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## Lower cost of production will assist margins despite fall in LME prices

### 3QFY20 Result Update

- Standalone revenue reported by HINDALCO of Rs. 10230 Cr. de-grew by 14.3% YoY largely on account lower LME prices and reduced volumes of Copper business. Copper production volumes were down 18% YoY to 86 KT due to unplanned shutdown at smelters. Corona virus has impacted in terms of reduction in LME prices.
- Copper business impacted due to heavy rains in 3QFY20 at Gujarat which impacted 2 weeks of production while, 4QFY20 is expected to be stable. Management expects EBITDA for copper business to be softer side in FY21 based on some planned shut-down of smelters in 1QFY21 and 3QFY21.
- Aluminum Business (including Utkal Alumina) reported revenue of Rs. 5467 Cr. de-grew by 9% YoY due to lower realizations.
- Aluminum business EBITDA margin remain healthy at 19% in 3QFY20 an account of cost of production which went down by 5% QoQ due to linkage coal (went down from 60% to 69%) and other input cost reduction.
- Novelis reported revenue of USD \$ 2715 million down 10% YoY due to 12% decline in average LME aluminum price and local market premiums.
- Standalone EBITDA during the quarter is Rs. 1013 Cr. with an EBITDA margin of 9.9% (up 210 bps YoY and 200 bps QoQ) on the back of lower cost of production.
- PAT during the quarter stood at Rs. 193 Cr. de-grew by 26.5% YoY due to lower other income and higher tax expense.
- Aleris acquisition: European commission (EC) is assessing financial viability of liberty house buying Duffel. However, management cannot commit to a timeline for concluding Aleris Acquisition.
- Novelis bond refinancing reduced finance charges around US\$ 17 million per annum.

### View and Valuation

Despite reduced LME prices margin expansion sequentially on account of lower by of production. Management expects further reduction in cost by 2% QoQ in Aluminum business including Utkal operations which will expand margins in 4QFY20. Heavy rains in Gujarat and unplanned shutdown of Smelters impacted Copper business. EBITDA for copper business to be softer side in FY21 based on some planned shut-down of smelters in 1QFY21 and 3QFY21, lower TC/RC and sulfuric acid prices and long DAP unit shutdown. Management cannot commit to a timeline for concluding Aleris Acquisition pending approval from EC. However, we maintain our stance of NEUTRAL with the target price of Rs. 188 (at 6.8x FY21E EV/EBITDA).

### Key Risks to our rating and target

- Sharp decline in LME aluminium and copper prices.
- Demand from global market

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	100184	115172	130542	123043	134404
EBITDA	12447	13921	15500	14724	14074
EBIT	7979	9314	10734	10103	9319
PAT	1890	4309	5495	4705	4452
EPS (Rs)	8.4	19.2	24.5	21	20
EPS growth (%)	0	128	28	(14)	(5)
ROE (%)	4	8	10	8	7
ROCE (%)	2	6	5	4	4
BV	205.3	244.3	256.1	276	294
P/B (X)	1.0	0.9	0.7	1	1
P/E (x)	23.2	11.2	7.8	9	9

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RATING	NEUTRAL
CMP	195
Price Target	188
Potential Upside	-4%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	221/171
Mkt Capital (Rs Cr)	43,888
Free float (%)	65%
Avg. Vol 1M (,000)	7596
No. of Shares (Crs)	225
Promoters Pledged %	0%

### RESEARCH ANALYST

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## Volume de-growth led by heavy rains & unplanned shutdown

