

Novelis pain likely to persist for some time; d/g to SELL

Metals & Mining ▶ Company Update ▶ November 7, 2024

TARGET PRICE (Rs): 600

We downgrade Hindalco to SELL from Reduce following a disappointing outlook from Novelis. We had recently initiated coverage on Hindalco indicating that the stock is pricing in all the positives and a part of that optimism was around Novelis in the lead up to its IPO, which was later called off. We were not convinced with its steep EBITDA/t improvement trajectory in the medium term and in playing the Bay Minette capex cycle. With the company now withdrawing its EBITDA/t guidance over concerns surrounding 'accelerating' tightening of scrap spreads with liberalization of scrap import by China, we think it creates a near-term overhang for the stock. We cut Novelis's EBITDA/t estimate to USD477 from USD501 (previous guidance of USD525) for FY25. We think the pain on scrap spreads could endure for 2-4 quarters at least.

Hindalco: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,232,020	2,159,620	2,306,628	2,349,426	2,516,181
EBITDA	241,310	257,280	292,338	281,896	304,115
Adj. PAT	100,560	104,940	139,076	128,215	141,042
Adj. EPS (Rs)	45.4	47.3	61.1	57.7	63.5
EBITDA margin (%)	10.8	11.9	12.7	12.0	12.1
EBITDA growth (%)	(19.7)	6.6	13.6	(3.6)	7.9
Adj. EPS growth (%)	(28.9)	4.2	29.1	(5.6)	10.0
RoE (%)	11.6	10.4	12.4	10.3	10.3
RoIC (%)	13.3	14.0	15.7	13.2	13.4
P/E (x)	15.7	15.0	11.3	12.3	11.2
EV/EBITDA (x)	8.3	7.7	6.8	7.1	6.4
P/B (x)	1.7	1.5	1.3	1.2	1.1
FCFF yield (%)	4.7	4.2	1.6	1.3	4.9

Source: Company, Emkay Research

Novelis – 2Q FY25 Result Highlights

Novelis's adj. EBITDA of USD462mn was 5.5% below our estimate of USD489mn and it declined 7.6% sequentially in 2QFY25, mainly due to increase in aluminium scrap prices and unfavorable product mix, as well as the USD25mn impact due to floods at Sierre. EBITDA/t at USD489 was 5% below our estimates. Revenue at USD4.3bn remained broadly in line with our estimates while growing 4.6% YoY, mainly driven by higher average aluminium prices. Net debt came in at USD4.8bn, rising 2.8% QoQ. Free cash flow was -USD345mn with capex of USD717mn in 1HFY25.

Novelis – Concall KTAs

The key focus at the call was around the withdrawal of EBITDA/t guidance and outlook on scrap spreads and demand. Management indicated near-term uncertainty on rising scrap prices and tightening scrap spreads, and are taking mitigation measures. Volumes and revenue guidance stays in place with the company indicating that they are not seeing demand destruction. Management to come back with well thought-out guidance once the situation normalizes. IRA program is expected to be scrapped under the new US government, hence, expected financial support for Bay Minette is now unlikely.

Implications

The withdrawal of EBITDA/t guidance over concerns surrounding 'accelerating' tightening of scrap spreads with liberalization of scrap import by China creates a near-term overhang. The company is taking measures to expand scrap supply sources as well as enhance its ability to process lower-grade scrap. On the demand side, the management indicated comfort in underlying demand remaining strong, especially in the beverage packaging market and are not seeing any demand destruction. However, global aluminium downstream peers have called out 25-30% EBITDA impact that is market-dependent – which makes us cautious, and therefore, we cut Novelis's EBITDA/t estimate to USD477 from USD501 (previous guidance of USD525) for FY25.

