

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	HNDL IN
Equity Shares (m)	2,229
M.Cap.(INRb)/(USDb)	264.1 / 3.5
52-Week Range (INR)	221 / 85
1, 6, 12 Rel. Per (%)	8/-20/-24
12M Avg Val (INR M)	1634

Financials & Valuations (INR b)

Y/E MARCH	2020E	2021E	2022E
Sales	1,184.3	1,177.4	1,347.9
EBITDA	142.6	129.1	158.8
Adj. PAT	44.9	21.3	42.8
EBITDA Margin (%)	12.0	11.0	11.8
Cons. Adj. EPS (INR)	20.2	9.6	19.2
EPS Gr. (%)	-18.4	-52.6	101.2
BV/Sh. (INR)	185.7	170.0	179.9

Ratios

Net D:E	0.9	1.4	1.3
RoE (%)	11.2	5.4	11.0
RoCE (%)	8.7	6.1	7.9
Payout (%)	9.3	20.8	16.4

Valuations

P/E (x)	5.8	12.3	6.1
P/BV (x)	0.6	0.7	0.7
EV/EBITDA(x)	4.5	6.2	5.0
Div. Yield (%)	1.4	1.4	2.3

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	34.7	34.7	34.7
DII	26.7	25.3	22.4
FII	18.9	21.0	23.9
Others	19.7	19.1	19.1

FII Includes depository receipts

CMP: INR118 TP: INR179 (+52%) Buy

Novelis' strong performance continues

Marginal decline in EBITDA despite 7% YoY lower volumes

- Hindalco's (HNDL) subsidiary Novelis' 4QFY20 results highlight the company's strength in its high-margin business with EBITDA/t of USD436/t.
- We lower our FY21/FY22E EBITDA estimates by 7%/4% due to lower-than-expected volumes in Novelis on account of COVID-19. However, we reiterate our **Buy** rating given the attractive valuation (5x FY22E EV/EBITDA) and ~75% EBITDA contribution from the non-LME business (Novelis and Aleris), which provides more stability to earnings.

EBITDA remains strong despite volume decline

- Reported Adj. EBITDA at USD383m was up 7% YoY (+12% QoQ). After adj. one-time receipt of USD29m from a customer not fulfilling contract obligations in Europe, adj. EBITDA stood at USD354m (v/s est. USD346m), down 4% YoY (+3% QoQ).
- Volumes declined 7% YoY to 811kt, led by 6-9% decline across geographies, except in South America (148kt, +6% YoY) due to shutdown taken by auto customers amid the COVID-19 pandemic.
- Adj. EBITDA/t stood at USD436/t (adj. of USD29m one-time benefit), well within the guided range of USD420-440/t (v/s est. USD415/t).
- FCF post capex stood at USD384m, down 6% YoY in FY20 despite an increase in capex to USD599m (v/s USD351m in FY19) due to an increase in EBITDA.
- Net debt reduced by USD0.29b in FY20 to USD3.15b at end-FY20.
- Net debt/EBITDA further reduced to 2.1x (v/s 2.5x last year).
- Liquidity profile remained strong at USD2.0b at end-Apr'20.

Demand outlook uncertain

- While beverage can demand remains resilient in North America and Europe due to strong in-house consumption trend, it could get impacted in Asia and South America due to trade restrictions, lower tourism and decline in consumer spending. Share of beverage cans increased by 300bp to 66% of total volumes in FY20.
- Demand outlook for auto remains uncertain in North America and Europe due to the massive unemployment situation owing to the COVID-19 pandemic. Similarly, outlook for aerospace remains bleak due to travel restrictions globally.
- The company is focused on preserving cash and has guided for capex spend of USD500m in FY21 v/s USD599m in FY20. It is also looking to cut fixed costs by USD250m in FY21E to reduce costs.
- The company has completed Aleris' acquisition in Apr'20; sale of Duffel plant to Liberty Group should get completed on approval of Chinese Authority.

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- Company guided for peak Net Debt/EBITDA of 4.0x post Aleris Acquisition. The company has guided for Net Debt/EBITDA of 3.0x in two years' time.

