

August 17, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	215		205	
Sales (Rs. m)	13,13,775	14,28,331	13,18,546	14,09,391
% Chng.	(0.4)	1.3		
EBITDA (Rs. m)	1,56,761	1,70,169	1,53,839	1,64,733
% Chng.	1.9	3.3		
EPS (Rs.)	23.7	26.7	22.7	25.1
% Chng.	4.1	6.5		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	1,181	1,167	1,314	1,428
EBITDA (Rs. bn)	143	132	157	170
Margin (%)	12.1	11.3	11.9	11.9
PAT (Rs. bn)	39	38	53	59
EPS (Rs.)	17.8	17.2	23.7	26.7
Gr. (%)	(28.0)	(3.4)	37.7	12.8
DPS (Rs.)	1.3	1.3	1.3	1.3
Yield (%)	0.7	0.7	0.7	0.7
RoE (%)	6.8	6.2	7.7	8.1
RoCE (%)	7.8	6.4	7.8	8.2
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	5.6	5.9	4.7	4.0
PE (x)	10.4	10.8	7.8	6.9
P/BV (x)	0.7	0.6	0.6	0.5

Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.221 / Rs.85
Sensex / Nifty	37,877 / 11,178
Market Cap	Rs.415bn/ \$ 5,546m
Shares Outstanding	2,246m
3M Avg. Daily Value	Rs.5337.59m

Shareholding Pattern (%)

Promoter's	34.65
Foreign	18.52
Domestic Institution	26.87
Public & Others	19.96
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	12.9	(4.7)	2.4
Relative	7.4	3.8	0.9

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Aluminium holds the show, Maintain BUY

Quick Pointers:

- Lower domestic demand of Aluminum (AL) offset by higher exports. Exports at 80% in Q1FY21 v/s 60% in Q1FY20.
- Net Debt/EBITDA rose by 122bps to 3.8x owing to Aleris acquisition; Target <3.0x in next two years

Hindalco (HNDL) reported Q1FY21 earnings in line with our expectation. Improvement in prices and lower cost of production (CoP) shall continue to support AL earnings. While, Copper (CU) operation's earnings would remain under pressure in FY21e due to 23% reduction in Treatment/Refining charges (Tc/Rc) for CY20 at €15.9/lb, planned shutdowns and weak demand.

Led by better visibility on profitability and synergies in Aleris, Novelis increased guidance on sustainable EBITDA margin to US\$450-475/t from USD420-430/t. In domestic operations (with share reducing to 30% in consolidated EBITDA), HNDL sustained EBITDA at Rs50bn despite weak LME and unstable copper operations. Debt gearing have shoot up sharply to FY18 levels due to acquisition of Aleris. However, we expect it to comfortably fall below ~3x in a year's time on the back of strong earnings profile of Novelis, stable domestic operations and divestment of Aleris' Lewisport and Duffel plants. We reiterate BUY with TP of Rs215, EV/EBITDA of 5.5x FY22e.

- AL makes up for weakness in CU earnings:** AL/CU sales volumes fell 3.5/33% QoQ (↓5%/↓29% YoY) at 303kt/58kt (PLe: 305kt/43kt). Due to lower than expected costs and gain of Rs300mn on revaluation of renewable power obligation (RPO), AL biz EBITDA came above our estimate at Rs8.6bn (PLe:Rs8.1bn), down 18% QoQ/flat YoY. While, CU division's EBITDA fell sharply by 91% QoQ/↓88% YoY at Rs0.4bn (PLe:Rs0.7bn) due to shutdowns, lower Tc/Rc and loss of Rs0.7bn (gain of Rs1bn in Q4FY20) on derivative accounting. EBITDA came in line with our estimates at Rs8.9bn (PLe:Rs8.9bn), down 38% QoQ (↓23% YoY). Aided by higher than expected other income, Adj PAT came above our expectation at Rs1.1bn (PLe:Rs0.3bn, CE:Rs Loss of 0.3bn), down 70% QoQ/29% YoY.

