Hindalco Industries Limited

July 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities-Term Loan	11,741.00 (Enhanced from 9,704.73)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term Bank Facilities-Fund Based Working Capital Limits	4,954.00 (Reduced from 12,245.50)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities- Non Fund based Working Capital Limits	19,721.00 (Enhanced from 14,466.00)	CARE AA+; Stable / CARE A1+ (Double A Plus ; Outlook: Stable / A One Plus)	Reaffirmed; Outlook revised from Negative
Total Bank Facilities	**36,416.00 (Rs. Thirty-Six Thousand Four Hundred Sixteen Crore Only)**		
Non Convertible Debentures	6,000.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total Long Term Instruments	**6,000.00 (Rs. Six Thousand Crore Only)**		
Commercial Paper	2,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**2,000.00 (Rs. Two Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook from negative to stable, reflects the better than expected improving operational as well as financial performance of HIL post Q1 FY21. The outlook revision also reflects CARE's view that the recovery in commodity prices along with significant cost-effective production efficiency of the company will continue to drive the domestic operations, while incremental capacity addition and synergies from Aleris acquisition will benefit the operational performance of its overseas subsidiary Novelis.

Stable outlook takes cognizance of improving financial risk profile of the company due to focus on de-leveraging after its Aleris acquisition. Sustained improvement in share of downstream capacities, leading to higher cashflow generation, (surplus cashflow may result in further deleveraging activity) will result in outlook upgrade.

The ratings favorably factor in Hindalco's leadership position in India's aluminium industry and being amongst one of the lowest cost producers for aluminium in the world along with a highly reputed promoter group (Aditya Birla Group) as well as professionally qualified and experienced management.

Despite volatility on the London Metal Exchange (LME), HIL has recorded significant improvement in PBILDT over the past few years. This can be attributed to HIL's superior operating capabilities on the back of robust performance of its domestic (Utkal Alumina International Limited (UAIL)) and global (Novelis) subsidiaries. Enhancing its cost-effective alumina production capacity at UAIL, along with garnering robust benefits from its superior downstream product mix facility at its Novelis plant, has resulted in better insulation from volatile commodity/raw material prices. The rating is also supported by strong liquidity position of the company and financial flexibility as as it is part of Aditya Birla Group.

The rating strengths are however tempered by improving yet high leverage ratios post debt-funded acquisition of Aleris, susceptibility of profitability to volatility in metal prices & raw material prices such as caustic soda, CP Coke, coal etc. as well as cyclicality in the end-user sectors.

CARE takes note of the fact that HIL has not extended any guarantees towards the borrowings of Novelis.

Rating Sensitivities

Positive Factors

- Strong cash accruals leading to improvement in Net debt/PBILDT below 1.5 x.
- Significant reduction of debt resulting in improvement of overall gearing below 0.75 times

Negative Factors

- Lower than expected cash accruals driven by deterioration in operating profitability margins below 10%
- Overall gearing & Total debt/PBILDT remaining elevated above 1.75 x and 3.0 x respectively for a prolonged period.

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. The management has demonstrated strong track record in green field and brownfield project execution as well as cost management expertise.

Market leader in the aluminium industry; one of the lowest cost producers of aluminium 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 aluminium in India. HIL, with significant market share, has a strong market position in India's aluminium industry. With the acquisition of Novelis in 2007 and now Aleris, HIL has become one of the world's largest aluminium rolling company. Novelis is also one of the world leaders in recycling of used aluminium beverage cans. HIL is one of the lowest cost producers of aluminium in the world owing to significant backward integration i.e., access to captive power using its owned mined coal (around 25% of the total requirement) and producing alumina using bauxite from captive mines. Further, its subsidiary, UAIL is reported to be falling in the lowest quartile of the global cost producers of alumina in the world.

Robust operational performance of Novelis

Improvement in the operational performance of Novelis in FY21 was driven by higher shipments due to incremental capacity from Aleris and recovery in PBILDT/Tonne subsequent to Q1FY21. Novelis reported lowest PBILDT/Tonne of US $327 in Q1FY21, however due to recovery in the subsequent quarters PBILDT/Tonne for the whole year stood at US$ 474. Novelis also reported highest shipments of 983 kt for Q4FY21 (3,613 kt for FY21). As Novelis is operating in recycling of the aluminium and it is serving the customers in the automotive & beverage can industry, it is shielded from the LME price fluctuations to an extent. Operational performance is expected to improve going forward due to addition of high margin aero-space segment along with synergies arising from the acquisition of Aleris.

