

Healthy performance....

For Q4FY21, both Hindalco's India business as well as Novelis reported a healthy performance. Hindalco's India business reported healthy performance for Q4FY21 wherein reported topline, EBITDA and PAT came in higher than our estimates. Better-than-expected performance of India business was primarily on the back of higher-than-expected aluminium and copper sales volume. The aluminium segment reported sales of 329000 tonnes (higher than our estimate of ~325000 tonne) while copper sales were at 107000 tonnes (higher than our estimate of ~85000 tonne). For Q4FY21, Hindalco's India business reported topline of ₹ 14471 crore (up 45% YoY, 27% QoQ) higher than our estimate of ₹ 13340 crore. EBITDA of Hindalco's India business was at ₹ 1886 crore (up 30% YoY, 23% QoQ) higher than our estimate of ₹ 1724 crore. PAT for Hindalco's India business was at ₹ 653 crore, (up 72% YoY, 32%QoQ), higher than our estimate of ₹ 439 crore. For Q4FY21, Novelis' operational performance for Q4FY21 also came in better than our estimate. For the quarter, total flat rolled product (FRP) shipments were at 983 kilotonnes (KT), up 21% YoY (higher than our estimate of 950 KT) while adjusted EBITDA/tonne was at US\$514/tonne, up 9% YoY (higher than our estimate of US\$500/tonne).

Novelis reported healthy performance for Q4FY21...

For Q4FY21, Novelis' total flat rolled product (FRP) shipments were at 983 kilotonnes (KT), up 21% YoY (higher than our estimate of 950 KT). Growth in FRP shipments was aided by addition of the acquired Aleris business and record automotive and beverage can shipments as well as continued strong demand for building & construction and other specialty flat rolled aluminium products. For the quarter, Novelis' net sales increased 33% YoY to US\$3.6 billion. The increase in topline was primarily driven by a 21% increase in shipments, favourable product mix and higher average aluminium prices. Adjusted EBITDA came in at US\$505 million, up 32% YoY (higher than our estimate of US\$475 million).

For FY22, ~33% of Hindalco's domestic volume are hedged...

For FY22, the company has additionally hedged 5% of domestic aluminium volume at US\$2344/tonne. Earlier for FY22, Hindalco had already hedged ~28% of its domestic aluminium volume at US\$1840/tonne. Hence, now overall for FY22 ~33% of Hindalco's domestic aluminium volume is hedged.

Valuation & Outlook

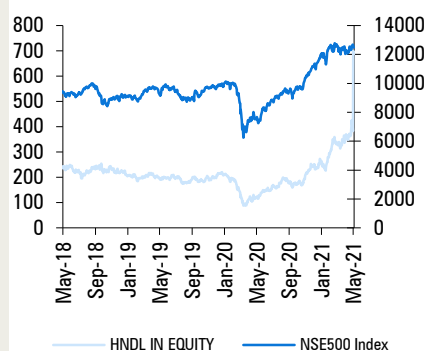
For the, both Indian operations as well as Novelis reported healthy performance. Hindalco's consolidated net debt is down by ₹ 14883 crore to ₹ 47419 crore as on March 31, 2021 from its peak of ₹ 62302 crore as on June 30, 2020, auguring well for the company. We value the stock on an SoTP basis and arrive at a target price of ₹475 (earlier ₹ 390). We maintain our **BUY** recommendation on the stock.



Particulars

Particulars	
Market Capitalization	₹ 89532 crore
Total Debt (FY21)	₹ 65994 crore
Cash and Cash eq. (FY21)	₹ 18575 crore
EV	₹ 136951 crore
52 week H/L (₹)	428 / 123
Equity capital	₹ 222 crore
Face value	₹ 1

Price Performance



Key risks to call

- Steep decline in aluminium prices on LME
- Lower-than-expected profitability at Novelis, Aleris may adversely impact consolidated earnings