### 3QFY20 Results Standalone

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	11,938	12,373	10,055	9,965	10,230	-14.3%	2.7%	42,798	45,749	6.9%
Other Income	273	361	201	191	139	-49.0%	-27.2%	948	940	-0.8%
Total Income	12,210	12,733	10,256	10,156	10,369	-15.1%	2.1%	43,746	46,689	6.7%
COGS	7,179	7,819	5,947	5,633	5,787	-19.4%	2.7%	24,993	27,100	8.4%
Staff Cost	511	491	476	484	493	-3.5%	1.9%	1,895	1,982	4.6%
Power & Fuel	1,819	1,790	1,745	1,904	1,692	-7.0%	-11.1%	6,000	6,937	15.6%
Other Exp.	1,500	1,370	1,169	1,152	1,245	-17.0%	8.1%	4,786	5,484	14.6%
Expenditure	11,010	11,470	9,337	9,173	9,217	-16.3%	0.5%	37,674	41,503	10.2%
EBITDA	928	902	717	792	1,013	9.1%	27.9%	5,124	4,247	-17.1%
EBITDAMargin	7.8%	7.3%	7.1%	8%	10%	27.4%	24.6%	12.0%	9.3%	-22.4%
Depreciation	429	460	418	420	428	-0.2%	1.9%	1,617	1,693	4.7%
EBIT	499	443	299	372	585	17.2%	57.3%	3,507	2,553	-27.2%
Interest	434	414	444	428	406	-6.4%	-5.1%	1,901	1,683	-11.4%
PBT	338	389	56	135	318	-5.9%	135.6%	2,554	1,810	-29.1%
Excpt. Item	-	-	(22)	(31)	(11)	-	-	(325)	-	-
Tax	91	153	12	26	114	25.8%	338.5%	792	605	-23.6%
PAT	247	236	23	78	193	-22.0%	147.4%	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 2% YoY) while, VAP sales volumes and production volume remained flat at 75KT and 80KT respectively. Realization fell by 11% YoY to \$ 2338/T primarily on account of reduced LME aluminum prices leading to 9% YoY fall in aluminum revenue to Rs. 5467 Cr. Copper sales volume was at 84 KT (down 15% YoY) due to stop in production for 2-3 weeks on the back of heavy rains and unplanned shutdown of Smelters along with the drop in realization by 5% YoY drop the revenue of Copper business to Rs. 4774 Cr. (down by 19% YoY). Copper volume guidance reduced to 360KT for FY20. EBITDA for standalone business (ex-Utkal ) stood at Rs. 1013 Cr. with the expansion in EBITDA margins by 200 bps QoQ and 210 bps YoY on the back of reduced cost of production by 5% QoQ. Margin expansion was off-set 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.

#### Novelis Performance

Novelis posted revenue of USD 2.7 billion (down 12% YoY), mainly due to a decline in average base aluminium prices and local market premiums, partly offset by favourable recycling benefits. Total shipments of flat rolled products (FRPs) were flat on YoY basis at 797 KT. Sales in Europe and South America improved by 6.2% and 2.8% YoY to 224 KT and 146 KT respectively, while in North America and Asia it was reduced by 3.5% YoY and 4.9% to 269KT and 173 KT respectively. Beverage can sheet and automotive body sheet shipments, however, were higher by 4% and 3% respectively, driven by growing consumer preference for sustainable packaging and light-weight vehicles. EBITDA during the quarter is US \$ 343 million (up 7% YoY) with an adjusted EBITDA per ton at US\$ 430 (up 7% YoY). Novelis reported a Net Income (excluding tax-effected special items) of US\$ 132 million in 3QFY20, an increase of 31% over 3QFY19.

#### Other Updates

- Novelis made excellent progress in advancing its major organic expansion projects in the U.S., China and Brazil. Notably, its greenfield automotive finishing plant in Guthrie, Kentucky, is in the commissioning process, with commercial shipments to customers expected to commence in the coming months.
- Novelis has received anti-trust approval from China for the Aleris acquisition. The European Commission is currently evaluating the suitability of the proposed buyer of Aleris' Duffel, Belgium plant. In the U.S., arbitration proceedings are in progress.
- In January 2020, Novelis successfully issued US\$ 1.6 billion Bonds at 4.75% due in 2030, to repay its existing US\$ 1.15 billion 6.25% Bonds, due in 2024 with net interest savings of around US\$ 17 million per annum. Balance proceeds of these Bonds will be used to finance the ongoing Aleris acquisition.
- Utkal Alumina's capacity expansion of 500 Kt is on track and is expected to be commissioned in December 2020.
- The Muri Alumina refinery re-started production in December 2019.

## Concall highlights

### • Global Outlook

- The US economy grew by 2.3% in 2019 vs 2.9% in 2018, propelled by public spending and public expenditure.
- Economic activity in EURO area remain subdued The Chinese economy slowed down to a 29 years low of 6.1% in 2019 mainly due to subdued demand and US China Trade war.
- As per IMF global growth is expected to be 3.3 % in 2020 than compare to 2.9% in 2019. Corona virus outbreak presents a threat to economic recovery, though the full impact is not yet clear.
- In Indian economy the economic growth moderated due to no. of factors, subdued consumption, slowdown in investments and geo-political issues such as trade tension.
- Corona virus has impacted in terms of reduction in LME prices. However, if the Chinese government controls the corona virus along with provide enough liquidity and keep the economy going will pick-up the LME prices

