

Hindalco Industries | BUY



Novelis margins; lower CoP to drive earnings trajectory

Hindalco reported 2Q consol. adj. EBITDA of INR56.4bn, significantly lower than JMfe of INR63.5bn – mainly due to accounting adjustments arising out of conversion from US GAAP to IND AS. India aluminium business (incl. Utkal) delivered an EBITDA of INR22.5bn up 8% QoQ aided by lower costs and increased volumes. Net debt decreased sequentially to INR376bn (vs INR385bn in 1Q). Key takeaways from the call are a) Aluminium CoP expected to be flat in 3Q – CoP was down 6% in 2Q due to lower coal costs b) Company has hedged 5% of FY25 aluminium volumes in range of USD2.2k-2.5k/t c) Company commissioned 350ktpa alumina capacity in Utkal d) Chakla mine moving as per plan and expected to be operational by FY26 e) the company recently won the Meenakshi west mine which can offer ~6-7mn ton of coal per year f) capex for India operations / Novelis during FY24 expected at INR45bn / US\$1.6-1.9bn g) Company to invest INR80bn in two tranches for 2mn tons greenfield alumina refinery in Odhisa. The long term outlook for Hindalco continues to remain buoyant given a) Novelis – remains confident of achieving its medium term EBITDA/t guidance of ~US\$525 (expected by 4QFY24) b) resilient performance by India aluminium operations c) enhanced coal security post acquisition of Meenakshi, Meenakshi west and Chakla coal mines and d) growth capex to augment capacity in downstream business. Hindalco, given ~70%+ steady/strong EBITDA being non-LME linked, remains our preferred play in the metal space. Maintain BUY.

- Novelis margins aided by end of destocking in beverage can segment :** Novelis reported quarterly adjusted EBITDA of \$484mn vs \$421mn, up 15% QoQ, due to operating leverage aided by 6% volume growth. Novelis reported adjusted EBITDA per ton of \$519 in 2Q vs \$479 in the prior quarter. Novelis' revenue stood \$4.1bn flat sequentially, on account of lower realizations offset by improved volumes. Total shipments of flat rolled products were at 933Kt in 2Q vs 879kt in 1Q, up 6% QoQ on account of improved volumes in beverage can segment post de-stocking. However, volumes are likely to be impacted in 3Q on account of planned plant maintenance.
- India AL business spreads positively impacted by lower costs:** Aluminium EBITDA stood at INR22bn in 2Q vs INR21bn in 1Q primarily driven by lower COP even as realisations trended down. Upstream EBITDA margins were at 26.3% and continue to be one of the best in the global industry. Upstream revenue stood at INR79bn in 2Q vs INR80bn in the previous quarter. Downstream revenue stood at INR26bn in 2Q vs INR24bn in the prior quarter. Sales of downstream aluminium stood at 94ktons vs 81ktons in 1Q. India Copper business EBITDA stood at INR6.5bn in 2Q compared to INR5.3bn in 1Q, on account of lower COP. Coal sourcing during 2QFY24 comprised of 53% linkage coal, 43% e-auction, 2% captive and 2% imports.
- Growth capex on track:** Hindalco plans to invest INR80bn in 2mn tons greenfield alumina expansion with 150MW power plant. Hindalco has signed a bauxite supply contract with OMC regregrading the same. Novelis has already signed long term contracts with Ball North America for aluminium beverage can sheet supply.

Ashutosh Somani
ashutosh.somani@jmfl.com | Tel: (91 22) 66303083
Raghvendra Goyal
raghvendra.goyal@jmfl.com | Tel: (+91 22) 66303018

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	600
Upside/(Downside)	23.9%
Previous Price Target	600
Change	0.0%

Key Data – HNDL IN

Current Market Price	INR484
Market cap (bn)	INR1,088.7/US\$13.1
Free Float	53%
Shares in issue (mn)	2,223.9
Diluted share (mn)	2,223.9
3-mon avg daily val (mn)	INR2,856.6/US\$34.3
52-week range	509/381
Sensex/Nifty	64,832/19,395
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	3.1	10.0	16.1
Relative*	4.2	4.8	9.3

