

## Healthy performance....

Hindalco reported a healthy Q3FY21 performance. Topline of the India business came in at ₹ 11425 crore (up 11% YoY, 19% QoQ). For Q3FY21, aluminium segment of the India business posted sales volume of 315000 tonnes (our estimate: 319000 tonnes), while copper segment reported sales volume of 73000 tonnes (our estimate: 73000 tonnes). EBITDA of the India business came in at ₹ 1528 crore, higher than our estimate of ₹ 1413 crore. Ensuing PAT of Hindalco's India business was at ₹ 495 crore, higher than our estimate of ₹ 358 crore. For the quarter, Hindalco's wholly owned subsidiary Novelis also reported a robust performance. Total flat rolled product shipments of Novelis were at 933 KT, higher than our estimate of 925 KT. Novelis' adjusted EBITDA per tonne was at US\$537/tonne, higher than our estimate of US\$490/tonne.

## Novelis reports record EBITDA/tonne for Q3FY21...

Hindalco's wholly-owned subsidiary Novelis also reported a healthy operational performance for Q3FY21, wherein its shipments came in at 933 KT (our estimate: 925 KT). Novelis achieved a record EBITDA/tonne of US\$537/tonne (our estimate US\$490/tonne). Adjusted EBITDA was at US\$501 million, higher than our estimate of US\$453 million. Novelis reported a healthy Q3FY21 performance on the back of organic growth, favourable metal benefits and a net US\$50 million positive EBITDA contribution from the acquired Aleris business. On the balance sheet front, net leverage improved during the quarter to 3.3x, compared to 3.8x at the close of the Aleris acquisition in Q1FY21. This reduction is a factor of both stronger adjusted EBITDA as well as a \$500 million reduction in the company's short term bridge loan due 2022.

## For FY22, ~28% of domestic volumes hedged...

For FY22E, ~28% of Hindalco's domestic volume is hedged at US\$1840/tonne. For Q4FY21, ~58% of volumes of volume was hedged at US\$1716/tonne.

## Valuation & Outlook

For the quarter, both Indian operations as well as Novelis reported a healthy performance. Furthermore, Hindalco also reduced its consolidated net debt levels. During Q3FY21, Hindalco repaid ₹ 4199 crore. Subsequently, consolidated net debt as on December 31, 2020 was at ₹ 53802 crore compared to ₹ 58001 crore as on September 30, 2020. Going forward, in the near term, Hindalco plans to unveil its capital allocation policy, which would be a key monitorable. We introduce FY23E estimates and roll over our valuations to FY23E. We value the stock on a SoTP basis and arrive at a target price of ₹ 309 (earlier ₹ 240). On the back of the recent run-up witnessed in the stock, we downgrade the stock from BUY to HOLD.

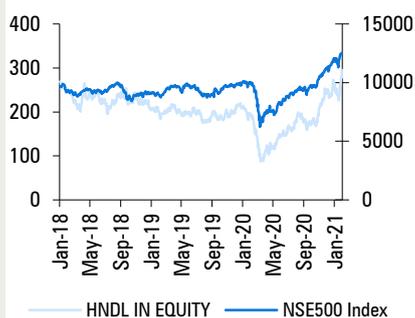


### Particulars

#### Stock Data

Market Capitalization	₹ 65914 crore
Total Debt (31-Dec-20)	₹ 71996 crore
Cash and Cash eq. (31-Dec-20)	₹ 18194 crore
EV	₹ 119716 crore
52 week H/L (₹)	297 / 85
Equity capital	₹ 222 crore
Face value	₹ 1

### Price Performance



### Key risks to the Call

- Steep decline in aluminium prices on the LME
- Higher-than-expected profitability at Novelis.

