HINDALCO INDUSTRIES LTD

India Equity Analytics
5-Nov-18
Company Update

Narnolia™

Industry	Metals
Bloomberg	HNDL IN
BSE CODE	500440

Overall stable performance….

RATING	BUY
CMP	240
Price Target	287
Potential Upside	19%

Rating Change	↑
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	284/193
Mkt Capital (Rs Cr)	53968
Free float (%)	65%
Avg. Vol 1M (,000)	10792
No. of Shares (Cr.)	225
Promoters Pledged %	0%

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Key Highlights

- Hinalco is an integrated aluminium producer in India, with capacity of 1.3mt and access to alumina primarily sourced from Utkal (100% subsidiary). It also has a 500kt copper plant. In 2007 acquired Novelis an aluminium converter with capacity of 3mt.
- In 2QFY19 aluminium business felt the pressure of higher input cost; however Utkal recorded highest EBITDA of Rs.620 crore on the back of higher alumina prices.
- Deleveraging continued at Indian operations (paid Rs.1575 cr of long term loans). Novelis secured financing of Aleris acquisition.

2Q FY19 Result Update

Hindalco standalone revenue for the quarter came in at Rs.10833 crore (up 5% YoY, 2% QoQ), EBITDA came in at Rs.1091 crore with margin declining to 10% (vs.13% in 2QFY18 and 1QFY19) due to higher alumina and coal cost. EBITDA of Hindalco plus Utkal came in at Rs. (up 5% YoY, -1% QoQ). Aluminium EBITDA fell to Rs.744 crore (down 22% YoY,26% QoQ) due to higher alumina prices and higher coal and furnace oil prices ,however Utkal EBITDA of Rs.620 crore contained the fall to 11% on QoQ basis with Aluminium (including Utkal) EBITDA at Rs.1342 crore (up 13% YoY, down 11% QoQ) due to higher alumina prices. Copper EBITDA was at Rs.388 crore (down 17% YoY, up 16% QoQ), QoQ increase was due to higher DAP realization. Novelis reported good set of numbers with revenue growing at 12% YoY to USD 3136mn and reported adjusted EBITDA/t at USD 440/t (up 17% YoY, 5% QoQ).

View and Valuation

Novelis continued to report decent numbers with revenue at USD 3136mn (up 12% YoY, 1% QoQ) due to higher YoY realization at USD 3886/t (up 12% YoY, flat QoQ) and better product mix with 9%YoY increase in Automotive shipments. At standalone level margins felt the pressure of higher alumina and coal cost with EBITDA margin contracting to 10% (vs.13% in 2QFY19 and 1QFY19), EBITDA came in at Rs.1091 crore. However, EBITDA of standalone plus Utkal was at Rs.1922 crore flat YoY and QoQ at 18%.Going Indian operation margins are expected to remain at current levels as aluminium prices have come down to around USD 1950/t whereas coal cost are expected to remain high due to current coal scarcity in domestic market. However, we are positive on Hindalco led by strong performance at Novelis, focus on increasing share of VAP in domestic operations. On capacity expansion side though smelter expansion in Indian business is restricted due to coal availability issues but Novelis has started the process of doubling its China capacity to 200kt which primarily caters to automotive segment further Aleris acquisition is also a positive (Aleris contribution is not factored in our estimates yet). We have increased our consolidated EBITDA estimate for FY19/FY20 by 4%/3% owing to higher USD/INR assumptions at (USD 72 vs. USD 69 earlier) and expect earnings CAGR of 20% over FY18-20e. We value the stock at **Rs.287 (7x FY20e EV/EBITDA) and recommend BUY.**

Key Risks to our rating and target

- Sharp decline in LME aluminium
- Higher coal cost due to worsening domestic coal supply

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	98759	100184	115172	135326	139326
EBITDA	8815	12447	13921	16646	16681
EBIT	4307	7979	9314	12157	12141
PAT	-125	1890	4309	6189	6167
EPS (Rs)	-1	8	19	28	27
EPS growth (%)	-	-	128%	44%	0%
ROE (%)	-	4%	8%	10%	9%
ROCE (%)	-1%	2%	6%	6%	5%
BV	197	205	244	271	297
P/B (X)	0.4	1.0	0.9	0.9	0.8
P/E (x)	-145.2	23.2	11.2	8.7	8.8

2QFY19 Results Standalone

Standalone margin under pressure due to higher input cost….