- Key highlights of earnings call:** **1)** Domestic AL capacity operating at near full capacity **2)** Domestic Cu demand improved in Jul-Aug'20 after sharp fall of 53% YoY at 91kt in Q1FY21 **3)** Indian ops would reduce fixed cost by Rs8-9bn in FY21e **4)** AL CoP down 6% QoQ in Q1 largely due to lower coal and carbon prices **5)** Expect AL CoP to remain flat QoQ in Q2 **6)** Hedged 58%/15% of FY21E/FY22E AL volumes at US\$1,720/US\$1,768 and 45%/18% of the currency at Rs75.7/Rs78.5 for FY21e/FY22e **7)** Maintained capex guidance for FY21e at Rs15bn **8)** Consolidated Net Debt rose 56%/Rs221.3bn to Rs620bn due to acquisition of Aleris debt for US\$2.7bn **9)** Rs60bn bonds repayments in India ops would fall in FY23e **10)** Novelis debt repayment schedule for FY22e/FY25e/FY26e at US\$1.7bn/US\$0.8bn/US\$1.5bn **11)** Expects to close sale of Duffel plant in Q2FY21 **12)** In discussions with buyers to divest Lewisport facility **13)** Planned shutdown of copper smelter-1/smelter-2 for 20/15 days in Q3FY21e/Q4FY21e-Q1FY22e

Exhibit 1: Q1FY21 Result Overview (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Sales	74,200	1,00,550	(26.2)	99,920	3,76,844	4,02,420	(6.4)
Raw Material	43,740	59,470	(26.5)	55,120	2,08,092	2,28,790	(9.0)
<i>% of Net Sales</i>	<i>58.9</i>	<i>59.1</i>		<i>55.2</i>	<i>55.2</i>	<i>56.9</i>	
Staff Costs	4,610	4,760	(3.2)	4,690	19,414	19,220	1.0
<i>% of Net Sales</i>	<i>6.2</i>	<i>4.7</i>		<i>4.7</i>	<i>5.2</i>	<i>4.8</i>	
Power & Fuel	12,640	17,450	(27.6)	16,530	65,501	69,940	(6.3)
<i>% of Net Sales</i>	<i>17.0</i>	<i>17.4</i>		<i>16.5</i>	<i>17.4</i>	<i>17.4</i>	
Other Expenses	7,470	11,610	(35.7)	11,950	52,020.80	47,530	9.4
<i>% of Net Sales</i>	<i>10.1</i>	<i>11.5</i>		<i>12.0</i>	<i>13.8</i>	<i>11.8</i>	
Total Expenditure	68,460	93,290	(26.6)	88,290	3,45,027	3,65,480	(5.6)
EBITDA	5,740	7,260	(20.9)	11,630	31,816	36,940	(13.9)
<i>Margin (%)</i>	<i>7.7</i>	<i>7.2</i>		<i>11.6</i>	<i>8.4</i>	<i>9.2</i>	
Depreciation	4,260	4,260	-	4,640	17,681	17,380	1.7
Other income	2,460	2,010	22.4	2,080	7,409	7,390	0.3
EBIT	3,940	5,010	(21.4)	9,070	21,543	26,950	(20.1)
Interest	4,250	4,440	(4.3)	4,010	16,241	16,790	(3.3)
PBT	(310)	570	NA	5,060	5,303	10,160	(47.8)
Extraordinary income/(expense)	(350)	(220)	NA	-	-	(640)	NA
PBT (After EO)	(660)	350	NA	5,060	5,303	9,520	(44.3)
Tax	(260)	120	NA	1,800	1,776	3,320	(46.5)
<i>% PBT</i>	<i>39.4</i>	<i>34.3</i>		<i>35.6</i>	<i>33.5</i>	<i>34.9</i>	
Reported PAT	(400)	230	NA	3,260	3,526	6,200	(43.1)
Adjusted PAT	(188)	375	NA	3,260	3,526	6,646	(46.9)

