

February 4, 2021

## Company Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
<b>Rating</b>	BUY		BUY	
<b>Target Price</b>	305		305	
Sales (Rs. m)	13,83,729	14,45,073	13,83,729	14,45,073
% Chng.	-	-	-	-
EBITDA (Rs. m)	1,80,291	1,77,932	1,80,291	1,77,932
% Chng.	-	-	-	-
EPS (Rs.)	25.8	24.2	25.8	24.2
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	1,181	1,174	1,384	1,445
EBITDA (Rs. bn)	144	140	180	178
Margin (%)	12.1	11.9	13.0	12.3
PAT (Rs. bn)	39	32	57	54
EPS (Rs.)	17.8	14.6	25.8	24.2
Gr. (%)	(28.2)	(17.7)	76.7	(6.4)
DPS (Rs.)	1.4	1.3	1.3	1.3
Yield (%)	0.6	0.5	0.5	0.5
RoE (%)	6.8	5.4	9.0	7.8
RoCE (%)	7.8	6.8	9.2	8.5
EV/Sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	6.7	7.0	5.2	4.9
PE (x)	14.5	17.6	10.0	10.6
P/BV (x)	1.0	0.9	0.9	0.8

### Key Data

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52-W High / Low	Rs.276 / Rs.85
Sensex / Nifty	50,256 / 14,790
Market Cap	Rs.578bn / \$ 7,918m
Shares Outstanding	2,247m
3M Avg. Daily Value	Rs.8222.74m

### 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	7.9	59.4	41.4
Relative	2.8	17.1	12.2

### Kamlesh Bagmar

kamleshbagmar@plindia.com | 91-22-66322237

### Amit Khimesra

amitkhimesra@plindia.com | 91-22-66322244

## Maintains strong margin trajectory

### Quick Pointers:

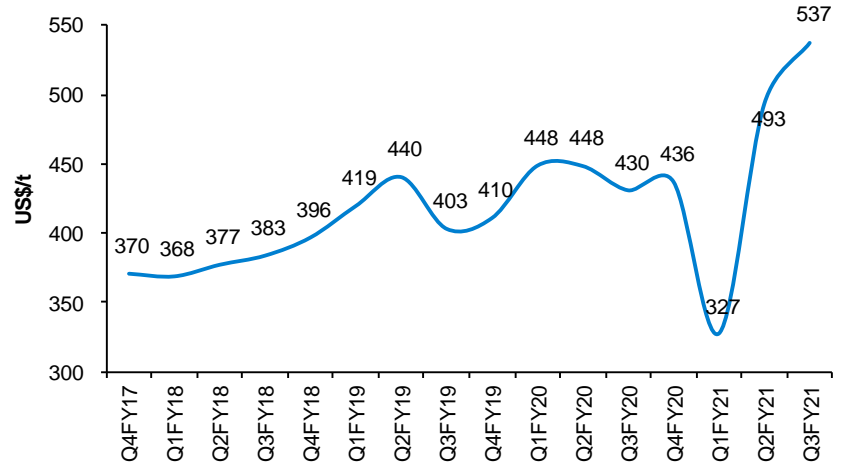
- Maintained guidance on sustainable EBITDA margin to US\$480-500/t.
- Net Debt/EBITDA fell to 3.3x in Q3 v/s 3.7x in Q2
- Would achieve Net Debt/EBITDA<3x earlier than guided timeline of FY23e

**Excluding positive US\$25mn from a customer's contractual obligation, Novelis' Adj. EBITDA grew 39% YoY/5% QoQ at US\$476mn (US\$455) on back of 24% YoY (+6.5% QoQ) growth in Novelis' legacy operation's EBITDA at US\$426mn and 15% YoY (down 9% QoQ) inorganic growth.**

