

June 13, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	175		170	
Sales (Rs. m)	11,80,053	13,26,325	11,65,069	13,27,134
% Chng.	1.3	(0.1)		
EBITDA (Rs. m)	1,33,314	1,55,493	1,30,952	1,54,495
% Chng.	1.8	0.6		
EPS (Rs.)	17.3	23.0	16.7	22.8
% Chng.	3.6	1.1		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	1,305	1,181	1,180	1,326
EBITDA (Rs. bn)	155	143	133	155
Margin (%)	11.9	12.1	11.3	11.7
PAT (Rs. bn)	55	39	38	51
EPS (Rs.)	24.7	17.8	17.3	23.0
Gr. (%)	15.9	(28.0)	(2.9)	33.5
DPS (Rs.)	1.2	1.3	1.3	1.3
Yield (%)	0.8	0.9	0.9	0.9
RoE (%)	9.8	6.8	6.2	7.5
RoCE (%)	9.9	7.8	6.4	7.6
EV/Sales (x)	0.5	0.6	0.6	0.5
EV/EBITDA (x)	4.6	5.0	5.2	4.2
PE (x)	5.9	8.2	8.5	6.3
P/BV (x)	0.6	0.6	0.5	0.5

Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.221 / Rs.85
Sensex / Nifty	33,781 / 9,973
Market Cap	Rs.328bn/ \$ 4,325m
Shares Outstanding	2,246m
3M Avg. Daily Value	Rs.4259.38m

Shareholding Pattern (%)

Promoter's	34.65
Foreign	18.68
Domestic Institution	26.27
Public & Others	20.40
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	20.6	(27.5)	(26.7)
Relative	12.0	(12.9)	(13.8)

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Standing tall in tough times, maintain BUY

Quick Pointers:

- Lower domestic demand of Aluminium (AL) offset by higher exports. Exported 90%/80% in April/May v/s 60% in FY20.
- Net Debt/EBITDA rose by 13bps to 2.61x. Net Debt fell 2% at Rs405.5bn

Hindalco (HNDL) Q4FY20 earnings were in line with our expectation. Lower cost of production (CoP) shall continue to support AL earnings in the midst of weak LME. However, Copper (CU) operation's earnings would remain under pressure due to 23% reduction in Treatment/Refining charges (Tc/Rc) for CY20 at ₹15.9/lb. Despite lower Tc/Rc, company is confident to maintain an EBITDA of Rs2.5bn/quarter.

Novelis delivered better than expected Q4FY20 earnings on the back of better than expected margins in spite of lower volumes. Adj. EBITDA grew by 1% YoY to USD361mn (PLe:345mn), led by 9% growth in unitary margins offset by 7% YoY dip in volumes at 811kt. Novelis' earnings would emerge strongly from Q2FY20 with auto plants restarting in North America and Europe. We reiterate our positive stance on HNDL on the back of attractive valuations, comfortable B/S and stable earnings outlook. Maintain BUY with TP of Rs175 (earlier Rs170), EV/EBITDA of 5.7x FY21e.

