

Hindalco Industries | BUY

Stable demand, new projects to drive earnings

Novelis reported 4Q adj. EBITDA of USD514mn, higher than JMfe of USD503mn. The company achieved a record EBITDA/t of USD540 during 4Q vs USD499/t in 3Q, higher than stated guidance of USD525/t. Key takeaways from the call are – 1) Company remains committed towards its earlier stated EBITDA/t guidance of ~USD525/t 2) No update on IPO at this stage 3) progressing well on projects, spent USD700mn on Bay Minette project so far, out of USD4.1bn total capex outlined 4) FY25 capex to be USD1.8-2.1bn 5) Bay Minette commissioning timeline continues to be calendar 2HCY26 ~1.5 year ramp up period likely 6) Net debt/EBITDA improved to 2.3x in Q4 from 2.7x in Q3; endeavour to maintain sub ~2.5x; FCF of USD400mn + in 4Q 7) Paid USD 100mn as dividend to parent during the year; 8-10% of cash flow stated as dividend policy earlier. Hindalco, given ~70%+ steady/strong EBITDA being non-LME linked, remains our preferred play in the metal space. We upward revise our multiple/LME assumption to USD2.5k/t from USD2.4k/t earlier, leading to an upward revision in fair value. Maintain BUY.

- **Higher shipments, lower realisation:** : Net sales decreased 7% versus the prior year period to \$4.1 billion for the fourth quarter of fiscal year 2024, driven by lower average aluminum prices, partially offset by higher total shipments. Total flat rolled product shipments increased 2% to 951 kilotonnes in the fourth quarter of fiscal year 2024 versus the prior year period, due primarily to increased demand for beverage packaging sheet.
- **Adjusted EBITDA up significantly** - higher than guidance: Net income attributable to common shareholder was up 6% versus the prior year to \$166 million in the fourth quarter of fiscal year 2024, due primarily to higher Adjusted EBITDA, partially offset by higher taxes and unfavorable timing of unrealized derivative losses. Adjusted EBITDA increased 28% versus the prior year to \$514 million in the fourth quarter of fiscal year 2024. This significant improvement was primarily driven by favorable metal benefit from recycling and lower operating costs than the prior year period.
- **Full year FCF lower on high Capex:** Adjusted Free Cash Flow was an outflow of \$75 million in fiscal year 2024 compared to a prior year period inflow of \$431 million, due primarily to a 73% year-over-year increase in capital expenditures, partially offset by higher cash flow from operating activities. Fiscal year 2024 capital expenditures total \$1.4 billion and reflect the planned increase in strategic, sustainability-focused, capital investment projects that support increased long-term customer demand.
- **Leverage abiding by targets:** The company had a net leverage ratio (Net Debt / trailing twelve months (TTM) Adjusted EBITDA) of 2.3x at the end of the fourth quarter of fiscal year 2024. Total liquidity stood at \$2.3 billion as of March 31, 2024, consisting of \$1.3 billion in cash and cash equivalents and \$1.0 billion in availability under committed credit facilities.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	19,50,590	22,32,020	19,80,023	20,55,137	21,50,572
Sales Growth (%)	47.8	14.4	-11.3	3.8	4.6
EBITDA	2,86,570	2,28,850	2,47,175	2,75,104	2,85,753
EBITDA Margin (%)	14.7	10.3	12.5	13.4	13.3
Adjusted Net Profit	1,39,290	1,02,750	1,06,635	1,18,501	1,18,086
Diluted EPS (INR)	62.6	46.2	47.9	53.3	53.1
Diluted EPS Growth (%)	140.7	-26.2	3.8	11.1	-0.3
ROIC (%)	14.3	10.2	9.7	9.8	9.2
ROE (%)	19.2	11.9	10.6	10.6	9.6
P/E (x)	10.2	13.8	13.3	12.0	12.0
P/B (x)	1.8	1.5	1.3	1.2	1.1
EV/EBITDA (x)	6.4	7.9	7.4	6.5	6.1
Dividend Yield (%)	0.6	0.2	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 06/May/2024



Ashutosh Somani

ashutosh.somani@jmfl.com | Tel: (91 22) 66303083

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	750
Upside/(Downside)	17.3%
Previous Price Target	600
Change	25.0%

Key Data – HNDL IN

Current Market Price	INR639
Market cap (bn)	INR1,435.5/US\$17.2
Free Float	64%
Shares in issue (mn)	2,223.9
Diluted share (mn)	2,223.9
3-mon avg daily val (mn)	INR5,164.3/US\$61.9
52-week range	662/398
Sensex/Nifty	73,896/22,443
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	12.1	32.5	47.1
Relative*	12.6	16.5	21.5

* To the BSE Sensex

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Exhibit 1. Financial summary – consolidated (INR mn)

