

Industry  
Bloomberg  
BSE CODE

Metals  
HNDL IN  
500440

RATING	NEUTRAL
CMP	200
Price Target	210
Potential Upside	5%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	237/171
Mkt Capital (Rs Cr)	42675
Free float (%)	65%
Avg. Vol 1M (,000)	7590
No. of Shares (Crs)	225
Promoters Pledged %	0%

## Novelis Aluminum business performed well, lower LME hampered volumes and margins..

- Consolidated revenue for the quarter was Rs. 29657 cr. (down 8.8% YoY) primarily on account of lower LME Aluminum as well as Copper. Novelis revenue was at Rs. 20071 Cr. (down 9% YoY)(down 9% YoY in \$), Aluminum revenue was at Rs.5526 (down 10% YoY) and Copper revenue was Rs. 4449 (down 6% YoY).
- Standalone aluminum sales volume was at 328 KT (up 1% YoY) and realization was at USD 2393/T (down 10% YoY and 3% QoQ). Copper sales volume was at 82 KT (up 4% YoY). Management reduced the Copper production guidance to 360 KT for FY20.
- HINDALCO standalone plus Utkal EBITDA stood at Rs. 1251 Cr. (down 35% YoY), lower on account of substantial fall in LME aluminium and alumina prices leading to 37.9% YoY fall in aluminum plus Utkal EBITDA to Rs. 849 Cr.
- Copper EBITDA for the quarter was also down by 37.7% YoY to Rs.246cr.
- PAT during the quarter stood at Rs. 78 Cr. on standalone basis which includes an exceptional expense incurred towards restoration of red mud pond and other related expenses at alumina refinery at Muri, Jharkhand.
- Aleris acquisition for Novelis of which management has received conditional approval from the European Commission on 1ST Oct 2019, other regulatory approvals in the US and China are in progress and is expected to close by 4QFY20.
- Novelis US recycling expansion is on track around \$ 36 million is invested in Greensboro, Georgia which will expand capacity to recycle automotive aluminum scrap.

### View and Valuation

Reduced LME prices of Aluminum and Copper hampered the volumes as well as realization during the quarter. Volume guidance for copper also reduced for FY20 to 360 KT. Utkal business also impacted by the reduced LME prices of Alumina. Novelis outperformed in Aluminum beverage CAN business and demand trends is expected strong based on which management is focusing on further expansion plan. However, trade war in China reducing the customer confidence. Pending acquisitions of Aleris from China is in 4QFY20. Reduction in international coal prices will reduce the power and fuel cost which will improve margins going ahead. We maintain NEUTRAL stance with a target price of Rs. 210 (6.8x FY21E EV/EBITDA).

### Key Risks to our rating and target

- Sharp decline in LME aluminium and copper prices.
- 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	102641	133532
EBITDA	12447	13921	15500	15361	14697
EBIT	7979	9314	10734	10692	9944
PAT	1890	4309	5495	5495	5304
EPS (Rs)	8.4	19.2	24.5	24.5	23.6
EPS growth (%)	0	128	28	0	-3
ROE (%)	4	8	10	9	8
ROCE (%)	2	6	5	5	4
BV	205.3	244.3	256.1	279.3	301.6
P/B (X)	1.0	0.9	0.7	0.7	0.7
P/E (x)	23.2	11.2	7.8	8.2	8.5

