

## Deleveraging to be focus area, going forward...

Hindalco's India business posted a healthy set of operational numbers in Q2FY21. Topline came in line with our estimates while EBITDA and PAT came in higher than our estimates. The topline of Hindalco's India business was at ₹ 9565 crore (up 28% QoQ, down 4% YoY), in line with our estimate of ₹ 9621 crore. EBITDA of Hindalco's India business came in at ₹ 1275 crore (up 14% YoY, 43% QoQ, higher than our estimate of ₹ 1185 crore). EBITDA margin came in at 13.3% (up 210 bps YoY, 130 bps QoQ), higher than our estimate of 12.3%. Ensuing PAT for India business was at ₹ 327 crore (up 86% YoY, 289% QoQ), higher than our estimate of ₹ 240 crore.

## Novelis reports healthy Q2FY21 performance....

Hindalco's wholly-owned subsidiary Novelis also reported a healthy operational performance for Q2FY21 wherein shipments came in at 923 KT (higher than our estimate of 875 KT) while EBITDA/tonne came in at US\$493/tonne (higher than our estimate US\$375/tonne). Novelis reported a robust operational performance in Q2FY21 primarily on the back of QoQ healthy demand recovery in key user industries like auto, home beverage consumption, building & construction, etc. The recovery was most pronounced in the automotive market, with Q2FY21 auto shipments double that of Q1FY21, led by North America and the second consecutive quarter of record automotive shipments in Asia. In South America, increase in-home beverage consumption has significantly shifted package mix towards aluminium cans, leading to record shipments in this segment. The North American building & construction market has rebounded quickly, exiting the quarter at pre-pandemic levels.

## For balance 6MFY21, ~59% of Hindalco domestic volume hedged

For the remainder of the current fiscal (i.e. October-March 2021), with respect to domestic aluminium operations, Hindalco has hedged 59% of its volume at US\$1716/tonne while the currency has been hedged at ₹ 76.45 to the US\$. For FY22E, ~20% of volume has been hedged at US\$1812/tonne while the currency has been hedged at ₹ 78.5 to the US\$.

## Valuation & Outlook

Going forward, the free cash flow generated by the company will be primarily utilised to repay its debt. Over the medium term horizon, for Novelis the company is aiming to reach a net debt to EBITDA level of below 3x (3.7x currently) while for Indian operations, the company plans to reach a net debt level of ₹ 12000 crore, which is currently at ~₹ 17000 crore (excluding working capital). We value the stock on SoTP basis and arrive at a target price of ₹ 240. We maintaining **BUY** recommendation on the stock.



### Particulars

#### Stock Data

Market Capitalization	₹45861 crore
Total Debt (FY20)	₹ 68283 crore
Cash and Cash eq. (FY20)	₹ 21569 crore
EV	₹ 92575 crore
52 week H/L (₹)	221 / 85
Equity capital	₹ 222 crore
Face value	₹ 1

### Key Highlights

- For Q2FY21, aluminium segment posted sales volume of 303000 tonnes, lower than our estimate of 315000 tonnes, while copper segment reported sales volume of 75000 tonnes, in line with our estimate of 75000 tonnes
- Novelis EBITDA for Q2FY21 at US\$455 million (up 80% QoQ), higher than our estimate of US\$328 million (Q1FY21 EBITDA at US\$253 million)
- Maintain BUY recommendation with target price of ₹ 240

### Research Analyst

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## Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	115,172	130,542	118,144	132,071	144,906
EBITDA	13,820	15,511	14,306	16,353	18,950
EBITDA Margin (%)	12.0	11.9	12.1	12.4	13.1
Adj PAT	4,434	5,495	4,051	5,637	7,649
EPS (₹)	19.9	24.7	18.2	25.3	34.4
EV/EBITDA (x)	5.9	5.2	5.8	6.0	5.0
RoCE (%)	9.4	10.3	7.8	7.7	9.2
RoE (%)	8.1	9.6	6.9	9.0	10.9

