




Industry  
Bloomberg  
BSE CODE

Metals  
HNDL IN  
500440

## Margin expansion serve in this current pandemic

RATING	HOLD
CMP	146
Price Target	162
Potential Upside	11%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	221/85
Mkt Capital (Rs Cr)	32,818
Free float (%)	65%
Avg. Vol 1M (,000)	6788
No. of Shares (Cr)	225
Promoters Pledged %	0%

### 4QFY20 Result Update

- Standalone revenue reported by HINDALCO in 4QFY20 is at Rs. 9992 Cr. de-grew by 19.2% YoY led by lower than expected production as well as sales volume of Aluminium and Copper.
- Production and sales volume of Aluminium during the quarter is 327 KT (up 2% YoY) and 314 KT (down 3% YoY) respectively on the back of disruption in supply chain due to lockdown.
- Copper business production and sales volume is at 75 KT (down 16% YoY) and 86 KT (down 14% YoY) respectively due to lower demand and lockdown impact in this COVID.
- EBITDA during the quarter was Rs. 1163 Cr. with an EBITDA margin of 11.6% (up 4.3% YoY and 1.7% QoQ) on account of lower cost of production based on lower LME prices of both Aluminium as well as copper.
- PAT in 4QFY20 was Rs. 326 Cr. with the PAT margin of 3.3% (up 1.4% QoQ and YoY) based on reduced tax rates, lower depreciation and operating leverage benefit.
- Aleris acquisition was completed by 14Th April 20 and integration process was started with synergies and long term value.
- Novelis successfully issued US \$ 1.6 billion bonds at an attractive rate of 4.75% due in 2030 to repay its existing US \$ 1.15 billion bonds due in 2024.
- All CAPEX excluding maintenance and essential CAPEX are curtailed for the next year in India and Novelis. Utkal Alumina's capacity expansion of 500 KT is on track and is expected to be commissioned in Q4FY21.
- Muri Alumina refinery re-started operations in December 2019 and is ramping-up production.

### View and Valuation

EBITDA margin expansion on consecutive basis led by lower raw material cost in terms of LME prices of Aluminium as well as Copper. Exceptional item during the quarter of Rs. 284 Cr. due to restructuring cost and impairment, sale of aluminium foil and expenses incurred towards restoration of Red Mud Pond reduced PAT. However, reduced tax rates, lower depreciation and finance cost still maintain PAT margin of 3.1% in 4QFY20. Due to uncertain demand in this current pandemic CAPEX planned are delayed for the next year in India and Novelis. Thus, we value our stock at Rs. 162 valued at 6.4x EV/EBITDA HOLD.

### 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	FY20	FY21E
Net Sales	100,184	115,172	130,542	119,950	129,096
EBITDA	12,447	13,921	15,500	15,331	13,752
EBIT	7,979	9,314	10,734	10,695	8,996
PAT	1,890	4,309	5,495	5,049	4,252
EPS (Rs)	8	19	24	22	19
EPS growth (%)	-	128	28	(8)	(16)
ROE (%)	4	8	10	8	6
ROCE (%)	2	6	5	4	4
BV	205	244	256	277	295
P/B (X)	1	1	1	1	0
P/E (x)	23	11	8	6	8