**Company witnessed strong demand momentum with volumes back to pre-covid levels except Aerospace. Scrap spreads tightened in USA due to variety of reasons including high ocean freight, transportation issues due to restrictions related to Covid and ease in restrictions on scrap imports by China. Management expects spreads to revive as the temporary ocean freights and transportation bottlenecks eases. The same is vindicated in strong guidance on margins. In line with our expectation, management expects to achieve guidance of Net debt/EBITDA<3x earlier than targeted timeline of FY23e. Driven by strong margin outlook and comfortable B/S, we reiterate BUY with TP of Rs305, EV/EBITDA of 6x FY22e.**

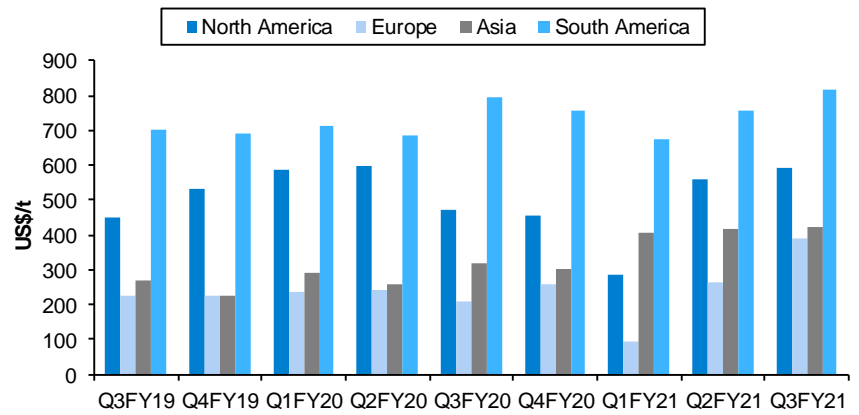
- Margins at US\$510/t, up 19% YoY/3% QoQ:** Shipments grew 17% YoY (+1% QoQ) at 933kt, contributed by organic/inorganic growth of 4%/13%.. Volumes of North America/Europe/Asia/South America grew 29%/13%/6%/8% YoY at 347kt/253kt/184kt/158kt. North America/Europe/Asia/South America's EBITDA grew 62%/55%/42%/11% YoY at US\$206/US\$73m/US\$78mn/US\$129mn. Adj. PAT rose 58% YoY at US\$209mn on back of strong operating performance.
- Key takeaways of earnings call:**
  - Seeing tight market conditions in beverage can market (50% of revenue) on back of strong demand and shift of other beverages
  - Automotive sheets (20% of revenue) demand in North America and China back to pre-covid levels with unprecedented demand in SUVs, Trucks and EVs
  - Demand for specialty products (25% of revenue) would grow at 5-10% on back of positive housing demand in US and Europe, strong demand in Korean electronics market and recovery in heat exchangers and transportation in North America and Europe
  - Aerospace (3% of revenue) would remain weak due to restrictions on air travel and heavily overstocked supply chain
  - Capex guidance of US\$450-500mn (US\$333mn in 9MFY21) in FY21
  - Net Debt/EBITDA to fall below 2.5x in couple of years
  - New 200kt auto finishing line in Guthrie, US started commercial production in December
  - 100kt auto finishing line in Changzhou, China is in qualification stage, would start commercial production in Q4FY21
  - 100kt hot mill expansion in Pinda, Brazil would commission in mid of FY22
  - Engineering study underway for 200kt cold mill in China
  - Net debt fell 4% QoQ at US\$5.3bn

