

Estimate change



TP change



Rating change



|                       |             |
|-----------------------|-------------|
| Bloomberg             | HNDL IN     |
| Equity Shares (m)     | 2,229       |
| M.Cap.(INRb)/(USD\$)  | 437.2 / 5.7 |
| 52-Week Range (INR)   | 221 / 85    |
| 1, 6, 12 Rel. Per (%) | 9/32/-10    |
| 12M Avg Val (INR M)   | 2365        |

## Financial Snapshot (INR b)

| Y/E MARCH            | 2020  | 2021E | 2022E |
|----------------------|-------|-------|-------|
| Sales                | 1,181 | 1,243 | 1,376 |
| EBITDA               | 142.1 | 156.1 | 179.0 |
| Adj. PAT             | 38.9  | 41.6  | 54.5  |
| EBITDA Margin (%)    | 12.0  | 12.6  | 13.0  |
| Cons. Adj. EPS (INR) | 17.5  | 18.7  | 24.5  |
| EPS Gr. (%)          | -29.2 | 7.1   | 31.0  |
| BV/Sh. (INR)         | 172   | 177   | 199   |

## Ratios

|            |      |      |      |
|------------|------|------|------|
| Net D:E    | 1.0  | 1.3  | 1.1  |
| RoE (%)    | 10.1 | 10.7 | 13.0 |
| RoCE (%)   | 8.5  | 7.6  | 8.6  |
| Payout (%) | 8.0  | 10.6 | 12.9 |

## Valuations

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 11.1 | 10.4 | 7.9  |
| P/BV (x)       | 1.1  | 1.1  | 1.0  |
| EV/EBITDA(x)   | 5.8  | 6.2  | 5.1  |
| Div. Yield (%) | 0.6  | 0.9  | 1.4  |
| FCF Yield (%)  | 13.5 | 18.3 | 21.2 |

## Shareholding pattern (%)

| As On    | Sep-20 | Jun-20 | Sep-19 |
|----------|--------|--------|--------|
| Promoter | 34.7   | 34.7   | 34.7   |
| DII      | 25.1   | 27.3   | 25.4   |
| FII      | 19.9   | 18.8   | 21.4   |
| Others   | 20.4   | 19.3   | 18.5   |

FII Includes depository receipts

CMP: INR195

TP: INR267 (+37%)

Buy

## Novelis' margin surprises positively

### Asset divestitures nearing completion

- Hindalco (HNDL)'s subsidiary Novelis' 2QFY21 EBITDA surprised with 20% YoY growth to USD455m (est. USD348m). This was led by 11% YoY volume growth (Aleris acquisition) and adj. EBITDA/t of USD493 (est. USD396).
- Management has raised the sustainable EBITDA margin guidance for Novelis to USD480–500/t (from USD450–475/t).
- We raise our FY21E EBITDA by 7%, factoring in strong margins for Novelis. Deleveraging is also playing out well, with strong FCF and asset divestitures – while the sale of Duffel has been completed, the sale of Lewisport has been finalized for a cash consideration of USD171m (EV of USD330m). Reiterate **Buy**.

### Novelis' 2QFY21 EBITDA surprises on strong volumes and margins

- Reported adj. EBITDA was up 20% YoY to USD455m and 31% higher than our est. of USD348m. Even adjusted for EBITDA of USD55m from the acquired Aleris business, like-to-like EBITDA for Novelis was up 6% YoY to USD400m.
- Volumes grew 11% YoY to 923kt (est. 880kt) owing to the Aleris acquisition. Even adjusted for the Aleris acquisition, we estimate volumes to have grown marginally YoY – Beverage Can volumes declined marginally YoY, while Automotive volumes grew marginally YoY.
- Adj. EBITDA/t was the highest ever at USD493/t (+9% YoY; +52% QoQ), led by recovery in high-margin automotive volumes.
- Novelis realized quarterly synergy of USD38m (USD41/t) in 2Q, resulting from back-office integration.
- FCF post capex was strong at USD315m (v/s negative USD146m in 1QFY21). Capex in 2QFY21 stood at USD113m (v/s USD109m in 1QFY21).
- Novelis' net debt had declined USD0.6b QoQ to USD5.6b as of Sep'20. The liquidity profile remained strong with USD1.6b cash as of Sep'20.

