

August 13, 2024

**RESULT REPORT Q1 FY25** | Sector: Metals and Mining

# Hindalco Industries Ltd

**Strong quarter: Focus on downstream products to continue; Maintain ADD!**

## Result Synopsis

Hindalco Industries Ltd's (HIL) Q1FY25 performance was above the consensus estimates owing to higher LME pricing for the Indian aluminium business, strong Novelis performances as well as higher copper volumes for CC Rods. Higher realizations clubbed with a fall in the cost structure for aluminium production helped margin expansion during the quarter.

On the operational front, Novelis reported shipments to be flattish at 951k and an EBITDA/t of \$525/t. The management continues to guide the same for the full year of FY25, slowly increasing it with incremental capacities to reach \$600/t by the end of FY27E. The Indian upstream aluminium business showed robust growth on the margin front, however, the shipments were marginally lower and stood at 329 kt for Q1FY25 vs 337 kt in Q4FY24.

## Our View

We continue to remain positive on Hindalco owing to its focus on backward integration – acquiring coal mines, expanding alumina refinery capacities. The backward integration clubbed with the focus on value-added products and downstream expansions are expected to help expand the company's aluminium business margins. Additionally, we see Novelis to take a set back for the upcoming quarter and a half due to the Switzerland floods affecting the plant operations, however, we don't see this to have any impact on the volumes expected in FY26E.

We maintain our ADD rating on Hindalco and value the company on a SOTP basis – 6.0x EV/EBITDA FY26E for Novelis, 5.5x EV/EBITDA FY26E for the Indian Aluminium business and 5.0x EV/EBITDA FY26E for the Copper business to arrive at our target price of Rs 722/sh.

## Result Highlights

- Consolidated revenue from operations stood at Rs 57,013 crores (vs consensus estimate of Rs 56,186 crores and our estimate of Rs 58,514 crores), up~2% QoQ and 7.6% on a YoY basis.
  - Novelis revenue stood at Rs 34,929 crores for the quarter.
  - Aluminium upstream business reported a revenue of Rs 8,839 crores.
  - Aluminium downstream business's revenue stood at Rs 2,868 crores.
  - Indian copper business stood at Rs 13,292 crores.

## Exhibit 1: Actual vs estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	570,130	585,138	561,859	-2.6%	1.5%	Higher LME pricing helps in improving margin profile.
EBITDA	79,270	70,786	71,675	12.0%	10.6%	
EBITDA (%)	13.90%	12.10%	12.76%	14.9%	9.0%	
PAT	30,740	32,763	34,183	-6.2%	-10.1%	

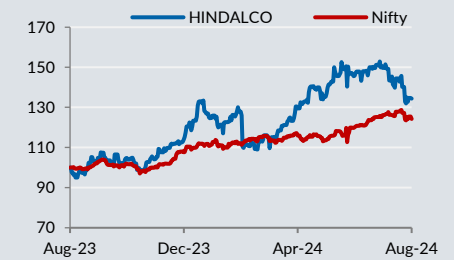
Source: YES Sec

Reco	: ADD
CMP	: Rs 621
Target Price	: Rs 722
Potential Upside	: +16.3%

## Stock data (as on Aug 13, 2024)

Nifty	24,139
52 Week h/l (Rs)	715 / 438
Market cap (Rs/USD mn)	1408086 / 16779
Outstanding Shares (mn)	2,237
6m Avg t/o (Rs mn):	4,510
Div yield (%):	0.5
Bloomberg code:	HNDL IN
NSE code:	HINDALCO

## Stock performance



	1M	3M	1Y
Absolute return	-10.2%	-1.9%	34.4%

## Shareholding pattern (As of Jun'24 end)

Promoter	34.6%
FII+DII	56.7%
Others	8.3%

## Δ in estimates

FY26E	New	Old
LME Aluminium (\$/t)	\$2,550/t	\$2,750/t
EBITDA (Rs mn)	324,896	323,879

## Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	722	743

## Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	2,159.6	2,299.3	2,574.5
YoY Growth	(3.2%)	6.5%	12.0%
EBIDTA	253.7	288.5	324.9
EBITDA (%)	11.7%	12.5%	12.6%
PAT	101.6	129.7	158.8
EPS	45.74	58.42	71.53
ROE	9.6%	10.9%	11.8%
ROCE	10.3%	11.7%	12.4%

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## Result Highlights (Continued)

- Absolute EBITDA stood at Rs 7,585 crores (vs consensus estimate of Rs 7,167 crores and our estimate of Rs 7,079 crores). Reported EBITDA % stood at 13.9% on a consolidated basis vs 12.6% in Q4FY24 and 11.5% during Q1FY24.
- PAT stood at Rs 3,074 crores (vs consensus estimate of Rs 3,418 crores and our estimate of Rs 3,276 crores).

## Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% qoq	% yoy
Revenue	529,910	541,690	528,080	559,940	570,130	1.8%	7.6%
Cost of goods sold	369,980	376,230	357,070	380,030	375,640	(1.2%)	1.5%
Employee costs	35,290	36,480	38,450	37,560	38,770	3.2%	9.9%
Other expenses	67,310	72,600	72,080	73,970	79,870	8.0%	18.7%
EBITDA	61,050	60,750	61,450	70,430	79,270	12.6%	29.8%
EBITDA margins (%)	11.5%	11.2%	11.6%	12.6%	13.9%	10.5%	20.7%
Depreciation	17,860	18,430	18,740	20,180	18,920	(6.2%)	5.9%
Finance costs	9,920	10,340	9,440	8,880	8,590	(3.3%)	(13.4%)
Exceptional items	-120	330	-	-	-3,300	NA	NA
Profit before tax	33,170	32,310	33,280	41,360	48,480	17.2%	46.2%
Taxes	8,630	10,350	9,970	9,620	17,740	84.4%	105.6%
Profit after tax	24,540	21,960	23,310	31,740	30,740	(3.2%)	25.3%
Share of profit/(loss)	20	-	10	-10	20	NA	NA
Minority interest	-	-	-	-	-	NA	NA
Profit attributable to owners	24,540	21,960	23,310	31,740	30,740	(3.2%)	25.3%
EPS	11.05	9.89	10.50	14.30	13.85	(3.2%)	25.3%

Source: Company, YES Sec

## KEY CONFERENCE CALL HIGHLIGHTS

### Global outlook

- US growth to accelerate, Eurozone to gradually pick up, and moderate economic growth in China expected in 2024.
  - US market remains strong for beverage cans demand for Novelis.
  - Positive outlook in Europe and South America as well.
- Improving manufacturing sector momentum, reduction in supplier delivery times and rebound in global trade bode well for growth outlook.
- India FRP market in FY25 is estimated to grow by ~7 to 8%, led by growth in packaging, auto, and construction.

### General business operations

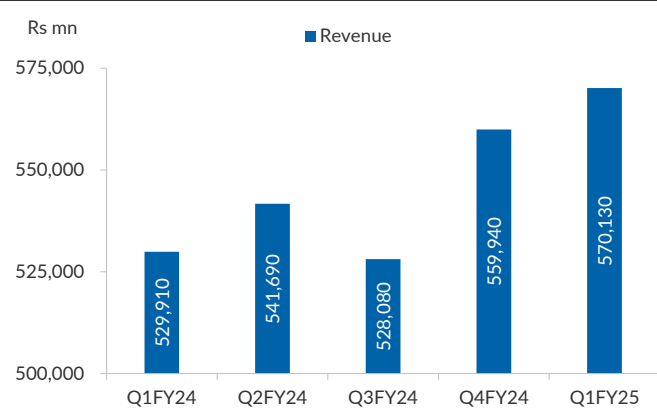
- Total renewable capacity stands at 173 MW (largely solar and wind) –
  - 16 MW Solar - to be operational by Q2 FY25, with another 9 MW solar by Q4 FY25.
  - 100 MW Hybrid (with storage), to be commissioned in H1 CY25.
  - Target to reach 300 MW by first half of CY25.
- The cost of aluminium production for Q1FY25 declined by 2% QoQ on account of coal cost reduction and lower carbon costs.
  - For Q2FY25, expect coal costs to remain flat (up by ~1%) on a QoQ basis due to higher spot coal prices during the monsoons as well as increased caustic soda prices.
- On the downstream business' profitability – the company had to fulfil orders that were at a lower conversion premium at their plants leading to an undesirable product mix and lower realizations which impacted the profitability considerably.
  - The company usually targets a \$200/t profitability on its downstream products.
- The current coal mix – Linkage coal stands at 40% whereas the rest is sourced through e-auctions. (45%-50%).
  - Coal block update - Chakla and Meenakshi coal blocks commissioning – awaiting stage I and stage II forest clearances.
  - The total coal consumption remains at ~16.0 mn tonnes per annum and Chakla mine is expected to meet 5.0 mt tonnes out of the same.
- Hindalco's focus is currently on downstream expansions as Silvassa extrusion ramps up and Aditya FRP project, which is currently on track and expected to be commissioned by FY26, taking the downstream capacity from 200 ktpa to 600 ktpa.
  - Silvassa extrusion capacity is currently operating at ~45% of utilization level and the company targets to reach it to an optimal run-rate by the end of FY25.
- Copper volumes were quite high for the quarter especially for CC Rods, thereby providing exceptional numbers.
  - A much more sustainable run-rate for the copper business EBITDA should be in the range of Rs 600-650 crs per quarter.
- In terms of the Supreme Court ruling, the company sees no contingent liabilities to arise on a retrospective basis; however, the company is awaiting more clarification on the judgement.

