

Hindalco (Novelis)

Earnings intact; higher WC restricts deleveraging

Novelis (Hindalco's 100% subsidiary) reported marginally better-than expected adjusted EBITDA of USD508mn (CentrumE: USD481mn), flat QoQ, and EBITDA/t of USD522 (CentrumE: USD500/t), up 1.6% QoQ. Net debt was flat at USD4.99bn QoQ due to higher working capital. Management reiterated its sustainable EBITDA/t guidance of USD500/t+. We revise Novelis' FY22E EBITDA/t to USD520 (earlier USD500) and FY23E EBITDA/t to USD528 (earlier USD520). Besides, we factor in higher LME aluminum prices (USD2,300/t in each of FY22E and FY23E v/s USD2,200/t earlier) in India operations. We raise our consolidated FY22E/FY23E EBITDA by 5%/4%, leading to an increase in our target price to Rs558 (earlier Rs533), valuing Novelis at 7x FY23E EV/EBITDA and Indian operations at 5.5x FY23E EV/EBITDA. Reiterate BUY.

EBITDA flat QoQ, double YoY on low base

Novelis recorded one-time income of USD47mn due to favorable decision in Brazilian tax litigation regarding inclusion of VAT for tax calculation on a social security tax. Adjusted for that, Novelis reported EBITDA of USD508mn, flat QoQ and EBITDA/t of USD522, up 1.6% QoQ. Novelis has attained ~USD100mn run rate cost synergies with Aleris acquisition (~USD79mn yearly run rate synergy benefits in Q4FY21; target of ~USD120mn). The weakness in auto volume amid semi-conductor shortage has been offset by higher demand in beverage cans and specialties segments, thereby recording volume of 973kt, down 1% QoQ. The scrap spread continues to be favorable.

Next phase of expansion in China announced; synergy benefits of >USD100mn

The automotive finishing line of 200ktpa in US and ~100ktpa in China has been ready for commercial shipments. The rolling mill expansion of 100ktpa at Brazil has begun commissioning in Q2FY22 (earlier expected by FY22-end). The next phase of expansion (backward integration by setting up cold rolling mill at China at capex of USD375mn) will start now, which will help in realizing synergy benefits of >USD100mn/year (earlier guidance was USD65mn/year), once completed in H2FY25.

Higher working capital restricts further deleveraging

Net debt was flat at USD4.99bn (FY21: USD4.96bn) on a QoQ basis due to higher working capital requirement of ~USD425mn amid higher aluminum prices and higher inventory to tackle any supply disruption. This along with capex of USD101mn led Novelis to record free cash outflow of USD30mn in Q1FY22. On an average, every USD100/t change in aluminum prices impacts working capital by USD60-65mn. Management refinanced USD1.5bn debt, which will help in lowering annual interest cost by ~USD35mn.

Novelis growth intact; higher aluminum prices to improve India earnings

While earnings momentum of Novelis continues, the higher working capital requirement and capex on China expansion will restrict any major deleveraging in FY22 (net debt of USD4.59bn in FY22E v/s USD4.96bn in FY21). With increase in earnings on account of higher profitability at Novelis and higher aluminum prices, we increase our target price to Rs558 (earlier Rs533), valuing Novelis at 7x FY23E EV/EBITDA and Indian operations at 5.5x FY23E EV/EBITDA. Reiterate BUY.

Financial summary

USD mn	1QFY22	1QFY21	YoY (%)	4QFY21	QoQ (%)	FY21A	FY22E	FY23E
Net Sales	3,855	2,426	58.9	3,631	6.2	12,276	14,984	15,851
Adj EBITDA	508	253	100.8	505	0.6	1,714	2,017	2,084
Margins (%)	13.2	10.4		13.9		14.0	13.5	13.1
Interest	59	70	-15.7	61	-3.3	267	210	200
Depreciation	134	118	13.6	147	-8.8	543	588	606
PBT	315	65	385	297	6.1	851	1,266	1,278
Adj. PAT	207	76	172.4	174	19.0	236	865	920

Source: Company, Centrum Broking

Result Update

India I Metals & Mining

04 August, 2021

BUY

Price: Rs443

Target Price: Rs558

Forecast return: 26%

Institutional Research

Market Data

Bloomberg:	HNDL IN
52 week H/L:	474/154
Market cap:	Rs994.7bn
Shares Outstanding:	2246.9mn
Free float:	65.4%
Avg. daily vol. 3mth:	1,63,15,150
Source: Bloomberg	