Source: Company, ICICI Direct Research

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

	Q2FY21	Q1FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	9,565	9,621	9,978	-4.1	7,464	28.1	Topline came in broadly higher than our estimate
<b>EBITDA</b>							
Aluminium (including Utkal)	1,066	1,037	808	31.9	856	24.5	Aluminium segment EBITDA came broadly in line with our estimate
Copper	209	148	308	-32.1	38	450.0	Copper segment EBITDA came in higher than our estimate
Unallocable Income / (Expense) net	202	108	153	32.0	244	-17.2	
Depreciation	642	516	501	28.1	514	24.9	
Interest	389	456	479	-18.8	457	-14.9	
Exceptional item	70	0	(31)	-325.8	(39)	-279.5	
PBT	516	321	258	100.0	128	303.1	
Tax Outgo	189	81	82	130.5	44	329.5	
PAT	327	240	176	85.8	84	289.3	Reported PAT came in higher than our estimate
<b>Key Metrics</b>							
Total Copper sales (tonne)	75,000	75,000	82,000	-26.6	58,000	-32.6	Copper sales volume came in line with our estimate
Total Aluminium sales (tonne)	303,000	315,000	328,000	-5.3	303,000	-3.5	Aluminium sales volume came lower than our estimate
Novelis, Rolled Product Shipments (Kt)	923	875	835	-4.1	774	-4.6	Novelis sales volume came in higher our estimate
Novelis, EBITDA/tonne (US\$/tonne)	493	375	448	-25.7	327	-25.0	Novelis EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

₹ Crore	FY21E			FY22E			Comments
	New	Old	% Change	New	Old	% Change	
Revenue	132,071	124,122	6.4	144,906	148,350	-2.3	Upward revised estimates for FY21E & downward revised estimates for FY22E
EBITDA	16,353	13,703	19.3	18,950	17,403	8.9	EBITDA revised upwards for FY21E & FY22E
EBITDA Margin (%)	12.4	11.0	134 bps	13.1	11.7	135 bps	EBITDA margins revised upwards
PAT	5,637	3,655	54.2	7,649	6,491	17.8	

Source: Company, ICICI Direct Research

## Conference Call Highlights

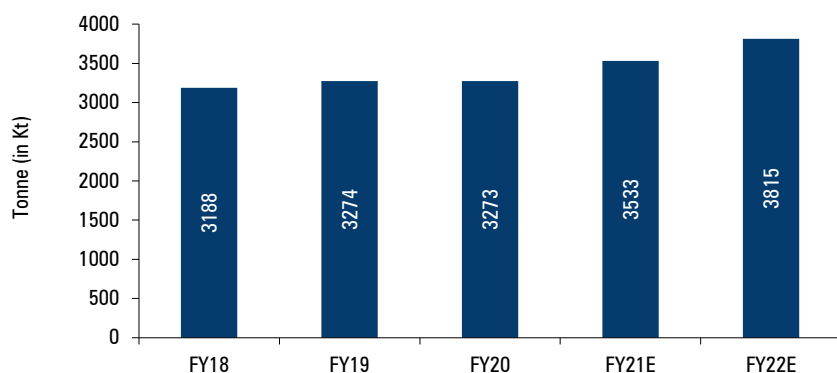
- Hindalco plans to ramp down the alumina supplies from Renukoot as soon as Utkal's alumina refinery expansion is completed. Renukoot Alumina's CoP is at US\$270/tonne (relatively a higher level as compared to other Hindalco's alumina refineries) and also faces problems on account of red mud storage, etc
- Hindalco's Indian aluminium business CoP is expected to remain flattish QoQ in Q3FY21 on account of its inventory positioning. In Q4FY21, the same is likely to increase by ~1-2%
- Over the next three to five-years, Hindalco has chalked out capex plans to the tune of US\$1 billion for Indian aluminium downstream capacity. The company plans to fund this capex through internal accruals. The goal for the capex is to reduce its dependence on LME
- With more pots coming online in the next few quarters, the company expects domestic aluminium production levels to increase in Q3FY21, Q4FY21 and reach a normalised production level of 318–320 KT by the end of Q4FY21
- Going forward, Hindalco is focused on reducing cost of coal for overall portfolio. The coal mine it recently won (Chakla) is well placed to meet the requirements of both smelter complexes. This mine is likely to take about three years to commence production while ~90% would be used for captive purpose
- The company has indicated that dividend payout from Novelis to the parent is tax inefficient in nature. Instead, the company plans to use Novelis cash flows to reduce its gross debt level