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,950,590	2,232,020	1,953,373	2,125,315	2,207,913
Sales Growth (%)	47.8	14.4	-12.5	8.8	3.9
EBITDA	286,570	228,850	249,041	265,188	275,417
EBITDA Margin (%)	14.7	10.3	12.7	12.5	12.5
Adjusted Net Profit	139,290	102,750	111,212	115,343	117,349
Diluted EPS (INR)	62.6	46.2	50.0	51.9	52.8
Diluted EPS Growth (%)	140.7	-26.2	8.2	3.7	1.7
ROIC (%)	14.3	10.2	9.9	9.7	9.3
ROE (%)	19.2	11.9	11.1	10.3	9.5
P/E (x)	7.7	10.5	9.7	9.3	9.2
P/B (x)	1.4	1.1	1.0	0.9	0.8
EV/EBITDA (x)	5.2	6.4	5.8	5.3	4.9
Dividend Yield (%)	0.8	0.2	0.4	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 09/Nov/2023

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Hindalco – Consolidated performance (INR mn)

Y/E March	2QFY24	2QFY24E	% Var	2QFY23	YoY %	1QFY24	QoQ %
Net Sales	541,690	519,899	4.2	561,760	(3.6)	529,910	2.2
Total expenditure	485,310	456,400	6.3	507,560	(4.4)	472,580	2.7
EBITDA	56,380	63,498	(11.2)	54,200	4.0	57,330	(1.7)
EBITDA (%)	10.4	12.2		9.6		10.8	
Other income	4,630	4,106		3,280		3,910	
Depreciation	18,430	18,000		17,130		17,860	
EBIT	42,580	49,604	(14.2)	40,350	5.5	43,380	(1.8)
Interest	10,340	9,950	3.9	8,790		9,920	
PBT	32,240	39,654		31,560		33,460	
Tax	10,350	10,707		8,950		8,630	
Eff. Tax rate (%)	32.1	27.0		28.4		25.8	
PAT	21,890	28,947	(24.4)	22,610	(3.2)	24,830	(11.8)
XO items	70	-		(580)		(310)	
Minority interests	-	-		-		-	
Share of associates	-	30		20		20	
Reported PAT	21,960	28,977		22,050		24,540	
Adjusted PAT	21,890	28,947	(24.4)	22,610	(3.2)	24,830	(11.8)
EPS (Rs)	9.8	13.0		10.2		11.2	
Key monitorables (INR bn)							
Net debt	376	-		421		385	

Source: Company, JM Financial

Exhibit 2. Hindalco consol. EBITDA (INR mn)

Y/E March	2QFY24	2QFY24E	% Var	2QFY23	YoY (%)	1QFY24	QoQ %
Consol. EBITDA	56,380	63,498	(11.2)	54,200	4.0	57,330	(1.7)
India aluminium	11,080	13,792	(19.7)	7,230	53.3	10,350	7.1
Utkal Alumina	11,370	10,021	13.5	8,240	38.0	10,470	8.6
India copper	6,530	6,040	8.1	5,440	20.0	5,310	23.0
Novelis	39,980	37,367	7.0	40,470	(1.2)	34,560	15.7
Adj. on account of OI	(12,580)	(3,722)		(7,180)		(3,360)	

Source: Company, JM Financial

Exhibit 3. Segmental operational performance

Y/E March	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ %
Volumes ('000 tons)					
Aluminium	334	341	-2.1	341	-2.1
VAP (excl. wire rod)	94	95	-1.1	81	16.0
Copper	134	112	19.6	118	13.6
CC rod	100	85	17.6	98	2.0
Alumina prod. (incl. Utkal)	882	900	-2.0	855	3.2

