

Hindalco Industries Ltd

Industry Metals
Bloomberg HNDL IN
BSE CODE 500440

Strong performance delivered by Novelis, lower LME continue to impact realization.....

RATING	BUY
CMP	176
Price Target	230
Potential Upside	31%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	260/172
Mkt Capital (Rs Cr)	39549
Free float (%)	65%
Avg. Vol 1M (,000)	6831
No. of Shares (Cr.)	225
Promoters Pledged %	0%

1Q FY20 Result Update

- Consolidated revenue for the quarter came in at Rs.29972cr (down 3.6% YoY), primarily on account of lower LME aluminium. Novelis revenue was at Rs.19819cr (down 2.5% YoY) (down 5.6% in USD), aluminium revenue was at Rs.5472cr (down 3.5% YoY) and copper revenue was at Rs.4593cr (down 8.4% YoY).
- Standalone aluminium sales volume was at 320kt (up 6.7% YoY) and realization was at USD 2414/t (down 6.0% YoY). Copper sales volume for the quarter was 82kt (flat YoY) and production was lower at 76kt (down 6.2% YoY) due to planned maintenance shutdown.
- Hindalco standalone plus Utkal EBITDA stood at Rs.1142cr (down 38.8% YoY), lower on account of substantial fall in LME aluminium and alumina prices leading to 42.1% YoY fall in aluminium plus Utkal EBITDA to Rs.889cr. Aluminium plus Utkal EBITDA margin was at 16.2% (vs. 27.1% in 1QFY19 and 17.5% in 4QFY19).
- Copper EBITDA for the quarter was also down by 20.3% YoY to Rs.267cr (down 20.3% YoY) and EBITDA margin stood at 5.8% (vs. 6.7% in 1QFY19 and 4.8% in 4QFY19).
- Hedging position for rest of FY20- 15.7% of total is hedged at USD2191/t, out of this 11% is LME Rs.153137/t and 4% is only commodity at USD2261/t and 31% of the currency is hedged at Rs.75.4 for the remaining FY20.
- Novelis delivered strong operational and financial performance, sales volume stood at 830kt (up 4.1% YoY), revenue was at USD2.9bn (down 5.6% YoY) and adjusted EBITDA stood at USD 372mn (up 11.4% YoY). Growth in EBITDA was driven by higher volume and better product mix. Aleris acquisition is expected to get close by 3QFY20. Capacity expansion in China, US and Brazil are all on track.

View and Valuation

Lower LME aluminium continue to impact the realization both at Novelis and Indian business. Novelis and standalone business revenue declines by 5.6% and 5.1% YoY to Rs.10055cr and USD2.9bn respectively. Though standalone margin continued to remain under pressure due to lower LME and higher power and fuel cost but Novelis again delivered a strong operational and financial performance with EBITDA/t improving to USD 448/t (up 6.9% YoY) and volume grew by 4.1% to 830kt. We continue to remain positive on company driven by robust performance delivered by Novelis and further capacity addition in progress, Acquisition of Aleris which is expected to close by 3QFY20 is also a positive. Our FY20 Revenue/PAT estimate stand reduced by 1%/2% as we factor in 1QFY20 numbers, however, we maintain our FY21 estimate. We continue to value the stock at **Rs.230 (6.8x FY21e EV/EBITDA) and maintain BUY.**

Key Risks to our rating and target

- Sharp decline in LME aluminium.
- Slowdown in demand from global auto market impacting Novelis performance.

Fig in Rs.cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	100184	115172	130542	131441	135681
EBITDA	12447	13921	15500	15711	15514
EBIT	7979	9314	10734	10487	10522
PAT	1890	4309	5495	5096	5226
EPS (Rs)	8	19	24	23	23
EPS growth (%)	-	1.28	28%	-7%	3%
ROE (%)	4%	8%	10%	8%	8%
ROCE (%)	2%	6%	5%	5%	4%
BV	205	244	256	278	299
P/B (X)	1.0	0.9	0.7	0.6	0.6
P/E (x)	23.2	11.2	7.8	7.8	7.6

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1QFY20 Results

Standalone margin under pressure, Novelis delivers.....

