

Financial Analysis
Of
Hindalco Industries Limited

Course – PGCHRM 20

Subject – Financial Management

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Company Profile

The Hindustan Aluminum Corporation Limited was established in the year 1958 by Aditya Birla Group. In 1962, the company began production in Renukoot in Uttar Pradesh with a production of 20 thousand metric tons per year of aluminum and 40 thousand metric tons per year of alumina, in 1989 the company was restructured and was named as Hindalco. It is one of the world's leading producers in aluminum and copper. Its copper smelter is amongst the largest single location custom smelter globally. It operates 51 units in 13 countries with a workforce of 34000 representing 15 different nationalities like in West Bengal, Jharkhand, and Gujrat. Aditya Birla Minerals is based in Perth, West Australia, and conducts its activities at the Birla Nifty Copper Operation in the Great Sandy Desert, WA and the Mt Gordon Copper Operation located in the Mt Isa Block in Queensland

The company has its power plant in:-

1. Renusagar Power Plant
2. Hirakund Captive Power Plant
3. Utkal Alumina Captive Power Plant
4. Aditya Captive Power Plant

The company's headquarters is in Mumbai, Maharashtra, India and the top management consists of:-

1. Debnaryan Bhattarchaya –Managing Director
2. Kumar Mangalam Birla - Chairman
3. Praveen Maheswari – Chief Financial officer

The company has various other businesses and products:-

1. Aluminum
2. Copper
3. Dry Cargo Handling
4. Fertilizers
5. Acids

It is listed in the Forbes Global 2000 and 895th. The company's Net sales stood at Rs.8,603 crore as compared to Rs.7,273 crore in the corresponding quarter of the previous year. Profit before Interest, Depreciation and Tax (PBITDA) was Rs.1, 135 crore versus Rs.834 crore in the corresponding quarter of the previous year. However, finance cost and depreciation were significantly higher compared to Q3FY14 due to progressive capitalisation of the company's Greenfield projects. As a result, net profit was only 7.5 per cent higher at Rs.359 crore vs. Rs.334 crore in Q3FY14.

Hindalco Financial Statement Analysis

The financial statement report describes the financial condition of the company It is important for an organisation to prepare all financial information in a structured manner and easy format so that it is easy to understand It basically includes the following:-

- Statement of Financial position
- Statement of Comprehensive income
- Statement of change of Equity
- Statement of Cash flow

Statement of Financial Position based on Consolidated Balance Sheet Hindalco Ltd

(Rs. In Crores)

Assets of Hindalco Ltd			Liabilities of Hindalco Ltd		
Y/E March	2014	2013	Y/E March	2014	2013
Current Assets, Loans and Advances			Current Liabilities		
Investments	6690.84	6807.56	Short Term Borrowings	9404.26	6442.44
Inventories	16694.26	14331.68	Trade Payables	12996.98	9605.47
Trade Receivables	9234.76	8952.28	Other Current Liabilities	7365.66	5485.91
Cash and Bank Balances	5021.29	3775.45			
Short Term Loans and Advances	4538.15	3246.83	Short Term Provisions	1738.45	1617.83
Other Current Assets	2086.39	2000.66			
Total Current Assets, Loans and Advances	44265.69	39114.46	Total Current Liabilities	31505.35	23151.65
Fixed Assets			Long Term Liabilities		
Tangible Assets	43265.40	21493.45	Long Term Borrowings	53944.09	49856.85
Intangible Assets	17898.08	16435.26	Deferred Tax Liabilities	3188.87	3467.68
Capital work in Progress	22882.30	33749.20	Other Long Term Liabilities	1158.30	1333.62
Intangible Assets under Development	176.95	84.75	Long Term Provisions	5813.73	5690.68
Total Fixed Assets	84222.73	71762.66	Total Long Term Liabilities	64104.99	60348.83
Long Term Assets			Share Holders Funds		

Non-Current Investments	6270.24	5793.41	Share Capital	206.48	191.48
Deferred Tax Assets	13.87	-	Reserves and Surplus	40392.75	34597.45
Long Term Loans and Advances	2456.35	3170.09	Money Recd against Share Warrants	-	541.31
Other Non-Current Assets	766.82	749.37	Minority Interest	1780.53	1759.27
			Share Application pending Allotment	5.60	-
Total Non-Current Assets	9507.28	9712.87	Total Shareholders' Funds	42385.36	37089.51
Total Assets	137995.70	120589.99	Total Liabilities	137995.70	120589.99

The Statement of Financial Position is also referred to as a Balance Sheet. The Balance Sheet is an accountant's snapshot of a Firm's accounting value on a particular date as through the firm stood monetary still. The Balance Sheet states what the firm owns and how it is financed. The Accounting definition that underlies the Balance Sheet and describes the balance is:

Assets = Liabilities + Stockholder's Equity

Asset represents the use of Funds. A Business uses cash or other funds provided by the creditor/investor to acquire assets. Assets include things of value that are owned or due to a business.

