

November 11, 2020

Q2FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	230		230	
Sales (Rs. m)	13,29,873	14,27,637	13,29,873	14,27,637
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,69,930	1,77,999	1,69,920	1,77,988
% Chng.	-	-	-	-
EPS (Rs.)	22.7	24.2	22.7	24.2
% Chng.	-	-	-	-

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	1,181	1,171	1,330	1,428
EBITDA (Rs. bn)	144	141	170	178
Margin (%)	12.1	12.1	12.8	12.5
PAT (Rs. bn)	39	33	50	54
EPS (Rs.)	17.8	14.9	22.7	24.2
Gr. (%)	(28.2)	(16.3)	52.3	6.8
DPS (Rs.)	1.4	1.3	1.3	1.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	6.8	5.5	7.9	7.8
RoCE (%)	7.8	6.8	8.4	8.4
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	5.7	6.0	4.7	4.2
PE (x)	10.8	12.9	8.5	7.9
P/BV (x)	0.7	0.7	0.6	0.6

Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.221 / Rs.85
Sensex / Nifty	43,278 / 12,631
Market Cap	Rs.432bn / \$ 5,825m
Shares Outstanding	2,246m
3M Avg. Daily Value	Rs.6129.21m

Shareholding Pattern (%)

Promoter's	34.65
Foreign	19.59
Domestic Institution	25.10
Public & Others	20.66
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	13.1	64.3	(5.6)
Relative	5.9	20.1	(12.1)

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On strong earnings growth path; debt reduction on top priority

Quick Pointers:

- Target to reduce India operation's debt by 1/3rd over next three years
- Net Debt/EBITDA fell by 31bps QoQ to 3.5x; Target <3.0x in next two years

Hindalco (HNDL) reported Q2FY21 EBITDA below our expectation by 10%. Lower than expected volumes and realisations in AL operations led the miss in earnings. Rise in AL prices (+6% in Oct'20 over Q2FY21 average) and flattish cost of production (CoP) would support earnings in H2.

Led by better visibility on profitability of legacy Novelis ops and increased synergies in Aleris, Novelis increased guidance on sustainable EBITDA margin to US\$480-500/t from USD450-475/t. Admittedly, divestment of Aleris' Lewis port disappointed us due to low valuations. We believe that it would be made up by strong profitability, enhanced synergies and tight cost control. In domestic operations (with share reducing to 30% in consolidated EBITDA), quarterly EBITDA run-rate would improve to Rs14.5bn (v/s12.5bn last year) on the back of strong LME and measured cost increase. Driven by better profitability and lean capex profile, we expect Net debt/EBITDA to fall by ~23% to 2.7x by FY23. Reiterate BUY with TP of Rs230, EV/EBITDA of 5.5x FY22e.

- AL fell short of expectation:** AL/CU sales volumes fell 8%/9% YoY (flat/↑29% QoQ) at 303kt/75kt (PLe:312kt/75kt). Due to lower than expected volumes and weak exports realisations (due to withdrawal of exports incentives), AL biz EBITDA came below our estimate at Rs10.7bn (PLe:Rs12.3bn), up 32% YoY/25% QoQ. While, CU division's EBITDA fell 32% YoY (+462% QoQ) at Rs2.1bn (PLe:Rs1.8bn) due to lower Tc/Rc and lower volumes. Combined EBITDA grew 14% YoY/43% QoQ at Rs12.7bn (PLe:Rs14.2bn). Aided by higher than expected other income and lower interest cost, Adj PAT grew 85% YoY/2.3x QoQ at Rs3.7bn (PLe:Rs4.0bn).

- Key highlights of earnings call:** **1)** Domestic AL demand in Sep'20 at 98% of pre-Covid level **2)** AL CoP would increase by 0.0-0.5%/1-2% QoQ in Q3FY21e/Q4FY21e due to higher energy and carbon costs **3)** Export realisations impacted due to withdrawal of export incentives, translating to Rs3000/t of AL **4)** Would close alumina capacity at Renukoot (UP) due to higher CoP (~US\$270/t) post commissioning of 500kt expansion at Utkal Alumina in Q4FY21e **5)** Would take 3 years to commission recently won Chakla (Jharkhand) coal block having capacity of 5mtpa **6)** Would return Gare Palma IV/5 coal mine due to technical difficulties associated with under-ground mining (taken impairment of Rs1.15bn in Q2) **7)** Hedged 59%/20% of H2FY21e/FY22e Al volumes at US\$1,716/t/US\$1,812/t and currency at Rs76.5/Rs78.5 for H2FY21e/FY22e **8)** Targeting to reduce gross debt in India operations by 1/3rd to Rs120bn over next three years

