

Aluminium CoP to further decline in Q1FY21....

Hindalco's India business reported a healthy Q4FY20 performance wherein topline, EBITDA, PAT came in higher than our estimates. The better-than-expected performance was primarily driven by higher-than-expected sales volumes. The topline for Hindalco's India business was at ₹ 10014 crore (higher than our estimate of ₹ 9375.2 crore). The aluminium segment posted 314000 tonnes, higher than our estimate of 300000 tonnes while the copper segment reported sales volume of 86000 tonnes, higher than our estimate of 80000 tonnes. EBITDA for Hindalco's India business came in at ₹ 1455 crore (up 4% YoY, 12% QoQ, higher than our estimate of ₹ 1146.3 crore). EBITDA margin was at 14.5% (up 330 bps YoY, 180 bps QoQ), higher than our estimate of 12.2%. Ensuing PAT from the India business was at ₹ 379 crore (up 45% QoQ, higher than our estimate of ₹ 216 crore).

Novelis reports healthy performance for Q4FY20.....

Novelis, a wholly-owned subsidiary of Hindalco, reported a healthy Q4FY20 performance with adjusted EBITDA/tonne at US\$436/tonne (higher than our estimate of US\$400/tonne). For Q4FY20, net sales were at US\$2.7 billion, down 12% YoY on account of lower average LME aluminium prices and local market premiums. Flat rolled products shipments for Q4FY20 were at 811 KT (down 7% YoY but higher than our estimate of 775 KT). EBITDA increased 7% YoY to US\$383 million. The current quarter includes a cumulative positive impact of US\$29 million from a contractual customer obligation pertaining to the full fiscal year. Adjusting for the same, EBITDA was at US\$354 million.

For FY21E, ~38% of Hindalco's domestic volume hedged...

For FY21E, with respect to domestic aluminium operations, Hindalco has hedged 38% of its volume at US\$1732/tonne. Furthermore ~35% of FY21E currency is hedged at ₹ 75.93 to the US\$. This augurs well in the current scenario wherein spot LME aluminium prices are subdued and hovering around US\$1561/tonne.

Valuation & Outlook

Hindalco reported a better-than-expected performance primarily on the back of higher-than-expected sales volumes and sequential lower cost of production (CoP) of aluminium (aluminium CoP fell 5% QoQ). Furthermore, ~₹ 100 crore derivative gains aided copper segment EBITDA in Q4FY20. Going forward, in Q1FY21, CoP is likely to decline a further 5% on account of a decline in prices of key raw materials such as calcined petroleum coke, pitch, caustic soda, etc, auguring well for the company. We value the stock on an SOTP basis and arrive at a target price of ₹ 160. We maintain our **HOLD** recommendation on the stock.



Particulars

Stock Data

Market Capitalisation	₹32863 crore
Total Debt	₹68238 crore
Cash & Cash Eq.	₹21569 crore
EV	₹73375 crore
52 week H/L	221.2 /84.9
Equity Capital	₹222.4 crore
Face Value	1

Key Highlights

- For Q4FY20, Novelis reported FRP volume of 811 KT, down 7% YoY (higher than our estimate of 775 KT)
- For Q4FY20, Novelis reported an EBITDA/tonne of US\$436/tonne (our estimate of US\$400/tonne)
- Value the stock on SoTP basis and arrive at target price of ₹ 160. Maintain HOLD recommendation

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Key Financial Summary

				FY20E	FY21E	FY22E
Net Sales	100,184	115,172	130,542	118,144	113,497	136,908
EBITDA	12,436	13,820	15,511	14,306	10,745	14,122
EBITDA Margin (%)	12.4	12.0	11.9	12.1	9.5	10.3
Adj PAT	1,882	4,434	5,495	4,055	1,886	4,530
EPS (₹)	8.4	19.9	24.7	18.2	8.5	20.4
EV/EBITDA (x)	6.6	5.0	4.4	4.9	6.9	5.1
RoCE (%)	6.9	9.4	10.3	7.8	4.8	7.2
RoE (%)	4.1	8.1	9.6	7.0	3.0	6.7

Exhibit 1: Variance Analysis (Hindalco standalone + Utkal performance)

