

Hindalco Industries Limited (Revised)

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	14,087.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	22,321.00	CARE AA+; Stable / CARE A1+ (Double A Plus ; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	36,408.00 (₹ Thirty-Six Thousand Four Hundred Eight Crore Only)		
Non Convertible Debentures	1,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Assigned
Non Convertible Debentures	1,500.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long Term Instruments	2,500.00 (₹ Two Thousand Five Hundred Crore Only)		
Commercial Paper	2,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	2,000.00 (₹ Two Thousand Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed Rationale & Key Rating Drivers

The reaffirmation/assign of the ratings to the bank facilities of Hindalco Industries Limited (HIL) considers the volume driven sales growth backed by robust demand, improved profitability levels on account of higher realizations and healthy capital structure. The rating also takes cognizance of the HIL's leadership position in India's aluminium industry and being amongst one of the lowest cost producers for aluminum in the world along with a highly reputed promoter group (Aditya Birla Group). The ratings are further strengthened by increased deliveries at Novelis which is the one of the largest used aluminium beverages can recycler in the world and having favorable demand for the same going forward. The ratings are further supported by enhanced liquidity position and financial flexibility derived by being a part of "Aditya Birla Group".

The ratings are tempered by the volatility in the commodity market and fluctuation in the LME prices and availability of key raw materials such as Caustic soda, CP and thermal coal, coke etc. which might affect the profitability of the company going forward. Further, the demand from the end user industries which are mostly cyclical may have an impact on the envisaged performance of the company. The ratings also consider the upcoming capacity expansion at Alabama and other capex plans announced by the company and the impact of same on the financials.

Rating Sensitivities

Positive Rating Sensitivities

- ✓ Sustained improvement in the operating profit with PBILDT margin above 16% on consistent basis
- ✓ Ability of the company to complete the proposed capex and achieve COD while maintain healthy debt metrics with debt equity ratio below 0.75x

Negative Rating Sensitivities

- × Major time over /cost overrun to the proposed capex leading to overall gearing above 1.50x
- × Any change in the government regulation with regards to export duty leading to decline in the scale of operations with TOI below Rs 1,20,000 crore.
- × Decline in operating profit with PBILDT margins below 12% on a consistent basis

Detailed description of the key rating drivers

Key Rating Strengths

Reputed and resourceful promoter group; professionally qualified management

HIL is the flagship metals company of the Aditya Birla Group. The company is led by professional and experienced management with Mr. Kumar Mangalam Birla as the Chairman and Mr. Satish Pai as the Managing Director of HIL. The ratings continue to derive support from the resourceful promoter group and the professionally qualified and experienced management of the company that have built a successful track record in the industry.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Market leader in the aluminum industry; one of the lowest cost producers of aluminum in the world

Over the past years, HIL has ramped up its capacities in a timely and cost-effective manner to become one of the largest producers of aluminum in India. HIL, with significant market share, has a strong market position in India's aluminum industry. With the acquisition of Novelis in 2007 and Aleris in 2020, HIL has become one of the world's largest aluminum rolling companies. Novelis is also one of the world leaders in recycling of used aluminum beverage cans. HIL is one of the lowest cost producers of aluminum in the world owing to significant backward integration i.e., access to captive power using its own mined coal and producing alumina using bauxite from captive mines. Further, its subsidiary, Utkal Alumina is one of the lowest cost producers of alumina in the world. Further, HIL is accredited as world's most sustainable aluminium company in DJSI 2021 (Dow Jones Sustainability Indices)

Strong performance at Novelis

Total deliveries from Novelis have increased by an annual growth rate of ~ 8% driven by strong demand for sustainable, flat rolled aluminum sheet and recovery in western markets from Covid related production shutdown. This demand growth is partially offset by lower automotive shipments which was under stress owing to critical component shortage. Realization was marginally volatile ranging from Rs 3.13 lakh/ tonne in Q1FY22 to Rs 3.79 lakh/ tonne in Q4FY22 whereas the average realization per ton for the year FY22 has improved to Rs 3.56 lakh/ton (PY: Rs 2.63 lakh/ ton). The improvement can be attributed to the pricing flexibility the company has enjoyed during FY22 owing to the end user demand. The overall shipments of Novelis stood at 962 Kt during Q1FY23 earning an EBITDA per tonne of \$583.