Source: Company, PL

Exhibit 2: Key Operating Metrics

	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
LME Aluminum average (US\$)	1,497	1,793	(16.5)	1,690	1,681	1,750	(3.9)
LME Copper average (US\$)	5,356	6,113	(12.4)	5,637	5,600	5,858	(4.4)
Rs/US\$	75.9	69.6	9.1	72.4	75.0	70.9	5.8
Sales volume (tonnes)							
Aluminium	3,03,000	3,20,000	(5.3)	3,14,000	12,69,620	12,90,000	(1.6)
Copper	58,000	82,000	(29.3)	86,000	2,98,750	3,34,000	(10.6)
Segment-wise break-up							
Revenue (Rs mn)							
Aluminium	44,360	54,900	(19.2)	52,990	2,07,106	2,17,820	(4.9)
Copper	30,310	45,930	(34.0)	47,170	1,69,738	1,85,330	(8.4)
EBITDA (Rs mn)							
Aluminium	8,560	8,530	0.4	10,430	33,938	37,380	(9.2)
Copper	370	3,070	(87.9)	4,060	9,000	12,750	(29.4)
Total EBITDA (Domestic+Utkal)	8,940	11,610	(23.0)	14,500	42,938	50,350	(14.7)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	11,81,440	11,67,039	13,13,775	14,28,331
YoY gr. (%)	(9.5)	(1.2)	12.6	8.7
Cost of Goods Sold	6,82,710	7,17,826	8,02,598	8,72,762
Gross Profit	4,98,730	4,49,213	5,11,177	5,55,569
Margin (%)	42.2	38.5	38.9	38.9
Employee Cost	88,320	86,739	96,982	1,05,461
Other Expenses	1,70,400	1,39,300	1,55,751	1,69,367
EBITDA	1,43,060	1,32,230	1,56,761	1,70,169
YoY gr. (%)	(7.7)	(7.6)	18.6	8.6
Margin (%)	12.1	11.3	11.9	11.9
Depreciation and Amortization	50,910	51,493	55,364	59,280
EBIT	92,150	80,738	1,01,397	1,10,889
Margin (%)	7.8	6.9	7.7	7.8
Net Interest	41,970	37,221	37,810	37,567
Other Income	11,860	9,409	9,910	9,912
Profit Before Tax	59,200	52,925	73,497	83,234
Margin (%)	5.0	4.5	5.6	5.8
Total Tax	21,570	14,683	20,734	23,733
Effective tax rate (%)	36.4	27.7	28.2	28.5
Profit after tax	37,630	38,242	52,763	59,501
Minority interest	-	52	159	155
Share Profit from Associate	40	5	5	5
Adjusted PAT	39,475	38,195	52,610	59,352
YoY gr. (%)	(28.2)	(3.2)	37.7	12.8
Margin (%)	3.3	3.3	4.0	4.2
Extra Ord. Income / (Exp)	(1,805)	-	-	-
Reported PAT	37,670	38,195	52,610	59,352
YoY gr. (%)	(31.5)	1.4	37.7	12.8
Margin (%)	3.2	3.3	4.0	4.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	37,670	38,195	52,610	59,352
Equity Shares O/s (m)	2,220	2,224	2,224	2,224
EPS (Rs)	17.8	17.2	23.7	26.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	11,84,705	12,65,718	13,24,060	14,04,093
Tangibles	11,84,705	12,65,718	13,24,060	14,04,093
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,93,735	5,43,567	5,98,931	6,58,211
Tangibles	4,93,735	5,43,567	5,98,931	6,58,211
Intangibles	-	-	-	-
Net fixed assets	6,90,970	7,22,151	7,25,129	7,45,883
Tangibles	6,90,970	7,22,151	7,25,129	7,45,883
Intangibles	-	-	-	-
Capital Work In Progress	77,210	1,04,571	89,531	63,734
Goodwill	2,00,980	1,85,746	1,85,746	1,85,746
Non-Current Investments	34,850	55,911	55,916	55,922
Net Deferred tax assets	(37,610)	(39,005)	(40,906)	(43,453)
Other Non-Current Assets	18,790	17,390	17,390	17,390
Current Assets				
Investments	62,790	38,553	38,553	38,553
Inventories	2,23,840	2,01,293	2,30,039	2,47,179
Trade receivables	94,010	95,970	1,08,573	1,21,154
Cash & Bank Balance	2,15,690	2,15,984	2,57,404	3,07,853
Other Current Assets	33,480	44,064	45,231	46,142
Total Assets	16,95,280	17,12,816	17,85,598	18,62,412
Equity				
Equity Share Capital	2,220	2,224	2,224	2,224
Other Equity	5,80,950	6,54,440	7,03,638	7,59,577
Total Networkth	5,83,170	6,56,664	7,05,862	7,61,801
Non-Current Liabilities				
Long Term borrowings	6,70,960	6,20,973	6,20,513	6,20,053
Provisions	83,370	74,401	74,401	74,401
Other non current liabilities	22,630	12,754	12,754	12,754
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,83,000	1,79,068	2,01,053	2,19,686
Other current liabilities	1,02,000	86,448	86,448	86,448
Total Equity & Liabilities	16,95,280	16,79,374	17,52,157	18,28,971