- Earnings in line with our estimates:** AL/CU sales volumes fell 4.3/↑2.4% QoQ (↓3.4%/↑14% YoY) at 314kt/86kt (PLe: 314kt/84kt). Due to lower than expected premiums, AL biz EBITDA came marginally below our estimate at Rs10.4bn (PLe:Rs10.8bn), flat QoQ/↑3% YoY. While, CU division's EBITDA rose sharply by 59% QoQ/↑9% YoY at Rs4.1bn (PLe:Rs2.4bn), aided by gain of Rs1bn on derivatives accounting. Adjusted for gain on derivatives, EBITDA of Indian operations (including Utkal Alumina) came in line with our estimates at Rs13.6bn (PLe:Rs13.2bn), up 4% QoQ (↓3% YoY). PAT rose 40% QoQ/(↓38% YoY) at Rs3.3bn (PLe:Rs2.6bn).
- Key highlights of Con-call: 1)** Domestic Al demand declined 11%/6% YoY in Q4FY20/FY20 at 905kt/3720kt **2)** Guided marginal drop of 1%/15kt in AL sales volumes in FY21e at 1.19mnt **3)** CU volumes would be flat YoY at 334kt **4)** Realisations in AL exports lower by Rs2,000-3,000/t over domestic volumes **5)** Revival in domestic demand would help maintain AL exports/domestic mix of 60:40 in FY21e **6)** AL CoP to fall by 5% QoQ in Q1 due to fall in coal, caustic and carbon prices **7)** Coal sourcing mix for Q4FY20 stood at 60%/35%/2%/2% through Linkage/E-auction/Captive/Imports with blended cost below Rs900/mn kcal **8)** Hedged 36%/2% AL volumes at US\$1,711/Rs1,70,640 and 35% of the currency at Rs75.9 **9)** Reduced capex guidance for FY21e by 30% at Rs15bn **10)** Expects Govt's recent move to auction composite auction of bauxite and coal mines, would take couple of years to kick off **11)** Gradually increasing production at Novelis's auto sheet (1/5th of total volumes) plants in North America and Europe **12)** Auto demand is strong in Asia **13)** Beverage cans (2/3rd of volumes) remained strong across the markets **14)** Volumes of Specialty (15% of volumes) segment is mixed bag as markets in North America and Europe were in lockdown and demand was tepid in Asia and South America **15)** Expect strong revival in Specialty product's demand in North America and Europe **16)** Demand growth in aerospace segment remains intact in medium term with strong order backlog

Exhibit 1: Q4FY20 Result Overview (Rs m)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	99,920	1,23,727	(19.2)	1,02,300	4,02,417	4,57,394	(12.0)
Raw Material	55,120	78,195	(29.5)	57,870	2,28,793	2,71,304	(15.7)
<i>% of Net Sales</i>	<i>55.2</i>	<i>63.2</i>		<i>56.6</i>	<i>56.9</i>	<i>59.3</i>	
Staff Costs	4,690	4,905	(4.4)	4,930	19,222	19,817	(3.0)
<i>% of Net Sales</i>	<i>4.7</i>	<i>4.0</i>		<i>4.8</i>	<i>4.8</i>	<i>4.3</i>	
Power & Fuel	16,530	17,901	(7.7)	16,920	69,943	68,947	1.4
<i>% of Net Sales</i>	<i>16.5</i>	<i>14.5</i>		<i>16.5</i>	<i>17.4</i>	<i>15.1</i>	
Other Expenses	12,170	13,701	(11.2)	12,450	47,825	54,861	(12.8)
<i>% of Net Sales</i>	<i>12.2</i>	<i>11.1</i>		<i>12.2</i>	<i>11.9</i>	<i>12.0</i>	
Total Expenditure	88,510	1,14,703	(22.8)	92,170	3,65,782	4,14,928	(11.8)
EBITDA	11,410	9,024	26.4	10,130	36,634	42,466	(13.7)
<i>Margin (%)</i>	<i>11.4</i>	<i>7.3</i>		<i>9.9</i>	<i>9.1</i>	<i>9.3</i>	
Depreciation	4,420	4,597	(3.9)	4,280	17,080	16,932	0.9
Other income	2,080	3,606	(42.3)	1,390	7,394	8,780	(15.8)
EBIT	9,070	8,033	12.9	7,240	26,948	34,314	(21.5)
Interest	4,010	4,143	(3.2)	4,060	16,794	16,830	(0.2)
PBT	5,060	3,890	30.1	3,180	10,155	17,484	(41.9)
Extraordinary income/(expense)	-	-		(110)	(638)	621	
PBT (After EO)	5,060	3,890	30.1	3,070	9,517	18,104	(47.4)
Tax	1,800	1,531	17.5	1,140	3,321	6,050	(45.1)
<i>% PBT</i>	<i>35.6</i>	<i>39.4</i>		<i>37.1</i>	<i>34.9</i>	<i>33.4</i>	
Reported PAT	3,260	2,358	38.2	1,930	6,196	12,054	(48.6)
Adjusted PAT	3,260	2,358	38.2	1,999	6,639	11,600	(42.8)