Standalone

Fig in Rs.cr

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	10,593	10,833	11,938	12,373	10,055	-5.1%	-18.7%	42,798	45,749	6.9%
Other Income	105	201	273	361	201	90.9%	-44.2%	948	940	-1%
Total Income	10,699	11,034	12,210	12,733	10,256	-4.1%	-19.5%	43,746	46,689	6.7%
COGS	6,011	6,210	7,179	7,819	5,947	-1.1%	-23.9%	24,993	27,100	8.4%
Staff Cost	469	511	511	491	476	1.5%	-2.9%	1,895	1,982	4.6%
Power & Fuel	1,506	1,706	1,819	1,790	1,745	15.9%	-2.5%	6,000	6,937	15.6%
Other Exp.	1,282	1,316	1,500	1,370	1,169	-8.9%	-14.7%	4,786	5,484	14.6%
Expenditure	9,268	9,742	11,010	11,470	9,337	0.7%	-18.6%	37,674	41,503	10.2%
EBITDA	1,325	1,091	928	902	717	-45.9%	-20.5%	5,124	4,247	-17.1%
EBITDAmargin	12.5%	10.1%	7.8%	7.3%	7.1%	-43.0%	-2.2%	12.0%	9.3%	-22.5%
Depreciation	404	400	429	460	418	3.4%	-9.1%	1,617	1,693	4.7%
EBIT	921	691	499	443	299	-67.5%	-32.4%	3,507	2,553	-27.2%
Interest	411	424	434	414	444	8.2%	7.2%	1,901	1,683	-11.4%
PBT	616	468	338	389	56	-90.8%	-85.5%	2,554	1,810	-29.1%
Excpt. Item	-	-	-	-	(22)	-	-	(325)	-	-
Tax	202	159	91	153	12	-94.0%	-92.1%	792	605	-23.6%
PAT	414	309	247	236	23	-94.5%	-90.4%	1,438	1,205	-16.2%

Standalone business impacted by lower realization and higher power cost

Aluminium sales volume for the quarter came in at 320kt (up 6.7% YoY), VAP volume increased by 13% YoY to 77kt and was 24% of sales (vs.23% in 1QFY4). However, realization fell by 11% to USD2459/t leading to 2.1% YoY fall in aluminium revenue to Rs.5472cr and Copper sales volume for the quarter was at 82kt (flat YoY) and production was down 6.2% to 76kt because of maintenance shutdown and related issues. Copper revenue for the quarter was down 8.3% YoY to Rs.4593cr due to lower realization. EBITDA for standalone (ex- Utkal) stood at Rs.717cr (down 45.9% YoY) and margin was at 7.1% (vs. 12.5% in 1QFY19), lower margin was primarily on account of lower LME aluminium and higher power cost. EBITDA for standalone plus Utkal stood at Rs.1142cr (down 38.8% YoY) and margin fell down to 10.7% (vs. 17.5% in 1QFY19).

Novelis delivers strong performance yet again

Novelis posted revenue of USD2.9bn (down 5.6% YoY), primarily on account of lower LME aluminium. Sales volume grew by 4.1% YoY to 830kt. Even though the revenue declined by 5.6%, but, the adjusted EBITDA grew by 11.4% YoY to USD372mn driven by higher volume and better product mix. Sales in South American market grew by 10.3% YoY to 139kt followed by 5.5% growth in North American market at 289kt and 5% growth in Asia to 184kt, Europe sales grew only by 1% to 234kt.

Management stated that company is facing some challenges in Europe due to exposure to one large auto customer and US/China trade war and weak consumer confidence impacting Chinese auto demand; North American auto market remains strong. In beverage can strong demand trend globally driven by growth in emerging market. Novelis is increasing its focus on delivering next generation automotive aluminium solutions like sheet-intensive battery enclosures and high strength lightweight alloy for structural applications.

Other updates

- Domestic demand grew by 7% YoY in 1QFY20 (vs. 11% in 1QFY19). Demand moderated in auto, construction and electrical due to tight liquidity condition in domestic market. Import market share was at 59% in 1QFY20, overall import was at 585kt (vs. 555kt in 1QFY19).
- Novelis capex for FY20 is expected to be around USD700mn and Hindalco standalone capex is expected to be around Rs.2000-2200cr (earlier Rs.2600cr).

Update on growth projects

- Utkal Alumina's 500kt capacity expansion is on track and is expected to be operational by mid FY21.
- At Novelis, 200kt of auto finishing line in US will start customer qualification from late FY20, 100kt auto finishing line in China will commission in FY21 and 100kt rolling and 60kt recycling expansion in Brazil will start in FY21.
- Aleris acquisition deal is expected to close by 3QFY20.