Changes in the report

Rating:	No change
Target price:	Increase by 5%
EPS:	Increase FY22E by 12.6% and FY23E by 5.7%

Source: Centrum Broking

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	34.6	34.6	34.7	34.7
FII	25.0	25.0	22.8	19.6
DII	20.6	20.8	22.1	25.1
Public/other	19.8	19.6	20.5	20.7

Source: BSE

Centrum estimates vs Actual results

YE Mar (USD mn)	Actual Q1FY22	Centrum Q1FY22	Variance (%)
Revenue	3,855	3,850	0.1
EBITDA	508	481	5.6
EBITDA/t (USD)	522	500	4.4
PBT	315	275	14.4
Adj. PAT	207	201	3.0

Source: Bloomberg, Centrum Broking



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Metals & Mining

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E		FY22E % chg	FY23E		FY23E % chg
	New	Old		New	Old	
Revenue	16,43,342	16,06,940	2.3	17,90,670	17,53,286	2.1
EBITDA	2,38,503	2,26,499	5.3	2,52,950	2,43,920	3.7
EBITDA margin	14.5	14.1		14.1	13.9	
Adj. PAT	1,05,536	93,705	12.6	1,12,681	1,06,652	5.7

Source: Centrum Broking

Hindalco versus NIFTY 50

	1m	6m	1 year
HNDL IN	13.6	68.9	151.9
NIFTY 50	2.7	8.9	46.5

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY20	FY21	FY22E	FY23E
Rs/USD	70.9	74.3	74.5	75.0
LME aluminium incl hedging	1,751	1,807	2,172	2,310
Premium	90	100	150	150
Aluminium volume-India ('000 t)	1,290	1,250	1,277	1,297
Aluminium volume- Novelis ('000 t)	3,273	3,613	3,880	3,950
Novelis- EBITDA/t (USD)	450	474	520	528
Net debt/EBITDA (x)	2.7	2.7	1.8	1.3

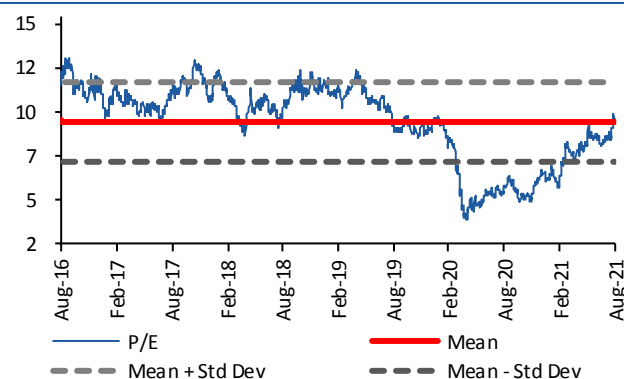
Source: Centrum Broking

Valuations

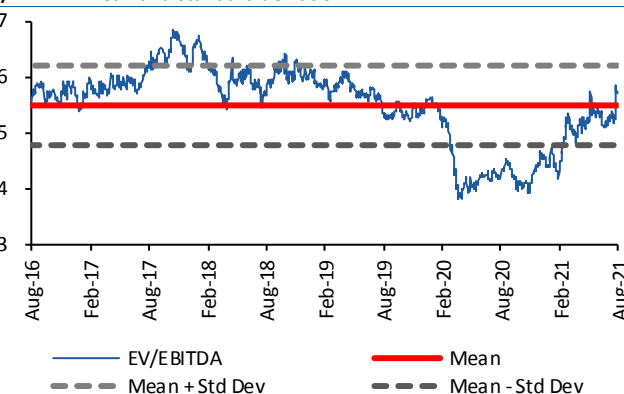
We increase our target price to Rs558 (earlier Rs533), valuing Novelis at 7x FY23E EV/EBITDA and Indian operations at 5.5x FY23E EV/EBITDA. Reiterate BUY.