### • Operational and Financial Performance

- In January 2020, Novelis issued US \$1.6 billion Bonds at 4.75% due in 2030, proceeds used to repay existing US \$1.15 billion 6.25% Bonds, due in 2024 with a net interest savings of around US\$ 17 million per annum.
- Balance proceeds will be used for financing ongoing Aleris's Acquisition.
- Overall demand for Aluminum FRP remains steady with overall shipment of Novelis at 797 KT in 3QFY20.
- Beverage CAN Sheet and automotive body sheet grew in 3QFY20 driven by growing consumer preference by sustainable packaging and light weighting globally.
- Due to planned shut-down of Smelter, flood at Gujarat in 2QFY20 and in 3QFY20 there were few unplanned shutdown which impacted the Copper production till date. Moreover, some impact of 3QFY20 performance is expected in 4QFY20.
- Going forward in 1QFY21 and 3QFY21 there will be planned shutdown in copper plant.
- Aluminum operations in 3QFY20 enhanced sequentially due to linkage coal (went down from 60% to 69%) and other input cost reduction. Cost of production went down by 5% QoQ improved Aluminum EBITDA.
- Management expects the cost of production further down by 2% in 4QFY20 on account of volume growth and input cost going down further from the current level of operations.
- Utkal operations are expected to outperform in terms of Aluminum volume growth along with cost reduction in 4QFY20. Cost saving will expand the EBITDA margins of Aluminum operations going ahead.
- Copper business impacted by heavy rains in 3QFY20 at Gujarat which impacted 2 weeks of production while, 4QFY20 is expected to be stable.
- Management expects EBITDA for copper business to be softer side in FY21 based on some planned shut-down of smelters in 1QFY21 and 3QFY21. Within every 12-16 months copper smelter need shut down.
- Copper to be dented by lower TC/RC and sulfuric acid prices and long DAP unit shutdown (for ammonia tank recertified).

### • Aleris acquisition update

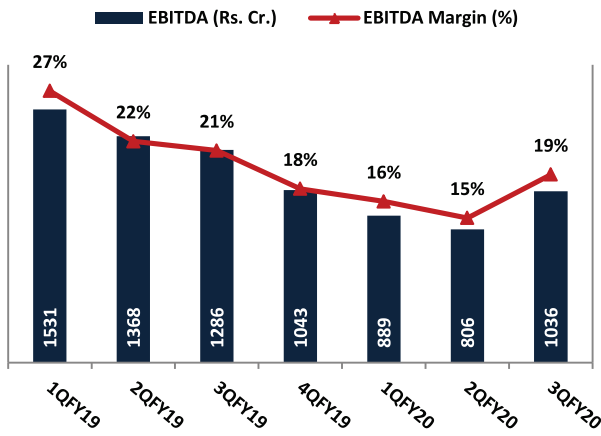
- China Anti-trust approval is received.
- Received the Conditional approval from the European Commission (EC). EC is currently evaluating the suitability of the proposed buyer of the Duffel plant.
- In the US, Novelis' ability to acquire Aleris' automotive plant in Lewisport, Kentucky, will be resolved through an arbitration proceeding coming up in 4QFY20.

### • Capacity Expansion Plans

- Greenfield automotive finishing plant in Guthrie, Kentucky, has begun commissioning, with commercial shipments to commence in the coming quarter.
- Capacity expansion at Utkal Alumina (Lowest cost producer) by 500Kt – ~70% work already completed till Jan 2020. The commissioning of which is expected in 2HFY21.
- Dumri - Captive Coal mine to start operations in 1QFY21.

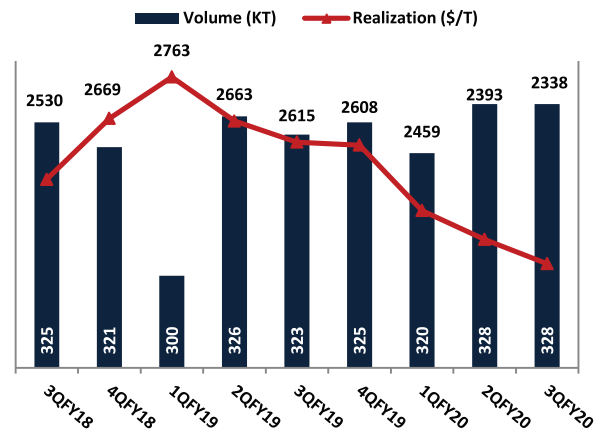
## Exhibit: Aluminium EBITDA (Standalone plus Utkal)

Reduced COP expanded margins off-set by lower LME prices..



