Hindalco Industries Limited

May 22, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities – Term Loan	9680.12	**CARE AA+; Negative (Double A Plus; Outlook: Negative)**	Reaffirmed; Outlook revised from Stable to Negative
Long Term Bank Facilities – Fund Based	1642.50	**CARE AA+; Negative (Double A Plus; Outlook: Negative)**	Reaffirmed; Outlook revised from Stable to Negative
Long term/Short term Bank Facilities – Non Fund Based	11590.50	**CARE AA+; Negative /CARE A1+ (Double A Plus; Outlook: Negative / A One Plus)**	Reaffirmed; Outlook revised from Stable to Negative
Short term Bank Facilities - Term Loan	1000.00	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**23,913.12 (Rupees Twenty three Thousand Nine Hundred and Thirteen Crore and Twelve Lakh Only)**		
Non-Convertible Debenture issue	6000.00 (Rs. Six Thousand crore only)	**CARE AA+; Negative (Double A plus; Outlook: Negative)**	Reaffirmed; Outlook revised from Stable to Negative
Commercial Paper (CP) issue (Standalone)	1000.00 (Rupees One Thousand Crore Only)	**CARE A1+ (A One Plus)**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Hindalco Industries Limited (HIL) continues to derive strength from 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) and professionally qualified and experienced management.

Despite volatility on the London Metal Exchange (LME) aluminium prices, HIL has recorded significant improvement in EBITDA on a consolidated level 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 into better insulation from volatile commodity/raw material prices. The ratings also factors in healthy financial risk profile marked with strong liquidity position along with improvement in the gearing and debt coverage indicators in FY19.

The rating strengths are however tempered by susceptibility of profitability to volatile metal prices and increase in raw material prices such as caustic soda, CP Coke, coal etc. as well as cyclicality in the end-user sectors.

Rating Sensitivities

Positive Factors

- Strong cash accruals leading to improvement in financial risk profile of company.
- Significant reduction of debt resulting in improvement of overall gearing below 1.5 times

Negative Factors

- Lower than expected cash accruals driven by deterioration in operating performance
- Overall gearing & Total debt/PBILDT remaining elevated for prolonged period

Outlook: Negative

The revision in outlook from 'Stable to Negative' reflects CARE's belief that the operating profits are likely to remain subdued in the short to medium term period on the back of an expectation of a lower demand for commodities, which is likely to

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

impact sales volumes and net sales realizations for HIL. Furthermore, CARE also factors in the increase in debt levels owing to debt funded acquisition of Aleris Corporation, which will result into elevated leverage ratios for HIL in near future. CARE also notes that this acquisition comes at a time when operations in global & domestic markets are disrupted by the outbreak of COVID-19 pandemic.
Outlook may be revised to Stable in case of timely recovery in demand leading to improvement in the operating performance of the company and improvement in overall gearing due to significant repayment of debt.

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 rating continues 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, 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 captive coal mines (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.

Improved operational performance in FY19
During FY19, HIL's (consolidated) income from operations grew by ~13% on a Y-o-Y basis primarily on account of higher sales realizations for aluminium in the domestic market. Furthermore, Novelis also recorded a significant growth primarily on account of higher shipments as well as improvement in realizations. LME prices for aluminium as well as copper remained volatile. Despite of its adversities, aluminium segment is operating at full capacity and stable sales volume.
During FY19, PBILDT margins of aluminium segment dropped marginally due to higher input costs. HIL's revenues from copper segment remained stable despite 12% fall in sales volume in FY19 as the revenue was aided by higher sales realizations. PBILDT margins from copper segment declined marginally due to lower Tc/Rc margins.
During 9MFY20, sales volumes remained stable in aluminum & copper segment however; lower LME prices resulted in y-o-y drop in revenue of 8% & 12% for aluminum & copper segments respectively. Subsequently PBILDT also declined in 9MFY20 for domestic operations.