Strong improvement in the performance of domestic business aided by increased LME Prices

The performance in the domestic segment has improved with ~ 4% growth in the aluminum sales and ~30% growth in the copper sales. LME prices directly drive the financial performance of HIL and the rally of the same particular in FY22 had led to healthy realization for the company. Particularly, in the case of Aluminum the prices have reached \$ 3250 per tonne in March 2022 which were around \$ 2400 per tonne in March 2021. However, the prices have now cooled down, but continue to remain on the higher side.

HIL has posted a healthy growth rate of ~ 48% driven the improved performance in both domestic market and Novelis. Further, PBILDT margin remains constant at 14.61% (PY: 14.05%). Improvement is witnessed in the net profit level owing to the marginal interest expense of the company in FY22. The overall revenue of Hindalco increased by 40% in Q1FY23 as compared to Q1FY22 which lead to high EBITDA in Q1FY23 driven by favorable economic conditions in downstream aluminum industry and copper industry.

Healthy improvement in the capital structure

As on March 2022, capital structure marked by overall gearing and debt equity ratio improved for the company to 1.35x and 1.23x at the back of healthy profit accruals. However, there has been a considerable improvement in the net debt/PBILDT to 1.47x Vis-à-vis 3.13x as of March 2021 aided by healthy operating profit levels. The outstanding NCD's of the company are scheduled to be completely repaid in FY23 which will further improve the capital structure of the company. The overall net debt to EBIDTA ratio for the company stayed at normal levels as there were no major increments during Q1FY23.

Key raw material consumption for captive source, shielding volatility from market forces

For its domestic operations, HIL sources key raw materials like Bauxite and coal from its captive mines reducing the dependency on external players for the same. The company is completely self-sufficient for its Bauxite requirement and for coal its source around ~70% of its requirements from captive mines and linkage with Coal India Limited. However, during Q4FY22 owing to the increased demand for electricity, the coal has been diverted for power plants leading to HIL import the coal from export market. As of today, the situation is back to normal and further with the availability of Meenakshi Captive mine from FY27, HIL is expected to have better cushion for its coal requirements.

Key Rating Weaknesses

Highly susceptible to volatility in metal prices and currency exchange rates

Aluminium/copper prices have experienced immense volatility in the past one year. Commodity prices are prone to fluctuation as these are impacted by geopolitical events and state of global economy. With Russia- Ukraine conflict, increased fed rated to curb raising inflation, and fuel costs touching multiyear these input prices significantly influence profitability margins of company, thereby remains the key monitorable. However, HIL partially hedged its commodity price exposure to reduce impact of price volatility on the profitability. Comfort can be taken from the fact the domestic business of HIL is dollar denominated and rupee depreciation will have a positive impact of the overall financial performance of the company.

Industry Outlook

The global demand for Flat rolled products (FRP) is expected to improve by ~6% in CY22 primarily driven by increased recycled aluminium consumption, improvement in the automobile segment, favourable aerospace performance and speciality products. While the demand of sustainable packaging in beverages industry has increased considerably driven by high at home consumption, can makers over the world has started to ramp up their capacities to meet the demand.

Liquidity: Strong

The projected cash accruals during the next two years continue to remain strong to cover the repayment and capex requirements for FY23 & FY24. In addition, cash & cash equivalent amounting to Rs. 22,687 crores as on March 31, 2022 (Inclusive of government securities), significantly boosts up the liquidity position of the company, providing adequate cushion in terms of high volatility impacting the industry. With an average fund based working capital utilization of below 5% the company has enough cushion for any unforeseen circumstances. HIL enjoys strong financial flexibility in terms of raising low-cost debt from financial institutions and refinancing maturing debt as it is part of Aditya Birla Group. A treasury balance of \$1.04 billion is maintained in Novelis and a balance of ₹13,580 crores is held in Hindalco India as at June 30, 2022.

