



# Proxy Advisory Report Hindalco Industries Ltd.

BSE Code: 500440 | NSE Code: HINDALCO | ISIN: INE038A01020

Sector: Non-Ferrous Metals | Meeting Type: Extraordinary General Meeting

e-Voting Platform: [Karvy](#)

e-Voting Period: From 6<sup>th</sup> December, 2016 to 8<sup>th</sup> December, 2016

Meeting Date: 9<sup>th</sup> December, 2016 at 3:00 PM

Cut-Off date to be eligible for voting: 3<sup>rd</sup> December, 2016

Meeting Venue: Century Bhavan Sabhagrah, Century Bhavan, Dr. Annie Besant Road, Worli, Mumbai – 400 030, Maharashtra

Notice: [Click here](#) | Annual Report: [FY 2015-16](#)

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**REPORT SNAPSHOT**
**TABLE 1 - AGENDA ITEMS AND RECOMMENDATIONS**

S. No.	Resolution	Type	Recommendation	Concern <sup>#</sup>	Pg.
1	Issue of Securities	S	<u>AGAINST</u>	<b>F/G</b>	<u>4</u>

*S - Special Resolution*

**RESEARCH ANALYST: WAHEED SHAIKH**

**#Concern Terminology**

**C - Compliance:** The Company has not met statutory compliance requirements

**F - Fairness:** The Company has proposed steps which may lead to undue advantage of a particular class of shareholders and can have adverse impact on non-controlling shareholders including minority shareholders

**G - Governance:** SES questions the governance practices of the Company. The Company may have complied with the statutory requirements in letter. However, SES finds governance issues as per its standards.

**T - Disclosures & Transparency:** The Company has not made adequate disclosures necessary for shareholders to make an informed decision. The Company has intentionally or unintentionally kept the shareholders in dark.

**KEY ISSUE**

**Issue of Securities:** Excessive dilution and Discount to QIP. Further, the Company states that “.....any other financial instruments convertible into Equity Shares (including warrants, or otherwise, in registered or **bearer** form).” SES is of the opinion that it is result of bad drafting / copy and paste of the resolution unless the Company has intention to flout laws of the land. In India, presently **bearer securities** cannot be issued and with PMLA, AMLA and provisions of FATF being implemented vigorously probably world over, bearer securities cannot be issued. The Company must take proper care in drafting resolutions to safeguard its reputation. (See [detailed discussion](#))

## COMPANY BACKGROUND

 TABLE 2 - MARKET DATA (As on 18<sup>th</sup> November, 2016)

Price (₹)	165.50	Market Cap (₹ Cr.)	34,178.87	Shares*	2,06,51,88,418	PE Ratio"	56.29
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Source: Capitaline

 \* As on 30<sup>th</sup> September, 2016

"Based on EPS for FY 2016

TABLE 3: FINANCIAL INDICATORS (STANDALONE)

(In ₹ Crores)	2016	2015	2014
Revenue	34,317.66	34,525.03	27,850.93
Other Income	1,066.21	882.21	1,124.42
Total Income	35,383.87	35,407.24	28,975.35
PBDT	2,009.61	2,083.94	2,508.67
Net Profit	607.25	925.16	1,413.33
EPS (₹)	2.94	4.48	7.09
Dividend per share (₹)	1.00	1.00	1.00
Dividend Pay-Out (%)	40.97	26.89	16.99
Face Value per share (₹)	1.00	1.00	1.00
OPM (%)	12.78	10.78	11.56
NPM (%)	1.77	2.68	5.07

Dividend pay-out includes Dividend Distribution Tax. Source: BSE

TABLE 4: PEER COMPARISON (2016)

National Aluminium Company Ltd	
	6,816.00
	536.57
	7,352.57
	1,526.85
	731.01
	2.84
	2.00
	84.83
	5.00
	22.42
	10.72

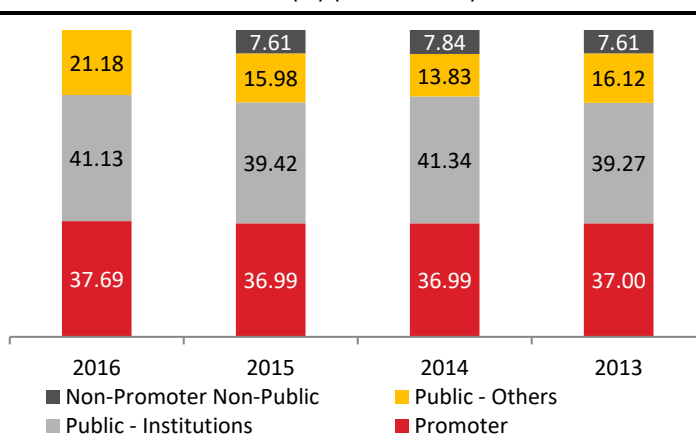
TABLE 5: MAJOR PUBLIC SHAREHOLDERS (SEP' 16)