### Research Analyst

Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	115,172	130,542	118,144	133,465	144,882	150,913	8.5
EBITDA	13,820	15,511	14,306	17,617	18,566	19,333	10.6
EBITDA Margin (%)	12.0	11.9	12.1	13.2	12.8	12.8	
Adj PAT	4,434	5,495	4,051	7,088	7,795	8,544	28.2
EPS (₹)	19.9	24.7	18.2	31.9	35.1	38.4	
EV/EBITDA (x)	7.6	6.7	7.4	6.8	6.2	5.7	
RoCE (%)	9.4	10.3	7.8	9.2	9.6	10.0	
RoE (%)	8.1	9.6	6.9	11.1	10.9	10.7	

**Exhibit 1: Variance Analysis (Hindalco standalone + Utkal Performance)**

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	11,425	9,989	10,254	11 %	9,565	19 %	Topline came in higher than our estimate
<b>EBITDA</b>							
Aluminium (including Utkal)	1,323	1,248	1,045	27 %	1,066	24 %	Aluminium segment EBITDA came in higher than our estimate
Copper	205	165	261	(21)%	209	(2)%	Copper segment EBITDA came in higher than our estimate
Unallocable Income / (Expense) net	192	140	82	134 %	202	(5)%	
Depreciation	497	675	511	(3)%	642	(23)%	
Interest	380	400	455	(16)%	389	(2)%	
Exceptional item	(68)	0	(11)		70		
<b>PBT</b>	<b>775</b>	<b>478</b>	<b>411</b>	<b>89 %</b>	<b>516</b>	<b>50 %</b>	
Tax Outgo	280	120	150	87 %	189	48 %	
<b>PAT</b>	<b>495</b>	<b>358</b>	<b>261</b>	<b>90 %</b>	<b>327</b>	<b>51 %</b>	Reported PAT came in higher than our estimate
<b>Key Metrics</b>							
Total Copper sales (tonne)	73,000	73,000	86,000	(15)%	75,000	(3)%	Copper sales volume came in line with our estimate
Total Aluminium sales (tonne)	315,000	319,000	328,000	(4)%	303,000	4 %	Aluminium sales volume came broadly in line with our estimate
Novelis, Rolled Product Shipments (Kt)	933	925	797	17 %	923	1 %	Novelis sales volume came in higher our estimate
Novelis, EBITDA/tonne (US\$/tonne)	537	490	430	25 %	493	9 %	Novelis EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Conference Call Highlights

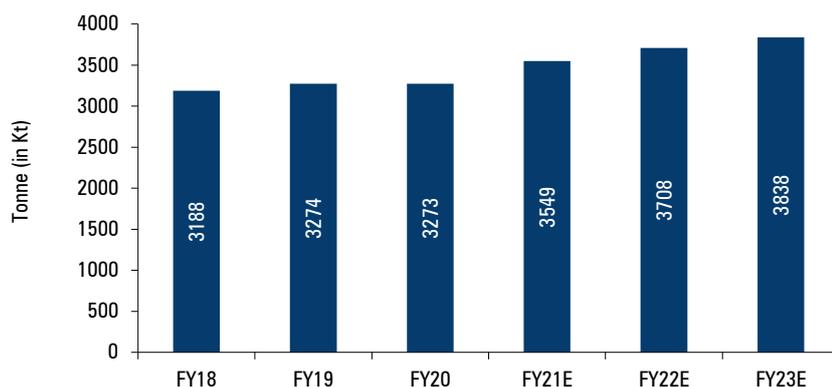
- Aluminium India business reported metal production of 315 KT (compared to 307 KT in Q2FY21 and 330 KT in Q3FY20). Aluminium metal sales were at 315 KT (compared to 303 KT in Q2FY21 and 328 KT in Q3FY20). Aluminium VAP (excluding wire rods) sales volumes at 80 KT (compared to 75 KT in Q3FY20), up 7% YoY, were driven by a sharp recovery in the domestic market
- Consolidated net debt was down by ₹ 8500 crore from June 30, 2020 to December 31, 2020
- Hindalco repaid ₹ 4199 crore in Q3FY21. Subsequently Hindalco's consolidated net debt as on December 31, 2020 was at ₹ 53802 crore compared to ₹ 58001 crore as on June 30, 2020
- For FY22E, ~28% of Hindalco's domestic volume is hedged at US\$1840/tonne. For Q4FY21, ~58% of volumes of volume is hedged at US\$1716/tonne
- In the near term, Hindalco plans to unveil its capital allocation policy
- A 34000 tonne per annum state-of-the-art aluminium extrusion project in Silvassa, at an investment of ₹ 730 crore, has been announced by the company.
- Utkal Alumina's capacity expansion of 500 KT is expected to be commissioned in Q1 FY22