Source: Company, JM Financial

Exhibit 4. Hindalco – Standalone quarterly performance							(INR mn)
Y/E March - INR mn	2QFY24	2QFY24E	% Var	2QFY23	YoY (%)	1QFY24	QoQ %
Net Sales	206,760	193,003	7.1	183,820	12.5	199,040	3.9
Aluminium	105,070	85,777	22.5	110,990		104,990	
Copper	124,410	107,226	16.0	96,580		115,020	
Metals volumes (k tons)							
Aluminium	334	340		341	(2.1)	341	(2.1)
Copper	134	110		112	19.6	118	13.6
Metals realization (INR/ton)							
Aluminium	246,557	252,285		255,836	(3.6)	246,393	0.1
Copper	928,433	974,784		862,321	7.7	974,746	(4.8)
Raw material cost	154,590	111,218		109,920		129,250	
Raw material cost/t	330,321	247,152		242,649		281,590	
Change in stock	(12,470)	202		200		6,200	
Change in stock/t	(26,645)	450		442		13,508	
Gross profit	64,640	81,582		73,700	(12.3)	63,590	1.7
Gross margin (%)	31.3	42.3		40.1		31.9	
Gross margin /t	138,120	181,294		162,693		138,540	
Power and fuel	22,830	34,999		34,590		24,300	
P&F/t	48,782	77,775		76,358		52,941	
Other cost	24,200	26,752		26,440		23,630	
Other cost/t	51,709	59,450		58,366		51,481	
Total expenditure	189,150	173,171	9.2	171,150	10.5	183,380	3.1
EBITDA	17,610	19,832	(11.2)	12,670	39.0	15,660	12.5
EBITDA (%)	8.5	10.3		6.9		7.9	
EBITDA/t	37,628	44,070		27,969		34,118	10.3
Other income	1,660	2,363		1,900		2,250	
Depreciation	4,890	4,950		4,490		4,820	
EBIT	14,380	17,244	(16.6)	10,080	42.7	13,090	9.9
Interest	3,380	3,500	(3.4)	3,220		3,520	
PBT	11,000	13,744		6,860		9,570	
Tax	2,810	4,536		2,480		3,400	
Eff. Tax rate (%)	25.5	33.0		36.2		35.5	
XO items	280	-		1,100		(170)	
Reported PAT	8,470	9,209	(8.0)	5,480	54.6	6,000	41.2
Adjusted PAT	8,190	9,209	(11.1)	4,380	87.0	6,170	32.7
EPS (Rs)	3.7	4.1		2.0		2.8	

Source: Company, JM Financial

Exhibit 5. Novelis –quarterly financial performance

(USD mn)

Y/E March	2QFY24	2QFY24E	% Var	2QFY23	YoY %	1QFY24	QoQ %
Net sales	4,107	4,182	(1.8)	4,799	(14.4)	4,091	0.4
Shipments ('000 tons)	933	910	2.5	984	(5.2)	879	6.1
Realisations (USD/ton)	4,402	4,596	(4.2)	4,877	(9.7)	4,654	(5.4)
LME (USD/t)	2,196	2,196	-	2,367	(7.2)	2,285	(3.9)
Premium (USD/t)	2,206	2,400	(8.1)	2,510	(12.1)	2,369	(6.9)
Total cost							
COGS (USD mn)	3,477	3,572	(2.7)	4,140	(16.0)	3,501	(0.7)
COGS as % of sales	84.7	85.4		86.3		85.6	
Adjusted EBITDA	484	434	11.6	506	(4.3)	421	15.0
EBITDA margins (%)	11.8	10.4		10.5		10.3	
EBITDA/ton (USD/ton)	519	477	8.8	514	0.9	479	8.3
Other income	(22)	1		(24)		5	
Depreciation	136	134		134	1.5	131	3.8
Interest	74	64		61	21.3	70	5.7
EO income/(expense)	(44)	-		(39)		(15)	
PBT	208	237		248		210	
Tax	51	62		65	(21.5)	54	(5.6)
Reported PAT	157	175	(10.2)	183		156	
Adjusted PAT	201	175		222	(9.5)	171	17.5
Key monitorables							
Net Debt (USD bn)	4.4	-		4.6		4.5	
Capex	285	-		284		333	
FCF (from continuing ops.)	49	-		(18)		(349)	

Source: Company, JM Financial

Exhibit 6. Novelis quarterly segmental performance

Y/E March	2QFY24	2QFY23	YoY %	1QFY24	QoQ %
North America					
Total Shipments ('000 tons)	390	386	1.0	370	5.4
EBITDA (USD)	208	191	8.9	166	25.3
EBITDA/ton (USD/ton)	533	495	7.8	449	18.9
Europe					
Total Shipments ('000 tons)	256	268	-4.5	250	2.4
EBITDA (USD)	100	73	37.0	88	13.6
EBITDA/ton (USD/ton)	391	272	43.4	352	11.0
Asia					
Total Shipments ('000 tons)	175	208	-15.9	176	-0.6
EBITDA (USD)	82	113	-27.4	87	-5.7
EBITDA/ton (USD/ton)	469	543	-13.7	494	-5.2
South America					
Total Shipments ('000 tons)	144	162	-11.1	119	21.0
EBITDA (USD)	93	127	-26.8	84	10.7
EBITDA/ton (USD/ton)	646	784	-17.6	706	-8.5