LIC and its Associate Funds	13.14%
Bajaj Allianz Life Insurance Company	1.36%

TABLE 6: MAJOR PROMOTERS (SEP' 16)

IGH Holdings Private Limited	16.95%
Turquoise Inv. and Finance Pvt Ltd	6.00%
Trapti Trading and Inv. Pvt Ltd	4.51%
Grasim Industries Limited	2.64%
Aditya Birla Nuvo Limited	1.62%
Pilani Investment and Industries Corp.	1.41%
Umang Commercial Company Pvt Ltd.	1.32%

SHAREHOLDING PATTERN (%) (SEPTEMBER)



Graph 1: Yearly Shareholding Pattern

DISCUSSION (Changes between Oct '15 to Sept '16)

- 2,02,658 shares have been allotted under ESOP scheme.
- **Promoter shareholding has increased by 0.70%.**
- The shareholding of promoter, public-institution, public-others & non-promoter non-public has changed during the above mentioned period due to reclassification of the shareholders as per the SEBI circular dated 30<sup>th</sup> November, 2015.
- **Promoters has pledged/encumbered 0.09% of their shareholding**

## RESOLUTION ANALYSIS

### RESOLUTION 1: ISSUE OF SECURITIES

Further Issue of Securities.

- To create, offer, issue and allot, such number of equity shares of the Company of face value ₹1 each for an aggregate amount not exceeding ₹5,000 Crores.

### SES RECOMMENDATION

The Company proposes to allot equity shares up to ₹5,000 crores. SES is of the opinion that existing shareholders should have first right to participate in any capital issue. Any other mode of capital issue should only be undertaken if the Company is in urgent need of funds. Further, the Company has not disclosed any specific reason for raising equity capital, which indicates that there is no urgent requirement for capital at the Company. Under such circumstances, SES is of the opinion that the Company should go for a rights issue to avoid dilution. Further, the Company has disclosed that it may make a QIP offer at a discount, which may lead to arbitrage opportunities in absence of a lock-in period. Further, it would be seen that securities could be issued in bearer form. SES is of the view that the current laws does not allow any type of bearer securities to be issued. Additionally, the proposed issue would have a dilution effect of 12.76% on public shareholding. Therefore, SES recommends that shareholders vote **AGAINST** the resolution.

### SES RATIONALE

Excessive dilution. Discount to QIP.

### SES ANALYSIS

#### OBJECTIVE OF THE ISSUE (AS STATED BY THE COMPANY)

*"The Board shall issue Securities pursuant to this special resolution and utilize the proceeds for business purposes, including but not limited to meet capital expenditure and working capital requirements of the Company and its subsidiaries, joint ventures and affiliates, including investment in subsidiaries, joint ventures and affiliates, repayment of debt, exploring acquisition opportunities and general corporate purposes."*

#### DETAILS OF THE ISSUE

**Securities to be issued:** Equity shares of the Company of face value ₹1 each ("Equity Shares"), Global Depository Receipts ("GDRs"), American Depository Receipts ("ADRs"), Foreign Currency Convertible Bonds ("FCCBs"), fully convertible debentures/partly convertible debentures, preference shares convertible into Equity Shares, and/or any other financial instruments convertible into Equity Shares (including warrants, or otherwise, in registered or bearer form) and/or any security convertible into Equity Shares with or without voting/special rights and/or securities linked to Equity Shares and/or securities with or without detachable warrants with right exercisable by the warrant holders to convert or subscribe to Equity Shares (all of which are hereinafter collectively referred to as "Securities") or any combination of Securities.

**Issue Type:** Issue by way of one or more public and/or private offerings, and/ or on preferential allotment basis including Qualified Institutions Placement ("QIP") or any combination thereof.