Particulars (EBITDA in Rs m)	FY23E (EBITDA)	Multiple (x)	EV	Avg net debt	Arrived Market- Cap	Per share
Indian operation	95,571	5.5	5,25,638	89,594	4,36,045	196
Novelis	1,56,321	7.0	10,94,248	2,91,813	8,02,435	361
Target Price						558

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY21-23E)			P/E (x)			EV/EBITDA (x)			FY22E		
		Sales	EBITDA	EPS	FY21	FY22E	FY23E	FY21	FY22E	FY23E	RoE (%)	ROCE (%)	Div. Yield
Hindalco	9,82,794	16.5	19.7	40.9	17.3	9.3	8.7	7.3	6.0	5.2	14.9	9.6	0.7
Hindustan Zinc	13,50,617	9.9	15.3	11.0	16.9	13.5	13.7	10.2	7.7	7.6	30.2	25.5	6.3
Vedanta	11,56,920	12.4	25.5	25.6	9.1	6.3	5.8	5.3	3.4	3.0	27.3	17.7	9.6

Source: Company, Centrum Broking

Key Concall Highlights

- Management is buoyant on demand outlook across products. Beverage cans (58% of Q1FY22 revenue; expect growth of 3-6% YoY in CY21), automotive (17% of Q1FY22 revenue; expect 20-25% YoY demand growth in CY21), speciality (23% of Q1FY22 revenue; expect 5-10% YoY demand growth in CY21) and aerospace (2% of Q1FY22 revenue; expect 5-10% YoY demand growth in CY21).
- Management guides that the impact on auto volume due to OEMs' hit on account of semiconductor shortages is gradually improving. As a result, auto volumes are expected to pick up in coming quarters.
- Management maintains sustainable mid-term EBITDA/t guidance of USD500+, primarily due to high metal demand. The scrap spread is high in North America due to rise in LME aluminum prices, which will support EBITDA.
- During Q1FY22, Novelis recorded sales volume of 973kt, up 25.7% YoY/flat QoQ. Higher automotive demand, pickup in speciality business favored by infrastructure push by US and Europe governments, and strong beverage can shipment due to high at-home consumption supported higher sales on a YoY basis.
- Overall, volumes in North America increased by 32% YoY/flat QoQ to 358kt; while in Europe, volumes were up by 32% YoY/marginally up 2.6% QoQ to 279kt. Volumes in South America increased by 39% YoY/2.3% QoQ to 160kt. The significant demand shift towards beverage cans for beer packaging bodes well, as part of it will remain even in post-Covid era. Asia recorded volume of 200kt, up 8.7% YoY/8.7% QoQ, primarily due to sharp demand recovery in China.
- While Aleris integration is completed, management increased guidance to unfold significant synergy benefit of USD220mn (includes ~USD100mn synergy benefits post integration of China facility). It reported USD100mn yearly run rate of synergy benefits in Q1FY22 vs USD79mn in Q4FY21.
- During Q1FY22, Novelis generated free cash flow of USD73mn from continuing operations before capex compared to negative USD34mn in Q1FY21, largely supported by higher EBITDA offsetting increase in working capital. Working capital requirement jumped significantly during the quarter to USD425mn vs USD138mn in Q1FY21 due to higher aluminum price and stocking up of scrap inventory.
- The expansion of ~200ktpa in US and ~100ktpa in China automotive finishing line is ready for commercial shipment. Management expects full ramp-up in China by FY23-end and in US by mid-FY24. Further, taking steps towards full integration in China, management announced setting up of cold-rolled mill, recycling capability, hot mill upgrade, etc, at an estimated capex of USD375mn in the next three years. This will help in realizing synergy benefit of ~US100mn/year. Post project completion, it would unlock UAL capacity, which can be utilized to cater to growing speciality and beverage can market. The Brazil ~100ktpa recycling and rolling capacity expansion is in process of commissioning in Q2FY22. This would boost beverage can volumes in coming quarters.
- During Q1FY22, Novelis did capex of USD101mn. Management guides capex of USD600-700mn for FY22. During the next five years, it plans to spend ~USD1.5bn on overall organic expansion.
- Net debt increased marginally by USD26mn QoQ to USD4.98bn due to higher working capital. In July, Novelis refinanced USD1.5bn 5.875% unsecured notes due in CY26 into two of USD750mn each, 3.25% due in CY26 and 3.875% due in CY31. It would save USD35mn of interest cost annually.
- Novelis has written off EUR45mn (out of EUR100mn pending), trying to settle litigation off-court with Liberty group on its sale of Duffel plant.

