



## India

## REDUCE (previously ADD)

Consensus ratings\*: Buy 10 Hold 12 Sell 7

Current price:	Rs907
Target price:	Rs631
Previous target:	Rs785
Up/downside:	-30.4%
InCred Research / Consensus:	-33.8%
Reuters:	HALC.NS
Bloomberg:	HNDL IN
Market cap:	US\$22,227m
Average daily turnover:	Rs2,014,941m
Current shares o/s:	US\$55.0m
Free float:	Rs4990.1m
	2,220.0m
	65.4%

\*Source: Bloomberg

## Key changes in this note

- Stock's rating downgraded to REDUCE (from ADD earlier)
- Target price cut to Rs631 (from Rs785 earlier).



Price performance	1M	3M	12M
Absolute (%)	(2.9)	12.9	49.7
Relative (%)	(2.6)	15.2	36.6
<b>Major shareholders</b>			% held
Promoter & Promoter Group	34.7		
LICI	5.6		
SBI MF	4.6		

## Research Analyst(s)



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## Hindalco Industries Ltd

## Downgrade to REDUCE

- Peak aluminium:** Macro-driven rally + rising scrap (1.4bn tonne pool; Source: IAI) may drive a 20% price dip, hurting Hindalco Industries' India biz margins.
- High capex = higher leverage:** Rs700bn FY26F-28F capex likely lifts debt; stock typically trades 7.5x EV/EBITDA in such cycles.
- EBITDA may fall to Rs260bn by FY28F; downgrade to **REDUCE** with a lower target price of Rs631. The upside risk is sustained high aluminium prices.

## Peak aluminium prices don't bode well for Indian operations

Aluminium's rally appears largely macroeconomic-driven particularly by expectations of a weaker US dollar rather than tight fundamentals. Current prices keep most primary smelters globally viable, limiting supply discipline. Meanwhile, higher prices are boosting scrap collection, with the primary-over-scrap spread at +2SD above the long-term average, typically triggering a strong recycling response. The global used-aluminium pool is 1.4bnt (billion tonne), as per data from the International Aluminium Institute (IAI), and the scrappage rate can rise from the historical 1.4–1.5% to 1.7% during high-incentive periods. As macroeconomic support fades and scrap supply improves, we expect aluminium prices to decline by 20% over the next year, which would negatively impact Indian operations of Hindalco Industries, given the company's sensitivity to London Metal Exchange (LME) prices.

## Higher capex will lead to leveraging of balance sheet

Hindalco Industries is undertaking a massive capex program of Rs700bn over FY26F-FY28F, which is likely to increase balance sheet leverage. As capital work-in-progress rises, the market may begin assigning incremental value to ongoing investments. Historically, during such capex cycles, Hindalco Industries has traded at 7.5x EV/EBITDA.

## EBITDA to decline to 260bn in FY28F from 366bn in FY26F

The decline in aluminium prices will lead to decline in EBITDA, which will lead to a rise in net debt/EBITDA ratio to more than 2 in FY28F. While this is not alarming, remember our numbers build in no increase in working capital as aluminium prices decline. If working capital requirement increases, then debt/EBITDA ratio can be higher.