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

### 4QFY20 Results Standalone

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY18	FY19	YoY%
Net Sales	12,373	10,055	9,965	10,230	9,992	-19.2%	-2.3%	45,749	40,242	-12.0%
Other Income	361	201	191	139	208	-42.3%	49.6%	940	739	-21.3%
Total Income	12,733	10,256	10,156	10,369	10,200	-19.9%	-1.6%	46,689	40,981	-12.2%
COGS	7,819	5,947	5,633	5,787	5,512	-29.5%	-4.8%	27,100	22,879	-15.6%
Staff Cost	491	476	484	493	469	-4.4%	-4.9%	1,982	1,922	-3.0%
Power & Fuel	1,790	1,745	1,904	1,692	1,653	-7.7%	-2.3%	6,937	6,994	0.8%
Other Exp.	1,370	1,169	1,152	1,245	1,195	-12.8%	-4.0%	5,484	4,761	-13.2%
Expenditure	11,470	9,337	9,173	9,217	8,829	-23.0%	-4.2%	41,503	36,556	-11.9%
EBITDA	902	717	792	1,013	1,163	28.9%	14.8%	4,247	3,685	-13.2%
EBITDA margin	7.3%	7.1%	8%	10%	12%	59.6%	17.5%	9.3%	9.2%	-1.3%
Depreciation	460	418	420	428	442	-3.9%	3.3%	1,693	1,697	0.2%
EBIT	443	299	372	585	721	62.9%	23.2%	2,553	1,988	-22.1%
Interest	414	444	428	406	401	-3.2%	-1.2%	1,683	1,670	-0.8%
PBT	389	56	135	318	528	35.8%	66.0%	1,810	1,058	-41.6%
Excpt. Item	-	(22)	(31)	(11)	-	-	-	-	(64)	-
Tax	153	12	26	114	180	17.5%	57.9%	605	266	-56.0%
PAT	236	23	78	193	326	38.2%	68.9%	1,205	728	-39.6%

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

Aluminum sales volume for the quarter was at 314KT (down 3% YoY) while, VAP sales volumes and production volume remained flat at 79KT and 76KT respectively. Realization fell by 12% YoY to \$ 2305/T primarily on account of reduced LME aluminum prices leading to 14% YoY fall in aluminum revenue to Rs. 5284 Cr. Copper sales volume was at 86 KT (down 14% YoY) due to disruption in supply chain management because of lockdown. Revenue of Copper business to Rs. 4717 Cr. (down by 28% YoY). EBITDA for standalone business (including Utkal ) stood at Rs. 1039 Cr. with the expansion in EBITDA margins by 140 bps QoQ and 800 bps YoY on the back of reduced cost of production. 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 4QFY20, an increase of 31% over 4QFY19.

#### 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

### • COVID Impact on Business

#### ■ Aluminium Business

- All four Aluminium smelter along with Utkal refinery in India is currently operating at near full capacity during the lockdown. Coal and bauxite mine are also working at regular state.
- Around 80% of the total output is exported at Korea, USA, Malesia, Brazil, Japan while minimizing inventory built up and absorbing plant fixed cost.
- Aluminium downstream plants are shutdown initially except for two that continue to operate and serve essential sector customers. Management started downstream plant operations with reduced capacity to meet the existing demand.

#### ■ Copper Business

- After initial temporary shutdown copper operations are restarted now stabilizing to reach optimal level.
- All businesses are focusing on fixed cost reduction and maintaining adequate liquidity to sustain operations.

#### ■ Novelis

- Temporary or partial shutdowns in Novelis' automotive plant across the region due to customer shutdown or reduced demand or by government decree. The plant schedules are being adjusted in-line with the latest customer demand.

### • Financial Performance

- Hindalco delivered yet another steady and strong quarterly performance driven by record financial performance by Novelis coupled with lower input cost and stable operations by India business.
- Consolidated profit before exceptional item and tax at Rs. 1395 Cr. due to impact of one time refinancing cost of Rs. 568 Cr. in Novelis.
- Consolidated Net debt to EBITDA at 2.61x at 31-Mar-20.

#### ■ Aluminium Business

- India Aluminium business- Despite the challenging business environment, EBITDA including Utkal alumina is at Rs. 1039 Cr. up 3% YoY with an EBITDA margin of 20% which is probably best in the industry.
- Aluminium metal production and sales during the quarter was at 327 KT (up 2% YoY) and 314 KT (down 3% YoY) respectively due to lockdown impact.
- Sales of Aluminium value added product excluding aluminium rod was at 76 KT down 8% YoY due to lockdown impact.
- Utkal alumina reported best ever production of 441 KT in 4QFY20.
- Muri Alumina refinery has restarted operation in Dec-19 and ramping up to strengthening up integrated value chain.