Exhibit 1: Q2FY21 Result Overview (Rs m)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	95,180	99,650	(4.5)	74,200	1,69,380	2,00,200	(15.4)
Raw Material	56,890	56,330	1.0	43,740	1,00,630	1,15,800	(13.1)
<i>% of Net Sales</i>	<i>59.8</i>	<i>56.5</i>		<i>58.9</i>	<i>59.4</i>	<i>57.8</i>	
Staff Costs	4,390	4,840	(9.3)	4,610	9,000	9,600	(6.3)
<i>% of Net Sales</i>	<i>4.6</i>	<i>4.9</i>		<i>6.2</i>	<i>5.3</i>	<i>4.8</i>	
Power & Fuel	14,710	19,040	(22.7)	12,640	27,350	36,490	(25.0)
<i>% of Net Sales</i>	<i>15.5</i>	<i>19.1</i>		<i>17.0</i>	<i>16.1</i>	<i>18.2</i>	
Other Expenses	9,310	11,480	(18.9)	7,470	16,780	23,090	(27.3)
<i>% of Net Sales</i>	<i>9.8</i>	<i>11.5</i>		<i>10.1</i>	<i>9.9</i>	<i>11.5</i>	
Total Expenditure	85,300	91,690	(7.0)	68,460	1,53,760	1,84,980	(16.9)
EBITDA	9,880	7,960	24.1	5,740	15,620	15,220	2.6
<i>Margin (%)</i>	<i>10.4</i>	<i>8.0</i>		<i>7.7</i>	<i>9.2</i>	<i>7.6</i>	
Depreciation	4,270	4,200	1.7	4,250	8,520	8,380	1.7
Other income	1,660	1,910	(13.1)	2,460	4,120	3,920	5.1
EBIT	7,270	5,670	28.2	3,950	11,220	10,760	4.3
Interest	3,610	4,280	(15.7)	4,250	7,860	8,720	(9.9)
PBT	3,660	1,390	163.3	(300)	3,360	2,040	64.7
Extraordinary income/(expense)	(480)	(350)		(360)	(840)	(650)	
PBT (After EO)	3,180	1,040	205.8	(660)	2,520	1,390	81.3
Tax	1,200	260	361.5	(260)	940	380	147.4
<i>% PBT</i>	<i>37.7</i>	<i>25.0</i>		<i>39.4</i>	<i>37.3</i>	<i>27.3</i>	
Reported PAT	1,980	780	153.8	(400)	1,580	1,010	56.4
Adjusted PAT	2,279	1,043	118.6	(182)	2,097	1,470	42.7

