## FINANCIAL CAPITAL

# Managing the Tills Prudently

At Hindalco, the core focus of the finance function is to have a strong balance sheet with a comfortable net leverage ratio and a strong liquidity position for working capital requirements.

This focused approach and strategy has sustained our Indian and global operations whilst addressing the financial constraints and challenges presented by the pandemic.

### Contribution to SDGs

8 DECENT WORK AND ECONOMIC GROWTH

### Interlinkages with Material Topics and other Capitals

| Material Topics | Capitals Connected |
|---|---|
| Market Presence | Financial Capital |
| Macro-Economic Fluctuations | Human Capital |
| | Natural Capital |
| | Intellectual Capital |
| | Social and Relationship Capital |

**Alignment with Strategic Priorities**

SP-3: Strengthening the balance sheet

SP-4: Capital allocation aimed to maximise shareholder returns





## CONSOLIDATED FINANCIAL HIGHLIGHTS

**₹18,896 CRORE**
EBITDA
(▲22% YoY)

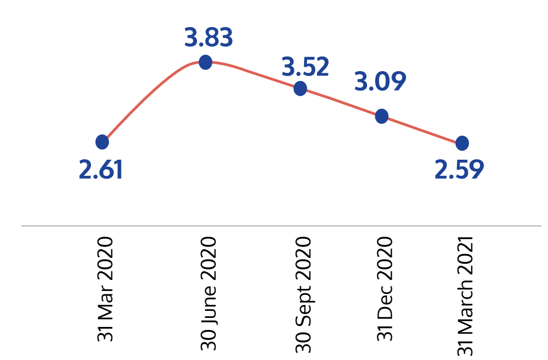
**₹17,232 CRORE**
Operating Cash Flow
(▲35% YoY)

**2.59x**
Net Debt / EBITDA
(vs 3.83x as of June 2020 post Aleris Acquisition)

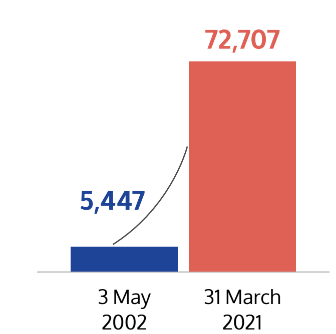
### Shareholder Value Creation

Hindalco with its capital allocation framework in place, has a clear roadmap for deleveraging and profitable growth via organic expansions. This is aimed at enhancing the shareholder value and distribution of shareholder returns. The Market Capitalisation of the Company has grown at a robust CAGR of 14.6% since listing on the bourses on 3 May 2002 at a capitalisation of ₹ 5,447 crores to ₹ 73,433 crores as on 31 March 2021. An investment of ₹ 1,000 on listing day would be valued at ₹ 11,646 as on 31 March 2021, excluding dividend pay-outs.

### Consolidated Net Debt to EBITDA (x) Trend




### Market Cap. (₹ in Crores)



## Economic Value Creation (FY 2020-21)

(₹ Crore)

| Particulars | FY2019-20 | FY 2020-21 |
|---|---|---|
| Revenue from Operations | 1,18,144 | 1,31,985 |
| Other Income | 1,186 | 1,222 |
| **Economic Value Generated** | **1,19,330** | **1,33,207** |
| Operating Costs | 77,966 | 85,228 |
| Employee Wages and Benefits | 8,832 | 10,782 |
| Payment to providers of capital | 4,197 | 3,738 |
| Payments to government | 1,541 | 1,881 |
| Community Investments | 34 | 56 |
| Depreciation and other expense | 22,065 | 24,955 |
| **Economic Value Distributed** | **1,14,635** | **1,26,640** |
| **Economic Value Retained*** | **4,695** | **6,567** |

* Economic value retained = Direct economic value generated - Economic value distributed

## Focus Areas

| Capitalising on organic expansion in Novelis and India to drive revenue and EBITDA growth | Product mix, Cost Optimisation, synergistic benefits driving Margin Accretion | Strengthening the balance sheet | Value creation through capital allocation for Pursuing Profitable Organic Growth Opportunities |
|---|---|---|---|

### Capitalising on the Organic Expansion of Novelis and India Business to Drive Revenue and EBITDA Growth

Novelis is the world's largest flat rolled Aluminium producer and world's largest recycler of Aluminium, with presence across North and South America, Europe, and Asia. It supplies lightweight infinitely recyclable Aluminium sheets and is focused on growing high-margin product segments of beverage packaging, automotive body sheets, aerospace, and other specialty products. With the recent acquisition of Aleris, and its focus on organically increasing rolling, automotive and recycling capacity, Novelis is well-positioned to capitalise on the rising demand across these product markets to drive revenue and EBITDA growth.

Besides, the recession resistant, high-recycled content Aluminium beverage packaging sector is growing at a healthy pace driven by customers' increasing preferences for sustainable packaging solutions. Novelis's global footprint and flexible capabilities in this diverse value stream enables capacity and product portfolio optimisation to facilitate revenue growth.

In India, the focus continues to remain on downstream that constitutes value-added offerings, primarily in the FRP and extrusions segments. With the market segment presenting sizeable untapped opportunities, we are committed to deploying resources to transform this vertical into a future EBITDA growth driver.

Indian demand for Aluminium lags behind global demand by a significant margin.

This, along with the lower per capita consumption of Aluminium, bodes well for robust demand growth in the medium to long term. The packaging, construction and transportation sectors also remain underpenetrated in India compared to global standards, thereby presenting substantial growth avenues that we are well-placed to explore and capitalise on.

The Titanic Signature Building in Belfast, Ireland, is clad in more than 120 tons of Novelis J57S® anodized Aluminium

Our market position as the largest organised operator in FRP segment, places us in a commanding position to tap the opportunities in this high-growth segment. Extrusion is another focus area where our capabilities will further consolidate our position in this segment.