Conference call highlights**Aluminium Industry**

- Escalation in US/China trade war has negatively impacted aluminium consumption and prices, primary aluminium consumption growth moderated to 0.1% YoY in 1HCY18 (vs.3.6% 1HCY18). World ex-China consumption growth was at 0.3% in 1HFY19 (vs. 2% in 1HFY18) due to subdued demand in Middle East, Europe and North America. Chinese demand also witnessed moderation in 1HFY19 to 0.4% (vs. 5% in 1HFY18). China aluminium export was at 3mt (up 10%) in 1HFY19 primarily to EU, Japan, India, Vietnam and Malaysia. Global consumption growth is expected to be around 0.5%-1% in CY19, with market remaining in deficit 1.2mt.
- Domestic demand grew by 7% YoY in 1QFY20 (vs. 11% in 1QFY19). Demand moderated in auto, construction and electrical due to tight liquidity condition in domestic market. Import market share was at 59% in 1QFY20, overall import was at 585kt (vs. 555kt in 1QFY19).

Copper Industry

- Domestic demand grew by 7% YoY in 1QFY20 (vs. 11% in 1QFY19). Demand moderated in auto, construction and electrical due to tight liquidity condition in domestic market. Import market share was at 59% in 1QFY20, overall import was at 585kt (vs. 555kt in 1QFY19).
- Domestic copper consumption grew by 9% YoY to 188kt in 1QFY20, imports from ASEAN and other countries continue to put pressure on prices. Imports grew by 11% to 79kt in 1QFY20.

Operational and Financial updates

- Novelis recorded adjusted EBITDA at USD372mn (up 11% YoY) and adj EBITDA/t of USD 448 (up 7% YoY). Total shipments stood at 830kt (up 4% YoY). Aleris deal is expected to close in 3QFY20. All the Organic Expansion projects of Novelis in US (200kt auto finishing line, expected to begin customer qualification in late FY20), China (100kt of auto finishing line expected to commission in FY21) and Brazil (100kt rolling and 60kt recycling to commission in FY21) are progressing on time and budget.
- Aluminium (Hindalco plus Utkal) – Stable operations continued with Alumina and Aluminium metal production at 686kt and 326kt respectively. Aluminium metal sales were at 320kt (up 7% YoY). EBITDA was at Rs.889cr (down 42% YoY), due to lower realization. Aluminium VAP (excl wire rods) production was at 79kt (vs.78 kt in 1QFY19). Utkal expansion of 500kt is on track is expected to get commission in FY21.
- Copper business – CC Rod production at 66kt (up 2% YoY) and sales at 63kt (up 3% YoY), smelter-3 is ramping up smoothly post planned maintenance shutdown in 1QFY20. EBITDA was at Rs.267cr (down 23% YoY), due to lower volume and realizations. 2QFY20 copper volume is expected to be around 90kt-100kt.
- Coal consumption in 4QFY19 was 4.5mt and in FY19 was 16.8mt, split between linkage,
- Consolidated net debt stood at Rs.39868cr. Consolidated Net debt to EBITDA was at 2.69x (vs. 2.48x at the end of FY19).
- Hedging position for rest of FY20- 15.7% of total is hedged at USD2191/t, out of this 11% is LME Rs.153137/t and 4% is only commodity at USD2261/t. and 31% of the currency is hedged at Rs.75.4 for the remaining FY20.
- Coal sourcing for the quarter - Linkage coal was 63%, E-auction was 24% and captive was 10% and 3% was imports.
- Novelis capex for FY20 is expected to be around USD700mn and Hindalco standalone capex is expected to be around Rs.2000-2200cr (earlier Rs.2600cr).

Exhibit: Aluminium EBITDA (Standalone plus Utkal)

lower LME aluminium and lower alumina prices continue to impact standalone margin.....

