




# Hindalco Industries Ltd

Industry	Metals
Bloomberg	HNDL IN
BSE CODE	500440

**Margins down at standalone level, strong Can demand at Novelis but slowdown in demand from automotive....**

<b>RATING</b>	<b>BUY</b>
<b>CMP</b>	<b>192</b>
<b>Price Target</b>	<b>220</b>
<b>Potential Upside</b>	<b>15%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

## Stock Info

52wk Range H/L	260/183
Mkt Capital (Rs Cr)	43093
Free float (%)	65%
Avg. Vol 1M (,000)	7643
No. of Shares (Cr.)	225
Promoters Pledged %	0%

## Research Analyst

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## 4QFY19 Result Update

- Standalone revenue for 4QFY19 was at Rs.12373cr (up 6% YoY and 4% QoQ) EBITDA for the quarter came in at Rs.902cr (down 28% and 35 QoQ). EBITDA margins were at 7.3% (vs.10.8% in 4QFY18 and 7.8% in 3QFY19).
- Aluminium sales volume in 4QFY19 was stable at 325kt (up 1.2% YoY and 0.6% QoQ) and for FY19 was at 1295kt (vs.1290kt in FY18). Aluminium volume continues to remain stable as operations run at optimal level.
- Copper sales volume for 4QFY19 was at 100kt (down 8% YoY, up 4% QoQ) and for FY19 was at 347kt (down 15.6% YoY). Copper volume in FY19 got impacted by maintenance shutdown and related issues that extended longer than expected. One more shutdown of 18 days is to be taken in 1QFY20.FY20 volume expected to be over 400kt.
- Aluminium CoP from 3QFY19 to 4QFY19 was flat, from Mar'19 CP coke pitch, furnace oil prices have started to come down. In 1QFY20 management expects CoP to be 3% down QoQ on per ton basis.
- 15% of commodity is hedged at USD2225/t for FY20, out of which 11% is rupee LME hedged at Rs.152400/t and 4% only commodity at USD2421/t. And, 30% of the currency is hedged at Rs.75.25 for FY20.
- Rs.50cr impact is expected on account of procuring alumina from market over two quarters because of slippage accident at Muri alumina plant.
- Novelis 4QFY19 shipment was at 870kt (up 7.8% YoY and 8.8% QoQ) and FY19 volume was at 3274kt (up 2.7% YoY). Revenue for 4QFY19 came in at USD3.1bn (up 0.6% YoY and 2.5% QoQ) and adj. EBITDA came in at USD357mn (up 12% YoY and 11% QoQ) and for the year was at USD1368mn (up 12.6% YoY). Aleris acquisition deal is expected to get completed by 2QFY20.

## View and Valuation

Novelis continues to deliver stable operating performance coupled with strong volume growth in 4QFY19 led by recovery in Can demand, however, there is slowdown in demand from Chinese auto market due to ongoing US-China trade war. At standalone level margins remained under pressure due to falling LME aluminium. Considering lower LME aluminium price and subdued performance in terms of margins in 4QFY19 we cut out FY20 Revenue/EBITDA estimate by 3%/6%. However, we still remain positive about future prospects of company led by integrated business model at standalone level, continued stable operating performance and capacity additions at Novelis and we believe Aleris acquisition is also a positive (Aleris contribution is not factored in our estimates yet). We value the stock **at 6.5x FY20e EV/EBITDA with a target price of Rs.220 and maintain BUY.**

## Key Risks to our rating and target

- Sharp decline in LME aluminium
- Higher coal cost due to worsening domestic coal supply
- Slowdown in demand from global auto market impacting Novelis performance.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	98759	100184	115172	130542	133022
EBITDA	8815	12447	13921	15500	15563
EBIT	4307	7979	9314	10734	10543
PAT	-125	1890	4309	5495	5338
EPS (Rs)	-1	8	19	24	24
EPS growth (%)	-	-	128%	28%	-3%
ROE (%)	0%	4%	8%	10%	9%
ROCE (%)	-1%	2%	6%	5%	5%
BV	197	205	244	256	279
P/B (X)	0.4	1.0	0.9	0.7	0.7
P/E (x)	-145.2	23.2	11.2	7.8	8.1

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## 4QFY19 Results

Margin continues to decline at standalone level...