### Product mix, Cost Optimisation, synergistic benefits driving Margin Accretion

Internal cost control is an effective approach towards margin accretion. The other approach is to improve the product mix and focus on value-added product offerings.

#### Product Mix

Novelis continually strives to enhance its product mix. While beverage packaging remains core to the portfolio, Novelis is focusing on producing lightweight Aluminium flat rolled automotive structures and components to reduce the weight of the vehicles, thereby improving fuel efficiency, safety, and vehicle performance. In addition, steadfast global adoption of electric vehicles also enhances the Aluminium requirement of OEMs with respect to its use in both the body of the car and battery plates and boxes. While demand from aerospace is anticipated to remain muted in the near term due to reduced air travel, the long-term demand fundamentals remain in place. The diverse specialties end market also has significant tailwinds driving demand, particularly in the electronics, building and construction, foil packaging and truck trailer markets.

Our emphasis on Copper and specialty alumina value-added product (VAP) offerings that yield higher margins, is expected to have a positive impact on our long-term margin profile. The Company is poised to be a major beneficiary of the gradual increase in demand for Copper Continuous Cast (CC) rods, Copper alloys and inner grooved tubes over the medium-to-long term, all of which are high-margin offerings. The future demand for specialty alumina VAPs will be driven by their application in lithium ion batteries, LED lighting driving electrification programmes, advanced ceramics and integrated electronic chips, all leading to higher margins.

## VAP offerings

**In Copper and specialty alumina to yield higher margins**

Caster at Birla Copper, Dahej. Hindalco's Copper division, Birla Copper, is registered on the London Metal Exchange as a Grade-A Copper brand

## Cost Optimisation Initiatives

Novelis has a balanced approach towards driving manufacturing excellence and improving return on capital employed (RoCE). This includes strict adherence to preventive maintenance at the plants to reduce unplanned downtime and improve operational efficiency, product quality and recovery. These enhanced efficiencies lower cost and increase capacity, while improving product quality and reliability, leading to higher sales and stronger customer relationships. Novelis also maintains a competitive cost structure by utilising a greater volume of scrap inputs in its products. The increase in the use of recycled content, lowers costs while driving forward our commitment to sustainability. We will continue to ramp up the utilisation of recycled content to sustain the competitive cost structure and improve operational efficiencies.

In terms of our Indian operations, expansion of the Utkal Alumina refinery will increase operational efficiencies even as we continue our investments to modernise the existing alumina capacities, leading to improvement in the quality of output and on-site cost efficiencies. Investments in revamping older alumina refineries, such as the Renukoot refinery, are expected to reduce operating costs of these refineries in the future. The recently acquired Chakla coal mine is expected to be operational in the next two-three years. This will assure coal security at a lower cost. With modern equipment in place, we expect this to reduce the overall blended cost of coal.

## Synergy from Aleris Acquisition

With the acquisition of Aleris, Novelis has been able to diversify its offerings and portfolio with its foray into aerospace and expand its presence in the high-end building and construction specialty business. The acquisition of Aleris contributed $200 Million to Novelis' adjusted EBITDA in FY 2020-21. Our core focus remains on integrating continuing operations and deriving value from the synergy. We have identified extensive combination cost synergies of approximately $120 Million, through cost savings in the areas of general management, procurement, finance, IT, and other General and Administrative (G&A) expenses, which will accrue over the next two years.

Further, approximately $65 Million worth strategic synergy is expected from the integration of Asian operations, with the China cold mill expected to commence operations in the next two years. This will be an outcome of creating efficiencies from scrap consumption, cost savings from the elimination of import duties, and significantly reduced transportation costs. In addition, the measures will release capacity in the legacy Novelis South Korean rolling mills, aiding the maximisation of new market opportunities in the coming years.

**$200 MILLION**

**Aleris' contribution to Novelis' adjusted EBITDA in FY 2020-21**

## Strengthening the Balance Sheet

### Deleveraging

Novelis has committed to a $2.6 Billion gross debt reduction plan by the end of FY 2021-22, from its recent high in June 2020 at the time of Aleris acquisition completion. At the end of 2020-21, $2 Billion of gross debt has been repaid. At the end of FY 2020-21, Novelis' net leverage ratio was 2.9x, a significant and rapid improvement compared to 3.8x on June 30, 2020.

Hindalco, on a consolidated basis, continues to strengthen its balance sheet with robust cash generation both in India and overseas, while accelerating the pace of deleveraging to reach the optimum leverage of below 2.5x in the next 2 years

**$2.6 BILLION**

**Novelis' target of gross debt reduction by FY 2020-21**

## Pursuing Profitable Organic Growth Opportunities

### Growth Capex

Capital Allocation framework is aimed at pursuing profitable growth opportunities via organic growth expansions in both India Downstream and Novelis. Novelis has identified over $1.5 Billion of growth capex opportunities over the next five years. This expenditure will be towards the setting up of a cold mill in China to achieve strategic synergies in Asia, together with enhancement of recycling and casting capacity, debottlenecking and other rolling capacity expansions, expansion of automotive finishing capabilities, as well as digital, R&D and other leading manufacturing initiatives to drive efficiency, innovation and meet our sustainability goals.

In India operations, the capital allocation for the identified expansion projects planned at ~$1.1 Billion, comprising $650 Million for downstream Aluminium projects (including finishing assets, extrusion, FRP and recycling capacities), $200 Million for downstream Copper capacities (including inner groove tubes and alloy rods, and Copper CCR) and $40 Million for the value-added specialty alumina business.

The acquisition of Aleris has helped Novelis diversify its offerings.