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-FY23E)
Net Sales	1,15,172	1,30,542	1,18,144	1,31,985	1,69,364	1,75,144	15.2
EBITDA	13,820	15,511	14,306	17,536	21,698	22,616	13.6
EBITDA Margin (%)	12.0	11.9	12.1	13.3	12.8	12.9	
Adj PAT	4,434	5,495	4,051	5,674	9,470	10,167	33.9
EPS (₹)	19.9	24.7	18.2	25.5	42.6	45.7	
EV/EBITDA (x)	9.2	8.2	9.0	7.8	6.1	5.4	
RoCE (%)	9.4	10.3	7.8	8.8	11.7	12.0	
RoE (%)	8.1	9.6	6.9	8.5	13.4	12.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Hindalco India Business)

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	14,471	13,340	10,014	45 %	11,425	27 %	Topline came in higher than our estimate
EBITDA	1,886	1,724	1,454	30 %	1,528	23 %	
Aluminium (including Utkal)	1,610	1,478	1,043	54 %	1,323	22 %	Aluminium segment EBITDA came in higher than our estimate
Copper	269	246	406	(34)%	202	33 %	Copper segment EBITDA came in higher than our estimate
Other Segments	7	0	5	40 %	3	133 %	
Unallocable Income / (Expense) net	15	247	120	(88)%	192	(92)%	
Depreciation	526	500	523	1 %	497	6 %	
Interest	359	350	438	(18)%	380	(6)%	
Exceptional item	23	0	0.0		-68		
PBT	1,039	1,121	613	69 %	775	34 %	
Tax Outgo	386	682	234	65 %	280	38 %	
PAT	653	439	379	72 %	495	32 %	Reported PAT came in higher than our estimate
Key Metrics							
Total Copper sales (tonne)	1,07,000	85,000	86,000	24 %	73,000	47 %	Copper sales volume came in higher than our estimate
Total Aluminium sales (tonne)	3,29,000	3,25,000	3,14,000	5 %	3,15,000	4 %	Aluminium sales volume came in higher than our estimate
Novelis, Rolled Product Shipments (Kt)	983	950	811	21 %	933	5 %	Novelis sales volume came in higher our estimate
Novelis, EBITDA/tonne (US\$/tonne)	514	500	436	18 %	537	(4)%	Novelis EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Conference Call Highlights

Hindalco India Business

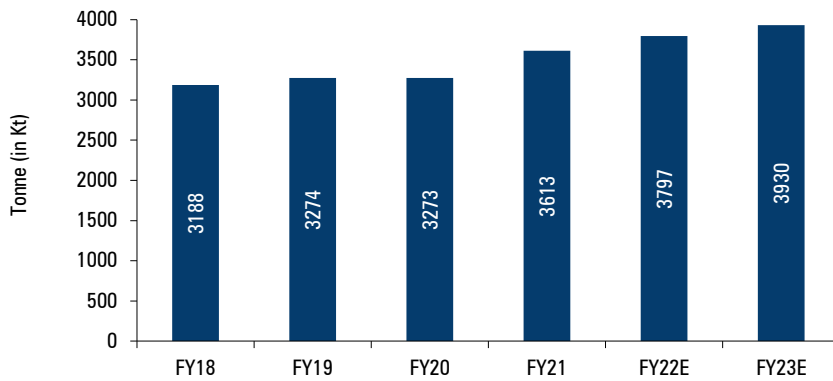
- For Q4FY21, aluminium India business reported metal production of 316 KT (compared to 315 KT in Q3FY21 and 327 KT in Q4FY20). Aluminium metal sales for Q4FY21 were at 329 KT (compared to 315 KT in Q3FY21 and 314 KT in Q4FY20). Aluminium VAP (excluding wire rods) sales volumes at 92 KT (compared to 80 KT in Q3FY21 & 76KT in Q4FY20).
- The company has additionally hedged 5% of domestic aluminium volume at US\$2344/tonne. Earlier for FY22, Hindalco had already hedged ~28% of its domestic aluminium volume at US\$1840/tonne. Hence, now overall for FY22 ~33% of Hindalco's domestic aluminium volume is hedged.
- For FY22, the capex guidance for domestic operations is ₹ 2700 crore, which would be more focussed towards maintenance, Utkal refinery completion and downstream aluminium business. For FY21 domestic business capex was at ₹ 1600 crore.
- Hindalco's consolidated net debt is down by ₹ 14883 crore to ₹ 47419 crore as on March 31, 2021 from its peak of ₹ 62302 crore as on June 30, 2020, auguring well for the company.
- During Q4FY21, in terms of coal-mix, linkage coal accounted for ~93% of overall coal requirement (~74% of overall coal requirement was met through linkage coal in FY21). In Q1FY22, the Aluminium CoP is likely to increase by ~4% QoQ as compared to Q4FY21 mainly on account of price increase of input commodities.