## We downgraded our rating to REDUCE with a lower TP of Rs631

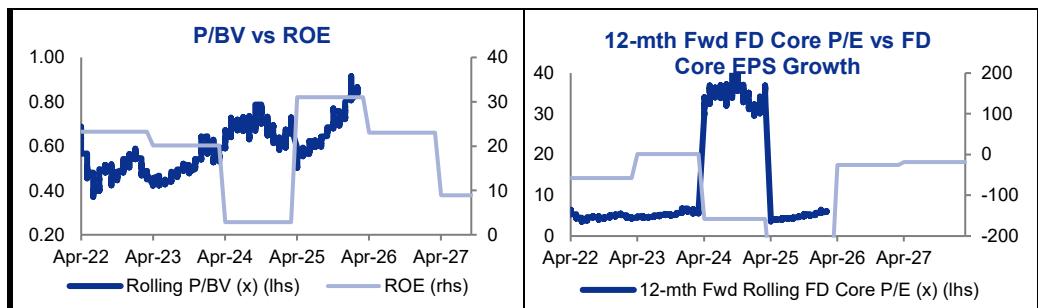
We value Hindalco Industries at 7.5x EV/EBITDA and downgrade its rating to REDUCE (from ADD) with a lower target price of Rs631 (Rs785 earlier). Upside risk: Sustained strength in aluminium prices.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	2,159,620	2,137,849	2,404,742	2,487,378	2,421,279
Operating EBITDA (Rsm)	238,720	(22,725)	366,217	300,188	259,553
Net Profit (Rsm)	101,550	(90,459)	198,717	147,053	119,769
Core EPS (Rs)	45.7	(40.7)	89.5	66.2	54.0
Core EPS Growth	0.7%	(189.2%)	(319.7%)	(26.0%)	(18.6%)
FD Core P/E (x)	19.84	(22.27)	10.14	13.70	16.82
DPS (Rs)	4.0	4.0	4.0	4.0	4.0
Dividend Yield	0.44%	0.44%	0.44%	0.44%	0.44%
EV/EBITDA (x)	9.53	(107.98)	6.64	8.20	9.33
P/FCFE (x)	56.88	(14.38)	33.72	31.04	10.46
Net Gearing	36.0%	58.3%	46.7%	44.1%	37.8%
P/BV (x)	1.90	2.09	1.75	1.56	1.44
ROE	10.1%	(8.9%)	18.8%	12.0%	8.9%

% Change In Core EPS Estimates  
InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



Profit & Loss					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Net Revenues</b>	<b>2,159,620</b>	<b>2,137,849</b>	<b>2,404,742</b>	<b>2,487,378</b>	<b>2,421,279</b>
<b>Gross Profit</b>	<b>821,070</b>	<b>854,468</b>	<b>982,206</b>	<b>922,410</b>	<b>883,981</b>
<b>Operating EBITDA</b>	<b>238,720</b>	<b>(22,725)</b>	<b>366,217</b>	<b>300,188</b>	<b>259,553</b>
Depreciation And Amortisation	(75,210)	(78,831)	(82,674)	(86,828)	(84,757)
<b>Operating EBIT</b>	<b>163,510</b>	<b>(101,556)</b>	<b>283,543</b>	<b>213,360</b>	<b>174,796</b>
Financial Income/(Expense)	(38,580)	(29,715)	(28,295)	(27,269)	(23,635)
Pretax Income/(Loss) from Assoc.	20				
Non-Operating Income/(Expense)	14,960	10,336	10,416	10,504	8,957
<b>Profit Before Tax (pre-ET)</b>	<b>139,910</b>	<b>(120,934)</b>	<b>265,664</b>	<b>196,594</b>	<b>160,119</b>
Exceptional Items	210				
<b>Pre-tax Profit</b>	<b>140,120</b>	<b>(120,934)</b>	<b>265,664</b>	<b>196,594</b>	<b>160,119</b>
Taxation	(38,570)	30,475	(66,947)	(49,542)	(40,350)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>101,550</b>	<b>(90,459)</b>	<b>198,717</b>	<b>147,053</b>	<b>119,769</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>101,550</b>	<b>(90,459)</b>	<b>198,717</b>	<b>147,053</b>	<b>119,769</b>
Recurring Net Profit	101,398	(90,459)	198,717	147,053	119,769
<b>Fully Diluted Recurring Net Profit</b>	<b>101,398</b>	<b>(90,459)</b>	<b>198,717</b>	<b>147,053</b>	<b>119,769</b>