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

### 2QFY20 Results Standalone

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	10,833	11,938	12,373	10,055	9965	-8.0%	-0.9%	42,798	45,749	6.9%
Other Income	201	273	361	201	191	-5.1%	-5.1%	948	940	-0.8%
Total Income	11,034	12,210	12,733	10,256	10156	-8.0%	-1.0%	43,746	46,689	6.7%
COGS	6,210	7,179	7,819	5,947	5633	-9.3%	-5.3%	24,993	27,100	8.4%
Staff Cost	511	511	491	476	484	-5.3%	1.6%	1,895	1,982	4.6%
Power & Fuel	1,706	1,819	1,790	1,745	1904	11.6%	9.1%	6,000	6,937	15.6%
Other Exp.	1,316	1,500	1,370	1,169	1152	-12.4%	-1.4%	4,786	5,484	14.6%
Expenditure	9,742	11,010	11,470	9,337	9173	-5.8%	-1.8%	37,674	41,503	10.2%
EBITDA	1,091	928	902	717	792	-27.4%	10.4%	5,124	4,247	-17.1%
EBITDAmargin	10.1%	7.8%	7.3%	7.1%	8%	-21.1%	11.4%	12.0%	9.3%	-22.5%
Depreciation	400	429	460	418	420	5.0%	0.5%	1,617	1,693	4.7%
EBIT	691	499	443	299	372	-46.1%	24.2%	3,507	2,553	-27.2%
Interest	424	434	414	444	428	0.9%	-3.7%	1,901	1,683	-11.4%
PBT	468	338	389	56	135	-71.1%	139.1%	2,554	1,810	-29.1%
Excpt. Item	-	-	-	(22)	-31	-	-	(325)	-	-
Tax	159	91	153	12	26	-83.7%	115.1%	792	605	-23.6%
PAT	309	247	236	23	78	-74.7%	245.4%	1,438	1,205	-16.2%

### Standalone business impacted by lower realization and reduced volumes

Aluminum sales volume for the quarter was at 328KT (up 1% YoY), VAP sales volumes increased by 5% YoY to 78KT while production volume was at 76KT (down 3.7% YoY). Realization fell by 10% YoY TO \$ 2393/T primarily on account of reduced LME aluminum prices leading to 10% YoY fall in aluminum revenue to Rs. 5526 Cr. Copper sales volume was at 82 KT (up 4% YoY) while the drop in realization by 9% YoY reduced the revenue from Copper business to Rs. 4449 Cr. (down by 6% YoY). Copper volume guidance reduced to 360KT for FY20. EBITDA for standalone business (ex-Utkal ) stood at Rs. 792 Cr. (down 8% YoY) with an EBITDA margin of 7.9% in 2QFY20. Lower margin was primarily on account of lower LME aluminum and Copper. However, reduced international coal prices will improve the margins going ahead with the decline in power and fuel cost. EBITDA for standalone plus Utkal stood at Rs. 1251 Cr.

### Novelis Performance

Novelis posted revenue of USD 2.9 billion (down 6.5% YoY), primarily on account of lower LME aluminium. Sales volume grew by 2% YoY to 835KT. Even though the revenue declined by 6.5% YoY the adjusted EBITDA was at \$ 374 million (up 5% YoY) driven by higher shipment and favorable price and product mix. Shipment in 2QFY20 was 835KT (up 3% YoY). Sales in Europe, Asia and South America improved by 6.9%, 5.3% and 11.9% YoY to 245 KT, 177 KT and 141 KT respectively, while in North America it was reduced by 3% YoY to 286KT. Management states strong demand trends globally for Aluminum beverage CAN business based on which capacity expansion will be planned further. North America market will remain strong based on exposure to trucks, SUVs, electric and premium vehicle. However, some challenges in Europe due to exposure to one large customer had faced also weak consumer confidence in China due to trade war.

### Other Updates

- Belgian plant divestment will not materially change contours of Aleris acquisition. Europe strategy for Aleris acquisition is more focused on Aerospace business capabilities.
- Deal won't be impacted if the sale of Duffle unit compensates for its \$50 million EBITDA. Management is confident of winning arbitration in US and no further divesture will be required.
- Aluminum Beverage CAN business is showing strong growth based on which the management is planning of capacity addition to the same.