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	10,014	9,375	12,478	-19.7	10,254	-2.3	Topline broadly came in higher than our estimate
EBITDA	1,455	1,146	1,401	3.9	1,301	11.8	EBITDA came in higher than our estimate
Unallocable Income / (Expense) net	119	120	359	-66.9	87	36.8	
Depreciation	523	500	537	-2.6	511	2.3	
Interest	438	490	459	-4.6	455	-3.7	
Exceptional item	0	0	0	NA	(11)	NA	
PBT	613	276	764	-19.8	411	49.1	
Tax Outgo	234	60	237	-1.3	149	57.0	
PAT	379	216	527	-28.1	262	44.7	Reported PAT came in higher than our estimate
Key Metrics							
Total Copper sales (tonne)	86,000	80,000	100,000	-14.0	86,000	0.0	
Total Aluminium sales (tonne)	314,000	300,000	325,000	-3.4	328,000	-4.3	Aluminium sales volume came in higher than our estimate
Novelis, Rolled Product Shipments (Kt)	811	775	870	-6.8	797	1.8	Novelis sales volume came in higher than our estimate
Novelis, EBITDA/tonne (US\$/tonne)	436	400	410	6.3	430	1.4	Novelis EBITDA/tonne came in higher than our estimate

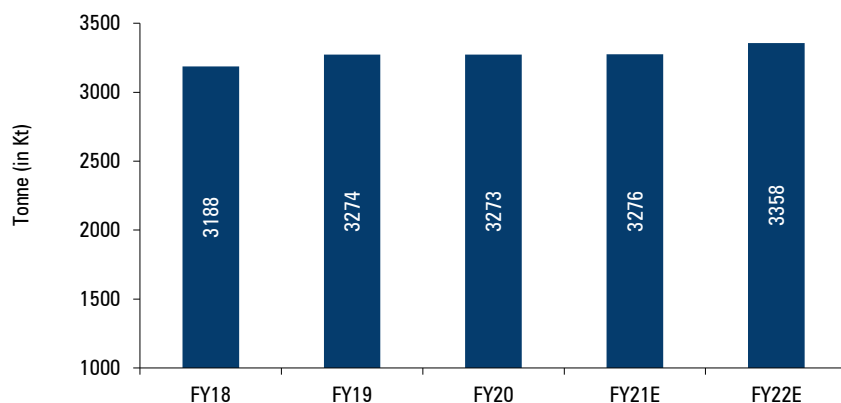
Source: Company, ICICI Direct Research

Conference Call Highlights

- For FY21, with respect to the domestic operations, Hindalco has hedged 38% of FY21 volumes at US\$ 1732/tonne, while 35% of the currency has been hedged at ₹ 75.93 to the US\$
- For domestic operations, the company has downward revised the capex guidance. For FY21, capex guidance for domestic operations has been reduced to ~₹ 1000-1200 crore (sustenance capex) for standalone operations and ~₹ 300-400 crore for completing de-bottlenecking at Utkal Alumina
- Hindalco has guided for a production loss of only ~14 KT in FY21. Q1FY21 has hardly witnessed any build-up of inventory as the company was able to export ~80% of its production
- For Q4FY20, aluminium cost of production (CoP) declined ~5% QoQ. Aluminium CoP is expected to further decline another 5% in Q1FY21 due to a decline in prices of key raw materials like calcined petroleum coke, pitch, caustic soda, etc
- For Q4FY20, Hindalco used 60% linkage coal, 36% e-auction coal, 2% imports and balance 2% from its captive mines. This mix would remain similar for Q1FY21
- At the end of FY20, consolidated debt was at ₹ 39400 crore while debt for the standalone operations was at ₹ 15600 crore
- In Q4FY20, copper operations EBITDA reported a gain of ~₹ 100 crore on account of derivative accounting. Contract TC/RC has reduced from 19 cents/lb to 15 cents/lb. At the current level of TC/RC, the management expects the copper business to report EBITDA of ~₹ 200 crore per quarter
- The Muri alumina refinery has restarted operations. The company has also decided to ramp down Renukoot refinery after the Utkal expansion is complete. Utkal Alumina refinery expansion is likely to be completed in Q4FY21. Utkal is currently under expansion phase wherein the capacity is being expanded to 3 MTPA from 1.5 MTPA currently
- On April 14, 2020, Novelis closed its acquisition of Aleris Corporation and has begun integrating the two companies. The acquisition provides a number of strategic benefits, including product portfolio diversification with the entry into high-value aerospace, enhances our strategic position in Asia, and allows for ~US\$150 million in potential annual cost synergies