Y/E March	4QFY24	4QFY24E	% Var	4QFY23	YoY %	3QFY24	QoQ %
Net sales	4,077	4,300	(5.2)	4,397	(7.3)	3,935	3.6
Shipments ('000 tons)	951	960	(0.9)	936	1.6	910	4.5
Realisations (USD/ton)	4,287	4,479	(4.3)	4,698	(8.7)	4,324	(0.9)
LME (USD/t)	2,241	2,239	0.1	2,447	(8.4)	2,220	0.9
Premium (USD/t)	2,046	2,240	(8.7)	2,251	(9.1)	2,104	(2.8)
Total cost							
COGS (USD mn)	3,417	3,612	(5.4)	3,797	(10.0)	3,309	3.3
COGS as % of sales	83.8	84.0		86.4		84.1	
Adjusted EBITDA	514	503	2.2	403	27.5	454	13.2
EBITDA margins (%)	12.6	11.7		9.2		11.5	
EBITDA/ton (USD/ton)	540	524	3.2	431	25.5	499	8.3
Other income	(8)	1		-		(45)	
Depreciation	148	135		135	9.6	139	6.5
Interest	62	74		70	(11.4)	67	(7.5)
EO income/(expense)	(71)	-		(41)		(28)	
PBT	225	295		157		175	
Tax	59	52		1	NA	54	9.3
Reported PAT	166	243	(31.8)	156		121	
Adjusted PAT	237	243	(2.5)	197	20.3	149	59.1
Key monitorables							
Net Debt (USD bn)	4.3	-		4.1		4.7	
Capex	398	-		324		342	
FCF (from continuing ops.)	442	-		613		(217)	

Source: Company, JM Financial

Exhibit 2. Novelis quarterly segmental performance

Y/E March	4QFY24	4QFY23	YoY %	3QFY24	QoQ %
North America					
Total Shipments ('000 tons)	391	363	7.7	362	8.0
EBITDA (USD)	210	131	60.3	165	27.3
EBITDA/ton (USD/ton)	537	361	48.8	456	17.8
Europe					
Total Shipments ('000 tons)	246	248	-0.8	230	7.0
EBITDA (USD)	74	91	-18.7	59	25.4
EBITDA/ton (USD/ton)	301	367	-18.0	257	17.3
Asia					
Total Shipments ('000 tons)	183	187	-2.1	176	4.0
EBITDA (USD)	84	72	16.7	81	3.7
EBITDA/ton (USD/ton)	459	385	19.2	460	-0.3
South America					
Total Shipments ('000 tons)	164	144	13.9	176	-6.8
EBITDA (USD)	145	115	26.1	150	-3.3
EBITDA/ton (USD/ton)	884	799	10.7	852	3.7

Source: Company, JM Financial

Exhibit 3. Hindalco - SOTP valuation

	FY26 EBITDA (INR bn)	Multiple	Value (INR bn)
India Aluminium	90.17	6.0	541.036
India Copper	20.6	6.0	124.054
Novelis	174.9	7.0	1,224
Total EV			1,889
Net Debt			324
Implied Mcap			1,566
No. of shares (bn)			2,220
Value (INR/share)			705
Investments			48
Target price			750