Liabilities and net worth on the balance sheet represents sources of funds. Liabilities and net worth are composed of creditors and investors who have provided cash or its equivalent to your business. As a source of funds, they enable your business to continue or expand operations.

Liabilities represent obligations to creditors while net worth represents the owner's investment in the business. Both creditors and owners are "investors" in the business with the only difference being the timeframe in which they expect repayment.

Observations:

- Current Assets: There is an increase in the current assets by 13.17%, which is primarily due to increase in Cash and Bank Balances, when compared with the previous year, as reflected in the above table.
- Fixed Assets: The total Fixed Assets of the Company have increased by 17.36% when compared with the previous year, which signifies, the Company has invested more in the Fixed Assets and also, the Capital Work in Progress has also gone down, in FY 2013-2014, when compared with the FY 2012-2013, which reflects the Capital Work in Progress has been transferred into Fixed Assets in FY 2013-2014.

- Long Term Assets: The total long term assets of the Company have gone down by 2.1%. Even though there is an increase in Non-Current Assets, Deferred Tax Assets etc., there is a major downfall in Long Term Loans and Advances.
- Current Liabilities: There is an increase of total Current Liabilities by 36.08%, where the short term borrowings, trade payables, short term provisions and other current liabilities plays a pivotal role.
- Long Term Liabilities: The Long Term Liabilities have increased by 6.22%, as the Company has acquired more funds in form of Long Term Borrowings, which constituted the major portion in increase.
- Shareholder's Funds: The shareholder's funds have increased by 14.28% as the reserves and surplus has increased majorly by 16.75%.

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**Statement of Comprehensive Income based on Consolidated
Profit & Loss Statement Hindalco Ltd**

(Rs. In Crores)

Profit and Loss Statement		
Y/E March	2014	2013
Revenues		
Gross Sales	90006.84	82242.99
Less : Excise Duty	2311.35	2050.19
Net Sales	87695.49	80192.80
Other Income	1017.20	1012.23
Total Revenue (I)	88712.69	81205.03
Expenses		
Cost of Raw Materials and Components consumed	53779.85	49180.04
Purchase of Traded Goods	52.25	41.94
Increase in inventories of finished goods, work in progress and traded goods	(444.36)	(666.29)
Employee Benefits expenses	7319.79	6525.61
Other Expenses	18907.64	17313.90
Total Expenses (II)	79615.17	72395.20
EBIDTA	9097.52	8809.83
Finance Costs	2701.59	2079.11
Depreciation and Amortisation	3346.83	2821.92
Profit before exceptional items and tax	3049.10	3908.80
Exceptional Items	395.98	-
PBT	2653.12	3908.80
Tax Expenses :		
Current Tax	1151.02	1033.21
Deferred Tax	(626.10)	(147.47)
Profit before Minority Interest and Associates	2128.20	3023.06
Income/(Loss) of Associates	66.84	(15.76)
Profit Before Minority Interest	2195.04	3007.30
Minority Interest	20.03	(19.59)
Profit for the Year	2175.01	3026.89
Earnings Per Share (EPS) :		
Basic EPS	10.91	15.81
Diluted EPS	10.91	15.81

Observations:

- There is an Increase in EBIDTA margin compared to the previous year
- Depreciation on Fixed Assets has also increased, due to acquisition of Fixed Assets
- The Net Profit of the Year has decreased 28% compared to the previous year as there is an increase in Finance Costs, Depreciation, Exceptional Items which resulted in the decrease of Net Profit % as compared with the Previous Year.

Statement of change of Equity

It explains the changes in company's equity throughout the reporting period. There are not major's changes.