Valuation and view

We remain conservative on profitability and build in lower EBITDA margin of USD380/t for FY21E and USD400/t for FY22E (v/s USD441/t in FY20). We have also reduced our volume estimate by 9% in FY21E but expect normalized volumes in FY22E. We have factored in EBITDA of USD210m/USD250m from Aleris' operations and earnings of Lewis Port under continued operations due to lack of clarity on its profitability. With ~75% EBITDA contribution from non-LME business i.e. conversion business (Novelis + Aleris), we see lesser volatility in Hindalco's earnings. The stock trades at an attractive valuation of 5.0x EV/EBITDA and 6x P/E on FY22E. We value it at INR179/share based on SOTP. Re-iterate **Buy**.

Quarterly Performance (Novelis) – USD m

Y/E March	FY19				FY20				FY19	FY20	vs Est	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				4QE
Sales (000 tons)	797	807	800	870	830	835	797	811	3,274	3,273	835	-3
Change (YoY %)	1.5	0.6	0.5	8.1	4.1	3.5	-0.4	-6.8	2.7	0.0	-4.1	
Net Sales	3,097	3,136	3,009	3,084	2,925	2,851	2,715	2,726	12,326	11,217	2,795	-2
Change (YoY %)	16.0	12.2	-2.5	0.6	-5.6	-9.1	-9.8	-11.6	6.1	-9.0	-9.4	
EBITDA (adjusted)	334	355	322	357	368	378	343	354	1,368	1,443	346	2
Change (YoY %)	15.6	17.5	5.6	11.9	10.2	6.5	6.5	-0.8	12.6	5.5	-3.0	
EBITDA per ton (USD)	419	440	403	410	443	453	430	436	418	441	415	5
Interest	63	66	64	65	62	58	57	63	258	240	68	-7
Depreciation	86	86	88	90	88	88	91	94	350	361	87	9
PBT (before EO item)	185	203	170	202	218	232	195	197	760	842	192	3
Extra-ordinary Income	5	(23)	(55)	(51)	(28)	(60)	(39)	(113)	(124)	(240)	(30)	
PBT (after EO item)	190	180	115	151	190	172	156	84	636	602	162	-48
Total Tax	53	64	37	48	63	49	49	21	202	182	50	-58
Reported PAT	137	116	78	103	127	123	107	63	434	420	112	-44
Change (YoY %)	36	-62	-36	-8	-7	6	37	-39	-29	-3	9	
Adjusted PAT	132	139	133	154	155	183	146	176	558	660	142	24

Management call highlights

Beverage can market

- Demand is resilient in North America and Europe due to strong in-house consumption trend.
- However, trade restrictions are limiting the company's ability to sell in Asia. Reduced tourism, public events and consumer spending should impact demand in South America and Asia.

Auto market

- Due to Auto customer shutdowns in Europe and North America from late-Mar'20, Novelis' auto facilities remain shut. Expect operations to restart in line with customer demand.
- In China, auto producers have started production in Mar'20 after shutdowns in Jan-Feb'20.
- Global recession concerns pose a threat to demand.

Special Manageties market

- Demand softening was seen at the beginning of late-Mar'20. Outlook remains weak.

Aerospace market

- Demand has been impacted significantly due to lower consumer travel trends. No guidance has been provided.

Guidance

- Management did not provide any volume guidance for FY21 as impact of COVID-19 remains uncertain.
- Management has maintained EBITDA/t guidance at USD420-440/t under normal circumstance; however, it may be impacted severely in FY21E due to lower share of auto volumes in the mix and un-absorption of fixed cost due to lower volumes. No guidance, however, was provided for FY21 margin.
- Management did not provide any guidance for Aleris' business. It would start providing guidance for Aleris 1QFY21 results onwards.
- Management has guided for capex spend of USD500m in FY21, lower by USD100m v/s FY20. Further, it is also working on fixed cost reduction of USD250m in FY21.