Source: Company, PL

Exhibit 2: Key Operating Metrics

	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
LME Aluminum average (US\$)	1,690	1,859	(9.1)	1,752	1,750	2,037	(14.1)
LME Copper average (US\$)	5,637	6,215	(9.3)	5,881	5,858	6,345	(7.7)
Rs/US\$	72.4	70.5	2.7	71.2	70.9	69.9	1.4
Sales volume (tonnes)							
Aluminium	3,14,000	3,25,000	(3.4)	3,28,000	12,90,000	12,74,000	1.3
Copper	86,000	1,00,000	(14.0)	84,000	3,34,000	3,60,000	(7.2)
Segment-wise break-up							
Revenue (Rs mn)							
Aluminium	52,840	59,533	(11.2)	54,670	2,17,490	2,37,755	(8.5)
Copper	47,170	65,128	(27.6)	47,740	1,85,325	2,21,771	(16.4)
EBITDA (Rs mn)							
Aluminium	10,390	10,100	2.9	10,360	37,290	40,860	(8.7)
Copper	4,060	3,730	8.8	2,560	12,760	13,100	(2.6)
Total EBITDA (Domestic+Utkal)	14,550	14,010	3.9	13,010	50,350	54,100	(6.9)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	13,05,423	11,81,440	11,80,053	13,26,325
YoY gr. (%)	13.3	(9.5)	(0.1)	12.4
Cost of Goods Sold	7,81,989	6,82,710	7,26,102	8,12,183
Gross Profit	5,23,434	4,98,730	4,53,951	5,14,142
Margin (%)	40.1	42.2	38.5	38.8
Employee Cost	90,431	88,320	87,739	98,141
Other Expenses	1,29,101	1,70,400	1,40,906	1,57,611
EBITDA	1,54,998	1,43,060	1,33,314	1,55,493
YoY gr. (%)	11.3	(7.7)	(6.8)	16.6
Margin (%)	11.9	12.1	11.3	11.7
Depreciation and Amortization	47,662	50,910	51,858	55,766
EBIT	1,07,335	92,150	81,457	99,726
Margin (%)	8.2	7.8	6.9	7.5
Net Interest	37,780	41,970	37,478	38,077
Other Income	11,271	11,860	9,409	9,910
Profit Before Tax	80,826	59,200	53,388	71,559
Margin (%)	6.2	5.0	4.5	5.4
Total Tax	25,881	21,570	14,959	20,160
Effective tax rate (%)	32.0	36.4	28.0	28.2
Profit after tax	54,945	37,630	38,428	51,400
Minority interest	(7)	-	53	161
Share Profit from Associate	5	40	5	5
Adjusted PAT	54,957	39,475	38,381	51,244
YoY gr. (%)	15.6	(28.2)	(2.8)	33.5
Margin (%)	4.2	3.3	3.3	3.9
Extra Ord. Income / (Exp)	-	(1,805)	-	-
Reported PAT	54,957	37,670	38,381	51,244
YoY gr. (%)	(9.7)	(31.5)	1.9	33.5
Margin (%)	4.2	3.2	3.3	3.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	54,957	37,670	38,381	51,244
Equity Shares O/s (m)	2,224	2,220	2,224	2,224
EPS (Rs)	24.7	17.8	17.3	23.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	11,15,671	11,84,705	12,64,748	13,24,300
Tangibles	11,15,671	11,84,705	12,64,748	13,24,300
Intangibles	-	-	-	-
Acc: Dep / Amortization	4,42,825	4,93,735	5,43,932	5,99,698
Tangibles	4,42,825	4,93,735	5,43,932	5,99,698
Intangibles	-	-	-	-
Net fixed assets	6,72,846	6,90,970	7,20,816	7,24,602
Tangibles	6,72,846	6,90,970	7,20,816	7,24,602
Intangibles	-	-	-	-
Capital Work In Progress	46,469	77,210	1,05,539	90,241
Goodwill	1,85,746	2,00,980	1,85,746	1,85,746
Non-Current Investments	55,901	34,850	55,911	55,916
Net Deferred tax assets	(36,505)	(37,610)	(39,146)	(41,055)
Other Non-Current Assets	17,390	18,790	17,390	17,390
Current Assets				
Investments	38,553	62,790	38,553	38,553
Inventories	2,21,938	2,23,840	2,04,416	2,32,728
Trade receivables	1,14,598	94,010	96,528	1,09,339
Cash & Bank Balance	97,866	2,15,690	2,20,030	2,59,840
Other Current Assets	45,165	33,480	44,167	45,331
Total Assets	15,26,317	16,95,280	17,20,332	17,91,823
Equity				
Equity Share Capital	2,224	2,220	2,224	2,224
Other Equity	5,72,793	5,80,950	6,54,625	7,02,458
Total Networkth	5,75,017	5,83,170	6,56,849	7,04,682
Non-Current Liabilities				
Long Term borrowings	5,24,029	6,70,960	6,26,513	6,26,053
Provisions	74,401	83,370	74,401	74,401
Other non current liabilities	12,754	22,630	12,754	12,754
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,07,244	1,83,000	1,80,718	2,02,766
Other current liabilities	86,448	1,02,000	86,448	86,448
Total Equity & Liabilities	15,26,317	16,95,280	16,86,891	17,58,382