## Concall highlights

### Global Outlook

- Economic slowdown was due to uncertainties around Brexit, persistent trade tensions, geopolitical risk, especially in the Middle East, and subdued manufacturing activities.
- Manufacturing PMI contracted over the last 3 months, trade war with China, uncertainties around Brexit and the business spending is falling down in the US and US economy is witnessing further slowdown.
- The Government of India, also announced various measures like corporate tax, tax rate cut, incentives for new manufacturing units with lower tax rates, easing of funding norms for the affordable housing segment, additional income tax benefits for interest on housing loan, credit enhancements for infrastructure and housing projects and additional liquidity by the National Housing Board of \$3 billion.
- Aluminum consumption and prices were negatively impacted since aluminum consumption is more or less directly correlated to economic growth demand in the world, (excluding China) de-grew by 2% YoY.
- Subdued demand in the US, Mexico, Latin America and Europe and Japan slow growth in auto and increasing use of quick scrap are the reasons for the sluggish growth in the quarter.
- Import recorded de-growth of around 8% YoY to 557 KT due to import of scrap and finished product.

### Operational and Financial Performance

#### • Novelis Performance

- Novelis reported adjusted EBITDA of \$ 374 million (up by 5% YoY) with an adjusted EBITDA per ton of \$448 (up by 2% YoY).
- Net income without exceptional item was \$ 160 million (up by 31% YoY).
- Overall shipment went up by 3% at 835 KT with Can sheet shipments growth of 10% YoY.
- Aleris acquisition: Management has received conditional approval from the European Commission on 1ST Oct 2019, other regulatory approvals in the US and China are in progress and is expected to close by 4QFY20.

### India Business Segment

#### • Aluminum Business

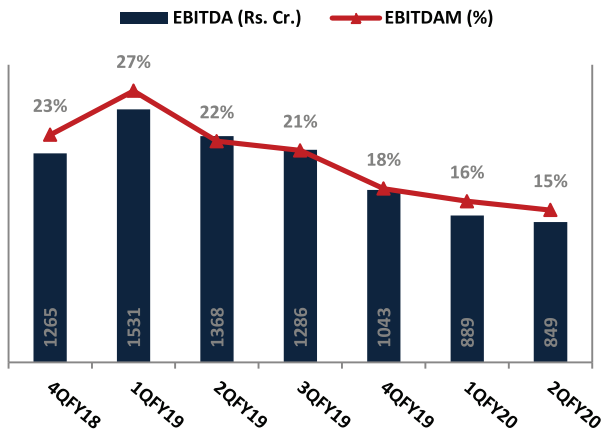
- Domestic market for Aluminum business de-grew by 6% YoY and the global aluminum prices dropped by 14% YoY to \$ 1761 per ton.
- The metal sales went up by 1% YoY to 326 KT. Aluminum value added products (excluding wire rod sales) went up by 5% YoY at 78 KT.
- Aluminum business including Utkal reported EBITDA of Rs. 849 Cr. (down by 61% YoY) was on account of lower realization which is partially offset by lower input cost.

#### • Copper Business

- Domestic copper market grew by 10% YoY largely due to the lower base effect. Production of copper in 2QFY20 CC rods went up by 24% to 65 KT, CCR 3 at 44 KT. CC rod sales grew by 14% YoY and reached at 76% of total volume.
- Copper EBITDA declined by 55% YoY due to lower realization and the impact of heavy rains in the hedge in the month of August.

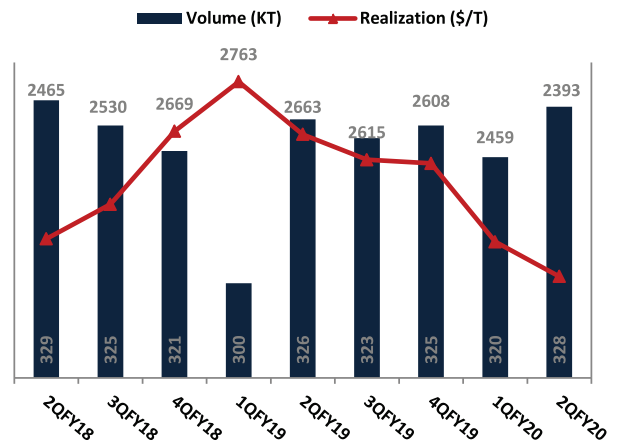
## Exhibit: Aluminium EBITDA (Standalone plus Utkal)

