

**Hindalco Industries Limited** <sup>(Revised)</sup>

October 09, 2019

**Ratings**

<b>Facilities</b>	<b>Amount (Rs. crore)</b>	<b>Rating<sup>1</sup></b>	<b>Rating Action</b>
Long Term Bank Facilities – Term Loan	9680.12 (reduced from Rs.11,230.87 crore)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	<b>Reaffirmed</b>
Long Term Bank Facilities – Fund Based	1642.50	CARE AA+; Stable (Double A Plus; Outlook: Stable)	<b>Reaffirmed</b>
Long term/Short term Bank Facilities – Non Fund Based	11590.50	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	<b>Reaffirmed</b>
Short term Bank Facilities - Term Loan	1000.00	CARE A1+ ( A One Plus)	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>23,913.12</b> <b>(Rupees Twenty three Thousand Nine Hundred and Thirteen Crore and Twelve Lakh Only)</b>		
Non-Convertible Debenture issue	6000.00 (Rs. Six Thousand crore only)	CARE AA+; Stable (Double A plus); Outlook: Stable	<b>Reaffirmed</b>
Commercial Paper (CP) issue (Standalone)	1000.00 (Rupees One Thousand Crore Only)	CARE A1+ (A One Plus)	<b>Reaffirmed</b>

*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 in the London Metal Exchange (LME) aluminium prices, HIL has recorded significant improvement in EBITDA on a consolidated level, growing at a CAGR of around 19.5% during FY16 to FY19. 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.

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.

The company's ability to improve its profitability in a scenario characterized by weak global demand and commodity prices will remain the key rating sensitivities. Furthermore, timely completion of the acquisition of Aleris Corporation (without breaching the expected leverage levels) as well as deriving expected synergies will remains the key rating monitorable.

**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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**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 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 and healthy financial position**

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.

The consolidated gearing for the company has remained stable. HIL has continued deleveraging by prepaying term loans availed for domestic business. Due to prepayments, the interest cost has gone down which led to improvement in interest coverage indicators.

**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.

**Improvement in performance by Novelis:**

During FY19, Novelis reported increase in revenues by around 7% on a y-o-y basis from USD 11.5 billion in FY18 to USD 12.3 billion in FY19 partially on account of increase in shipments (from 3,188 KT in FY18 to 3,274 KT in FY19) due to increase in demand from beverage can segment & automobile segment. Owing to improvement in operational efficiencies due to favorable product mix (increase in automobile segment sales) and higher percentage of recycled content, the PBILDT margin of Novelis improved in FY19. Novelis continued to be major contributor in consolidated revenue and EBITDA.

**Key Rating Weaknesses****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 H1FY20. 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 and Acquisition 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.

HIL through its wholly owned subsidiary, Novelis is in the process of getting approvals for the acquisition of Ohio based Aleris Corporation which is a USA based Aluminium products maker and is expected to be completed by February 2020. Total acquisition cost is US\$ 2.58 bn, which is likely to be funded with debt being raised by Novelis. With the Aleris acquisition Novelis will further diversify its product portfolio by entering into aerospace segment.

**Industry Outlook**

The US-China trade tensions continue to impact aluminium market. Aluminium prices have fallen by 19.2% during last year. Growth in demand (including secondary demand) is likely to remain stable and is expected range around 6% to 7% during FY20. Reforms proposed by the Government of India like development of Smart Cities, Rural Electrification and a focus on building renewable energy projects under the National Electricity Policy will support the demand for aluminium. Prices are

expected to remain depressed in the short to medium term period owing to lower demand especially from Chinese and the European markets.

Copper prices have slipped to a 2- year low because of the escalated trade tensions between the US and China. Slowdown in the Chinese economy too has led to the fall of the red metal. A temporary truce between US-China before the G20 Osaka summit had led to an increase in copper prices for a brief period. Due to the increase in demand, India will continue being a net importer of refined copper during FY20 as well, unless the Madurai court passes the judgement for the remission of the Tuticorin smelter.

#### Liquidity indicator: 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. 13,630 crore as on March 31, 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: 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

The 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 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	9680.12	CARE AA+; Stable
Fund-based - LT-Working Capital Limits	-		-	-	1642.50	CARE AA+; Stable
Non-fund-based - LT/ ST-BG/LC	-		-	-	11590.50	CARE AA+; Stable / CARE A1+
Term Loan-Short Term	-		-	-	1000.00	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 2, 2012	INE038A07274	9.60%	August 2, 2022	1500.00	CARE AA+; Stable
Commercial Paper issue	August 27, 2019	INE038A14247	5.70%	November 22, 2019	800.00	CARE A1+
Proposed Commercial Paper	-	-	-	-	200.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	6000.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (26-Sep-17)	1)CARE AA (07-Nov-16)
2.	Fund-based - LT-Term Loan	LT	9680.12	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-18) 2)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (26-Sep-17)	1)CARE AA (07-Nov-16)
3.	Fund-based - LT-Working Capital Limits	LT	1642.50	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Oct-18) 2)CARE AA+; Stable (06-Jul-18)	1)CARE AA+; Stable (26-Sep-17)	1)CARE AA (07-Nov-16)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	11590.50	CARE AA+; Stable / CARE A1+	-	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)	1)CARE AA / CARE A1+ (07-Nov-16)
5.	Commercial Paper-Commercial Paper (Standalone)	ST	1000.00	CARE A1+	-	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-18)	-	-

**Annexure-3: List of Subsidiary companies**

	<b>List of Subsidiary companies</b>
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.
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

	List of Subsidiary companies
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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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