

November 12, 2024

RESULT REPORT Q2 FY25 | Sector: Metals and Mining

Hindalco Industries Ltd

Near-term caution for Novelis; Indian business strengthens; upgrade to BUY!

Results Synopsis

Hindalco's Q2FY25 performance was upbeat and above the consensus expectations primarily on account of higher LME pricing for the Indian aluminium business reporting an EBITDA/t of \$1,349/t up significantly from \$ 751/t during CPLY. Net revenue from operations was up by 2.1% QoQ and 7.4% YoY coming in at Rs 582,030 mn, with EBITDA up 5% QoQ and 40.5% YoY at Rs 78,830 mn. On the segmental front, the Indian aluminium business remained strong and showed better volumes along with higher realizations. The copper business on the other hand reported its best-ever EBITDA in a quarter of Rs 8,290 mn despite seeing a fall in volumes.

Bay Minette expansion remains on-track while Indian business now expected to see new capacities come up in Hindalco's growth story

Hindalco announced major expansions in its aluminium and copper operations in India. The 600kt FRP project at Novelis is progressing as planned with a \$4.1 bn capex outlay expected to be operational by CY26 end. Meanwhile, Hindalco is prioritizing growth in its Indian business by increasing domestic aluminium smelting capacity by 180 ktpa, supported by a new 850 ktpa greenfield alumina refinery to optimize costs. In copper, the company plans to add 300 ktpa in smelting capacity, enabling complete integration with its CC Rods mill.

Result Highlights

Consolidated performance

- Consolidated revenue from operations stood at Rs 582,030 (vs our estimate of Rs 552,059 mn), up 2% QoQ and 7.4% YoY.
- Absolute EBITDA for stood at Rs 78,830 mn (vs our estimate of Rs 70,439 mn), up 5.1% QoQ and 40.5% YoY. EBITDA margins came in at 13.5% for the quarter vs 13.2% in Q1FY25 and 10.4% during Q2FY24.
- PAT stood at Rs 39,090 mn (vs our estimate of Rs 33,379 mn), up 78% YoY.

Valuation and View

We project Revenue/EBITDA growth for Hindalco at a CAGR of 4%/8%, over FY25-27E. This growth is expected to come in through the downstream additions in the Indian aluminium business, clubbed with stabilization of the scrap spreads at Novelis.

We value Hindalco on a SOTP basis to arrive at our revised target price of Rs 800/sh.

Exhibit 1: Actuals vs Estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	582,030	552,059	550,450	5.4%	5.7%	Strong Q2 aluminium performance beats expectations.
EBITDA	78,830	70,347	72,058	12.1%	9.4%	
EBITDA (%)	13.54%	12.74%	13.09%	63 bps	35 bps	
PAT	39,090	33,379	33,094	17.1%	18.1%	

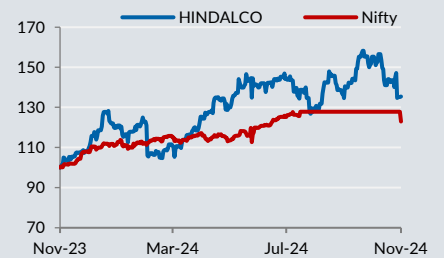
Source: YES Sec

Reco	: BUY
CMP	: Rs 652
Target Price	: Rs 800
Potential Upside	: +23%

Stock data (as on Nov 12, 2024)

Nifty	23,883
52 Week h/l (Rs)	773 / 481
Market cap (Rs/USD mn)	1401507 / 16615
Outstanding Shares (mn)	2,139
6m Avg t/o (Rs mn):	4,831
Div yield (%):	0.5
Bloomberg code:	HNDL IN
NSE code:	HINDALCO

Stock performance



	1M	3M	1Y
Absolute return	-12.8%	3.5%	35.1%

Shareholding pattern (As of Sep'24 end)