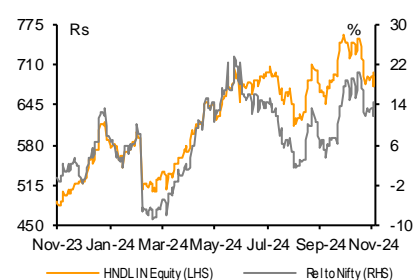
Target Price – 12M	Sep-25
Change in TP (%)	(7.7)
Current Reco.	SELL
Previous Reco.	REDUCE
Upside/(Downside) (%)	(15.3)
CMP (06-Nov-24) (Rs)	708.2

Stock Data	Ticker
52-week High (Rs)	773
52-week Low (Rs)	476
Shares outstanding (mn)	2,247.2
Market-cap (Rs bn)	1,591
Market-cap (USD mn)	18,883
Net-debt, FY25E (Rs mn)	411,202
ADTV-3M (mn shares)	6
ADTV-3M (Rs mn)	4,305.9
ADTV-3M (USD mn)	51.1
Free float (%)	64.9
Nifty-50	24,484
INR/USD	84.3
Shareholding, Sep-24	
Promoters (%)	34.6
FPIs/MFs (%)	28.6/28.0

Price Performance

(%)	1M	3M	12M
Absolute	(5.3)	16.0	46.9
Rel. to Nifty	(3.3)	13.7	16.5

1-Year share price trend (Rs)



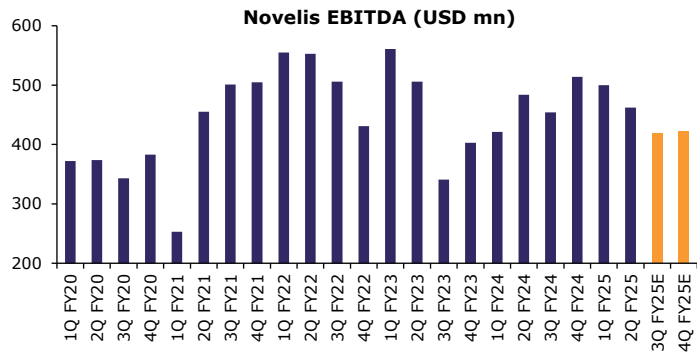
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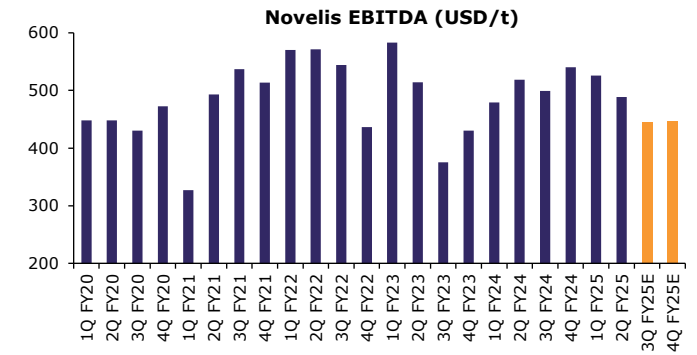
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Exhibit 1: We expect Novelis's quarterly EBITDA to decline...



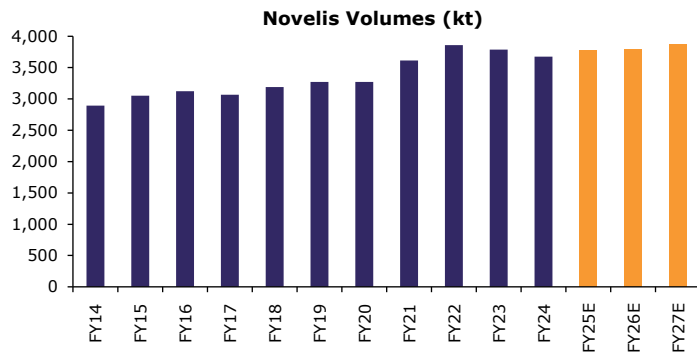
Source: Company, Emkay Research

Exhibit 2: ...owing to tightness in scrap market



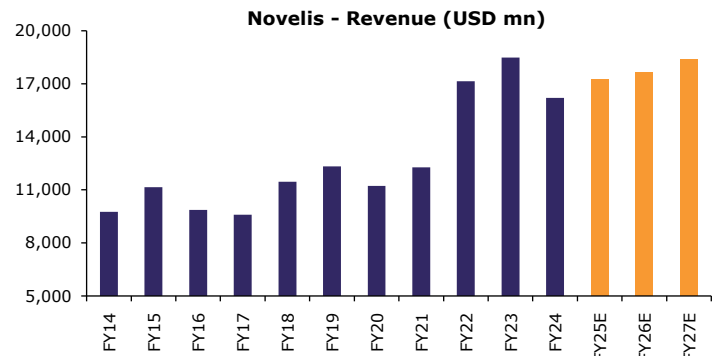
Source: Company, Emkay Research

Exhibit 3: Management reaffirmed its volume and revenue guidance...