Exhibit 1: Novelis financials

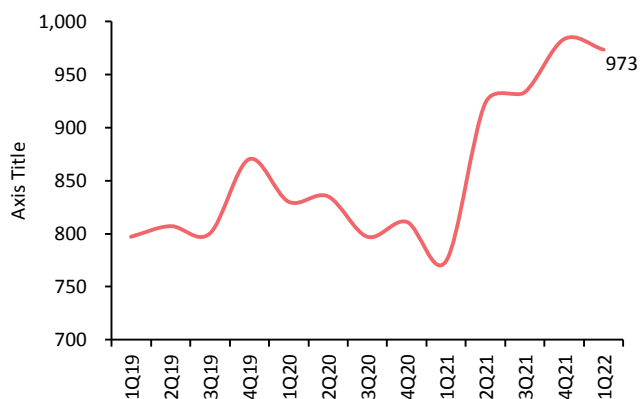
USD mn	1Q21	2Q21	3Q21	4Q21	1Q22
Rolled product sales volume ('000 t)	774	923	933	983	973
YoY (%)	(6.7)	10.5	17.1	21.2	25.7
QoQ (%)	(4.6)	19.3	1.1	5.4	(1.0)
Net sales	2,426	2,978	3,241	3,631	3,855
YoY (%)	(17.1)	4.5	19.4	33.2	58.9
QoQ (%)	(11.0)	22.8	8.8	12.0	6.2
Adj EBITDA	253	455	501	505	508
YoY (%)	(32.0)	21.7	46.1	31.9	100.8
QoQ (%)	(33.9)	79.8	10.1	0.8	0.6
EBITDA/t (USD)	327	493	537	514	522
YoY (%)	(27.1)	10.1	24.8	8.8	59.7
QoQ (%)	(30.8)	50.8	8.9	(4.3)	1.6
Depreciation	118	141	137	147	134
Interest	70	70	66	61	59
PBT	65	244	298	297	315
Tax	(29)	68	80	119	108
Adj PAT before Minority shares	94	176	218	178	207
Discontinued operation	-18	-181	-18	-4	-63
Adj PAT after Minority shares	76	-5	200	174	144

Source: Centrum Broking, Company Data

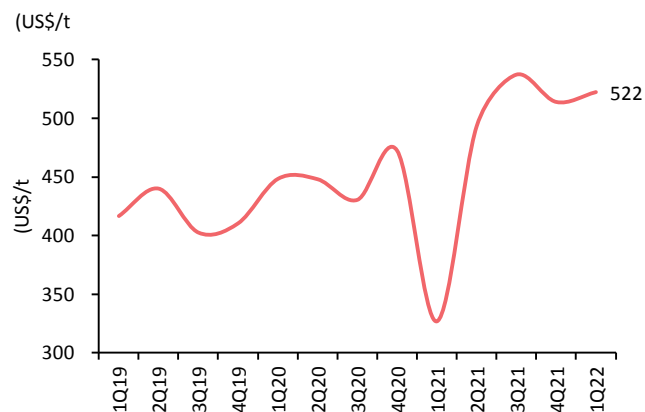
Exhibit 2: Regional performance

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
North America							
Rolled products (000 t)	272	367	347	362	358	31.6	-1.1
Adj EBITDA (USD mn)	78	205	206	174	172	120.5	-1.1
Adj EBITDA/t (USD)	287	559	594	481	480	67.5	0.0
Europe							
Rolled products (000 t)	212	240	253	272	279	31.6	2.6
Adj EBITDA (USD mn)	20	63	98	104	102	410.0	-1.9
Adj EBITDA/t (USD)	94	263	387	382	366	287.5	-4.4
Asia							
Rolled products (000 t)	184	178	184	200	192	4.3	-4.0
Adj EBITDA (USD mn)	75	74	78	78	88	17.3	12.8
Adj EBITDA/t (USD)	408	416	424	390	458	12.4	17.5
South America							
Rolled products (000 t)	113	148	158	160	157	38.9	-1.9
Adj EBITDA (USD mn)	76	112	129	132	193	153.9	46.2
Adj EBITDA/t (USD)	673	757	816	825	1229	82.8	49.0