Promoter	34.6%
FII+DII	56.7%
Others	8.3%

Δ in estimates

	New	Old
FY26E		
EBITDA	301,231	325,000
FY27E		
EBITDA	335,690	NA

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	800	722

Financial Summary

(Rs bn)	FY25E	FY26E	FY27E
Revenue	2,284.8	2,447.7	2,472.0
YoY Growth	5.8%	7.1%	1.0%
EBIDTA	289.1	301.2	335.7
EBITDA (%)	12.7%	12.3%	13.6%
PAT	123.9	135.9	152.9
ROE	10.4%	10.3%	10.4%
ROCE	11.8%	11.1%	11.4%

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RESULT HIGHLIGHTS

Consolidated performance

- Consolidated revenue from operations stood at Rs 582,030 (vs our estimate of Rs 552,059 mn), up 2% QoQ and 7.4% YoY.
- Absolute EBITDA for stood at Rs 78,830 mn (vs our estimate of Rs 70,439 mn), up 5.1% QoQ and 40.5% YoY. EBITDA margins came in at 13.5% for the quarter vs 13.2% in Q1FY25 and 10.4% during Q2FY24.
- PAT stood at Rs 39,090 mn (vs our estimate of Rs 33,379 mn), up 78% YoY.
- During the quarter ended September 30, 2024, the group signed Conveyance and Development Agreement with a buyer for sale of land situated in Kalwa, Maharashtra at a consideration of "Rs 595 crores to be received in multiple tranches over a period of time. The Group has recognized 'Rs 571 Crore (discounted value) as gain resulting from this transaction included in Other Income". Additionally, the Group will also receive 1.5% of the sales revenue from the project as defined in the agreement.

Segmental breakdown

Primary Aluminium Business

- Upstream shipments down 2% YoY and flat QoQ at 328 kt. Revenue up during Q2FY25 due to higher aluminium prices, up 16% YoY at Rs 9,125 crores. EBITDA/t improved to \$ 1,349/t vs \$ 1,273/t in Q1FY25 and \$ 751/t during Q2FY24.
- Downstream shipments up 10% in Q2FY25 on a YoY basis on account of market recovery and stood at 103 kt. Revenue up 20% YoY on account of higher volumes. Revenue stood at Rs 3,161 crores for the quarter.

Copper Business

- Revenue up 5% YoY on account of better copper pricing while shipments show a falling trend. Metal shipments fall 15% YoY at 117 kt and CC Rods down 10% YoY at 90 kt.

Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	529,910	541,690	528,080	559,940	570,130	582,030	2.1%	7.4%
Cost of goods sold	369,980	376,230	357,070	380,030	375,640	393,730	4.8%	4.7%
Employee costs	35,290	36,480	38,450	37,560	38,770	37,990	(2.0%)	4.1%
Other expenses	67,310	72,600	72,080	73,970	79,870	70,020	(12.3%)	(3.6%)
EBITDA	57,140	56,120	58,650	66,810	75,030	78,830	5.1%	40.5%
EBITDA margins (%)	10.8%	10.4%	11.1%	11.9%	13.2%	13.5%	2.9%	30.7%
Depreciation	17,860	18,430	18,740	20,180	18,920	19,320	2.1%	4.8%
Finance costs	9,920	10,340	9,440	8,880	8,590	8,690	1.2%	(16.0%)
Exceptional items	-120	330	-	-	-3,300	-5,140	55.8%	(1657.6%)
Profit before tax	33,170	32,310	33,280	41,360	48,480	56,430	16.4%	74.7%
Taxes	8,630	10,350	9,970	9,620	17,740	17,340	(2.3%)	67.5%
Profit after tax	24,540	21,960	23,310	31,740	30,740	39,090	27.2%	78.0%
Share of profit/(loss)	20	-	10	-10	20	-	(100.0%)	NA
Minority interest	-	-	-	-	-	-	NA	NA
Profit attributable to owners	24,540	21,960	23,310	31,740	30,740	39,090	27.2%	78.0%

Source: Company, YES Sec

KEY CONFERENCE CALL HIGHLIGHTS

Macro-economic environment

- US growth to accelerate, Eurozone to gradually pick up, and moderate economic growth in China expected during CY2024.
- Improving manufacturing sector momentum, reduction in supplier delivery times and rebound in global trade bode well for growth outlook.
- India FRP market in FY25 is estimated to grow by ~7 to 8%, led by growth in packaging, auto, and construction.
- In Q2FY25, market demand increased by ~9% YoY at 218 kt vs 201 KT in Q2FY24 while share of domestic suppliers decreased to 63% from 73%.

