

HINDALCO



# **Hindalco Industries Limited**

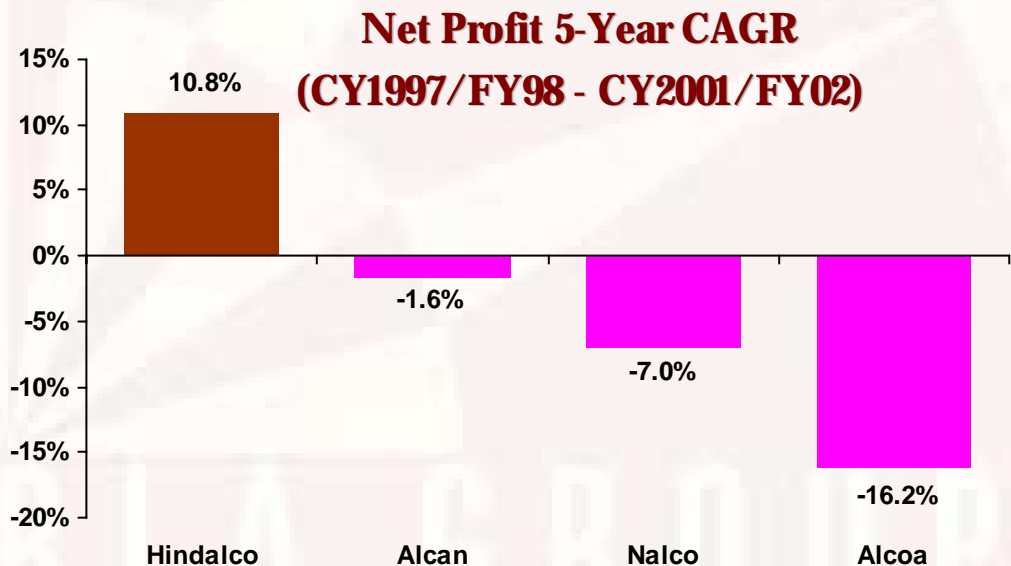
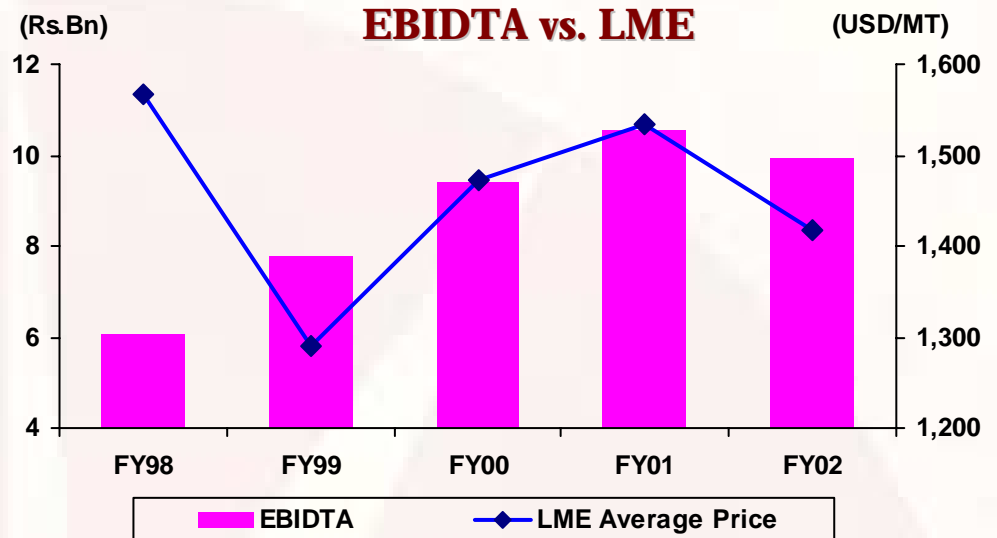
*An Emerging Non-Ferrous Metals Powerhouse*

*Morgan Stanley Investor Conference, Mumbai*  
*March 2003*

# Hindalco: A Dominant Force in Aluminium



- **Market leader in India**
  - 45% share in Aluminium
  - Over 60% share of downstream markets
- **Low cost Aluminium producer**
  - Cash cost of US\$869/MT against Global avg. cost of US\$1182/MT
- **Delivered superior value outperforming industry cycle**
- **Significant competitive advantage**
  - Fully Integrated operations
  - Product flexibility, enhanced further by full ownership of Indal
  - Access to rich bauxite reserves and low cost captive power
  - Wide distribution network and proximity to high growth markets of Asia
- **Entering high growth trajectory**