Statement of Cash Flows

1. Cash Flows from Operating Activities

To calculate the cash flow from the operating activities, we start with the Net Income, which is derived from the Income Statement, and non-cash expenses and adjustment are to be added along with the change in current assets and liabilities. The cash flow from operating activities is hereby follows:

Cash flow from Operating Activities		
Y/E March	2014	2013
Profit before Tax	2653.12	3908.80
Adjustment for :		
Finance Costs	2701.59	2079.11
Depreciation and Amortization	3346.83	2821.92
Impairment Loss/(Reversal) (net)	205.96	39.17
Employee Share Based Payments	3.85	0.27
Provisions/Provisions Written Back	(6.31)	25.91
Unrealised Foreign Exchange (Gain)/Loss	(79.76)	48.44
Loss/(Gain) on Derivative Transactions	(105.47)	(132.41)
Write off and Amortisation of FV Adjustments	(25.18)	(8.74)
Pre-Operative/Incidental Expenditure W/off	-	4.15
Other Non-Cash Items	3.00	65.51
Loss on Assets Held for Sale	(37.41)	(17.14)
Investing Activities	(856.04)	(827.39)
Operating Activities Before Working Capital changes	7804.18	8007.60
Changes in Working Capital :		
Inventories	(1571.32)	(799.49)
Trade and Other Receivables	(2100.41)	(1250.02)
Trade and Other Payables	4634.03	(1824.57)
Cash Generation from Operation	8766.48	4133.52
Payment of Direct Taxes	(958.55)	(1347.80)
Impact of Foreign Exchange Transaction	147.79	191.75
Net Cash Generated/(Used)-Operating Activities	7955.72	2977.47

Analysis : Cash Flow from Operating Activities has been increased in FY 13-14 from FY 12-13 , despite the dip in Net Profit in FY 13-14 from FY 12-13, the primarily reasons being the Increase in Depreciation, Impairment Loss and reduction in Current Assets i.e Inventories, Trade and Other Receivables and Rise in Trade Payables in FY 13-14 from FY 12-13.

Cash Flow from Investment Activities		
Purchase of Fixed Assets	(9423.57)	(11871.04)
Sale of Fixed Assets	107.44	160.76
Purchase/Sale of Investments in Subsidiaries (Net)	-	(50.65)
Purchase/Sale of Other Investments	531.62	(1562.23)
Proceeds/Repayment of Loans and Deposits	123.40	(925.23)
Interest Received	499.07	323.17
Dividend Received	47.35	160.26
Net Cash Generated/(Used)- Investing Activities	(8114.69)	(13764.96)

Analysis: Cash Flow from Investment Activities has risen from FY 13-14 from FY 12-13, since in the FY 12-13, Purchase of Fixed Assets and Purchase of Other Investments were the main reasons for constituting a heavy sum of outflow, which got reduced in FY 13-14, leading to the reduction of outflow of Cash in FY 13-14 as compared to FY 12-13

Cash flow from Financing Activities		
Proceeds from Issue of Shares	1629.99	8.33
Capital Subsidy Received	0.50	4.50
Proceeds from Long Term Borrowings	22027.72	18026.05
Pre-repayment of Long Term Borrowings	(19183.46)	(5142.99)
Repayment of Long Term Borrowings	(693.27)	(612.55)
Proceeds/Repayment of Short Term Borrowings	2717.88	2065.12
Finance Costs Paid	(4691.92)	(3672.82)
Dividend Paid	(314.85)	(397.74)
Net Cash Generated/(Used)-Financing Activities	1492.59	10277.90
Net Increase/(Decrease) in Cash and Cash Equivalents	1333.62	(509.59)
Add : Opening Cash and Cash Equivalents	2184.25	2729.57
Add : Foreign Exchange Variation	19.30	(35.73)
Closing Cash and Cash Equivalents	3537.17	2184.25

Analysis: Cash from Financing Activities got reduced in FY 13-14 when compared to FY 12-13, despite the Increase in Proceeds from Share Issue and Long Term Borrowings, the reasons being in rise in the Pre-Payment and Re-Payment of Long Term Borrowings and Increase in Financial Costs.

Share Price of Company as on April, 2013 was Rs. 90/- which at the Closing of the FY 13-14 which stood at Rs. 131.10

Analysis of Share Price:

Fundamental Analysis determines intrinsic stock prices by projecting future earnings and then applying an acceptable return on investment to calculate the stock price. This approach is used by most traditional investment analysts and is the basis of their stock performance recommendations. In a stable economic and business environment applying Fundamental Analysis should provide a solid pricing mechanism however all businesses operate in dynamic environments and future earnings are never guaranteed. This results in varying estimates of earnings. Dynamic business environments result in less reliable earnings estimates and a greater possible range of future earnings. The rate of return component of Fundamental Analysis is also variable and is influenced by the return from alternative investments and the perceived risk of the stock investment. As risk increases the required rate of return increases to compensate for the risk.