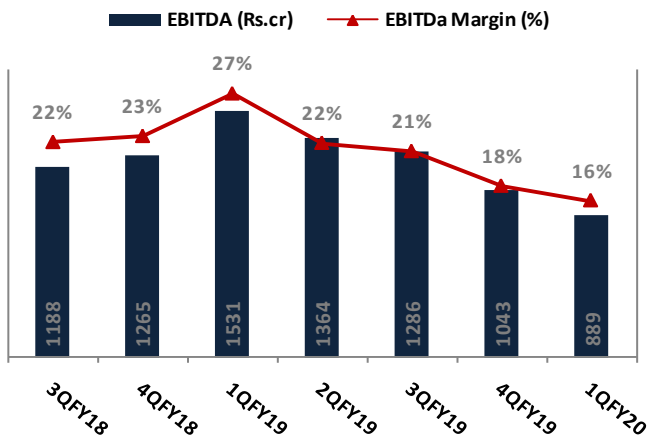


Exhibit: Aluminium volume and realization

volume continued to remain stable and realization continues to fall....

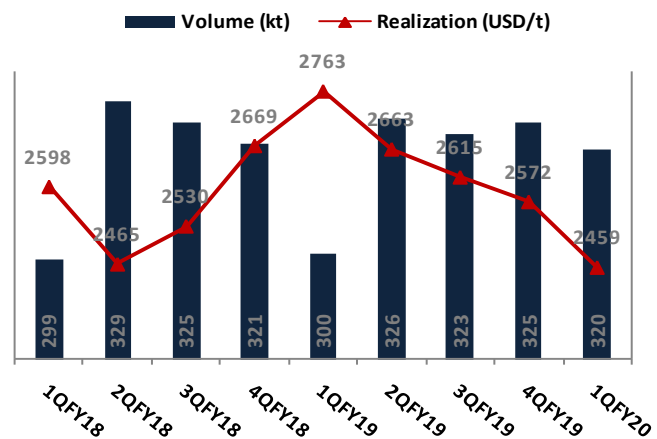


Exhibit: Standalone (ex-Utkal) EBITDA and Margin

higher power cost restricted the QoQ improvement in margin even after better gross margin....

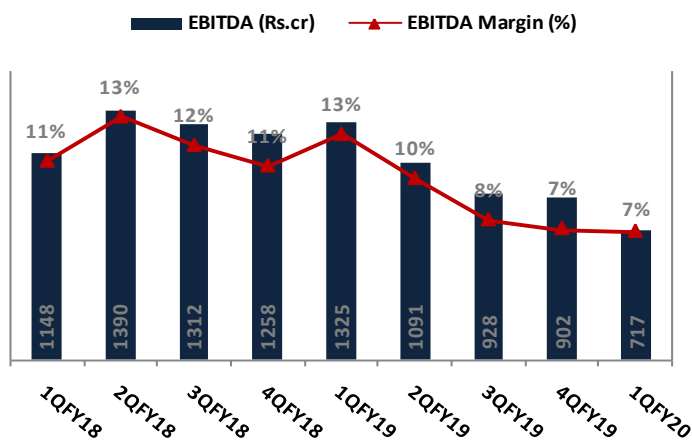


Exhibit: Copper volume and Realisation (Rs/t)

sales volume remain flat YoY, maintenance shutdown in 1QFY19 impacted production volume....

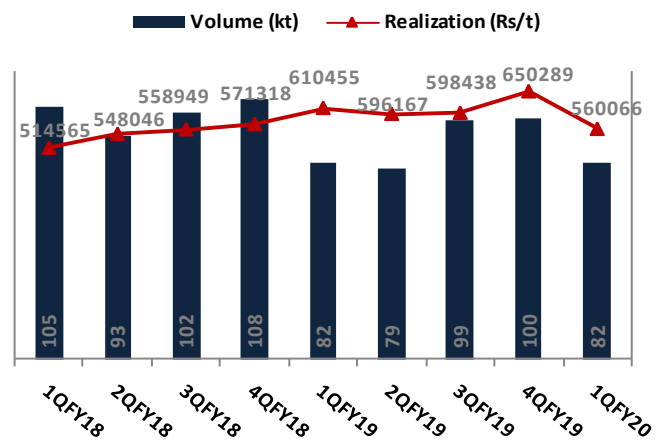


Exhibit: Novelis volume and Adj. EBITDA/t trend

delivered strong operational and financial performance....