Source: Company, PL

Exhibit 2: Key Operating Metrics

	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
LME Aluminum average (US\$)	1,704	1,763	(3.3)	1,497	1,601	1,778	(10.0)
LME Copper average (US\$)	6,518	5,803	12.3	5,356	5,937	5,958	(0.4)
Rs/US\$	74.4	70.3	5.8	75.9	75.1	69.9	7.4
Sales volume (tonnes)							
Aluminium	3,03,000	3,28,000	(7.6)	3,03,000	6,06,000	6,48,000	(6.5)
Copper	75,000	82,000	(8.5)	58,000	1,33,000	1,64,000	(18.9)
Segment-wise break-up							
Revenue (Rs mn)							
Aluminium	47,960	55,320	(13.3)	44,360	92,320	1,10,220	(16.2)
Copper	47,740	44,490	7.3	30,310	78,050	90,420	(13.7)
EBITDA (Rs mn)							
Aluminium (Incl Utkal)	10,660	8,080	31.9	8,560	19,220	16,610	15.7
Copper	2,080	3,070	(32.2)	370	2,450	6,140	(60.1)
Total EBITDA (Domestic+Utkal)	12,750	11,160	14.2	8,940	21,690	22,770	(4.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	11,81,440	11,71,085	13,29,873	14,27,637
YoY gr. (%)	(9.5)	(0.9)	13.6	7.4
Cost of Goods Sold	6,76,110	7,14,444	8,04,629	8,66,849
Gross Profit	5,05,330	4,56,641	5,25,244	5,60,788
Margin (%)	42.8	39.0	39.5	39.3
Employee Cost	88,320	86,330	97,228	1,04,746
Other Expenses	1,24,310	1,38,644	1,56,145	1,68,220
EBITDA	1,43,500	1,41,152	1,69,930	1,77,999
YoY gr. (%)	(7.4)	(1.6)	20.4	4.7
Margin (%)	12.1	12.1	12.8	12.5
Depreciation and Amortization	51,350	54,152	58,111	61,818
EBIT	92,150	87,000	1,11,820	1,16,180
Margin (%)	7.8	7.4	8.4	8.1
Net Interest	41,970	47,259	47,847	47,337
Other Income	11,860	9,710	10,214	10,220
Profit Before Tax	59,200	49,451	74,186	79,063
Margin (%)	5.0	4.2	5.6	5.5
Total Tax	21,570	16,403	23,750	25,188
Effective tax rate (%)	36.4	33.2	32.0	31.9
Profit after tax	37,630	33,048	50,436	53,875
Minority interest	-	55	162	156
Share Profit from Associate	40	41	42	42
Adjusted PAT	39,475	33,033	50,316	53,762
YoY gr. (%)	(28.2)	(16.3)	52.3	6.8
Margin (%)	3.3	2.8	3.8	3.8
Extra Ord. Income / (Exp)	(1,805)	-	-	-
Reported PAT	37,670	33,033	50,316	53,762
YoY gr. (%)	(31.5)	(12.3)	52.3	6.8
Margin (%)	3.2	2.8	3.8	3.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	37,670	33,033	50,316	53,762
Equity Shares O/s (m)	2,220	2,220	2,220	2,220
EPS (Rs)	17.8	14.9	22.7	24.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	12,02,360	12,87,697	13,40,088	14,11,866
Tangibles	12,02,360	12,87,697	13,40,088	14,11,866
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,11,390	5,65,542	6,23,652	6,85,471
Tangibles	5,11,390	5,65,542	6,23,652	6,85,471
Intangibles	-	-	-	-
Net fixed assets	6,90,970	7,22,155	7,16,436	7,26,395
Tangibles	6,90,970	7,22,155	7,16,436	7,26,395
Intangibles	-	-	-	-
Capital Work In Progress	81,570	1,12,660	97,620	71,504
Goodwill	2,00,980	2,00,980	2,00,980	2,00,980
Non-Current Investments	34,850	34,891	34,932	34,975
Net Deferred tax assets	(37,610)	(39,114)	(41,496)	(43,862)
Other Non-Current Assets	14,430	14,430	14,430	14,430
Current Assets				
Investments	62,790	62,790	62,790	62,790
Inventories	2,23,840	2,18,293	2,50,684	2,65,805
Trade receivables	94,010	1,00,844	1,14,600	1,25,266
Cash & Bank Balance	2,15,690	2,15,129	2,60,432	3,12,079
Other Current Assets	33,480	33,405	34,562	35,274
Total Assets	16,95,280	17,55,969	18,28,811	18,91,545
Equity				
Equity Share Capital	2,220	2,220	2,220	2,220
Other Equity	5,80,950	6,10,783	6,57,688	7,08,038
Total Networkth	5,83,170	6,13,003	6,59,908	7,10,258
Non-Current Liabilities				
Long Term borrowings	6,72,570	6,94,270	6,93,810	6,87,810
Provisions	83,370	83,370	83,370	83,370
Other non current liabilities	13,770	13,770	13,770	13,770
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,83,000	1,90,596	2,14,450	2,30,314
Other current liabilities	1,00,530	1,00,530	1,00,530	1,00,530
Total Equity & Liabilities	16,95,280	17,55,969	18,28,811	18,91,545