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	10,308	11,023	11,681	10,593	10,833	5.1%	2.3%	36,937	42,798	15.9%
Other Income	187	299	205	105	201	7.5%	90.9%	1,005	948	-6%
Total Income	10,495	11,322	11,886	10,699	11,034	5.1%	3.1%	37,942	43,746	15.3%
COGS	5,908	6,434	7,065	6,011	6,210	5.1%	3.3%	20,007	24,993	24.9%
Staff Cost	478	496	482	469	511	6.8%	9.0%	1,752	1,895	8.1%
Power & Fuel	1,508	1,473	1,533	1,506	1,706			5,899	6,000	
Other Exp.	1,024	1,308	1,343	1,282	1,316	28.4%	2.6%	4,465	4,786	7.2%
Expenditure	8,918	9,711	10,424	9,268	9,742	9.2%	5.1%	32,123	37,674	17.3%
EBITDA	1,390	1,312	1,258	1,325	1,091	-21.5%	-17.7%	4,814	5,124	6.5%
Depreciation	380	382	460	404	400	5.2%	-1.0%	1,428	1,617	13.3%
EBIT	1,010	929	798	921	691	-31.6%	-25.0%	3,386	3,507	3.6%
Interest	484	483	446	411	424	-12.3%	3.3%	2,323	1,901	-18.2%
PBT	713	746	556	616	468	-34.4%	-24.0%	2,068	2,554	23.5%
Excpt. Item	(106)	(115)	-	-	-	-	-	85	(325)	-
Tax	215	255	179	202	159	-25.9%	-21.3%	596	792	32.9%
PAT	393	377	377	414	309	-21.5%	-25.4%	1,557	1,438	-7.6%

Standalone margin decline, however standalone plus Utkal stable

Hindalco standalone EBITDA declined to Rs.1091 crore (down 22% YoY, 18% QoQ) and margins fell to 10% (vs.13% in 2QFY18) due to higher cost of alumina and increase in coal and furnace oil prices. However, Utkal EBITDA of Rs.620 crore (2x 2QFY18,up 19% QoQ) led to 5% YoY and flat QoQ growth in reported standalone plus Utkal EBITDA. Utkal EBITDA growth was driven by 58% YoY and 22% QoQ growth in alumina prices (USD 568/t for 2QFY18).

Aluminium volume stable but copper lower due to shutdown effect

Aluminium production volume for the quarter was at 326kt (flat YoY, up 1% QoQ) and sales volume at 326kt was down 1% YoY and up 9% QoQ. QoQ growth was higher due to incremental 13kt which was not delivered in 1QFY19.Alumina production for the quarter was at 701kt (down 2% QoQ, up 5.4% QoQ), production was slightly lower YoY due operational issues at Utkal led by heavy rain. Copper production volume for the quarter was at 72kt (down 25% YoY and 11% QoQ) primarily on account of plant maintenance shutdown of 1QFY19 extending for some days in 2QFY19 as well, sales volume were at 79kt (down 15% YoY,4% QoQ).

Deleveraging continued at standalone level

Hindalco standalone continued deleveraging and has prepaid long term borrowing of Rs.1575 crore in Oct'18 (Rs.15696 crore of LT borrowing as on Sep'18 end vs. Rs.17199 crore Mar'18 end). This led to improvement in Net Debt to EBITDA 2.47x Sep'18 end vs.2.67x Mar'18 end. Debt reduction at standalone level is a measure to maintain debt levels at consolidated level (increase in Novelis debt due to acquisition of Novelis). Further, company's interest cost at Hindalco standalone plus Utkal reduced by 16% YoY to Rs.479 crore due to re-pricing of long term project loans and loan repayments made in FY18.

Decent performance continued at Novelis

Novelis remains on track and delivered good set of number with revenue growing at 12% YoY to USD3136mn led by higher YoY realization at USD 3886/t (up 12% YoY) and better product mix. Shipments for the quarter were at 807kt (up 1% YoY and QoQ), and 9% YoY increase automotive shipments. Reported adjusted EBITDA for the quarter was at USD 355mn (up 18% YoY, 6% QoQ). Company has started expansion activities for doubling automotive capacity to 200kt at China. Company has also secured financing for Aleris acquisition with USD 775mn incremental term loan with five year maturity and USD 1.5bn short term bridge loan with a one year maturity and expects to replace bridge loan with permanent financing depending on market conditions.