Source: Bloomberg

# Immediate Growth Drivers



**Brownfield Expansion in Aluminium**

**Margin Recovery in Aluminium**

**Synergies from Aluminium Consolidation**

**Copper Business Acquisition**

**Mine Acquisition**

# Brownfield Expansion To Have Twin Impact

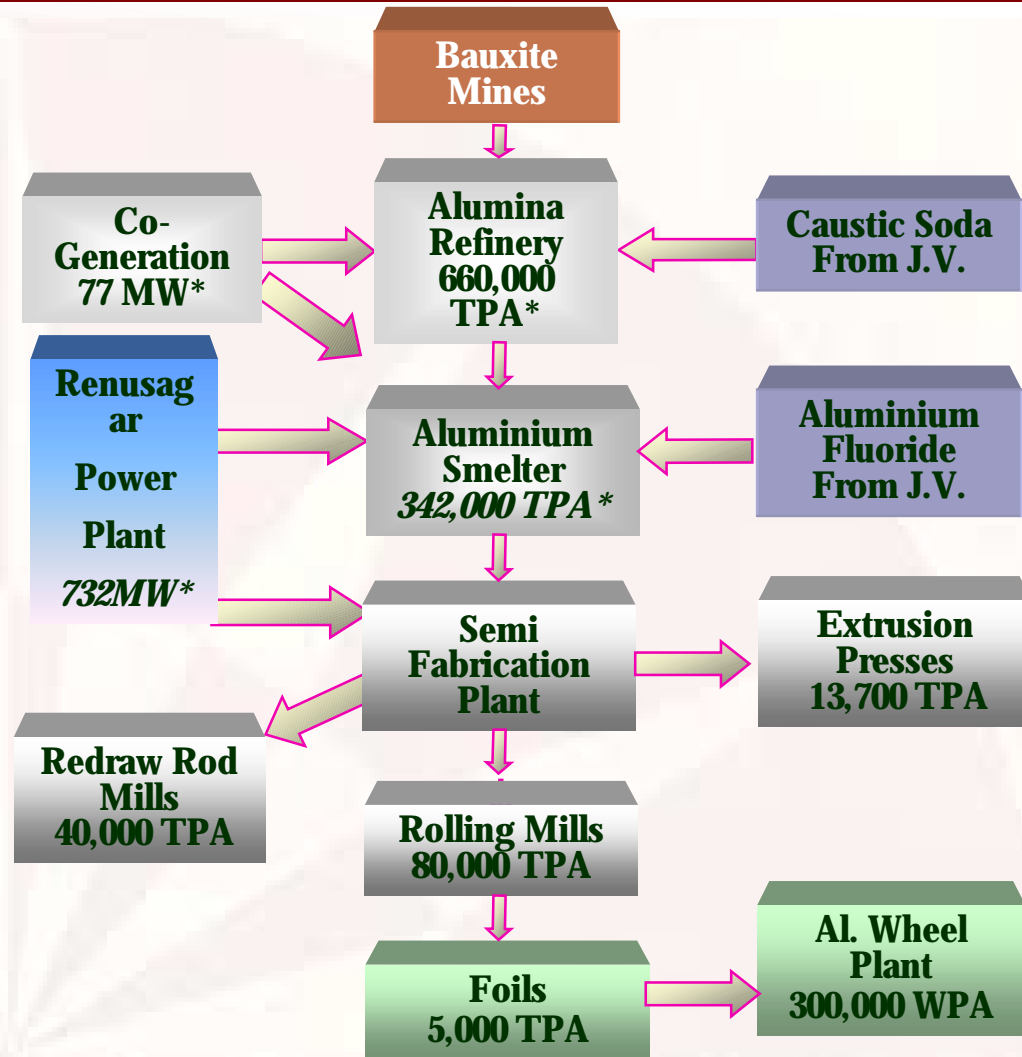
- **Brownfield expansion ahead of schedule, to boost volumes significantly**
  - 11th Potline commissioned in December 2002
  - Smelter operating at 310,000 MTPA; to be fully operational in FY04
  - 9th Power Unit at Renusagar commissioned in December 2002
  - 10th Power Unit at Renusagar is targeted to be commissioned by Q1 FY 2004
  - Co-Generation Plant likely to be commissioned by October 2004
- **Expansion to lower cash cost of production by US\$50/MT**
  - Adoption of new technologies and upgradation of processes to help cut costs
  - Impact on entire production volumes, to help improving margins significantly

***Brownfield expansion at 40% lower capital costs compared to Greenfield Project***

# Margins To Recover in FY04



- **Operations suffered during last 18 months**
  - Unfavourable economic conditions and lower LME
  - Higher input costs for power generation
  - Power disruptions affecting Smelter operations
  - Operating margins bottomed out in Q3FY03
- **Margins to recover from Q4FY03 onwards; Full impact to be seen in FY04**
  - Coal supply problems resolved
  - Smelter operations fully stabilized
  - On-going cost reduction exercises to add further strength to earnings
    - *Project “Rocket-2K” to help save Rs.500 million p.a.*
    - *Project “Everest” to help accelerate savings thru ERP implementation, started in FY03*
- **Fully integrated operations remain a strength**
- **Upturn in LME prices to add further strength**



\* Post Brownfield Expansion

***Operating margins can be sustained around 38-40%***

# Indal Synergies To Be Realised Fully and Faster Now



- **Elimination of minority conflicts following recent open offer to help realise potential synergies fully and faster**
- **Well-crafted strategy being implemented**
  - Integration of logistics
  - Rationalisation of products and marketing strategies that enhance customer reach
  - Strengthening of production processes for higher efficiencies
  - Optimal and economical usage of intermediate products across locations
    - *Slabs, CC Coil, HR Coils, Foil Stock, Scrap, etc.*

	Capacity (TPA)*		
	Hindalco	Indal	Combined
<b>Alumina</b>	<b>660,000</b>	<b>400,000</b>	<b>1,060,000</b>
<b>Metal</b>	<b>342,000</b>	<b>72,000</b>	<b>414,000</b>
<b>Rolled</b>	<b>80,000</b>	<b>90,000</b>	<b>170,000</b>
<b>Rods</b>	<b>40,000</b>	<b>10,000</b>	<b>50,000</b>
<b>Extrusion</b>	<b>13,700</b>	<b>8,000</b>	<b>21,700</b>
<b>Foils</b>	<b>5,000</b>	<b>9,000</b>	<b>14,000</b>
<b>Recycled Metal</b>	<b>-</b>	<b>25,000</b>	<b>25,000</b>
<b>Power (MW)</b>	<b>809</b>	<b>136</b>	<b>945</b>