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	89,240	52,925	73,497	83,234
Add. Depreciation	50,910	51,493	55,364	59,280
Add. Interest	41,970	37,221	37,810	37,567
Less Financial Other Income	11,860	9,409	9,910	9,912
Add. Other	(42,670)	(9,409)	(9,910)	(9,912)
Op. profit before WC changes	1,39,450	1,32,230	1,56,761	1,70,169
Net Changes-WC	(11,780)	(7,488)	(21,434)	(12,770)
Direct tax	(1,020)	(13,861)	(18,833)	(21,186)
Net cash from Op. activities	1,26,650	1,10,882	1,16,493	1,36,213
Capital expenditures	(73,630)	(53,250)	(39,272)	(35,950)
Interest / Dividend Income	-	-	-	-
Others	(9,380)	9,409	9,910	9,912
Net Cash from Inv. activities	(83,010)	(43,841)	(29,362)	(26,038)
Issue of share cap. / premium	(30)	-	-	-
Debt changes	72,290	(6,000)	(6,000)	(6,000)
Dividend paid	(3,200)	(3,412)	(3,412)	(3,412)
Interest paid	40,160	(37,221)	(37,810)	(37,567)
Others	(43,120)	-	-	-
Net cash from Fin. activities	66,100	(46,633)	(47,222)	(46,979)
Net change in cash	1,09,740	20,407	39,909	63,196
Free Cash Flow	58,740	57,632	77,221	1,00,263

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	99,650	1,02,300	99,920	74,200
YoY gr. (%)	(8.0)	(14.4)	(19.2)	(26.2)
Raw Material Expenses	56,330	57,870	55,120	43,740
Gross Profit	43,320	44,430	44,800	30,460
Margin (%)	43.5	43.4	44.8	41.1
EBITDA	7,920	10,130	11,630	5,740
YoY gr. (%)	(27.4)	9.1	28.9	(20.9)
Margin (%)	7.9	9.9	11.6	7.7
Depreciation / Depletion	4,200	4,280	4,640	4,260
EBIT	3,720	5,850	6,990	1,480
Margin (%)	3.7	5.7	7.0	2.0
Net Interest	4,280	4,060	4,010	4,250
Other Income	1,910	1,390	2,080	2,460
Profit before Tax	1,040	3,070	5,060	(660)
Margin (%)	1.0	3.0	5.1	(0.9)
Total Tax	260	1,140	1,800	(260)
Effective tax rate (%)	25.0	37.1	35.6	39.4
Profit after Tax	780	1,930	3,260	(400)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,013	1,999	3,260	(188)
YoY gr. (%)	(67.2)	(1.0)	38.2	(150.2)
Margin (%)	1.0	2.0	3.3	(0.3)
Extra Ord. Income / (Exp)	(233)	(69)	-	(212)
Reported PAT	780	1,930	3,260	(400)
YoY gr. (%)	(74.7)	(22.0)	38.2	(273.9)
Margin (%)	0.8	1.9	3.3	(0.5)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	780	1,930	3,260	(400)
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
EPS (Rs)	0.5	0.9	1.5	(0.1)

