



HINDALCO INDUSTRIES LIMITED

Performance Update
for the half year ended 30th September 2004



HINDALCO INDUSTRIES LIMITED

Performance Update – H1FY05

Dear Shareholders,

It gives me a great pleasure to share with you the performance of your Company for the first half of fiscal 2004-05 (H1FY05). Your Company has reported an excellent performance on the back of higher volumes and improved realisations in both Aluminium and Copper. While the Aluminium business performance has been robust with higher revenues and margins, margins in the Copper business have come under pressure due to adverse macro factors like two successive tariff cuts and weak TC/RC (Treatment Charges and Refining Charges).

Before focussing on your Company's financial and operational performance, I would like to brief you on the key strategic initiatives taken.

SCHEME OF ARRANGEMENT BETWEEN HINDALCO-INDAL

As you are aware, your Company had acquired a majority stake in Indal in 2000 to strengthen its presence in the Aluminium business. Over the last four years, significant progress has been made in realising operational synergies between the two entities through exchange of best practices. However, there was a perceived conflict of minority shareholder' interests that stood in the way of maximising market, production planning and logistical synergies. Therefore, your Company decided to take this acquisition to its logical conclusion.

The Board of Directors of Hindalco and Indal, on 23rd August 2004, approved a scheme of arrangement between the two companies. This entails the demerger of all the businesses of Indal with the exception of the Foil plant at Kollur in Andhra Pradesh, into Hindalco. A full-blown merger was not considered in the view of certain fiscal issues pertaining to the Foil business. This scheme is subject to necessary approvals, and will take effect retrospectively from 1st April, 2004 when sanctioned by the courts.

Under the scheme, Hindalco will issue and allot shares to the public shareholders of Indal in the ratio of 1 share of Rs. 10/- each in Hindalco, credited as fully paid up for every 7 equity shares of Rs. 10/- each held by the public shareholder in Indal. Indal shareholders will continue to hold their shares in Indal. The face value of those shares will be reduced from Rs 10 per share to Rs 2 for every share. Hindalco will continue to maintain its existing 97% stake in the resultant demerged Indal.

This move will strengthen the aluminium business of your Company through enhanced operational synergies which would result in lower costs and higher profitability. This scheme would also be optimal from a transaction cost point of view. As a result of the demerger, the combined net worth of Hindalco, as on 1st April 2004, will rise to the tune of over Rs. 8,700 Crores. It will result in bolstering Hindalco's status as a non-ferrous metals powerhouse, well set to take on global challenges.

The scheme is progressing well. As you may be aware, the shareholders and creditors have already approved the scheme of arrangement in their respective meeting held in mid November. We are confident that the entire process will be concluded by February 2005.

BROWNFIELD EXPANSION

Copper

In the Copper Division, the brownfield expansion to enhance smelting capacity from 150,000 MT to 250,000 MT annually was completed in February 2004. The ramp up of the new capacity is progressing satisfactorily. Its full stabilisation is expected by the end of FY 2005.

Your Company aspires to be among the top 10% cost competitive producers globally. To attain this stature, your Company has undertaken another low cost brownfield expansion at Dahej to double the capacity to 500,000 TPA. This will enable your Company to fully exploit the infrastructure potential at Dahej while ensuring cost reduction and growth as a continuous measure. It is slated for completion by end of CY 2005.

Aluminium

To leverage upon the Brownfield expansion, your Company plans to enhance the smelter capacity at Renukoot to 360,000 tonnes through de-bottlenecking. This necessitated installation of balancing equipment and a co-generation plant of 41 MW capacity. The new co-generation plant was commissioned in July 2004. Enhanced capacities will be on stream in a phased manner by the year 2004-05.

Before moving on to the operational performance review, let me share with you the financial performance of your Company.