\* Post Brownfield Expansion

***Indal synergies to boost earnings from FY04 onwards***

# Copper: A Quality Business, Strengthening ROCE



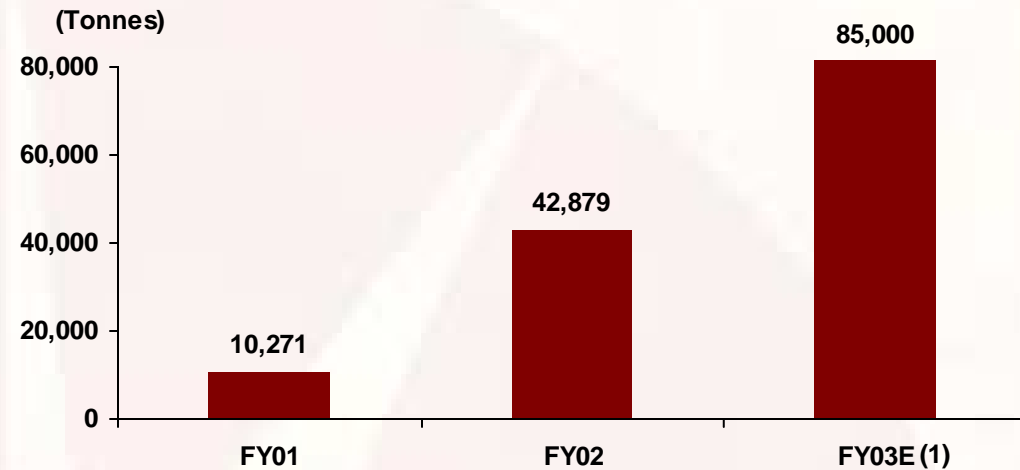
- **World class, cost-efficient operations**

- Domestic market leader
- Impressive export performance
- Globally benchmarked efficiencies
- Achieving globally competitive cost structure thru low cost expansions

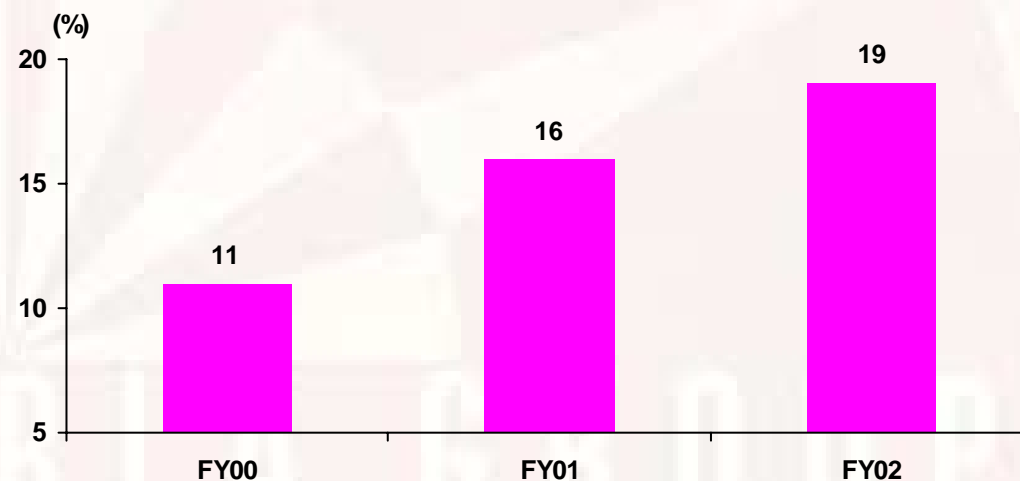
- **Generates superior ROCE, to be sustained even in future**

- High operational efficiencies
- Value contribution from by-products
- Low cost expansions to help overcoming fixed cost disadvantage