Fundamental Analysis essentially tells us what price a stock **should be**. This can be considered as its intrinsic or Fair Value based on its future earnings and return on investment. However the actual price of a stock is determined by the stock market and the stock market is driven by human emotion. So what we really want to know is **what price a stock will be on the stock market within a future time window**. Analyzing past stock prices can provide some insight into future movements, this is the realm of Technical Analysis

Technical Analysis or Charting applies statistical techniques to historical stock prices and volumes to identify likely future stock price movements. It does not consider the fundamentals of the stock, the business, or economic environment as the influence of these factors is deemed to be already reflected in the stock price. Because Technical Analysis is based on actual past stock price data (which was influenced by human emotion) it incorporates a component of human emotion in its calculations. This can provide valuable indicators and insight into future stock price movements that cannot be identified using Fundamental Analysis.

At any point in time actual stock prices consist of two components. The Fair Value price (fundamental) and a variance from the Fair Value due to dynamic environments and human emotion. The more volatile the environment and emotion the greater the variance. This results in cyclic boom (bull) and bust (bear) markets. Achieving the best possible return for our investment requires both an appreciation of the fundamental Fair Value of a stock and the future variance indicated by technical analysis.

Ratio Valuation and Analysis

Short Term Solvency or Liquidity Ratios				
SI No	Ratios	Mar 14	Mar 13	Observations
1	Current Ratio	1.40	1.69	The Current Ratio has declined in FY 13-14 when compared to Fy 12-13 since the Current Liability has increased in proportion greater than Increase in Current Assets
2	Quick Ratio	0.87	1.07	The Quick Ratio is slightly less than 1 as compared to Fy 12-13, which signifies the investment in Inventories is less in FY 13-14 as compared to FY 12-13
3	Cash Ratio	0.16	0.16	The cash and Bank Balances in proportion to Current Liabilities are the same

Long Term Solvency or Liquidity Ratios				
SI No	Ratios	Mar 14	Mar 13	Observations
1	Debit Equity Ratio	2.25	2.25	This Ratio takes into account all debts of all maturities to all creditors
2	Times Interest Earned	2.12	2.88	It signifies how well a company has its interest obligations covered
3	Cash Coverage Ratio	3.36	4.23	It Signifies the firm's ability to generate cash flows from operations

Asset Management or Turnover Ratio				
SI No	Ratios	Mar 14	Mar 13	Observations
1	Inventory Turnover Ratio	5.25	5.60	From this ratio, it denotes that the inventories are managed low
2	Days Sales in Inventory	69.52	65.18	Inventory is rotated for every 69 days
3	Receivables Turnover	9.49	8.96	It gives an idea how fast the sales amount is collected
4	Days Sales in Receivables	38.46	40.74	The receivables are collected every 38 days.
5	Total Asset Turnover	0.63	0.66	For every rupee for asset, .63 times is generated in sales

Profitability Ratios				
SI No	Ratios	Mar 14	Mar 13	Observations
1	Net Profit Margin (%)	2.48	3.78	Since the net profit has gone down compared to the previous year, margin also reduces
2	Return on Assets	1.58	2.51	Profit per rupees of assets
3	Return on Equity	5.13	8.16	Measure of Performance for the year

Market Value Ratios				
SI No	Ratios	Mar 14	Mar 13	Observations
1	Earnings per Share	10.91	15.81	
2	Price Earnings Ratio	12.01	8.29	

Shareholder Value Maximization framework

The Four key elements that affect the shareholder value of a Company are

- Profitability
- Growth
- Risk
- Capital Market Conditions

Applying the shareholder value maximization framework for the year 2013 and 2014, we get the following table:

Parameters	Year 2014 compared to Year 2013
Profitability	0 (Profitability indicators like Operating profit Margin, Profit Margin, have decreased when compared to the previous year)
Growth	+ (Growth in Sales)
Risk	0 (Not a very risky business)
Capital Market Conditions	+ (Market is seeming to be favourable as the sales for the year 2014 is high)
	2+

Competitors for Hindalco Industries Limited

Company	Current Price	Book Value	P/E Ratio	Market Cap (Rs.Cr)
Man Aluminium Ltd	32	81.33	36.83	10.82
Galada Power & Telecommunications Ltd	18.5	-92.36	0.18	13.86
Manaksia Aluminium Company Ltd	5.25	17.29	0	34.67
Globus Corporation Ltd	0.27	0.28	0	1.72
National Aluminum Company Ltd	38.5	52.17	7.51	9922.37
Amco India Ltd	17.1	56.98	0	7.03
Bothra Metal & Alloys Ltd	33.7	20.77	16.66	62.4

As per the table stated above Hindalco's competitor's current price, book Value, P/E Ratio and Market Cap is mentioned.

The Galada Powers book value is in negative but overall the market cap is lower for Amco India Limited.

The current share price of Hindalco Industries is 109.85.

AS per the 2015 report the company marginally running low below their estimate, as their might be a raise in the inventory in 2015.

Reference

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