### Standalone

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	11,681	10,593	10,833	11,938	12,373	5.9%	3.6%	42,798	45,749	6.9%
Other Income	205	105	201	273	361	76.0%	32.2%	948	940	-1%
Total Income	11,886	10,699	11,034	12,210	12,733	7.1%	4.3%	43,746	46,689	6.7%
COGS	7,065	6,011	6,210	7,179	7,819	10.7%	8.9%	24,993	27,100	8.4%
Staff Cost	482	469	511	511	491	1.9%	-4.0%	1,895	1,982	4.6%
Power & Fuel	1,533	1,506	1,706	1,819	1,790	16.7%	-1.6%	6,000	6,937	15.6%
Other Exp.	1,343	1,282	1,316	1,500	1,370	2.0%	-8.6%	4,786	5,484	14.6%
Expenditure	10,424	9,268	9,742	11,010	11,470	10.0%	4.2%	37,674	41,503	10.2%
EBITDA	1,258	1,325	1,091	928	902	-28.2%	-2.8%	5,124	4,247	-17.1%
EBITDAmargin	10.8%	12.5%	10.1%	7.8%	7.3%	-32.3%	-6.2%	12.0%	9.3%	-22.5%
Depreciation	460	404	400	429	460	0.0%	7.1%	1,617	1,693	4.7%
EBIT	798	921	691	499	443	-44.5%	-11.3%	3,507	2,553	-27.2%
Interest	446	411	424	434	414	-7.2%	-4.5%	1,901	1,683	-11.4%
PBT	556	616	468	338	389	-30.1%	15.1%	2,554	1,810	-29.1%
Excpt. Item	-	-	-	-	-	-	-	(325)	-	-
Tax	179	202	159	91	153	-14.6%	69.0%	792	605	-23.6%
PAT	377	414	309	247	236	-37.4%	-4.7%	1,438	1,205	-16.2%

### Standalone margin continue to decline

Margin at standalone level continue to fall primarily on account of continuous fall in LME aluminum. EBITDA (ex-Utkal) came in at Rs.902cr (down 28% YoY and 3% QoQ) and margins at 7.3% (vs.10.8% in 4QFY18 and 7.8% in 3QFY19). Aluminium volume was stable at 325kt as plants operate at designed capacities. VAP (excluding wire rods) volume was at 82kt in 4QFY19 (up 2.5% YoY, flat QoQ).

### Copper business impacted by maintenance shutdown and related issue

Copper sales volume for 4QFY19 was at 100kt (down 8% YoY, up 4% QoQ). Copper sales volume for FY19 was at 347kt (down 15.6% YoY), volume throughout FY19 remained impacted by lower maintenance shutdown and related issues which extended for longer than expected. Management stated that one more shutdown is planned in 1QFY20 of around 18 days to fix the operational issues, which will impact 1QFY20 copper volume. However, management is confident of over 400kt of copper volume in FY20.

### Strong pickup in Can demand drives volume at Novelis

At Novelis 4QFY19 volume was at 870kt (up 7.8% YoY and 8.8% QoQ), strong recovery in Can demand with volume increasing by 7% in FY19 have led to strong growth in FY19 volume. However, shipments to auto grew only by 2% led by slow down demand from China due to ongoing trade worries between US and China. Though management expect demand from China to recover but currently there is slowdown in Chinese demand. Demand from US continues to remain stable. Adjusted EBTIDA for the quarter came in at USD357mn (up 12% YoY, 11% QoQ) on account of higher shipments, improved product mix and favorable metal costs.

Novelis still needs to get three approvals to close the Aleris acquisition deal, which are all anti-competition or anti-trust approval in US, EU and China. Management is confident that they will get the clearance. However, there are break fees in all the three regions. In US and EU the break fee is USD150mn and in China it is USD25mn.

### Update on growth projects

- ☐ Utkal expansion on track and is expected to be completed by FY21, total alumina capacity will be over 3mt after the expansion.
- ☐ Copper CCR-3 is expected to reach its optimal level in FY20.
- ☐ Novelis – 200kt U.S. auto finishing line is progressing well with customer qualification to begin in late FY20, 100kt auto finishing expansion in China to commission in FY21 and Rolling. Rolling, casting and recycling expansion in Brazil is to commission in FY21.