## Enviably Export Success



## Rising ROCE

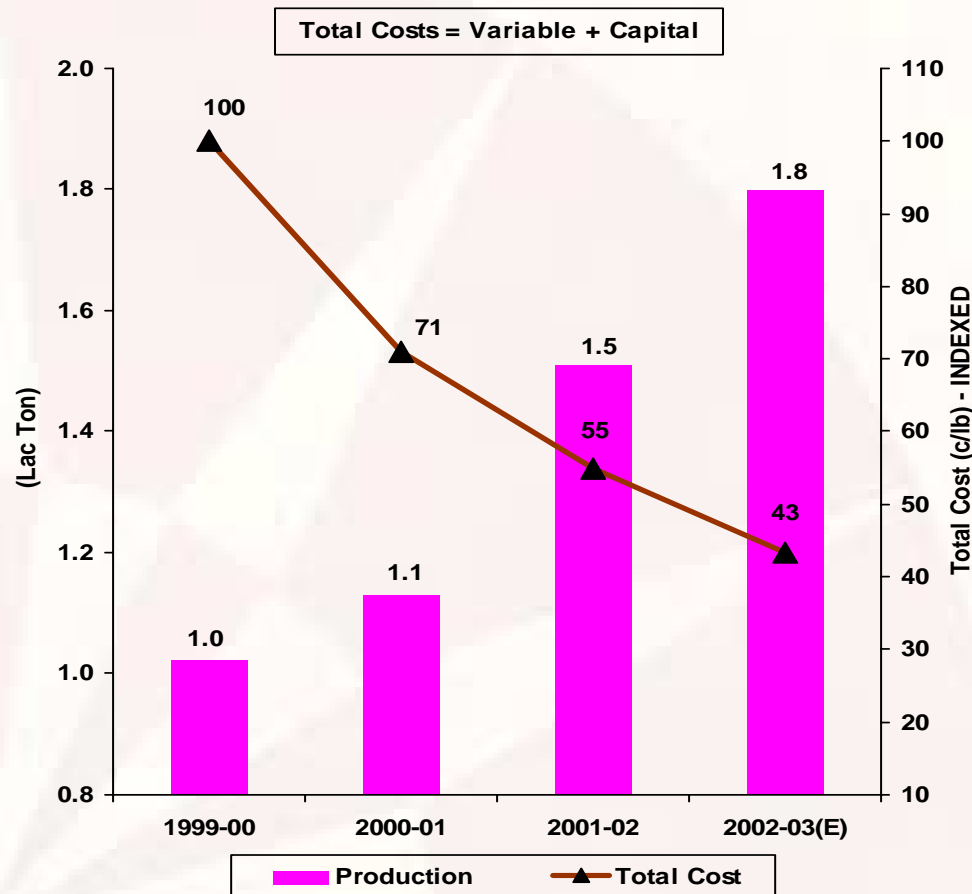


Source: Company Data; (1) 9-month data annualised

# Copper Expansion Will Be A Key Contributor

- **Brownfield expansion nearing completion, to accelerate growth**
  - Copper smelter capacity to rise from 1.5 Lac MTPA to 2.5 Lac MTPA by Q1FY04
  - Significantly lower capital costs to help bring down per ton costs
- **Further expansions being planned**
- **Birla Copper achieves LME Grade 'A' distinction**
  - To help further strengthen export presence

## Benefiting From Low Cost Expansions



Source: Company Data

*Birla Copper amongst Top-20% of global cost structure*



# Nifty Mine Will Add Further Strength

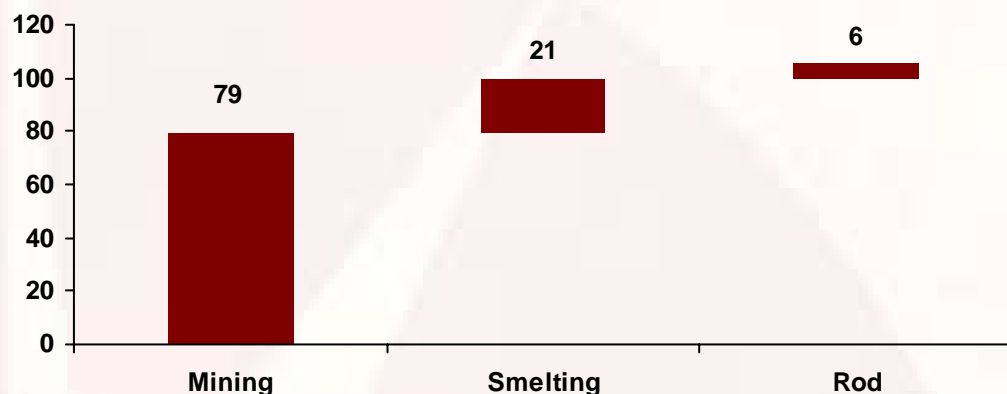
- **Acquired Nifty Mines for A\$89.82mn**

- Copper oxide operations produces 25,000 tonnes of cathodes
- Has the potential to produce copper in concentrate over 14+ years
- Acquisition gives right for exploration in the mineral rich Paterson Range

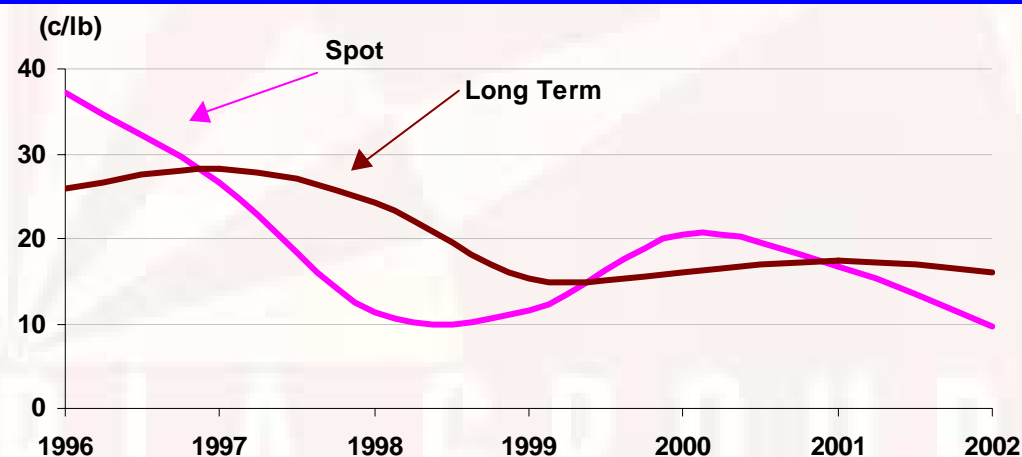
- **Will further strengthen copper business**

- Tap copper value chain optimally
- Secure concentrates in a tight spot market
- Especially, in the context of expanding operations of Birla Copper
  - *Smelter capacity rising to 2.5 lac tpa by Q1FY04*
  - *Scope for further expansion being explored*
- To result in freight cost advantage of around US\$36-46/Ton of Copper