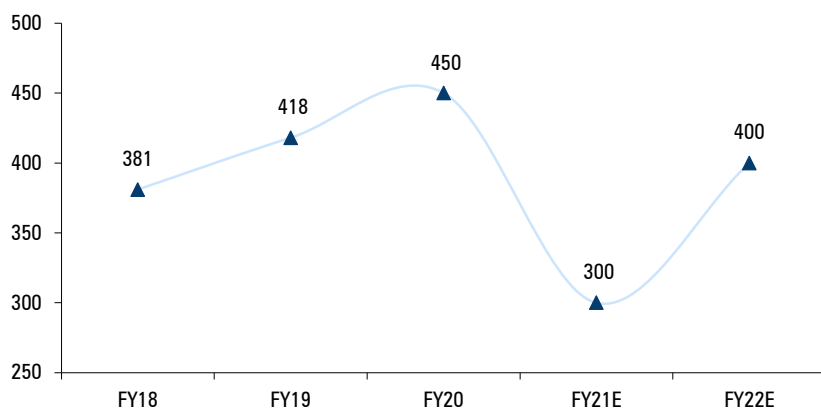
Financial story in charts

Exhibit 2: Trend in Novelis production (in KT)



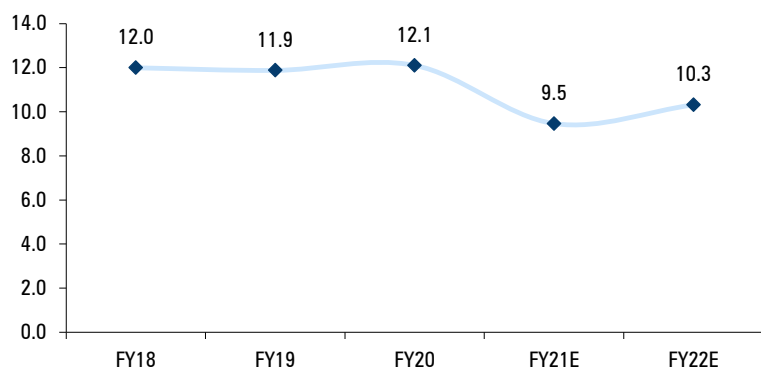
Source: Company, ICICI Direct Research

Exhibit 3: Trend in Novelis EBITDA/tonne (in US\$ per tonne)



Source: Company, ICICI Direct Research

Exhibit 4: Consolidated EBITDA margin trend (in %)



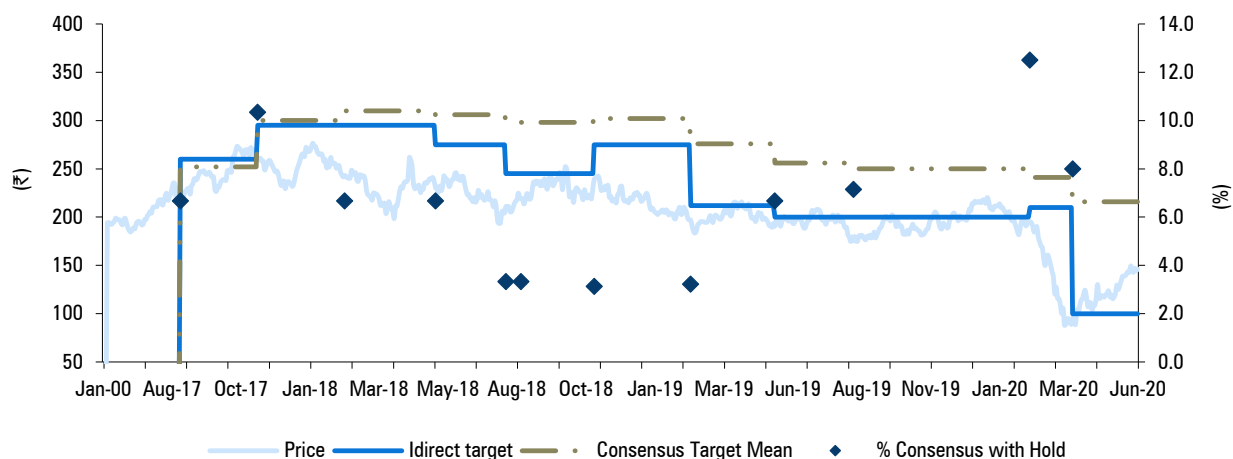
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

