

Hirakud Smelter Expansion: The smelter expansion from 155 KTPA to 161 KTPA is scheduled for completion by Q2FY11. Smelter expansion from 161 to 213 KTPA along with 100 MW power plant expansions will be completed in Q4FY12. Site activities like boundary wall and area grading are progressing well. BTG order has been placed and other major orders to be finalized next quarter.

Further to the above, the smelting capacity at Hirakud is intended to be expanded from the proposed 213 KTPA to 360 KTPA with a corresponding increase in back-up captive power from the proposed 467.5 MW to 967.5 MW.

Hirakud Flat Rolled Products Project: This project is underway for the transfer of all key equipment from Novelis Plant at Rogerstone, UK to Hirakud. This will enable us to produce can-body stock for local and export markets. The project is slated for completion in Q2 FY12. Dismantling activities are progressing well and are around 98 % complete. Most of the major orders for refurbishment of existing equipment and procurement of new equipment have been placed. A strong project team is in place.

Belgaum Special Alumina Project: The special alumina production from Belgaum is proposed to be ramped up to 316 KTPA from 138 KTPA. To reduce the cost of production substantially, a proposal for an 18 MW co-gen power plant and a railway siding facility are also being evaluated.

Greenfield Projects

Utkal Alumina Project (UAIL): The construction of 1.5 Mio tpa alumina refinery along with a 90 MW captive co-gen plant is in full swing. The output from UAIL would be sufficient to feed alumina to the Mahan and the Aditya smelters. Engineering for Refinery and captive Co-gen Plant is nearing completion. Contractors are working at site for civil and structural work and have mobilized more than 5,000 people. Piling, fabrication, concreting and tank erection are all well underway. Major equipment like Boilers, Evaporators & Turbines have started arriving at site & erection and structural work for various equipment are in progress.

Orders for all the long delivery equipment have been placed. Around 82% of the project cost has already been committed. The production of alumina is expected to start around Q2 FY12.

Mahan Aluminium Project: A 359 KTPA, Aluminium Smelter capacity along with a 900 MW captive power plant is coming up in Bargwan, Madhya Pradesh.

Major approvals are in place and site activities are on schedule. Around 10,000 people are working at site. Site Grading work, Boundary wall and piling are nearing completion. Concreting & structural work progressing in line with the first pot start up schedule. Work on boiler foundation, ESP, power house units and chimney rafts, progressing in full swing. Erection of engineering structure for boilers is in progress. Major equipment have started arriving at site. Around 82 per cent of the total project cost has been committed. The first metal from the Smelter is expected by Q2 FY 12.

Aditya Aluminium Project: A 359 KTPA, Aluminium Smelter along with a 900 MW captive power plant is coming up in Orissa.

Major approvals are in place. Major orders have been placed for both the Smelter and the Power Plant. Around 59% of the total project cost for Smelter and Power Plant has been committed. Site activities like area grading, boundary wall are in progress. The first metal from the smelter is expected by Q3 FY12

Aditya Refinery Project: A 1.5 Mio TPA Alumina Refinery along with a 90 MW Co-gen plant is coming up in Orissa. This is a replica of the Utkal Alumina refinery. The refinery would be mechanically complete by Q1 FY14.

Jharkhand Aluminium Project: A 359 KTPA, Aluminium smelter along with a 900 MW captive power plant is coming up in Sonahatu, Jharkhand. This is replica of the Aditya / Mahan smelter.

The land acquisition process has already started. Activities for getting environmental clearance have started and presentation made to the MOEF expert committee. The Tubed coal mine has been allotted jointly with Tata Power. The first metal from the Smelter is expected by Q1 FY14.

Industry outlook

Aluminium

Global aluminium demand in Q1FY11 reflected good growth of 24% over Q1 FY10. A strong growth in Asia has been propelled by Chinese growth, and was partly supported by a "low-base" effect. The key drivers of growth in North America and Europe were the Auto and Building sectors. Japan, too, had good growth in flat rolled products, extrusions and castings. Pick-up in consumption led to a slight drop of 0.17 mt in LME stocks reaching 4.42 mt at the end of June.

A strong demand enabled LME to reach USD 2,400/ t levels in April but due to European fears, the quarter ended at USD 1,900 levels. Going forward, LME is likely to be supported by the cost pressures, especially in China, although further gains would be contingent upon improvement in risk appetite in financial markets.

Indian industry had a nominal growth of 8% on y-o-y basis. Major growth areas were the electrical sector and castings for the Auto Industry. The global demand is expected to continue to be good in Q2, though the base-effect will start to get diluted.

Copper

Global copper consumption continued to improve in the last quarter. The world refined copper market balance was in a small deficit in the first four months of 2010 after recording large surpluses in the previous two years. Exchange stocks at end-June 2010 were at 646,000 tonne recording a drop of 107,000 tonne over the quarter. Despite this, copper prices at the LME exhibited weakness on account of increased risk aversion.

World copper consumption is likely to continue to grow in the coming quarters on improving demand from emerging countries. The outlook for refined copper consumption in India remains robust, given the continued growth momentum in the economy.

Strong concentrates demand from China and stagnant World mine production continued to keep concentrates market in deficit which led to spot TcRcs (Treatment and Refining Charges) decline to low single-digit during the current quarter. TcRcs under mid-year negotiations for current year dropped by about 20% over the previous year. There are no signs of any significant improvement in the concentrates market scenario in immediate future.

Company outlook

Aggressive and innovative approaches for low cost brownfield expansions, sweating of existing assets, continuous cost reduction and optimising working capital continue to yield results despite inflationary conditions. The outlook for coming quarters would be impacted by a subdued financial market sentiment, uncertain commodity and financial markets and lower production at Hirakud. The company is determined to tide over these negatives because of its strong fundamentals and committed resources.

The progress in the Greenfield projects and their activity levels is expected to further accelerate during the year.

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