Update on growth projects

- ❑ Utkal 500kt expansion which will take the overall capacity to 2mt is on track and is to be operational by FY21.
- ❑ Novelis have also started expansion at China to double the capacity to 200kt and is expected to be operational by CY20.

Conference call highlights

Aluminium Industry

- Global Market- Deficit of 1.8mt is expected in CY18. Demand is expected to grow by 4% and supply by 1% YoY in CY18. China has revised winter cuts and now state govt. has the right to decide on cuts in particular state depending on the pollution level. However, it is expected that the revised policy would have marginal impact as curtailment of smelters have already taken place. LME aluminium prices are down due to ongoing trade war.
- Domestic Market- Demand has grown by 16% in 2QFY19 and 14% in 1HFY19 YoY. Consumption increased to 1.6mt up 14% YoY. However, imports have increased significantly from China and ASEAN countries. Imports including scrap grew 26% in 2QFY19 YoY to 0.93kt. Chinese import have increased by 53% as imports are diverted to India sue to trade war with US. Management is hopeful that import duty on downstream product will go up but duty on scrap is a concern. Increase in input cost primarily coal and furnace cost is impacting CoP currently.

Copper Industry

- Global Market: Global concentrate output is expected to grow by 1.8% to 17mt in CY18. Concentrate market expected to witness marginal surplus of 150kt in CY18. Global refined copper consumption is expected to grow by 2.8% to 23.55mt in CY18. LME copper is trading down due to trade war concern and slowing growth rate of China.
- Domestic Market: YTD consumption growth is 8% and is expected to grow by 10% in FY19. Imports have increased by 40% in domestic market due to shortage of concentrate.

Operational and Financial updates

- Hindalco Standalone plus Utkal performance-
- Aluminium production flat at YoY and up 1% QoQ at 326kt.Production of Alumina was lower at 701 led by operational issues due to heavy rains at Utkal.
- Hindalco Standalone plus Utkal- EBITDA grew by 5% YoY to Rs.1922 crore despite increase in input costs, mainly coal and furnace oil. Coal cost is expected to remain flat from 2QFY19 to 3QFY19.
- PBT was up by 22% YoY to Rs.968 crore due to lower interest cost and higher EBITDA.
- Net debt to EBITDA improved to 2.47x at the end of Sep'18 from 2.67x at the end of March'18.
- Company has won Krishnashila coal linkage of 3.1mt again for five years which was auctioned in Sep'18.
- Prepaid long term loan of Rs.1575 crore in Oct'18.
- Copper performance got impacted by lower volume due to planned maintenance shutdown of 33 days. Volumes were at 72kt vs.96kt in 2QFY18. However, CC rod production was up 24% to 49kt on account of ramp up of the new CCR-3 facility.
- Update on Hedging position – Hedging for remaining 6 months at 27% at rupee LME of Rs.128100/t and 11% of commodity at USD 2277/t. Company is not going to hedge further until LME is at around USD2300/t.

Novelis

- At Novelis shipments were at 807kt vs. 802kt in 2QFY18. Automotive shipment increased by 9% YoY. Revenue grew by 11% YoY to USD 3.1bn driven by higher average alumina price, record shipments and favorable product mix. Expansion project to double the capacity to 200kt for new automotive finishing line at china with investment of USD 180mn has been started and it is expected to be completed by CY20. Novelis has also secured financing from banks for Aleris acquisition.

Exhibit: Hindalco plus Utkal EBITDA and margin trend

13% YoY growth due to higher alumina prices, however higher coal and furnace cost cost led to QoQ fall in margins….

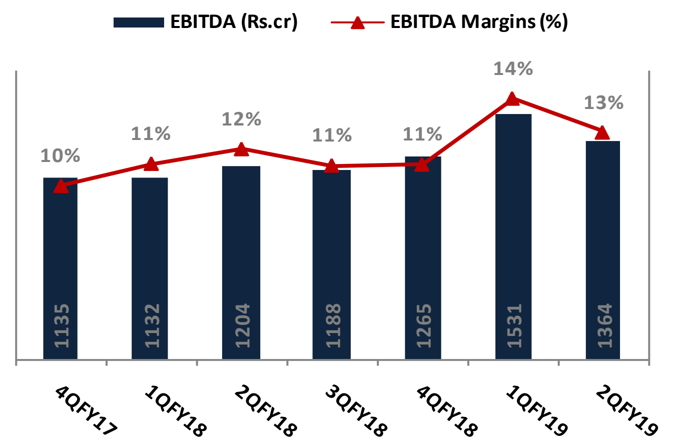


Exhibit: Aluminium volume and realization

Volume higher QoQ as 13kt from 1QFY19 gets delivered in 2QFY19 and realization increased by 4% QoQ….