#### ■ Copper Business

- EBITDA during the quarter was Rs. 406 Cr. up 9% YoY with an EBITDA margin of 9%.
- Value added CC rods recorded highest ever quarterly production of 71 KT with the growth of 15% YoY. Sales of VAP at 73 KT up 4% YoY, share of VAP at 86% of the total volume in 4QFY20.
- Overall copper metal sales in 4QFY20 was 86 KT down 14% YoY due to lower despatches in the month of March due to lockdown.

#### ■ Novelis

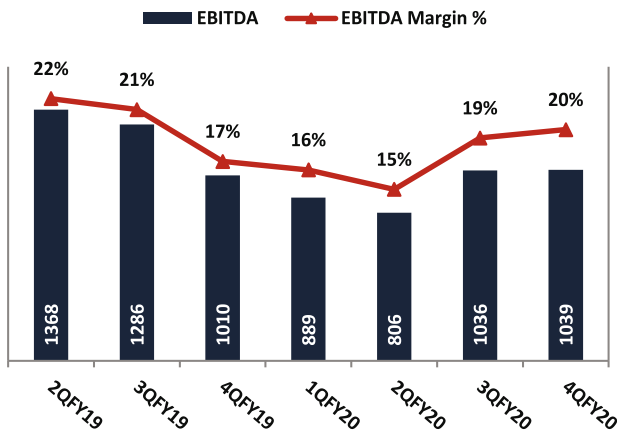
- Novelis reported highest ever adjusted EBITDA of US \$ 38.3 Cr. and Net income without exceptional item at US \$ 15.3 crores grew by 18% YoY.
- EBITDA per ton was US \$ 47.2 Cr. up by 15% YoY which is best among peers.
- Strong liquidity position was maintained at US \$ 260 Cr. as on 31ST March 2020.
- Aleris acquisition was completed by 14Th April 20 and integration process was started with synergies and long term value.
- Novelis successfully issued US \$ 1.6 billion bonds at an attractive rate of 4.75% due in 2030 to repay its existing US \$ 1.15 billion bonds due in 2024.

#### ■ CAPEX Update

- All CAPEX excluding maintenance and essential CAPEX are curtailed for the next year in India and Novelis.
- Utkal expansion project of 500 KT is on track and expected to start at 4QFY21.

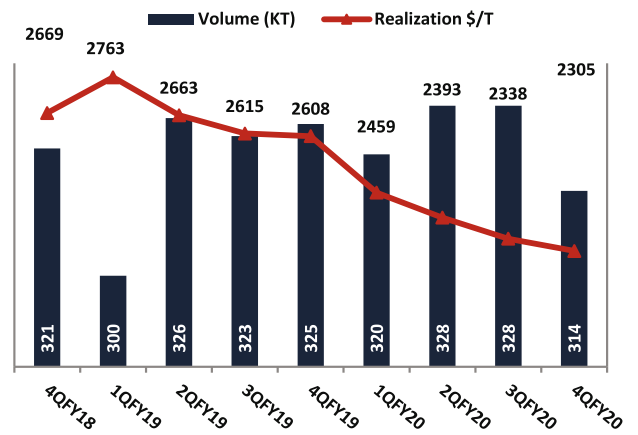
## Exhibit: Aluminium EBITDA (Standalone plus Utkal)

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



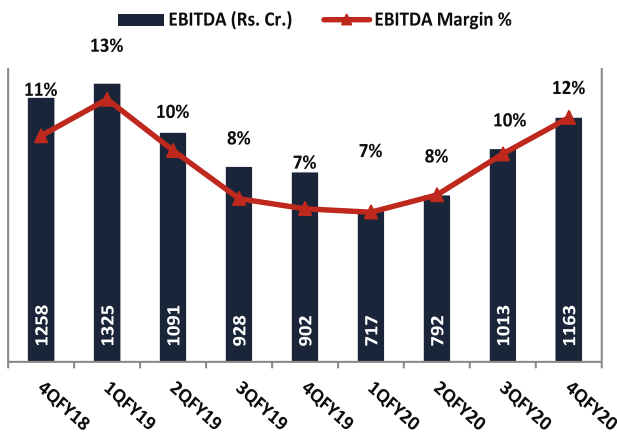
## Exhibit: Aluminium volume and realization

volume continued to remain lower due to lockdown and realization continues to fall....



