

Unveils capital allocation roadmap....

Recently, in its Investor Day, Hindalco laid out its strategy & capital allocation roadmap for the next five years. The focus of Hindalco is towards expansion of downstream India business and deleveraging the balance sheet. At a consolidated level, Hindalco is expected to generate over US\$1–1.2 billion cash flow per annum post its normal working capital and maintenance capex. The broad allocation of the above-mentioned cash flow is as follows – a) ~50% of above-mentioned cash flow would be for growth capex, b) ~30% would be for debt reduction, c) ~8-10% would be returned to shareholders (as dividends), d) balance ~10-12% to be retained in treasury.

Growth capex plans over next five years...

Going forward, allocation towards growth capex is expected to ~US\$2.5-3.0 billion over the next five years. Of this, organic growth capex for Novelis is expected to be ~US\$1.5 billion and for Hindalco Indian operations is expected to be ~US\$1.1 billion. Novelis will be investing in innovative process, technologies and capabilities to unlock capacity, capture growth and support sustainability initiatives. Domestic capex will focus on downstream aluminium and copper verticals.

Targets to reach net debt to EBITDA of 2.5x...

Hindalco plans to reduce its consolidated net debt to EBITDA from 3.1x as on December 2020, to 3.0x by March 2021 and further to 2.5x in less than two years (from a peak of 3.8x as on June 2020). Debt repayment is expected to be ~US\$2.9 billion, of which US\$2.6 billion debt would be reduced by Novelis and balance ~US\$0.3 billion debt would be reduced by Indian operations. In Novelis, repayment of bridge loans to the extent of US\$1.1 billion is expected by the end of FY21; of which US\$500 million was already repaid in Q3FY21 and the rest will be repaid in Q4FY21. Short-term of US\$900 million was already repaid in Q2FY21 and Q3 FY21. Out of US\$1.7 billion term loan due in 2022; US\$1.1 billion will be refinanced and balance US\$600 million will be repaid. With respect to Indian operations, out of rupee bonds of US\$810 million due in 2022, US\$540 million will be refinanced and the balance US\$270 million will be repaid in 2022.

Valuation & Outlook

Going forward, we upgraded Novelis FY23 EBITDA/tonne estimate to US\$500/tonne (from US\$480/tonne earlier). We also raise FY23 EV/EBITDA multiple by 0.5x for both domestic and Novelis to 6x and 6.5x, respectively. We continue to value the stock on an SoTP basis and arrive at a revised target price of ₹ 390 (earlier target price of ₹ 309). We upgrade the stock from HOLD to **BUY** recommendation.

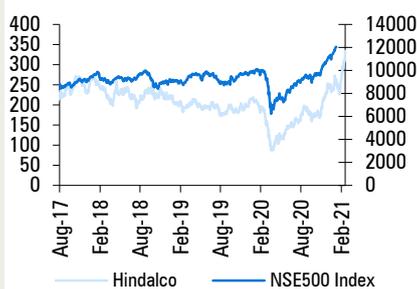


Particulars

Stock Data

Market Capitalisation	₹73980 crore
Total Debt (31st Dec'20)	₹71996 crore
Cash & Cash Eq. (31st Dec'20)	₹18194 crore
EV	₹127782 crore
52 week H/L	338 / 85
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

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

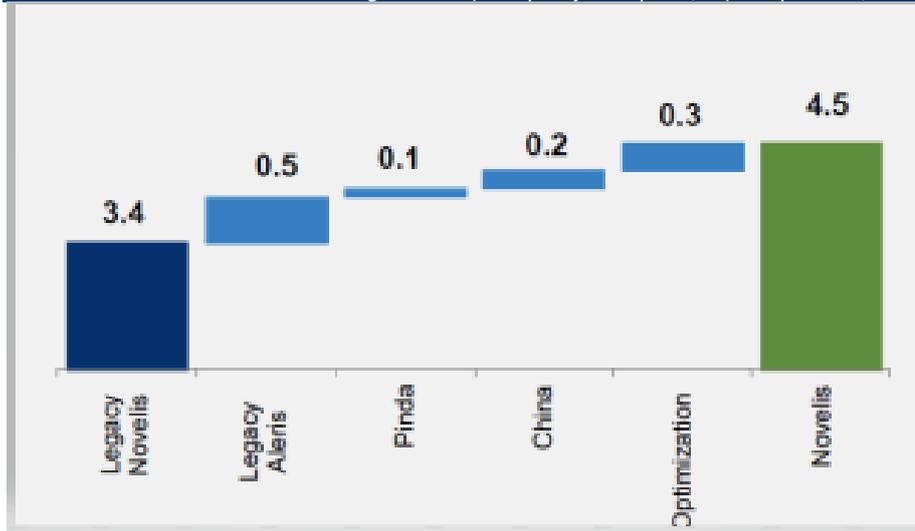
Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-FY23E)
Net Sales	1,15,172	1,30,542	1,18,144	1,33,465	1,44,882	1,51,489	8.6
EBITDA	13,820	15,511	14,306	17,617	18,566	19,909	11.6
EBITDA Margin (%)	12.0	11.9	12.1	13.2	12.8	13.1	
Adj PAT	4,434	5,495	4,051	7,088	7,795	8,975	30.4
EPS (₹)	19.9	24.7	18.2	31.9	35.1	40.4	
EV/EBITDA (x)	8.2	7.2	8.0	7.2	6.7	5.9	
RoCE (%)	9.4	10.3	7.8	9.2	9.7	10.5	
RoE (%)	8.1	9.6	6.9	11.1	11.0	11.3	