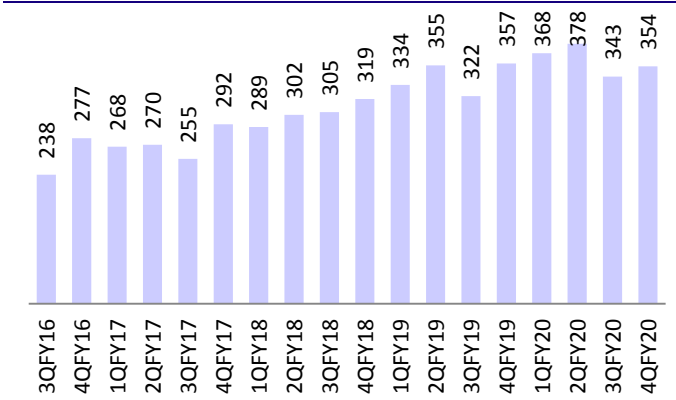
Aleris acquisition

- Novelis has completed the acquisition of Aleris in Apr'20 for a consideration of USD2.8b.
- Duffel plant sale is pending approval from Chinese Authorities.
- The company expects to sell the Lewis Port asset in the next 12 months.
- From financial reporting point of view, operating results and assets of the Duffel plant and Lewis Port facility shall be disclosed as part of discontinuing operations.

Project expansion

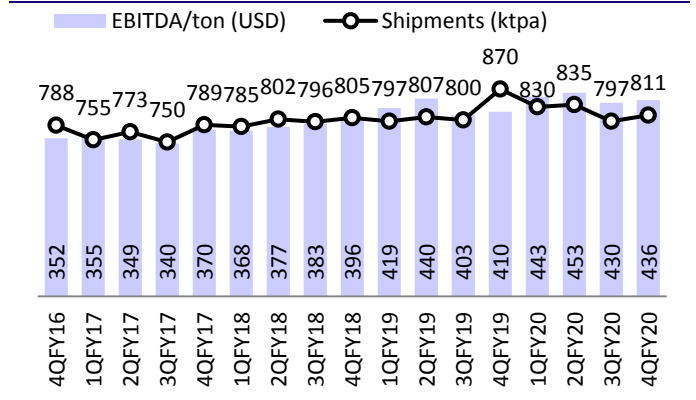
- The 100kt rolling capacity expansion in Brazil is on track and is expected to start in FY22E. However, management has delayed commissioning of 200kt automotive finishing line in the US and 100kt automotive finishing line in China to 2HFY21 in order to align with demand and reduce costs.

Exhibit 1: Novelis' adjusted EBITDA (USD m)



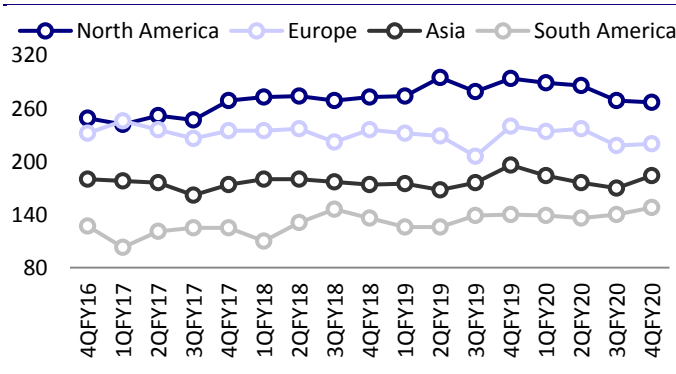
Source: MOFSL, Company

Exhibit 2: Novelis' EBITDA/t and shipments



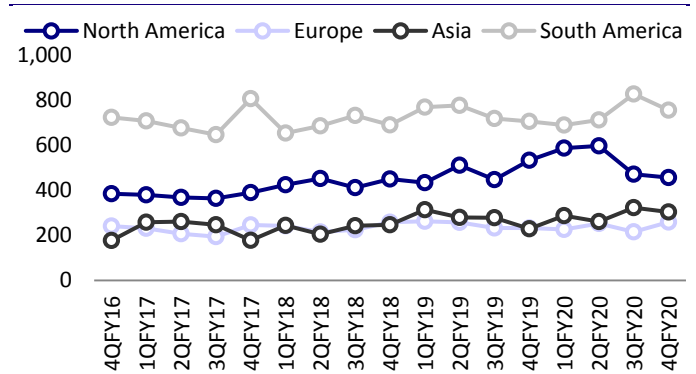
Source: MOFSL, Company

Exhibit 3: Novelis' FRP shipments (kt)