Source: Company, JM Financial

Exhibit 7. Hindalco – SOTP valuation

	Y26 EBITDA (INR bn)	Multiple (x)	Value (INR bn)
Indian Aluminium	77.1	4.5	347
India Copper	20.7	4.5	93
Novelis	177.6	6.0	1066
Total EV			1,506
Net Debt			266
Implied Mcap			1,1239
No. of shares (bn)			2,224
Value (INR/share)			557
Investments (INR/share)			42
Target price			600

Source: JM Financial

Exhibit 8. Hindalco – Key assumptions and estimates

	FY24E	FY25E	FY26E
Aluminium (USD/ton)	2,300	2,400	2,400
USD/INR	82.0	82.0	82.0
India aluminium (incl. Utkal)			
Volume ('000 tons)	1,327	1,327	1,327
EBITDA (INR mn)	75,711	77,585	77,101
India Copper			
Volume (mn tons)	0.4	0.4	0.4
EBITDA (INR mn)	17,542	18,238	20,676
Novelis + Aleris			
Shipments ('000 tons)	4,000	4,350	4,568
EBITDA (USD mn)	1,900	2,065	2,166
EBITDA/ton (USD)	475	475	474

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,950,590	2,232,020	1,953,373	2,125,315	2,207,913
Sales Growth	47.8%	14.4%	-12.5%	8.8%	3.9%
Other Operating Income	0	0	0	0	0
Total Revenue	1,950,590	2,232,020	1,953,373	2,125,315	2,207,913
Cost of Goods Sold/Op. Exp	1,175,400	1,346,426	1,108,387	1,215,504	1,277,409
Personnel Cost	119,360	73,180	75,398	77,838	80,522
Other Expenses	369,260	583,564	520,546	566,786	574,565
EBITDA	286,570	228,850	249,041	265,188	275,417
EBITDA Margin	14.7%	10.3%	12.7%	12.5%	12.5%
EBITDA Growth	62.4%	-20.1%	8.8%	6.5%	3.9%
Depn. & Amort.	67,290	70,860	75,809	85,140	94,557
EBIT	219,280	157,990	173,232	180,048	180,860
Other Income	11,360	12,570	8,096	8,072	8,673
Finance Cost	37,680	36,460	31,347	32,246	30,954
PBT before Excep. & Forex	192,960	134,100	149,980	155,874	158,579
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	192,960	134,100	149,980	155,874	158,579
Taxes	53,730	31,440	38,768	40,531	41,230
Extraordinary Inc./Loss(-)	-1,990	-1,780	0	0	0
Assoc. Profit/Min. Int.(-)	60	90	0	0	0
Reported Net Profit	137,300	100,970	111,212	115,343	117,349
Adjusted Net Profit	139,290	102,750	111,212	115,343	117,349
Net Margin	7.1%	4.6%	5.7%	5.4%	5.3%
Diluted Share Cap. (mn)	2,223.9	2,223.9	2,223.9	2,223.9	2,223.9
Diluted EPS (INR)	62.6	46.2	50.0	51.9	52.8
Diluted EPS Growth	140.7%	-26.2%	8.2%	3.7%	1.7%
Total Dividend + Tax	10,444	2,611	5,222	5,222	5,222
Dividend Per Share (INR)	4.0	1.0	2.0	2.0	2.0

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	193,020	134,190	149,980	155,874	158,579
Depn. & Amort.	67,290	70,860	75,809	85,140	94,557
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	1,910	-43,994	55,540	3,004	-345
Others	6,130	-37,460	0	0	0
Taxes Paid	-53,730	-31,440	-38,768	-40,531	-41,230
Operating Cash Flow	214,620	92,156	242,561	203,487	211,561
Capex	-54,290	-117,950	-210,572	-161,600	-161,600
Free Cash Flow	160,330	-25,794	31,989	41,887	49,961
Inc (-) / Dec in Investments	30,140	30	-2,634	0	0
Others	-43,224	49,703	4,458	4,458	4,458
Investing Cash Flow	-67,374	-68,217	-208,748	-157,142	-157,142
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-8,916	-2,229	-4,458	-4,458	-4,458
Inc / Dec (-) in Loans	-52,510	-41,950	51,762	-34,700	-34,700
Others	10	0	463	0	0
Financing Cash Flow	-61,416	-44,179	47,767	-39,158	-39,158
Inc / Dec (-) in Cash	85,830	-20,240	81,580	7,187	15,261
Opening Cash Balance	88,090	173,920	153,680	235,260	242,447
Closing Cash Balance	173,920	153,680	235,260	242,447	257,708

