

February 10, 2021

Q3FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	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 (%)	0.5	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)	0.9	0.9	0.7	0.6
EV/EBITDA (x)	7.1	7.4	5.4	5.2
PE (x)	15.7	19.1	10.8	11.6
P/BV (x)	1.1	1.0	0.9	0.9

Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.286 / Rs.85
Sensex / Nifty	51,309 / 15,107
Market Cap	Rs.628bn/ \$ 8,617m
Shares Outstanding	2,247m
3M Avg. Daily Value	Rs.8599.32m

Shareholding Pattern (%)

Promoter's	34.65
Foreign	22.79
Domestic Institution	22.07
Public & Others	20.49
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.2	56.4	46.4
Relative	(1.0)	16.4	16.9

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Balanced focus on growth and B/S

Quick Pointers:

- Will announce strategy on capital allocation in couple of weeks
- Focus would be a) on expanding downstream capacities in India through operating cash flows and b) reducing debt in Novelis
- Consolidated net debt fell 7% QoQ to Rs538bn. Net debt/EBITDA down 12% QoQ at 3.1x

Hindalco (HNDL) reported Q3FY21 EBITDA tad above our estimates due to better than expected earnings in Copper (CU) business. While, earnings in Aluminium (AL) operations fall short of expectation by 3% due to higher costs.

Led by better visibility on profitability of Novelis' legacy operations and increased synergies in Aleris, Novelis maintained guidance on sustainable EBITDA margin at US\$480-500/t. Underpinned by strong profitability across the segments except Aerospace, management would meet its guidance of Net debt/EBITDA<3x (Q3FY21: 3.3x) earlier than targeted timeline of FY23e. In Indian operations (with share reducing to 30% in consolidated EBITDA), quarterly EBITDA run-rate stabilised at Rs15bn (v/s12.5bn last year) on back of strong LME and measured cost increase. Driven by strong earnings outlook and comfortable B/S, we reiterate BUY with TP of Rs305, EV/EBITDA of 6x FY22e.

- Higher earnings in CU makes up for shortfall in AL:** AL/CU sales volumes fell 4%/13% YoY (↑4/↓3% QoQ) at 315kt/73kt (PLe:315kt/50kt). Due to higher than expected cost, AL biz EBITDA fell short of our estimate at Rs12.9bn (PLe:Rs13.3bn), up 34% YoY/21% QoQ. Benefited by better than expected volumes, CU division's EBITDA came above our estimate at Rs2.0bn (PLe:Rs1.4bn), down 21% YoY/3% QoQ. Combined EBITDA grew 15% YoY/17% QoQ at Rs15.0bn (PLe:Rs14.7bn). Aided by lower interest cost and higher other income, Adj PAT grew 91% YoY/40% QoQ at Rs5.2bn (PLe:Rs5.2bn).
- Key highlights of earnings call:** **1)** AL CoP would increase by 3% QoQ in Q4 due to higher coal and carbon cost **2)** Hedged 58%/28% of Q4FY21e/FY22e Al volumes at US\$1,715/t/US\$1,840/t **3)** Company would focus on expanding capacity of AL extrusion products, flat rolled products (FRP) and specialty chemicals to meet domestic demand **4)** Waiting for notification of export incentives under RoDTEP, effective from 1st January, 2021 in place of MEIS **5)** Incurred capex of Rs11.5bn in India in 9MFY21 **6)** Commissioning of 500kt alumina expansion at Utkal by a quarter to revised timeline of Q1FY22 **7)** Will undertake shutdown in one of the CU smelter for couple of months starting from mid of March **8)** In process to modify boilers in CPPs to use gas as alternate fuel **9)** Company has asked govt to supply gas at USD5/mmbtu for meaningful shift to clean fuel **10)** Laying of gas pipeline in Jharsuguda, Odisha delayed by a year due to Covid-19