## Capex and growth plans

- Capex guidance: Rs 6,000 crs for FY25E for the Indian operations; Novelis remains at \$ 1.2 to 1.4 bn.
- The coal block should be active sometime in Q3FY26E. Will help gain more cost control on the raw material side.
- The company has started the groundwork for upstream capacity expansion in India both for the Aluminium and Copper business. The current focus is on finishing the capex for the alumina refinery expansion.
- On the copper front, Hindalco is currently focused on increasing the copper rods capacity. No plans to enter the copper wire business segment as of now.

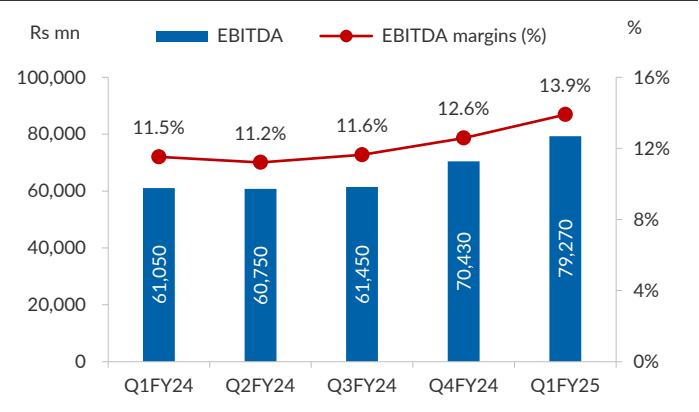
## QUARTERLY TRENDS

**Exhibit 3: Revenues up 2% QoQ**



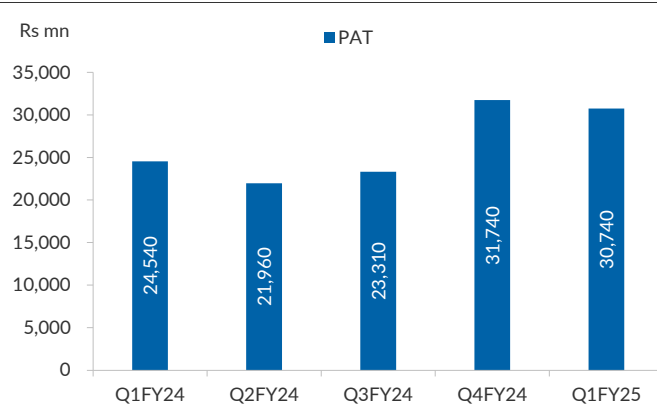
Source: Company, YES Sec

**Exhibit 4: EBITDA impacted due to falling NSR**



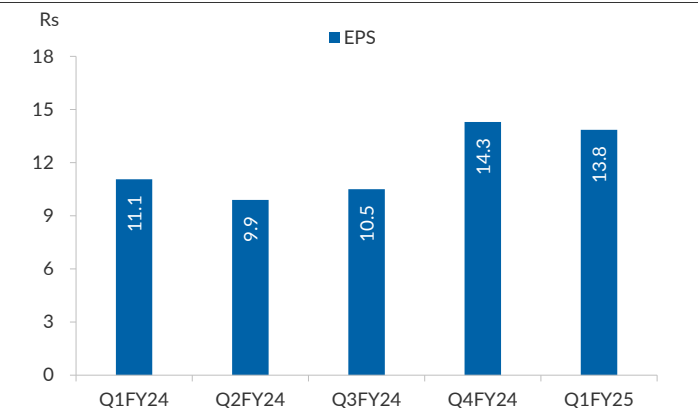
Source: Company, YES Sec

**Exhibit 5: PAT remains steady...**



Source: Company, YES Sec

**Exhibit 6: EPS Picture**



Source: Company, YES Sec

## FINANCIALS OVERVIEW

### Exhibit 7: Income Statement

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,320	1,951	2,232	2,160	2,299	2,575
COGS	851	1,287	1,581	1,483	1,585	1,754
Employee Cost	108	120	131	148	138	157
Other Expenses	1	3	2	4	4	4
Other Income	12	11	13	15	15	-
EBITDA	188	295	239	254	289	325
EBITDA (%)	14.2%	15.1%	10.7%	11.7%	12.5%	12.6%
Depreciation	66	67	71	75	73	79
EBIT	121	228	168	178	216	246
EBIT (%)	9.2%	11.7%	7.5%	8.3%	9.4%	9.5%
Finance Costs	37	38	36	39	37	34
Exceptional Items	(5)	6	0	0	-	-
PBT	79	196	132	140	179	212
Tax	27	54	31	39	49	53
PAT	35	137	101	102	130	159
EPS	15.69	61.85	45.48	45.74	58.42	71.53

Source: Company, YES Sec

