

Novelis preliminary business update indicates near-term pain

Metals & Mining ▶ Company Update ▶ January 8, 2025

TARGET PRICE (Rs): 550

Novelis has indicated that its Q3FY25 EBITDA could range at USD360-370mn (-21% QoQ; -14% vs Emkay). Q3 shipments are expected to range at 900-910kt – slightly lower than our estimate of 913kt, and 945kt shipments in Q2. This translates into decline in EBITDA/t to USD403 for Q3 vs USD489 in Q2 and earlier guidance of USD525. We think the Novelis pain is likely to persist for 2-3 quarters at least. While the management was confident that it was not seeing end-demand slowdown during Q2 earnings, we are of the belief that moderation in auto and specialty segments has worsened in recent months. For us, the key catalyst now would be guidance reinstatement for a sustainable EBITDA/t in the near term which we think could end up lower than the earlier guidance of USD600/t in the medium term. We maintain SELL; TP is unchanged.

Hindalco: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,232,020	2,159,620	2,335,935	2,353,982	2,481,968
EBITDA	241,310	257,280	331,092	290,222	310,687
Adj. PAT	100,560	104,940	174,227	140,474	153,019
Adj. EPS (Rs)	45.4	47.3	74.6	63.2	68.9
EBITDA margin (%)	10.8	11.9	14.2	12.3	12.5
EBITDA growth (%)	(19.7)	6.6	28.7	(12.3)	7.1
Adj. EPS growth (%)	(28.9)	4.2	57.7	(15.3)	8.9
RoE (%)	11.6	10.4	15.3	11.0	10.8
RoIC (%)	13.3	14.0	18.7	13.9	13.7
P/E (x)	13.0	12.4	7.5	9.3	8.5
EV/EBITDA (x)	7.2	6.6	5.2	6.0	5.5
P/B (x)	1.4	1.2	1.1	1.0	0.9
FCFF yield (%)	5.5	5.0	2.4	2.6	4.2

Source: Company, Emkay Research

Novelis – Disappointing Q3 with weaker than expected profitability

Novelis has published its preliminary financial results as part of the debt refinancing offering of USD500mn. The company has indicated its Q3FY25 EBITDA could range at USD360-370mn, which implies sequential decline of 21%, and is lower than our estimate of USD424mn. Also, Q3 shipments are expected to range at 900-910kt, which is slightly lower than our estimate of 913kt, and 945kt shipments in Q2. This translates into decline in EBITDA/t to USD403 for Q3 vs USD489 in Q2 and earlier guidance of USD525. Novelis withdrew its EBITDA guidance at the time of Q2 earnings and called out pain on profitability owing to increase in scrap cost as a result of rising scrap imports by China.

Our take

We think the Novelis pain would persist for 2-3 quarters at least. While the management was confident that it was not seeing end-demand slowdown at the time of Q2 earnings, we reckon that the moderation in auto and specialty segments has worsened in recent months. Global downstream peers had already called out demand slowdown last quarter, and our sense is that the slowdown has possibly caught up with Novelis as well. As a result, we do not anticipate a meaningful recovery in Q4 either, even though the management expects a sequential recovery. For us, the key catalyst now would be guidance reinstatement for a sustainable EBITDA/t in the near term which we think could end up lower than the earlier guidance of USD600/t in the medium term.

We maintain SELL with unchanged target price of Rs550

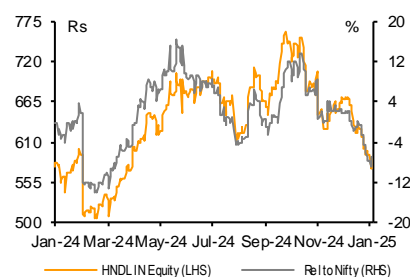
Our SELL rating was partially premised on our view that the run-up in the stock leading up to the Novelis IPO last year was unwarranted and that the *excess optimism* should get priced out (*read: Q3 Previews*). In addition, we believe Hindalco's earnings momentum has matured for now, and our experience suggests that equities struggle to perform against moderation in earnings momentum. We therefore maintain our SELL rating, with unchanged target price of Rs550.