Source: Company, ICICI Direct Research

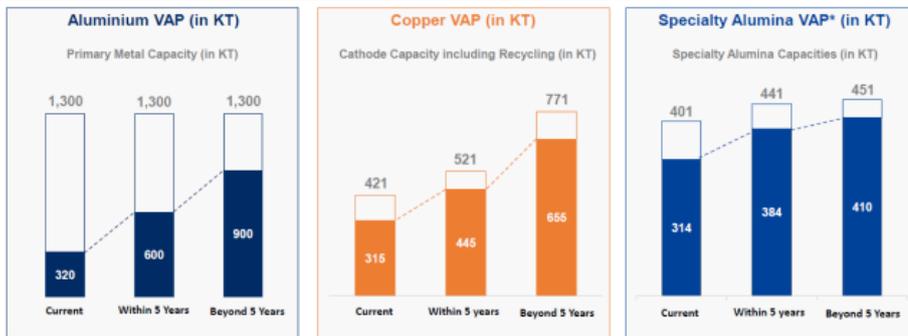
Key Highlights

Exhibit 1: Novelis directional long-term capacity trajectory.... (Capacity in MT)



Source: Company, ICICI Direct Research

Exhibit 2: Key highlights for domestic business (with respect to capacity)



Source: Company, ICICI Direct Research

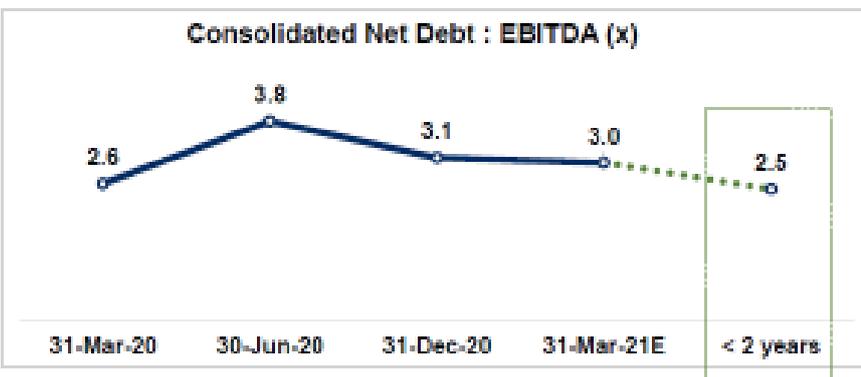
Exhibit 5: Deleveraging target....

Deleveraging Target

Consolidated Gross Debt (US\$ Billion)

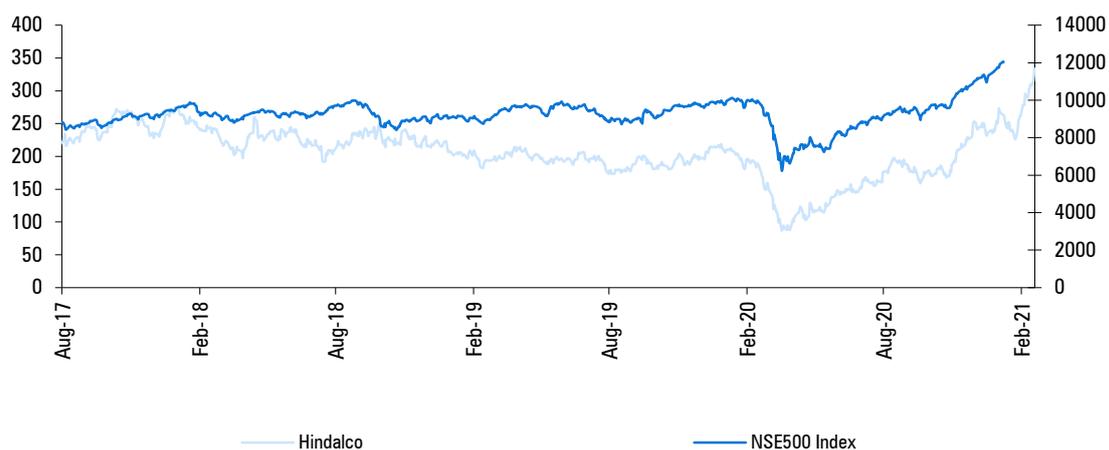
As on	As on	As on	As on
31 st Mar '20	30 th Jun '20	31 st Dec '20	31 st Mar '21 (E)
9.43	11.14	9.86	9.20