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	59,240	49,451	74,186	79,063
Add. Depreciation	50,910	54,152	58,111	61,818
Add. Interest	41,970	47,259	47,847	47,337
Less Financial Other Income	11,860	9,710	10,214	10,220
Add. Other	(12,670)	(9,710)	(10,214)	(10,220)
Op. profit before WC changes	1,39,450	1,41,152	1,69,930	1,77,999
Net Changes-WC	(11,780)	8,662	(24,402)	(11,339)
Direct tax	(1,020)	(14,899)	(21,368)	(22,822)
Net cash from Op. activities	1,26,650	1,34,914	1,24,160	1,43,838
Capital expenditures	(67,320)	(53,250)	(39,272)	(35,700)
Interest / Dividend Income	-	-	-	-
Others	(15,690)	9,710	10,214	10,220
Net Cash from Inv. activities	(83,010)	(43,540)	(29,058)	(25,480)
Issue of share cap. / premium	70	-	-	-
Debt changes	1,12,830	(6,000)	(6,000)	(6,000)
Dividend paid	(3,200)	(3,200)	(3,412)	(3,412)
Interest paid	(40,160)	(47,259)	(47,847)	(47,337)
Others	(3,440)	-	-	-
Net cash from Fin. activities	66,100	(56,459)	(57,259)	(56,749)
Net change in cash	1,09,740	34,915	37,843	61,609
Free Cash Flow	59,330	81,664	84,888	1,08,138

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	1,02,300	99,920	74,200	95,180
YoY gr. (%)	(14.4)	(19.2)	(26.2)	(4.5)
Raw Material Expenses	57,870	55,120	43,740	56,890
Gross Profit	44,430	44,800	30,460	38,290
Margin (%)	43.4	44.8	41.1	40.2
EBITDA	10,130	11,630	5,740	9,880
YoY gr. (%)	9.1	28.9	(20.9)	24.1
Margin (%)	9.9	11.6	7.7	10.4
Depreciation / Depletion	4,280	4,640	4,250	4,270
EBIT	5,850	6,990	1,490	5,610
Margin (%)	5.7	7.0	2.0	5.9
Net Interest	4,060	4,010	4,250	3,610
Other Income	1,390	2,080	2,460	1,660
Profit before Tax	3,070	5,060	(660)	3,180
Margin (%)	3.0	5.1	(0.9)	3.3
Total Tax	1,140	1,800	(260)	1,200
Effective tax rate (%)	37.1	35.6	39.4	37.7
Profit after Tax	1,930	3,260	(400)	1,980
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,999	3,260	(182)	2,279
YoY gr. (%)	(1.0)	38.2	(142.6)	118.6
Margin (%)	2.0	3.3	(0.2)	2.4
Extra Ord. Income / (Exp)	(69)	-	(218)	(299)
Reported PAT	1,930	3,260	(400)	1,980
YoY gr. (%)	(22.0)	38.2	(273.9)	153.8
Margin (%)	1.9	3.3	(0.5)	2.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,930	3,260	(400)	1,980
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
EPS (Rs)	0.9	1.5	(0.1)	1.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.8	14.9	22.7	24.2
CEPS	40.9	39.3	48.8	52.1
BVPS	262.7	276.1	297.3	319.9
FCF	26.7	36.8	38.2	48.7
DPS	1.4	1.3	1.3	1.3
Return Ratio(%)				
RoCE	7.8	6.8	8.4	8.4
ROIC	6.5	5.8	7.5	7.9
RoE	6.8	5.5	7.9	7.8
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.6	0.4
Net Working Capital (Days)	42	40	41	41
Valuation(x)				
PER	10.8	12.9	8.5	7.9
P/B	0.7	0.7	0.6	0.6
P/CEPS	4.7	4.9	3.9	3.7
EV/EBITDA	5.7	6.0	4.7	4.2
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Aluminium (Al) prod (t)	13,13,666	12,69,620	12,93,864	13,06,624
Copper (Cu) prod (t)	3,21,000	2,90,000	3,75,000	4,00,000
LME-Al (USD/t)	2,100	1,716	1,749	1,750
LME-Cu (USD/t)	5,850	5,600	6,000	6,000
EBITDA-Al (Rs m)	37,400	43,905	48,372	48,596
EBITDA-Cu (Rs m)	12,760	6,535	11,000	11,000
Novelis (volumes kt)	3,273	3,103	3,277	3,506
Novelis-EBITDA/t (US\$)	429	390	450	450
Novelis-EBITDA (US\$ mn)	1,404	1,211	1,474	1,578

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Nov-20	BUY	230	195
2	09-Oct-20	BUY	218	174
3	17-Aug-20	BUY	215	185
4	13-Aug-20	BUY	205	176
5	10-Jul-20	BUY	180	165
6	13-Jun-20	BUY	175	146
7	08-May-20	BUY	170	118
8	20-Apr-20	BUY	171	124
9	03-Mar-20	BUY	220	151
10	12-Feb-20	Accumulate	225	195

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	230	195
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	191
8	JK Lakshmi Cement	BUY	370	285
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	675	802
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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