General business operations

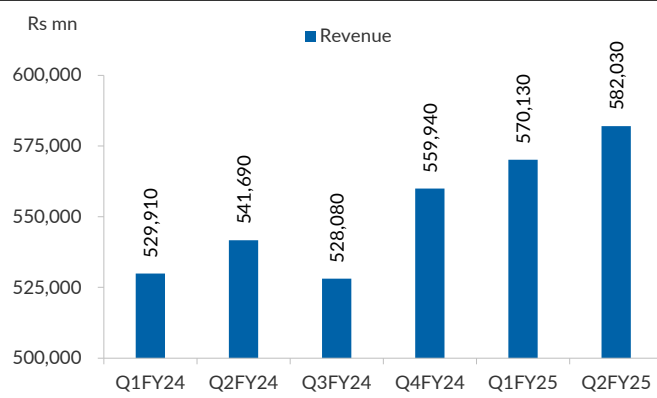
- **Hedging contracts:** 27% hedged at \$2,539/t and additional 15% between hedged with a zero-cost collar
- CoP for aluminium business down 1.2% QoQ. Q3FY25 expects to see a rise of up to 1-1.5% due to higher coal spot prices.
- Coal mix for Q2FY25: 47% through linkage coal; 50% through e-auctions and 2% through captive mines.
- Coal block updates: Chakla mine block is in the Forest Clearance 1 stage. Meenakshi coal mine will start exploration program during Q3FY25.
- For Q3FY25, the company is expected to see the benefit of higher Alumina prices.
- Novelis guidance will not be quantified until further studies are done and with China's change in policies to help their domestic market.
- For the copper business, the company expects a much more sustainable run-rate for the copper business EBITDA should be approximately Rs 650 crores per quarter for H2FY25.

Capex and growth plans

- **Capex guidance:** Rs 6,000 crs for FY25E for the Indian operations; Novelis remains at \$1.2bn. For FY26E, expect the standalone business to undertake Rs 7,000-8,000 crores of capex.
- Both the aluminium and copper smelters are brownfield expansions at \$1.0bn each. The capex outlay for the Indian business is expected to be about \$4.5-5bn over the next 2-3 years. Hindalco might take on \$1-1.5bn of debt for the capex however, aims to keep a net cash target during the capex cycle.
- **Indian Aluminium Capex:** The brownfield smelter expansion is expected to be up and running by October 2027. The greenfield refinery is expected during CY2027 itself, mostly towards the end.
- **Indian Copper Capex:** The copper smelter is expected to be completed in FY29.