## Conference call highlights

### ➤ Aluminium Industry

- LME price of aluminium is currently been driven by global macro-economic uncertainty and the trade war between US and China, thus have fallen and is in range of USD1800-1850/t (vs. USD2378/t in 1QFY19). However, SHFE price of Aluminium has not witnessed the same fall due to environment led closure in production of aluminium and alumina, furthermore restriction on scrap import have also supported the SHFE price. Global consumption growth of aluminium continues to moderate in CY19 to around 2% vs. 3% in CY18 and 6% in CY17.
- Domestic aluminium consumption grew by 9.7% in FY19 vs. 9.9% in FY18, transportation, construction and consumer durable sector were the major demand driver other than the electrical sector. Market share of imports increased to 58% in FY19. . 7-8% growth is expected in FY20 led by construction and packaging sector.

### ➤ Copper Industry

- Global demand for refined copper in CY19 is expected to be around 24mt (up 2% YoY), demand ex-China is expected to grow by 1-1.5%. In domestic market demand surge to 10% in FY19 vs. 2 in FY18 driven electrical and consumer durables, however, slowing industrial growth was a concern in FY19. Imports in domestic market grew by 20% in FY19 vs. 7% in FY18, import market share at 42% in FY19 vs. 37% in FY18. Copper Tc/Rc rate is at USD20.7cents/pound in CY19 vs. USD21.1cents/pound in CY18.

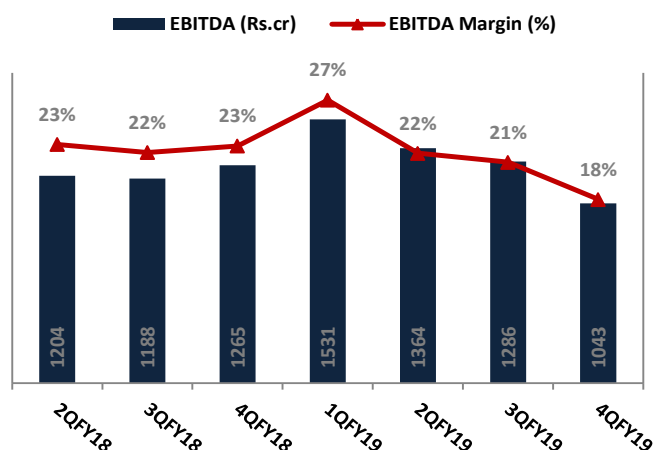
### ➤ Operational and Financial updates

- Hindalco standalone (plus Utkal ) EBITDA for FY19 stood at Rs.7532cr , up 5% YoY on account of stable operations and supporting macros. Interest cost reduced by 15% YoY, through prepayment and repricing of long term loans.
- Aluminium (Hindalco Plus Utkal) EBITDA for FY19 was at Rs.5202cr, up 9% YoY on account of supporting macros and stable operations. EBITDA margin was at 22%. Alumina production was at 2893kt (vs.2880kt in FY18) and aluminium was at 1295kt (vs.1290kt in FY18) in FY19. Aluminium VAP(excl. wire rods) was at 321kt (vs.307 kt in FY18).
- Copper EBITDA for FY19 was at Rs.1469cr (vs.Rs.1539cr), it was lower due to lower Tc/Rc, planned maintenance shutdown, supported by better by product realization. Cathode production was at 347kt in FY19 (vs.410kt in FY18), lower due to maintenance shutdown and related issues. CC Rod production was up 47% at 245kt vs.166kt in FY18. CCR -3 reached a production level of 117kt in FY19. DAP production was at 303kt vs. 205kt in FY18, higher by 48%.
- Coal consumption in 4QFY19 was 4.5mt and in FY19 was 16.8mt, split between linkage, e-auction own mine and imports was 55%, 29%, 12% and 3% for 4QFY19 and for FY19 it was at 60%, 21%,14% and 3% respectively. Coal prices from 3QFY19 to 4QFY19 were flat. Coal availability currently better than last year and is expected to remain favorable.
- Consolidated Net debt at the end of FY19 was at Rs.38445cr vs. Rs.39311cr at the end of FY18. Consolidated Net Debt to EBITDA at 2.48x (2.82x as at end of FY18).
- Another shutdown is expected in 1QFY20 of 18 days in copper business which will impact the volume in 1QFY20, but FY20 volume is expected to be over 400kt.
- Hedging details - 15% of commodity hedged at USD2225/t for FY20, out of it 11% is rupee LME hedged at Rs.152400/t and 4% only commodity at USD2421/t. And, 30% of the currency is hedged at Rs.75.25 for FY20.
- Aluminium CoP from 3QFY19 to 4QFY19 was flat, from Mar'19 CP coke pitch, furnace oil prices have started to come down. In 1QFY20 management expects CoP to be 3% down QoQ on per ton basis.
- Due to slippage in the red mud storage area situated at Muri, Jharkhand alumina plant management expects the restart to happen in Aug'19-Sep'19, and expects to have a shortage of about 50kt-60kt of alumina and company have already bought 30kt of alumina from market. Rs.50cr impact is expected on account of procuring alumina from market over two quarters.
- Transfer price for Utkal was USD391/t in 4QFY19 (vs. USD503/t in 3QFY19). Utkal gross Debt is at Rs. 2400cr. Utkal alumina expansion of 500kt is on track and is expected to be commissioned by FY21.

