

Hindalco Industries | BUY

Hits long awaited margins; steady road ahead

Novelis reported 2Q adj. EBITDA of USD484mn, significantly above JMfe of USD434mn. Adj. EBITDA came in higher sequentially due to operating leverage aided by 6% volume growth QoQ. The company achieved an EBITDA/t of USD519 during 2Q vs US\$479 in 1Q. Key takeaways from the call are –1) EBITDA/t in 3Q expected in range of US\$450-500/t - lower due to planned shutdown in Oswego, US 2) the company remains committed towards its earlier EBITDA /t guidance of USD525 in 4Q 3) Company has signed long term supply contracts with Ball North America for aluminium beverage packaging sheet from its Bay Minette plant – yet to be commissioned; aluminium plates contracts with Airbus 4) the company endeavours to maintain Net Debt/EBITDA at 3x; stated capex guidance towards lower range of USD1.6-1.9bn. The earnings trajectory is likely to benefit post de-stocking and plant commissioning resulting in higher shipments and margins keeping its journey of sustainable EBITDA/t of US\$525/t intact. Hindalco, given ~70%+ steady/strong EBITDA being non-LME linked, remains our preferred play in the metal space. Maintain BUY.

- **Higher shipments aided margin recovery:** Net sales remained flat sequentially at USD4.1bn; largely on account of lower realizations offset by improved volumes. Total flat rolled product shipments stood at 933 ktons in 2QFY24 compared to 879 ktons in 1QFY24.
- **Margins aided by lower RM and favourable mix:** Adj. EBITDA increased 15% QoQ to USD484mn in 2QFY24 vs USD421mn in 1QFY24. The underlying increase in Adj. EBITDA is primarily due to a favourable product mix and lower input costs. Novelis achieved an EBITDA/t of USD519 in 2QFY24 (vs. guidance of USD450/t), compared to USD479 in 1QFY24.
- **Beverage can segment volumes to improve:** Beverage cans segment reported healthy volumes post de-stocking. However; volumes are likely to be impacted in 3Q due to planned plant maintenance. The company also signed long-term agreement for supply of aluminium beverage can sheet to Ball North America and has all capacities booked. US markets remain healthy where as demand pressure continued in Mexico, Europe and Southeast Asia. On automotive front demand remained largely stable tracking pent-up demand in recent past. Aerospace demand to remain strong on back of increased backlog on OEM front.
- **Higher capex results in cash outflow:** Novelis reported FCF outflow of US\$300 mn in 1HFY24Overall. Company plans to spend USD1.6-1.9bn during FY24 implying increased capex spends in coming quarters which is likely to be offset by reduced working capital requirement. Company also is in process of commissioning its facility at Oswego, US.



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)	23.8%
Previous Price Target	550
Change	9.1%

Key Data – HNDL IN

Current Market Price	INR485
Market cap (bn)	INR1,088.9/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)	INR2,820.8/US\$33.9
52-week range	509/381
Sensex/Nifty	64,942/19,407
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	2.5	11.6	10.8
Relative*	4.2	4.9	4.3

* 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	9.4	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 07/Nov/2023

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

Exhibit 1. 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 2. 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 3. Major capital projects underway

- Approximately \$3.5 billion of investments underway remain on track



Greenfield Rolling & Recycling Plant
Location: Bay Minette, US
Capex: \$2.7-2.8B



Auto Recycling Plant
Location: Guthrie, US
Capex: \$365M



UAL Recycling*
Location: Ulsan, S Korea
Capex: \$50M



Logan Hot Mill Debottlenecking*
Location: Logan, US
Capex: \$150M

High-return, brownfield projects contributing to FY24

Pinda debottlenecking
Location: Pinda, Brazil
Capex: \$50M



Oswego debottlenecking
Location: Oswego, US
Capex: \$130M



Yeongju debottlenecking
Location: Yeongju, S Korea
Capex: \$20M

Source: JM Financial, Company

Exhibit 4. Hindalco - SOTP valuation

	FY26 EBITDA (INR bn)	Multiple	Value (INR bn)
India 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			1,239
No. of shares (bn)			2,224
Value (INR/share)			557
Investments			42
Target price			600

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 WCcap.	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

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%	

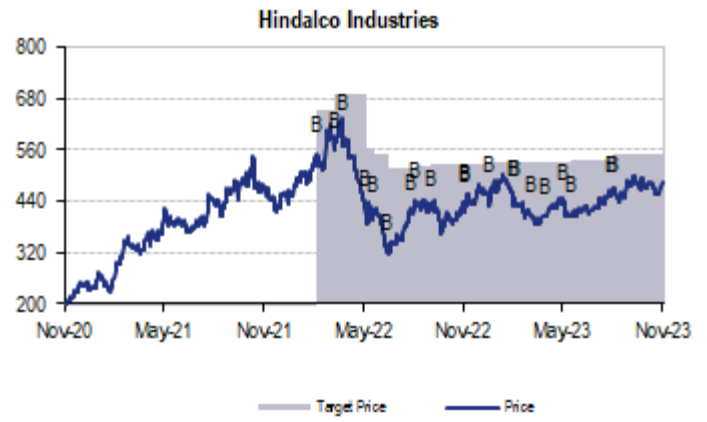
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	351.6	426.3	476.3	528.2	580.9	
ROIC	14.3%	10.2%	9.9%	9.7%	9.3%	
ROE	19.2%	11.9%	11.1%	10.3%	9.5%	
Net Debt/Equity (x)	0.5	0.4	0.3	0.3	0.2	
P/E (x)	7.7	10.5	9.7	9.4	9.2	
P/B (x)	1.4	1.1	1.0	0.9	0.8	
EV/EBITDA (x)	5.2	6.4	5.8	5.3	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.
10-Feb-22	Buy	650	
15-Mar-22	Buy	690	6.2
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

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: jmfincial.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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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.
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