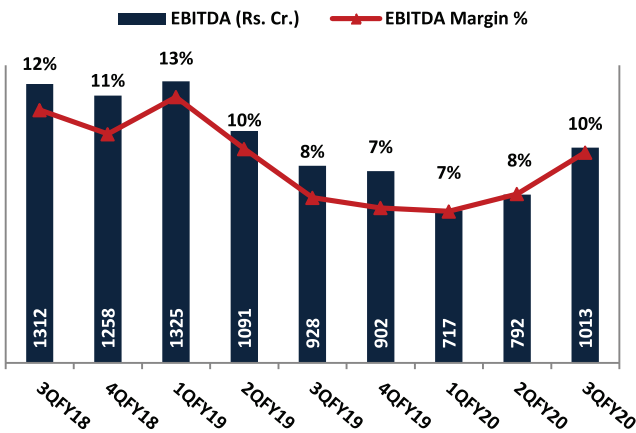
## Exhibit: Aluminium volume and realization

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



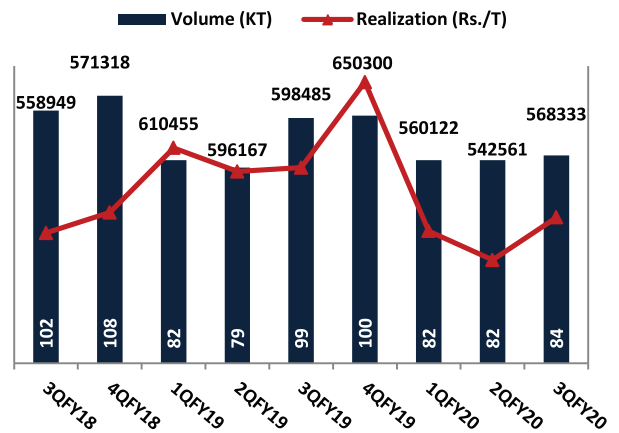
## Exhibit: Standalone (ex-Utkal) EBITDA and Margin

Margin expansion on account of lower COP by 5% sequentially..



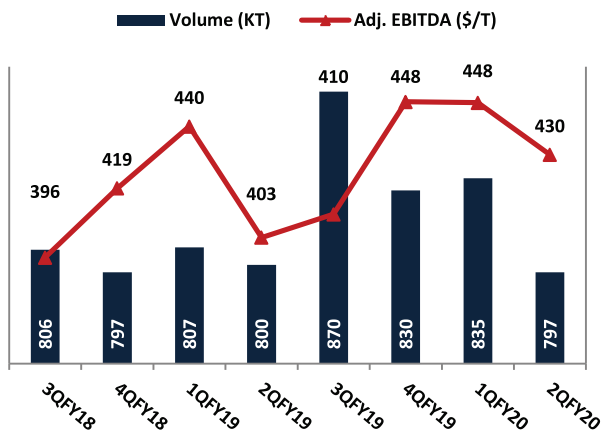
## Exhibit: Copper volume and Realisation (Rs/t)

Reduced volumes during the quarter due to prolonged monsoon and unplanned shutdowns...



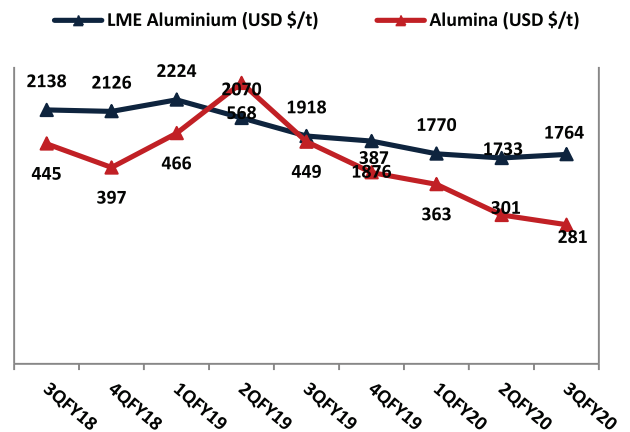
## Exhibit: Novelis volume and Adj. EBITDA/t trend

Poor economic growth leads to the fall in Novelis performance..



## Exhibit: LME aluminium and alumina prices

Downward trend continued in 3QFY20....