## Copper Value per ton (Indexed LME Prices)



## Long Term & Spot TCRC in (c/lb)



Source: Brook Hunt

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*Well Positioned To Capitalise on Upturn in  
Global Non-ferrous Industry...*

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# Aluminum: Global Outlook

- **Long-term fundamentals remain intact**
- **Immediate growth dependent on recovery in the US economy**
  - Definite signs of recovery yet to emerge
  - Sustained weakness in US will affect export driven economies of Asia and Japan
  - Threat of war with Iraq casts shadow on industrial recovery and thus global demand
- **China will remain a strong performer**
  - Demand expected to grow by 13% in 2003; to result in continued strong demand in Asia
- **Supply side concerns exaggerated**
  - BPA capacity restart appear unlikely
  - Supply growth from China may ease
    - *Emerging concerns on inadequate power and environmental impact*
    - *Impact of recent spike in Alumina prices*
- **A moderate, but sustained global recovery can move aluminium into deficit**

<i>Aluminium Consumption growth (%)</i>			
<i>Region</i>	<i>CY 2002</i>	<i>CY 2001</i>	<i>CY 2000</i>
<b>North America</b>	<b>8.1</b>	<b>-15.1</b>	<b>-0.5</b>
<b>Asia</b>	<b>7.0</b>	<b>-5.5</b>	<b>13.9</b>
<b>Japan</b>	<b>-3.0</b>	<b>-9.0</b>	<b>5.8</b>
<b>China</b>	<b>17.1</b>	<b>9.0</b>	<b>15.4</b>
<b>Western Europe</b>	<b>2.1</b>	<b>-0.5</b>	<b>3.9</b>
<b>World</b>	<b>5.7</b>	<b>-4.6</b>	<b>6.1</b>
<i>Aluminium Production Growth</i>			
<b>World</b>	<b>6.9</b>	<b>0.2</b>	<b>+3.1</b>

# Aluminium: Domestic Outlook

- **GDP forecast to grow 6% in FY04; to support improved consumption**
  - Manufacturing sector has grown by 6% in the past 12 months, against average growth of 3.4% over last 2 years
- **Aluminium consumption to have grown 4% in FY03; To strengthen further in FY04**
  - Electrical and Auto sector have performed well and Budget to have positive impact
  - Encouraging trends in Construction and Packaging sector; likely to strengthen further in FY04
  - Building construction should accelerate with tax breaks maintained in Budget , lower interest rates and easier financing options
  - Strategic Applications may witness slowdown, but medium term outlook remains positive
  - Consumer durables have been weak and demand revival is contingent on a stronger farm sector
- **Competitive pressures to remain intense**
  - Expanded capacities resulting in improved metal supplies
  - Impact of capacity overhang in downstream segments pronounced in weak market
  - Tight control over costs key to sustaining profitability

***General Perception of Budget 2003 – Proposals to drive growth  
Aluminium to benefit as well amidst better economic fundamentals***

# Aluminium: Price Outlook

- **Global prices expected to be maintained, though wary of impending Iraq war**
  - Global inventories at 45 days of consumption; relatively modest at this point in the cycle
  - Recent spurt in Alumina prices to have a salutary impact ?
  - Price above psychologically important US\$ 1400/MT level
  - Prices expected to be maintained at current levels, though wary of impending Iraq war
- **Domestic prices to remain under pressure**
  - Rising supplies and unattractive exports could put pressure on metal prices
  - However prices at a 5% discount to landed costs

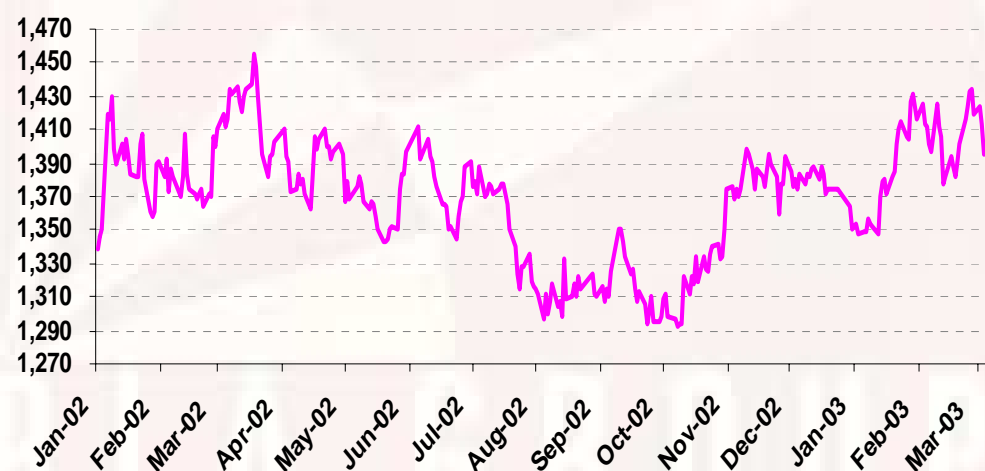
## LME Projections

Source: Reuters Poll - January 2003

	CY-2003	CY-2004
<b>High</b>	<b>1587</b>	<b>1587</b>
<b>Low</b>	<b>1235</b>	<b>1190</b>
<b>Average</b>	<b>1370</b>	<b>1407</b>