Novelis conference call highlights

- Novelis has increased its sustainable EBITDA per tonne guidance marginally from US\$480-500/tonne range earlier to around US\$500/tonne currently.
- For Novelis, for FY22 the management has guided total capex to the tune of US\$600-700 million (including maintenance capex of US\$300 million).
- The greenfield Guthrie, Kentucky, automotive finishing plant in the US and the new automotive finishing line in Changzhou, China, were both commissioned in H2FY21. Customer qualification continues to get ramped up at both facilities to meet strong demand for lightweight, automotive aluminium sheet. The recycling, casting and rolling expansion in Brazil also remains on track to get commissioned in the middle of FY22.

Financial story in charts

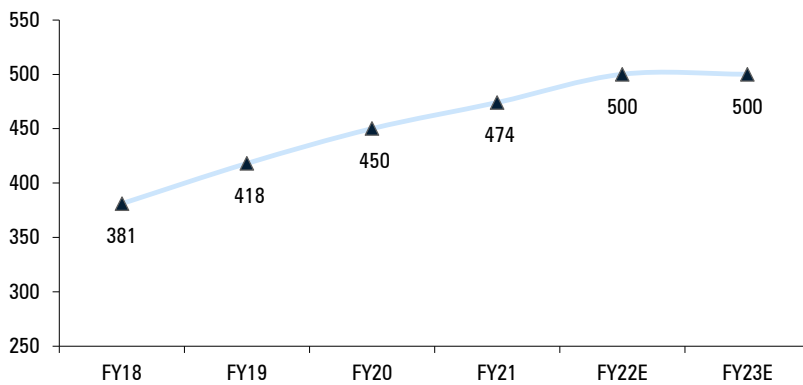
Exhibit 3: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



We model Novelis sales volume (including Aleris sales volume) of 3797KT for FY22E and 3930 MT for FY23E

Source: Company, ICICI Direct Research

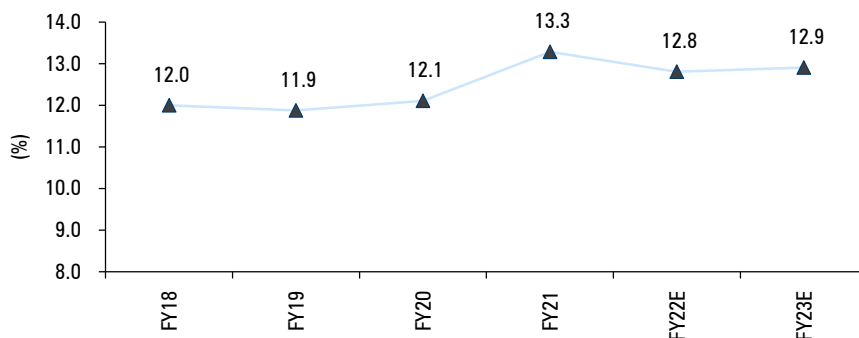
Exhibit 4: Trend in Novelis EBITDA/tonne (in US\$ per tonne)



We model Novelis EBITDA/Tonne (including Aleris sales volume) of \$500/tonne for FY22E and for FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Consolidated EBITDA margin trend (in %)



We expect consolidated EBITDA margin for Hindalco to come at 12.8% in FY22E & 12.9% in FY23E

