

Retail Equity Research

Hindalco Industries Limited

Metals & Mining

BSE CODE: 500440

NSE CODE: HINDALCO

Bloomberg CODE: HNDL:IN

SENSEX: 38,051

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 193

TARGET Rs. 206

RETURN 7% ↑

(Closing: 17-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Lower demand impacted Q1; Outlook unsure

Hindalco Industries, an Aditya Birla Group company, is an industry leader in aluminum and copper. The acquisition of Novelis in 2007 placed the company among the world's leading manufacturers of aluminum.

- Reported revenue fell 15.6% YoY to Rs. 25,283cr, due to decline in aluminum and copper prices.
- EBITDA reduced 44.7% YoY along with reduction in EBITDA margin by 400bps YoY on account of higher overhead costs along with lower price realization.
- At the end of Q1FY21, the consolidated net debt to EBITDA rose to 3.83 vs 2.61 (Mar 31, 2020).
- Given the recent acquisition and downstream expansion to integrate the businesses and reduce cost, hence we plan to monitor the stock and reiterate our HOLD rating on the stock with a revised target price of Rs. 206 using SOTP valuation.

Topline reduced on lower demand

Hindalco reported net sales of Rs. 25,283cr, a decline of 15.6% YoY due to sharp decline in its aluminum and copper businesses. Aluminum business net revenue fell to Rs. 4,436cr (-19.2%YoY) majorly impacted by lower aluminum prices. Aluminum metal sales Q1FY21 sales was down 5.3% YoY to 303Kt due to low demand in infrastructure and industrial segments. Copper business fell 34.0% YoY to Rs. 3,031cr due to lower volumes and realization of copper and by-products. Novelis revenue reached to Rs. 18,407cr (-9.5% YoY) in Q1FY21 due to drop in overall shipments by 6.7% YoY.

Lower volume reduced margins

EBITDA decreased to Rs. 1,923.0 cr in Q1FY21 (-44.7% YoY) and EBITDA margin shrank 400bps YoY to 7.6% on lower margin and increased costs. Aluminum EBITDA remained at Rs. 856cr (+0.4% YoY) despite the weak macro environment. Copper EBITDA declined 87.9% YoY to Rs. 37cr due to lower sales volume and price realizations. The company reported net loss of Rs. 709cr (vs. profit of Rs. 1,063cr in Q1FY20), including the exceptional item of ex-gratia paid to employees and discontinued operations. After adjusting for these items, the net loss come down to Rs. 150cr.

Key concall highlights

- Integration of Novelis and Aleris is expected to generate US\$ 150mn per year. Novelis is disposing its automotive assets at Lewisport in the US and Duffel in Europe.
- The aluminum industry declined due to low demand across auto, transport. Infrastructure, and electrical sectors from lockdown. However, there was less impact in the packaging, pharmaceutical packaging, industrial machinery, and medical equipments.
- Alumina and aluminium metal productions stood at 623Kt and 291Kt, respectively. The metal production saw smelter utilization of 90% despite COVID-19 lockdown.

Valuation

Despite the recent decline in aluminium and copper industry, the company is positive about recent acquisition of Aleris and capacity expansion at Utkal Alumina refinery. These developments will help company in cost reduction, fluctuations in commodity prices, and leveraging the strong balance sheet in near to medium term. We continue to monitor these changes and hence, reiterate our HOLD rating on the stock with a revised target price of Rs. 206 using SOTP valuation.