## LME Aluminium Prices

January 2002 – February 2003



Source: Bloomberg

# Copper: Industry Outlook Stable

- **Copper fundamentals improving**
  - Global demand up 3.9% in CY2002
  - Cyclical demand recovery likely by 2003/04, supported by global economic recovery
  - Global demand likely to grow 4.4% in 2003
  - Smelter closures and deferred commissioning of new capacities in the Western markets
- **Production cuts in certain markets has led to price recovery**
  - Finished copper inventories easing gradually; having peaked in April 2002
  - Market deficits and supply constraints to erode stocks even further
- **Asian demand outlook remain promising**
- **Domestic outlook is disappointing**
  - Negative growth in JFTC segment.
  - Surge in imports from Sri Lanka

In '000 Tons	2000	2001	2002 (E)	2003 (E)
Asia	2778	2679	2846	3038
China	1800	2190	2518	2712
Sub-Total	4578	4869	5364	5760
Japan	1349	1145	1099	1121
<b>Total Demand</b>	<b>5927</b>	<b>6014</b>	<b>6463</b>	<b>6871</b>
<b>Growth (% YoY)</b>	-	1.5	7.5	6.3
<b>Production</b>	<b>4168</b>	<b>4345</b>	<b>4336</b>	<b>4666</b>
<b>Demand-Supply Gap</b>	<b>1759</b>	<b>1669</b>	<b>2127</b>	<b>2205</b>

Source: CRU Monitor, October 2002

***Successful penetration in to the lucrative Asian markets will help Birla Copper perform better even in future***

# Copper: Price Outlook

## • Global Prices

- Copper prices improving on restrained supplies and demand hopes
  - *LME quarterly average prices up by \$39/MT*
- Further recovery contingent on improvement in global economic activity
- Spot TC tumbled to the lowest ever in response to tightening concentrate markets

## • Domestic Prices to move in line with LME price movements

### LME Projections

*Source: Reuters Poll - January 2003*

	CY-2003	CY-2004
<b>High</b>	<b>1808</b>	<b>1984</b>
<b>Low</b>	<b>1543</b>	<b>1675</b>
<b>Average</b>	<b>1693</b>	<b>1856</b>

### LME Copper Prices

January 2002 – February 2003



Source: Bloomberg

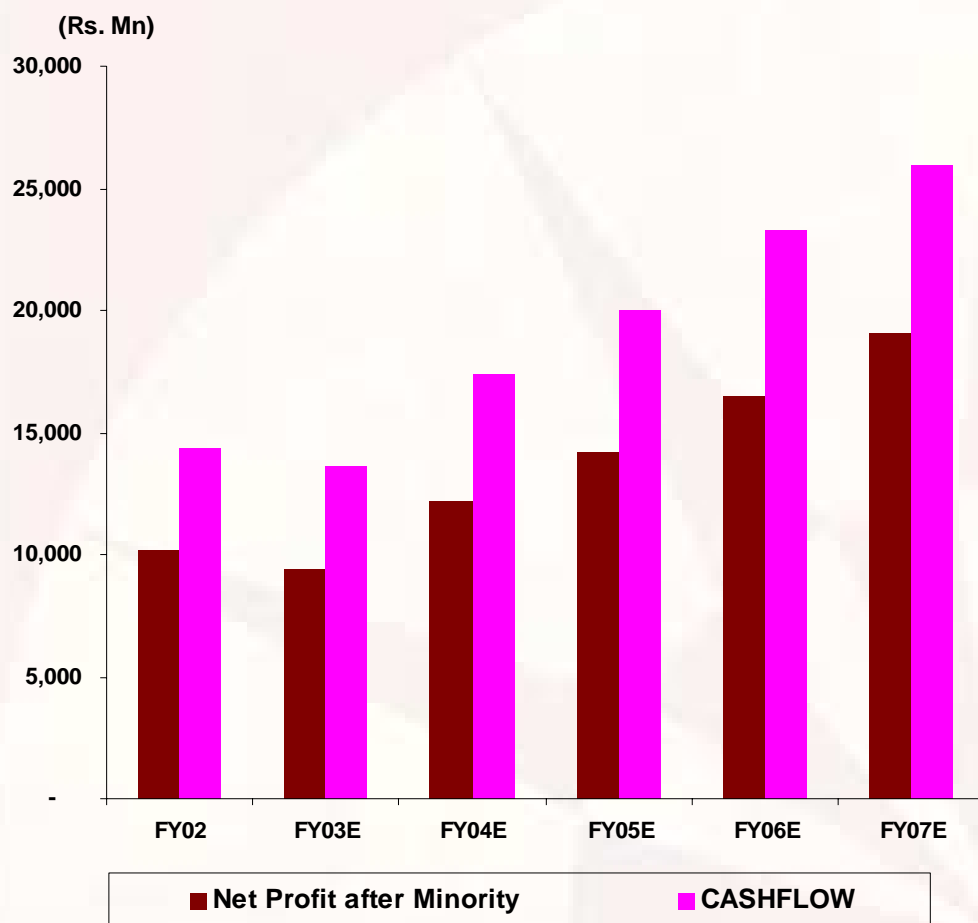
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*Strengthened growth outlook, backed by a possible improvement in global industry environment will boost earnings growth and result in impressive rise in ROCE...*