## 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	61,695	65,859
<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>61,918</b>	<b>66,081</b>
Debt	63,348	67,058	66,948	58,451	51,272	52,257	54,947	58,053
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>116,864</b>	<b>124,134</b>
Net Fixed Assets (incl CWIP)	84,223	86,070	72,127	69,341	69,298	71,359	72,803	74,107
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	94,947	96,817
Non Curr Assets	94,915	95,887	97,138	95,312	97,694	98,638	100,082	101,952
<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>22,465</b>	<b>25,776</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>10,163</b>	<b>11,783</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>14,131</b>	<b>14,889</b>
Other Curr Assets	13,315	14,305	15,607	16,268	10,205	10,424	11,427	13,618
Curr Assets	44,266	47,252	44,720	51,096	49,854	53,864	58,185	66,066
Creditors	12,997	15,501	15,058	17,858	20,415	20,723	19,552	21,357
Provisons (both)	7,552	8,219	8,330	7,984	9,102	9,418	8,465	8,560
Other Curr Liab	7,366	8,314	6,632	12,218	6,847	6,636	7,607	8,189
Curr Liabilities	22,101	25,471	22,690	31,099	28,918	29,513	28,184	30,665
<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>30,001</b>	<b>35,401</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>158,397</b>	<b>168,148</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>123,043</b>	<b>134,404</b>
Change (%)	9%	19%	-1%	1%	15%	13%	-6%	9%
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>14,724</b>	<b>14,074</b>
Change (%)	6%	8%	0%	41%	12%	11%	-5%	-4%
Margin (%)	9%	9%	9%	12%	12%	12%	12%	10%
Depr & Amor.	3,553	3,591	4,507	4,469	4,606	4,766	4,621	4,755
<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>10,103</b>	<b>9,319</b>
Int. & other fin. Cost	2,702	4,178	5,134	5,742	3,911	3,778	3,856	4,057
<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>6,902</b>	<b>6,141</b>
Exp Item	396	1,940	(577)	(8)	1,774	-	(53)	-
Tax	525	256	498	1,433	2,074	2,588	1,744	1,510
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>4,705</b>	<b>4,452</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>4,705</b>	<b>4,452</b>
Change (%)	-15%	9%	-120%	-1612%	128%	28%	-14%	-5%
Margin(%)	3%	3%	0%	2%	4%	4%	4%	3%

## 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%	7.60%	6.74%
ROCE	5.01%	5.71%	-0.71%	1.92%	5.92%	5.21%	4.16%	3.70%
Asset Turnover	0.63	0.73	0.70	0.68	0.78	0.86	0.76	0.79
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	2.62	2.30
P/E	11.38	9.54	-145.24	23.16	11.16	7.84	9.28	9.48
Price / Book Value	0.72	0.70	0.45	0.95	0.88	0.75	0.71	0.64
EV/EBITDA	9.43	8.58	8.13	7.02	6.31	5.88	6.44	6.85
FCF per Share	-6.59	6.91	36.98	43.77	35.33	26.76	27.13	16.30
Div Yield	0.99%	0.77%	1.14%	0.51%	0.51%	0.63%	0.62%	0.64%

### 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>6,902</b>	<b>6,141</b>
(inc)/Dec in Working Capital	962	(86)	4,108	669	(1,424)	(1,758)	(1,468)	(3,725)
Non Cash Op Exp	2,597	3,839	3,878	3,741	1,653	3,764	4,612	4,755
Int Paid (+)	2,702	4,178	5,134	5,742	3,911	3,778	3,856	4,057
Tax Paid	(959)	(1,128)	(1,229)	(780)	(1,408)	(1,888)	(1,744)	(1,510)
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>12,156</b>	<b>9,720</b>
(inc)/Dec in FA & CWIP	(9,316)	(5,716)	(4,052)	(2,870)	(2,956)	(5,972)	(6,065)	(6,060)
Free Cashflow	(1,360)	1,427	7,636	9,818	7,932	6,008	6,091	3,660
(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>(5,904)</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)	2,689	3,106
Int. Paid	(4,692)	(5,025)	(5,006)	(6,075)	(3,849)	(3,577)	(3,856)	(4,057)
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>(1,455)</b>	<b>(1,240)</b>
Inc(Dec) in Cash	1,334	913	(696)	4,347	(499)	867	4,797	937
Add: Opening Balance	2,184	3,537	4,656	4,262	8,222	8,041	9,787	14,131
<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>14,584</b>	<b>15,068</b>

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