Years	Total Op Income (₹ cr)	Growth (%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	115171.7	15.0	19.9	135.4	7.6	5.0	8.1	9.4
FY19	130542.3	13.3	24.7	24.2	6.2	4.4	9.6	10.3
FY20E	118144.0	-9.5	18.2	-26.2	8.3	4.9	7.0	7.8
FY21E	113496.9	-3.9	8.5	-53.5	17.9	6.9	3.0	4.8
FY22E	136907.8	20.6	20.4	140.2	7.5	5.1	6.7	7.2

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	IGH HOLDINGS PVT LTD	31-03-2020	15.6	350.0	0.0
2	BIRLA GROUP HOLDINGS	31-03-2020	10.2	228.3	0.0
3	LIFE INSURANCE CORP	31-03-2020	10.0	223.8	15.9
4	ICICI PRUDENTIAL ASS	31-05-2020	8.3	186.5	1.4
5	GRASIM INDUSTRIES LT	31-03-2020	3.9	88.0	0.0
6	SBI FUNDS MANAGEMENT	31-05-2020	2.6	58.7	-0.5
7	FRANKLIN RESOURCES	12-06-2020	2.6	57.6	-2.4
8	BLACKROCK	12-06-2020	1.5	33.6	-0.2
9	ADITYA BIRLA SUN LIF	30-06-2019	1.4	31.3	-4.5
10	PILANI INVESTMENT &	31-03-2020	1.3	29.9	0.0

Source: Bloomberg, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20
Promoter	34.7	34.7	34.7
Public	65.1	65.1	65.1
Others	0.3	0.3	0.3
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	130542.3	118144.0	113496.9	136907.8
Growth (%)	13.3	-9.5	-3.9	20.6
Total Operating Expend.	115031.7	103838.0	102751.7	122785.8
EBITDA	15510.5	14306.0	10745.2	14122.0
Growth (%)	12.2	-7.8	-24.9	31.4
Depreciation	4777.0	5091.0	5571.3	5737.1
Interest	3778.0	4197.0	3884.3	3674.3
Other Income	1127.6	1186.0	1224.5	1343.0
Exceptional Item	0.0	284.0	0.0	0.0
PBT	8083.1	5920.0	2514.2	6053.7
Total Tax	2588.1	2157.0	632.8	1523.7
PAT	5495.0	3763.0	1881.3	4529.9
Growth (%)	-9.7	-31.5	-50.0	140.8
Minorities, Associates etc	0.0	4.0	4.6	0.0
Rep PAT after Assoc., MI	5495.0	3767.0	1885.9	4529.9
Adj PAT after Assoc.,	5495.0	4055.0	1885.9	4529.9
Growth (%)	23.9	-26.2	-53.5	140.2
EPS (₹)	24.7	18.2	8.5	20.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	5495.0	3767.0	1885.9	4529.9
Add: Depreciation	4777.0	5091.0	5571.3	5737.1
Add: Interest	3778.0	4197.0	3884.3	3674.3
(Inc)/dec in Current Assets	-2050.5	4230.5	-4509.3	-8942.3
Inc/(dec) in CL and Prov.	765.4	-252.5	-9615.1	5628.2
CF from operating activ	12765.0	17033.0	-2783.0	10627.2
(Inc)/dec in Investments	1790.3	-379.0	200.0	200.0
(Inc)/dec in Fixed Assets	-7803.0	-11870.7	-1414.9	-4500.0
Others	614.7	-1842.8	479.6	-288.7
CF from investing activi	-5397.9	-14092.5	-735.3	-4588.7
Issue/(Buy back) of Equity	-0.5	0.0	0.0	0.0
Inc/(dec) in loan funds	984.8	15980.7	-3500.0	-3500.0
Interest Paid	-3778.0	-4197.0	-3884.3	-3674.3
Dividend paid & dividend tax	-289.9	-289.9	-289.9	-289.9
Inc/(dec) in Share Cap	-2554.6	-2651.9	3730.7	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activi	-5638.3	8841.9	-3943.4	-7464.2
Net Cash flow	1728.8	11782.4	-7461.7	-1425.6
Opening Cash	8057.8	9786.6	21569.0	14107.3
Closing Cash	9786.6	21569.0	14107.3	12681.6