### Key highlights: Volumes back at pre-COVID levels; margins above USD450+/t

- Hindalco divested Aleris' Duffel facility during the quarter. However, it has received only EUR200m v/s the agreed consideration of EUR310m, with the differential being under arbitration. While Novelis is confident of realizing the full consideration, the arbitration proceedings may take >2 years.
- Hindalco has signed an agreement for the divestment of the Lewisport facility for a cash consideration of USD171m, valuing the facility at an EV of USD330m. Management informed that the deal valuation was unfavorable due to the mandated divestment by the Department of Justice.
- Beverage can demand remained strong in North America and South America. The Automotive segment has seen strong recovery, with volumes growing marginally YoY and nearly doubling on a sequential basis.
- Among the newly acquired portfolio from Aleris, the Building & Construction segment saw strong recovery on the back of strong housing demand in North America. The performance of Aerospace is likely to remain muted due to lower build rates by OEMs.

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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.

- Management now expects higher synergy of USD180m from the Aleris acquisition v/s USD150m targeted earlier.
- Management has increased its guidance for sustainable EBITDA/t at Novelis to USD480–500 from earlier guidance of USD450–475/t.

#### Valuation and view

- HNDL is our preferred non-ferrous pick owing to its (a) robust volume recovery in both India and Novelis, (b) strong primary aluminum business profitability given its low-cost integrated aluminum operations in India (in the top quartile globally) and higher LME, (c) solid FCF generation, which should reduce leverage sharply, and (d) reasonable valuation.
- The outlook for Novelis is positive due to resilience in the Beverage Can business and recovery in Auto demand (a high-margin business). Moreover, with better cost control and accruing synergies from Aleris, we expect margins for the Novelis business to remain strong at USD450+/t.
- With ~70% EBITDA contribution now coming from the non-LME business (Novelis), we also see relatively higher stability in HNDL's earnings.
- While we expect aluminum prices to sustain on the back of demand recovery, higher inventory could limit further upside. We factor in average LME of USD1,725/t in FY21E and USD1,750/t in FY22E. A USD100/t change in aluminum impacts HNDL's FY22E EPS by 11% and our TP by 9%.
- The stock trades at 5.1x EV/EBITDA and 7.9x P/E on FY22E. We value it at INR266/share on an SOTP basis. Reiterate **Buy**.