**Exhibit 1: EBITDA/t at all-time high**



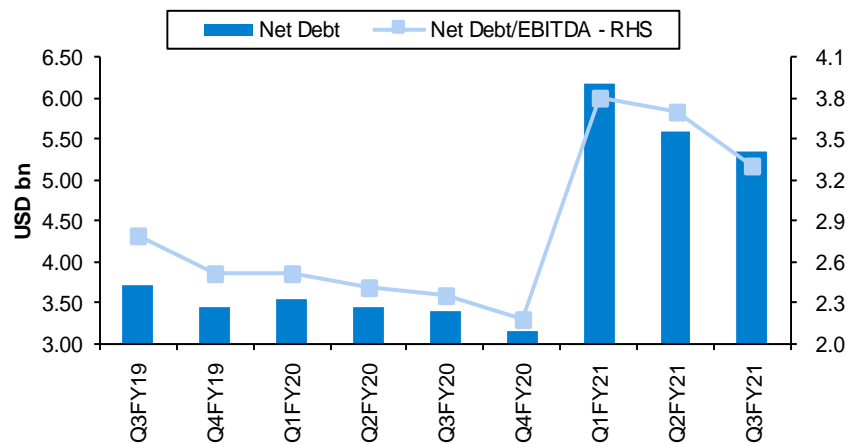
Source: Company, PL

**Exhibit 2: Margins expanded YoY across the markets**



Source: Company, PL

**Exhibit 3: Net Debt/EBITDA fell to 3.3x with reduction in net debt by 4% QoQ**



Source: Company, PL

**Exhibit 4: Q3FY21 Result Overview (US\$ mn)**

Y/e March	Q3FY21	Q3FY20	YoY % change	Q2FY21	9MFY21	9MFY20	% change
<b>Net sales</b>	<b>3,241</b>	<b>2,715</b>	19.4	<b>2,978</b>	<b>8,645</b>	<b>8,491</b>	1.8
<b>EBITDA</b>	<b>494</b>	<b>324</b>	52.5	<b>447</b>	<b>1,125</b>	<b>1,052</b>	6.9
% of sales	15.2	11.9		15.0	13.0	12.4	
Depreciation	137	91	50.5	141	396	267	48.3
<b>EBIT</b>	<b>357</b>	<b>233</b>	53.2	<b>306</b>	<b>729</b>	<b>785</b>	(7.1)
Interest	66	59	11.9	70	206	185	11.4
Other (income)/expenses	4	3	33.3	(18)	(86)	(3)	
<b>PBT before extraordinary</b>	<b>295</b>	<b>177</b>	66.7	<b>218</b>	<b>437</b>	<b>597</b>	(26.8)
Extraordinary income/ (expense)	(17)	(3)		(7)	(27)	(36)	
<b>PBT after extraordinary</b>	<b>278</b>	<b>174</b>	59.8	<b>211</b>	<b>410</b>	<b>561</b>	(26.9)
Tax	80	49	63.3	68	119	157	(24.2)
<b>PAT</b>	<b>198</b>	<b>125</b>	58.4	<b>143</b>	<b>291</b>	<b>404</b>	(28.0)
<b>Net profit attributable to shareholders</b>	<b>195</b>	<b>124</b>	57.3	<b>144</b>	<b>289</b>	<b>403</b>	(28.3)
<b>Adjusted net profit attributable to shareholders</b>	<b>209</b>	<b>132</b>	58.3	<b>158</b>	<b>389</b>	<b>437</b>	(11.0)
<b>Sales volume (000 tonnes)</b>	<b>933</b>	<b>797</b>	17.1	<b>923</b>	<b>2,630</b>	<b>2,462</b>	6.8
<b>Adjusted EBITDA</b>	<b>501</b>	<b>343</b>	46.1	<b>455</b>	<b>1,209</b>	<b>1,089</b>	11.0
<b>Adjusted EBITDA/t</b>	<b>537</b>	<b>430</b>	24.8	<b>493</b>	<b>460</b>	<b>442</b>	3.9
<b>Operation-wise earnings</b>							
<b>North America</b>							
Volumes (kt)	347	269	29.0	367	986	844	16.8
Adjusted EBITDA (US\$m)	206	127	62.2	205	489	468	4.5
Adjusted EBITDA/tonne (US\$)	594	472	25.7	559	496	555	(10.6)
<b>Europe</b>							
Volumes (kt)	253	224	12.9	240	705	692	1.9
Adjusted EBITDA (US\$m)	98	47	108.5	63	181	160	13.1
Adjusted EBITDA/tonne (US\$)	387	210	84.6	263	257	231	11.0
<b>Asia</b>							
Volumes (kt)	184	173	6.4	178	546	533	2.4
Adjusted EBITDA (US\$m)	78	55	41.8	74	227	154	47.4
Adjusted EBITDA/tonne (US\$)	424	318	33.3	416	416	289	43.9
<b>South America</b>							
Volumes (kt)	158	146	8.2	148	419	422	(0.7)
Adjusted EBITDA (US\$m)	129	116	11.2	112	317	309	2.6
Adjusted EBITDA/tonne (US\$)	816	795	2.8	757	757	732	3.3

