3rd August, 2021

Mr. Naresh Sachwani
Asst. Vice President
IDBI Trusteeship Services Ltd.
Asian Building, Ground Floor,
17, R Kamani Marg,
Ballard Estate,
Mumbai – 400 001
Tel No . 4080 7000.

Dear Sir,

Sub: Long term Credit Rating Upgradation by Crisil –Hindalco Industries Limited ("the Company")

We would like to inform you that CRISIL has upgraded the Company's long term rating from AA/positive to AA+/stable.

The rationale letter issued by CRISIL is attached.

Thanking you

Yours faithfully,

For **Hindalco Industries Limited**

Anil Malik
President & Company Secretary

Encl: As above

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

July 29, 2021 | Mumbai

Hindalco Industries Limited

Long-term rating upgraded to 'CRISIL AA+/Stable'; CP reaffirmed

Rating Action

Rs.1500 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Rs.3000 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Rs.100 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Rs.1400 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')**
Rs.900 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its rating on the non convertible debentures of Hindalco Industries Ltd (Hindalco) to **'CRISIL AA+/Stable'** from 'CRISIL AA/Positive'. Also, CRISIL Ratings has reaffirmed its 'CRISIL A1+' rating on the commercial paper programme.

The upgrade reflects steady improvement in operating performance, driven by healthy aluminium demand and price outlook, improving product mix and well-defined capital allocation approach. Better performance will support healthy operating cash accrual and faster-than-expected reduction in consolidated adjusted net leverage (ratio of adjusted net debt to earnings before interest, tax, depreciation and amortisation [EBITDA]) to sustainably below 2.5 times by the end of fiscal 2022.

The ratings also factor in strong resilience in operations of Hindalco's subsidiary, Novelis Inc (Novelis; rated 'BB/ Stable' by S&P Global Ratings), high cost efficiency in Hindalco's domestic operations and increased focus on only downstream capacities at both domestic operations and Novelis, which should result in healthy operating cash flow over the medium term.

While profitability in the domestic aluminium business is exposed to volatility in London Metal Exchange (LME) aluminium prices, the conversion nature of the company's large downstream operations at Novelis with its increasing share in consolidated profitability (contributed around 70% to consolidated EBITDA in fiscal 2021, against around 65% in fiscal 2020 [pre-Aleris acquisition]) lends stability to Hindalco's aggregate profitability.

Global aluminium demand is expected to witness robust growth of 6-7% in calendar year 2021, after witnessing de-growth of around 2% in year 2020 owing to the Covid-19 pandemic, driven by healthy recovery in global economy, supported by increased spending on infrastructure and electrification, as countries have lifted restrictions and are fast tracking vaccination programmes. Increasing acceptance of electric vehicles will also drive aluminium demand. On the other hand, the global aluminium industry is expected to witness modest capacity addition over the medium term because of increasing environmental restrictions. This demand pull amid tight supply is likely to support healthy aluminium price outlook over the medium term. CRISIL Ratings expects aluminium prices of USD 2,000-2,100 per tonne through fiscal 2023, against earlier expectation of USD 1,900-2,000 per tonne (average aluminium prices were USD 1,803 per tonne in fiscal 2021).

Healthy demand and price outlook as well as improving product mix towards high-margin automotive (auto), building and construction, and aerospace segments will support sustained improvement in Hindalco's operating profit. Consolidated EBITDA for fiscal 2022 is expected around Rs 22,000 crore, against earlier expectation of around Rs 20,000 crore, and should sustain above Rs 20,000 crore in fiscal 2023 (EBITDA of around Rs 17,650 crore in fiscal 2021). Additionally, with the capital allocation approach having focus on only downstream capacities at both domestic operations and Novelis, Hindalco is expected to generate sizeable free operating cash flow and improved return on capital employed (RoCE) over the medium term. This, along with no major inorganic growth acquisitions, should support continued deleveraging over the medium term, with adjusted net leverage of 2.2-2.3 times as on March 31, 2022, and lower thereafter (3 times as on March 31, 2021).