### Novelis conference call highlights

- Novelis' net leverage improved during the quarter to 3.3x compared to 3.8x at the close of the Aleris acquisition in Q1FY21. This reduction is a factor of both stronger adjusted EBITDA, as well as a \$500 million reduction in the company's short term bridge loan due 2022
- Recently scrap spreads have witnessed a tightening trend, especially for the lower-grade scraps. The tightness in the scrap market, is due to a) increase procurement from China and ii) logistical challenges currently been seen across the globe
- The company has indicated that it is keep a close watch on the evolving scenario on the possible scrap market tightness (compression of scrap LME spread) and its impact on EBITDA margins. As on now, the company has maintained its EBITDA/tonne guidance of US\$475-500/tonne

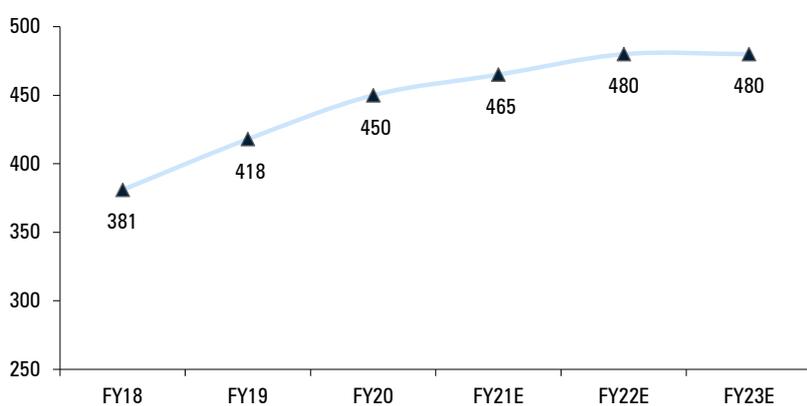
## Financial story in charts

Exhibit 3: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



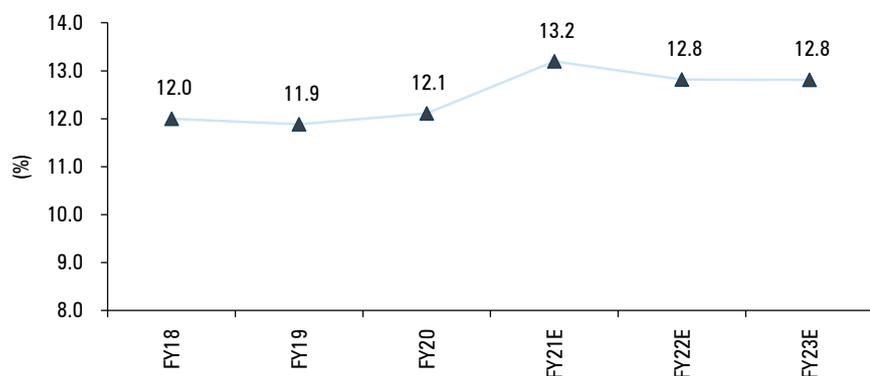
Source: Company, ICICI Direct Research

Exhibit 4: Trend in Novelis EBITDA/tonne (in US\$ per tonne)



Source: Company, ICICI Direct Research

Exhibit 5: Consolidated EBITDA margin trend (in %)



