

**BSE SENSEX**  
 38,071

**S&P CNX**  
 11,203

**CMP: INR164**
**TP: INR198 (+21%)**
**Buy**

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## Stock Info

	HNDL IN
Bloomberg Equity Shares (m)	2,229
M.Cap.(INRb)/(USDb)	368.5 / 4.9
52-Week Range (INR)	221 / 85
1, 6, 12 Rel. Per (%)	4/-9/-16
12M Avg Val (INR M)	1892
Free float (%)	65.4

## Financials Snapshot (INR b)

Y/E Mar	2020	2021E	2022E
Sales	1,181	1,235	1,405
EBITDA	142.1	136.5	157.8
NP	38.9	25.7	40.7
AdjEPS (INR)	17.5	11.6	18.3
EPS Gr. (%)	-29.2	-33.8	58.1
BV/Sh. (INR)	171.8	164.0	179.6
RoE (%)	10.1	6.9	10.6
RoCE (%)	8.5	6.3	7.4
Payout (%)	8.0	17.2	17.3

## Valuation

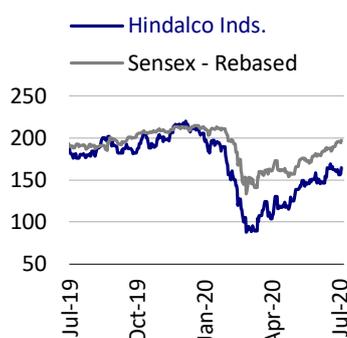
P/E (x)	9.4	14.2	9.0
P/BV (x)	1.0	1.0	0.9
EV/EBITDA (x)	5.4	6.8	5.6
EV/Ton (USD)	0.7	1.0	1.6

## Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	34.7	34.7	34.7
DII	27.3	26.7	24.4
FII	18.8	18.9	22.4
Others	19.3	19.7	18.6

FII Includes depository receipts

## Stock Performance (1-year)



## Rising LME and improving demand positive

### Beverage Can demand remains resilient, Automotive improving

Hindalco (HNDL)'s global peers Constellium, Norsk Hydro, and Crown Holdings reported their 2QCY20 results recently. A read-through of these indicated a positive outlook for near-term volumes and margins at Novelis (HNDL's overseas business).

- In 2QCY20, volumes declined by ~10% YoY in Beverage Can (weakness in Latin America and Europe), ~55% YoY in Automotive, and ~40% in Aerospace. However, demand is improving, with volumes in 3QCY20 guided to be much better.
- The Beverage Can market remained strong in North America, with volume growth even in 2QCY20. Conversely, the European Can market witnessed decline due to weakness in Southern Europe. South America also witnessed decline due to lockdown in April; however, demand rebounded sharply mid-May onward.
- Constellium informed that its capacity utilization in Automotive has now reached 80% on account of improving demand, although the outlook remains uncertain.
- Post the Aleris merger, segmental contribution to Novelis' volumes stands at: ~50% from Beverage Can, ~20% from Automotive, and ~4% from Aerospace. The balance ~26% comes from Speciality, Building & Construction, and Truck Trailers.
- Implied volume decline in Novelis in 2QCY20 (1QFY21) from previously reported industry trends amounts to ~20% YoY, in line with our estimate.
- Also, Constellium reported receiving EUR15m aid (implied EUR50/t of vol.) from European State Employment in 2QCY20 in the wake of the COVID-19 outbreak. This led to EBITDA/t from the Packaging and Automotive segments declining just 6% YoY to EUR262/t, even as volumes declined 23% YoY. On the other hand, EBITDA/t for Aerospace and Transport (A&T) declined 32% YoY to EUR691/t, with 28% YoY decline posted in volumes.
- Moreover, spot London Metal Exchange (LME) Aluminum prices recovered ~16% from recent lows of USD1,422/t to USD1,655/t (currently), led by higher demand in China as well as a weakening DXY (US Dollar Index). This should benefit HNDL's Indian business (~30% of consol. EBITDA), a key producer and supplier of primary aluminum.