Source: Company, Emkay Research

Exhibit 4: ...with no expectation of demand slowdown



Source: Company, Emkay Research

Exhibit 5: Hindalco – Summary of estimates

Consolidated (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E		FY23	FY24	FY25E	FY26E	FY27E
P&L						Operational metrics					
Net sales	2,232,020.0	2,159,620.0	2,306,628.4	2,349,426.3	2,516,180.8	Aluminium (USD/t)	2,493.6	2,205.6	2,463.5	2,587.5	2,700.0
Cost of sales	-1,990,710.0	-1,902,340.0	-2,014,290.5	-2,067,529.3	-2,212,065.3	Copper (USD/t)	8,566.3	8,364.6	9,386.7	9,625.0	10,000.0
Rep. EBITDA	241,310.0	257,280.0	292,337.9	281,896.4	304,115.5	Production (kt)					
EBITDA margin	10.8%	11.9%	12.7%	12.0%	12.1%	Novelis	3,790.0	3,673.0	3,780.0	3,784.0	3,872.0
Depreciation	72,940.0	75,210.0	80,648.5	85,736.1	91,663.8	Alumina	3,525.0	3,665.0	3,665.2	3,665.2	3,665.2
EBIT	168,370.0	182,070.0	225,833.5	210,777.5	228,592.5	Aluminium Upstream	1,322.0	1,331.0	1,325.3	1,325.3	1,325.3
Interest and taxes	36,460.0	38,580.0	32,700.6	32,700.6	32,700.6	Aluminium Downstream	380.0	393.0	378.4	378.4	528.0
PBT	131,910.0	143,490.0	193,132.9	178,076.9	195,891.9	Copper	439.0	506.0	503.6	503.6	503.6
Tax	31,440.0	38,570.0	54,077.2	49,861.5	54,849.7	Realisation (USD/t)					
Net earnings post MI	100,970.0	105,150.0	135,775.7	128,215.4	141,042.1	Novelis	4,877.6	4,413.3	4,569.1	4,664.3	4,751.2
EPS (Rs)	45.4	47.3	61.0	57.6	63.4	Aluminium Upstream	2,875.3	2,678.5	2,888.5	3,012.5	3,125.0
Dividend (Rs/sh)	3.0	3.5	4.3	4.0	4.4	Aluminium Downstream	3,604.8	3,236.6	3,463.5	3,537.5	3,675.0
Dividend Payout (%)	6.6%	7.4%	7.0%	7.0%	7.0%	Copper	11,819.6	11,773.0	11,986.7	12,225.0	12,600.0
Number of shares	2,225.8	2,224.5	2,224.5	2,224.5	2,224.5	Cost of Production (USD/t)					
Balance sheet						Novelis	4,399.7	3,903.3	4,092.3	4,164.1	4,232.5
Gross block	831,430.0	846,720.0	1,006,663.8	1,165,145.8	1,249,982.1	Aluminium Upstream	2,151.4	1,916.6	1,872.6	2,003.0	2,072.5
Inventories	429,580.0	408,120.0	410,769.4	399,080.6	413,618.8	Aluminium Downstream	3,399.5	3,060.4	3,250.0	3,300.0	3,400.0
Receivables	162,140.0	164,040.0	157,988.2	160,919.6	172,341.2	Copper	11,181.1	11,148.5	11,430.4	11,860.9	12,235.9
Payables	358,600.0	344,440.0	358,709.3	368,190.3	393,929.4	Financial metrics					
Net working capital	233,120.0	227,720.0	210,048.4	191,810.0	192,030.5	EBITDA margin	10.8%	11.9%	12.7%	12.0%	12.1%
Cash	150,830.0	144,370.0	133,807.6	117,892.0	169,932.1	Net margin	4.5%	4.9%	5.9%	5.5%	5.6%
Total assets	2,248,170.0	2,319,070.0	2,459,610.6	2,588,331.9	2,745,240.3	ROE	11.7%	10.5%	12.1%	10.3%	10.3%
Total liabilities	1,300,000.0	1,257,500.0	1,271,769.3	1,281,250.3	1,306,989.4	ROCE	10.9%	10.8%	12.6%	11.0%	11.2%
Total Equity	948,170.0	1,061,570.0	1,187,841.4	1,307,081.7	1,438,250.9	ROIC	11.5%	11.2%	12.2%	10.3%	10.3%
Cash flow						Gross debt (Rs mn)	583,350.0	545,010.0	545,010.0	545,010.0	545,010.0
Operating cash before WC	224,450.0	247,870.0	303,201.9	296,513.6	320,256.3	Net debt/(cash) (Rs mn)	432,520.0	400,640.0	411,202.4	427,118.0	375,077.9
Working capital and other	-31,900.0	-7,310.0	-36,405.6	-31,623.1	-55,070.2	Net debt to EBITDA (x)	1.8	1.6	1.4	1.5	1.2
Operating cash flow	192,550.0	240,560.0	266,796.3	264,890.5	265,186.1	Net debt to Equity	45.6%	37.7%	34.6%	32.7%	26.1%
Capex	-97,370.0	-157,280.0	-235,153.8	-239,130.5	-170,572.4	Valuation					
Investing cash flow	-80,160.0	-142,760.0	-235,153.8	-239,130.5	-170,572.4	P/E (x)	9.5	10.2	11.6	12.3	11.2
Borrowings/(repayments)	-81,870.0	-43,930.0	0.0	0.0	0.0	EV/EBITDA (x)	5.7	5.7	6.8	7.1	6.4
Equity changes	-8,900.0	-6,670.0	-9,504.3	-8,975.1	-9,873.0	FCF yield	9.9%	7.7%	2.0%	1.6%	6.0%
Financing cash flow	-104,500.0	-108,170.0	-42,204.9	-41,675.7	-42,573.6	Dividend yield	0.7%	0.7%	0.6%	0.6%	0.6%
Net change in cash	7,420.0	-10,370.0	-10,562.4	-15,915.6	52,040.2	Methodology		Rs mn	Rs/sh		
Ending cash	150,830.0	144,370.0	133,807.6	117,892.0	169,932.1	DCF	1,291,565.2	580.6			
Free cash flow	94,710.0	83,280.0	31,642.5	25,760.0	94,613.7	EV/EBITDA	1,540,444.2	692.5			
						Blended fair value	1,353,784.9	608.6			
						Target price	600.0				
						Current price	708.2				
						Price return	-15.3%				
						Dividend return	0.6%				
						Expected total return	-14.7%				
						WACC	11.0%				