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	80,831	89,240	53,388	71,559
Add. Depreciation	47,770	50,910	51,858	55,766
Add. Interest	37,780	41,970	37,478	38,077
Less Financial Other Income	11,271	11,860	9,409	9,910
Add. Other	(10,838)	(42,670)	(9,409)	(9,910)
Op. profit before WC changes	1,55,544	1,39,450	1,33,314	1,55,493
Net Changes-WC	(16,865)	(11,780)	(9,675)	(21,140)
Direct tax	(18,883)	(1,020)	(13,997)	(18,250)
Net cash from Op. activities	1,19,795	1,26,650	1,09,643	1,16,102
Capital expenditures	(59,719)	(73,630)	(53,750)	(39,569)
Interest / Dividend Income	-	-	-	-
Others	3,203	(9,380)	9,409	9,910
Net Cash from Invst. activities	(56,517)	(83,010)	(44,341)	(29,659)
Issue of share cap. / premium	61	(30)	-	-
Debt changes	(14,413)	72,290	(6,000)	(6,000)
Dividend paid	(3,229)	(3,200)	(3,412)	(3,412)
Interest paid	(35,766)	40,160	(37,478)	(38,077)
Others	(1,266)	(43,120)	-	-
Net cash from Fin. activities	(54,613)	66,100	(46,890)	(47,489)
Net change in cash	8,666	1,09,740	18,412	38,954
Free Cash Flow	60,076	58,740	55,893	76,533

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	1,00,547	99,650	1,02,300	99,920
YoY gr. (%)	(5.1)	(8.0)	(14.4)	(19.2)
Raw Material Expenses	59,473	56,330	57,870	55,120
Gross Profit	41,074	43,320	44,430	44,800
Margin (%)	40.9	43.5	43.4	44.8
EBITDA	7,174	7,920	10,130	11,410
YoY gr. (%)	(45.9)	(27.4)	9.1	26.4
Margin (%)	7.1	7.9	9.9	11.4
Depreciation / Depletion	4,180	4,200	4,280	4,420
EBIT	2,995	3,720	5,850	6,990
Margin (%)	3.0	3.7	5.7	7.0
Net Interest	4,444	4,280	4,060	4,010
Other Income	2,014	1,910	1,390	2,080
Profit before Tax	347	1,040	3,070	5,060
Margin (%)	0.3	1.0	3.0	5.1
Total Tax	121	260	1,140	1,800
Effective tax rate (%)	34.9	25.0	37.1	35.6
Profit after Tax	226	780	1,930	3,260
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	368	1,013	1,999	3,260
YoY gr. (%)	(91.1)	(67.2)	(1.0)	38.2
Margin (%)	0.4	1.0	2.0	3.3
Extra Ord. Income / (Exp)	(142)	(233)	(69)	-
Reported PAT	226	780	1,930	3,260
YoY gr. (%)	(94.5)	(74.7)	(22.0)	38.2
Margin (%)	0.2	0.8	1.9	3.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	226	780	1,930	3,260
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
EPS (Rs)	0.2	0.5	0.9	1.5