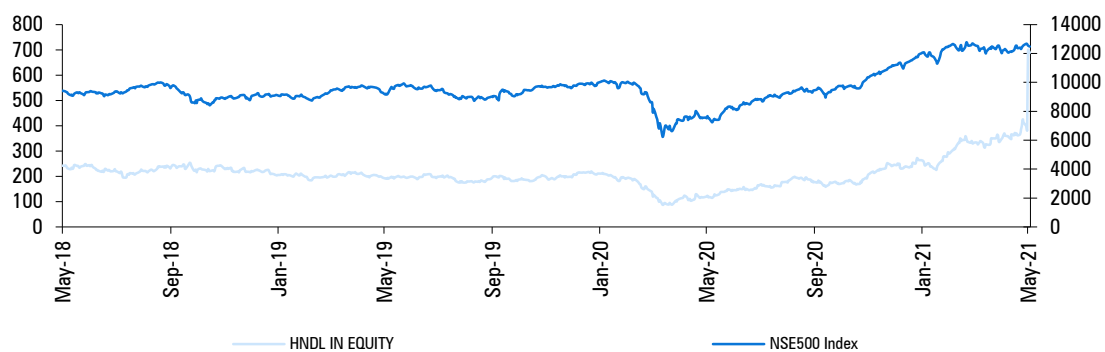
Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	115172	15	19.9	135	20	9.2	8.1	9.4
FY19	130542	13	24.7	24	16	8.2	9.6	10.3
FY20	118144	-9	18.2	-26	22	9.0	6.9	7.8
FY21	131985	12	25.5	40	16	7.8	8.5	8.8
FY22E	169364	28	42.6	67	9	6.1	13.4	11.7
FY23E	175144	3	45.7	7	9	5.4	12.7	12.0

Source: Company, ICICI Direct Research

Exhibit 7: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21
Promoter	34.65	34.65	34.65
Others	65.35	65.35	65.35
Total	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	118144	131985	169364	175144
Growth (%)	-9	12	28	3
Total Operating Expend.	103838	114449	147666	152528
EBITDA	14306	17536	21698	22616
Growth (%)	-8	23	24	4
Depreciation	5091	6628	7058	7373
Interest	4197	3738	3245	2961
Other Income	1186	1222	1253	1296
Exceptional Item	284	492	0	0
PBT	5920	7900	12648	13578
Total Tax	2157	2723	3184	3418
PAT	3763	5177	9465	10161
Growth (%)	-32	38	83	7
Minorities+loss from discontinue op	4	-1694	6	7
Rep PAT after Assoc., MI	3767	3483	9470	10167
Adj PAT after Assoc., MI	4051	5674	9470	10167
Growth (%)	-26	40	67	7
EPS (₹)	18.2	25.5	42.6	45.7

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Share Capital	222	222	222	222
Reserve and Surplus	58105	66321	70542	79883
Total Shareholders funds	58327	66543	70765	80106
Total Debt	68238	65994	58997	51497
Deferred Tax Liability	4671	4493	4493	4493
Minority Interest & Others	1391	1551	1601	1626
Total Liabilities	132627	138581	135856	137722
Assets				
Net Block	69249	77187	76288	76345
Goodwill	20098	23317	22591	22591
CWIP	7610	10013	12013	12013
Investments	9370	17087	16337	15587
Inventory	22384	30668	37121	39347
Debtors	9401	13012	13920	14395
Loans and Advances	3600	4046	6775	10328
Other Current Assets	3458	3144	6944	7356
Cash	21569	8809	5371	8366
Total Current Assets	60412	59679	70131	79792
Trade Payables	23700	36439	46401	47985
Provisions & Other Curren Liabilities	13201	14679	17400	22793
Current Liabilities & Prov	36901	51118	63802	70777
Net Current Assets	23511	8561	6329	9015
others	2789	2416	2298	2171
Application of Funds	132627	138581	135856	137722