Exhibit 1: Q3FY21 Result Overview (Rs m)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
Net Sales	1,13,510	1,02,300	11.0	95,180	2,82,890	3,02,500	(6.5)
Raw Material	69,940	57,870	20.9	56,890	1,70,570	1,73,670	(1.8)
<i>% of Net Sales</i>	<i>61.6</i>	<i>56.6</i>		<i>59.8</i>	<i>60.3</i>	<i>57.4</i>	
Staff Costs	4,420	4,930	(10.3)	4,390	13,420	14,530	(7.6)
<i>% of Net Sales</i>	<i>3.9</i>	<i>4.8</i>		<i>4.6</i>	<i>4.7</i>	<i>4.8</i>	
Power & Fuel	14,830	16,920	(12.4)	14,710	42,180	53,410	(21.0)
<i>% of Net Sales</i>	<i>13.1</i>	<i>16.5</i>		<i>15.5</i>	<i>14.9</i>	<i>17.7</i>	
Other Expenses	12,830	12,410	3.4	9,310	29,610	35,500	(16.6)
<i>% of Net Sales</i>	<i>11.3</i>	<i>12.1</i>		<i>9.8</i>	<i>10.5</i>	<i>11.7</i>	
Total Expenditure	1,02,020	92,130	10.7	85,300	2,55,780	2,77,110	(7.7)
EBITDA	11,490	10,170	13.0	9,880	27,110	25,390	6.8
<i>Margin (%)</i>	<i>10.1</i>	<i>9.9</i>		<i>10.4</i>	<i>9.6</i>	<i>8.4</i>	
Depreciation	4,140	4,280	(3.3)	4,270	12,660	12,660	-
Other income	1,850	1,390	33.1	1,660	5,970	5,310	12.4
EBIT	9,200	7,280	26.4	7,270	20,420	18,040	13.2
Interest	3,520	4,060	(13.3)	3,610	11,380	12,780	(11.0)
PBT	5,680	3,220	76.4	3,660	9,040	5,260	71.9
Extraordinary income/(expense)	(360)	(150)		(480)	(1,200)	(800)	
PBT (After EO)	5,320	3,070	73.3	3,180	7,840	4,460	75.8
Tax	1,920	1,140	68.4	1,200	2,860	1,520	88.2
<i>% PBT</i>	<i>36.1</i>	<i>37.1</i>		<i>37.7</i>	<i>36.5</i>	<i>34.1</i>	
Reported PAT	3,400	1,930	76.2	1,980	4,980	2,940	69.4
Adjusted PAT	3,630	2,024	79.3	2,279	5,727	3,494	63.9

Source: Company, PL

Exhibit 2: Key Operating Metrics

	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
LME Aluminum average (US\$)	1,914	1,752	9.2	1,704	1,705	1,769	(3.7)
LME Copper average (US\$)	7,147	5,881	21.5	6,518	6,340	5,932	6.9
Rs/US\$	73.8	71.2	3.6	74.4	74.7	70.4	6.1
Sales volume (tonnes)							
Aluminium	3,15,000	3,28,000	(4.0)	3,03,000	9,21,000	9,76,000	(5.6)
Copper	73,000	84,000	(13.1)	75,000	2,06,000	2,48,000	(16.9)
Segment-wise break-up							
Revenue (Rs mn)							
Aluminium	52,940	54,670	(3.2)	47,960	1,45,260	1,64,890	(11.9)
Copper	61,330	47,740	28.5	47,740	1,39,380	1,38,160	0.9
EBITDA (Rs mn)							
Aluminium (Incl Utkal)	12,930	10,450	23.7	10,660	32,150	27,060	18.8
Copper	2,020	2,560	(21.1)	2,080	4,470	8,700	(48.6)
Total EBITDA (Domestic+Utkal)	14,980	13,060	14.7	12,750	36,670	35,830	2.3

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	11,81,440	11,74,145	13,83,729	14,45,073
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
EBITDA	1,43,500	1,40,156	1,80,291	1,77,932
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
EBIT	92,150	86,369	1,22,582	1,16,556
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
Profit Before Tax	59,200	49,077	85,219	79,709
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
Profit after tax	37,630	32,770	57,761	53,931
Minority interest	-	329	421	277
Share Profit from Associate	40	41	42	42
Adjusted PAT	39,475	32,482	57,382	53,696
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)	-	-	-
Reported PAT	37,670	32,482	57,382	53,696
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
Equity Shares O/s (m)	2,220	2,220	2,220	2,220
EPS (Rs)	17.8	14.6	25.8	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	12,83,205	13,30,550	14,05,825
Tangibles	12,02,360	12,83,205	13,30,550	14,05,825
Intangibles	-	-	-	-
Acc: Dep / Amortization	5,11,390	5,65,177	6,22,885	6,84,261
Tangibles	5,11,390	5,65,177	6,22,885	6,84,261
Intangibles	-	-	-	-
Net fixed assets	6,90,970	7,18,028	7,07,665	7,21,564
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
Current Assets				
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
Total Assets	16,95,280	17,50,222	18,38,547	18,96,295
Equity				
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
Total Networkth	5,83,170	6,12,452	6,66,422	7,16,706
Non-Current Liabilities				
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
Current Liabilities				
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
Total Equity & Liabilities	16,95,280	17,50,222	18,38,547	18,96,295