#### Quarterly Performance (Novelis) – USD m

| Y/E March                   | FY20         |              |              |              | FY21E        |              |              |              | FY20          | FY21E         | vs Est       |             |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|-------------|
|                             | 1Q           | 2Q           | 3Q           | 4Q           | 1Q           | 2Q           | 3QE          | 4QE          |               |               | 2QE          | (%)         |
| <b>Sales (000 tons)</b>     | <b>830</b>   | <b>835</b>   | <b>797</b>   | <b>811</b>   | <b>781</b>   | <b>923</b>   | <b>886</b>   | <b>895</b>   | <b>3,273</b>  | <b>3,506</b>  | <b>880</b>   | <b>5</b>    |
| Change (YoY %)              | 4.1          | 3.5          | -0.4         | -6.8         | -5.9         | 10.5         | 11.2         | 10.4         | 0.0           | 7.1           | 5.4          |             |
| <b>Net Sales</b>            | <b>2,925</b> | <b>2,851</b> | <b>2,715</b> | <b>2,726</b> | <b>2,426</b> | <b>2,978</b> | <b>3,057</b> | <b>3,134</b> | <b>11,217</b> | <b>11,595</b> | <b>3,030</b> | <b>-2</b>   |
| Change (YoY %)              | -5.6         | -9.1         | -9.8         | -11.6        | -17.1        | 4.5          | 12.6         | 15.0         | -9.0          | 3.4           | 6.3          |             |
| <b>EBITDA (adjusted)</b>    | <b>368</b>   | <b>378</b>   | <b>343</b>   | <b>354</b>   | <b>253</b>   | <b>455</b>   | <b>408</b>   | <b>407</b>   | <b>1,443</b>  | <b>1,518</b>  | <b>348</b>   | <b>31</b>   |
| Change (YoY %)              | 10.2         | 6.5          | 6.5          | -0.8         | -31.3        | 20.4         | 19.1         | 14.8         | 5.5           | 5.2           | -7.9         |             |
| <b>EBITDA per ton (USD)</b> | <b>443</b>   | <b>453</b>   | <b>430</b>   | <b>436</b>   | <b>324</b>   | <b>493</b>   | <b>461</b>   | <b>454</b>   | <b>441</b>    | <b>433</b>    | <b>396</b>   | <b>25</b>   |
| Interest                    | 62           | 58           | 57           | 63           | 67           | 69           | 69           | 70           | 240           | 275           | 69           |             |
| Depreciation                | 88           | 88           | 91           | 94           | 118          | 141          | 141          | 140          | 361           | 540           | 120          | <b>18</b>   |
| <b>PBT (before EO item)</b> | <b>218</b>   | <b>232</b>   | <b>195</b>   | <b>197</b>   | <b>68</b>    | <b>245</b>   | <b>198</b>   | <b>197</b>   | <b>842</b>    | <b>703</b>    | <b>159</b>   | <b>54</b>   |
| Extra-ordinary Income       | (28)         | (60)         | (39)         | (113)        | (176)        | (214)        | (40)         | (30)         | (240)         | (460)         | (30)         | <b>613</b>  |
| <b>PBT (after EO item)</b>  | <b>190</b>   | <b>172</b>   | <b>156</b>   | <b>84</b>    | <b>-108</b>  | <b>31</b>    | <b>158</b>   | <b>167</b>   | <b>602</b>    | <b>243</b>    | <b>129</b>   | <b>-76</b>  |
| Total Tax                   | 63           | 49           | 49           | 21           | -29          | 68           | 48           | 50           | 182           | 137           | 39           | <b>75</b>   |
| <b>Reported PAT</b>         | <b>127</b>   | <b>123</b>   | <b>107</b>   | <b>63</b>    | <b>-79</b>   | <b>-37</b>   | <b>111</b>   | <b>117</b>   | <b>420</b>    | <b>107</b>    | <b>90</b>    | <b>-141</b> |
| Change (YoY %)              | -7           | 6            | 37           | -39          | -162         | -130         | 4            | 86           | -3            | -75           | -26          | <b>391</b>  |
| <b>Adjusted PAT</b>         | <b>155</b>   | <b>183</b>   | <b>146</b>   | <b>176</b>   | <b>97</b>    | <b>177</b>   | <b>151</b>   | <b>147</b>   | <b>660</b>    | <b>567</b>    | <b>120</b>   | <b>47</b>   |



#### Management call highlights

##### Beverage Can market

- Beverage can volumes declined to the low single digits in 2Q due to reduced tourism in Europe and Asia.
- Beverage can demand remains resilient across geographies. The market remains tight in North America, with most of the customers increasing their capacities to meet additional demand for cans.

**Auto market**

- Automotive volumes grew marginally YoY on sharp recovery in the US and Europe after shutdowns in 2Q.
- Increased demand in China for EVs, SUVs, and luxury vehicles is driving demand in the Automotive segment in the country.
- Management is optimistic about demand with limited medium-term visibility.

**Aerospace market**

- Demand has been impacted significantly due to lower consumer travel trends, leading to reduced build rates by OEMs. Management expects demand from the segment to remain muted in FY21.

**Guidance**

- Management expects aluminum-scrap spreads to remain strong in North America, thereby supporting margins.
- Management has raised sustainable EBITDA guidance to USD480–500/t v/s earlier guidance of USD450–475/t.
- Management expects synergy from the Aleris acquisition to increase to >USD180m v/s the earlier envisaged USD150m. Of this, USD120m is traditional synergy, for which it has achieved run-rate of USD38m in 2QFY21. However, USD65m would come post the commissioning of its 200ktpa capacity in China.