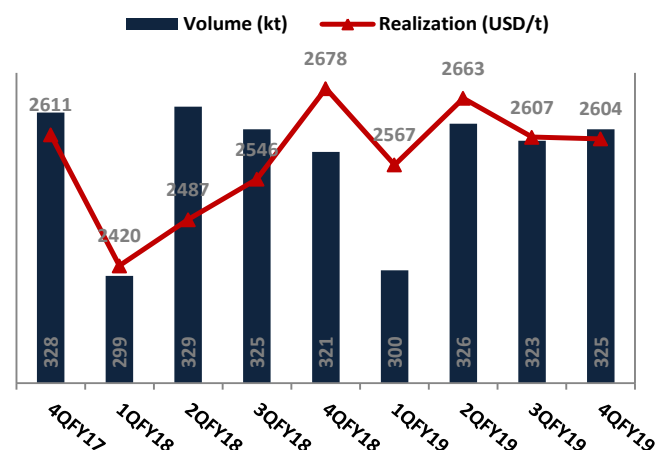
- **Novelis:** Overall shipments at 3274 Kt (up 3% YoY), Beverage Can shipment up 7% YoY, Automotive shipments up 2% YoY in FY19. Shipment mix of Can, Auto and Specialties was 63%, 20% and 17% respectively. Adj. EBITDA for FY19 stood at USD1368mn (up 13% YoY) and adj. EBITDA/ton at USD 418 (up 10% YoY).

- Novelis still needs to get three approvals to close the Aleris acquisition deal, which are all anti-competition or anti-trust approval in US, EU and China. Management is confident that they will get the clearance in all three regions and would close the deal in 3QCY19. However, there are break fees in all the three regions if the deal doesn't go through. In US and EU the break fee is USD150mn and in China it is USD25mn.

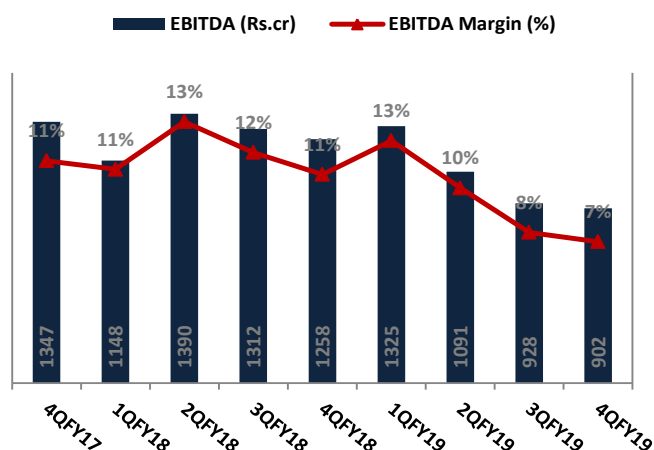
**Exhibit: Aluminium EBITDA (Standalone plus Utkal)**  
margin in aluminium business continues on the back of falling LME aluminium....