Target Price – 12M	Sep-25
Change in TP (%)	NA
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(6.2)
CMP (08-Jan-25) (Rs)	586.7

Stock Data	Ticker
52-week High (Rs)	773
52-week Low (Rs)	496
Shares outstanding (mn)	2,247.2
Market-cap (Rs bn)	1,318
Market-cap (USD mn)	15,355
Net-debt, FY25E (Rs mn)	416,705
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	3,799.5
ADTV-3M (USD mn)	44.3
Free float (%)	64.9
Nifty-50	23,689
INR/USD	85.9
Shareholding, Sep-24	
Promoters (%)	34.6
FPIs/MFs (%)	28.6/28.0

Price Performance			
(%)	1M	3M	12M
Absolute	(12.5)	(18.7)	1.6
Rel. to Nifty	(8.8)	(14.2)	(7.8)

1-Year share price trend (Rs)



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Hindalco: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,232,020	2,159,620	2,335,935	2,353,982	2,481,968
Revenue growth (%)	14.4	(3.2)	8.2	0.8	5.4
EBITDA	241,310	257,280	331,092	290,222	310,687
EBITDA growth (%)	(19.7)	6.6	28.7	(12.3)	7.1
Depreciation & Amortization	72,940	75,210	76,854	79,863	85,290
EBIT	168,370	182,070	254,238	210,359	225,397
EBIT growth (%)	(27.3)	8.1	39.6	(17.3)	7.1
Other operating income	0	0	0	0	0
Other income	12,570	14,960	22,324	17,444	19,831
Financial expense	36,460	38,580	34,608	32,701	32,701
PBT	131,910	143,490	241,954	195,102	212,527
Extraordinary items	(410)	(210)	8,440	0	0
Taxes	31,440	38,570	67,747	54,629	59,508
Minority interest	0	0	0	0	0
Income from JV/Associates	90	20	20	0	0
Reported PAT	100,970	105,150	165,787	140,474	153,019
PAT growth (%)	(28.9)	4.1	57.7	(15.3)	8.9
Adjusted PAT	100,560	104,940	174,227	140,474	153,019
Diluted EPS (Rs)	45.4	47.3	74.6	63.2	68.9
Diluted EPS growth (%)	(28.9)	4.2	57.7	(15.3)	8.9
DPS (Rs)	3.0	3.5	5.2	4.4	4.8
Dividend payout (%)	6.6	7.4	7.0	7.0	7.0
EBITDA margin (%)	10.8	11.9	14.2	12.3	12.5
EBIT margin (%)	7.5	8.4	10.9	8.9	9.1
Effective tax rate (%)	23.8	26.9	28.0	28.0	28.0
NOPLAT (pre-IndAS)	128,240	133,130	183,051	151,458	162,286
Shares outstanding (mn)	2,221.7	2,222.0	2,222.0	2,222.0	2,222.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	131,910	143,490	241,954	195,102	212,527
Others (non-cash items)	(9,690)	1,820	(8,420)	0	0
Taxes paid	(27,330)	(26,750)	(67,747)	(54,629)	(59,508)
Change in NWC	20,630	6,510	8,763	25,390	2,241
Operating cash flow	192,080	240,560	286,012	278,428	273,251
Capital expenditure	(97,370)	(157,280)	(245,864)	(234,889)	(202,305)
Acquisition of business	(2,710)	18,560	(10,000)	(10,000)	(10,000)
Interest & dividend income	19,920	(4,040)	0	0	0
Investing cash flow	(80,160)	(142,760)	(255,864)	(244,889)	(212,305)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(81,870)	(43,930)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(39,500)	(39,120)	(34,608)	(32,701)	(32,701)
Dividend paid (incl tax)	(8,900)	(6,670)	(11,605)	(9,833)	(10,711)
Others	30,340	(18,360)	0	0	0
Financing cash flow	(99,930)	(108,080)	(46,213)	(42,534)	(43,412)
Net chg in Cash	11,990	(10,280)	(16,065)	(8,995)	17,534
OCF	192,080	240,560	286,012	278,428	273,251
Adj. OCF (w/o NWC chg.)	171,450	234,050	277,249	253,038	271,010
FCFF	94,710	83,280	40,148	43,539	70,946
FCFE	12,840	39,350	40,148	43,539	70,946
OCF/EBITDA (%)	79.6	93.5	86.4	95.9	88.0
FCFE/PAT (%)	12.8	37.5	23.0	31.0	46.4
FCFF/NOPLAT (%)	73.9	62.6	21.9	28.7	43.7