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	19,50,590	22,32,020	19,80,023	20,55,137	21,50,572	
Sales Growth	47.8%	14.4%	-11.3%	3.8%	4.6%	
Other Operating Income	0	0	0	0	0	
Total Revenue	19,50,590	22,32,020	19,80,023	20,55,137	21,50,572	
Cost of Goods Sold/Op. Exp	11,75,400	14,07,700	11,23,244	11,61,637	12,31,904	
Personnel Cost	1,19,360	1,30,630	75,398	77,838	80,522	
Other Expenses	3,69,260	4,64,840	5,34,206	5,40,559	5,52,393	
EBITDA	2,86,570	2,28,850	2,47,175	2,75,104	2,85,753	
EBITDA Margin	14.7%	10.3%	12.5%	13.4%	13.3%	
EBITDA Growth	62.4%	-20.1%	8.0%	11.3%	3.9%	
Depn. & Amort.	67,290	70,860	75,281	85,383	97,071	
EBIT	2,19,280	1,57,990	1,71,893	1,89,721	1,88,681	
Other Income	11,360	12,570	8,334	8,317	8,927	
Finance Cost	37,680	36,460	36,116	36,116	36,116	
PBT before Excep. & Forex	1,92,960	1,34,100	1,44,111	1,61,922	1,61,492	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,92,960	1,34,100	1,44,111	1,61,922	1,61,492	
Taxes	53,730	31,440	37,475	43,422	43,406	
Extraordinary Inc./Loss(-)	-1,990	-1,780	0	0	0	
Assoc. Profit/Min. Int.(-)	60	90	0	0	0	
Reported Net Profit	1,37,300	1,00,970	1,06,635	1,18,501	1,18,086	
Adjusted Net Profit	1,39,290	1,02,750	1,06,635	1,18,501	1,18,086	
Net Margin	7.1%	4.6%	5.4%	5.8%	5.5%	
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	47.9	53.3	53.1	
Diluted EPS Growth	140.7%	-26.2%	3.8%	11.1%	-0.3%	
Total Dividend + Tax	10,444	2,600	5,201	5,201	5,201	
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	1,93,020	1,34,190	1,44,111	1,61,922	1,61,492	
Depn. & Amort.	67,290	70,860	75,281	85,383	97,071	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCcap.	1,910	-1,21,660	3,966	25,481	43,482	
Others	6,130	40,390	0	0	0	
Taxes Paid	-53,730	-31,440	-37,475	-43,422	-43,406	
Operating Cash Flow	2,14,620	92,340	1,85,883	2,29,365	2,58,640	
Capex	-54,290	-1,18,130	-1,94,172	-2,10,800	-2,02,600	
Free Cash Flow	1,60,330	-25,790	-8,289	18,565	56,040	
Inc (-) / Dec in Investments	30,140	30	-2,634	0	0	
Others	-43,224	49,694	4,440	4,440	4,440	
Investing Cash Flow	-67,374	-68,406	-1,92,366	-2,06,360	-1,98,160	
Inc / Dec (-) in Capital	0	-4	0	0	0	
Dividend + Tax thereon	-8,916	-2,220	-4,440	-4,440	-4,440	
Inc / Dec (-) in Loans	-52,510	-41,950	1,09,080	-6,000	-6,000	
Others	10	0	463	0	0	
Financing Cash Flow	-61,416	-44,174	1,05,103	-10,440	-10,440	
Inc / Dec (-) in Cash	85,830	-20,240	98,620	12,565	50,040	
Opening Cash Balance	88,090	1,73,920	1,53,680	2,52,300	2,64,864	
Closing Cash Balance	1,73,920	1,53,680	2,52,300	2,64,864	3,14,904	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	7,81,910	9,48,060	10,54,695	11,73,196	12,91,282	
Share Capital	2,224	2,220	2,220	2,220	2,220	
Reserves & Surplus	7,79,686	9,45,840	10,52,475	11,70,976	12,89,062	
Preference Share Capital	0	0	0	0	0	
Minority Interest	110	110	573	573	573	
Total Loans	6,44,860	6,02,910	7,11,990	7,05,990	6,99,990	
Def. Tax Liab. / Assets (-)	44,240	86,500	86,500	86,500	86,500	
Total - Equity & Liab.	14,71,120	16,37,580	18,53,758	19,66,259	20,78,344	
Net Fixed Assets	11,18,190	11,83,260	13,02,151	14,27,568	15,33,097	
Gross Fixed Assets	14,56,395	15,46,975	17,44,797	19,55,515	21,58,115	
Intangible Assets	2,39,650	2,57,450	2,57,450	2,57,450	2,57,450	
Less: Depn. & Amort.	6,27,305	6,98,165	7,73,446	8,58,829	9,55,900	
Capital WIP	49,450	77,000	73,350	73,432	73,432	
Investments	1,41,190	1,41,160	1,43,794	1,43,794	1,43,794	
Current Assets	9,59,170	9,23,750	10,39,191	10,66,611	11,52,858	
Inventories	4,44,830	4,29,580	4,09,146	4,17,550	4,33,430	
Sundry Debtors	2,10,760	1,62,140	2,34,950	2,43,456	2,58,651	
Cash & Bank Balances	1,73,920	1,53,680	2,52,300	2,64,864	3,14,904	
Loans & Advances	1,29,660	1,78,350	1,42,796	1,40,741	1,45,873	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	7,47,430	6,10,590	6,31,377	6,71,715	7,51,404	
Current Liabilities	6,50,540	5,83,960	5,37,387	5,77,725	6,57,414	
Provisions & Others	96,890	26,630	93,990	93,990	93,990	
Net Current Assets	2,11,740	3,13,160	4,07,813	3,94,897	4,01,454	
Total - Assets	14,71,120	16,37,580	18,53,758	19,66,258	20,78,344	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	7.1%	4.6%	5.4%	5.8%	5.5%	
Asset Turnover (x)	1.4	1.4	1.1	1.1	1.1	
Leverage Factor (x)	2.0	1.8	1.7	1.7	1.6	
RoE	19.2%	11.9%	10.6%	10.6%	9.6%	

Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	351.6	426.3	474.3	527.5	580.6	
ROIC	14.3%	10.2%	9.7%	9.8%	9.2%	
ROE	19.2%	11.9%	10.6%	10.6%	9.6%	
Net Debt/Equity (x)	0.5	0.4	0.4	0.3	0.3	
P/E (x)	10.2	13.8	13.3	12.0	12.0	
P/B (x)	1.8	1.5	1.3	1.2	1.1	
EV/EBITDA (x)	6.4	7.9	7.4	6.5	6.1	
EV/Sales (x)	0.9	0.8	0.9	0.9	0.8	
Debtor days	39	27	43	43	44	
Inventory days	83	70	75	74	74	
Creditor days	143	106	113	118	129	

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
26-May-22	Buy	550	
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
10-Nov-23	Buy	600	0.0
12-Feb-24	Buy	610	1.7
13-Feb-24	Buy	600	-1.6

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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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.
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* REITs refers to Real Estate Investment Trusts.

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