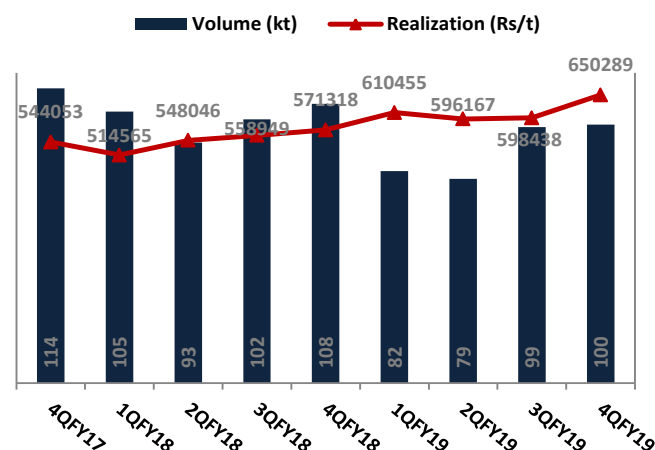
**Exhibit: Aluminium volume and realization**  
volumes remain close to flat on YoY and QoQ basis....



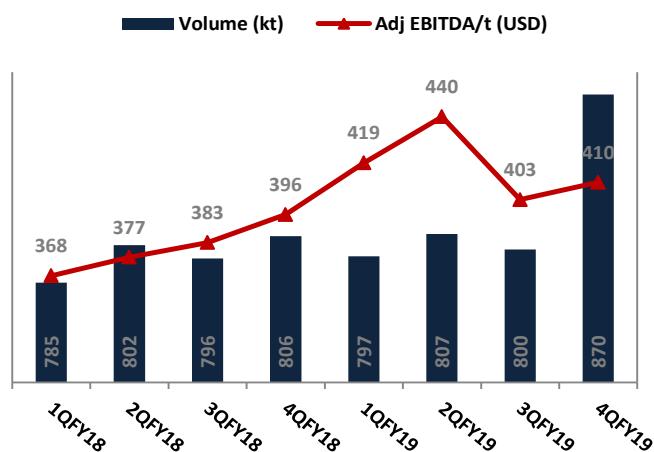
**Exhibit: Standalone (ex-Utkal) EBITDA and Margin**  
standalone (ex-Utkal) margin have seen less of fall as compare to margins including Utkal....



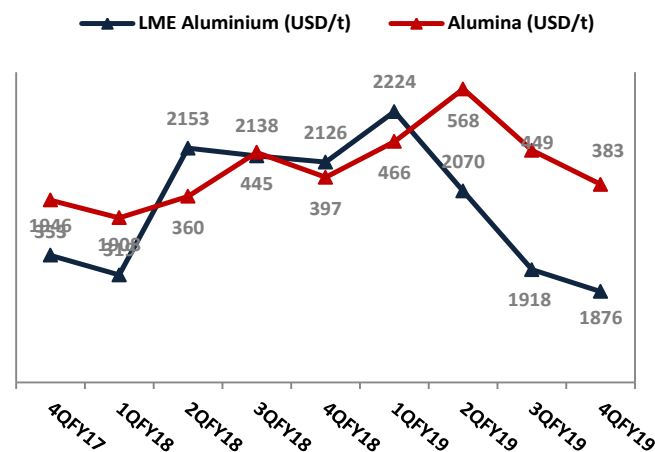
**Exhibit: Copper volume and Realisation (Rs/t)**  
volume throughout FY19 has remained on lower side due to maintenance shutdown and related issues....



**Exhibit: Novelis volume and Adj. EBITDA/t trend**  
strong Can demand helps volume and higher shipments, product mix and favorable metal cost led to higher EBITDA/t