Source: Centrum Broking, Company Data

Exhibit 3: Volume up 26% YoY

Source: Company Data, Centrum Broking

Exhibit 4: EBITDA/t sustaining at >USD500/t

Source: Company Data, Centrum Broking

Exhibit 5: Change in Estimate

	Old		New		Change (%)	
Rs m	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Standalone incl Utkal Alumina						
Exchange rate	74.5	75.0	74.5	75.0	0.0	0.0
LME aluminium (USD/t)*	2,105	2,215	2,172	2,310	3.2	4.3
Premium (USD/t)	150	150	150	150	0.0	0.0
Aluminium realisation (Rs/t)	1,67,995	1,77,375	1,72,986	1,84,500	3.0	4.0
Sales volume('000 t)	1,290	1,310	1,290	1,310	0.0	0.0
Revenue	5,64,114	6,35,374	5,69,799	6,44,614	1.0	1.5
EBITDA	81,875	88,815	87,180	95,571	6.5	7.6
Adj PAT	34,858	39,905	38,271	44,296	9.8	11.0
Novelis						
Sales volume('000 t)	3,850	3,950	3,880	3,950	0.8	0.0
EBITDA (USD mn)	1,927	2,054	2,017	2,084	4.7	1.5
EBITDA/t (USD)	501	520	520	528	3.9	1.5
Consolidated						
Revenue	1606940	1753286	16,43,342	17,90,670	2.3	2.1
EBITDA	226499	243920	2,38,503	2,52,950	5.3	3.7
PAT	93705	106652	1,05,536	1,12,681	12.6	5.7
EPS (Rs/share)	42.2	48.0	47.5	50.8	12.6	5.7
TP (Rs/share)		533		558		4.6

Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	13,05,423	11,81,440	13,19,850	16,43,342	17,90,670
Operating Expense	8,83,075	7,79,660	8,52,280	11,01,119	12,16,105
Employee cost	90,431	88,320	1,07,820	1,21,122	1,30,599
Others	1,76,919	1,69,400	1,83,270	1,82,598	1,91,016
EBITDA	1,54,998	1,44,060	1,76,480	2,38,503	2,52,950
Depreciation & Amortisation	47,662	51,910	67,400	71,223	73,965
EBIT	1,07,335	92,150	1,09,080	1,67,281	1,78,985
Interest expenses	37,780	41,970	37,380	33,963	32,657
Other income	11,271	11,900	12,220	18,703	16,201
PBT	80,826	62,080	83,920	1,52,021	1,62,529
Taxes	25,881	21,570	27,230	46,534	49,899
Effective tax rate (%)	32.0	34.7	32.4	30.6	30.7
PAT	54,945	40,510	56,690	1,05,486	1,12,631
Minority/Associates	5	40	50	50	50
Recurring PAT	54,950	40,550	56,740	1,05,536	1,12,681
Extraordinary items	0	2,840	4,920	0	0
Reported PAT	54,950	43,390	61,660	1,05,536	1,12,681
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	13.3	(9.5)	11.7	24.5	9.0
EBITDA	11.3	(7.1)	22.5	35.1	6.1
Adj. EPS	28.0	(26.2)	39.9	86.0	6.8
Margins (%)					
Gross	39.7	42.2	42.0	39.5	38.5
EBITDA	11.9	12.2	13.4	14.5	14.1
EBIT	8.2	7.8	8.3	10.2	10.0
Adjusted PAT	4.2	3.4	4.3	6.4	6.3
Returns (%)					
ROE	9.8	7.0	9.1	14.9	14.0
ROCE	7.4	5.8	6.3	9.6	9.8
ROIC	6.7	5.4	6.1	8.6	9.3
Turnover (days)					
Gross block turnover ratio (x)	1.3	1.1	1.1	1.3	1.3
Debtors	30	32	31	31	30
Inventory	61	69	73	72	70
Creditors	58	60	64	63	61
Net working capital	68	117	72	64	66
Solvency (x)					
Net debt-equity	0.7	0.7	0.7	0.6	0.4
Interest coverage ratio	4.1	3.4	4.7	7.0	7.7
Net debt/EBITDA	2.5	2.7	2.7	1.8	1.3
Per share (Rs)					
Adjusted EPS	24.8	18.3	25.6	47.5	50.8
BVPS	259.0	262.7	299.7	339.5	383.9
CEPS	46.2	41.6	55.9	79.6	84.1
DPS	1.2	1.0	3.0	3.0	3.0
Dividend payout (%)	4.8	5.1	10.8	6.3	5.9
Valuation (x)					
P/E	17.9	24.2	17.3	9.3	8.7
P/BV	1.7	1.7	1.5	1.3	1.2
EV/EBITDA	5.5	4.2	7.3	6.0	5.2
Dividend yield (%)	0.3	0.2	0.7	0.7	0.7