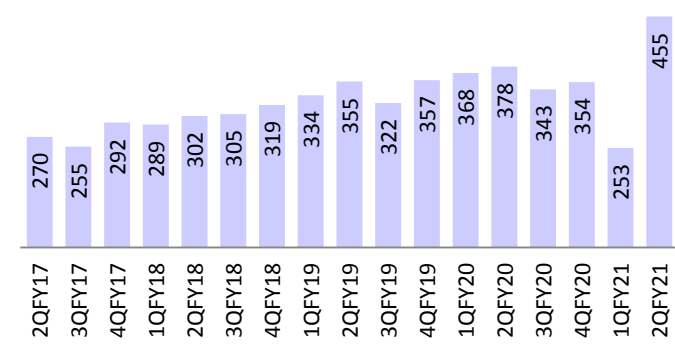
**Update on Duffel and Lewis Port**

- Novelis completed the divestment of Duffel to ALVANCE on 30<sup>th</sup> Sep for EUR310m. However, it has realized only EUR200m from the acquirer. The balance consideration is under arbitration. Novelis is confident of realizing the same; however, the arbitration proceedings may take two years.
- Novelis signed an agreement with American Industrial Partners on 8<sup>th</sup> November to sell Lewisport for an estimated USD171m in net cash proceeds.

**Others**

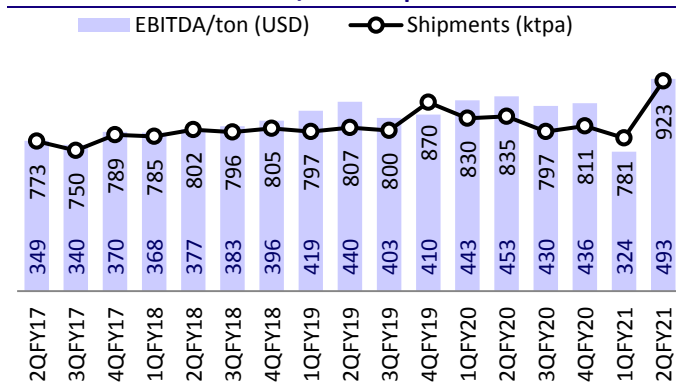
- Management expects Aleris' EBITDA to rise to USD370m on a sustainable basis in the post-COVID scenario, including synergies of USD120m from integration.
- Guthrie, a US-based automotive finishing line, is under customer qualification, and commercial shipments are expected to start by end-FY21.
- The commissioning of Zhanghou is likely to happen in 3QFY21, and commercial shipments are likely to commence in early FY22.
- Pinda, the Brazil expansion, is on track to be commissioned in FY22.

Exhibit 1: Novelis' adjusted EBITDA (USD m)



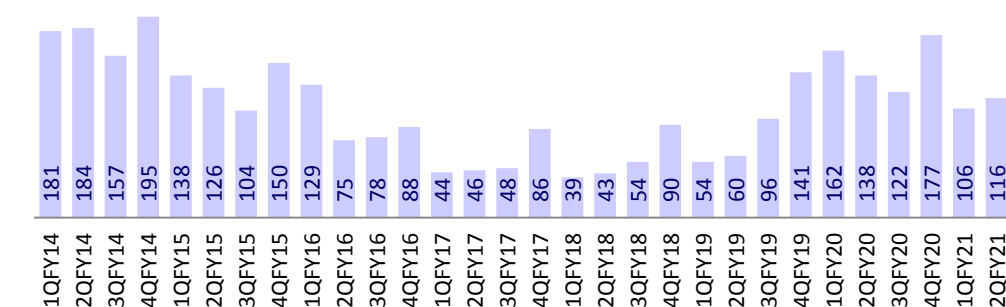
Source: MOFSL, Company

Exhibit 2: Novelis' EBITDA/t and shipments



Source: MOFSL, Company

Exhibit 3: Novelis' capex (USD m)