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



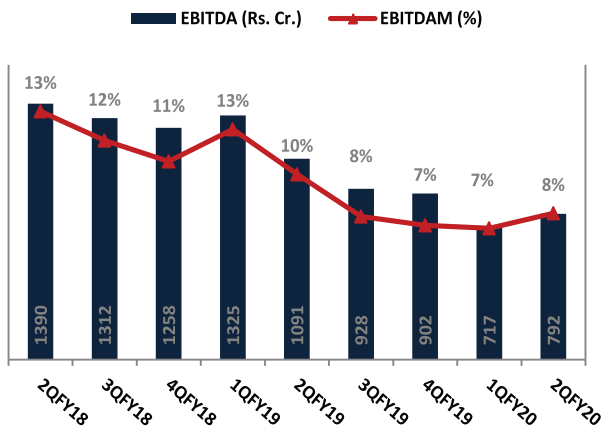
## Exhibit: Aluminium volume and realization

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



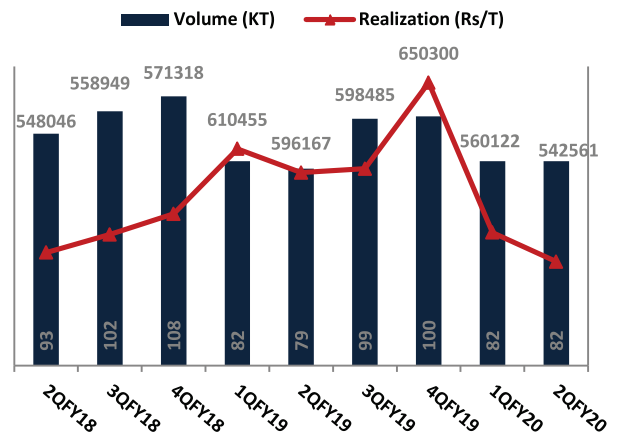
## Exhibit: Standalone (ex-Utkal) EBITDA and Margin

Reduced realization hampered margins in 2QFY20.



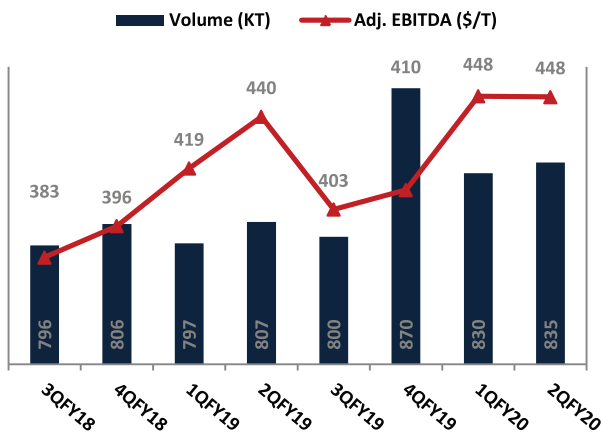
## Exhibit: Copper volume and Realisation (Rs/t)

Reduced volumes during the quarter reduced the overall guidance for FY20.



