



# INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

## Case Study: Hindalco Industries Limited Acquired Aleris Corporation

<sup>1</sup>Dr. Bansi Mihir Patel,

<sup>1</sup>Assistant Professor,

<sup>1</sup>Accounts and Finance

<sup>1</sup>Amity Global Business School, Ahmedabad, India

**Abstract:** This study has been undertaken to understand the deal of Hindalco Industries Limited to acquire Aleris Corporation. It focuses on the main objective of the Hindalco Industries Limited behind the Acquisition, the acquisition cost, and the future benefit out of this. This case study provides information relating to the growth of Hindalco corporation as leading aluminium players in India and all over the world and highlights the future challenges of the company.

**Index Terms – Acquisition, global conglomerate, Merger**

### Introduction:

Hindalco Industries Limited (HIL), one of the largest Indian integrated primary manufacturers of aluminum in Asia had acquired US-based Aluminum roll product producers Aleris Corporation by its wholly owned subsidiary Novelis Corporation on April 14, 2020, with complying regulatory directions. The total cost of the most awaited deal was \$2.8 billion. The cost was funded by a one-year bridge loan of \$1.10 billion at 0.95 % and a five-year term loan of \$775 million at Libor plus 1.75%. The cost was also funded by an equity investment of \$0.9 million. This deal marked another milestone for HIL and Novelis on their path to global leadership. This acquisition will have a synergy of \$150 million. Due to this acquisition, HIL cemented its position as the world's largest producer of value-added aluminum products. Through this deal, HIL planned to strengthen its downstream capabilities and entered a high-end technology-driven aerospace segment.

### History of Hindalco Industries Limited:

HIL was a metal flagship company of Aditya Birla Group and established in 1958 in Maharashtra, India. It operated in three businesses namely primary aluminium, downstream aluminium and copper. With the value like integrity, commitment, passion, Seamlessness and speed the company had achieved a consolidated turnover of \$19 billion in the year 2019. HIL was one of the largest integrated primary producers of aluminium in Asia. The company provided a high-quality environment- friendly products across the world. HIL was also a global leader in copper comprising of a smelter and fertilizer plant. Novelis, the subsidiary of HIL was the world's largest aluminum Flat Rolled Products (FRP) producer and recycler. US-China dispute and modernization of economic activities in Europe resulted in the lackluster growth of the aluminium and copper sectors during 2018 and 2019. The amplification of the trade war and lifting of sanctions on UC Rusal by the US were the most significant events which led to a sharp fall in global aluminium pieces from \$ 2700 tonne to below \$1800 tonne. Despite challenging business environment company was able to achieve the highest ever consolidated EBITDA of \$2380 million on a turnover of \$18678 million in the Year 2018-19. The consolidated profit after tax for the year 2018-19 had increased by 21.6 % as compared to the previous year 2017-18 because of its stable operations, better efficiencies, and supportive macros. The company had developed India's first indigenous aluminium dry bulker. Due to captive mines and e-auction company was able to receive competitive advantage and through its integrated and di-risked business model company was able to keep logistics cost low. For a brighter future, HIL invested in a downstream business and expanded its upstream business. A significant portion of HIL sales came from value-added products. HIL ranked among the global top five aluminium producers based on shipments and was an integrated producer with a low-cost base and a strong presence across the value chain. The company's units were ISO 9001:2000 ISO 14001:2004 and OHSAS 18001 certified. Several units had gone a step further with an integrated management system (IMS) combining ISO 9001 ISO 14001 and OHSAS 18001 into one business excellence model.

### Deals of Merger & Acquisition of Hindalco Industries Limited:

HIL had a demonstrated track record of successful strategic mergers and acquisitions. It always looked for overseas options through which it could upturn their production capacity and discover some new markets for their products. For this rather than setting a new plant to acquire a foreign firm became the preferred option for the Company. HIL had started its operation from Renukoot, Uttar Pradesh (India) in 1962. In the year 1998 foil plant of the company came to existence at Silvassa. In the year 2000, the company acquired the controlling stake in Indian Aluminium Company Ltd (Indal) with 74.6 % equity holding. In the year 2003, the company through Aditya Birla Minerals Ltd (ABML) acquired Nifty Copper Mine. In March 2006, the company acquired an aluminium rolling mill and wire rods facility situated at Mauda (Nagpur) from Asset Reconstruction Company India Ltd (ARCIL) belonging to Pennar Aluminium Company Ltd. In May 2006, the company entered a joint venture with Essar Power (M.P.) Ltd to develop and operate mines at Mahan Madhya Pradesh. In 2007 HIL acquired Canadian company Novelis, a world's largest producer of rolled aluminium and a major recycler of aluminium cans at \$6 billion