Source: MOFSL, Company

Exhibit 4: Geographical segment reporting

|                                     | 1QFY20 | 2QFY20 | 3QFY20 | 4QFY20 | 1QFY21 | 2QFY21 | QoQ (%) | YoY (%) |
|-------------------------------------|--------|--------|--------|--------|--------|--------|---------|---------|
| <b>Rolled Product Shipments -kt</b> |        |        |        |        |        |        |         |         |
| North America                       | 289    | 286    | 269    | 267    | 272    | 367    | 35      | 28      |
| Europe                              | 234    | 237    | 218    | 220    | 212    | 240    | 13      | 1       |
| Asia                                | 184    | 176    | 170    | 184    | 184    | 178    | -3      | 1       |
| South America                       | 139    | 136    | 140    | 148    | 113    | 148    | 31      | 9       |
| <b>Adj EBITDA - USDm</b>            |        |        |        |        |        |        |         |         |
| North America                       | 170    | 171    | 127    | 122    | 78     | 205    | 163     | 20      |
| Europe                              | 53     | 60     | 47     | 57     | 20     | 63     | 215     | 5       |
| Asia                                | 53     | 46     | 55     | 56     | 75     | 74     | -1      | 61      |
| South America                       | 96     | 97     | 116    | 112    | 76     | 112    | 47      | 15      |
| <b>adj. EBITDA per ton (USD)</b>    |        |        |        |        |        |        |         |         |
| North America                       | 588    | 598    | 472    | 457    | 287    | 559    | 95      | -7      |
| Europe                              | 226    | 253    | 216    | 259    | 94     | 263    | 178     | 4       |
| Asia                                | 288    | 261    | 324    | 304    | 408    | 416    | 2       | 59      |
| South America                       | 691    | 713    | 829    | 757    | 673    | 757    | 13      | 6       |

## Valuation and view

- HNDL is our preferred non-ferrous pick owing to its (a) robust volume recovery in both India and Novelis, (b) strong primary aluminum business profitability given its low-cost integrated aluminum operations in India (in the top quartile globally) and higher LME, (c) solid FCF generation, which should reduce leverage sharply, and (d) reasonable valuation.
- The outlook for Novelis is positive due to resilience in the Beverage Can business and recovery in Auto demand (a high-margin business). Moreover, with better cost control and accruing synergies from Aleris, we expect margins for the Novelis business to remain strong at USD450+/t.
- With ~70% EBITDA contribution now coming from the non-LME business (Novelis), we also see relatively higher stability in HNDL's earnings.
- While we expect aluminum prices to sustain on the back of demand recovery, higher inventory could limit further upside. We factor in average LME of USD1,725/t in FY21E and USD1,750/t in FY22E. A USD100/t change in aluminum impacts HNDL's FY22E EPS by 11% and our TP by 9%.
- The stock trades at 5.1x EV/EBITDA and 7.9x P/E on FY22E. We value it at INR266/share on an SOTP basis. Reiterate **Buy**.

### Exhibit 5: Target price derivation

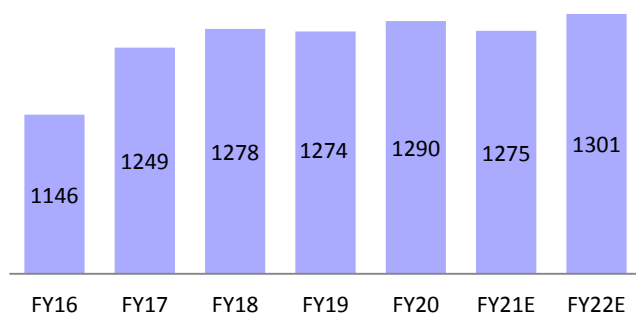
| INR m  | Multiple | FY22E<br>EBITDA | EV              | INR Per<br>share |
|--|----------|-----------------|-----------------|------------------|
| India operations   | 5.0      | 45,831          | 2,29,156        | 103              |
| Novelis  | 6.0      | 1,33,177        | 7,99,059        | 359              |
| Enterprise Value   |          |                 | 10,28,215       | 462              |
| Net-Debt   |          |                 | 4,71,839        | 212              |
| <b>Equity Value (a)</b>                                  |          |                 | <b>5,56,376</b> | <b>250</b>       |
| <b>Investment in Listed securities @10% discount (b)</b> |          |                 | <b>34,300</b>   | <b>15</b>        |
| <b>Target Price INR/sh. (a+b)</b>                        |          |                 |                 | <b>266</b>       |