### Exhibit 8: Balance Sheet

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Net Block	708	765	758	772	848	897
CWIP	100	47	73	146	154	161
Non-current Assets	1,221	1,245	1,355	1,496	1,579	1,637
Inventory	307	445	430	408	467	516
Receivables	130	211	162	164	198	222
Cash & Bank	88	174	151	144	122	153
Current Assets	676	985	893	823	909	1,022
<b>Total Assets</b>	<b>1,897</b>	<b>2,231</b>	<b>2,248</b>	<b>2,319</b>	<b>2,489</b>	<b>2,659</b>
Share Capital	2	2	2	2	2	2
Reserves	663	780	946	1,059	1,189	1,348
Non-current Liabilities	747	676	695	664	649	629
Current Liabilities	485	773	605	594	648	680
<b>Total Equity and Liabilities</b>	<b>1,897</b>	<b>2,231</b>	<b>2,248</b>	<b>2,319</b>	<b>2,489</b>	<b>2,659</b>

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	79	196	132	140	179	212
Profit before Working Capital changes	176	297	224	248	289	325
Working capital changes	15	(91)	(5)	19	(29)	(30)
Cash flow from Operations	192	206	220	267	260	295
Taxes Paid	(19)	(38)	(28)	(27)	(49)	(53)
<b>Net Cash flow from Operating Activities</b>	<b>172</b>	<b>168</b>	<b>192</b>	<b>241</b>	<b>211</b>	<b>242</b>
Capex	(56)	(54)	(98)	(157)	(149)	(129)
Other Investments	(201)	(16)	18	15	(7)	(8)
<b>Net Cash flow from Investing Activities</b>	<b>(256)</b>	<b>(71)</b>	<b>(80)</b>	<b>(143)</b>	<b>(157)</b>	<b>(136)</b>
Proceeds/(Repayment) from borrowings	(9)	(46)	(82)	(30)	(40)	(40)
Other financial activities	(40)	(22)	(23)	(78)	(37)	(34)
<b>Net Cash flow from Financing Activities</b>	<b>(49)</b>	<b>(68)</b>	<b>(105)</b>	<b>(108)</b>	<b>(77)</b>	<b>(74)</b>
Opening Cash Balance	213	83	116	128	118	95
Net Change in Cash	(133)	30	7	(10)	(23)	31
FX Changes	4	3	5	0	-	-
<b>Ending Cash Balance</b>	<b>83</b>	<b>116</b>	<b>128</b>	<b>118</b>	<b>95</b>	<b>127</b>