Analytical approach: Consolidated

There are 66 subsidiaries, having significant operational and financial linkages. All the entities are either operating in the similar line of business or business related to the non-ferrous metals sector. There is significant reliance of these entities on parent and business inter-linkages are present between parent and subsidiaries. The list of entities is mentioned in Annexure 6. CARE has adopted consolidated approach on account of strong operational and financial linkages along with dependencies.

Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Financial Ratios- Non-Finance Sector](#)

[Non ferrous metals](#)

About the Company

HIL, the flagship metals company of the Aditya Birla group, commenced operations in 1962. It has manufacturing facilities at multiple locations namely Hirakud (Odisha), Renukoot (Uttar Pradesh), Aditya (Odisha), Mahan (Madhya Pradesh), Muri (Jharkhand) and Dahej (Gujarat). Over the years it has grown to become one of the largest integrated aluminum manufacturers in Asia with alumina capacity of 3 mtpa (million tons per annum, this has now increased to 3.6 mtpa as the capacity of Utkal refinery is increased to 2.1 mtpa) and aluminum smelting capacity of 1.3 mtpa.

Novelis Inc. (Novelis; subsidiary of HIL) has aluminum value added downstream capacity of 3.9 million tonnes. The company is also a custom smelter of copper with a capacity of 0.4 mtpa at Dahej, captive power plant and jetty.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	30-06-2022 (UA)
Total operating income	132052	195059	58229
PBILD	17676	28506	8470
PAT	5182	14201	4119
Overall gearing (times)	1.82	1.4	-
Interest coverage (times)	4.73	7.57	10.00

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 2031	11733.00	CARE AA+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	2354.00	CARE AA+; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	-	22321.00	CARE AA+; Stable / CARE A1+
Debentures-Non-Convertible Debentures	-	-	-	-	1000.00	CARE AA+; Stable
Debentures-Non-Convertible Debentures	INE038A07258, INE038A07266, INE038A07274	April 25, 2012	9.60%	August 02, 2022	1500.00	CARE AA+; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	2000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	1500.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-22)	1)CARE AA+; Stable (07-Jul-21)	1)CARE AA+; Negative (08-Oct-20) 2)CARE AA+; Negative (22-May-20)	1)CARE AA+; Stable (09-Oct-19)
2	Fund-based - LT-Term Loan	LT	11733.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-22)	1)CARE AA+; Stable (07-Jul-21)	1)CARE AA+; Negative (08-Oct-20) 2)CARE AA+; Negative (22-May-20)	1)CARE AA+; Stable (09-Oct-19)
3	Fund-based - LT-Working Capital Limits	LT	2354.00	CARE AA+; Stable	1)CARE AA+; Stable (06-Jul-22)	1)CARE AA+; Stable (07-Jul-21)	1)CARE AA+; Negative (08-Oct-20) 2)CARE AA+; Negative (22-May-20)	1)CARE AA+; Stable (09-Oct-19)
4	Non-fund-based - LT/ ST-BG/LC	LT/ST*	22321.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (06-Jul-22)	1)CARE AA+; Stable / CARE A1+ (07-Jul-21)	1)CARE AA+; Negative / CARE A1+ (08-Oct-20) 2)CARE AA+; Negative / CARE A1+ (22-May-20)	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)
5	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	1)CARE A1+ (06-Jul-22)	1)CARE A1+ (07-Jul-21)	1)CARE A1+ (04-Nov-20) 2)CARE A1+ (08-Oct-20) 3)CARE A1+ (22-May-20)	1)CARE A1+ (09-Oct-19)
6	Term Loan-Short Term	ST	-	-	-	-	1)Withdrawn (08-Oct-20) 2)CARE A1+ (22-May-20)	1)CARE A1+ (09-Oct-19)
7	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA+; Stable				