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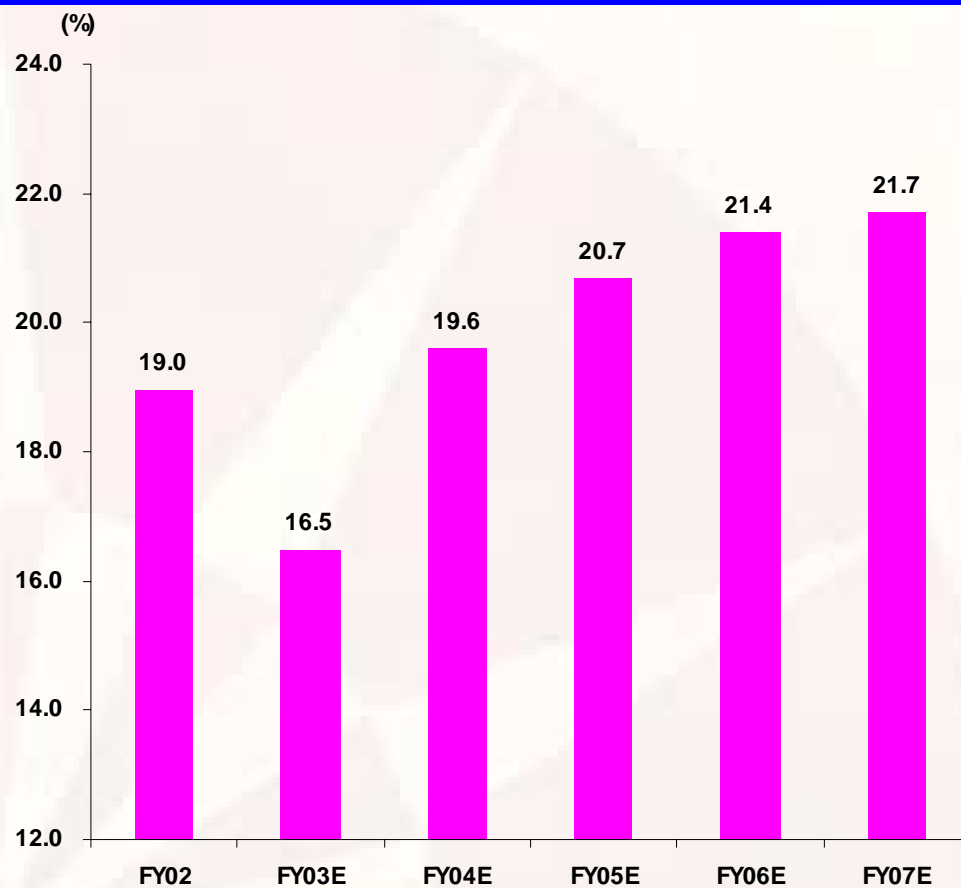
# Profits to grow 13% CAGR & ROCE to reach 22%

## Net Profit to grow 13% annually



Source: JM Morgan Stanley Research

## Sustained Improvement in ROCE to 22%



Source: JM Morgan Stanley Research

***Birla Copper will contribute to strengthening of ROCE***

# A Wider Canvas to Drive Long Term Growth



## Aluminium

- **Nalco**
- **Greenfield Alumina / Smelter**
- **Low Cost Brownfield Expansion**
- **Opportunities in Downstream Aluminium**

## Copper

- **Further Low Cost Expansions in Copper**
- **Mine Acquisitions**
- **Domestic Acquisition Opportunities, including PSU disinvestments**

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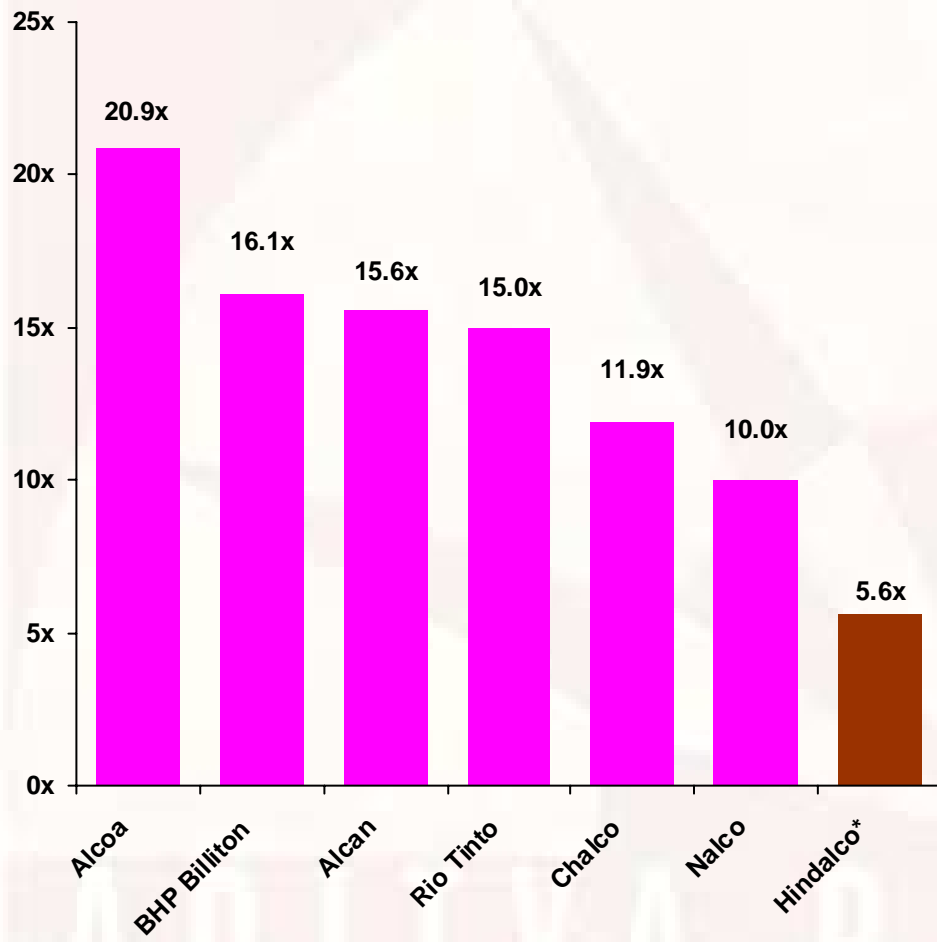
***We believe, sustainable growth momentum and attractive returns are yet to be reflected in stock valuations***

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# Value Pick...