Operational performance of domestic business aided by recovery in LME aluminium and copper prices

Revenues and profitability of domestic business of HIL is largely driven by LME prices and the same has remained volatile over the past year due to uncertainty relating to COVID-19 pandemic. LME prices dropped significantly in Q1FY21 and recovered quickly in upcoming quarters. Sales realizations have moved accordingly for the domestic business of HIL. Due to recovery in LME prices and sales volumes post Q1FY21, domestic operations of HIL were able to report 6% growth in total operating income in FY21 and PBILDT margins improved marginally from 10.59% in FY20 to 11.09% in FY21.

Partial coal linkages, a risk mitigating factor

At its present operating level for HIL and its downstream facilities, total coal requirement is around 16 mn tonnes per annum. HIL has 4 coal blocks with a capacity of 3.8 mntpa (million tonnes per annum) which meets ~25% of its total coal requirement. Though consumption from captive mines is lower, its support remains crucial during the times of unavailability of coal or significantly higher market price of coal. However, HIL's overall cost of production increases to an extent because of lower portion of captive coal consumption and high premium paid to acquire coal mines.

Key Rating Weaknesses

Improving yet high leverage ratios post debt-funded acquisition of Aleris

Novelis has completed the acquisition of Aleris in Apr'20 for a consideration of USD 2.8 billion (~Rs. 21,500 crore). Leverage ratios of the company deteriorated due to addition of debt for the acquisition and impact of COVID-19 pandemic on the operational performance of the company.

However, post Q1FY21, recovery in operations led to improved cash accruals from the business. As HIL used these cash accruals and divestment proceeds to reduce the acquisition debt, leverage ratios of the company improved as on March 31, 2021, albeit leverage ratios are still moderately high.

Profitability susceptible to volatility in metal prices
As witnessed in Q1FY21, profitability of domestic business is susceptible to fluctuations of prices of Aluminium and copper and these prices has remained highly volatile in past couple of years as these are impacted by geopolitical events and state of global economy. Prices of these commodities significantly influence the profitability margins, and thereby remains the key monitorable.

Liquidity: Strong
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. Liquidity is strong, marked by cash balance and liquid investments to the tune of Rs.18,120 crore as on March 31, 2021. Liquidity profile of HIL is further aided by strong cash accruals from business. HIL has total debt repayment obligation of Rs. 1,264 crore and projected capex of ~Rs 7,404 crore in FY22; which can be met comfortably with the projected GCA for FY22. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach: Consolidated
CARE has adopted consolidated approach. HIL has 71 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. CARE has adopted consolidated approach on account of strong operational and financial linkages along with dependencies. List of subsidiaries is mentioned in Annexure-5.

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[Short Term Instruments]
[CARE's Policy on Default Recognition]
[Rating Methodology - Manufacturing Companies]
[Rating Methodology - Consolidation]
[Financial ratios – Non-Financial Sector]

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), Belgaum (Karnataka), Muri (Jharkhand) and Dahej (Gujarat). The company is one of the lowest cost producers of primary aluminium in the world. Over the years, it has grown to become one of the largest integrated aluminium manufacturers in Asia with alumina capacity of 3 mtpa (million tons per annum) and aluminium smelting capacity of 1.3 mtpa. Furthermore, Novelis has aluminium value added downstream capacity of 3.3 million tonnes. The company is also a custom smelter of copper with a capacity of 0.5 mtpa at Dahej with a fertilizer plant, captive power plant and jetty. HIL has 47 subsidiaries, including Novelis Inc. (a manufacturer of aluminium rolled products, a leading provider of rolling and continuous casting technology and a leader in aluminium recycling) which was acquired in FY08. The acquisition of Novelis made HIL one of the world's largest aluminium rolling company. Novelis is also the world leader in recycling used aluminium beverage cans and has diversified geographical presence with headquarters in USA and 25 operating facilities in four continents: North America, South America, Asia and Europe. In April-20 Novelis acquired Aleris which has 13 manufacturing plants across North America, Europe and Asia and with this acquisition Novelis has expanded its capacity to 4 mtpa.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1,18,144	1,32,514
PBILDT	14,150	18,619
PAT	3,767	3,483
Overall gearing (times)	2.12	2.06
Interest coverage (times)	3.37	4.98