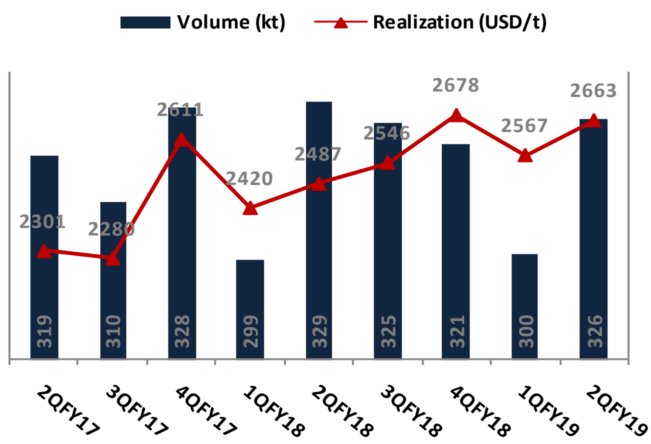


Exhibit: Aluminium volume and EBITDA margin

Aluminium margins contracted significantly due to higher alumina, coal and furnace oil price….

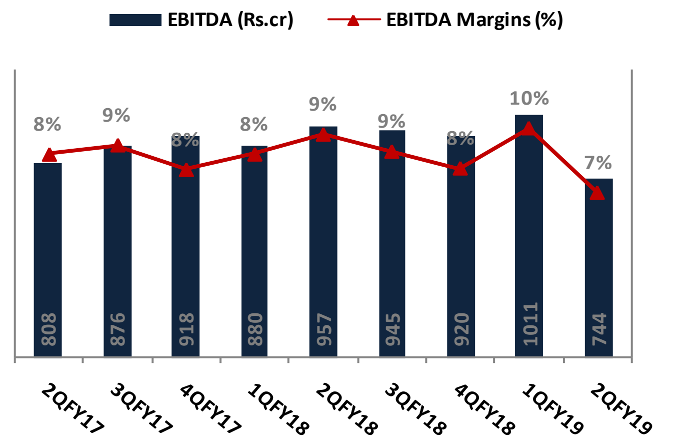


Exhibit: Copper volume and EBITDA/t

Though lower volume but EBITDA/t increased substantially due to higher by-product realizations….

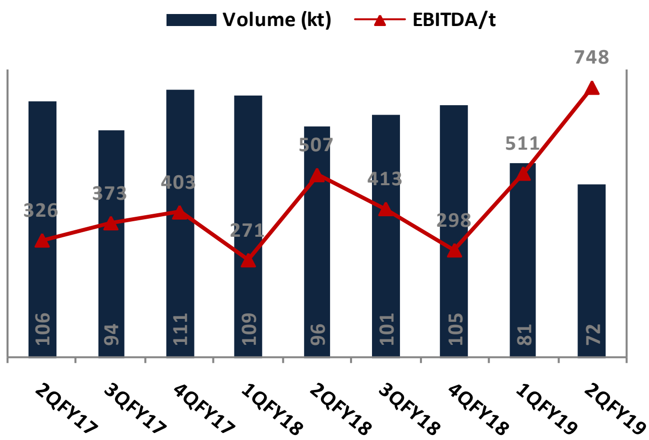


Exhibit: Novelis volume and realization trend

Novelis continued delivering stable numbers….