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	3767	3483	9470	10167
Add: Depreciation	5091	6628	7058	7373
Add: Interest	4197	3738	3245	2961
(Inc)/dec in Current Assets	4231	-12027	-13890	-6667
Inc/(dec) in CL and Prov.	-253	15413	13187	6976
CF from operating activities	17033	17235	19069	20811
(Inc)/dec in Investments	-379	-7717	750	750
(Inc)/dec in Fixed Assets	-11871	-20188	-7432	-7431
Others	-1843	355	168	152
CF from investing activities	-14093	-27550	-6514	-6529
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	15981	-1741	-7500	-7500
Interest Paid	-4197	-3738	-3245	-2961
Dividend paid & dividend tax	-290	-619	-826	-826
Inc/(dec) in Share Cap	-2652	3654	-4423	0
Others	0	0	0	0
CF from financing activities	8842	-2445	-15994	-11287
Net Cash flow	11782	-12760	-3438	2995
Opening Cash	9787	21569	8809	5371
Closing Cash	21569	8809	5371	8366

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Reported EPS	18.2	25.5	42.6	45.7
Cash EPS	41.1	55.3	74.3	78.9
BV	262.3	299.2	318.2	360.2
DPS	1.2	3.0	4.0	4.0
Cash Per Share	97.0	39.6	24.2	37.6
Operating Ratios (%)				
EBITDA Margin	12.1	13.3	12.8	12.9
PBT / Total Operating income	5.0	6.0	7.5	7.8
Adj PAT Margin	3.4	4.3	5.6	5.8
Inventory days	69	85	80	82
Debtor days	29	36	30	30
Creditor days	73	99	100	100
Return Ratios (%)				
Adj RoE	6.9	8.5	13.4	12.7
Adj RoCE	7.8	8.8	11.7	12.0
RoIC	12.0	12.5	16.9	17.9
Valuation Ratios (x)				
P/E	21.8	15.6	9.3	8.7
EV / EBITDA	9.0	7.8	6.1	5.4
EV / Net Sales	1.1	1.0	0.8	0.7
Market Cap / Sales	0.7	0.7	0.5	0.5
Price to Book Value	1.5	1.3	1.2	1.1
Solvency Ratios				
Net Debt/EBITDA	2.8	2.7	2.0	1.5
Debt / Equity	1.2	1.0	0.8	0.6
Current Ratio	1.6	1.2	1.1	1.1
Quick Ratio	1.0	0.6	0.5	0.6

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	149	140	Hold	92904	20.3	21.0	22.7	6.5	6.3	5.9	3.7	4.1	4.3	39.6	35.6	33.0	33.6	30.3	28.2
Hindalco	397	475	Buy	89532	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	332	340	Hold	140332	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	678	800	Buy	165325	32.9	76.0	70.2	20.6	8.9	9.7	10.7	6.5	6.7	13.8	21.4	17.6	17.0	28.3	20.8
NMDC	181	125	Hold	53000	17.1	11.9	3.7	6.6	9.5	8.2	4.7	5.6	5.0	21.4	13.2	14.0	16.7	10.9	11.9
Ratnamani	1930	1900	Buy	9018	49.4	64.5	79.2	32.9	25.2	20.5	22.6	16.8	13.9	16.2	19.6	21.6	12.3	14.1	15.8
Graphite Ind.	765	825	Buy	14949	3.0	55.0	84.0	224.0	12.6	8.2	NA	9.1	4.6	-5.4	19.0	25.2	1.3	19.3	23.4
Tata Steel	1092	1500	Buy	131371	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	123	130	Buy	50665	9.0	15.0	17.0	10.7	6.6	6.0	6.0	5.2	4.6	11.2	12.2	12.3	9.3	12.7	12.5
Jindal Stainless	95	125	Buy	4604	8.6	9.4	10.2	11.0	10.1	9.3	5.4	5.4	5.5	16.0	14.2	12.7	13.0	12.5	11.9
Jindal Stainless Hisar	181	244	Buy	4260	29.0	27.0	32.0	6.3	6.8	5.7	5.2	5.1	4.1	18.6	15.8	16.9	23.2	17.4	16.8
Vedanta	275	300	Hold	102353	33.0	37.9	41.0	8.4	7.4	6.8	5.3	4.0	3.5	17.3	22.5	23.6	19.7	19.9	18.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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