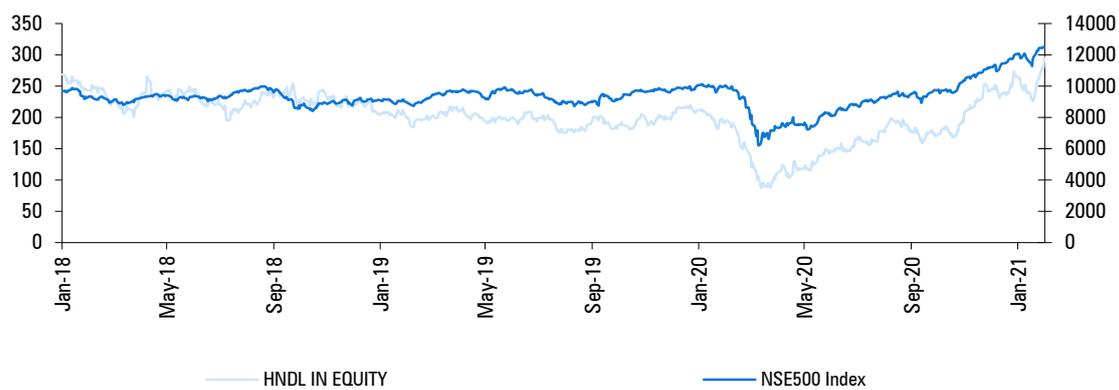
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	115172	15	19.9	135	15	7.6	8.1	9.4
FY19	130542	13	24.7	24	12	6.7	9.6	10.3
FY20	118144	-9	18.2	-26	16	7.4	6.9	7.8
FY21E	133465	13	31.9	75	9	6.8	11.1	9.2
FY22E	144882	9	35.1	10	8	6.2	10.9	9.6
FY23E	150913	4	38.4	10	8	5.7	10.7	10.0