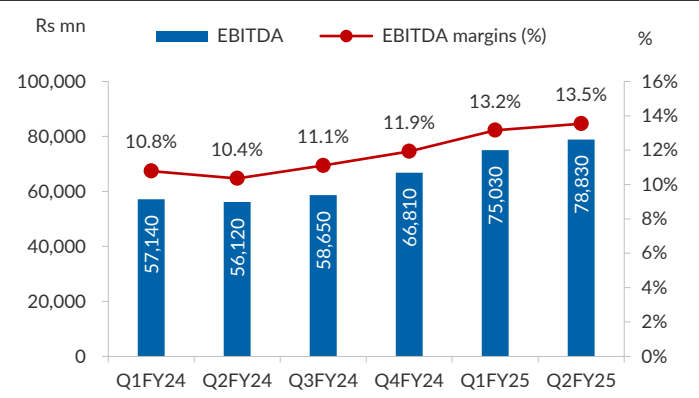
QUARTERLY PERFORMANCE IN CHARTS

Exhibit 3: Revenues improve QoQ



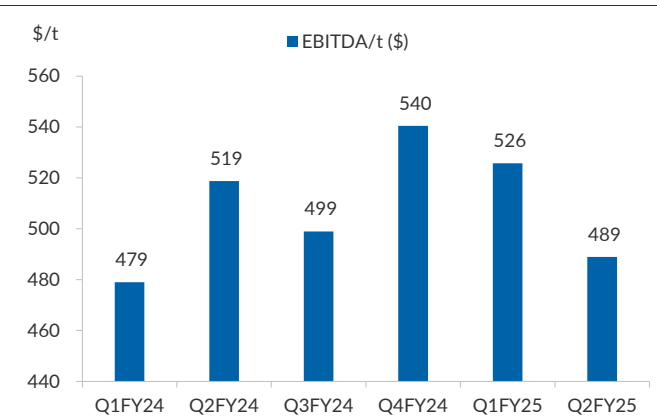
Source: Company, YES Sec

Exhibit 4: EBITDA improves on better LME pricing



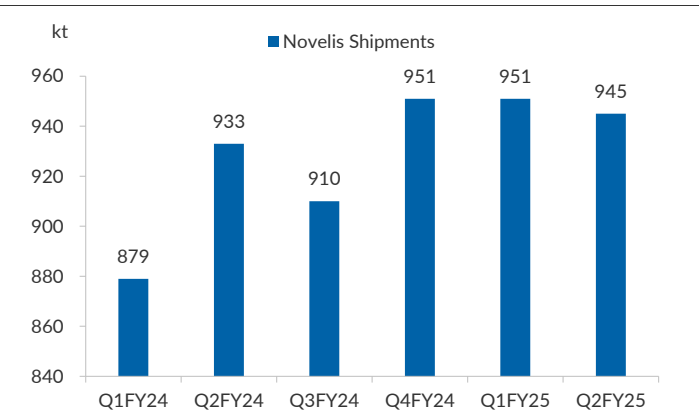
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Exhibit 5: Novelis Performance



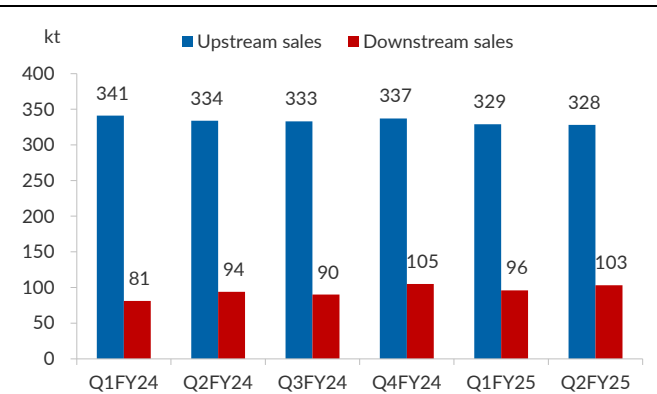
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Exhibit 6: Novelis Shipments