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 tons per annum) which meets ~25% of its total coal requirement. During FY19 coal requirement of HIL was met through 55% via coal linkages, 29% by e-auction, 12% by captive mines and 3% by imports. Kathautia and Dumri has lower production cost in comparison to Gare Palma due to which the latter is used as swing producer depending upon availability of coal and coal prices. Though consumption from captive mines is lower, its support during unavailability of coal/significantly higher market prices remains very crucial. HIL's overall cost of production remained high because of lower portion of captive coal consumption and high premium paid to acquire coal mines.

Stable operating performance by Novelis
During FY20, total shipments remained stable at 3273 KT as against 3,274 KT in FY19. Due to lower LME aluminium prices total operating income dropped by 9% in FY20, however PBILDT improved to US$ 1,472 Million (US$ 1,368 Million in FY19) due to favorable product mix. Novelis continued to be major contributor in consolidated revenue and EBITDA.

Key Rating Weaknesses
Moderation in financial risk profile of the company
The acquisition of Aleris (through its subsidiary Novelis) for US$ 2.80 Bn (~Rs. 21,500 crore) amounts to around ~60% of the consolidated tangible networth of HIL as on March 31, 2019. The acquisition being entirely debt funded has resulted into elevation in the leveraged ratios of HIL in near future. Furthermore, likely moderation in the operational performance caused by lower demand outlook in the domestic as well as global markets is likely to impact the Leverage ratios such as total debt/ PBILDT and interest coverage ratios. However, HIL has strong financial flexibility supported by refinancing capabilities of the

company. Financial flexibility if HIL is also backed by negligible repayment obligation for next couple of years and strong liquidity position.

Highly susceptible to volatility in metal prices

Prices of Aluminium have been on declining trend after FY18. Copper prices too after a recovery in FY18-19, declined in FY20. LME (London Metal Exchange) aluminium/copper prices continue to remain volatile as these are impacted by geopolitical events and state of global economy. Prices of these commodities significantly influence the profitability margins, thereby remains the key monitorable.

Future Capex Plans

The brownfield capacity expansion under Utkal of 500 KT is on schedule and is expected to be commissioned by FY21. Novelis is expanding the capacity of the auto parts segment in its US and China factory with a planned capex of US$ 300 Million and US$ 180 Million respectively. These are expected to be commissioned by the end of FY21.

Industry Outlook & Impact of Covid-19

Aluminium prices are likely to remain under pressure due to uncertainty related to extensions of lockdowns due to the Coronavirus pandemic. Slowdown in manufacturing activities due to lockdowns across the country will hit demand for the metal. Demand from other user industries like automobiles is also expected to remain muted as major automobiles manufacturers have already shutdown their plants due to lower demand and lockdown measures announced by government.

For copper, global demand from the European, Middle East and the US markets is likely to remain muted for the next one quarter and prices for most of the base-metals are likely to remain subdued, owing to significant demand-supply disruptions.

Liquidity: Strong

Liquidity is marked by strong accruals against negligible repayment obligations. Owing to significant prepayments of term loans, the company has negligible debt repayment obligations in the short to medium term period. Furthermore, the company has free cash and liquid investments to the tune of Rs. 12,661 crore as on September 30, 2019. With a gearing of 1.62 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Analytical approach:

CARE has adopted consolidated approach. HIL has 47 subsidiaries having significant operational and financial linkages. All the subsidiaries are either operating in the similar line of business or business related to non-ferrous metals industry. There is significant reliance of these entities on parent and business inter-linkages are present between parent and subsidiaries. The list of subsidiaries is mentioned in Annexure-3.

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 and Factoring Linkages in Ratings
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 the largest integrated aluminium manufacturer 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 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,16,148	1,31,371
PBILDT	14,842	16,294
PAT	6,083	5,495
Overall gearing (times)	1.68	1.62
Interest coverage (times)	3.80	4.31