While CRISIL Ratings expects steady growth in Hindalco's consolidated volumes over the medium term, sales of aluminium auto shipments for Novelis are likely to be impacted in the short term owing to semiconductor shortage in the auto industry. Nevertheless, this should not have any material impact on overall shipments, as it will be largely offset by growth in other segments, including beverage cans and specialty shipments. However, progress on the semi-conductor supply situation and any impact of the same on Novelis' auto shipments will be a monitorable.

The ratings reflect the company's established position in the Indian aluminium industry, and strong resilience of the business risk profile driven by robust profitability at Novelis and cost-efficient domestic operations. These strengths are partially offset by moderately high but reducing leverage, and susceptibility to volatility in metal and input commodity prices.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Hindalco and its subsidiaries, including Novelis and Utkal Alumina International Ltd, as these entities have strong business and financial linkages.

The company's profit after tax (PAT) and networth have been adjusted for amortisation of goodwill arising from acquisitions. Also, consolidated adjusted debt includes net deficit related to the unfunded portion of post-retirement benefit obligation for Novelis.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

*** Established position in the domestic non-ferrous industry:**

The company is among the leading players in the domestic non-ferrous industry with more than 40% share in flat-rolled products market. It is also a leading copper producer in India with its integrated copper smelting complex in Gujarat being one of the largest single-location custom copper smelters in the world. Thus, it has strong economies of scale to compete globally, thereby diversifying its revenue mix. In fiscal 2020, Hindalco generated around 30% of its revenue from sales in export markets. While the company witnessed increased export sales in the domestic aluminium business during the first half of fiscal 2021, to offset fall in domestic demand, export gradually fell to pre-Covid levels during the second half of the fiscal. The company will sustain the geographic diversity in revenue over the medium term.

*** Healthy operating efficiency of domestic aluminium operations:**

Hindalco benefits from low cost of production for aluminium, with its smelters occupying first or second quartile position in global cost curves. The company also benefits from full alumina integration with captive bauxite mines, and stable coal cost with around 90% coal security through a combination of linkage from Coal India Ltd and captive coal blocks. However, high coal cost post deallocation of coal blocks continues to suppress its RoCE. The company's domestic profitability had moderated in fiscal 2020 on account of softening of aluminium realisations and operating challenges at its copper smelter, which continued during the first quarter of fiscal 2021 on account of the Covid-19 pandemic. However, the operating margin for domestic aluminium has improved from the second quarter of fiscal 2021, and is expected to be sustained at around 14% over the medium term. Brownfield expansion of the alumina capacities in the current fiscal may further boost profitability.

*** Product and geographic diversity of Novelis, with healthy and stable conversion margin:**

Novelis is the world's leading producer of auto and beverage can sheets. As it primarily converts aluminium into value-added products, it is less susceptible to volatility in aluminium LME prices. Investment towards enhancing product mix in the high-margin auto segment and the stable can-body-stock segment have supported growth in the operating margin. Its position as the world's largest aluminium recycler (more than 60% of its aluminium consumption in fiscal 2021) also supports the cost structure. Acquisition of Aleris has further strengthened the product and geographic diversity of Novelis with addition of the high-margin aerospace and specialty segments, and increased access to the Asia-Pacific region. Adjusted EBITDA per tonne for Novelis steadily increased to USD 470 per tonne in fiscal 2021 from USD 308 per tonne in fiscal 2016. Novelis' contribution to consolidated profitability was 70% in fiscal 2021, against 52% in fiscal 2016, providing increased stability.

The company's strategy to expand in downstream aluminium along with the increased share of high-margin product segments in Novelis should support improved profitability going forward.