Source: MOSL

## Story in charts

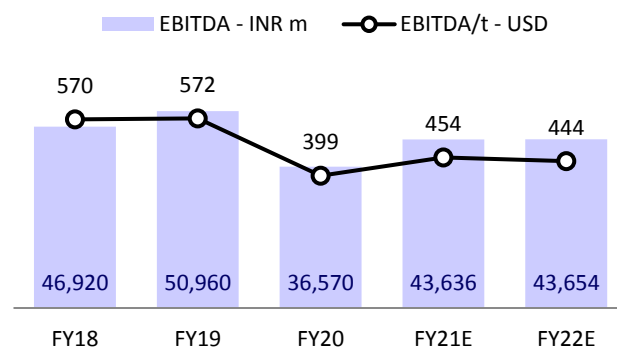
**Exhibit 6: India volumes recovering well...**

In '000t



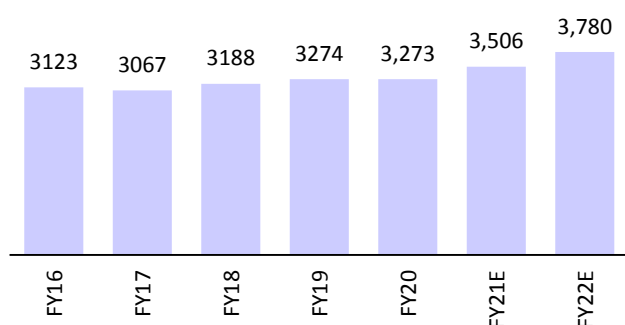
Source: Company, MOFSL

**Exhibit 7: ...with a stronger EBITDA/t**

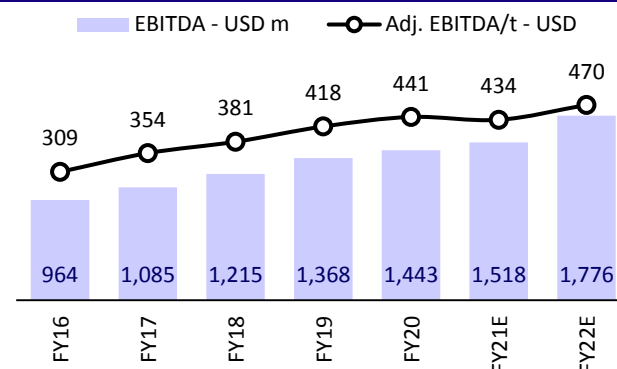


Source: Company, MOFSL

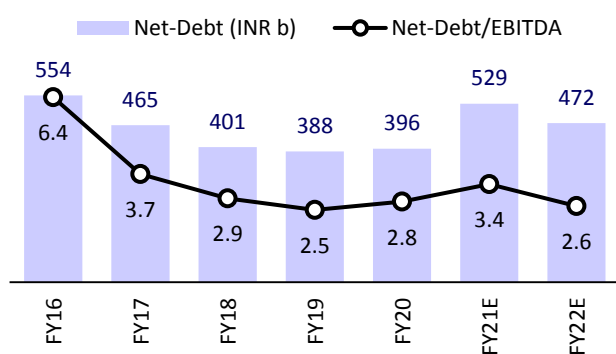
**Exhibit 8: Novelis' volumes rising with Aleris acquisition...**