Source: Company, JM Financial (Note: Others includes Aleris acquisition and FX translation gains/losses apart from other items)

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	781,910	948,064	1,059,276	1,174,618	1,291,968
Share Capital	2,224	2,224	2,224	2,224	2,224
Reserves & Surplus	779,686	945,840	1,057,052	1,172,395	1,289,744
Preference Share Capital	0	0	0	0	0
Minority Interest	110	110	573	573	573
Total Loans	644,860	602,910	654,672	619,972	585,272
Def. Tax Liab. / Assets (-)	44,240	8,650	8,650	8,650	8,650
Total - Equity & Liab.	1,471,120	1,559,734	1,723,171	1,803,813	1,886,462
Net Fixed Assets	1,118,190	1,183,080	1,317,843	1,394,303	1,461,346
Gross Fixed Assets	1,456,395	1,546,795	1,761,017	1,922,535	2,084,135
Intangible Assets	239,650	257,450	257,450	257,450	257,450
Less: Depn. & Amort.	627,305	698,165	773,974	859,114	953,671
Capital WIP	49,450	77,000	73,350	73,432	73,432
Investments	141,190	141,160	143,794	143,794	143,794
Current Assets	959,170	908,360	1,011,767	1,076,787	1,122,983
Inventories	444,830	429,580	404,822	433,480	446,938
Sundry Debtors	210,760	162,140	230,350	257,203	270,182
Cash & Bank Balances	173,920	153,680	235,260	242,447	257,708
Loans & Advances	129,660	162,960	141,335	143,657	148,156
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	747,430	672,866	750,233	811,070	841,660
Current Liabilities	650,540	634,946	656,243	717,080	747,670
Provisions & Others	96,890	37,920	93,990	93,990	93,990
Net Current Assets	211,740	235,494	261,534	265,716	281,323
Total - Assets	1,471,120	1,559,734	1,723,171	1,803,813	1,886,462

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	7.1%	4.6%	5.7%	5.4%	5.3%
Asset Turnover (x)	1.4	1.5	1.2	1.2	1.2
Leverage Factor (x)	2.0	1.8	1.6	1.6	1.5
RoE	19.2%	11.9%	11.1%	10.3%	9.5%

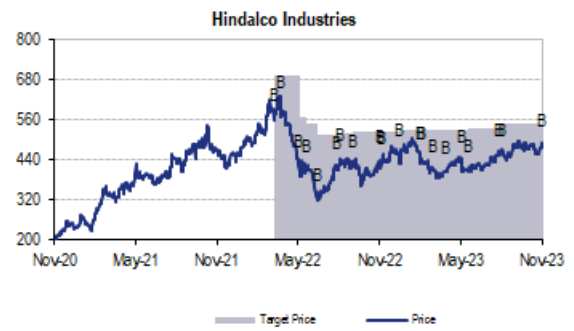
Key Ratios					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	351.6	426.3	476.3	528.2	580.9
ROIC	14.3%	10.2%	9.9%	9.7%	9.3%
ROE	19.2%	11.9%	11.1%	10.3%	9.5%
Net Debt/Equity (x)	0.5	0.4	0.3	0.3	0.2
P/E (x)	7.7	10.5	9.7	9.3	9.2
P/B (x)	1.4	1.1	1.0	0.9	0.8
EV/EBITDA (x)	5.2	6.4	5.8	5.3	4.9
EV/Sales (x)	0.8	0.7	0.7	0.7	0.6
Debtor days	39	27	43	44	45
Inventory days	83	70	76	74	74
Creditor days	143	116	141	141	141

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
15-Mar-22	Buy	690	
30-Mar-22	Buy	690	0.0
11-May-22	Buy	565	-18.1
26-May-22	Buy	550	-2.7
20-Jun-22	Buy	515	-6.4
3-Aug-22	Buy	515	0.0
10-Aug-22	Buy	520	1.0
8-Sep-22	Buy	525	0.9
8-Nov-22	Buy	525	0.0
11-Nov-22	Buy	525	0.0
22-Dec-22	Buy	530	1.0
6-Feb-23	Buy	530	0.0
9-Feb-23	Buy	530	0.0
9-Mar-23	Buy	530	0.0
4-Apr-23	Buy	530	0.0
10-May-23	Buy	530	0.0
24-May-23	Buy	535	0.9
3-Aug-23	Buy	540	0.9
8-Aug-23	Buy	550	1.9
7-Nov-23	Buy	600	9.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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