Weaknesses:

*** Moderately high, albeit improving, leverage:**

Consolidated adjusted net leverage increased in fiscal 2021 owing to increased acquisition debt and lower-than-expected proceeds from the divestment of the Lewisport plant of Aleris. While it was partially offset by improved profitability, net leverage was moderately high at 3 times as on March 31, 2021 (3.1 times as on March 31, 2020). However, it is expected to decline to less than 2.5 times as on March 31, 2022, backed by improved profitability with recovery in global economy post disruption caused by the pandemic in fiscal 2021. Thus, interest coverage and net cash accrual to total debt ratios are expected to sustain at more than 5 times and 0.2 time, respectively (more than 4.5 times and 0.15 time, respectively, in fiscal 2021). Financial flexibility will remain strong, supported by strong refinancing ability and healthy cash surplus.

*** Susceptibility of the domestic aluminium business to volatility in metal and input commodity prices:**

The domestic aluminium business is exposed to adverse movements in aluminium prices, as witnessed in fiscal 2016 and in the first half of fiscal 2021. The operating margin is susceptible to increase in the prices of raw materials (coke and pitch), which the company may not be able to completely pass on to customers. While coal linkage security has increased, it remains susceptible to rise in Coal India Ltd prices, non-fulfilment of linkage and increased dependence on e-auction coal. Vulnerability to commodity prices is mitigated by the conversion nature of Novelis and the copper business, which contribute around 75% of consolidated EBITDA.

Liquidity: Strong

Annual cash accrual is expected at Rs 13,000-14,000 crore during fiscals 2022 and 2023, against expected capital expenditure (capex) of Rs 7,500-8,000 crore per fiscal, and scheduled term debt obligation of around Rs 5,400 crore and Rs 6,000 crore in fiscals 2022 and 2023, respectively. Furthermore, liquid investments stood at more than Rs 18,500 crore (combined for the India business and Novelis) as on March 31, 2021. Additionally, Hindalco (India) had unutilised fund-based bank limits of around Rs 9,750 crore and Novelis had around USD 1,200 million under an asset-backed revolving credit line, as on March 31, 2021.

Outlook: Stable

CRISIL Ratings believes Hindalco will continue to benefit from its diversified and cost-efficient operations with increasing proportion of downstream conversion capacities. Expected improvement in profitability, lower capex and utilisation of free cash flow towards servicing debt will support continued deleveraging and help sustain expected improvement in the financial risk profile.

Rating Sensitivity Factors

Upward factors
- Stronger consolidated profitability on a sustained basis, and
- Robust free cash flow generation, leading to continued deleveraging, with expectation of adjusted net debt to EBITDA ratio sustaining below 1.5 times over the medium term

Downward factors
- Sustained weakening of the profitability, resulting in significantly lower-than-expected cash accrual
- Steady increase in net debt to EBITDA ratio to more than 2.5-2.7 times

About the Company

Hindalco, the flagship company of the Aditya Birla group, commenced operations in 1962 with an aluminium unit in Renukoot, Uttar Pradesh. The company is the second-largest aluminium manufacturer in India, with capacity of 1,300 kilo tonne per annum (ktpa) of aluminium and 2,900 ktpa of alumina. It has a custom smelter with copper cathode capacity (including recycling) of 421 ktpa in Dahej, Gujarat.

Novelis, a 100% stepdown subsidiary of Hindalco, was acquired in May 2007 for USD 6 billion. It supplies aluminium sheets and foils to the auto and transportation, beverage and food packaging, construction and industrial, and printing industries.

Aleris, a wholly owned subsidiary of Novelis, was acquired on April 14, 2020, for USD 2.8 billion. It manufactures aluminium-rolled products, and has 13 plants across North America, Europe and Asia, serving diverse industries including aerospace, auto, building and construction, commercial transportation and industrial manufacturing.