## Valuation and view

- Hindalco (HNDL) remains our preferred non-ferrous pick owing to: 1) its resilience in the Beverage Can business, 2) improving Aluminum business profitability from declining costs and improving LME, 3) its long-dated maturity profile, 4) consistent FCF generation and 5) reasonable valuation.
- With 70–75% EBITDA contribution now coming from the non-LME business (Novelis + Aleris), we also see relatively higher stability in HNDL's earnings.
- Given HNDL's low-cost (top quartile globally) integrated aluminum operations in India, we believe it is well-placed to benefit from rising LME.
- We have factored average LME of USD1,590/t in FY21E and USD1,700/t in FY22E. While we expect LME to sustain at current levels, we maintain our LME assumption due to uncertainty.
- The stock trades at 5.6x EV/EBITDA and 9.0x P/E on FY22E, at a ~20% discount to the past 10-year average. We value it at INR198/share on an SOTP basis. Reiterate **Buy**.

**Amit Murarka - Research analyst** (Amit.Murarka@motilaloswal.com)

**Basant Joshi - Research analyst** (Basant.Joshi@motilaloswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on [www.motilaloswal.com/Institutional-Equities](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

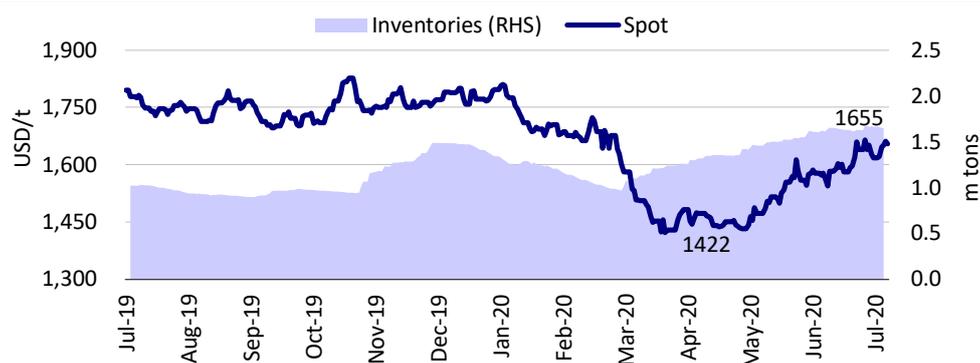
**Exhibit 1: SoTP valuation**

INR m	Multiple	FY22E EBITDA	EV	INR Per share
India operations	5.5	39,320	2,16,260	97
Aleris	6.0	18,976	1,13,858	51
Novelis	6.0	99,511	5,97,064	268
Enterprise Value			9,27,182	417
Net Debt			5,21,755	235
Equity Value (a)			4,05,427	182
Investment in Listed securities @10% discount (b)			35,435	16
<b>Target Price INR/sh. (a+b)</b>				<b>198</b>

Source: MOFSL

**LME recovery led by rising demand in China****Spot LME Aluminum prices recover ~16% from lows**

- LME Aluminum price recovered ~16% from recent lows of USD1,422/t to USD1,655/t (currently), led by higher demand in China.
- In 2QCY20, primary aluminum consumption in China grew by 5% YoY, whereas demand ex-China declined 28% YoY, resulting in a 9% YoY drop.

**Exhibit 2: Spot LME Aluminum prices recover ~16% from lows**

Source: Bloomberg, MOFSL

**Primary aluminum demand declines 9% YoY in 2QCY20**

In 2QCY20, global primary aluminum demand declined 9% YoY to 15.5mt. While demand in China rose 5% YoY (42% QoQ) to 10.2mt, demand outside China declined 28% YoY (19% QoQ) to 5.3mt. In 1HCY20, global demand fell by 9.5% to 29.2mt on 18.5% YoY decline in demand outside China and just 2% decline in China demand.