Source: Company Data, PL Research

Key Financial Metrics

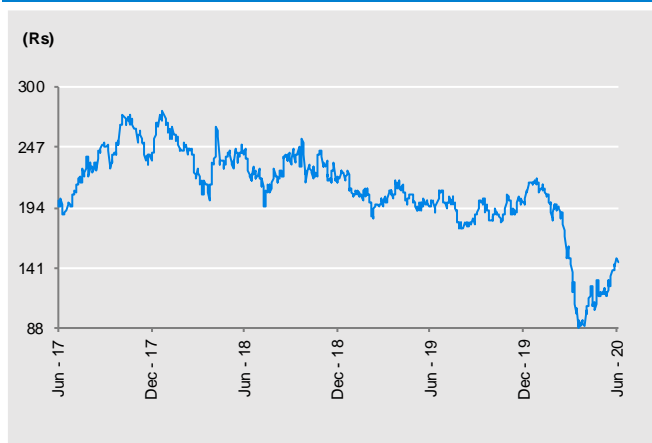
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	24.7	17.8	17.3	23.0
CEPS	46.1	40.7	40.6	48.1
BVPS	258.6	262.7	295.4	316.9
FCF	27.0	26.5	25.1	34.4
DPS	1.2	1.3	1.3	1.3
Return Ratio(%)				
RoCE	9.9	7.8	6.4	7.6
ROIC	7.7	6.5	5.8	7.1
RoE	9.8	6.8	6.2	7.5
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.6	0.5
Net Working Capital (Days)	36	42	37	38
Valuation(x)				
PER	5.9	8.2	8.5	6.3
P/B	0.6	0.6	0.5	0.5
P/CEPS	3.2	3.6	3.6	3.0
EV/EBITDA	4.6	5.0	5.2	4.2
EV/Sales	0.5	0.6	0.6	0.5
Dividend Yield (%)	0.8	0.9	0.9	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20	FY21E	FY22E
Aluminium (Al) prod (t)	12,94,502	13,13,000	12,69,620	12,93,864
Copper (Cu) prod (t)	3,47,000	3,21,000	3,25,000	4,00,000
LME-Al (USD/t)	2,035	1,750	1,635	1,650
LME-Cu (USD/t)	6,337	5,858	5,600	6,000
EBITDA-Al (Rs m)	51,430	50,350	33,812	41,290
EBITDA-Cu (Rs m)	15,860	12,760	9,000	11,000
Novelis (volumes kt)	3,274	3,273	3,103	3,277
Novelis-EBITDA/t (US\$)	406	429	390	415
Novelis-EBITDA (US\$ mn)	1,330	1,404	1,211	1,360

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-May-20	BUY	170	118
2	20-Apr-20	BUY	171	124
3	03-Mar-20	BUY	220	151
4	12-Feb-20	Accumulate	225	195
5	03-Jan-20	Accumulate	230	216
6	12-Nov-19	Accumulate	215	200
7	07-Nov-19	Accumulate	215	202
8	03-Oct-19	Accumulate	207	183
9	09-Aug-19	Accumulate	210	177
10	06-Aug-19	Accumulate	220	181

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,340	1,137
2	Ambuja Cement	BUY	190	172
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	175	147
5	Hindalco Industries	BUY	170	118
6	Hindustan Zinc	Accumulate	195	169
7	Jindal Steel & Power	BUY	150	109
8	JK Lakshmi Cement	BUY	340	206
9	JSW Steel	Reduce	140	166
10	NMDC	Accumulate	98	85
11	Shree Cement	Hold	16,900	18,733
12	Steel Authority of India	Reduce	25	28
13	Tata Steel	Reduce	242	293
14	The Ramco Cements	Reduce	725	810
15	Ultratech Cement	BUY	4,350	3,546

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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