## Novelis conference call highlights

- During the quarter, Novelis' topline was at ~US\$3 billion, up 4% YoY, primarily driven by 11% increase in shipments, partially offset by lower average aluminium prices
- Enterprise value for the Lewisport asset sale agreement was at ~US\$300-350 million while net cash proceeds were at ~US\$171 million net cash proceeds. The proceeds from this divestment were short of expectations. Another plant duffel was divested for €310 million (of which €210 million has been received in cash while the remaining €100 million is under arbitration)
- The integration work continues with US\$38 run rate acquisition cost synergies achieved through Q2FY21
- Novelis is targeting capacity of 4.5 MT by FY23 with 51% can and 21% auto mix. The management indicated that the steady state EBITDA/tonne of the company is likely to hover ~US\$480-500
- The company expects the Aleris estimated EBITDA run-rate post Covid to reach US\$368 million from US\$188 million (annualised Q2FY21 EBITDA excluding synergies) currently. Of total incremental US\$180 million, US\$120 million would be contributed by combination synergies and balance US\$60 million will be contributed by market recovery post Covid

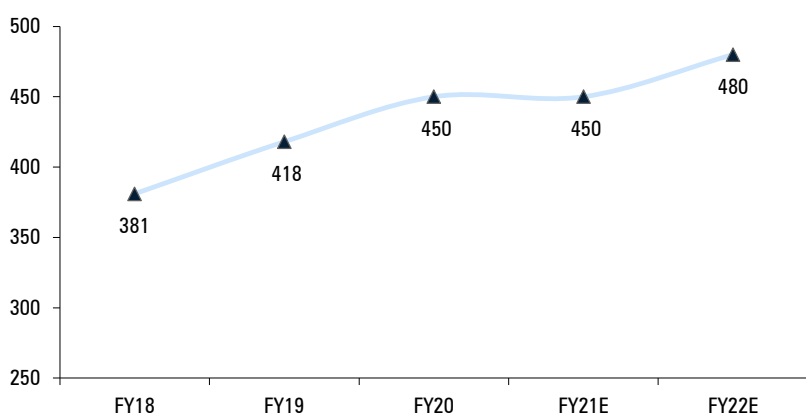
## Financial story in charts

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



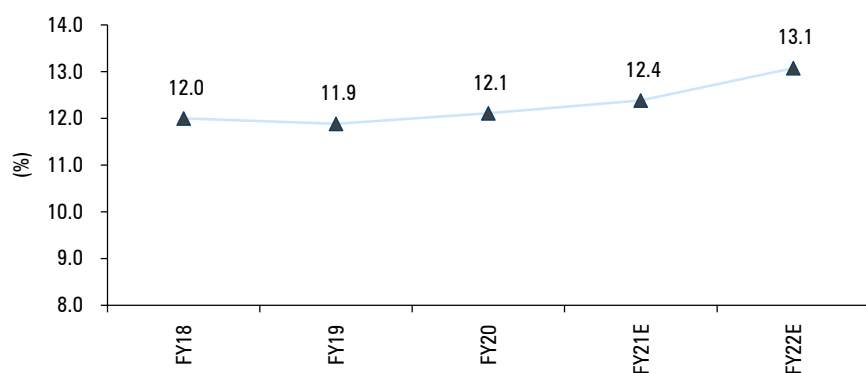
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