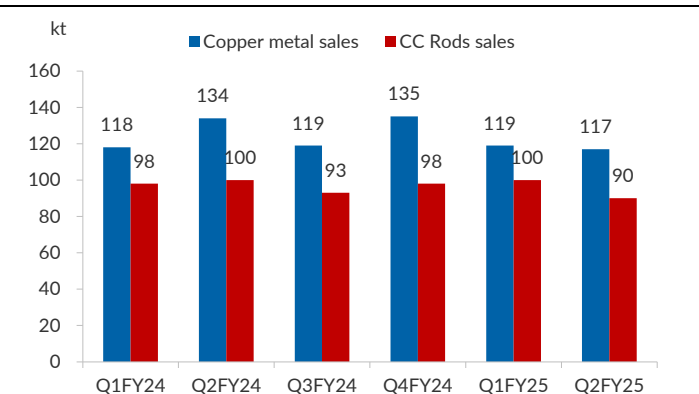
Source: Company, YES Sec

Exhibit 7: Primary Aluminium Business



Source: Company, YES Sec

Exhibit 8: Copper Business



Source: Company, YES Sec

FINANCIALS OVERVIEW

Exhibit 9: Income Statement

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	1,320	1,951	2,232	2,160	2,285	2,448	2,472
COGS	851	1,287	1,581	1,483	1,568	1,678	1,663
Employee Cost	108	120	131	148	142	147	148
Other Expenses	1	3	2	4	4	4	4
Other Income	12	11	13	15	15	-	-
EBITDA	188	295	239	254	289	301	336
EBITDA (%)	14.2%	15.1%	10.7%	11.7%	12.7%	12.3%	13.6%
Depreciation	66	67	71	75	73	79	87
EBIT	121	228	168	178	216	222	249
EBIT (%)	9.2%	11.7%	7.5%	8.3%	9.5%	9.1%	10.1%
Finance Costs	37	38	36	39	37	41	45
Exceptional Items	(5)	6	0	0	-	-	-
PBT	79	196	132	140	179	181	204
Tax	27	54	31	39	55	45	51
PAT	35	137	101	102	124	136	153

Source: Company, YES Sec

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Block	708	765	758	772	847	902	964
CWIP	100	47	73	146	154	161	170
Non-current Assets	1,221	1,245	1,355	1,496	1,578	1,641	1,711
Inventory	307	445	430	408	462	494	490
Receivables	130	211	162	164	197	211	213
Cash & Bank	88	174	151	144	119	223	370
Current Assets	676	985	893	823	900	1,055	1,200
Total Assets	1,897	2,231	2,248	2,319	2,478	2,697	2,911
Share Capital	2	2	2	2	2	2	2
Reserves	663	780	946	1,059	1,183	1,319	1,472
Non-current Liabilities	747	676	695	664	649	674	709
Current Liabilities	485	773	605	594	644	701	728
Total Equity and Liabilities	1,897	2,231	2,248	2,319	2,478	2,697	2,911

Source: Company, YES Sec

Exhibit 11: Cash Flow Statement

Y/e 31 Mar (Rs bn)	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit before Tax	79	196	132	140	179	181	204
Profit before Working Capital changes	176	297	224	248	289	301	336
Working capital changes	15	(91)	(5)	19	(27)	(18)	(2)
Cash flow from Operations	192	206	220	267	262	283	334
Taxes Paid	(19)	(38)	(28)	(27)	(55)	(45)	(51)
Net Cash flow from Operating Activities	172	168	192	241	207	238	283
Capex	(56)	(54)	(98)	(157)	(149)	(135)	(148)
Other Investments	(201)	(16)	18	15	(7)	(8)	(8)
Net Cash flow from Investing Activities	(256)	(71)	(80)	(143)	(156)	(142)	(156)
Proceeds/(Repayment) from borrowings	(9)	(46)	(82)	(30)	(40)	50	65
Other financial activities	(40)	(22)	(23)	(78)	(37)	(41)	(45)
Net Cash flow from Financing Activities	(49)	(68)	(105)	(108)	(77)	9	20
Opening Cash Balance	213	83	116	128	118	92	197
Net Change in Cash	(133)	30	7	(10)	(26)	105	146
FX Changes	4	3	5	0	-	-	-
Ending Cash Balance	83	116	128	118	92	197	344