FINANCIAL REVIEW AND ANALYSIS

<i>(In Rs. Crores)</i>	H1'05	H1'04	% Change	FY04
Net Sales	3,721.2	2,640.7	40.9	6,197.3
Other Operating Income	7.7	14.3	(46.2)	35.3
Other Income	141.4	136.9	3.3	209.3
PBDIT	963.0	858.0	12.2	1,724.2
Interest	79.6	87.3	(8.8)	161.2
Depreciation	175.9	149.5	17.7	317.4
Profit Before Tax	707.5	621.2	13.9	1,245.6
Provision for Current Tax	191.6	111.9	71.2	260.6
Provision for Deferred Tax	50.4	88.6	(43.1)	146.1
Profit before Extraordinaries	465.5	420.7	10.7	838.9
Deferred Tax for earlier years	19.9	—	—	—
Net Profit	445.6	420.7	5.9	838.9
EPS for the Period (Rs.)	48.2	45.5	5.9	90.7

- ✓ Supported by a 8.0% YoY growth in sales volumes in Aluminium and 22.1% sales volume growth in Copper, net revenues grew by 40.9% from Rs. 2,640.7 Crores to Rs. 3,721.2 Crores, largely due to higher international prices.
- ✓ Other Income is marginally up by 3.3% YoY to Rs. 141.4 Crores. Despite lower treasury yields in a general low interest rate environment, other income has risen due to interest on Income Tax refunds.
- ✓ Net interest charges declined by 8.8% to Rs. 79.6 Crores as we retired high cost loans by new loans raised at lower rates and higher capitalisation. Your Company has raised Rs. 250 Crores in the first half at a coupon of 6.5% with bullet repayment at the end of 5 years for general corporate purposes. Additionally, a sum of Rs. 10.9 Crores was capitalised during H1FY05 which is higher by 15.8% than Rs. 9.4 Crores capitalised during the corresponding period of last year due to higher capex.
- ✓ Gross interest charges were at Rs. 90.5 Crores in H1FY05, reflecting a decline of 6.4% YoY. Lower gross interest charges are attributed to retirement of high cost loans.
- ✓ The commissioning of the Brownfield expansion and resultant capitalisation of new assets has pushed depreciation charges by 17.7% to Rs. 175.9 Crores during H1FY05.
- ✓ Reflecting higher operating profits, despite higher depreciation charges, pre tax profits have gone up by 13.9% to Rs. 707.5 Crores in H1FY05. Consequent to this, higher tax rates, removal of 80 HHC benefits and lower asset capitalisation (resulting in reduced WDV Depreciation), effective tax rate increased from 18.0% to 27.1% and led to a 71.2% increase in current tax provisions at Rs.191.6 Crores in H1FY05.
- ✓ Deferred tax provision has declined by 43.1% YoY to Rs. 50.4 Crores on account of lower WDV depreciation, associated with asset capitalisation.
- ✓ Consequent to these, your Company's profit before extraordinaries for the first six months stood at Rs. 465.5 Crores, reflecting a rise of 10.7% YoY.
- ✓ Your Company has made a provision of Rs. 19.9 Crores towards deferred tax liabilities for earlier years, in accordance with the provisions of the Finance Act, 2004. This one time charge is treated as an extraordinary item.
- ✓ Adjusted for this, the net profit of your Company in H1FY05 increased by 5.9% and stood at Rs. 445.6 Crores vis-à-vis Rs. 420.7 Crores in first half last year.

Let me now write on the details of operations.

OPERATIONAL REVIEW AND ANALYSIS

Your Company has reported a very strong operational performance. The benefits of enhanced volumes and lower costs from the Brownfield expansion in both Aluminium and Copper have begun to flow.

The Aluminium business accounted for 45% of sales and 80% of operating profits with the balance being accounted for by the Copper business.

ALUMINIUM BUSINESS

The Aluminium business has demonstrated a strong recovery in operating margins driven by superior efficiencies, higher volumes and improved economies of scale. With smelter capacity gradually reaching 100% utilisation levels, metal production grew marginally by 4.2% to 164,325 MT. Wire rods production rose by 14.0% to 31,550 MT mirroring an improved demand from the electrical sector. The performance of downstream products has been very encouraging. The production of Rolled products at 45,836 MT has increased by a robust 25.3% on account of strong market demand from key consuming sectors. Extrusions production surged by 15.8% to 9,962 MT, backed by strong order flow. Foils production grew by 15.3% to 10,447 MT. Aluminium Alloy Wheels soared by 87.7% to 47,929 wheels and we are confident of its strong performance in years to come.

