Hindalco Industries Limited

November 04, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	2,000.00 (Enhanced from 1,000.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	**2,000.00 (Rs. Two Thousand Crore Only)**		

Details of instruments/facilities in Annexure-1

Other Ratings

Facilities	Amount (Rs. crore)	Rating[1]
Long Term Bank Facilities – Term Loan	9704.73	**CARE AA+; Negative (Double A Plus; Outlook: Negative)**
Long Term Bank Facilities – Fund Based	12,245.50	**CARE AA+; Negative (Double A Plus; Outlook: Negative)**
Long term/Short term Bank Facilities – Non Fund Based	14,466.00	**CARE AA+; Negative / CARE A1+ (Double A Plus ; Outlook: Negative / A One Plus)**
Total Facilities	**36,416.23 (Rs. Thirty-Six Thousand Four Hundred Sixteen Crore and Twenty-Three Lakhs Only)**	
Non-Convertible Debenture issue	6000.00 (Rs. Six Thousand crore only)	**CARE AA+; Negative (Double A plus; Outlook: Negative)**

Detailed Rationale & Key Rating Drivers

The ratings assigned to the commercial paper 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) as well as 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 in better insulation from volatile commodity/raw material prices. The ratings also factor strong liquidity position along.

The rating strengths are however tempered by deterioration in leverage ratios due to debt-funded acquisition of Aleris, moderation in the operational performance due to impact of COVID-19 pandemic on global demand, susceptibility of profitability to volatility in metal prices and 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 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 profitability margins below 10%
- Overall gearing and Total debt/PBILDT remaining elevated for prolonged period

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[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Outlook: Negative

The Negative outlook 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 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 keep the leverage ratios elevated 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 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 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.

Stable performance by Novelis in FY20 while lower demand impacted Q1FY21 performance

As Novelis majorly operates in recycling of aluminium and is serving the customers in the automotive & beverage can industry, it is relatively shielded from the LME price fluctuations. However, operating performance of Novelis was impacted in Q1 FY21 due to lower demand resulting from lockdowns imposed in various countries in the initial stages of COVID-19 pandemic. Sales volumes though remained stable in FY20, the same declined by 7% on Y-o-Y basis in Q1FY21 due to lower demand from automotive segment. As automotive segment is high margin business as compared to beverage cans, PBILDT/Tonne also declined to US$ 327 for Q1FY21 (including Aleris) as against US$ 450 for FY20 ($418 for FY19). Going ahead, operating performance is expected to improve on the basis of resilient demand from beverage cans, recovery of demand in automotive segment and additional capacity of Aleris.

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

Deterioration in leverage ratios due to debt-funded acquisition of Aleris

Novelis has completed the acquisition of Aleris in Apr'20 for a consideration of USD 2.8 billion. With this acquisition, Novelis's capacity has increased to 4 mtpa. Acquisition of Aleris is entirely debt funded and it comes at a time when the operational performance of the company has been moderated due to disruption in demand because of outbreak of COVID-19 pandemic. This has resulted in increase in overall gearing to 2.12x as on March 31, 2020 from 1.62x as on March 31, 2019 and total debt/PBILDT to 5.27x for FY20 from 3.75x for FY19 at consolidated level for HIL. Debt taken for the acquisition includes bridge loan of USD 1.1 billion is expected to be repaid in April 2022 using the proceeds from divestment of Lewisport & Duffel plants thus easing the debt burden to an extent.

Moderation in the operational performance in domestic business

HIL's domestic operations witnessed 8.5% decline in total operating income for aluminium segment while total operating income in copper segment declined by 16% in FY20. This was primarily due to lower sales realizations as the average LME prices for aluminium and copper were lower in FY20 as compared with previous year. Even during the current financial year, LME prices for aluminium and copper have remained volatile because of disruption caused by the outbreak of COVID-19 pandemic and impacted the performance of domestic operations in Q1FY21 both in terms of volume as well as realizations. PBILDT margins at the consolidated level remained stable in FY20 at 11.98%, however, declined in Q1FY21 to 9.15% due to lower demand and sudden drop in LME prices.

Profitability 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.

Industry Outlook and Impact of Covid-19
Slowdown in manufacturing activities due to lockdowns across the country resulted in sharp decline in aluminium/copper prices during March-20. Though, prices recovered to pre COVID-19 levels within a quarter, the same are likely to remain under pressure due to uncertainty related to recovery in the economic activity post coronavirus pandemic.

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 marked by strong accruals and cash and liquid investments to the tune of Rs.21,879 crore as on June 30, 2020. HIL has total debt repayment obligation of Rs. 431 crore and projected capex of ~Rs 1500 crore in FY21 these requirements of funds can be met comfortably with the projected GCA for FY21. 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 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)	FY19 (A)	FY20 (A)
Total operating income	1,30,542	1,18,144
PBILDT	15,486	14,150
PAT	5,495	3,767
Overall gearing (times)	1.62	2.12
Interest coverage (times)	4.10	3.37

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
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 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+; 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)	1)CARE AA+; Stable (26-Sep-17)
2.	Fund-based - LT-Term Loan	LT	9704.73	CARE AA+; Negative	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)	1)CARE AA+; Stable (26-Sep-17)
3.	Fund-based - LT-Working Capital Limits	LT	12245.50	CARE AA+; Negative	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)	1)CARE AA+; Stable (26-Sep-17)
4.	Non-fund-based - LT/ ST-BG/LC	LT/ST	14466.00	CARE AA+; Negative / CARE A1+	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)	1)CARE AA+; Stable / CARE A1+ (09-Oct-18) 2)CARE AA+; Stable / CARE	1)CARE AA+; Stable / CARE A1+ (26-Sep-17)

							A1+ (06-Jul-18)	
5.	Commercial Paper-Commercial Paper (Standalone)	ST	2000.00	CARE A1+	1)CARE A1+ (08-Oct-20) 2)CARE A1+ (22-May-20)	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	-	-	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: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple

Annexure-4: 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.
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

	List of Subsidiary companies
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.*

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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