



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
 Rs2,014,941m
 Average daily turnover: US\$55.0m
 Rs4990.1m
 Current shares o/s: 2,220.0m
 Free float: 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).



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(2.9)	12.9	49.7
Relative (%)	(2.6)	15.2	36.6

Major shareholders	% held
Promoter & Promoter Group	34.7
LICI	5.6
SBI MF	4.6

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.

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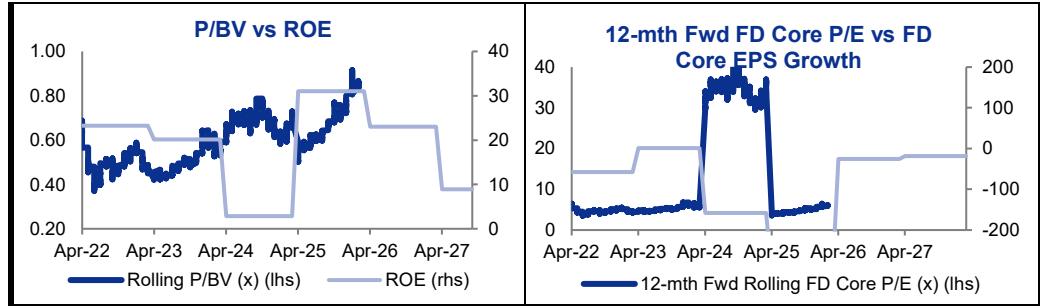
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Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	2,159,620	2,137,849	2,404,742	2,487,378	2,421,279
Operating EBITDA (Rsm)	238,720	(22,725)	366,217	300,188	259,553
Net Profit (Rsm)	101,550	(90,459)	198,717	147,053	119,769
Core 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
Total Net Revenues	2,159,620	2,137,849	2,404,742	2,487,378	2,421,279
Gross Profit	821,070	854,468	982,206	922,410	883,981
Operating EBITDA	238,720	(22,725)	366,217	300,188	259,553
Depreciation And Amortisation	(75,210)	(78,831)	(82,674)	(86,828)	(84,757)
Operating EBIT	163,510	(101,556)	283,543	213,360	174,796
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
Profit Before Tax (pre-EI)	139,910	(120,934)	265,664	196,594	160,119
Exceptional Items	210				
Pre-tax Profit	140,120	(120,934)	265,664	196,594	160,119
Taxation	(38,570)	30,475	(66,947)	(49,542)	(40,350)
Exceptional Income - post-tax					
Profit After Tax	101,550	(90,459)	198,717	147,053	119,769
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	101,550	(90,459)	198,717	147,053	119,769
Recurring Net Profit	101,398	(90,459)	198,717	147,053	119,769
Fully Diluted Recurring Net Profit	101,398	(90,459)	198,717	147,053	119,769

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 Invt. & 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)
Cashflow From Operations	240,560	25,111	309,217	217,039	227,416
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				
Cash Flow From Investing	(142,760)	(165,245)	(309,466)	(252,146)	(154,757)
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)
Cash Flow From Financing	(108,170)	(38,595)	22,825	63,851	87,485
Total Cash Generated	(10,370)	(178,728)	22,576	28,743	160,145
Free Cashflow To Equity	35,420	(140,134)	59,751	64,893	192,659
Free Cashflow To Firm	136,380	(110,419)	28,046	(7,838)	96,294

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
Total Current Assets	823,430	610,095	768,277	913,569	1,097,414
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
Total Non-current Assets	1,495,640	1,582,727	1,815,045	1,986,503	2,055,596
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
Total Current Liabilities	593,510	566,255	634,865	683,387	694,704
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
Total Non-current Liabilities	508,200	508,373	569,410	670,562	790,196
Total Provisions	155,790	155,963	166,980	155,883	166,980
Total Liabilities	1,257,500	1,230,590	1,371,254	1,509,831	1,651,881
Shareholders Equity	1,061,460	962,121	1,151,958	1,290,131	1,401,020
Minority Interests	110	110	110	110	110
Total Equity	1,061,570	962,231	1,152,068	1,290,241	1,401,130

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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Recommendation Framework

Stock Ratings

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.

Sector Ratings

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.

Country Ratings

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.