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>11,81,440</b>	<b>11,74,145</b>	<b>13,83,729</b>	<b>14,45,073</b>
YoY gr. (%)	(9.5)	(0.6)	17.8	4.4
Cost of Goods Sold	6,76,110	7,17,258	8,34,801	8,78,991
Gross Profit	5,05,330	4,56,888	5,48,928	5,66,082
Margin (%)	42.8	38.9	39.7	39.2
Employee Cost	88,320	86,670	1,00,874	1,06,213
Other Expenses	1,24,310	1,39,190	1,62,000	1,70,576
<b>EBITDA</b>	<b>1,43,500</b>	<b>1,40,156</b>	<b>1,80,291</b>	<b>1,77,932</b>
YoY gr. (%)	(7.4)	(2.3)	28.6	(1.3)
Margin (%)	12.1	11.9	13.0	12.3
Depreciation and Amortization	51,350	53,787	57,708	61,376
<b>EBIT</b>	<b>92,150</b>	<b>86,369</b>	<b>1,22,582</b>	<b>1,16,556</b>
Margin (%)	7.8	7.4	8.9	8.1
Net Interest	41,970	47,002	47,580	47,070
Other Income	11,860	9,710	10,216	10,223
<b>Profit Before Tax</b>	<b>59,200</b>	<b>49,077</b>	<b>85,219</b>	<b>79,709</b>
Margin (%)	5.0	4.2	6.2	5.5
Total Tax	21,570	16,307	27,457	25,779
Effective tax rate (%)	36.4	33.2	32.2	32.3
<b>Profit after tax</b>	<b>37,630</b>	<b>32,770</b>	<b>57,761</b>	<b>53,931</b>
Minority interest	-	329	421	277
Share Profit from Associate	40	41	42	42
<b>Adjusted PAT</b>	<b>39,475</b>	<b>32,482</b>	<b>57,382</b>	<b>53,696</b>
YoY gr. (%)	(28.2)	(17.7)	76.7	(6.4)
Margin (%)	3.3	2.8	4.1	3.7
Extra Ord. Income / (Exp)	(1,805)	-	-	-
<b>Reported PAT</b>	<b>37,670</b>	<b>32,482</b>	<b>57,382</b>	<b>53,696</b>
YoY gr. (%)	(31.5)	(13.8)	76.7	(6.4)
Margin (%)	3.2	2.8	4.1	3.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	37,670	32,482	57,382	53,696
<b>Equity Shares O/s (m)</b>	<b>2,220</b>	<b>2,220</b>	<b>2,220</b>	<b>2,220</b>
<b>EPS (Rs)</b>	<b>17.8</b>	<b>14.6</b>	<b>25.8</b>	<b>24.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>12,02,360</b>	<b>12,83,205</b>	<b>13,30,550</b>	<b>14,05,825</b>
Tangibles	12,02,360	12,83,205	13,30,550	14,05,825
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>5,11,390</b>	<b>5,65,177</b>	<b>6,22,885</b>	<b>6,84,261</b>
Tangibles	5,11,390	5,65,177	6,22,885	6,84,261
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>6,90,970</b>	<b>7,18,028</b>	<b>7,07,665</b>	<b>7,21,564</b>
Tangibles	6,90,970	7,18,028	7,07,665	7,21,564
Intangibles	-	-	-	-
Capital Work In Progress	81,570	1,11,692	96,910	71,185