In step with the enhanced output, sales volumes grew by 8.0% to 164,739 MT in H1FY05. Aggressive marketing efforts coupled with a renewed focus on the more remunerative domestic market helped in ensuring a strong volume growth. This was facilitated by a demand upturn in the user segment. The enhanced output was diverted into the more remunerative domestic market and domestic sales increased by 14.4% to 145,454 tonnes. Exports therefore declined by 24.3% YoY to 19,285 MT in H1FY05. Aggregate revenues, are up 21.6% to Rs.1,654.2 Crores. The share of value added products increased from 28% to 34% and from 33% to 39% in value terms. So, the average realisation for your Company is higher by 12.6% and stood at Rs. 100,415 / MT in H1FY05.

EBITDA margins at 39.9% are encouraging when compared to 37.0% reached in the corresponding half of the previous year, despite higher cost of some inputs like bauxite, caustic soda and CP coke.

Industry Outlook

The Aluminium sector continues to perform well, with worldwide consumption growth at 9.3% in the first 8 months of the calendar year. This year's growth is more widespread with the USA, Western Europe, Japan and of course, China all doing significantly better than last year. LME inventories have been drawn down to around 700,000 ton levels, from over 1.2 million tons a few months ago. Lead times at the mills remain long, reflecting a continuance of this growth trend. International metal prices, which are currently hovering around US\$ 1800 / MT levels are expected to settle in the range of US\$ 1600 – 1700 / MT.

Indian aluminium market has grown by over 10% in the first half of the financial year and prospects in the Electrical, Building and Transportation sectors look good, indicating a second double digit growth year in a row for Aluminium.

Power sector is poised for rapid growth with the passage of the Electricity Act 2003 and likely commencement of trading in power. The government plans to add 60,000 MW of generation capacity by 2012 which augurs well for aluminium as electrons are transmitted through aluminium in India.

Similarly the automobile sector is witnessing robust growth. Continuing strength in the domestic demand and India's emergence as a key-sourcing base for auto components has bettered the sector prospects. Coupled with increasing aluminium usage in cars, we envisage further strengthening of demand from this second largest user segment.

Housing is yet another area witnessing strong growth. Continuing growth in housing construction and increasing acceptance of aluminium in place of wood should drive demand. On the back of these, we expect domestic demand to grow by over 8% annually over the next few years. Given our market and strategic strengths, we are confident of reaping its benefits.

COPPER BUSINESS

Your Company's Copper division's performance has been satisfactory. Copper Cathodes production at 106,602 MT is up by 24.9% on account of new capacities from the Brownfield. You will recall that in the first half of last year your Company had taken a planned shutdown. Similarly, the output of value added Continuous Cast Copper Rods is higher by 13.8% at 46,237 MT. The production of DAP and Complex Fertilisers rose by 52.2% to 145,502. The output of Gold increased by 2.9% to 2,676 Kg., while that of Silver surged by 25.5% to 17,659 Kg.

Birla Copper's sales performance has been good, with aggregate volumes increasing to 109,452 tonnes, about 21.7% higher than that of last half-year, in line with the higher output. Strong domestic sales performance has been behind the sales growth driver.

Domestic volumes have been higher, despite weak demand conditions in the largest user segment, the JFTC sector. Improved demand from the transformer and winding wire industries beefed up the volumes. Regrettably, undesirable duty-free imports continued from Sri Lanka. Notwithstanding this, domestic sales and deemed exports surged by 28.1% to 54,460 tonnes in H1 FY05.

Export volumes advanced by 16.7% to 54,993 tonnes on the back of an increase in global consumption. Your Copper Division leveraged the strength of its marketing, product quality and locational advantages optimally to benefit from opportunities in the Asian and Middle East market which suffer from a huge demand-supply gap. This is normally met through imports from the West.