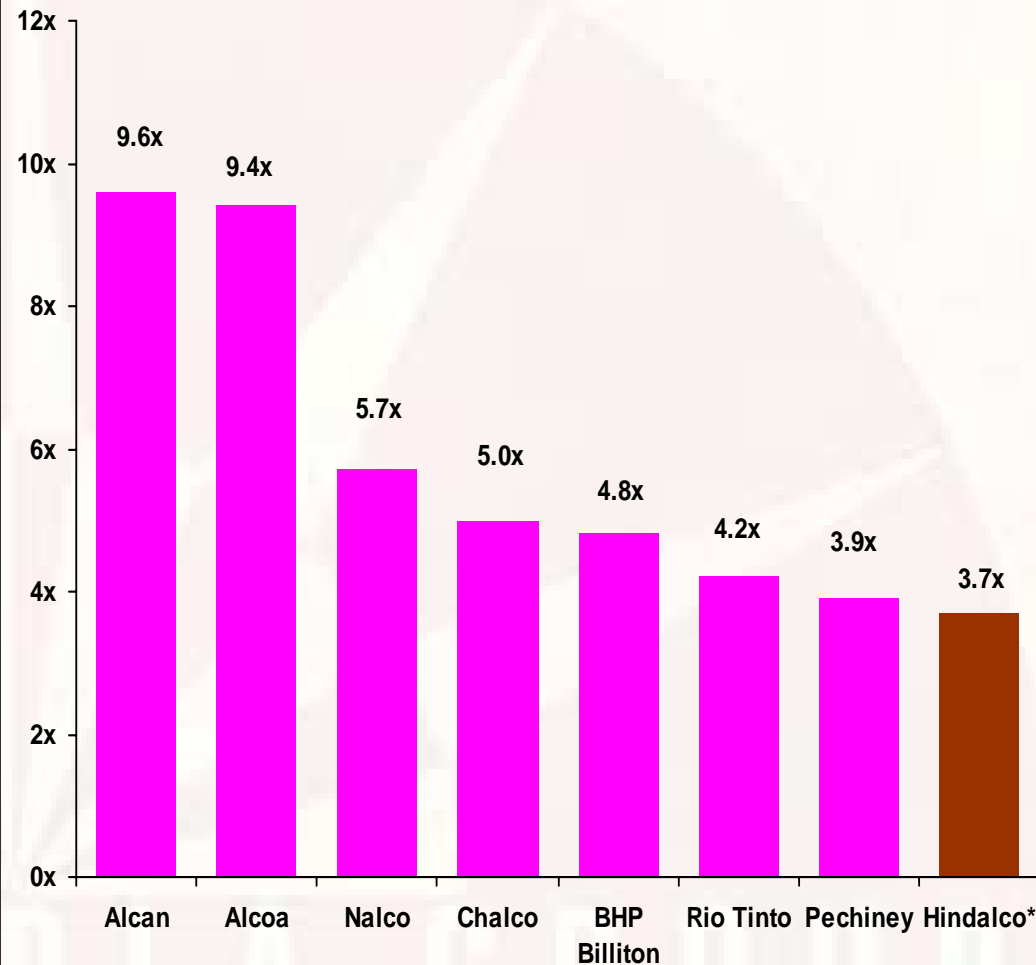
## PER (x) CY02/FY03(E)



Source: Bloomberg; Stock prices as on 10<sup>th</sup> March 2003

\* Consolidated Financials of Hindalco – 9 month Results Annualised

## EV/EBIDTA (x) CY02/FY03(E)



Source: Bloomberg; Stock prices as on 10<sup>th</sup> March 2003

\* Consolidated Financials of Hindalco

# ...Ahead of Possible Re-rating



	Price	M.Cap	PER (x)		EV/EBIDTA (x)		P/BV (x)	
			CY2002	CY2003	CY2002	CY2003		
		US\$ mn	/FY03E	/FY04E	/FY03E	/FY04E		
Alcoa	USD	18.8	15,882	20.9	15.3	9.4	6.4	1.6
Alcan	CAD	39.1	8,201	15.6	11.7	9.6	8.1	0.9
Pechiney	EUR	21.5	1,903	NM	8.8	3.9	3.6	0.6
Chalco	HKD	1.3	1,766	11.9	9.4	5.0	4.4	1.0
Nalco	INR	81.7	1,096	10.0	7.8	5.7	4.7	1.6
BHP Billiton	AUD	8.6	19,005	16.1	15.1	4.8	5.1	1.4
Rio Tinto	AUD	30.8	9,064	15.0	15.0	4.2	4.1	1.1
<b>HINDALCO</b>								
- Today	INR	580.4	891	7.3	5.8	4.5	3.5	0.8
- Consolidated	INR	580.4	1,155	5.6	4.3	3.7	2.9	0.7

Source: Bloomberg Data as on 10<sup>th</sup> March 2003

***We believe, substantial discount to Global peers notwithstanding impressive growth and returns should drive a re-rating***

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***Thank You***

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