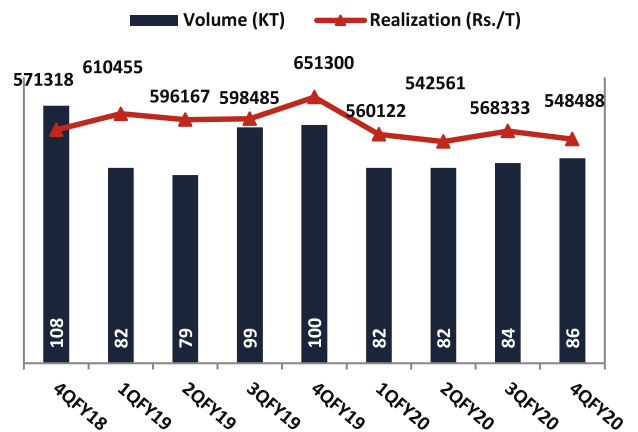
## Exhibit: Standalone (ex-Utkal) EBITDA and Margin

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



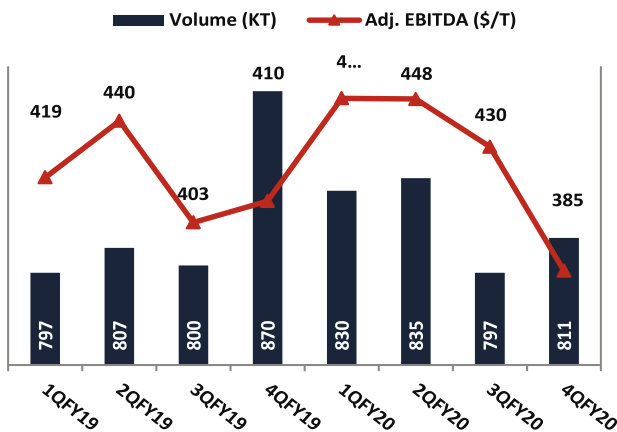
## Exhibit: Copper volume and Realisation (Rs/t)

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



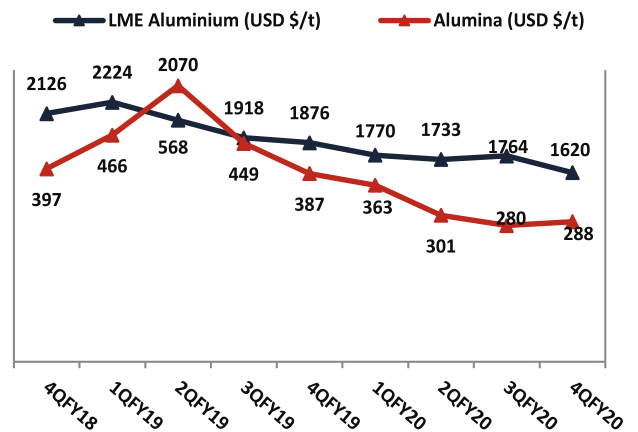
## Exhibit: Novelis volume and Adj. EBITDA/t trend

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



## Exhibit: LME aluminium and alumina prices

Downward trend continued in 4QFY20....