**Exhibit 5: Consolidated EBITDA margin trend (in %)**



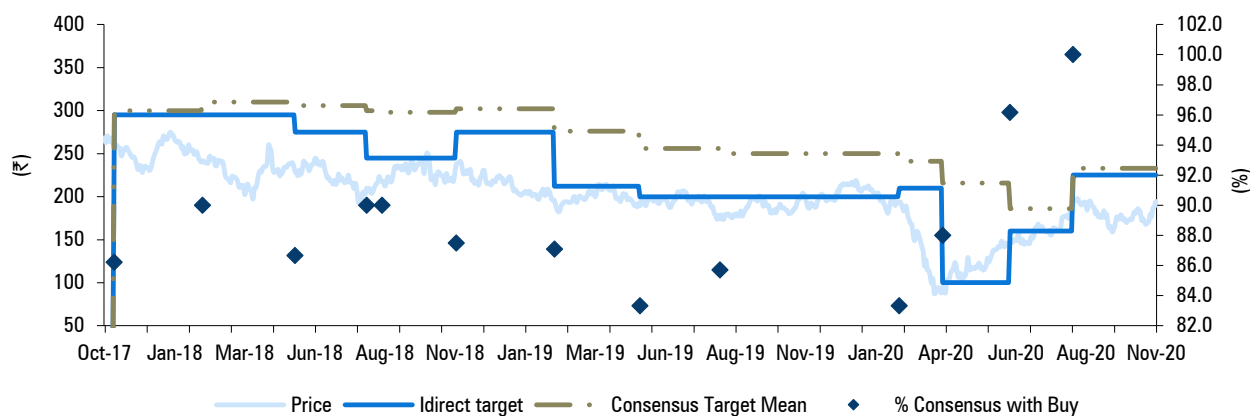
Source: Company, ICICI Direct Research

**Exhibit 6: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	115172	15	19.9	135	10	5.9	8.1	9.4
FY19	130542	13	24.7	24	8	5.2	9.6	10.3
FY20	118144	-9	18.2	-26	11	5.8	6.9	7.8
FY21E	132071	12	25.3	39	8	6.0	9.0	7.7
FY22E	144906	10	34.4	36	6	5.0	10.9	9.2

Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	IGH HOLDINGS PVT LTD	30-06-2020	15.6	350.0	0.0
2	LIFE INSURANCE CORP	30-06-2020	10.4	234.1	0.0
3	BIRLA GROUP HOLDINGS	30-06-2020	10.2	228.3	0.0
4	ICICI PRUDENTIAL ASS	30-09-2020	6.8	153.6	-8.7
5	GRASIM INDUSTRIES LT	30-06-2020	3.9	88.0	0.0
6	SBI FUNDS MANAGEMENT	30-09-2020	2.5	57.2	-1.0
7	FRANKLIN RESOURCES	09-11-2020	1.5	33.4	-2.7
8	BLACKROCK	09-11-2020	1.5	32.9	-0.2
9	VANGUARD GROUP	30-09-2020	1.4	32.4	-0.9
10	PILANI INVESTMENT &	30-06-2020	1.3	29.9	0.0

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-20
Promoter	34.7	34.7	35.7
Others	65.4	65.4	65.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>101.0</b>