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Share Capital	222.4	222.4	222.4	222.4
Reserve and Surplus	57279.3	58104.6	63431.3	67671.4
Total Shareholders funds	57501.7	58326.9	63653.7	67893.7
Total Debt	52257.3	68238.0	64738.0	61238.0
Deferred Tax Liability	4453.4	4671.4	4671.4	4671.4
Minority Interest & Others	1465.8	1391.0	1390.9	1390.9
Total Liabilities	115678.3	132627.4	134454.1	135194.1
Assets				
Gross Block	132507.1	140842.4	148574.5	153056.6
Less: Acc Depreciation	46304.4	51495.4	57066.7	62803.8
Net Block	86202.7	89347.0	91507.9	90252.9
CWIP	3974.6	7610.0	1292.8	1310.7
Investments	8991.0	9370.0	9170.0	8970.0
Inventory	22193.8	22384.0	20211.8	24380.8
Debtors	11459.8	9401.3	10883.3	13128.1
Loans and Advances	2780.0	3600.0	7944.8	9583.5
Other Current Assets	6640.3	3458.0	4312.9	5202.5
Cash	9786.6	21569.0	14107.3	12681.6
Total Current Assets	52860.5	60412.3	57460.0	64976.7
Trade Payables	24815.0	23700.0	20211.8	24380.8
Provisions & Other Curren	12338.5	13201.0	7074.1	8533.3
Current Liabilities & Prov	37153.5	36901.0	27285.9	32914.1
Net Current Assets	15707.0	23511.3	30174.1	32062.5
others	802.9	2789.0	2309.4	2598.1
Application of Funds	115678.3	132627.4	134454.0	135194.1

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
Reported EPS	24.7	18.2	8.5	20.4
Cash EPS	46.2	41.1	33.5	46.2
BV	258.6	262.3	286.2	305.3
DPS	1.2	1.2	1.2	1.2
Cash Per Share	44.0	97.0	63.4	57.0
Operating Ratios (%)				
EBITDA Margin	11.9	12.1	9.5	10.3
PBT / Total Operating income	6.2	5.0	2.2	4.4
Adj PAT Margin	4.2	3.4	1.7	3.3
Inventory days	62	69	65	65
Debtor days	32	29	35	35
Creditor days	69	73	65	65
Return Ratios (%)				
Adj RoE	9.6	7.0	3.0	6.7
Adj RoCE	10.3	7.8	4.8	7.2
RoIC	10.9	9.5	4.6	7.3
Valuation Ratios (x)				
P/E	6.2	8.3	17.9	7.5
EV / EBITDA	4.4	4.9	6.9	5.1
EV / Net Sales	0.5	0.6	0.7	0.5
Market Cap / Sales	0.2	0.2	0.3	0.2
Price to Book Value	0.6	0.6	0.5	0.5
Solvency Ratios				
Net Debt/EBITDA	2.5	2.8	4.2	3.0
Debt / Equity	0.9	1.2	1.0	0.9
Current Ratio	1.4	1.6	2.1	2.0
Quick Ratio	0.8	1.0	1.4	1.2

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Coal India	131	200	Hold	81317	28.3	29.5	27.7	4.6	4.4	4.7	8.9	3.1	3.9	40.8	86.4	59.3	34.9	66.2	53.9
Hindalco	145	160	Hold	32292	24.7	20.4	25.3	5.9	7.1	5.7	5.1	5.7	4.9	10.3	8.6	9.6	9.6	7.2	8.3
Hind Zinc	172	200	Buy	72676	18.8	16.1	12.9	8.9	10.4	12.9	5.0	5.5	6.3	29.2	20.8	19.4	23.7	16.9	15.0
JSW Steel	183	190	Hold	44235	20.0	1.0	20.0	9.2	183.0	9.2	4.7	8.3	12.1	17.6	7.2	3.7	21.7	12.7	0.4
NMDC	85	120	Hold	26087	15.2	15.6	14.5	5.6	5.5	5.9	4.5	5.1	5.7	25.3	19.2	16.6	17.9	15.6	13.6
Tata Steel	306	275	Hold	36803	78.6	33.2	66.2	3.5	8.3	4.2	5.1	9.0	5.7	13.4	5.4	10.3	13.0	5.9	10.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Dewang Sanghavi MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.