According to Norsk Hydro, the Aluminum market was in surplus of ~2.5mt (supply v/s consumption) in 2QCY20 as primary aluminum production increased 1.2% YoY in 1HCY20 amid declining demand. In CY19, the Primary Aluminum market was in a deficit of ~1mt. With weak demand expected in CY20, the Aluminum market is projected to remain in surplus of 3.1–4.7mt.

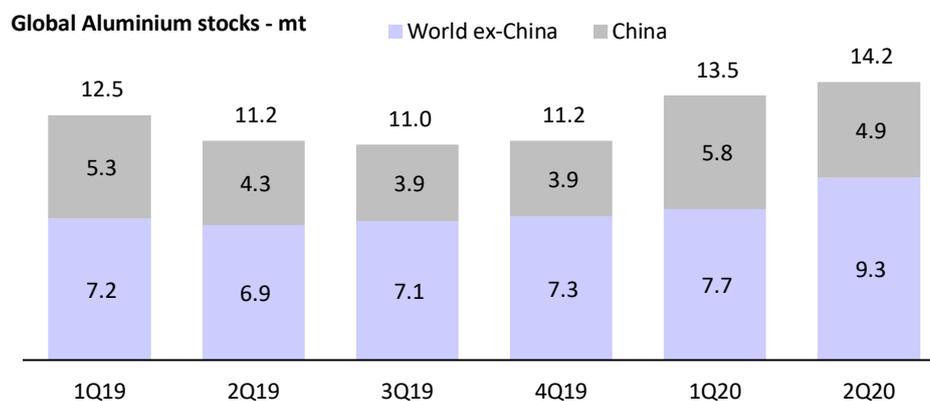
**Exhibit 3: Aluminum demand declines ~9% YoY in 1HCY20**

	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	YoY (%)	QoQ (%)	H1CY19	H1CY20	YoY (%)
<b>China Aluminum – mt</b>											
Production	8.71	8.82	8.91	8.72	8.93	9.02	2.3	1.0	17.53	17.94	2.4
Consumption	8.04	9.67	9.25	8.79	7.17	10.19	5.4	42.2	17.70	17.36	-2.0
Surplus/(Deficit)	0.67	-0.85	-0.34	-0.07	1.76	-1.18			-0.18	0.58	
<b>World ex-China Aluminum – mt</b>											
Production	6.83	6.97	7.08	7.12	6.97	6.91	-0.8	-0.8	13.79	13.88	0.6
Consumption	7.19	7.34	7.04	6.96	6.56	5.29	-28.0	-19.3	14.53	11.85	-18.5
Surplus/(Deficit)	-0.36	-0.38	0.04	0.16	0.41	1.62			-0.74	2.04	
<b>World</b>											
Production	15.54	15.78	15.99	15.84	15.89	15.93	0.9	0.2	31.32	31.82	1.6
Consumption	15.23	17.01	16.29	15.74	13.72	15.48	-9.0	12.8	32.24	29.20	-9.4
Surplus/(Deficit)	0.31	-1.23	-0.30	0.10	2.17	0.45			-0.92	2.62	

Source: Norsk Hydro, MOFSL

**Aluminum inventory up by 0.5mt QoQ in 2QCY20; inventory at >80 days of sales**

In 2QCY20, global aluminum stocks rose by 0.7mt QoQ to 14.2mt, led by a 1.6mt rise in ex-China inventory to 9.3mt. This came even as China inventory declined 0.9mt QoQ to 4.9mt on improved demand. Inventories, however, continue to remain elevated with a 3.1mt rise (v/s Dec'19), led by a 1.1mt addition in China and 2.0mt addition in RoW. Global inventory days have now reached ~80 days of consumption levels (v/s ~60 days in CY19-end).

**Exhibit 4: Aluminum inventory rises by 3.0mt in 1HCY20**

Source: Alcoa, MOFSL

**Beverage Can demand resilient; Auto demand improving**  
**Rolled/Extrusion Aluminum market demand to improve gradually**

- Rolled Aluminum market demand is guided to improve substantially in 3QCY20; it is likely to decline by just 7% YoY in North America and 11% YoY in Europe v/s decline of 29% and 26%, respectively, in 2QCY20.
- Extrusion Aluminum demand would decline 14%/22% in North America/Europe in 3QCY20 (v/s decline of 30%/32% in 2QCY20).