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)	(38,866)	(42,163)	(44,774)
Other Non-Current Assets	14,430	14,430	14,430	14,430
<b>Current Assets</b>				
Investments	62,790	62,790	62,790	62,790
Inventories	2,23,840	2,19,002	2,62,325	2,70,057
Trade receivables	94,010	1,00,846	1,18,277	1,26,132
Cash & Bank Balance	2,15,690	2,13,731	2,63,716	3,16,662
Other Current Assets	33,480	33,427	34,954	35,401
<b>Total Assets</b>	<b>16,95,280</b>	<b>17,50,222</b>	<b>18,38,547</b>	<b>18,96,295</b>
<b>Equity</b>				
Equity Share Capital	2,220	2,220	2,220	2,220
Other Equity	5,80,950	6,10,232	6,64,202	7,14,486
<b>Total Networkth</b>	<b>5,83,170</b>	<b>6,12,452</b>	<b>6,66,422</b>	<b>7,16,706</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,72,570	6,88,730	6,88,270	6,82,270
Provisions	83,370	83,370	83,370	83,370
Other non current liabilities	13,770	13,770	13,770	13,770
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,83,000	1,90,915	2,22,011	2,32,588
Other current liabilities	1,00,530	1,00,530	1,00,530	1,00,530
<b>Total Equity &amp; Liabilities</b>	<b>16,95,280</b>	<b>17,50,222</b>	<b>18,38,547</b>	<b>18,96,295</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	59,240	49,077	85,219	79,709
Add. Depreciation	50,910	53,787	57,708	61,376
Add. Interest	41,970	47,002	47,580	47,070
Less Financial Other Income	11,860	9,710	10,216	10,223
Add. Other	(12,670)	(9,710)	(10,216)	(10,223)
Op. profit before WC changes	1,39,450	1,40,156	1,80,291	1,77,932
Net Changes-WC	(11,780)	8,235	(32,347)	(6,010)
Direct tax	(1,020)	(15,051)	(24,160)	(23,168)
<b>Net cash from Op. activities</b>	<b>1,26,650</b>	<b>1,33,341</b>	<b>1,23,783</b>	<b>1,48,754</b>
Capital expenditures	(67,320)	(52,750)	(38,975)	(35,450)
Interest / Dividend Income	-	-	-	-
Others	(15,690)	9,710	10,216	10,223
<b>Net Cash from Inv. activities</b>	<b>(83,010)</b>	<b>(43,040)</b>	<b>(28,759)</b>	<b>(25,227)</b>
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)	(47,002)	(47,580)	(47,070)
Others	(3,440)	-	-	-
<b>Net cash from Fin. activities</b>	<b>66,100</b>	<b>(56,202)</b>	<b>(56,991)</b>	<b>(56,481)</b>
<b>Net change in cash</b>	<b>1,09,740</b>	<b>34,098</b>	<b>38,033</b>	<b>67,045</b>
Free Cash Flow	59,330	80,591	84,808	1,13,304