EBITDA margins shrunk from 17.6% last year to 7.9% in the current first half. Lower realisations caused by a steep duty reduction of 10%, higher coal rates and lower TC/RC impaled margins. Until January 2004, the duty rate on Copper was 25% which was reduced to 20% by the previous Government. The duty differential thus stood at 15%. In the Union Budget of July 2004, customs duty on copper was reduced by a further 5% to 15%. The duty differential was therefore reduced to 10% as at present. This total reduction of duty by more than 10% within a span of six months has had an adverse impact on the Copper business. Your Company's Brownfield expansion will help mitigate, at least in part, the negative impact of duty reduction.

Business revenues were higher by 61.2% at Rs. 2,063.2 Crores vis-à-vis Rs. 1,279.8 Crores last half-year. LME average prices for the half-year were up by 62% at US\$ 2,745 from US\$ 1,697 in the corresponding period last year.

Industry Outlook

Global copper demand is likely to grow at 6.3% in 2004 on the back of economic growth in USA and strong Chinese demand. The Asian demand outlook remains promising. Copper prices have remained firm on the back of weakened US Dollar, and a restraint in supply due to mine closures. Domestic demand continues to show the reverse trend primarily as growth in JFTC segment continues to be negative. Demand is expected to grow marginally as user segments such as winding wire and transformer industry continue to show growth. Increased export of downstream products from India continues to support higher deemed export sales.

The concentrate market has moved from a situation of extreme deficit in Q1 2004 to a surplus now. Most of the mines have been producing over capacity whereas smelters have had setbacks. Year 2005 is expected to be in surplus by about 270,000 MT contained copper. Small mines, in particular in South and North America, are getting reactivated encouraged by higher copper prices. Many new projects are being cleared which would keep the market in surplus till at least 2006. The softening of freight rates and higher copper prices would have a positive impact on TC/RC.

Spot TC/RC has staged a dramatic turn-around. With a significant increase in availability of concentrates and most of the smelters having covered themselves for the year, a sharp reversal in current spot terms seems unlikely in the near future. The current increase in spot TC/RC and sustained higher copper prices would result in higher long term TC/RC for the year 2005.

STRATEGIC GROWTH PLANS

Alumina

Your Company believes that Alumina will be its key growth driver in the near term. Towards this end, a two-pronged strategy has been adopted. Firstly, to undertake low cost brownfield expansions to enhance capacities at existing refineries. Secondly, to pursue a greenfield global sized Alumina project to tap on the superior grade Orissa bauxite through the Utkal Alumina joint venture project.

With regard to the brownfield expansion, your Company has embarked on two large growth projects. These entail low cost expansion of existing refineries of Indal at both Muri and Belguam which will raise our capacities at these locations from 460,00 TPA to 1,150,000 TPA at an investment of about Rs. 1500 Crores. Planned for going on stream by 2007, it will bring the unit cash costs down to \$110 per tonne. To further strengthen our hold on the domestic market and embark on value added exports in the future, we will de-bottleneck the Special Alumina capacity at Belguam. These expansions will raise our exportable surplus from the current 200,000 tonne levels to 800,000 tonnes by FY07. The expansion work at Muri to hike the capacity from 110,000 TPA to 500,000 TPA has begun.

As mentioned, your Company is also embarking on a greenfield Alumina plant with Utkal Alumina - a 55% held joint venture with Alcan. Utkal will set up a 1.5 Mn TPA alumina plant at a cost of about Rs. 4,600 Crores. Hindalco will invest about Rs. 1200 Crores towards equity over the next 3 years. The project has made significant progress since the acquisition of management control by

Indal in September 2003. We have already secured mining leases for over 195 million tonnes of bauxite in Orissa. Land acquisition as well as an agreement for rehabilitation of local communities has been inked. We are awaiting final approvals from the Government and we intend starting work on this project during this fiscal. The project timeline is 36 months. On its completion, Utkal will produce alumina at a cash cost of less than \$100 per tonne. It will position us in the first 5% of global costs.

Aluminium

In Aluminium, we are augmenting the smelter capacity at Hirakud from 65,000 tonnes to 100,000 tonnes by relocating the pots from Alupuram to Hirakud at an outlay of about Rs. 600 Crores. This is likely to come on stream by October 2006. Simultaneously, we are also enhancing the captive power generation capacity at Hirakud from 167.5 MW to 267.5 MW.