### **Beverage Can: Strong demand in North America; South America and Europe normalizing**

- The Beverage Can market was strong in North America, with volume growth posted even in 2QCY20.
- The European Can market witnessed decline due to weakness in Southern Europe.
- South America also witnessed decline due to lockdown in April; however, demand rebounded from mid-May onward.
- **Constellium** (peer of Novelis) witnessed marginal growth in Packaging volumes in North America in 2QCY20, offset by decline in Europe, resulting in ~12% overall decline YoY.
- **Crown Holdings** (beverage can producer) informed that volumes in North America had grown 16% YoY. It further announced the addition of two new can lines, anticipating robust demand in future. However, Latin America volumes declined significantly, leading to 3% decline in the Americas. Can volumes also declined ~12% in Europe on weakness in Southern Europe.
- Crown Holdings informed that demand in South America has been strong since mid-May and is outstripping its production capacity. On the other hand, demand in Europe is stabilizing.

### **Automotive: Demand improving with OEMs resuming production**

- The Automotive segment was affected due to OEMs halting production over Apr–May.
- Norsk Hydro's Automotive Sheet volumes declined ~58% YoY and Constellium's Automotive volumes 54% YoY.
- Constellium informed that capacity utilization in Automotive had reached 80% on account of rising demand; however, it has seen uneven demand due to COVID-19.

### **Aerospace: Pain to continue in 2HCY20 as outlook remains uncertain**

- Constellium's Aerospace volumes declined ~37% YoY in 2QCY20; however, it expects continued pain in 2HCY20 as customers downsize their orders and on issues related to COVID-19 and the 737-Max.

### **Constellium's margins remain largely stable in Packaging and Automotive**

- In 2QCY20, Constellium's adj. EBITDA/t from Packaging and Automotive declined just 6% YoY to EUR262/t due to cost control, even as volumes declined 23% YoY.
- However, margins in the high-margin A&T segment declined 32% YoY to EUR691/t, with 28% YoY decline in volumes.
- Cost reduction was achieved through measures such as reducing professional fees, renegotiating contracts, and lowering administrative costs. The company also received EUR15m aid from European State Employment in the wake of the COVID-19 outbreak. It expects the aid to continue, but at lower levels, as some people are likely to remain on temporary lay-offs in 2HCY20.

