

The amazing story of Novelis turnaround

By
Ramki
8 Oct 10

The acquisition

- Hindalco acquired Atlanta-based Novelis, a world leader in aluminium rolling and flat-rolled aluminium products, for \$6 billion in 2007 to gain sheet mills that supply can makers and car companies.

The Size of the Deal

- The \$2.6-billion Hindalco bought the \$11-billion Novelis!
- A typical David V Goliath story
- Deal highly leveraged

The problems

- Novelis was a royal MESS.
- Contracts to sell aluminium cans to customers at prices lower than its raw material cost
- Bad liquidity situation
- Proper accounts not filed
- Novelis was confused even about its business model.
 - “It was only a converter of aluminium into can stock, but it was behaving like a metal producer”
 - “Their risk management needed immediate improvement”- Battacharya



The solution

- Many consultants came and offered solutions
- Birlas wanted to do it their own way
- Mr. Battacharya and Mr. Birla rolled up their sleeves to make Novelis work

The consultative approach

- **Cost cutting**
- No 90 day integration targets
- They created awareness before cutting costs
- “Nothing was thrust upon them.

Every decision was elaborately discussed and debated.

They not only participated in the talks, they also added value.”

- 9% work force was shed

Establishing Novelis as a value creator, not a volume filler

Project Blue Sox

- Novelis' can stock plant at Rogerstone, Britain, is being shut down and shipped to Hirakud in Orissa.
- Significant step to mesh Novelis' high technology with India's low cost advantage.
- A second unit in UK, a foil rolling and packaging plant at Bridgnorth, also being shut down.

Low sale price issue

- Can price ceilings were eliminated on January 1

Result

- In 2010:
- Novelis posted an EBIDTA of \$754 million,
- Liquidity improved by \$640 million to \$1 billion,
- Net profit stood at \$400 million and
- Sales at \$8.7 billion.
- **Novelis's best performance ever.**

Further problems

- In less than two years, Martha Finn Brooks, president & COO spearheading these initiatives at Novelis quit
- Philip Martens ex-Ford was offered the CEO post after a big search for 4 months

Philip Martens' key actions

- Thirty days after taking charge, Mr Martens **centralised** a very decentralised company
 - 'One Novelis' program
- At present, 54% of the aluminium processed by Novelis goes into cans, only 7% into cars.
- But that equation is going to tilt towards cars as Martens is a car man

Job still incomplete

- Novelis had \$2.4 billion in debt when it was acquired. Now it has \$ 2.7 billion.
- About 90% of this will come up for repayment from 2014
- But Novelis is moving towards a full turnaround
- Mr Martens is helping it overtake rival Alcoa as the largest North American maker of metal for beverage cans.



Source:

Ecotimes article

Inside the Novelis Turnaround