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	ISIN	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-		-	September 30, 2030	9680.12	CARE AA+; Negative
Fund-based - LT-Working Capital Limits	-		-	-	1642.50	CARE AA+; Negative
Non-fund-based - LT/ ST-BG/LC	-		-	-	11590.50	CARE AA+; Negative / CARE A1+
Term Loan-Short Term (Proposed)	-		-	-	1000.00	CARE A1+
Debentures-Non Convertible Debentures	April 25, 2012	INE038A07258	9.55%	April 25, 2022	3000.00	CARE AA+; Negative
Debentures-Non Convertible Debentures	June 27, 2012	INE038A07266	9.55%	June 27, 2022	1500.00	CARE AA+; Negative
Debentures-Non Convertible Debentures	August 2, 2012	INE038A07274	9.60%	August 2, 2022	1500.00	CARE AA+; Negative`
Commercial Paper-Commercial Paper (Standalone)	April 13,2020	INE038A14270	5.60%	July 10, 2020	600.00	CARE A1+
Commercial Paper-Proposed	-	-	-	-	400.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	6000.00	CARE AA+; Negative	-	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (26-Sep-17)
2.	Fund-based - LT-Term Loan	LT	9680.12	CARE AA+; Negative	-	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (09-Oct-18) 2)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (26-Sep-17)
3.	Fund-based - LT-Working Capital Limits	LT	1642.50	CARE AA+; Negative	-	1)CARE AA+; Stable (09-Oct-19)	1)CARE AA+; Stable (09-Oct-18) 2)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (26-Sep-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	11590.50	CARE AA+; Negative / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (09-Oct-19)	1)CARE AA+; Stable / CARE A1+ (09-Oct-18) 2)CARE AA+; Stable / CARE A1+ (06-Jul-18)	1)CARE AA+; Stable / CARE A1+ (26-Sep-17)
5.	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (09-Oct-18) 2)CARE A1+ (06-Jul-18)	1)CARE A1+ (26-Sep-17) 2)CARE A1+ (23-Aug-17)
6.	Term Loan-Short Term	ST	1000.00	CARE A1+	-	1)CARE A1+ (09-Oct-19)	1)CARE A1+ (09-Oct-18)	-

Annexure-3: List of Subsidiary companies

	List of Subsidiary companies
1	Minerals and Minerals Limited
2	Renuka Investments and Finance Limited
3	Renukeshwar Investments and Finance
4	Suvas Holding Limited
5	Utkal Alumina International Limited
6	Hindalco-Almex Aerospace Limited
7	Lucknow Finance Company Limited
8	Dahej Harbour and Infrastructure Limited
9	East Coast Bauxite Mining Co.Pvt.Ltd.
10	Mauda Entergy Limited %
11	Utkal Alumina Technical and General Services
12	A V Minerals (Netherlands) N.V.
13	A V Metals Inc.
14	Novelis Inc.

	List of Subsidiary companies
15	4260848 Canada Inc.
16	4260856 Canada Inc.
17	Novelis South America Holdings LLC
18	Novelis (India) Infotech Ltd.
19	Novelis Corporation (Texas)
20	Novelis de Mexico SA de CV
21	Novelis do Brasil Ltda.
22	Novelis Korea Limited
23	Novelis UK Ltd.
24	Novelis Services Limited
25	Novelis Deutschland GmbH
26	Novelis Aluminium Beteiligungs GmbH
27	Novelis Switzerland SA
28	Novelis Laminés France SAS
29	Novelis Italia SPA
30	Novelis Aluminium Holding Company
31	Novelis PAE SAS
32	Novelis Europe Holdings Limited
33	Novelis AG (Switzerland)
34	Novelis Holdings Inc.
35	8018227 Canada Inc.
36	Novelis Acquisitions LLC
37	Novelis Sheet Ingot GmbH (Germany)
38	Novelis MEA Ltd (Dubai)
39	Novelis (Shanghai) Aluminum Trading Company
40	Novelis (China) Aluminum Products Co. Ltd.
41	Novelis Vietnam Company Limited (Vietnam)
42	Novelis Services (North America) Inc.
43	Novelis Services (Europe) Inc.
44	Brecha Energetica Ltda
45	Global Employment Organization (GEO) - Repurpose of Eurofoil and PAE Delaware
46	Hindalco Guinea SARL
47	Hindalco Do Brazil Industria Comercia de Alumina

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Mr. Hitesh M Avachat
Group Head Contact no.- 022-6754 3510
Group Head Email ID- hitesh.avachat@careratings.com

Relationship Contact
Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**