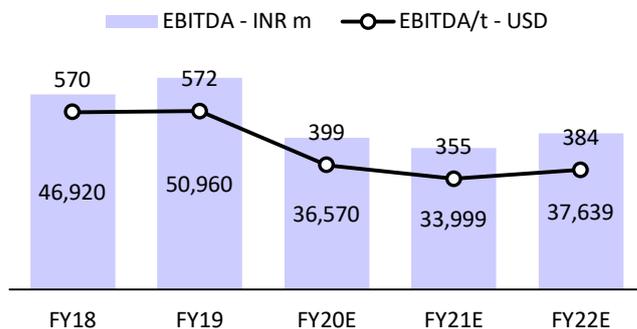
## Story in charts

**Exhibit 5: Marginal decline in aluminum volumes in FY21**



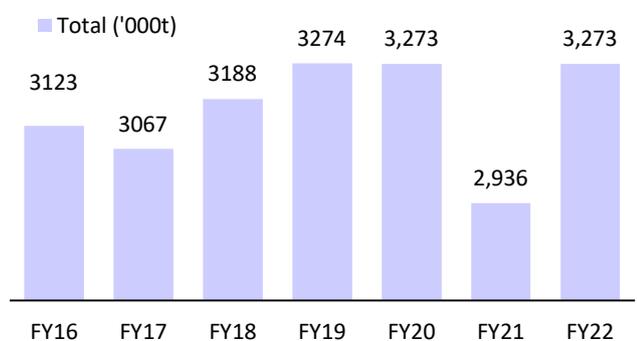
Source: Company, MOFSL

**Exhibit 6: Aluminum business EBITDA/t trend**

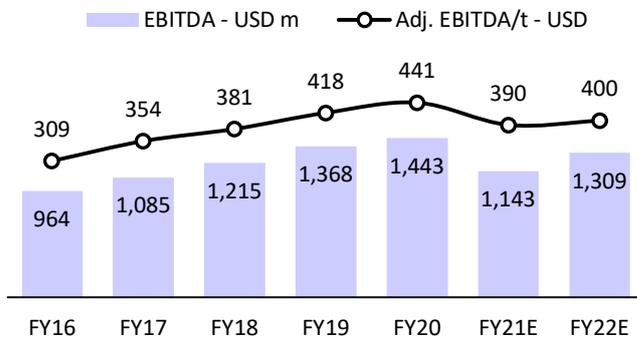


Source: Company, MOFSL

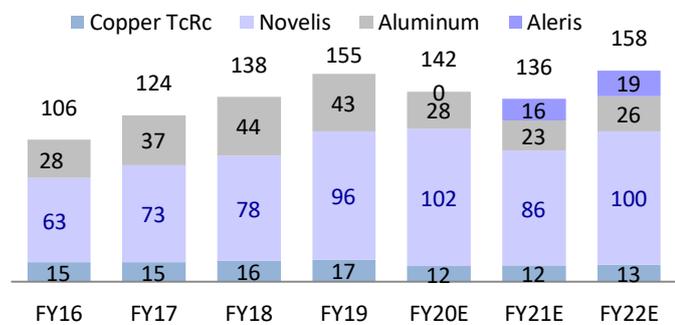
**Exhibit 7: Novelis (ex-Aleris) volumes to normalize in FY22**