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)
Net cash from Op. activities	1,26,650	1,33,341	1,23,783	1,48,754
Capital expenditures	(67,320)	(52,750)	(38,975)	(35,450)
Interest / Dividend Income	-	-	-	-
Others	(15,690)	9,710	10,216	10,223
Net Cash from Inv. activities	(83,010)	(43,040)	(28,759)	(25,227)
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)	-	-	-
Net cash from Fin. activities	66,100	(56,202)	(56,991)	(56,481)
Net change in cash	1,09,740	34,098	38,033	67,045
Free Cash Flow	59,330	80,591	84,808	1,13,304

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	99,920	74,200	95,180	1,13,510
YoY gr. (%)	(19.2)	(26.2)	(4.5)	11.0
Raw Material Expenses	55,120	43,740	56,890	69,940
Gross Profit	44,800	30,460	38,290	43,570
Margin (%)	44.8	41.1	40.2	38.4
EBITDA	11,630	5,740	9,880	11,490
YoY gr. (%)	28.9	(20.9)	24.1	13.0
Margin (%)	11.6	7.7	10.4	10.1
Depreciation / Depletion	4,640	4,250	4,270	4,140
EBIT	6,990	1,490	5,610	7,350
Margin (%)	7.0	2.0	5.9	6.5
Net Interest	4,010	4,250	3,610	3,520
Other Income	2,080	2,460	1,660	1,850
Profit before Tax	5,060	(660)	3,180	5,320
Margin (%)	5.1	(0.9)	3.3	4.7
Total Tax	1,800	(260)	1,200	1,920
Effective tax rate (%)	35.6	39.4	37.7	36.1
Profit after Tax	3,260	(400)	1,980	3,400
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,260	(182)	2,279	3,630
YoY gr. (%)	38.2	(142.6)	118.6	79.3
Margin (%)	3.3	(0.2)	2.4	3.2
Extra Ord. Income / (Exp)	-	(218)	(299)	(230)
Reported PAT	3,260	(400)	1,980	3,400
YoY gr. (%)	38.2	(273.9)	153.8	76.2
Margin (%)	3.3	(0.5)	2.1	3.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,260	(400)	1,980	3,400
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
EPS (Rs)	1.5	(0.1)	1.0	1.6

Source: Company Data, PL Research

Key Financial Metrics

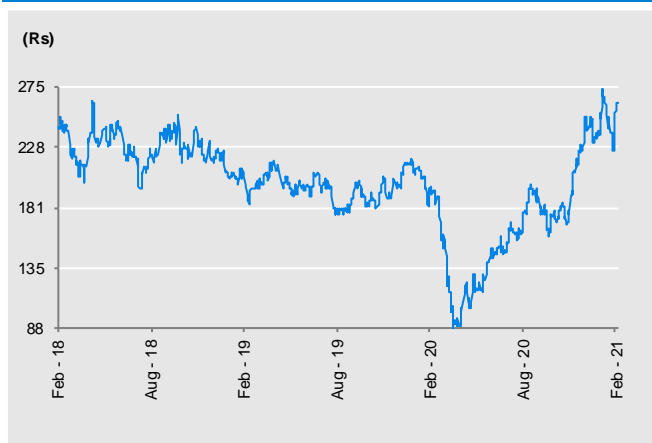
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.8	14.6	25.8	24.2
CEPS	40.9	38.9	51.8	51.8
BVPS	262.7	275.9	300.2	322.8
FCF	26.7	36.3	38.2	51.0
DPS	1.4	1.3	1.3	1.3
Return Ratio(%)				
RoCE	7.8	6.8	9.2	8.5
ROIC	6.5	5.8	8.3	7.9
RoE	6.8	5.4	9.0	7.8
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.5	0.4
Net Working Capital (Days)	42	40	42	41
Valuation(x)				
PER	15.7	19.1	10.8	11.6
P/B	1.1	1.0	0.9	0.9
P/CEPS	6.8	7.2	5.4	5.4
EV/EBITDA	7.1	7.4	5.4	5.2
EV/Sales	0.9	0.9	0.7	0.6
Dividend Yield (%)	0.5	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)	37,490	59,478	52,834	47,477
EBITDA-Cu (Rs m)	12,760	8,227	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	04-Feb-21	BUY	305	257
2	13-Jan-21	BUY	305	264
3	11-Nov-20	BUY	230	192
4	10-Nov-20	BUY	230	195
5	09-Oct-20	BUY	218	174
6	17-Aug-20	BUY	215	185
7	13-Aug-20	BUY	205	176
8	10-Jul-20	BUY	180	165
9	13-Jun-20	BUY	175	146
10	08-May-20	BUY	170	118

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	1,240
5	Heidelberg Cement India	Hold	224	230
6	Hindalco Industries	BUY	305	257
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	118
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	861
16	Ultratech Cement	BUY	6,100	5,535

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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