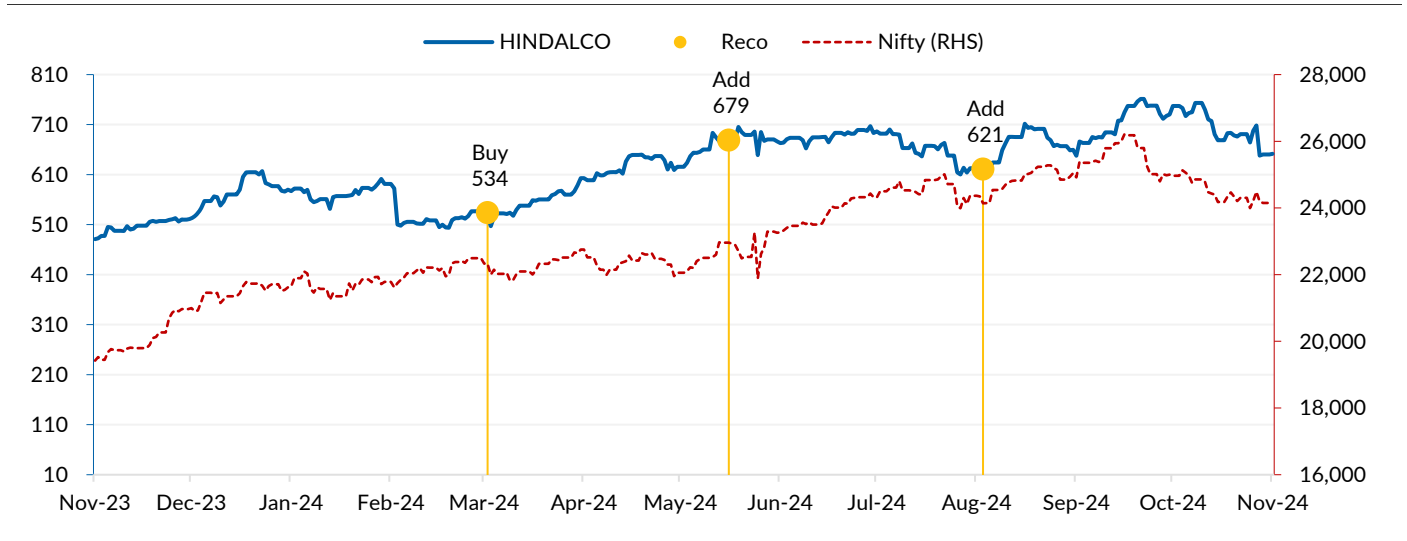
Source: Company, YES Sec

Exhibit 12: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Growth (%)							
Total Sales	11.7%	47.8%	14.4%	-3.2%	5.8%	7.1%	1.0%
EBITDA	21.1%	57.2%	-18.9%	6.0%	14.0%	4.2%	11.4%
EBIT	16.6%	87.6%	-26.0%	6.0%	21.1%	2.6%	12.3%
PAT	37.6%	174.0%	-28.9%	0.6%	22.0%	9.8%	12.5%
Profitability (%)							
GP Margins	35.5%	34.0%	29.2%	31.3%	31.4%	31.5%	32.7%
EBIDTA Margins	14.2%	15.1%	10.7%	11.7%	12.7%	12.3%	13.6%
EBIT Margins	9.2%	11.7%	7.5%	8.3%	9.5%	9.1%	10.1%
PAT Margins	3.9%	7.3%	4.5%	4.7%	5.4%	5.6%	6.2%
ROCE	8.6%	15.6%	10.2%	10.3%	11.8%	11.1%	11.4%
ROE	5.2%	17.6%	10.6%	9.6%	10.4%	10.3%	10.4%
Per Share Data (Rs)							
EPS	15.7	61.8	45.5	45.7	55.6	61.1	68.7
BVPS	299.7	352.3	427.1	478.2	532.5	593.6	662.3
Valuations (x)							
P/E	23.0	9.2	9.2	14.2	11.7	10.7	9.5
P/BV	1.2	1.6	1.0	1.4	1.2	1.1	1.0
EV/EBIDTA	7.3	6.0	5.8	7.4	6.4	6.0	5.1

Source: Company, YES Sec

Recommendation Tracker



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- (b) Providing research reports to major U.S. institutional investors, and effecting transactions in the subject securities with or for those investors;
- (c) Soliciting and effecting transactions with or for U.S. institutional investors or major U.S. institutional investors through a "chaperoning broker-dealer"; and
- (d) Soliciting and effecting transactions with or for registered broker-dealers, banks³ acting in a broker or dealer capacity, certain international organizations, foreign persons temporarily present in the U.S., U.S. citizens resident abroad, and foreign branches and agencies of U.S. persons.

In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

DISCLOSURE OF INTEREST

Name of the Research Analyst : Manav Gogia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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1	Research Analyst or his/her relative's or YSIL's financial interest in the subject company(ies)	Yes
2	Research Analyst or his/her relative or YSIL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the research report	No
3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

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