**Exhibit 8: Novelis EBITDA trend**

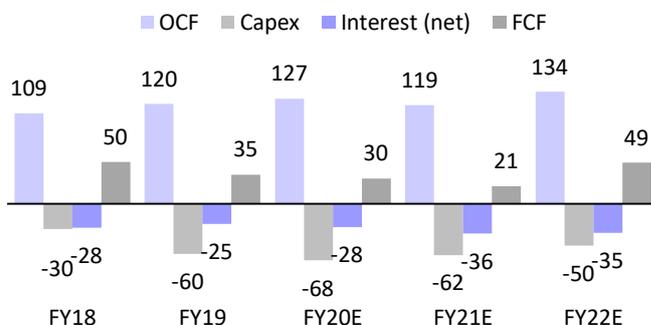


**Exhibit 9: Aleris business to provide EBITDA growth in FY22**



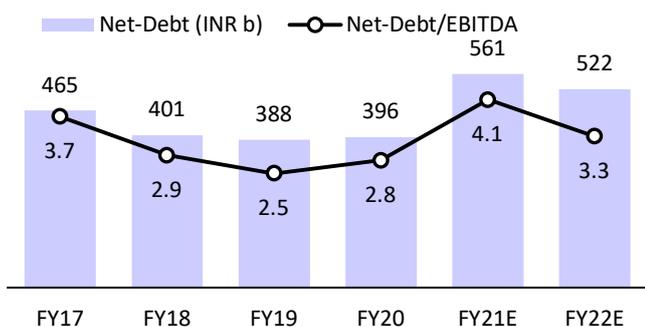
Source: MOFSL

**Exhibit 10: FCF generation even in FY21 (INR b)**



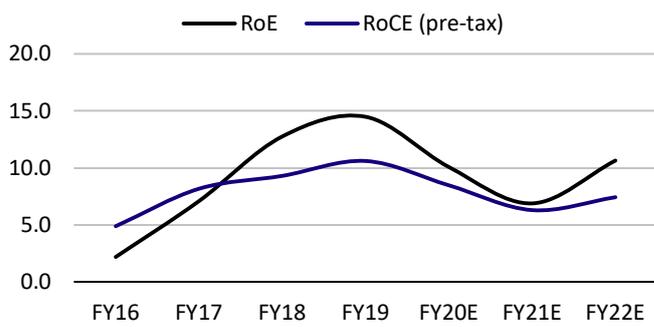
Source: MOFSL

**Exhibit 11: Net debt / EBITDA to decline to 3.3x in FY22**



Source: MOFSL

**Exhibit 12: Return ratios to decline in FY21**



Source: MOFSL

## Financials and valuations

Income Statement							(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	
<b>Net sales</b>	<b>9,87,589</b>	<b>10,01,838</b>	<b>11,51,717</b>	<b>13,05,423</b>	<b>11,81,440</b>	<b>12,35,276</b>	<b>14,05,076</b>	
Change (%)	-4.1	1.4	15.0	13.3	-9.5	4.6	13.7	
Total Expenses	9,01,047	8,77,479	10,13,513	11,50,317	10,39,380	10,98,794	12,47,269	
<b>EBITDA</b>	<b>86,542</b>	<b>1,24,359</b>	<b>1,38,204</b>	<b>1,55,105</b>	<b>1,42,060</b>	<b>1,36,482</b>	<b>1,57,807</b>	
% of Net Sales	8.8	12.4	12.0	11.9	12.0	11.0	11.2	
Deprn. & Amortization	43,468	44,572	45,062	47,770	50,910	62,138	63,100	
<b>EBIT</b>	<b>43,074</b>	<b>79,786</b>	<b>93,141</b>	<b>1,07,335</b>	<b>91,150</b>	<b>74,343</b>	<b>94,707</b>	
Net Interest	51,338	57,424	39,107	37,780	41,970	47,628	46,983	
Other income	11,888	11,110	10,046	11,271	11,860	11,575	12,217	
<b>PBT before EO</b>	<b>3,624</b>	<b>33,472</b>	<b>64,080</b>	<b>80,826</b>	<b>61,040</b>	<b>38,290</b>	<b>59,941</b>	
EO income (exp)	-5,765	-76	17,742		-1,840			
<b>PBT after EO</b>	<b>-2,141</b>	<b>33,395</b>	<b>81,821</b>	<b>80,826</b>	<b>59,200</b>	<b>38,290</b>	<b>59,941</b>	
Tax	4,984	14,326	20,742	25,881	21,570	12,603	19,297	
Rate (%)	-232.8	42.9	25.4	32.0	36.4	32.9	32.2	
<b>Reported PAT</b>	<b>-7,125</b>	<b>19,069</b>	<b>61,080</b>	<b>54,945</b>	<b>37,630</b>	<b>25,687</b>	<b>40,644</b>	
Minority interests	-4,508	-174	-1	-7				
Share of asso.	1,715	-251	-1,251	5	40	40	40	
<b>Adjusted PAT</b>	<b>4,863</b>	<b>19,069</b>	<b>42,088</b>	<b>54,957</b>	<b>38,884</b>	<b>25,727</b>	<b>40,684</b>	
Change (%)	-82.6	-22.9	120.7	30.6	-29.2	-33.8	58.1	