through its wholly owned subsidiary AV Metals Incorporation and it was the largest Indian Investment in North America of that time. HIL had announced the acquisition of Aleris in July 2018 through its wholly owned subsidiary Novelis, for an enterprise value of \$2.8 billion. The chairman of the Group Kumar Mangalam Birla said that “The closure of this deal amidst challenging market conditions reflects our conviction in the Aleris business and its value to our metals portfolio, this is a long-term strategic bet, and much like Novelis was in 2007.”

Aleris was an aluminum rolled products Producer Company established in 2004 in Beachwood, Ohio, the United States because of a merger between an aluminum recycling company and aluminum rolled products company. Aleris was also among the largest aluminum sheet suppliers for semi-trailers and the leading aluminum sheet supplier for the U.S. residential construction industry. Aleris had more than 40 production facilities in North America, Europe, and Asia with revenue of \$ 3449 billion and operating Income \$110.2billion in 2018-19. (Exhibit:1)

### Key Financial Information of Hindalco Industries Limited & Aleris Corporation

Exhibit:1

Key Financial Information of Hindalco Industries Limited ( \$ in Million)			
Particular	2019	2018	2017
Sales and operating Revenue	\$18,678	\$17,967	15,306
Operating Profit	\$2,218	\$2,160	1,856
Profit after Tax	\$786	\$944	283
Net Fixed Assets	\$13,002	\$13,384	13,337
Investment	\$1656	\$1303	2,337
Net current Assets	\$3,004	\$2,755	2,546
Loan Fund	\$7576	\$7,997	9,839
Equity share capital	\$32	\$34	34
Key Financial Information of Aleris Corporation ( \$ in Million)			
Particular	2018	2017	2016
Revenue	\$3449.5	\$2857.3	\$2663.9
Operating Income(loss)	\$110.2	(\$11.1)	\$54.7
Net Loss	(\$91.6)	(\$210.6)	\$(75.6)
Total Assets	\$2779.4	\$2644.4	\$2389.9
Total Debt	\$1928.3	\$1780.5	\$1466.2

(Source: Annual Report of the company)

### Details of the Deal and Its impact on stock Market

The European Commission had approved this acquisition with the condition to sell Aleris's plant in Duffel, Belgium, which produces aluminium for the automotive and specialties markets. In addition to losing out on the valuable auto asset in the deal, HIL had to pay a higher price of \$2.8 billion to close the deal, against \$2.58 billion estimated in 2018. The higher price was due to an increase in Aleris' debt since the initial acquisition was announced. This deal had increased HIL's consolidated debt by about ₹16,500 crores. The net debt was expected to be at an elevated level till Novelis divests Aleris auto plant at Lewis port in the US, which in the current situation could take several months. It was also expected that The Company may face problems of high debt if the global demand recovery takes longer than a quarter. Sumangal Nevatia, a research analyst at Kotak Institutional Equity Research said that “the benefit of the acquisition is significantly diluted without the auto assets in the US but the company would get an exposure to aerospace which faces a bleak outlook in the medium-term.”

It was found that the stock price of HIL rose 8.92% to INR123.95 compared to the previous close of INR 113.80 on the Bombay Stock Exchange on the very next day of closing the final deal. Novelis CEO, Steve Fisher said that “Today is a transformational moment in our company's history, and I have never been more confident in our ability to deliver even more value to our customers, colleagues and the communities where we live and work; With a world-class workforce, a presence in the most competitive and technically demanding end-markets and the ability to deliver rapid, adaptive, and sustainable solutions, Novelis will be able to even better serve our customers.” But the analysts believed that most of the concerns due to coronavirus disease (Covid-19) impact on demand, debt, realisations, and soft India business will be factored in the future price of the company's stock. From several studies, it was found that around 50% of mergers do not achieve their business objectives, and takeovers cause the shareholders of most acquirers to lose money. The KPMG study indicated that 83% of merger deals did not boost shareholder returns. Robert Sher suggested this is because of the mismanagement of risk, price, strategy, cultures, or management capacity.