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>1,02,300</b>	<b>99,920</b>	<b>74,200</b>	<b>95,180</b>
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
<b>EBITDA</b>	<b>10,130</b>	<b>11,630</b>	<b>5,740</b>	<b>9,880</b>
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
<b>EBIT</b>	<b>5,850</b>	<b>6,990</b>	<b>1,490</b>	<b>5,610</b>
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
<b>Profit before Tax</b>	<b>3,070</b>	<b>5,060</b>	<b>(660)</b>	<b>3,180</b>
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
<b>Profit after Tax</b>	<b>1,930</b>	<b>3,260</b>	<b>(400)</b>	<b>1,980</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>1,999</b>	<b>3,260</b>	<b>(182)</b>	<b>2,279</b>
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)
<b>Reported PAT</b>	<b>1,930</b>	<b>3,260</b>	<b>(400)</b>	<b>1,980</b>
YoY gr. (%)	(22.0)	38.2	(273.9)	153.8
Margin (%)	1.9	3.3	(0.5)	2.1
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,930</b>	<b>3,260</b>	<b>(400)</b>	<b>1,980</b>
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
<b>EPS (Rs)</b>	<b>0.9</b>	<b>1.5</b>	<b>(0.1)</b>	<b>1.0</b>

Source: Company Data, PL Research

**Key Financial Metrics**

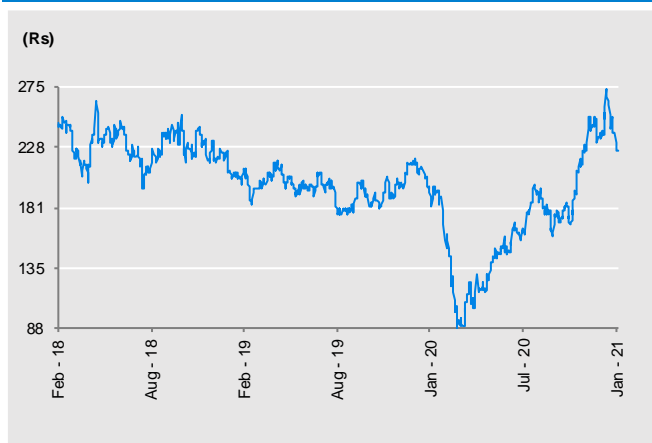
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	17.8	14.6	25.8	24.2
CEPS	40.9	38.9	51.8	51.8
BVPS	262.7	275.9	300.2	322.8
FCF	26.7	36.3	38.2	51.0
DPS	1.4	1.3	1.3	1.3
<b>Return Ratio(%)</b>				
RoCE	7.8	6.8	9.2	8.5
ROIC	6.5	5.8	8.3	7.9
RoE	6.8	5.4	9.0	7.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.7	0.5	0.4
Net Working Capital (Days)	42	40	42	41
<b>Valuation(x)</b>				
PER	14.5	17.6	10.0	10.6
P/B	1.0	0.9	0.9	0.8
P/CEPS	6.3	6.6	5.0	5.0
EV/EBITDA	6.7	7.0	5.2	4.9
EV/Sales	0.8	0.8	0.7	0.6
Dividend Yield (%)	0.6	0.5	0.5	0.5

Source: Company Data, PL Research

**Key Operating Metrics**

Y/e Mar	FY20	FY21E	FY22E	FY23E
Aluminium (Al) prod (t)	13,13,666	12,55,584	12,93,864	13,06,624
Copper (Cu) prod (t)	3,21,000	2,50,000	3,75,000	4,00,000
LME-Al (USD/t)	2,100	1,754	1,857	1,800
LME-Cu (USD/t)	5,850	6,700	7,000	6,500
EBITDA-Al (Rs m)	37,400	46,548	52,834	47,477
EBITDA-Cu (Rs m)	12,760	6,207	11,000	11,000
Novelis (volumes kt)	3,273	3,103	3,277	3,506
Novelis-EBITDA/t (US\$)	429	400	480	460
Novelis-EBITDA (US\$ mn)	1,404	1,241	1,573	1,613

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jan-21	BUY	305	264
2	11-Nov-20	BUY	230	192
3	10-Nov-20	BUY	230	195
4	09-Oct-20	BUY	218	174
5	17-Aug-20	BUY	215	185
6	13-Aug-20	BUY	205	176
7	10-Jul-20	BUY	180	165
8	13-Jun-20	BUY	175	146
9	08-May-20	BUY	170	118
10	20-Apr-20	BUY	171	124

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,870	1,761
2	Ambuja Cement	BUY	285	270
3	Coal India	Hold	143	147
4	Dalmia Bharat	BUY	1,480	1,204
5	Heidelberg Cement India	Hold	228	236
6	Hindalco Industries	BUY	305	264
7	Hindustan Zinc	Reduce	260	296
8	Jindal Steel & Power	BUY	400	282
9	JK Lakshmi Cement	BUY	425	350
10	JSW Steel	Reduce	335	375
11	NMDC	BUY	145	127
12	Shree Cement	Hold	23,400	22,550
13	Steel Authority of India	Accumulate	66	58
14	Tata Steel	Hold	745	695
15	The Ramco Cements	Reduce	807	852
16	Ultratech Cement	BUY	6,100	5,535

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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**Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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