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Debentures-Non-Convertible Debentures	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT-Working Capital Limits	Simple
5	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company: To view the lender wise details of bank facilities please [click here](#)

Annexure-6 List of entities consolidated

Name of the Entity	% shareholding as on March 31, 2022
Utkal Alumina International Limited	100
Minerals & Minerals Limited	100
AV Minerals (Netherlands) N.V.	100
Dahej Harbour & Infrastructure Limited	100
Hindalco Almex Aerospace Limited	97.18
East Coast Bauxite Mining Company	74
Renuka Investments & Finance Limited	100
Renukeshwar Investments & Finance Limited	100
Lucknow Finance Company Limited	100
Suvas Holdings Limited	74
Hindalco Jan Seva Trust	100
Copper Jan Seva Trust	100
Utkal Alumina Jan Seva Trust	100
Utkal Alumina Social Welfare Foundation	100
Kosala Livelihood and Social Foundation	100
A V Metal Inc.	100
Birla Copper Asoj Private Limited	100
Novelis Inc.	100
Novelis do Brasil Ltda	100
Brecha Energetica Ltda	99.99
4260848 Canada Inc.	100
4260856 Canada Inc.	100
8018227 Canada Inc.	100
Novelis (China) Aluminum Products Co. Ltd.	100
Novelis (Shanghai) Aluminum Trading Company	100
Novelis PAE S.A.S.	100
Novelis Aluminum Beteiligungs GmbH	100
Novelis Deutschland GmbH	100
Novelis Sheet Ingot GmbH	100
Novelis (India) Infotech Ltd.	100
Novelis Aluminum Holding Unlimited Company	100
Novelis Italia SpA	100
Novelis de Mexico S.A. de C.V.	100
Novelis Korea Limited	100
Novelis AG	100
Novelis Switzerland S.A.	100
Novelis MEA Ltd.	100
Novelis Europe Holdings Limited	100
Novelis UK Ltd.	100
Novelis Services Limited	100
Novelis Corporation	100
Novelis South America Holdings LLC	100
Novelis Holdings Inc.	100
Novelis Services (North America) Inc.	100
Novelis Global Employment Organization, Inc.	100
Novelis Services (Europe) Inc.	100
Novelis Vietnam Company Limited	100

Name of the Entity	% shareholding as on March 31, 2022
Aleris Asia Pacific International (Barbados) Ltd.	100
Aleris Aluminum (Zhenjiang) Co., Ltd.	100
Aleris (Shanghai) Trading Co., Ltd.	100
Aleris Asia Pacific Limited	100
Aleris Aluminum Japan, Ltd.	100
Novelis Casthouse Germany GmbH	100
Aleris Deutschland Holding GmbH	100
Novelis Koblenz GmbH	100
Novelis Netherlands B.V.	100
Aleris Switzerland GmbH	100
Aleris Aluminum UK Limited	100
Aleris Holding Canada ULC	100
Novelis ALR Aluminium Holdings Corporation	100
Novelis ALR International Inc.	100
Novelis ALR Rolled Products, LLC	100
Novelis ALR Rolled Products, Inc.	100
Nichols ALR Aluminum LLC	100
Novelis ALR Rolled Products Sales Corporation	100
Novelis ALR Aluminum-Alabama LLC	100
Novelis ALR Asset Management Corporation	100
Joint Ventures	
MNH Shakti Limited	15
Hydromine Global Minerals (GMBH) Limited	45
Associates	
Aditya Birla Science & Technology Company Private Limited	49
Aditya Birla Renewables Subsidiary Limited	26
Aditya Birla Renewables Utkal Limited	26
Aditya Birla Renewables Solar Limited	26
Deutsche Aluminum Verpackung Recycling GMBH	30
France Aluminum Recyclage SPA	20

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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