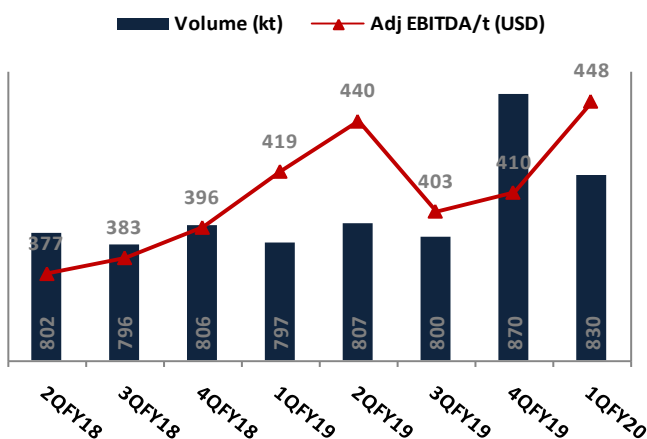
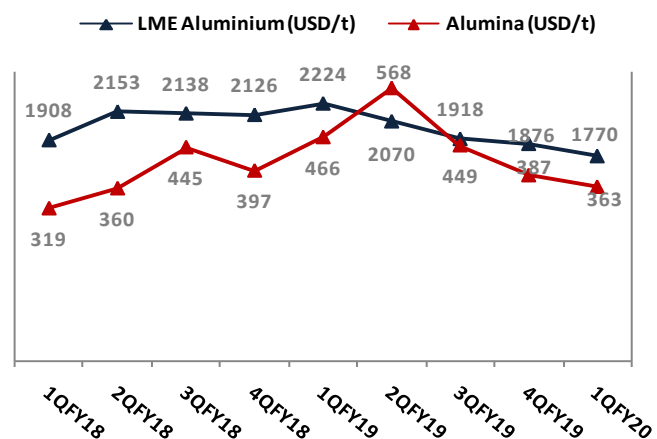


Exhibit: LME aluminium and alumina prices

downward trend continued in 1QFY20....



Financial Details (Consolidated)

Balance Sheet

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	206	207	205	223	223	222	222	222
Reserves	40,393	38,122	40,402	45,836	54,628	57,279	62,086	67,024
Networth	40,599	38,329	40,607	46,059	54,851	57,502	62,309	67,247
Debt	63,348	67,058	66,948	58,451	51,272	52,257	53,754	56,809
Other Non Cur Liab	5,533	4,763	3,494	3,389	4,957	5,729	5,729	5,729
Total Capital Employed	103,948	105,387	107,554	104,510	106,123	109,759	116,063	124,056
Net Fixed Assets (incl CWIP)	84,223	86,070	72,127	69,341	69,298	71,359	72,273	73,341
Non Cur Investments	6,270	5,726	3,256	4,639	6,863	5,136	5,136	5,136
Other Non Cur Asst	88,645	90,161	93,881	90,673	90,831	93,503	94,417	96,051
Non Curr Assets	94,915	95,887	97,138	95,312	97,694	98,638	99,552	101,186
Inventory	16,694	18,451	16,787	18,291	21,631	22,194	23,998	26,021
Debtors	9,235	9,186	7,918	8,275	9,960	11,460	10,857	11,895
Cash & Bank	5,021	5,309	4,407	8,261	8,058	9,787	12,942	15,419
Other Curr Assets	13,315	14,305	15,607	16,268	10,205	10,424	11,951	13,698
Curr Assets	44,266	47,252	44,720	51,096	49,854	53,864	59,748	67,033
Creditors	12,997	15,501	15,058	17,858	20,415	20,723	20,887	21,560
Provisions (both)	7,552	8,219	8,330	7,984	9,102	9,418	8,535	8,570
Other Curr Liab	7,366	8,314	6,632	12,218	6,847	6,636	8,037	8,254
Curr Liabilities	22,101	25,471	22,690	31,099	28,918	29,513	30,018	30,944
Net Curr Assets	22,165	21,781	22,030	19,996	20,936	24,351	29,729	36,089
Total Assets	139,181	143,139	141,987	146,511	147,657	152,632	159,429	168,348