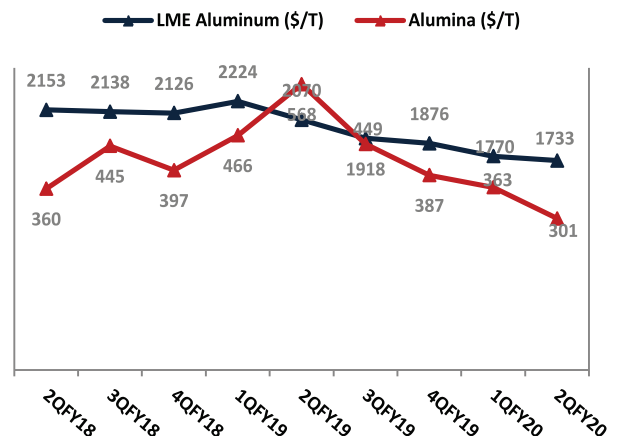
## Exhibit: Novelis volume and Adj. EBITDA/t trend

Delivered strong operational and financial performance....



## Exhibit: LME aluminium and alumina prices

Downward trend continued in 2QFY20....



## Financial Details (Consolidated)

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>206</b>	<b>207</b>	<b>205</b>	<b>223</b>	<b>223</b>	<b>222</b>	<b>222</b>	<b>222</b>
Reserves	40,393	38,122	40,402	45,836	54,628	57,279	62,486	67,500
<b>Networth</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>62,708</b>	<b>67,723</b>
Debt	63,348	67,058	66,948	58,451	51,272	52,257	53,414	56,744
Other Non Cur Liab	5,533	4,763	3,494	3,389	4,957	5,729	5,729	5,729
<b>Total Capital Employed</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>116,122</b>	<b>124,467</b>
Net Fixed Assets (incl CWIP)	84,223	86,070	72,127	69,341	69,298	71,359	72,753	74,060
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	94,897	96,769
Non Curr Assets	94,915	95,887	97,138	95,312	97,694	98,638	100,032	101,905
<b>Inventory</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>18,740</b>	<b>25,609</b>
<b>Debtors</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>8,478</b>	<b>11,707</b>
<b>Cash &amp; Bank</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>15,665</b>	<b>15,377</b>
Other Curr Assets	13,315	14,305	15,607	16,268	10,205	10,424	10,154	13,563
Curr Assets	44,266	47,252	44,720	51,096	49,854	53,864	53,037	66,256
Creditors	12,997	15,501	15,058	17,858	20,415	20,723	16,310	21,219
Provisons (both)	7,552	8,219	8,330	7,984	9,102	9,418	8,295	8,552
Other Curr Liab	7,366	8,314	6,632	12,218	6,847	6,636	6,564	8,144
Curr Liabilities	22,101	25,471	22,690	31,099	28,918	29,513	23,729	30,475
<b>Net Curr Assets</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>29,308</b>	<b>35,781</b>
<b>Total Assets</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>153,198</b>	<b>168,290</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</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>102,641</b>	<b>133,532</b>
Change (%)	9%	19%	-1%	1%	15%	13%	-21%	30%
Other Income	1,017	1,105	1,189	1,111	1,105	1,127	880	880
<b>EBITDA</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>15,361</b>	<b>14,697</b>
Change (%)	6%	8%	0%	41%	12%	11%	-1%	-4%
Margin (%)	9%	9%	9%	12%	12%	12%	15%	11%
Depr & Amor.	3,553	3,591	4,507	4,469	4,606	4,766	4,668	4,753
<b>EBIT</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>10,692</b>	<b>9,944</b>
Int. & other fin. Cost	2,702	4,178	5,134	5,742	3,911	3,778	3,647	3,951
<b>EBT</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>7,700</b>	<b>6,873</b>
Exp Item	396	1,940	(577)	(8)	1,774	-	-	-
Tax	525	256	498	1,433	2,074	2,588	2,127	1,831
Minority Int & P/L share of Ass.	47	770	11	(25)	(125)	0	-	-
<b>Reported PAT</b>	<b>2,175</b>	<b>854</b>	<b>(701)</b>	<b>1,882</b>	<b>6,083</b>	<b>5,495</b>	<b>5,495</b>	<b>5,304</b>
<b>Adjusted PAT</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>5,495</b>	<b>5,304</b>
Change (%)	-15%	9%	-120%	-1612%	128%	28%	0%	-3%
Margin(%)	3%	3%	0%	2%	4%	4%	5%	4%