Key Financial Indicators - Consolidated; CRISIL Ratings-adjusted numbers

As on/for the period ended March 31	Unit	2021**	2020
Operating income	Rs crore	131,985	118,248
Profit After Tax (PAT)*	Rs crore	3,483	1,965
PAT Margin*	%	2.6	1.6
Adjusted debt/adjusted networth*	Times	1.93	1.92
Interest coverage	Times	4.7	3.6

**Adjusted for the treatment of goodwill, mining rights and other intangible assets*
***Unadjusted as the annual report for FY21 is yet to be released*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity	Rating assigned with outlook
INE038A07266	Non-convertible debentures	27-Jun-2012	9.55%	27-Jun-2022	1,500	Simple	CRISIL AA+/Stable
INE038A07274	Non-convertible debentures	02-Aug-2012	9.60%	02-Aug-2022	1,500	Simple	CRISIL AA+/Stable
INE038A07258	Non-convertible debentures	25-Apr-2012	9.55%	25-Apr-2022	3,000	Simple	CRISIL AA+/Stable
NA	Commercial paper	NA	NA	7-365 days	900	Simple	CRISIL A1+

Annexure - List of Entities Consolidated

Name of the company	Type of consolidation	Rationale for consolidation
Novelis Inc. (consolidated)	Full consolidation	Significant financial and operational linkages
Utkal Alumina International Ltd	Full consolidation	Significant financial and operational linkages
Minerals & Minerals Ltd	Full consolidation	Significant financial and operational linkages
Suvas Holdings Ltd	Full consolidation	Significant financial and operational linkages
Renuka Investments & Finance Ltd	Full consolidation	Significant financial and operational linkages
Dahej Harbour & Infrastructure Ltd	Full consolidation	Significant financial and operational linkages
Lucknow Finance Company Ltd	Full consolidation	Significant financial and operational linkages
Hindalco-Almex Aerospace Ltd	Full consolidation	Significant financial and operational linkages
East Coast Bauxite Mining Company Pvt Ltd	Full consolidation	Significant financial and operational linkages
AV Minerals (Netherlands) NV	Full consolidation	Significant financial and operational linkages
AV Metals Inc.	Full consolidation	Significant financial and operational linkages
Hindalco Do Brasil Industria Comercia De Alumina Ltda	Full consolidation	Significant financial and operational linkages
Aditya Birla Renewable Subsidiary Ltd	Equity method	Proportionate consolidation
Aditya Birla Science and Technology Company Pvt Ltd	Equity method	Proportionate consolidation
Hindalco Jan Seva Trust	Full consolidation	Trust, with significant linkages
Copper Jan Seva Trust	Full consolidation	Trust, with significant linkages

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT		--		--		--		--		--	Withdrawn
Non-Fund Based Facilities	ST		--		--		--		--		--	Withdrawn
Commercial Paper	ST	900.0	CRISIL A1+	30-04-21	CRISIL A1+	23-04-20	CRISIL A1+	30-09-19	CRISIL A1+	11-09-18	CRISIL A1+	--
Non Convertible Debentures	LT	6000.0	CRISIL AA+/Stable	30-04-21	CRISIL AA/Positive	23-04-20	CRISIL AA/Stable	30-09-19	CRISIL AA/Positive	11-09-18	CRISIL AA/Positive	CRISIL AA/Stable
			--		--		--		--	06-08-18	CRISIL AA/Positive	--
			--		--		--		--	19-06-18	CRISIL AA/Positive	--
			--		--		--		--	03-04-18	CRISIL AA/Stable	--
Short Term Debt (Including Commercial Paper)	ST		--		--		--		--	06-08-18	CRISIL A1+	CRISIL A1+
			--		--		--		--	19-06-18	CRISIL A1+	--
			--		--		--		--	03-04-18	CRISIL A1+	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Aluminium Industry
CRISILs Criteria for rating short term debt
CRISILs Criteria for Consolidation

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CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such as, bank loans, certificates of deposit, commercial paper, non-convertible / convertible / partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including rating municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).

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For more information, visit www.crisilratings.com

About CRISIL Limited

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