The nationwide lockdowns had led to shrinking aluminium demand from user industries like power transmission, automobiles, construction, and white goods. India was a net exporter of aluminium. But exports had suffered due to contracting demand from importing countries post the surfacing of the Covid-19 pandemic. Domestic aluminium demand had subsided by 0.4 % between April and January this fiscal against the same period of 2018-19. Moreover, the country's primary aluminium production fell 1.6 % to 3.04 million tonnes in this period due to weakness in both international and domestic demand. Exports in the period under review contracted 5.8 % to 1.55 million tonnes whilst imports recorded a sharp drop of 18.6 % to 0.22 million tonnes. HIL Industries was the only producer to had registered growth in aluminium production during the period under review, whereas rest of the primary producers NALCO(National Aluminum Company Limited), Vedanta and BALCO's (Bharat Aluminium Company Limited) production was down by 4.6 %, 3.3 %, and 2.2 % respectively. With the vision to become a premium global conglomerate, the group had always tried to deliver superior value to its customers, shareholders, employees, and society as a large. With this acquisition, Hindalco Industry Limited might emerge yet another Global Power in aluminium industry from India.

## REFERENCES

- i. Shubhra Tandon, "Aleris buy to help HIL cement position among leading aluminium players", <https://www.financialexpress.com/industry/aleric-buy-to-help-HIL-cement-position-among-leading-aluminium-players/1929604/>, April 16<sup>th</sup>2020
- ii. Nirmalya Kumar, "How emerging giants are rewriting the rules of M&A", [https://ink.library.smu.edu.sg/lkcsb\\_research/5186/](https://ink.library.smu.edu.sg/lkcsb_research/5186/), May 2009
- iii. George Bradt, "83% Of Mergers Fail – Leverage A 100-Day Action Plan for Success Instead", <https://www.forbes.com/sites/georgebradt/2015/01/27/83-mergers-fail-leverage-a-100-day-value-acceleration-plan-for-success-instead/#188e81185b86>, January 27<sup>th</sup>,2007
- iv. Sadananda Prusty, "HIL vs. Novelis: A Case on Acquisition", [https://www.researchgate.net/publication/280313917\\_HIL\\_vs\\_Novelis\\_A\\_Case\\_on\\_Acquisition](https://www.researchgate.net/publication/280313917_HIL_vs_Novelis_A_Case_on_Acquisition), January 2012
- v. Tanya Thomas, "Aditya Birla Group expects Aleris deal to close by 21 January", <https://www.livemint.com/companies/news/aditya-birla-group-faces-forced-sale-of-second-aleric-asset-11573481018586.html>, November 11<sup>th</sup>,2019
- vi. Javajit Dash, "Aluminium makers stare at piling inventory following Covid-19 outbreak", [https://www.business-standard.com/article/companies/aluminium-makers-stare-at-piling-inventory-after-covid-19-outbreak-120040400795\\_1.html](https://www.business-standard.com/article/companies/aluminium-makers-stare-at-piling-inventory-after-covid-19-outbreak-120040400795_1.html), April 4<sup>th</sup>,2020
- vii. Ujjaval Jauhari, "Coronavirus takes away the sheen from HIL's Aleris acquisition", [https://www.business-standard.com/article/companies/coronavirus-takes-away-the-sheen-from-HIL-s-aleric-acquisition-120041601373\\_1.html](https://www.business-standard.com/article/companies/coronavirus-takes-away-the-sheen-from-HIL-s-aleric-acquisition-120041601373_1.html), April 17<sup>th</sup>,2020
- viii. "HIL climbs 9% on completion of Aleris acquisition" <https://economictimes.indiatimes.com/markets/stocks/news/HIL-climbs-9-on-completion-of-aleric-acquisition/articleshow/75153229.cms>, April 15<sup>th</sup>,2020
- ix. "HIL completes Aleris deal for \$2.8 billion", <https://www.thehindubusinessline.com/companies/HIL-completes-aleric-deal-for-28-billion/article31341293.ece>, April 14<sup>th</sup>,2020