Consolidated Net Debt : EBITDA (x)



Source: Company, ICICI Direct Research

Exhibit 4: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 5: Shareholding Pattern

(in %)	Jun-20	Sep-20	Dec-20
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 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	118144	133465	144882	151489
Growth (%)	-9	13	9	5
Total Operating Expend.	103838	115848	126316	131580
EBITDA	14306	17617	18566	19909
Growth (%)	-8	23	5	7
Depreciation	5091	5576	5818	6059
Interest	4197	3562	3187	2812
Other Income	1186	988	849	948
Exceptional Item	284	348	0	0
PBT	5920	9118	10410	11986
Total Tax	2157	2383	2620	3017
PAT	3763	6735	7790	8969
Growth (%)	-32	79	16	15
Minorities, Associates etc	4	5	5	6
Rep PAT after Assoc., MI	3767	6740	7795	8975
Adj PAT after Assoc., MI	4051	7088	7795	8975
Growth (%)	-26	75	10	15
EPS (₹)	18.2	31.9	35.1	40.4

Source: Company, ICICI Direct Research

Exhibit 7 : Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	3767	6740	7795	8975
Add: Depreciation	5091	5576	5818	6059
Add: Interest	4197	3562	3187	2812
(Inc)/dec in Current Assets	4231	-6304	-4297	-5280
Inc/(dec) in CL and Prov.	-253	2590	1443	3143
CF from operating activities	17033	12164	13946	15709
(Inc)/dec in Investments	-379	6750	750	750
(Inc)/dec in Fixed Assets	-11871	-22415	-7432	-7431
Others	-1843	258	464	121
CF from investing activities	-14093	-15407	-6218	-6560
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	15981	3000	-7500	-7500
Interest Paid	-4197	-3562	-3187	-2812
Dividend paid & dividend tax	-290	-310	-826	-826
Inc/(dec) in Share Cap	-2652	-769	0	0
Others	0	0	0	0
CF from financing activities	8842	-1641	-11513	-11138
Net Cash flow	11782	-4884	-3785	-1988
Opening Cash	9787	21569	16685	12900
Closing Cash	21569	16685	12900	10912

Source: Company, ICICI Direct Research

Exhibit 8 : Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Share Capital	222	222	222	222
Reserve and Surplus	58105	63766	70735	78884
Total Shareholders funds	58327	63988	70957	79106
Total Debt	68238	71238	63738	56238
Deferred Tax Liability	4671	4671	4671	4671
Minority Interest & Others	1391	1416	1441	1466
Total Liabilities	132627	141313	140808	141482
Assets				
Gross Block	120744	146984	154416	161847
Less: Acc Depreciation	51495	57072	62889	68949
Net Block	69249	89912	91526	92898
Goodwill	20098	22591	22591	22591
CWIP	7610	1293	1293	1293
Investments	9370	2620	1870	1120
Inventory	22384	25596	25801	26977
Debtors	9401	9141	11908	12451
Loans and Advances	3600	5339	5795	8933
Other Current Assets	3458	5072	5940	6363
Cash	21569	16685	12900	10912
Total Current Assets	60412	61833	62345	65636
Trade Payables	23700	29252	29770	29883
Provisions & Other Curren Liabilitie	13201	10238	11164	14194
Current Liabilities & Prov	36901	39491	40934	44077
Net Current Assets	23511	22342	21411	21559
others	2789	2556	2117	2020
Application of Funds	132627	141313	140808	141482

Source: Company, ICICI Direct Research

Exhibit 9 : Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Reported EPS	18.2	31.9	35.1	40.4
Cash EPS	41.1	56.9	61.2	67.6
BV	262.3	287.7	319.1	355.7
DPS	1.2	1.5	4.0	4.0
Cash Per Share	97.0	75.0	58.0	49.1
Operating Ratios (%)				
EBITDA Margin	12.1	13.2	12.8	13.1
PBT / Total Operating income	5.0	6.8	7.2	7.9
Adj PAT Margin	3.4	5.3	5.4	5.9
Inventory days	69	70	65	65
Debtor days	29	25	30	30
Creditor days	73	80	75	72
Return Ratios (%)				
Adj RoE	6.9	11.1	11.0	11.3
Adj RoCE	7.8	9.2	9.7	10.5
RoIC	12.0	12.0	12.3	13.0
Valuation Ratios (x)				
P/E	18.1	10.4	9.4	8.2
EV / EBITDA	8.0	7.2	6.7	5.9
EV / Net Sales	1.0	1.0	0.9	0.8
Market Cap / Sales	0.6	0.5	0.5	0.5
Price to Book Value	1.3	1.1	1.0	0.9
Solvency Ratios				
Net Debt/EBITDA	2.8	3.1	2.7	2.3
Debt / Equity	1.2	1.1	0.9	0.7
Current Ratio	1.6	1.6	1.5	1.5
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Dewang Sanghavi, MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number - INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts do not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.