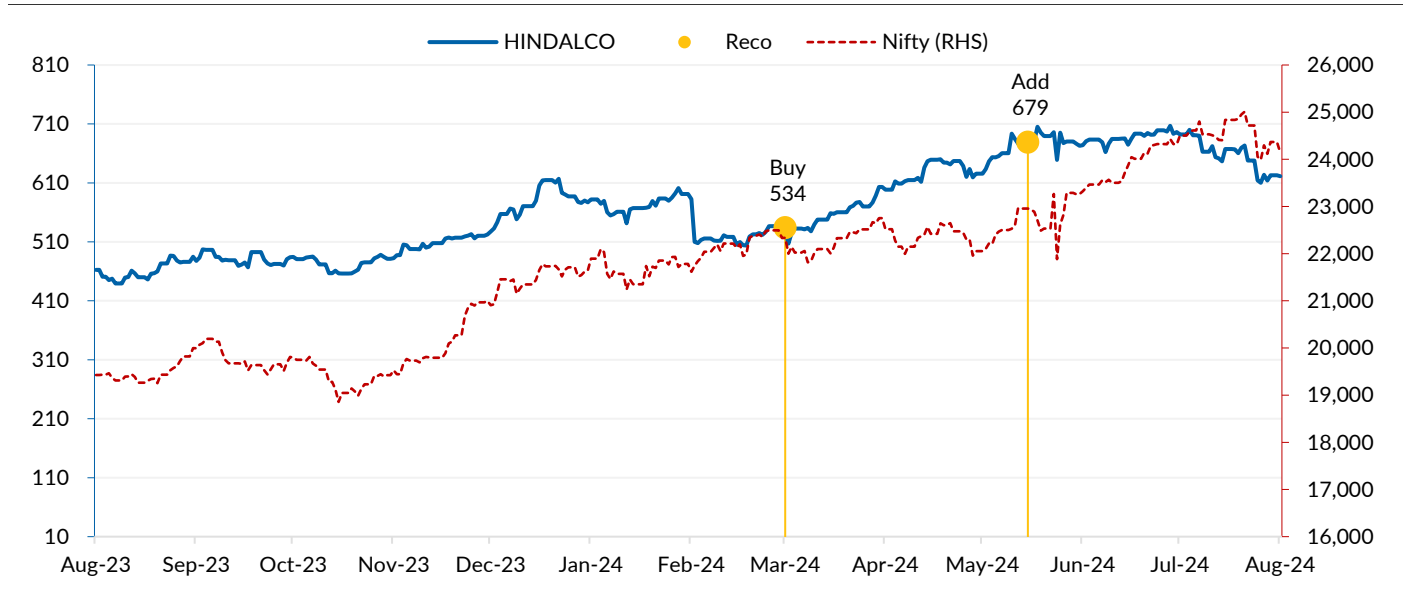
Source: Company, YES Sec

## Exhibit 10: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Growth (%)</b>						
Total Sales	11.7%	47.8%	14.4%	-3.2%	6.5%	12.0%
EBITDA	21.1%	57.2%	-18.9%	6.0%	13.7%	12.6%
EBIT	16.6%	87.6%	-26.0%	6.0%	20.8%	14.0%
PAT	37.6%	174.0%	-28.9%	0.6%	27.7%	22.4%
<b>Profitability (%)</b>						
GP Margins	35.5%	34.0%	29.2%	31.3%	31.1%	31.9%
EBIDTA Margins	14.2%	15.1%	10.7%	11.7%	12.5%	12.6%
EBIT Margins	9.2%	11.7%	7.5%	8.3%	9.4%	9.5%
PAT Margins	3.9%	7.3%	4.5%	4.7%	5.6%	6.2%
ROCE	8.6%	15.6%	10.2%	10.3%	11.7%	12.4%
ROE	5.2%	17.6%	10.6%	9.6%	10.9%	11.8%
<b>Per Share Data (Rs)</b>						
EPS	15.7	61.8	45.5	45.7	58.4	71.5
BVPS	299.7	352.3	427.1	478.2	536.6	608.1
<b>Valuations (x)</b>						
P/E	23.0	9.2	9.2	13.6	10.6	8.7
P/BV	1.2	1.6	1.0	1.3	1.2	1.0
EV/EBIDTA	7.3	6.0	5.8	7.1	6.2	5.3
Market Cap/Sales	0.6	0.6	0.4	0.6	0.6	0.5

Source: Company, YES Sec

## Recommendation Tracker





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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Manav Gogia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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1	Research Analyst or his/her relative's or YSIL's financial interest in the subject company(ies)	Yes
2	Research Analyst or his/her relative or YSIL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the research report	No
3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

Analyst signature

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