Balance Sheet							(INR m)	
Y/E March	2016	2017	2018	2019	2020	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	5,80,950	6,02,897	6,37,575	
<b>Net Worth</b>	<b>4,06,066</b>	<b>4,60,588</b>	<b>5,48,518</b>	<b>5,75,017</b>	<b>5,83,174</b>	<b>6,05,121</b>	<b>6,39,799</b>	
Minority Interest	3,813	62	86	95	100	100	100	
Total Loans	6,74,754	6,37,515	5,20,155	5,24,150	6,74,190	7,87,804	7,61,307	
Deferred Tax Liability	20,970	20,168	31,333	36,505	37,610	40,131	43,990	
<b>Capital Employed</b>	<b>11,05,603</b>	<b>11,18,333</b>	<b>11,00,092</b>	<b>11,35,767</b>	<b>12,95,074</b>	<b>14,33,155</b>	<b>14,45,197</b>	
Gross Block	10,57,871	10,40,510	10,82,644	11,30,670	11,99,704	14,37,206	15,00,401	
Less: Accum. Deprn.	3,78,494	3,64,991	4,10,054	4,57,824	5,08,734	5,70,872	6,33,971	
<b>Net Fixed Assets</b>	<b>6,79,377</b>	<b>6,75,518</b>	<b>6,72,590</b>	<b>6,72,846</b>	<b>6,90,970</b>	<b>8,66,334</b>	<b>8,66,429</b>	
Goodwill	1,77,353	1,71,350	1,78,294	1,85,746	2,00,980	2,40,355	2,40,355	
Capital WIP	42,138	18,139	20,629	40,971	77,210	44,973	35,684	
Investments	47,488	62,057	68,778	51,567	31,320	31,360	31,400	
<b>Working capital Assets</b>	<b>4,65,104</b>	<b>5,29,543</b>	<b>5,29,846</b>	<b>5,67,157</b>	<b>6,85,704</b>	<b>6,61,481</b>	<b>7,10,589</b>	
Inventory	1,67,873	1,82,914	2,16,314	2,21,938	2,23,840	2,30,134	2,54,068	
Account Receivables	79,184	82,748	99,598	1,14,598	93,450	1,15,067	1,27,034	
Cash and Bank Balance	1,20,962	1,72,129	1,19,612	1,36,419	2,78,480	2,26,347	2,39,553	
Others (incl. LT)	97,085	91,752	94,322	94,203	89,934	89,934	89,934	
<b>Working capital liability</b>	<b>3,05,857</b>	<b>3,38,275</b>	<b>3,70,046</b>	<b>3,82,520</b>	<b>3,91,110</b>	<b>4,11,349</b>	<b>4,39,261</b>	
Account Payables	1,50,598	1,78,581	2,04,392	2,07,244	1,82,820	2,03,059	2,30,971	
Others (incl. LT)	1,55,259	1,59,694	1,65,655	1,75,276	2,08,290	2,08,290	2,08,290	
<b>Net Working Capital</b>	<b>1,59,247</b>	<b>1,91,269</b>	<b>1,59,800</b>	<b>1,84,637</b>	<b>2,94,594</b>	<b>2,50,132</b>	<b>2,71,328</b>	
<b>Appl. of Funds</b>	<b>11,05,603</b>	<b>11,18,333</b>	<b>11,00,092</b>	<b>11,35,767</b>	<b>12,95,074</b>	<b>14,33,155</b>	<b>14,45,197</b>	

## Financials and valuations

### Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>2.4</b>	<b>8.6</b>	<b>18.9</b>	<b>24.7</b>	<b>17.5</b>	<b>11.6</b>	<b>18.3</b>
Cash EPS	17.7	28.6	47.6	46.2	39.8	39.5	46.6
BV/Share (adj.)	111.6	129.9	166.1	175.0	171.8	164.0	179.6
DPS	1.0	1.1	1.4	1.2	1.2	1.7	2.7
Payout (%)	49.3	15.0	8.7	5.7	8.0	17.2	17.3
<b>Valuation (x)</b>							
P/E	65.7	18.2	8.3	6.6	9.4	14.2	9.0
Cash P/E	8.8	5.5	3.3	3.6	4.1	4.2	3.5
P/BV	1.4	1.2	0.9	0.9	1.0	1.0	0.9
EV/Sales	0.9	0.8	0.6	0.6	0.6	0.7	0.6
EV/EBITDA	10.1	6.5	5.4	4.9	5.4	6.8	5.6
Dividend Yield (%)	0.6	0.7	0.9	0.7	0.7	1.0	1.6
<b>Return Ratios (%)</b>							
EBITDA Margins (%)	8.8	12.4	12.0	11.9	12.0	11.0	11.2
Net Profit Margins (%)	0.5	1.9	3.7	4.2	3.3	2.1	2.9
RoE	2.2	7.1	12.8	14.5	10.1	6.9	10.6
RoCE (pre-tax)	4.9	8.2	9.3	10.6	8.5	6.3	7.4
RoIC (pre-tax)	5.0	9.1	10.8	11.9	10.3	7.3	8.3
<b>Working Capital Ratios</b>	<b>35.6</b>	<b>31.7</b>	<b>35.3</b>	<b>36.2</b>	<b>41.5</b>		
Fixed Asset Turnover (x)	0.9	1.0	1.1	1.2	1.0	0.9	0.9
Asset Turnover (x)	0.9	0.9	1.0	1.1	0.9	0.9	1.0
Debtor (Days)	29.3	30.1	31.6	32.0	28.9	34.0	33.0
Inventory (Days)	62.0	66.6	68.6	62.1	69.2	68.0	66.0
Payable (Days)	55.7	65.1	64.8	57.9	56.5	60.0	60.0
<b>Leverage Ratio (x)</b>							
Current Ratio	1.5	1.6	1.4	1.5	1.8	1.6	1.6
Interest Cover Ratio	0.8	1.4	2.4	2.8	2.2	1.6	2.0
Debt/Equity	2.4	1.6	1.1	1.0	1.0	1.5	1.3

### Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
<b>(INR m)</b>							
<b>EBITDA</b>	<b>86,542</b>	<b>1,24,359</b>	<b>1,38,204</b>	<b>1,55,105</b>	<b>1,42,060</b>	<b>1,36,482</b>	<b>1,57,807</b>
XO Exp. (income)	1,543	3,622	2,617	439	-2,610	7	7
tax paid	-12,291	-7,797	-14,081	-18,883	-1,020	-10,082	-15,438
Change in WC	41,083	6,691	-17,862	-16,865	-11,780	-7,671	-7,990
<b>CF from Op. Activity</b>	<b>1,16,877</b>	<b>1,26,875</b>	<b>1,08,877</b>	<b>1,19,795</b>	<b>1,26,650</b>	<b>1,18,735</b>	<b>1,34,386</b>
(Inc)/Dec in FA + CWIP	-42,452	-29,376	-30,008	-60,053	-67,910	-61,652	-50,402
<b>Free Cash Flow to firm</b>	<b>74,426</b>	<b>97,499</b>	<b>78,870</b>	<b>59,742</b>	<b>58,740</b>	<b>57,083</b>	<b>83,984</b>
(Pur)/Sale of Inv. & yield	15,859	5,667	24,685	6,615	7,110	11,575	12,217
Others & M&A	6	3,524	8,052	5,110	10,111	-1,84,725	
<b>CF from Inv. Activity</b>	<b>-26,586</b>	<b>-20,185</b>	<b>2,730</b>	<b>-48,328</b>	<b>-50,689</b>	<b>-2,34,802</b>	<b>-38,186</b>
Equity raised/(repaid)	1	33,141	162	-1,176			
Debt raised/(repaid)	-36,003	-25,430	-1,22,863	-14,443	1,09,460	1,15,350	-30,000
Interest	-50,057	-60,754	-38,486	-35,813	-40,160	-47,628	-46,983
Dividend (incl. tax)	-2,558	-2,479	-2,938	-3,229	-3,200	-3,781	-6,005
<b>CF from Fin. Activity</b>	<b>-88,619</b>	<b>-55,523</b>	<b>-1,64,124</b>	<b>-54,660</b>	<b>66,100</b>	<b>63,941</b>	<b>-82,987</b>
<b>(Inc)/Dec in Cash</b>	<b>1,673</b>	<b>51,167</b>	<b>-52,517</b>	<b>16,807</b>	<b>1,42,061</b>	<b>-52,126</b>	<b>13,213</b>
Add: Opening Balance	1,19,289	1,20,962	1,72,129	1,19,612	1,36,419	2,78,480	2,26,347
<b>Closing Balance</b>	<b>1,20,962</b>	<b>1,72,129</b>	<b>1,19,612</b>	<b>1,36,419</b>	<b>2,78,480</b>	<b>2,26,354</b>	<b>2,39,560</b>

**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

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