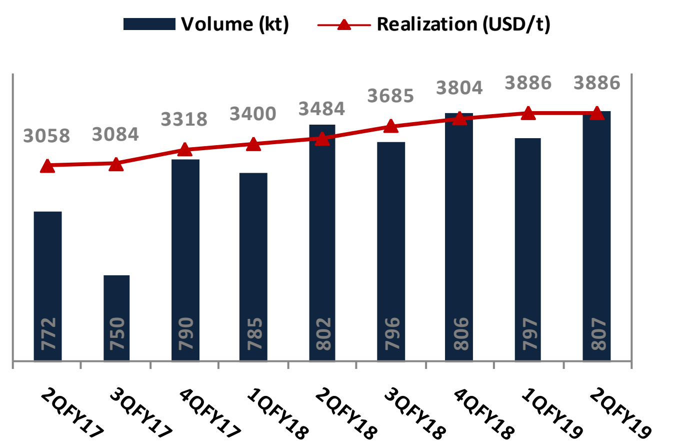
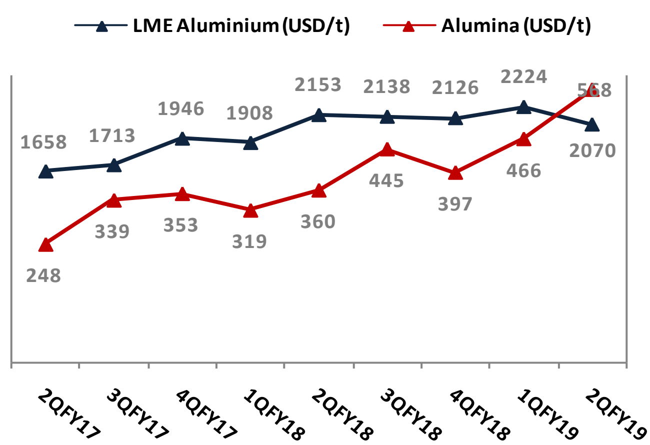


Exhibit: LME aluminium and alumina prices

Al fell due to global trade war, however shutdown at Alunorte Brazil led to increase in alumina prices….



Financial Details (Consolidated)

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	**191**	**206**	**207**	**205**	**223**	**223**	**223**	**223**
Reserves	35,139	40,393	38,122	40,402	45,836	54,628	60,529	66,407
Networth	**35,330**	**40,599**	**38,329**	**40,607**	**46,059**	**54,851**	**60,752**	**66,630**
Debt	56,299	63,348	67,058	66,948	58,451	51,272	51,925	55,303
Other Non Cur Liab	4,801	5,533	4,763	3,494	3,389	4,957	4,957	4,957
Total Capital Employed	**91,629**	**103,948**	**105,387**	**107,554**	**104,510**	**106,123**	**112,677**	**121,933**
Net Fixed Assets (incl CWIP)	71,756	84,223	86,070	72,127	69,341	69,298	71,466	73,614
Non Cur Investments	5,806	6,270	5,726	3,256	4,639	6,863	6,863	6,863
Other Non Cur Asst	75,675	88,645	90,161	93,881	90,673	90,831	92,998	95,147
Non Curr Assets	81,482	94,915	95,887	97,138	95,312	97,694	99,862	102,010
Inventory	**14,332**	**16,694**	**18,451**	**16,787**	**18,291**	**21,631**	**24,708**	**25,438**
Debtors	**8,952**	**9,235**	**9,186**	**7,918**	**8,275**	**9,960**	**11,177**	**11,508**
Cash & Bank	**3,770**	**5,021**	**5,309**	**4,407**	**8,261**	**8,058**	**11,353**	**18,138**
Other Curr Assets	12,055	13,315	14,305	15,607	16,268	10,205	11,298	11,515
Curr Assets	39,108	44,266	47,252	44,720	51,096	49,854	58,536	66,598
Creditors	9,613	12,997	15,501	15,058	17,858	20,415	23,988	24,697
Provisons (both)	7,301	7,552	8,219	8,330	7,984	9,102	8,829	8,869
Other Curr Liab	5,486	7,366	8,314	6,632	12,218	6,847	7,878	8,082
Curr Liabilities	16,709	22,101	25,471	22,690	31,099	28,918	33,248	34,203
Net Curr Assets	**22,399**	**22,165**	**21,781**	**22,030**	**19,996**	**20,936**	**25,288**	**32,396**
Total Assets	**120,590**	**139,181**	**143,139**	**141,987**	**146,511**	**147,657**	**158,507**	**168,717**