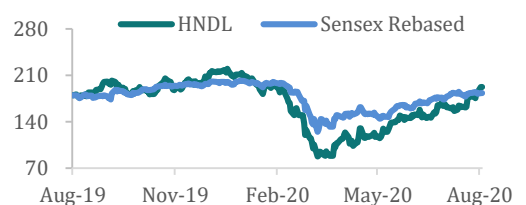
Company Data

Market Cap (cr)	Rs. 42,924
Enterprise Value (cr)	Rs. 93,412
Outstanding Shares (cr)	222.0
Free Float	65.0%
Dividend Yield	0.5%
52 week high	Rs. 221
52 week low	Rs. 85
6m average volume (lac)	7.0
Beta	1.3
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	34.7	34.7	34.7
FII's	20.7	18.7	18.6
MFs/Insti	25.6	26.8	27.4
Public	11.5	11.7	11.9
Others	7.6	8.1	7.4
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	61.5%	1.2%	7.1%
Absolute Sensex	22.4%	-7.3%	1.9%
Relative Return*	39.1%	8.6%	5.2%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	118,144	119,725	135,118
Growth (%)	(9.5)	1.3	12.9
EBITDA	14,406	12,922	15,697
EBITDA Margin (%)	12.2	10.8	11.6
Adj. PAT	4,051	3,107	5,024
Growth (%)	(26.3)	(23.3)	61.7
Adj. EPS	18.2	14.0	22.6
Growth (%)	(26.3)	(23.3)	61.7
P/E	5.2	13.8	8.5
P/B	0.4	0.7	0.7
EV/EBITDA	4.7	7.2	5.7
ROE (%)	6.5	4.2	7.7
D/E	1.2	1.1	1.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	25,283	29,972	(15.6)	29,318	(13.8)
EBITDA	1,923	3,479	(44.7)	3,888	(50.5)
EBITDA margins	7.6	11.6	(400bps)	13.3	(570bps)
Depreciation	1,534	1,241	23.6	1,370	12.0
EBIT	389	2,238	(82.6)	2,518	(84.6)
Interest	992	957	3.7	1,429	(30.6)
Other Income	422	297	42.1	306	37.9
Exceptional Items	(419)	(22)	n.m.	-	n.m.
PBT	(600)	1,556	n.m.	1,395	n.m.
Tax	(31)	493	n.m.	727	n.m.
Share of profit from Associate	3	1	200.0	-	n.m.
Minority Interest	-	-	n.m.	(1)	n.m.
Reported PAT	(709)	1,063	n.m.	669	n.m.
Adjustments	559	22	1,804.5	-	n.m.
Adj. PAT	(150)	1,085	n.m.	669	n.m.
No. of shares	222.0	222.0	-	222.0	-
Adj. EPS (Rs.)	(0.68)	4.9	n.m.	3.0	n.m.

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	126,360	135,780	119,725	135,118	(5.3)	(0.5)
EBITDA	15,179	16,516	12,922	15,697	(14.9)	(5)
Margins (%)	12.0	12.2	10.8	11.6	(120bps)	(60bps)
Adj. PAT	4,380	5,401	3,107	5,024	(29)	(7)
Adj. EPS	19.7	24.2	14.0	22.6	(28.8)	(6.6)

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs. Cr)	Value/share (Rs.)
Standalone	EV/EBITDA	5.5x	FY22E	34,619	156
Novelis	EV/EBITDA	6.1x	FY22E	50,393	227
Net Debt				47,003	212
Quoted Investments @ 20% discount				7,617	34
Target SOTP				45,625	206

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	115,809	130,542	118,144	119,725	135,118
% change	12.8	12.7	(9.5)	1.3	12.9
EBITDA	13,921	15,529	14,406	12,922	15,697
% change	11.1	12.2	(7.8)	(9.7)	21.5
Depreciation	(4,506)	(4,777)	(5,091)	(5,529)	(5,749)
EBIT	9,314	10,734	9,215	7,392	9,948
Interest	3,911	3,778	4,197	4,324	4,593
Other Income	2,754	1,127	906	886	1,435
PBT	8,157	8,083	5,924	3,954	6,790
% change	146.1	(0.9)	(26.7)	(33.3)	71.7
Tax	2,074	2,588	2,157	1,265	1,765
Tax Rate (%)	25.4	32.0	36.4	32.0	26.0
Reported PAT	6,083	5,496	3,767	2,548	5,024
Adj*	(1,774)	-	284	559	-
Adj PAT	4,309	5,496	4,051	3,107	5,024
% change	126.0	27.6	(26.3)	(23.3)	61.7
No. of shares (cr)	222.9	222.0	222.0	222.0	222.0
Adj EPS (Rs.)	19.3	24.8	18.2	14.0	22.6
% change	109.0	28.1	(26.3)	(23.3)	61.7
DPS (Rs.)	1.2	1.2	1.0	1.2	1.3
CEPS (Rs.)	39.5	46.3	41.2	38.9	48.5