## Financial Details (Consolidated)

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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	62,039	66,003
<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>62,262</b>	<b>66,225</b>
Debt	63,348	67,058	66,948	58,451	51,272	52,257	54,895	57,947
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>117,157</b>	<b>124,172</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>21,900</b>	<b>24,758</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>9,907</b>	<b>11,318</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>14,032</b>	<b>13,871</b>
Other Curr Assets	13,315	14,305	15,607	16,268	10,205	10,424	11,234	13,287
Curr Assets	44,266	47,252	44,720	51,096	49,854	53,864	57,073	63,234
Creditors	12,997	15,501	15,058	17,858	20,415	20,723	19,060	20,514
Provisons (both)	7,552	8,219	8,330	7,984	9,102	9,418	8,439	8,515
Other Curr Liab	7,366	8,314	6,632	12,218	6,847	6,636	7,449	7,917
Curr Liabilities	22,101	25,471	22,690	31,099	28,918	29,513	27,509	29,506
<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>29,565</b>	<b>33,728</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>157,285</b>	<b>165,316</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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>119,950</b>	<b>129,096</b>
Change (%)	9%	19%	-1%	1%	15%	13%	-8%	8%
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>15,331</b>	<b>13,752</b>
Change (%)	6%	8%	0%	41%	12%	11%	-1%	-10%
Margin (%)	9%	9%	9%	12%	12%	12%	13%	11%
Depr & Amor.	3,553	3,591	4,507	4,469	4,606	4,766	4,637	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>10,695</b>	<b>8,996</b>
Int. & other fin. Cost	2,702	4,178	5,134	5,742	3,911	3,778	3,872	4,048
<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>7,478</b>	<b>5,828</b>
Exp Item	396	1,940	(577)	(8)	1,774	-	(53)	-
Tax	525	256	498	1,433	2,074	2,588	2,000	1,443
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>5,049</b>	<b>4,252</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>5,049</b>	<b>4,252</b>
Change (%)	-15%	9%	-120%	-1612%	128%	28%	-8%	-16%
Margin(%)	3%	3%	0%	2%	4%	4%	4%	3%

## Financial Details (Consolidated)

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	6.33%	7.29%	-0.31%	4.10%	7.86%	9.56%	8.11%	6.42%
ROCE	5.01%	5.71%	-0.71%	1.92%	5.92%	5.21%	4.45%	3.53%
Asset Turnover	0.63	0.73	0.70	0.68	0.78	0.86	0.75	0.77
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	2.76	2.22
P/E	11.38	9.54	-145.24	23.16	11.16	7.84	6.50	7.72
Price / Book Value	0.72	0.70	0.45	0.95	0.88	0.75	0.53	0.50
EV/EBITDA	9.43	8.58	8.13	7.02	6.31	5.88	5.48	6.33
FCF per Share	-6.59	6.91	36.98	43.77	35.33	26.76	30.13	16.57
Div Yield	0.99%	0.77%	1.14%	0.51%	0.51%	0.63%	0.82%	0.82%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	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>7,478</b>	<b>5,828</b>
(inc)/Dec in Working Capital	962	(86)	4,108	669	(1,424)	(1,758)	(1,131)	(3,407)
Non Cash Op Exp	2,597	3,839	3,878	3,741	1,653	3,764	4,627	4,755
Int Paid (+)	2,702	4,178	5,134	5,742	3,911	3,778	3,872	4,048
Tax Paid	(959)	(1,128)	(1,229)	(780)	(1,408)	(1,888)	(2,000)	(1,443)
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>12,846</b>	<b>9,782</b>
(inc)/Dec in FA & CWIP	(9,316)	(5,716)	(4,052)	(2,870)	(2,956)	(5,972)	(6,081)	(6,060)
Free Cashflow	(1,360)	1,427	7,636	9,818	7,932	6,008	6,765	3,722
(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>(5,920)</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)	2,638	3,051
Int. Paid	(4,692)	(5,025)	(5,006)	(6,075)	(3,849)	(3,577)	(3,872)	(4,048)
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>(1,522)</b>	<b>(1,286)</b>
Inc(Dec) in Cash	1,334	913	(696)	4,347	(499)	867	5,404	953
Add: Opening Balance	2,184	3,537	4,656	4,262	8,222	8,041	9,787	14,032
<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>15,191</b>	<b>14,985</b>

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