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	2,220	2,220	2,220	2,220	2,220
Reserves & surplus	5,72,795	5,80,950	6,63,111	7,51,509	8,50,082
Shareholders fund	5,75,015	5,83,170	6,65,331	7,53,729	8,52,302
Minority Interest	95	100	100	100	100
Total debt	5,24,153	6,72,570	6,59,780	6,07,784	5,55,788
Non Current Liabilities	87,535	1,09,340	1,11,850	1,11,850	1,11,850
Def tax liab. (net)	45,260	46,710	44,930	44,930	44,930
Total liabilities	12,32,057	14,11,890	14,81,991	15,18,394	15,64,970
Gross block	10,31,410	11,06,960	12,06,930	12,65,212	13,28,494
Less: acc. Depreciation	(3,89,560)	(4,46,290)	(4,98,440)	(5,63,178)	(6,30,352)
Net block	6,41,850	6,60,670	7,08,490	7,02,034	6,98,142
Capital WIP	39,750	76,100	1,00,130	1,17,130	1,32,130
Net fixed assets	8,99,782	9,69,570	11,05,170	11,15,714	11,26,822
Non Current Assets	28,240	22,880	29,970	28,290	30,770
Investments	51,357	30,910	76,700	76,700	76,700
Inventories	2,21,940	2,23,840	3,06,680	3,43,894	3,46,157
Sundry debtors	1,13,890	93,450	1,29,590	1,51,566	1,47,213
Cash & Cash Equivalents	1,36,423	2,78,480	1,82,260	1,68,560	2,32,199
Loans & advances	577	550	470	470	470
Other current assets	67,512	66,500	57,280	62,190	66,477
Trade payables	2,07,244	1,83,000	2,82,800	2,87,086	3,10,352
Other current liab.	16,340	10,770	16,880	27,844	32,368
Provisions	72,840	89,620	1,15,320	1,22,932	1,27,990
Net current assets	2,43,918	3,79,430	2,61,280	2,88,819	3,21,807
Total assets	12,32,057	14,11,890	14,81,990	15,18,393	15,64,969

Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	80,831	59,240	79,050	1,52,021	1,62,529
Depreciation & Amortisation	47,770	50,910	66,280	64,738	67,174
Net Interest	32,350	41,970	37,380	0	0
Net Change – WC	(16,865)	(11,780)	14,040	(22,781)	59,769
Direct taxes	(18,883)	(1,020)	(12,560)	(46,534)	(49,899)
Net cash from operations	1,19,795	1,26,650	1,79,120	1,47,444	2,39,574
Capital expenditure	(59,719)	(67,070)	(55,170)	(75,282)	(78,282)
Acquisitions, net	0	0	(1,95,240)	0	0
Investments	(3,136)	(15,780)	(27,750)	0	0
Others	8,263	(160)	21,790	0	0
Net cash from investing	(54,592)	(83,010)	(2,56,370)	(75,282)	(78,282)
FCF	60,076	59,580	(71,290)	72,162	1,61,292
Issue of share capital	61	70	50	0	0
Increase/(decrease) in debt	(14,443)	1,12,800	56,920	(51,996)	(51,996)
Dividend paid	(3,229)	(3,200)	(2,220)	(6,660)	(6,660)
Interest paid	(35,766)	(40,160)	(36,780)	0	0
Others	(1,236)	(3,410)	(66,790)	0	0
Net cash from financing	(54,613)	66,100	(48,820)	(58,656)	(58,656)
Net change in Cash	10,590	1,09,740	(1,26,070)	13,506	1,02,636

Source: Company, Centrum Broking

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Source: Bloomberg

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