A: Audited; Financials have been reclassified as per CARE standards

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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	Date of Issuance	ISIN No	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September 30, 2030	11741.00	CARE AA+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	4954.00	CARE AA+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	19721.00	CARE AA+; Stable / CARE A1+
Debentures-Non Convertible Debentures	April 25, 2012	INE038A07258	9.55%	April 25, 2022	3000.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	June 27, 2012	INE038A07266	9.55%	June 27, 2022	1500.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	August 02, 2012	INE038A07274	9.60%	August 2, 2022	1500.00	CARE AA+; Stable
Commercial Paper-Commercial Paper (Standalone)	-	-	-	7-364 days	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	6000.00	CARE AA+; Stable	-	1)CARE AA+; Negative (08-Oct-20) 2)CARE AA+; Negative (22-May-20)	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (06-Jul-18)
2.	Fund-based - LT-Term Loan	LT	11741.00	CARE AA+; Stable	-	1)CARE AA+; Negative (08-Oct-20) 2)CARE AA+; Negative (22-May-20)	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (09-Oct-18) 2)CARE AA+; Stable (06-Jul-18)
3.	Fund-based - LT-Working Capital Limits	LT	4954.00	CARE AA+; Stable	-	1)CARE AA+; Negative (08-Oct-20) 2)CARE AA+; Negative (22-May-20)	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (09-Oct-18) 2)CARE AA+; Stable (06-Jul-18)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	19721.00	CARE AA+;	-	1)CARE AA+; Negative /	1)CARE AA+;	1)CARE AA+;

				Stable / CARE A1+		CARE A1+ (08-Oct-20) 2)CARE AA+; Negative / CARE A1+ (22-May-20)	Stable / CARE A1+ (09-Oct-19)	Stable / CARE A1+ (09-Oct-18) 2)CARE AA+; Stable / CARE A1+ (06-Jul-18)
5.	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	-	1)CARE A1+ (04-Nov-20) 2)CARE A1+ (08-Oct-20) 3)CARE A1+ (22-May-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (09-Oct-18) 2)CARE A1+ (06-Jul-18)
6.	Term Loan-Short Term	ST	-	-	-	1)Withdrawn (08-Oct-20) 2)CARE A1+ (22-May-20)	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (09-Oct-18)

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 the 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:-List of entities Consolidated

Sr No	Subsidiary
1	Minerals & Minerals Limited
2	Renukeshwar Investments & Finance Limited
3	Renuka Investments & Finance Limited
4	Lucknow Finance Company Limited
5	Dahej Harbour and Infrastructure Limited
6	Utkal Alumina International Limited
7	Utkal Alumina Social Welfare Foundation
8	Kosala Livelihood And Social Foundation
9	AV Minerals (Netherlands) N.V.
10	Hindalco Do Brasil Industria Comercia de Alumina Ltda .
11	AV Metals Inc.
12	Novelis Inc.
13	Novelis do Brasil Ltda.
14	Brecha Energetica Ltda.
15	4260848 Canada Inc.
16	4260856 Canada Inc.

Sr No	Subsidiary
17	8018227 Canada Inc.
18	Novelis (China) Aluminum Products Co., Ltd.
19	Novelis (Shanghai) Aluminum Trading Co., Ltd.
20	Novelis Laminés France SAS
21	Novelis PAE SAS
22	Novelis Aluminium Beteiligungsgesellschaft mbH
23	Novelis Deutschland GmbH
24	Novelis Sheet Ingot GmbH
25	Novelis (India) Infotech Ltd.
26	Novelis Aluminum Holding Unlimited Company
27	Novelis Italia SpA
28	Novelis de Mexico S.A. de C.V.
29	Novelis Korea Limited
30	Novelis AG
31	Novelis Switzerland S.A.
32	Novelis MEA Ltd.
33	Novelis Europe Holdings Limited
34	Novelis UK Ltd.
35	Novelis Services Limited
36	Novelis Corporation
37	Novelis South America Holdings LLC
38	Novelis Holdings Inc.
39	Novelis Services (North America) Inc.
40	Novelis Global Employment Organization, Inc.
41	Novelis Services (Europe) Inc.
42	Novelis Vietnam Company Limited
43	Aleris Asia Pacific International (Barbados) Ltd.
44	Aleris Aluminum (Zhenjiang) Co., Ltd.
45	Aleris (Shanghai) Trading Co., Ltd.
46	Aleris Asia Pacific Limited
47	Aleris Aluminum Japan, Ltd.
48	Aleris Aluminum Denmark ApS
49	Aleris Aluminum France S.à.r.l.
50	Aleris Casthouse Germany GmbH
51	Aleris Deutschland Holding GmbH
52	Aleris Rolled Products Germany GmbH
53	Aleris Aluminum Netherlands B.V.
54	Aleris Aluminum Poland sp. z.o.o.
55	Aleris Switzerland GmbH
56	Aleris Aluminum UK Limited
57	Aleris Holding Canada ULC
58	Aleris Corporation
59	Aleris International Inc.
60	Aleris Rolled Products,LLC
61	Aleris RM, Inc.

Sr No	Subsidiary
62	Aleris Rolled Products, Inc.
63	Nichols Aluminum LLC
64	Aleris Rolled Products Sales Corporation
65	IMCO Recycling of Ohio, LLC
66	Name Acquisition Co.
67	Nichols Aluminum-Alabama LLC
68	UWA Acquisition Co.
69	Suvas Holdings Limited India
70	Hindalco-Almex Aerospace Limited India
71	East Coast Bauxite Mining Company Private Limited India

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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