## Financial Details (Consolidated)

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6.33%	7.29%	-0.31%	4.10%	7.86%	9.56%	8.76%	7.83%
ROCE	5.01%	5.71%	-0.71%	1.92%	5.92%	5.21%	4.87%	4.39%
Asset Turnover	0.63	0.73	0.70	0.68	0.78	0.86	0.68	0.80
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	1.75	1.28	0.89	0.84	1.39	2.84	2.93	2.52
P/E	11.38	9.54	-145.24	23.16	11.16	7.84	8.16	8.46
Price / Book Value	0.72	0.70	0.45	0.95	0.88	0.75	0.72	0.66
EV/EBITDA	9.43	8.58	8.13	7.02	6.31	5.88	6.19	6.67
FCF per Share	-6.59	6.91	36.98	43.77	35.33	26.76	38.19	8.20
Div Yield	0.99%	0.77%	1.14%	0.51%	0.51%	0.63%	0.60%	0.60%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>2,653</b>	<b>340</b>	<b>(203)</b>	<b>3,315</b>	<b>8,157</b>	<b>8,083</b>	<b>7,700</b>	<b>6,873</b>
(inc)/Dec in Working Capital	962	(86)	4,108	669	(1,424)	(1,758)	759	(5,844)
Non Cash Op Exp	2,597	3,839	3,878	3,741	1,653	3,764	4,659	4,753
Int Paid (+)	2,702	4,178	5,134	5,742	3,911	3,778	3,647	3,951
Tax Paid	(959)	(1,128)	(1,229)	(780)	(1,408)	(1,888)	(2,127)	(1,831)
others								
<b>CF from Op. Activities</b>	<b>7,956</b>	<b>7,143</b>	<b>11,688</b>	<b>12,687</b>	<b>10,888</b>	<b>11,980</b>	<b>14,637</b>	<b>7,902</b>
(inc)/Dec in FA & CWIP	(9,316)	(5,716)	(4,052)	(2,870)	(2,956)	(5,972)	(6,062)	(6,060)
Free Cashflow	(1,360)	1,427	7,636	9,818	7,932	6,008	8,575	1,842
(Pur)/Sale of Inv	532	1,051	(839)	(373)	7,611	(308)	-	-
others	670	872	1,369	451	370	634	-	-
<b>CF from Inv. Activities</b>	<b>(8,115)</b>	<b>(3,793)</b>	<b>(3,522)</b>	<b>(2,789)</b>	<b>5,026</b>	<b>(5,652)</b>	<b>(5,901)</b>	<b>(7,542)</b>
inc/(dec) in NW	1,630	5	(3)	3,311	13	3	-	-
inc/(dec) in Debt	4,869	2,832	(3,597)	(2,540)	(12,283)	(1,441)	1,156	3,330
Int. Paid	(4,692)	(5,025)	(5,006)	(6,075)	(3,849)	(3,577)	(3,647)	(3,951)
Div Paid (inc tax)	(315)	(249)	(256)	(248)	(293)	(323)	(289)	(289)
others								
<b>CF from Fin. Activities</b>	<b>1,493</b>	<b>(2,437)</b>	<b>(8,862)</b>	<b>(5,552)</b>	<b>(16,412)</b>	<b>(5,461)</b>	<b>(2,779)</b>	<b>(909)</b>
Inc(Dec) in Cash	1,334	913	(696)	4,347	(499)	867	5,957	(550)
Add: Opening Balance	2,184	3,537	4,656	4,262	8,222	8,041	9,787	15,665
<b>Closing Balance</b>	<b>3,537</b>	<b>4,371</b>	<b>4,262</b>	<b>8,222</b>	<b>8,041</b>	<b>9,100</b>	<b>15,744</b>	<b>15,115</b>



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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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