Income Statement

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	87,695	104,281	98,759	100,184	115,172	130,542	131,441	135,681
Change (%)	9%	19%	-1%	1%	15%	13%	1%	3%
Other Income	1,017	1,105	1,189	1,111	1,105	1,127	793	880
EBITDA	8,286	8,945	8,815	12,447	13,921	15,500	15,711	15,514
Change (%)	6%	8%	0%	41%	12%	11%	1%	-1%
Margin (%)	9%	9%	9%	12%	12%	12%	12%	11%
Depr & Amor.	3,553	3,591	4,507	4,469	4,606	4,766	5,224	4,992
EBIT	4,733	5,354	4,307	7,979	9,314	10,734	10,487	10,522
Int. & other fin. Cost	2,702	4,178	5,134	5,742	3,911	3,778	3,942	4,159
EBT	3,049	2,280	362	3,347	6,508	8,083	7,317	7,243
Exp Item	396	1,940	(577)	(8)	1,774	-	7	-
Tax	525	256	498	1,433	2,074	2,588	2,159	2,016
Minority Int & P/L share of Ass.	47	770	11	(25)	(125)	0	-	-
Reported PAT	2,175	854	(701)	1,882	6,083	5,495	5,096	5,226
Adjusted PAT	2,571	2,794	(125)	1,890	4,309	5,495	5,096	5,226
Change (%)	-15%	9%	-120%	-1612%	128%	28%	-7%	3%
Margin(%)	3%	3%	0%	2%	4%	4%	4%	4%

Financial Details (Consolidated)

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6.3%	7.3%	-0.3%	4.1%	7.9%	9.6%	8.2%	7.8%
ROCE	5.0%	5.7%	-0.7%	1.9%	5.9%	5.2%	4.5%	4.3%
Asset Turnover	0.63	0.73	0.70	0.68	0.78	0.86	0.82	0.81
Debtor Days	38	32	29	30	32	32	30	32
Inv Days	69	65	62	67	69	62	67	70
Payable Days	54	54	56	65	65	58	58	58
Int Coverage	1.8	1.3	0.9	0.8	1.4	2.8	2.7	2.5
P/E	11.4	9.5	(145.2)	23.2	11.2	7.8	7.8	7.6
Price / Book Value	0.7	0.7	0.4	1.0	0.9	0.7	0.6	0.6
EV/EBITDA	9.4	8.6	8.1	7.0	6.3	5.9	5.7	6.0
FCF per Share	(6.6)	6.9	37.0	43.8	35.3	26.8	25.8	23.8
Div Yield	1.0%	0.8%	1.1%	0.5%	0.5%	0.6%	0.7%	0.7%

Cash Flow Statement

Fig in Rs.cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	2,653	340	(203)	3,315	8,157	8,083	7,317	7,243
<i>(inc)/Dec in Working Capital</i>	962	(86)	4,108	669	(1,424)	(1,758)	(2,385)	(2,966)
<i>Non Cash Op Exp</i>	2,597	3,839	3,878	3,741	1,653	3,764	5,214	4,992
<i>Int Paid (+)</i>	2,702	4,178	5,134	5,742	3,911	3,778	3,942	4,159
<i>Tax Paid</i>	(959)	(1,128)	(1,229)	(780)	(1,408)	(1,888)	(2,159)	(2,016)
<i>others</i>								
CF from Op. Activities	7,956	7,143	11,688	12,687	10,888	11,980	11,929	11,412
<i>(inc)/Dec in FA & CWIP</i>	(9,316)	(5,716)	(4,052)	(2,870)	(2,956)	(5,972)	(6,138)	(6,060)
<i>Free Cashflow</i>	(1,360)	1,427	7,636	9,818	7,932	6,008	5,791	5,352
<i>(Pur)/Sale of Inv</i>	532	1,051	(839)	(373)	7,611	(308)	-	-
<i>others</i>	670	872	1,369	451	370	634	-	-
CF from Inv. Activities	(8,115)	(3,793)	(3,522)	(2,789)	5,026	(5,652)	(5,977)	(7,542)
<i>inc/(dec) in NW</i>	1,630	5	(3)	3,311	13	3	-	-
<i>inc/(dec) in Debt</i>	4,869	2,832	(3,597)	(2,540)	(12,283)	(1,441)	1,497	3,055
<i>Int. Paid</i>	(4,692)	(5,025)	(5,006)	(6,075)	(3,849)	(3,577)	(3,942)	(4,159)
<i>Div Paid (inc tax)</i>	(315)	(249)	(256)	(248)	(293)	(323)	(289)	(289)
<i>others</i>								
CF from Fin. Activities	1,493	(2,437)	(8,862)	(5,552)	(16,412)	(5,461)	(2,735)	(1,393)
<i>Inc(Dec) in Cash</i>	1,334	913	(696)	4,347	(499)	867	3,217	2,477
<i>Add: Opening Balance</i>	2,184	3,537	4,656	4,262	8,222	8,041	9,787	12,942
Closing Balance	3,537	4,371	4,262	8,222	8,041	9,100	13,004	15,419

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