With the smelter capacity at Renukoot being enhanced to 360,000 TPA, alongwith Hirakud, our combined smelting capacity will stand raised to 460,000 TPA.

In Coal mining, with the acquisition of Talabira coal mines in Orissa for the Hirakud smelter, our power cost has come down. Much encouraged, we are currently in the process of finalizing acquiring additional coal mines from the government for captive consumption.

Simultaneously, we are evaluating various proposals for growth in aluminium. As of the moment we have no concrete plan for a new aluminium project. As and when the market throws up a suitable opportunity we may crystallize a firm plan.

CONCLUSION

In sum, your Company has demonstrated good performance in H1FY2005. Your Company remains confident of reaping a rich harvest from its three - pronged strategy of vertical integration, thrust on branding and continued emphasis on value added products. The encouraging market outlook and regional demand-supply imbalance in both Aluminium and Copper bode well for your Company. With its domestic market leadership, globally competitive cost structure, significant strategic strength and well timed Brownfield expansion your Company is well positioned to take advantage of emerging global and domestic opportunities. On the back of these, we are confident of delivering superior value to our shareholders, in the years to come.

As always, we look forward to your valued support.

Yours sincerely,

D. Bhattacharya
Managing Director

Dated 22nd November 2004

CAUTIONARY STATEMENT

Statements in this "Performance Update" describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, cyclical demand and pricing in the Company's principal markets, changes in the Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations.



HINDALCO INDUSTRIES LIMITED

Regd. Office: "Century Bhavan", 3rd Floor, Dr. Annie Besant Road, Worli, Mumbai-400 025

UNAUDITED (PROVISIONAL) FINANCIAL RESULTS FOR THE QUARTER ENDED 30TH SEPTEMBER, 2004					
(Rupees in Million)					
Particulars	Quarter ended 30/09/2004 (Unaudited)	Quarter ended 30/09/2003 (Unaudited)	Half year ended 30/09/2004 (Unaudited)	Half year ended 30/09/2003 (Unaudited)	Year ended 31/03/2004 (Audited)
1 Net Sales	20,460	14,809	37,212	26,407	61,973
2 Other Income	1,032	802	1,491	1,512	2,446
3 Total Expenditure	16,051	11,062	29,073	19,339	47,177
(a) (Increase)/Decrease in Stock in Trade	(645)	(759)	(1,499)	(1,244)	(1,174)
(b) Consumption of Raw Materials	12,005	7,931	21,685	13,093	32,546
(c) Staff Cost	630	587	1,247	1,172	2,402
(d) Manufacturing/Operating Expenses	3,233	2,562	6,011	4,916	10,520
(e) Other Expenditure	828	741	1,629	1,402	2,883
4 Interest & Finance Charges	398	422	796	873	1,612
5 Gross Profit	5,043	4,127	8,834	7,707	15,630
6 Depreciation	893	778	1,759	1,495	3,174
7 Profit before Tax	4,150	3,349	7,075	6,212	12,456
8 Provision for Tax	1,448	1,072	2,420	2,005	4,067
(a) Provision for Current Tax	1,207	631	1,916	1,119	2,606
(b) Provision for Deferred Tax	241	441	504	886	1,461
Net Profit for the period	2,702	2,277	4,655	4,207	8,389
Provision for deferred tax for earlier years (see Note 2)	199	—	199	—	—
9 Net Profit	2,503	2,277	4,456	4,207	8,389
10 Paid-up Equity Share Capital (Face Value : Rs. 10/- per Share)	925	925	925	925	925
11 Reserves					67,654
12 Basic & Diluted EPS (Rs.)	27	25	48	45	91
13 Aggregate of non-promoter shareholding					
(a) Number of shares			68,508,747	69,940,048	69,941,039
(b) Percentage of shareholding			74.08%	75.63%	75.63%