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	8,058	9,787	21,569	16,094	18,595
Accounts Receivable	9,960	11,389	9,345	10,775	12,296
Inventories	21,631	22,194	22,384	20,158	22,809
Other Cur. Assets	10,314	10,664	12,984	13,300	13,649
Investments	6,902	5,180	3,154	3,216	3,279
Gross Fixed Assets	120,624	124,915	131,622	142,397	147,802
Net Fixed Assets	63,887	64,185	66,067	72,074	72,414
CWIP	1,983	3,975	7,610	6,849	6,164
Intangible Assets	21,258	21,774	23,217	23,307	23,400
Def. Tax (Net)	643	876	910	506	706
Other Assets	3,021	2,824	2,288	2,319	2,351
Total Assets	147,657	152,848	169,528	168,598	175,662
Current Liabilities	28,918	29,799	28,230	28,475	30,873
Provisions	7,446	7,263	8,351	8,685	9,032
Debt Funds	51,451	52,437	68,572	66,572	65,072
Other Liabilities	4,981	5,839	6,048	4,257	5,340
Equity Capital	223	222	222	222	222
Reserves & Surplus	54,629	57,279	58,095	60,377	65,113
Shareholder's Fund	54,852	57,501	58,317	60,599	65,335
Minority Interest	9	9	10	10	10
Total Liabilities	147,657	152,848	169,528	168,598	175,662
BVPS (Rs.)	246	259	263	273	294

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	10,589	10,273	8,858	8,078	10,774
Non-cash adj.	2,085	3,218	4,253	(1,666)	1,201
Changes in W.C	(1,786)	(1,514)	(446)	934	(1,893)
C.F. Operation	10,888	11,977	12,665	7,346	10,082
Capital exp.	(2,956)	(5,968)	(6,707)	(10,775)	(5,405)
Change in inv.	7,611	(314)	(2,234)	(62)	(63)
Other invest.CF	370	634	640	283	(325)
C.F - Investment	5,026	(5,648)	(8,301)	(10,554)	(5,792)
Issue of equity	16	(118)	-	-	-
Issue/repay debt	(12,286)	(1,417)	11,280	(2,000)	(1,500)
Dividends paid	(294)	(323)	(320)	(266)	(289)
Other finance.CF	(3,849)	(3,608)	(4,350)	(0)	0
C.F - Finance	(16,412)	(5,466)	6,610	(2,266)	(1,789)
Chg. in cash	(499)	863	10,974	(5,475)	2,501
Closing cash	8,058	9,787	21,569	16,094	18,595

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	12.0	11.9	12.2	10.8	11.6
EBIT margin (%)	8.0	8.2	7.8	6.2	7.4
Net profit mgn.(%)	5.3	4.2	3.2	2.1	3.7
ROE (%)	11.1	9.6	6.5	4.2	7.7
ROCE (%)	8.8	9.8	7.3	5.8	7.6
W.C & Liquidity					
Receivables (days)	31.4	31.8	28.9	32.9	33.2
Inventory (days)	101.1	91.7	104.8	90.9	90.5
Payables (days)	95.4	85.7	85.7	83.1	82.2
Current ratio (x)	1.5	1.6	1.8	1.6	1.7
Quick ratio (x)	0.7	0.7	1.0	0.9	0.9
Turnover & Leverage					
Gross asset T.O (x)	1.0	1.1	0.9	0.9	0.9
Total asset T.O (x)	0.8	0.9	0.7	0.7	0.8
Int. coverage ratio (x)	2.4	2.8	2.2	1.7	2.2
Adj. debt/equity (x)	0.9	0.9	1.2	1.1	1.0
Valuation					
EV/Sales (x)	0.8	0.7	0.6	0.8	0.7
EV/EBITDA (x)	6.6	5.6	4.7	7.2	5.7
P/E (x)	11.1	8.2	5.2	13.8	8.5
P/BV (x)	0.9	0.8	0.4	0.7	0.7



Recommendation Summary



Dates	Rating	Target
28-Feb-17	BUY	208
28-Nov-17	BUY	287
4-Sep-19	HOLD	195
5-Mar-20	HOLD	174
18-Aug-20	HOLD	206

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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