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2,220	2,220	2,220	2,220	2,220
Reserves & Surplus	945,840	1,059,240	1,213,422	1,344,062	1,486,370
Net worth	948,060	1,061,460	1,215,642	1,346,282	1,488,590
Minority interests	110	110	110	110	110
Deferred tax liability (net)	73,220	81,600	81,600	81,600	81,600
Total debt	677,930	641,610	641,610	641,610	641,610
Total liabilities & equity	1,699,320	1,784,780	1,938,962	2,069,602	2,211,910
Net tangible fixed assets	831,890	917,940	1,086,949	1,241,974	1,358,990
Net intangible assets	324,360	322,900	322,900	322,900	322,900
Net ROU assets	26,810	25,470	25,470	25,470	25,470
Capital WIP	73,400	146,430	146,430	146,430	146,430
Goodwill	0	0	0	0	0
Investments [JV/Associates]	158,720	217,490	217,490	217,490	217,490
Cash & equivalents	150,830	144,370	128,305	119,310	136,844
Current assets (ex-cash)	742,280	679,060	692,884	687,986	714,892
Current Liab. & Prov.	535,570	522,450	535,037	545,529	564,676
NWC (ex-cash)	206,710	156,610	157,847	142,457	150,216
Total assets	1,699,320	1,784,780	1,938,962	2,069,602	2,211,910
Net debt	432,520	400,640	416,705	425,700	408,166
Capital employed	1,699,320	1,784,780	1,938,962	2,069,602	2,211,910
Invested capital	1,316,370	1,276,490	1,446,736	1,586,372	1,711,146
BVPS (Rs)	425.9	477.2	546.5	605.2	669.2
Net Debt/Equity (x)	0.5	0.4	0.3	0.3	0.3
Net Debt/EBITDA (x)	1.8	1.6	1.3	1.5	1.3
Interest coverage (x)	4.6	4.7	8.0	7.0	7.5
RoCE (%)	10.3	10.5	14.9	11.4	11.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	13.0	12.4	7.5	9.3	8.5
P/CE(x)	7.4	7.1	5.1	5.8	5.4
P/B (x)	1.4	1.2	1.1	1.0	0.9
EV/Sales (x)	0.8	0.8	0.7	0.7	0.7
EV/EBITDA (x)	7.2	6.6	5.2	6.0	5.5
EV/EBIT(x)	10.1	9.2	6.7	8.1	7.5
EV/IC (x)	1.3	1.3	1.2	1.1	1.0
FCFF yield (%)	5.5	5.0	2.4	2.6	4.2
FCFE yield (%)	0.8	2.3	2.4	2.6	4.2
Dividend yield (%)	0.5	0.6	0.9	0.8	0.8
DuPont-RoE split					
Net profit margin (%)	4.5	4.9	7.5	6.0	6.2
Total asset turnover (x)	1.4	1.2	1.3	1.2	1.2
Assets/Equity (x)	1.9	1.7	1.6	1.6	1.5
RoE (%)	11.6	10.4	15.3	11.0	10.8
DuPont-RoIC					
NOPLAT margin (%)	5.7	6.2	7.8	6.4	6.5
IC turnover (x)	1.8	1.7	1.7	1.6	1.5
RoIC (%)	13.3	14.0	18.7	13.9	13.7
Operating metrics					
Core NWC days	33.8	26.5	24.7	22.1	22.1
Total NWC days	33.8	26.5	24.7	22.1	22.1
Fixed asset turnover	1.9	1.8	1.8	1.6	1.6
Opex-to-revenue (%)	0.0	0.0	0.0	0.0	0.0

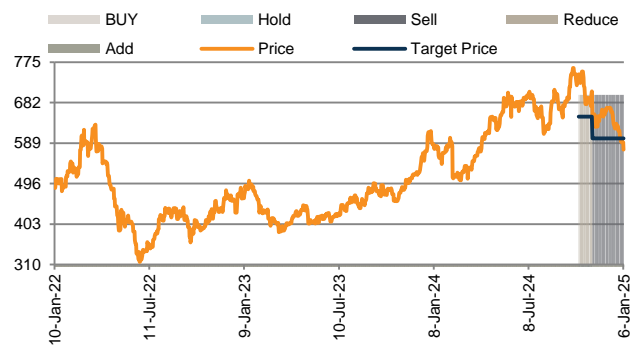
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jan-25	585	550	Sell	Amit Lahoti
01-Jan-25	593	600	Sell	Amit Lahoti
17-Dec-24	639	600	Sell	Amit Lahoti
13-Nov-24	627	600	Sell	Amit Lahoti
07-Nov-24	648	600	Sell	Amit Lahoti
12-Oct-24	747	650	Reduce	Amit Lahoti

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
BUY	>15% upside
ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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