SEGMENT-WISE REVENUE, RESULTS AND CAPITAL EMPLOYED UNDER CLAUSE 41 OF THE LISTING AGREEMENT					
(Rupees in Million)					
Particulars	Quarter ended 30/09/2004 (Unaudited)	Quarter ended 30/09/2003 (Unaudited)	Half year ended 30/09/2004 (Unaudited)	Half year ended 30/09/2003 (Unaudited)	Year ended 31/03/2004 (Audited)
1. Segment Revenue					
(a) Aluminium Business	8,836	6,962	16,580	13,609	29,960
(b) Copper Business	11,624	7,847	20,632	12,798	32,013
Less: Inter Segment Revenue	(20,460)	(14,809)	(37,212)	(26,407)	(61,973)
Net Sales/Income from operations	20,388	14,789	37,121	26,387	61,909
2. Segment Results (Profit/Loss before Tax and interest from each Segment)					
(a) Aluminium Business	2,858	1,956	5,458	3,984	8,906
(b) Copper Business	698	1,119	1,102	1,815	3,097
Less: Interest & Finance Charges	(3,556)	(3,075)	(6,560)	(5,799)	(12,003)
	3,158	2,653	5,764	4,926	10,391
Add: Other un-allocable income net off un-allocable expenses	992	696	1,311	1,286	2,065
Profit before Tax & Extraordinary Items	4,150	3,349	7,075	6,212	12,456
3. Capital Employed (Segment Assets-Segment Liabilities)					
(a) Aluminium Business	38,909	39,291	38,909	39,291	40,661
(b) Copper Business	33,570	26,696	33,570	26,696	27,622
	72,479	65,987	72,479	65,987	68,283

Notes:

- 1 (a) The Board of Directors of the Company and Indian Aluminium Company, Ltd. (Indal), a subsidiary company, in their meetings held on 23rd August, 2004, have approved a Scheme of Arrangement u/s. 391 to 394 of the Companies Act, 1956 (the Scheme) for transfer by way of demerger of all the business undertakings of Indal (other than the aluminium foil business at Kollur, Andhra Pradesh) to the Company with effect from 1st April, 2004 subject to requisite approvals and orders of the High Court of Calcutta and the High Court of Bombay. Pending sanction of the Scheme by the High Courts, the above Financial Results have been prepared without giving effect to the Scheme. As directed by the High Court of Judicature of Bombay, meetings of shareholders, secured and un-secured creditors of the Company will be held on 16th November, 2004 to approve the Scheme.
- (b) Under the Scheme, the Company will allot its shares to each shareholder of Indal in the ratio of one equity share of Rs. 10 each for every seven equity shares of Rs. 2 each (after reduction in the par value from Rs. 10 each to Rs. 2 each) held by such shareholder in the Indal.
- (c) The Company has since communicated to Stock Exchanges and shareholders of Indal that the earlier offer / exit option to shareholders of Indal to tender the shares held by them in favour of the Company at a consideration of Rs.120/- per share till 15th February 2005 will be terminated with effect from 30th October 2004.
- 2 The Company has restated its deferred tax liabilities /assets relating to earlier years at the rates enacted through the Finance (No.2) Act, 2004 and has provided Rs.199 million as tax expense in the quarter ended 30th September, 2004.
- 3 In compliance with Accounting Standard 28 relating to "Impairment of Assets" issued by the Institute of Chartered Accountants of India, a provision for impairment of assets, if any, as at 1st April, 2004, will be adjusted at the end of the financial year against opening balance of General Reserve.
- 4 Disclosure relating to number of complaints from investors during the quarter:

Pending as on 01.07.2004	Received	Resolved	Pending as on 30.09.2004
1	10	10	1
- 5 Previous quarter's figures have been regrouped wherever found necessary.
- 6 The above results have been taken on record at the meeting of the Board of Directors of the Company held on Friday, 29th October, 2004.
- 7 The quarterly results for the period ended 30th September, 2004 have been reviewed by the Auditors.

By and on behalf of the Board

Place: Mumbai
Dated: 29th October, 2004

D. Bhattacharya
Managing Director

BOOK-POST



HINDALCO INDUSTRIES LIMITED

Ahura Centre, 'B' Wing, 1st Floor, 82 Mahakali Caves Road, Andheri (E), Mumbai - 400 093.
Tel.: 5691 7000 • Fax : 5691 7001 • Email : amalik@adityabirla.com • Website : <http://www.hindalco.com>