Cash Flow					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	238,720	(22,725)	366,217	300,188	259,553
Cash Flow from Inv. & Assoc.					
Change In Working Capital	19,440	7,351	(6,996)	(28,026)	(12,383)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(6,040)	(327)	6,528	(16,085)	11,639
Other Operating Cashflow	53,770	40,051	38,711	37,773	32,592
Net Interest (Paid)/Received	(38,580)	(29,715)	(28,295)	(27,269)	(23,635)
Tax Paid	(26,750)	30,475	(66,947)	(49,542)	(40,350)
<b>Cashflow From Operations</b>	<b>240,560</b>	<b>25,111</b>	<b>309,217</b>	<b>217,039</b>	<b>227,416</b>
Capex	(157,280)	(165,245)	(309,466)	(252,146)	(154,757)
Disposals Of FAs/subsidiaries	500				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	14,020				
<b>Cash Flow From Investing</b>	<b>(142,760)</b>	<b>(165,245)</b>	<b>(309,466)</b>	<b>(252,146)</b>	<b>(154,757)</b>
Debt Raised/(repaid)	(62,380)		60,000	100,000	120,000
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,670)	(8,880)	(8,880)	(8,880)	(8,880)
Preferred Dividends					
Other Financing Cashflow	(39,120)	(29,715)	(28,295)	(27,269)	(23,635)
<b>Cash Flow From Financing</b>	<b>(108,170)</b>	<b>(38,595)</b>	<b>22,825</b>	<b>63,851</b>	<b>87,485</b>
Total Cash Generated	(10,370)	(178,728)	22,576	28,743	160,145
<b>Free Cashflow To Equity</b>	<b>35,420</b>	<b>(140,134)</b>	<b>59,751</b>	<b>64,893</b>	<b>192,659</b>
<b>Free Cashflow To Firm</b>	<b>136,380</b>	<b>(110,419)</b>	<b>28,046</b>	<b>(7,838)</b>	<b>96,294</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	177,090	(1,638)	80,937	149,681	309,825
Total Debtors	164,040	180,661	175,714	197,650	204,442
Inventories	408,120	356,892	437,446	492,058	508,967
Total Other Current Assets	74,180	74,180	74,180	74,180	74,180
<b>Total Current Assets</b>	<b>823,430</b>	<b>610,095</b>	<b>768,277</b>	<b>913,569</b>	<b>1,097,414</b>
Fixed Assets	978,310	1,064,724	1,291,517	1,456,835	1,526,835
Total Investments	121,720	121,720	121,720	121,720	121,720
Intangible Assets	260,750	261,396	265,269	269,573	269,573
Total Other Non-Current Assets	134,860	134,887	136,539	138,375	137,468
<b>Total Non-current Assets</b>	<b>1,495,640</b>	<b>1,582,727</b>	<b>1,815,045</b>	<b>1,986,503</b>	<b>2,055,596</b>
Short-term Debt	71,060	71,060	71,060	71,060	71,060
Current Portion of Long-Term Debt					
Total Creditors	328,580	300,867	364,220	409,690	423,769
Other Current Liabilities	193,870	194,328	199,585	202,637	199,876
<b>Total Current Liabilities</b>	<b>593,510</b>	<b>566,255</b>	<b>634,865</b>	<b>683,387</b>	<b>694,704</b>
Total Long-term Debt	488,260	488,260	548,260	648,260	768,260
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	19,940	20,113	21,150	22,302	21,936
<b>Total Non-current Liabilities</b>	<b>508,200</b>	<b>508,373</b>	<b>569,410</b>	<b>670,562</b>	<b>790,196</b>
Total Provisions	155,790	155,963	166,980	155,883	166,980
<b>Total Liabilities</b>	<b>1,257,500</b>	<b>1,230,590</b>	<b>1,371,254</b>	<b>1,509,831</b>	<b>1,651,881</b>
Shareholders Equity	1,061,460	962,121	1,151,958	1,290,131	1,401,020
Minority Interests	110	110	110	110	110
<b>Total Equity</b>	<b>1,061,570</b>	<b>962,231</b>	<b>1,152,068</b>	<b>1,290,241</b>	<b>1,401,130</b>

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	(3.2%)	(1.0%)	12.5%	3.4%	(2.7%)
Operating EBITDA Growth	5.3%	(109.5%)	(1,711.5%)	(18.0%)	(13.5%)
Operating EBITDA Margin	11.1%	(1.1%)	15.2%	12.1%	10.7%
Net Cash Per Share (Rs)	(172.18)	(252.68)	(242.51)	(256.59)	(238.51)
BVPS (Rs)	478.14	433.39	518.90	581.14	631.09
Gross Interest Cover	4.24	(3.42)	10.02	7.82	7.40
Effective Tax Rate	27.5%		25.2%	25.2%	25.2%
Net Dividend Payout Ratio	8.8%	(9.8%)	4.5%	6.0%	7.4%
Accounts Receivables Days	27.56	29.43	27.05	27.39	30.31
Inventory Days	114.21	108.79	101.91	108.39	118.84
Accounts Payables Days	93.69	89.51	85.33	90.25	98.94
ROIC (%)	8.3%	(5.1%)	13.4%	8.8%	6.5%
ROCE (%)	9.8%	(6.1%)	16.2%	10.7%	7.9%
Return On Average Assets	5.6%	(3.0%)	9.2%	6.1%	4.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Definition:	
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:	
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:	
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.