Source: Company Data, PL Research

Key Financial Metrics

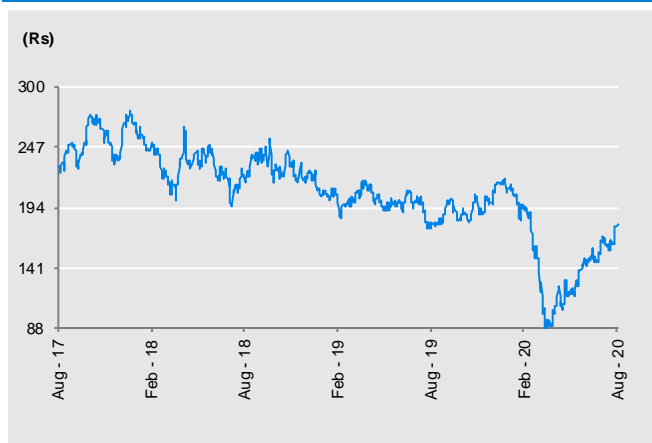
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	17.8	17.2	23.7	26.7
CEPS	40.7	40.3	48.6	53.3
BVPS	262.7	295.3	317.4	342.6
FCF	26.5	25.9	34.7	45.1
DPS	1.3	1.3	1.3	1.3
Return Ratio(%)				
RoCE	7.8	6.4	7.8	8.2
ROIC	6.5	5.8	7.2	7.9
RoE	6.8	6.2	7.7	8.1
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.5	0.4
Net Working Capital (Days)	42	37	38	38
Valuation(x)				
PER	10.4	10.8	7.8	6.9
P/B	0.7	0.6	0.6	0.5
P/CEPS	4.5	4.6	3.8	3.5
EV/EBITDA	5.6	5.9	4.7	4.0
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	0.7	0.7	0.7	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Aluminium (Al) prod (t)	13,13,060	12,69,620	12,93,864	13,06,624
Copper (Cu) prod (t)	3,21,000	3,00,000	3,85,000	4,00,000
LME-Al (USD/t)	1,681	1,681	1,685	1,700
LME-Cu (USD/t)	5,600	5,600	6,000	6,000
EBITDA-Al (Rs m)	50,350	33,938	41,428	45,937
EBITDA-Cu (Rs m)	12,750	9,000	11,000	11,000
Novelis (volumes kt)	3,273	3,103	3,277	3,506
Novelis-EBITDA/t (US\$)	429	390	425	425
Novelis-EBITDA (US\$ mn)	1,404	1,211	1,393	1,490

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Aug-20	BUY	205	176
2	10-Jul-20	BUY	180	165
3	13-Jun-20	BUY	175	146
4	08-May-20	BUY	170	118
5	20-Apr-20	BUY	171	124
6	03-Mar-20	BUY	220	151
7	12-Feb-20	Accumulate	225	195
8	03-Jan-20	Accumulate	230	216
9	12-Nov-19	Accumulate	215	200
10	07-Nov-19	Accumulate	215	202

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,505	1,335
2	Ambuja Cement	BUY	235	201
3	Coal India	Hold	155	130
4	Heidelberg Cement India	Accumulate	191	173
5	Hindalco Industries	BUY	205	176
6	Hindustan Zinc	Accumulate	200	183
7	Jindal Steel & Power	BUY	215	172
8	JK Lakshmi Cement	BUY	350	287
9	JSW Steel	Reduce	160	204
10	NMDC	Accumulate	87	86
11	Shree Cement	Reduce	19,100	22,396
12	Steel Authority of India	Reduce	25	37
13	Tata Steel	Reduce	250	345
14	The Ramco Cements	Reduce	590	678
15	Ultratech Cement	BUY	4,675	4,136

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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