Source: Company, ICICI Direct Research

**Exhibit 7: Price Performance**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Jun-20	Sep-20	Dec-20
Promoter	34.65	34.65	34.65
Others	65.35	65.35	65.35
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>118144</b>	<b>133465</b>	<b>144882</b>	<b>150913</b>
Growth (%)	-9	13	9	4
Total Operating Expend.	103838	115848	126316	131580
<b>EBITDA</b>	<b>14306</b>	<b>17617</b>	<b>18566</b>	<b>19333</b>
Growth (%)	-8	23	5	4
Depreciation	5091	5576	5818	6059
Interest	4197	3562	3187	2812
Other Income	1186	988	849	948
Exceptional Item	284	348	0	0
<b>PBT</b>	<b>5920</b>	<b>9118</b>	<b>10410</b>	<b>11410</b>
Total Tax	2157	2383	2620	2872
<b>PAT</b>	<b>3763</b>	<b>6735</b>	<b>7790</b>	<b>8538</b>
Growth (%)	-32	79	16	10
Minorities, Associates etc	4	5	5	6
Rep PAT after Assoc., MI	3767	6740	7795	8544
<b>Adj PAT after Assoc., MI</b>	<b>4051</b>	<b>7088</b>	<b>7795</b>	<b>8544</b>
Growth (%)	-26	75	10	10
<b>EPS (₹)</b>	<b>18.2</b>	<b>31.9</b>	<b>35.1</b>	<b>38.4</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>3767</b>	<b>6740</b>	<b>7795</b>	<b>8544</b>
Add: Depreciation	5091	5576	5818	6059
Add: Interest	4197	3562	3187	2812
(Inc)/dec in Current Assets	4231	-6304	-4297	-5072
Inc/(dec) in CL and Prov.	-253	2590	1443	2975
<b>CF from operating activi</b>	<b>17033</b>	<b>12164</b>	<b>13946</b>	<b>15319</b>
(Inc)/dec in Investments	-379	6750	750	750
(Inc)/dec in Fixed Assets	-11871	-22415	-7432	-7431
Others	-1843	258	464	126
<b>CF from investing activi</b>	<b>-14093</b>	<b>-15407</b>	<b>-6218</b>	<b>-6555</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	15981	3000	-7500	-7500
Interest Paid	-4197	-3562	-3187	-2812
Dividend paid & dividend tax	-290	-310	-413	-413
Inc/(dec) in Share Cap	-2652	-769	0	0
Others	0	0	0	0
<b>CF from financing activi</b>	<b>8842</b>	<b>-1641</b>	<b>-11100</b>	<b>-10725</b>
Net Cash flow	11782	-4884	-3372	-1961
Opening Cash	9787	21569	16685	13313
<b>Closing Cash</b>	<b>21569</b>	<b>16685</b>	<b>13313</b>	<b>11352</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Share Capital	222	222	222	222
Reserve and Surplus	58105	63766	71148	79279
Total Shareholders funds	58327	63988	71370	79501
Total Debt	68238	71238	63738	56238
Deferred Tax Liability	4671	4671	4671	4671
Minority Interest & Others	1391	1416	1441	1466
<b>Total Liabilities</b>	<b>132627</b>	<b>141313</b>	<b>141221</b>	<b>141877</b>
<b>Assets</b>				
Gross Block	120744	146984	154416	161847
Less: Acc Depreciation	51495	57072	62889	68949
Net Block	69249	89912	91526	92898
Goodwill	20098	22591	22591	22591
CWIP	7610	1293	1293	1293
Investments	9370	2620	1870	1120
Inventory	22384	25596	25801	26875
Debtors	9401	9141	11908	12404
Loans and Advances	3600	5339	5795	8899
Other Current Assets	3458	5072	5940	6338
Cash	21569	16685	13313	11352
Total Current Assets	60412	61833	62758	65868
Trade Payables	23700	29252	29770	29769
Provisions & Other Curren Liabilitie	13201	10238	11164	14140
Current Liabilities & Prov	36901	39491	40934	43909
Net Current Assets	23511	22342	21824	21959
others	2789	2556	2117	2016
<b>Application of Funds</b>	<b>132627</b>	<b>141313</b>	<b>141221</b>	<b>141877</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Reported EPS	18.2	31.9	35.1	38.4
Cash EPS	41.1	56.9	61.2	65.7
BV	262.3	287.7	320.9	357.5
DPS	1.2	1.5	2.0	2.0
Cash Per Share	97.0	75.0	59.9	51.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	12.1	13.2	12.8	12.8
PBT / Total Operating income	5.0	6.8	7.2	7.6
Adj PAT Margin	3.4	5.3	5.4	5.7
Inventory days	69	70	65	65
Debtor days	29	25	30	30
Creditor days	73	80	75	72
<b>Return Ratios (%)</b>				
Adj RoE	6.9	11.1	10.9	10.7
Adj RoCE	7.8	9.2	9.6	10.0
RoIC	12.0	12.0	12.3	12.5
<b>Valuation Ratios (x)</b>				
P/E	16.1	9.2	8.4	7.6
EV / EBITDA	7.4	6.8	6.2	5.7
EV / Net Sales	0.9	0.9	0.8	0.7
Market Cap / Sales	0.6	0.5	0.4	0.4
Price to Book Value	1.1	1.0	0.9	0.8
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.8	3.1	2.7	2.3
Debt / Equity	1.2	1.1	0.9	0.7
Current Ratio	1.6	1.6	1.5	1.5
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

**Exhibit 14: ICICI Direct coverage universe (Metals and Mining)**

	<b>CMP</b>	<b>TP</b>	<b>M Cap</b>	<b>EPS (₹)</b>			<b>P/E (x)</b>			<b>EV/EBITDA (x)</b>			<b>ROCE(%)</b>			<b>ROE(%)</b>		
	(₹)	(₹) Rating		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Coal India	134	130 Hold	83024	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	293	309 Hold	65994	18.2	31.9	35.1	16.0	9.2	8.4	7.4	6.8	6.2	7.8	9.2	9.6	6.9	11.1	10.9
Hind Zinc	298	290 Hold	125914	16.1	18.7	23.6	15.2	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	410	400 Hold	98900	19.5	29.9	37.3	19.4	12.7	10.2	12.5	8.2	6.7	7.2	11.9	13.7	12.9	16.6	17.2
NMDC	113	125 Hold	34690	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1633	1900 Buy	7630	65.8	49.4	64.5	24.7	32.9	25.2	17.7	22.6	16.8	22.2	16.2	19.6	18.0	12.3	14.1
Graphite Ind.	419	185 Hold	8192	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	695	750 Hold	79582	41.4	62.7	80.0	16.8	11.1	8.7	10.7	6.4	5.4	4.8	9.4	10.5	6.4	9.2	10.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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