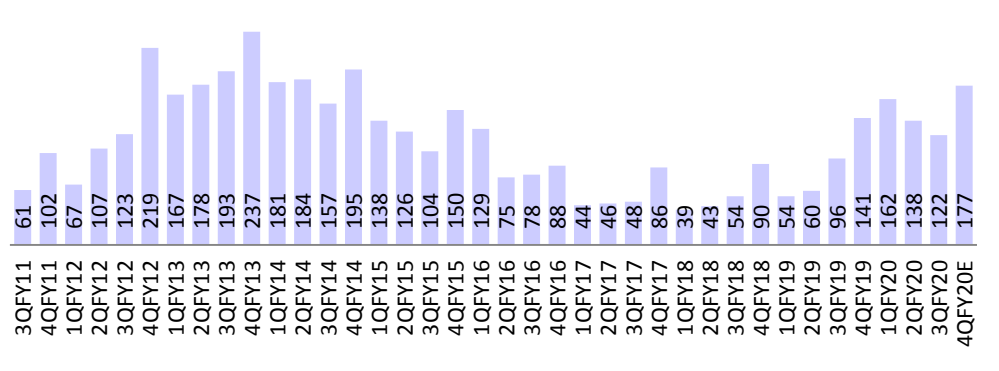
Source: MOFSL, Company

Exhibit 4: Novelis' regional EBITDA/t trends



Source: MOFSL, Company

Exhibit 5: Novelis' capex (USD m)



Source: MOFSL, Company

Valuation and view

- With contracting global demand for primary aluminum, aluminum LME is trading near historical lows. Though cost pressure has subsided due to lower commodity prices, at current LME, several global aluminum smelters would still be in losses, which we believe is unsustainable. Given HNDL's low-cost integrated production, it is well placed to benefit as LME recovers.
- We remain conservative on profitability and build in lower EBITDA margin of USD380/t for FY21E and USD400/t for FY22E (v/s USD441/t in FY20) for Novelis. We have also reduced volume estimates by 9% in FY21E and expect normalized volumes in FY22E.
- We have factored in EBITDA of USD210m/USD250m from Aleris' operations for FY21/FY22E. We have factored in earnings of Lewis Port under continued operations due to lack of clarity on Lewis Port's profitability.
- With ~75% EBITDA contribution from non-LME business i.e. the conversion business (Novelis + Aleris), we see stability in Hindalco's earnings.
- The stock trades at an attractive valuation of 5.0x EV/EBITDA and 6x P/E on FY22E. We value it at INR179/share based on SOTP. Re-iterate **Buy**.

Exhibit 6: Target price derivation

INR m	Multiple	FY22E EBITDA	EV	INR Per share
India operations	5.0	40,349	2,01,747	91
Aleris	5.5	18,976	1,04,369	47
Novelis	6.0	99,447	5,96,684	268
Enterprise Value			9,02,800	406
Net-Debt			5,29,929	238
Equity Value (a)			3,72,871	168
Investment in Listed securities @10% discount (b)			25,748	12
Target Price INR/sh. (a+b)				179