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total Operating Income</b>	<b>130542</b>	<b>118144</b>	<b>132071</b>	<b>144906</b>
Growth (%)	13	-9	12	10
<b>EBITDA</b>	<b>15511</b>	<b>14306</b>	<b>16353</b>	<b>18950</b>
Growth (%)	12	-8	14	16
Depreciation	4777	5091	5576	5722
Interest	3778	4197	4237	3862
Other Income	1128	1186	988	849
Exceptional Item	0	284	348	0
PBT	8083	5920	7179	10216
Total Tax	2588	2157	1895	2571
PAT	5495	3763	5285	7645
Growth (%)	-10	-32	40	45
Minorities, Associates etc	0	4	5	5
Rep PAT after Assoc., MI	5495	3767	5289	7649
<b>Adj PAT after Assoc., I</b>	<b>5495</b>	<b>4051</b>	<b>5637</b>	<b>7649</b>
Growth (%)	24	-26	39	36
<b>EPS (₹)</b>	<b>24.7</b>	<b>18.2</b>	<b>25.3</b>	<b>34.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Share Capital	222	222	222	222
Reserve and Surplus	57279	58105	62335	69689
Total Shareholders funds	57502	58327	62557	69912
Total Debt	52257	68238	84738	77238
Deferred Tax Liability	4453	4671	4671	4671
Minority Interest & Others	1466	1391	1391	1396
<b>Total Liabilities</b>	<b>115678</b>	<b>132627</b>	<b>153357</b>	<b>153217</b>
<b>Assets</b>				
Gross Block	113932	120744	146984	151466
Less: Acc Depreciation	46304	51495	57072	62793
Net Block	67628	69249	89912	88672
Goodwill	18575	20098	22591	22591
CWIP	3975	7610	1293	1311
Investments	8991	9370	8320	7270
Inventory	22194	22384	21710	25805
Debtors	11460	9401	9046	11910
Loans and Advances	2780	3600	9245	8545
Other Current Assets	6640	3458	5019	5941
Cash	9787	21569	22762	19450
Total Current Assets	52860	60412	67782	71651
Trade Payables	24815	23700	28947	29378
Provisions & Other Curren Lial	12339	13201	10131	11017
Current Liabilities & Prov	37154	36901	39078	40395
Net Current Assets	15707	23511	28703	31256
others	803	2789	2538	2117
<b>Application of Funds</b>	<b>115678</b>	<b>132627</b>	<b>153357</b>	<b>153217</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Profit after Tax</b>	<b>5495</b>	<b>3767</b>	<b>5289</b>	<b>7649</b>
Add: Depreciation	4777	5091	5576	5722
Add: Interest	3778	4197	4237	3862
(Inc)/dec in Current Assets	-2050	4231	-6176	-7181
Inc/(dec) in CL and Prov.	765	-253	2177	1316
<b>CF from operating activi</b>	<b>12765</b>	<b>17033</b>	<b>11103</b>	<b>11368</b>
(Inc)/dec in Investments	1790	-379	1050	1050
(Inc)/dec in Fixed Assets	-7803	-11871	-22415	-4500
Others	615	-1843	251	421
<b>CF from investing activi</b>	<b>-5398</b>	<b>-14093</b>	<b>-21114</b>	<b>-3029</b>
Issue/(Buy back) of Equity	-1	0	0	0
Inc/(dec) in loan funds	985	15981	16500	-7500
Interest Paid	-3778	-4197	-4237	-3862
Dividend paid & dividend tax	-290	-290	-290	-290
Inc/(dec) in Share Cap	-2555	-2652	-769	0
Others	0	0	0	0
<b>CF from financing activi</b>	<b>-5638</b>	<b>8842</b>	<b>11204</b>	<b>-11652</b>
Net Cash flow	1729	11782	1193	-3312
Opening Cash	8058	9787	21569	22762
<b>Closing Cash</b>	<b>9787</b>	<b>21569</b>	<b>22762</b>	<b>19450</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
Reported EPS	24.7	18.2	25.3	34.4
Cash EPS	46.2	41.1	50.4	60.1
BV	258.6	262.3	281.3	314.4
DPS	1.2	1.2	1.2	1.2
Cash Per Share	44.0	97.0	102.4	87.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.9	12.1	12.4	13.1
PBT / Total Operating income	6.2	5.0	5.4	7.1
Adj PAT Margin	4.2	3.4	4.3	5.3
Inventory days	62	69	60	65
Debtor days	32	29	25	30
Creditor days	69	73	80	74
<b>Return Ratios (%)</b>				
Adj RoE	9.6	6.9	9.0	10.9
Adj RoCE	10.3	7.8	7.7	9.2
RoIC	13.5	12.0	10.7	12.7
<b>Valuation Ratios (x)</b>				
P/E	8.3	11.3	8.1	6.0
EV / EBITDA	5.2	5.8	6.0	5.0
EV / Net Sales	0.6	0.7	0.7	0.7
Market Cap / Sales	0.3	0.4	0.3	0.3
Price to Book Value	0.8	0.8	0.7	0.7
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.5	2.8	3.4	2.7
Debt / Equity	0.9	1.2	1.4	1.1
Current Ratio	1.4	1.6	1.7	1.8
Quick Ratio	0.8	1.0	1.2	1.1

Source: Company, ICICI Direct Research

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

	CMP		TP	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE (%)			ROE (%)		
	(₹)	(₹)			Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Coal India	126	150	Hold	78151	27.1	22.2	22.9	4.9	6.0	5.8	2.7	4.3	4.4	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	205	240	Buy	45861	18.2	25.3	34.4	11.3	8.1	6.0	5.8	6.0	5.0	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	225	230	Hold	94943	16.1	17.1	21.1	13.8	13.1	10.6	8.2	7.8	5.8	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	343	330	Hold	82825	19.5	21.3	33.5	16.4	15.0	9.6	11.2	8.7	6.3	7.2	9.7	13.1	12.7	12.2	16.2
NMDC	91	100	Hold	27771	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1265	1475	Buy	5911	65.8	53.1	73.8	19.2	23.8	17.2	13.7	16.6	11.7	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	183	200	Hold	3580	2.0	1.0	21.0	80.8	231.3	8.7	NA	NA	3.2	-2.6	-5.4	6.0	1.0	0.3	8.7
Tata Steel	475	450	Hold	54373	41.4	-20.3	56.7	10.1	NA	7.4	9.1	12.6	5.7	5.0	2.0	8.9	6.4	-3.2	8.0
Vedanta	102	100	Hold	37897	10.7	17.9	19.9	9.1	5.5	4.9	3.5	3.2	2.6	10.8	13.6	14.9	7.3	11.5	12.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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