**Exhibit: LME aluminium and alumina prices**  
Prices continue to fall amid US-China trade war....



## Financial Details (Consolidated)

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Share Capital</b>	<b>191</b>	<b>206</b>	<b>207</b>	<b>205</b>	<b>223</b>	<b>223</b>	<b>222</b>	<b>222</b>
Reserves	35,139	40,393	38,122	40,402	45,836	54,628	57,279	62,328
<b>Networth</b>	<b>35,330</b>	<b>40,599</b>	<b>38,329</b>	<b>40,607</b>	<b>46,059</b>	<b>54,851</b>	<b>57,502</b>	<b>62,551</b>
Debt	56,299	63,348	67,058	66,948	58,451	51,272	52,257	55,452
Other Non Cur Liab	4,801	5,533	4,763	3,494	3,389	4,957	5,729	5,729
<b>Total Capital Employed</b>	<b>91,629</b>	<b>103,948</b>	<b>105,387</b>	<b>107,554</b>	<b>104,510</b>	<b>106,123</b>	<b>109,759</b>	<b>118,003</b>
Net Fixed Assets (incl CWIP)	71,756	84,223	86,070	72,127	69,341	69,298	71,359	72,844
Non Cur Investments	5,806	6,270	5,726	3,256	4,639	6,863	5,136	5,136
Other Non Cur Asst	75,675	88,645	90,161	93,881	90,673	90,831	93,503	94,988
Non Curr Assets	81,482	94,915	95,887	97,138	95,312	97,694	98,638	100,124
<b>Inventory</b>	<b>14,332</b>	<b>16,694</b>	<b>18,451</b>	<b>16,787</b>	<b>18,291</b>	<b>21,631</b>	<b>22,194</b>	<b>24,287</b>
<b>Debtors</b>	<b>8,952</b>	<b>9,235</b>	<b>9,186</b>	<b>7,918</b>	<b>8,275</b>	<b>9,960</b>	<b>11,460</b>	<b>10,987</b>
<b>Cash &amp; Bank</b>	<b>3,770</b>	<b>5,021</b>	<b>5,309</b>	<b>4,407</b>	<b>8,261</b>	<b>8,058</b>	<b>9,787</b>	<b>15,063</b>
Other Curr Assets	12,055	13,315	14,305	15,607	16,268	10,205	10,424	11,125
Curr Assets	39,108	44,266	47,252	44,720	51,096	49,854	53,864	61,462
Creditors	9,613	12,997	15,501	15,058	17,858	20,415	20,723	21,138
Provisions (both)	7,301	7,552	8,219	8,330	7,984	9,102	9,418	8,548
Other Curr Liab	5,486	7,366	8,314	6,632	12,218	6,847	6,636	8,118
Curr Liabilities	16,709	22,101	25,471	22,690	31,099	28,918	29,513	30,364
<b>Net Curr Assets</b>	<b>22,399</b>	<b>22,165</b>	<b>21,781</b>	<b>22,030</b>	<b>19,996</b>	<b>20,936</b>	<b>24,351</b>	<b>31,098</b>
<b>Total Assets</b>	<b>120,590</b>	<b>139,181</b>	<b>143,139</b>	<b>141,987</b>	<b>146,511</b>	<b>147,657</b>	<b>152,632</b>	<b>161,715</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>80,193</b>	<b>87,695</b>	<b>104,281</b>	<b>98,759</b>	<b>100,184</b>	<b>115,172</b>	<b>130,542</b>	<b>133,022</b>
Change (%)	-1%	9%	19%	-1%	1%	15%	13%	2%
Other Income	1,012	1,017	1,105	1,189	1,111	1,105	1,127	880
<b>EBITDA</b>	<b>7,837</b>	<b>8,286</b>	<b>8,945</b>	<b>8,815</b>	<b>12,447</b>	<b>13,921</b>	<b>15,500</b>	<b>15,563</b>
Change (%)	-4%	6%	8%	0%	41%	12%	11%	0%
Margin (%)	10%	9%	9%	9%	12%	12%	12%	12%
Depr & Amor.	2,861	3,553	3,591	4,507	4,469	4,606	4,766	5,020
<b>EBIT</b>	<b>4,976</b>	<b>4,733</b>	<b>5,354</b>	<b>4,307</b>	<b>7,979</b>	<b>9,314</b>	<b>10,734</b>	<b>10,543</b>
Int. & other fin. Cost	2,079	2,702	4,178	5,134	5,742	3,911	3,778	4,049
<b>EBT</b>	<b>3,909</b>	<b>3,049</b>	<b>2,280</b>	<b>362</b>	<b>3,347</b>	<b>6,508</b>	<b>8,083</b>	<b>7,374</b>
Exp Item	-	396	1,940	(577)	(8)	1,774	-	-
Tax	886	525	256	498	1,433	2,074	2,588	2,036
Minority Int & P/L share of Ass.	4	47	770	11	(25)	(125)	0	-
<b>Reported PAT</b>	<b>3,027</b>	<b>2,175</b>	<b>854</b>	<b>(701)</b>	<b>1,882</b>	<b>6,083</b>	<b>5,495</b>	<b>5,338</b>
<b>Adjusted PAT</b>	<b>3,027</b>	<b>2,571</b>	<b>2,794</b>	<b>(125)</b>	<b>1,890</b>	<b>4,309</b>	<b>5,495</b>	<b>5,338</b>
Change (%)	-11%	-15%	9%	-120%	-1612%	128%	28%	-3%
Margin(%)	4%	3%	3%	0%	2%	4%	4%	4%