Source: MOSL

Financials and Valuations

Income Statement								(INR Million)
Y/E March	2016	2017	2018	2019	2020E	2021E	2022E	
Net sales	9,87,589	10,01,838	11,51,717	13,05,423	11,84,301	11,77,407	13,47,882	
Change (%)	-4.1	1.4	15.0	13.3	-9.3	-0.6	14.5	
Total Expenses	9,01,047	8,77,479	10,13,513	11,50,317	10,41,747	10,48,323	11,89,109	
EBITDA	86,542	1,24,359	1,38,204	1,55,105	1,42,554	1,29,084	1,58,773	
% of Net Sales	8.8	12.4	12.0	11.9	12.0	11.0	11.8	
Depn. & Amortization	43,468	44,572	45,062	47,770	49,144	60,425	61,370	
EBIT	43,074	79,786	93,141	1,07,335	93,410	68,659	97,402	
Net Interest	51,338	57,424	39,107	37,780	37,258	43,515	43,026	
Other income	11,888	11,110	10,046	11,271	7,921	7,586	8,088	
PBT before EO	3,624	33,472	64,080	80,826	64,073	32,731	62,465	
EO income (exp)	-5,765	-76	17,742		-16,957	-12,750	-13,620	
PBT after EO	-2,141	33,395	81,821	80,826	47,116	19,981	48,845	
Current tax	10,095	13,210	15,855	19,104	15,382	9,182	15,762	
Deffered tax (net)	-5,110	1,116	4,887	6,777	3,846	2,296	3,940	
Tax	4,984	14,326	20,742	25,881	19,228	11,478	19,702	
Rate (%)	-232.8	42.9	25.4	32.0	40.8	57.4	40.3	
Reported PAT	-7,125	19,069	61,080	54,945	27,888	8,503	29,142	
Minority interests	-4,508	-174	-1	-7	-7	-7	-7	
Share of asso.	1,715	-251	-1,251	5	5	5	5	
Adjusted PAT	4,863	19,069	42,088	54,957	44,857	21,264	42,774	
Change (%)	-82.6	-22.9	120.7	30.6	-18.4	-52.6	101.2	

Balance Sheet								(INR Million)
Y/E March	2016	2017	2018	2019	2020E	2021E	2022E	
Share Capital	2,049	2,227	2,229	2,224	2,224	2,224	2,224	
Reserves	4,04,017	4,58,361	5,46,289	5,72,793	5,96,459	6,00,474	6,22,483	
Net Worth	4,06,066	4,60,588	5,48,518	5,75,017	5,98,683	6,02,698	6,24,707	
Minority Interest	3,813	62	86	95	95	95	95	
Total Loans	6,74,754	6,37,515	5,20,155	5,24,150	5,46,830	6,87,455	6,57,455	
Deferred Tax Liability	20,970	20,168	31,333	36,505	40,351	42,646	46,587	
Capital Employed	11,05,603	11,18,333	11,00,092	11,35,767	11,85,958	13,32,894	13,28,843	
Gross Block	10,57,871	10,40,510	10,82,644	11,30,670	11,52,701	13,92,465	14,52,156	
Less: Accum. Deprn.	3,78,494	3,64,991	4,10,054	4,57,824	5,06,968	5,67,393	6,28,763	
Net Fixed Assets	6,79,377	6,75,518	6,72,590	6,72,846	6,45,733	8,25,072	8,23,393	
Goodwill	1,77,353	1,71,350	1,78,294	1,85,746	1,85,746	2,24,596	2,24,596	
Capital WIP	42,138	18,139	20,629	40,971	79,018	46,032	42,493	
Investments	47,488	62,057	68,778	51,567	51,572	51,577	51,582	
Working capital Assets	4,65,104	5,29,543	5,29,846	5,67,157	5,93,844	5,54,440	5,83,625	
Inventory	1,67,873	1,82,914	2,16,314	2,21,938	2,20,637	2,09,675	2,40,034	
Account Receivables	79,184	82,748	99,598	1,14,598	1,10,318	1,06,450	1,21,863	
Cash and Bank Balance	1,20,962	1,72,129	1,19,612	1,36,419	1,68,686	1,44,111	1,27,525	
Others (incl. LT)	97,085	91,752	94,322	94,203	94,203	94,203	94,203	
Working capital liability	3,05,857	3,38,275	3,70,046	3,82,520	3,69,956	3,68,823	3,96,846	
Account Payables	1,50,598	1,78,581	2,04,392	2,07,244	1,94,680	1,93,546	2,21,570	
Others (incl. LT)	1,55,259	1,59,694	1,65,655	1,75,276	1,75,276	1,75,276	1,75,276	
Net Working Capital	1,59,247	1,91,269	1,59,800	1,84,637	2,23,888	1,85,617	1,86,779	
Appl. of Funds	11,05,603	11,18,333	11,00,092	11,35,767	11,85,958	13,32,894	13,28,843	