**Exhibit 9: ...with an improving margin profile**

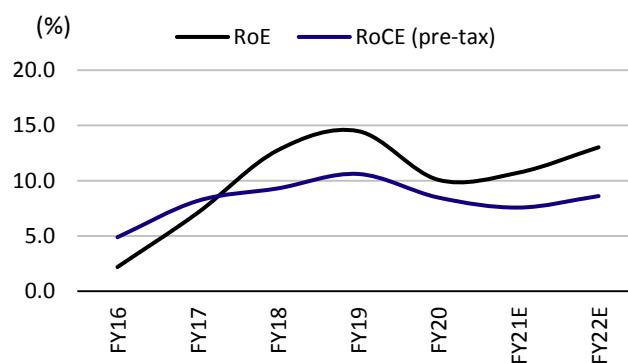


**Exhibit 10: Net debt/EBITDA to decline to 2.6x in FY22**



Source: MOFSL

**Exhibit 11: Return ratios to improve in FY22**



Source: MOFSL

## Financials and valuations

### Consolidated 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>12,42,676</b> | <b>13,75,812</b> |
| Change (%)           | -4.1            | 1.4              | 15.0             | 13.3             | -9.5             | 5.2              | 10.7             |
| Total Expenses       | 9,01,047        | 8,77,479         | 10,13,513        | 11,50,317        | 10,39,380        | 10,86,621        | 11,96,804        |
| <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>1,56,056</b>  | <b>1,79,008</b>  |
| % of Net Sales       | 8.8             | 12.4             | 12.0             | 11.9             | 12.0             | 12.6             | 13.0             |
| Depn. & Amortization | 43,468          | 44,572           | 45,062           | 47,770           | 50,910           | 65,799           | 66,905           |
| <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>90,256</b>    | <b>1,12,103</b>  |
| Net Interest         | 51,338          | 57,424           | 39,107           | 37,780           | 41,970           | 45,003           | 44,071           |
| Other income         | 11,888          | 11,110           | 10,046           | 11,271           | 11,860           | 13,578           | 13,527           |
| <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>58,831</b>    | <b>81,560</b>    |
| EO income (exp)      | -5,765          | -76              | 17,742           |                  | -1,840           | -390             |                  |
| <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>58,441</b>    | <b>81,560</b>    |
| Tax                  | 4,984           | 14,326           | 20,742           | 25,881           | 21,570           | 17,223           | 27,059           |
| Rate (%)             | -232.8          | 42.9             | 25.4             | 32.0             | 36.4             | 29.5             | 33.2             |
| <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>41,219</b>    | <b>54,501</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>41,649</b>    | <b>54,541</b>    |
| Change (%)           | -82.6           | -22.9            | 120.7            | 30.6             | -29.2            | 7.1              | 31.0             |

### 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         | 6,18,428         | 6,66,964         |
| <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>6,20,652</b>  | <b>6,69,188</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         | 7,86,935         | 7,55,151         |
| Deferred Tax Liability           | 20,970           | 20,168           | 31,333           | 36,505           | 37,610           | 41,055           | 46,466           |
| <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>14,48,741</b> | <b>14,70,905</b> |
| Gross Block                      | 10,57,871        | 10,40,510        | 10,82,644        | 11,30,670        | 11,99,704        | 14,45,952        | 15,03,860        |
| Less: Accum. Deprn.              | 3,78,494         | 3,64,991         | 4,10,054         | 4,57,824         | 5,08,734         | 5,74,533         | 6,41,437         |
| <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>8,71,420</b>  | <b>8,62,422</b>  |
| Goodwill                         | 1,77,353         | 1,71,350         | 1,78,294         | 1,85,746         | 2,00,980         | 2,26,105         | 2,26,105         |
| Capital WIP                      | 42,138           | 18,139           | 20,629           | 40,971           | 77,210           | 37,223           | 27,709           |
| 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>6,81,580</b>  | <b>7,42,641</b>  |
| Inventory                        | 1,67,873         | 1,82,914         | 2,16,314         | 2,21,938         | 2,23,840         | 2,34,917         | 2,60,085         |
| Account Receivables              | 79,184           | 82,748           | 99,598           | 1,14,598         | 93,450           | 98,733           | 1,09,311         |
| Cash and Bank Balance            | 1,20,962         | 1,72,129         | 1,19,612         | 1,36,419         | 2,78,480         | 2,57,996         | 2,83,311         |
| 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>3,98,947</b>  | <b>4,19,373</b>  |
| Account Payables                 | 1,50,598         | 1,78,581         | 2,04,392         | 2,07,244         | 1,82,820         | 1,90,657         | 2,11,083         |
| 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>2,82,633</b>  | <b>3,23,268</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>14,48,741</b> | <b>14,70,905</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>18.7</b> | <b>24.5</b> |
| Cash EPS                      | 17.7       | 28.6       | 47.6        | 46.2        | 39.8        | 48.1        | 54.6        |
| BV/Share (adj.)               | 111.6      | 129.9      | 166.1       | 175.0       | 171.8       | 177.4       | 199.2       |
| 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         | 10.6        | 12.9        |
| <b>Valuation (x)</b>          |            |            |             |             |             |             |             |
| P/E                           |            |            | 10.3        | 7.9         | 11.1        | 10.4        | 7.9         |
| Cash P/E                      |            |            | 4.1         | 4.2         | 4.9         | 4.0         | 3.6         |
| P/BV                          |            |            | 1.2         | 1.1         | 1.1         | 1.1         | 1.0         |
| EV/Sales                      |            |            | 0.7         | 0.6         | 0.7         | 0.8         | 0.7         |
| EV/EBITDA                     |            |            | 6.0         | 5.3         | 5.8         | 6.2         | 5.1         |
| Dividend Yield (%)            |            |            | 0.7         | 0.6         | 0.6         | 0.9         | 1.4         |
| <b>Return Ratios (%)</b>      |            |            |             |             |             |             |             |
| EBITDA Margins (%)            | 8.8        | 12.4       | 12.0        | 11.9        | 12.0        | 12.6        | 13.0        |
| Net Profit Margins (%)        | 0.5        | 1.9        | 3.7         | 4.2         | 3.3         | 3.4         | 4.0         |
| RoE                           | 2.2        | 7.1        | 12.8        | 14.5        | 10.1        | 10.7        | 13.0        |
| RoCE (pre-tax)                | 4.9        | 8.2        | 9.3         | 10.6        | 8.5         | 7.6         | 8.6         |
| RoIC (pre-tax)                | 5.0        | 9.1        | 10.8        | 11.9        | 10.3        | 8.9         | 10.0        |
| <b>Working Capital Ratios</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         | 0.9         |
| Debtor (Days)                 | 29.3       | 30.1       | 31.6        | 32.0        | 29          | 29          | 29          |
| Inventory (Days)              | 62.0       | 66.6       | 68.6        | 62.1        | 69          | 69          | 69          |
| Payable (Days)                | 55.7       | 65.1       | 64.8        | 57.9        | 56          | 56          | 56          |
| <b>Leverage Ratio (x)</b>     |            |            |             |             |             |             |             |
| Current Ratio                 | 1.5        | 1.6        | 1.4         | 1.5         | 1.8         | 1.7         | 1.8         |
| Interest Cover Ratio          | 0.8        | 1.4        | 2.4         | 2.8         | 2.2         | 2.0         | 2.5         |
| Debt/Equity                   | 2.4        | 1.6        | 1.1         | 1.0         | 1.0         | 1.3         | 1.1         |