## Financial Details (Consolidated)

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	8.7%	6.3%	7.3%	-0.3%	4.1%	7.9%	9.6%	8.5%
ROCE	5.9%	5.0%	5.7%	-0.7%	1.9%	5.9%	5.2%	4.7%
Asset Turnover	0.67	0.63	0.73	0.70	0.68	0.78	0.86	0.82
Debtor Days	41	38	32	29	30	32	32	30
Inv Days	65	69	65	62	67	69	62	67
Payable Days	44	54	54	56	65	65	58	58
Int Coverage	2.4	1.8	1.3	0.9	0.8	1.4	2.8	2.6
P/E	6.2	11.4	9.5	(145.2)	23.2	11.2	7.8	8.1
Price / Book Value	0.5	0.7	0.7	0.4	1.0	0.9	0.7	0.7
EV/EBITDA	8.3	9.4	8.6	8.1	7.0	6.3	5.9	6.1
FCF per Share	(42.3)	(6.6)	6.9	37.0	43.8	35.3	25.2	28.6
Div Yield	1.7%	1.0%	0.8%	1.1%	0.5%	0.5%	0.6%	0.6%

## Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>3,909</b>	<b>2,653</b>	<b>340</b>	<b>(203)</b>	<b>3,315</b>	<b>8,157</b>	<b>8,083</b>	<b>7,374</b>
(inc)/Dec in Working Capital	(3,874)	962	(86)	4,108	669	(1,424)	(1,549)	(1,472)
Non Cash Op Exp	2,211	2,597	3,839	3,878	3,741	1,653	4,767	5,010
Int Paid (+)	2,079	2,702	4,178	5,134	5,742	3,911	3,778	4,049
Tax Paid	(1,348)	(959)	(1,128)	(1,229)	(780)	(1,408)	(2,588)	(2,036)
others								
<b>CF from Op. Activities</b>	<b>2,977</b>	<b>7,956</b>	<b>7,143</b>	<b>11,688</b>	<b>12,687</b>	<b>10,888</b>	<b>12,491</b>	<b>12,926</b>
(inc)/Dec in FA & CWIP	(11,710)	(9,316)	(5,716)	(4,052)	(2,870)	(2,956)	(6,827)	(6,506)
Free Cashflow	(8,733)	(1,360)	1,427	7,636	9,818	7,932	5,664	6,420
(Pur)/Sale of Inv	(1,613)	532	1,051	(839)	(373)	7,611	-	-
others	(442)	670	872	1,369	451	370	-	-
<b>CF from Inv. Activities</b>	<b>(13,765)</b>	<b>(8,115)</b>	<b>(3,793)</b>	<b>(3,522)</b>	<b>(2,789)</b>	<b>5,026</b>	<b>(5,105)</b>	<b>(6,506)</b>
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)	985	3,195
Int. Paid	(3,673)	(4,692)	(5,025)	(5,006)	(6,075)	(3,849)	(3,752)	(4,049)
Div Paid (inc tax)	(398)	(315)	(249)	(256)	(248)	(293)	(289)	(289)
others								
<b>CF from Fin. Activities</b>	<b>10,278</b>	<b>1,493</b>	<b>(2,437)</b>	<b>(8,862)</b>	<b>(5,552)</b>	<b>(16,412)</b>	<b>(3,055)</b>	<b>(1,143)</b>
Inc(Dec) in Cash	(510)	1,334	913	(696)	4,347	(499)	4,331	5,277
Add: Opening Balance	2,730	2,184	3,537	4,656	4,262	8,222	8,058	9,787
<b>Closing Balance</b>	<b>2,184</b>	<b>3,537</b>	<b>4,371</b>	<b>4,262</b>	<b>8,222</b>	<b>8,041</b>	<b>12,388</b>	<b>15,063</b>

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