Financials and Valuations

Ratios							
Y/E March	2016	2017	2018	2019	2020E	2021E	2022E
Basic (INR)							
EPS	2.4	8.6	18.9	24.7	20.2	9.6	19.2
Cash EPS	17.7	28.6	47.6	46.2	34.6	31.0	40.7
BV/Share (adj.)	111.6	129.9	166.1	175.0	185.7	170.0	179.9
DPS	1.0	1.1	1.4	2.4	1.6	1.7	2.7
Payout (%)	49.3	15.0	8.7	11.4	9.3	20.8	16.4
Valuation (x)							
P/E	49.5	13.7	6.2	4.8	5.8	12.3	6.1
Cash P/E	6.6	4.1	2.5	2.5	3.4	3.8	2.9
P/BV	1.1	0.9	0.7	0.7	0.6	0.7	0.7
EV/Sales	0.8	0.7	0.6	0.5	0.5	0.7	0.6
EV/EBITDA	9.2	5.8	4.8	4.2	4.5	6.2	5.0
Dividend Yield (%)	0.9	0.9	1.2	2.0	1.4	1.4	2.3
Return Ratios (%)							
EBITDA Margins (%)	8.8	12.4	12.0	11.9	12.0	11.0	11.8
Net Profit Margins (%)	0.5	1.9	3.7	4.2	3.8	1.8	3.2
RoE	2.2	7.1	12.8	14.5	11.2	5.4	11.0
RoCE (pre-tax)	4.9	8.2	9.3	10.6	8.7	6.1	7.9
RoIC (pre-tax)	5.0	9.1	10.8	11.9	10.4	6.9	8.9
Working Capital Ratios							
Fixed Asset Turnover (x)	0.9	1.0	1.1	1.2	1.0	0.8	0.9
Asset Turnover (x)	0.9	0.9	1.0	1.1	1.0	0.9	1.0
Debtor (Days)	29.3	30.1	31.6	32.0	34.0	33.0	33.0
Inventory (Days)	62.0	66.6	68.6	62.1	68.0	65.0	65.0
Payable (Days)	55.7	65.1	64.8	57.9	60.0	60.0	60.0
Leverage Ratio (x)							
Current Ratio	1.5	1.6	1.4	1.5	1.6	1.5	1.5
Interest Cover Ratio	0.8	1.4	2.4	2.8	2.5	1.6	2.3
Debt/Equity	2.4	1.6	1.1	1.0	0.9	1.4	1.3

Cash Flow Statement							(INR Million)
Y/E March	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA	86,542	1,24,359	1,38,204	1,55,105	1,42,554	1,29,084	1,58,773
XO Exp. (income)	1,543	3,622	2,617	439	7	7	8
tax paid	-12,291	-7,797	-14,081	-18,883	-15,382	-9,182	-15,762
Change in WC	41,083	6,691	-17,862	-16,865	-6,984	13,696	-17,748
CF from Op. Activity	1,16,877	1,26,875	1,08,877	1,19,795	1,20,194	1,33,605	1,25,271
(Inc)/Dec in FA + CWIP	-42,452	-29,376	-30,008	-60,053	-65,794	-60,902	-56,152
Free Cash Flow to firm	74,426	97,499	78,870	59,742	54,400	72,703	69,119
(Pur)/Sale of Inv. & yield	15,859	5,667	24,685	6,615	7,921	7,586	8,088
Others & M&A	6	3,524	8,052	5,063		-1,84,725	
CF from Inv. Activity	-26,586	-20,185	2,730	-48,375	-57,873	-2,38,041	-48,064
Equity raised/(repaid)	1	33,141	162	-1,176			
Debt raised/(repaid)	-36,003	-25,430	-1,22,863	-14,443	28,395	1,40,625	-30,000
Interest	-50,057	-60,754	-38,486	-35,766	-37,258	-43,515	-43,026
Dividend (incl. tax)	-2,558	-2,479	-2,938	-3,229	-4,234	-4,499	-7,145
CF from Fin. Activity	-88,619	-55,523	-1,64,124	-54,613	-13,097	92,611	-80,172
(Inc)/Dec in Cash	1,673	51,167	-52,517	16,807	49,224	-11,825	-2,965
Add: Opening Balance	1,19,289	1,20,962	1,72,129	1,19,612	1,36,419	1,68,686	1,44,111
Closing Balance	1,20,962	1,72,129	1,19,612	1,36,419	1,85,643	1,56,861	1,41,146

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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