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	**80,193**	**87,695**	**104,281**	**98,759**	**100,184**	**115,172**	**135,326**	**139,326**
Change (%)	-1%	9%	19%	-1%	1%	15%	17%	3%
Other Income	1,012	1,017	1,105	1,189	1,111	1,105	595	680
EBITDA	**7,837**	**8,286**	**8,945**	**8,815**	**12,447**	**13,921**	**16,646**	**16,681**
Change (%)	-4%	6%	8%	0%	41%	12%	20%	0%
Margin (%)	10%	9%	9%	9%	12%	12%	12%	12%
Depr & Amor.	2,861	3,553	3,591	4,507	4,469	4,606	4,489	4,540
EBIT	**4,976**	**4,733**	**5,354**	**4,307**	**7,979**	**9,314**	**12,157**	**12,141**
Int. & other fin. Cost	2,079	2,702	4,178	5,134	5,742	3,911	3,822	4,008
EBT	**3,909**	**3,049**	**2,280**	**362**	**3,347**	**6,508**	**8,922**	**8,812**
Exp Item	-	396	1,940	(577)	(8)	1,774	(152)	(245)
Tax	886	525	256	498	1,433	2,074	2,398	2,401
Minority Int & P/L share of Ass.	4	47	770	11	(25)	(125)	(125)	(125)
Reported PAT	**3,027**	**2,175**	**854**	**(701)**	**1,882**	**6,083**	**6,189**	**6,167**
Adjusted PAT	**3,027**	**2,571**	**2,794**	**(125)**	**1,890**	**4,309**	**6,189**	**6,167**
Change (%)	-11%	-15%	9%	-120%	-1612%	128%	44%	0%
Margin(%)	4%	3%	3%	0%	2%	4%	5%	4%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	9%	6%	7%	-	4%	8%	10%	9%
ROCE	6%	5%	6%	-1%	2%	6%	6%	5%
Asset Turnover	0.67	0.63	0.73	0.70	0.68	0.78	0.85	0.83
Debtor Days	41	38	32	29	30	32	30	30
Inv Days	65	69	65	62	67	69	67	67
Payable Days	44	54	54	56	65	65	65	65
Int Coverage	2.4	1.8	1.3	0.9	0.8	1.4	3.2	3.0
P/E	6.2	11.4	9.5	-	23.2	11.2	8.7	8.8
Price / Book Value	0.5	0.7	0.7	0.4	1.0	0.9	0.9	0.8
EV/EBITDA	8.3	9.4	8.6	8.1	7.0	6.3	6.1	6.3
FCF per Share	(42.3)	(6.6)	6.9	37.0	43.8	35.3	31.3	34.3
Div Yield	2%	1%	1%	1%	1%	1%	0%	0%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	**3,909**	**2,653**	**340**	**(203)**	**3,315**	**8,157**	**8,922**	**8,812**
(inc)/Dec in Working Capital	(3,874)	962	(86)	4,108	669	(1,424)	(1,007)	(323)
Non Cash Op Exp	2,211	2,597	3,839	3,878	3,741	1,653	4,338	4,295
Int Paid (+)	2,079	2,702	4,178	5,134	5,742	3,911	3,822	4,008
Tax Paid	(1,348)	(959)	(1,128)	(1,229)	(780)	(1,408)	(2,398)	(2,401)
others								
CF from Op. Activities	**2,977**	**7,956**	**7,143**	**11,688**	**12,687**	**10,888**	**13,678**	**14,392**
(inc)/Dec in FA & CWIP	(11,710)	(9,316)	(5,716)	(4,052)	(2,870)	(2,956)	(6,657)	(6,688)
Free Cashflow	(8,733)	(1,360)	1,427	7,636	9,818	7,932	7,021	7,704
(Pur)/Sale of Inv	(1,613)	532	1,051	(839)	(373)	7,611	-	-
others	(442)	670	872	1,369	451	370	-	-
CF from Inv. Activities	**(13,765)**	**(8,115)**	**(3,793)**	**(3,522)**	**(2,789)**	**5,026**	**(6,657)**	**(6,688)**
inc/(dec) in NW	8	1,630	5	(3)	3,311	13	-	-
inc/(dec) in Debt	14,336	4,869	2,832	(3,597)	(2,540)	(12,283)	652	3,378
Int. Paid	(3,673)	(4,692)	(5,025)	(5,006)	(6,075)	(3,849)	(3,822)	(4,008)
Div Paid (inc tax)	(398)	(315)	(249)	(256)	(248)	(293)	(289)	(289)
others								
CF from Fin. Activities	**10,278**	**1,493**	**(2,437)**	**(8,862)**	**(5,552)**	**(16,412)**	**(3,459)**	**(919)**
Inc(Dec) in Cash	(510)	1,334	913	(696)	4,347	(499)	3,562	6,784
Add: Opening Balance	2,730	2,184	3,537	4,656	4,262	8,222	8,058	11,353
Closing Balance	**2,184**	**3,537**	**4,371**	**4,262**	**8,222**	**8,041**	**11,620**	**18,138**

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Analyst's ownership of the stocks mentioned in the Report	NIL

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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