### Cash Flow Statement

| Y/E March                     | 2016            | 2017            | 2018             | 2019            | 2020            | 2021E            | 2022E           |
|-------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|------------------|-----------------|
| <b>(INR m)</b>                |                 |                 |                  |                 |                 |                  |                 |
| EBITDA                        | 86,542          | 1,24,359        | 1,38,204         | 1,55,105        | 1,42,060        | 1,56,056         | 1,79,008        |
| XO Exp. (income)              | 1,543           | 3,622           | 2,617            | 439             | -2,610          | -383             | 7               |
| tax paid                      | -12,291         | -7,797          | -14,081          | -18,883         | -1,020          | -13,778          | -21,647         |
| Change in WC                  | 41,083          | 6,691           | -17,862          | -16,865         | -11,780         | -8,523           | -15,320         |
| <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>1,33,371</b>  | <b>1,42,048</b> |
| (Inc)/Dec in FA + CWIP        | -42,452         | -29,376         | -30,008          | -60,053         | -67,910         | -53,902          | -50,177         |
| <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>79,469</b>    | <b>91,871</b>   |
| (Pur)/Sale of Inv. & yield    | 15,859          | 5,667           | 24,685           | 6,615           | 7,110           | 13,578           | 13,527          |
| Others & M&A                  | 6               | 3,524           | 8,052            | 5,110           | 10,111          | -1,79,322        |                 |
| <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>-2,19,646</b> | <b>-36,650</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        | 1,14,581         | -30,000         |
| Interest                      | -50,057         | -60,754         | -38,486          | -35,813         | -40,160         | -45,003          | -44,071         |
| 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>65,797</b>    | <b>-80,075</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>-20,477</b>   | <b>25,322</b>   |
| Add: Opening Balance          | 1,19,289        | 1,20,962        | 1,72,129         | 1,19,612        | 1,36,419        | 2,78,480         | 2,57,996        |
| <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>2,58,003</b>  | <b>2,83,318</b> |



| 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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