**Issue Size:** For an aggregate amount not exceeding ₹5,000 Crores.

**Issue Price:** Not disclosed

**Eligible investors:** Qualified Institutional Buyers ("QIBs"), foreign/resident investors (whether institutions, incorporated bodies, mutual funds, individuals or otherwise), venture capital funds (foreign or Indian), alternate investment funds, foreign institutional investors, foreign portfolio investors, qualified foreign investors, Indian and/or multilateral financial



institutions, mutual funds, insurance companies, non-resident Indians, stabilizing agents, pension funds and/or any other categories of investors, whether they be holders of equity shares of the Company or not (collectively called the "Investors").

## OTHER DISCLOSURES

If issue made to QIP:

**Eligible Investors:** Qualified Institutional Buyers ("QIBs")

*"...any issue of Eligible Securities made by way of a QIP in terms of Chapter VIII of the SEBI ICDR Regulations shall be at such price which is not less than the price determined in accordance with the pricing formula provided under Chapter VIII of the SEBI ICDR Regulations (the "QIP Floor Price"). The Company may, however, in accordance with applicable law, also offer a discount of not more than 5% (Five Percentage) or such percentage as permitted under applicable law on the QIP Floor Price."*

**It should be noted that if the Company decides to offer shares through QIP, the shares may be issued at a discount. Shareholders should note that in case of QIP, there is no lock-in period for the shares allotted. If shares are offered through the QIP route at a discount to the market price, qualified institutional buyers participating in the QIP may exploit the arbitrage opportunity to earn higher returns at the cost of existing shareholders of the Bank. Therefore, SES recommends that no price discount should be placed on QIPs.**

**Relevant Date:**

1. In the event that equity shares are issued to QIBs by way of a QIP, the **relevant date** for the purpose of pricing of the Equity Shares shall be the date of the meeting in which the Board decides to open the proposed issue of Equity Shares as Eligible Securities.
2. In the event that Securities are proposed to be issued as FCCBs, ADRs or GDRs, the **relevant date** for the purpose of pricing the Securities shall be determined in accordance with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through the Depository Receipt Mechanism) Scheme, 1993, or the Depository Receipt Scheme, 2014, as the case may be.

**Allotment to promoter group:** No

**Timeline:** The allotment shall be completed within twelve months from the date of this resolution or such other time as may be allowed under the SEBI ICDR Regulations from time to time.

**Pricing of the Issue:** At such price or prices, at a discount or premium to market price or prices permitted under applicable laws.

## DILUTION TO SHAREHOLDING

The 'Relevant Date' based on which pricing is done, is prospective in nature, exact dilution to shareholders cannot be calculated. However, SES has calculated approximate dilution assuming that the shares are issued at the current market price.

Size of the issue: ₹5,000 Crores

Current Market Price (as on 18<sup>th</sup> November, 2016): ₹165.50

Approximate number of shares that may be issued: 30.21 Crores

Total Outstanding Shares (as on 30<sup>th</sup> September, 2016): 206.52 Crores

**Potential dilution (approximate): 12.76%**



**CONFLICT OF INTERESTS**

The Directors or key managerial personnel of the Company or their relatives may be deemed to be concerned or interested in the proposed resolution to the extent of Equity Shares that may be subscribed by the companies / institutions in which they are Directors or members.

**SES VIEWS**

1. The Company proposes to allot equity shares up to ₹5,000 crores. SES is of the opinion that existing shareholders should have first right to participate in any capital issue. Any other mode of capital issue should only be undertaken if the Company is in urgent need of funds.
2. The Company has not disclosed any specific reason for raising equity capital, which indicates that there is no urgent requirement for capital at the Company. Under such circumstances, SES is of the opinion that the Company should go for a rights issue to avoid dilution.
3. The Company has disclosed that it may make a QIP offer at a discount, which may lead to arbitrage opportunities in absence of a lock-in period.
4. The Company further states that “.....any other financial instruments convertible into Equity Shares (including warrants, or otherwise, in registered or **bearer** form).” SES is of the opinion that it is result of bad drafting / copy and paste of the resolution unless the Company has intention to flout laws of the land. In India, presently **bearer securities** cannot be issued and with PMLA, AMLA and provisions of FATF being implemented vigorously probably world over, bearer securities cannot be issued. The Company must take proper care in drafting resolutions to safeguard its reputation.
5. Additionally, the proposed issue would have a dilution effect of 12.76% on public shareholding.

**DISCLAIMER****Sources**

Only publicly available data has been used while making the report. Our data sources include: BSE, NSE, SEBI, MCA, Capitaline, Moneycontrol, Businessweek, Reuters, Annual Reports, IPO Documents and Company Website.

**Analyst Certification**

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