Source: Company, Emkay Research

Hindalco: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,232,020	2,159,620	2,306,628	2,349,426	2,516,181
Revenue growth (%)	14.4	(3.2)	6.8	1.9	7.1
EBITDA	241,310	257,280	292,338	281,896	304,115
EBITDA growth (%)	(19.7)	6.6	13.6	(3.6)	7.9
Depreciation & Amortization	72,940	75,210	80,648	85,736	91,664
EBIT	168,370	182,070	211,689	196,160	212,452
EBIT growth (%)	(27.3)	8.1	16.3	(7.3)	8.3
Other operating income	0	0	0	0	0
Other income	12,570	14,960	14,144	14,617	16,141
Financial expense	36,460	38,580	32,701	32,701	32,701
PBT	131,910	143,490	193,133	178,077	195,892
Extraordinary items	(410)	(210)	3,300	0	0
Taxes	31,440	38,570	54,077	49,862	54,850
Minority interest	0	0	0	0	0
Income from JV/Associates	90	20	20	0	0
Reported PAT	100,970	105,150	135,776	128,215	141,042
PAT growth (%)	(28.9)	4.1	29.1	(5.6)	10.0
Adjusted PAT	100,560	104,940	139,076	128,215	141,042
Diluted EPS (Rs)	45.4	47.3	61.1	57.7	63.5
Diluted EPS growth (%)	(28.9)	4.2	29.1	(5.6)	10.0
DPS (Rs)	3.0	3.5	4.3	4.0	4.4
Dividend payout (%)	6.6	7.4	7.0	7.0	7.0
EBITDA margin (%)	10.8	11.9	12.7	12.0	12.1
EBIT margin (%)	7.5	8.4	9.2	8.3	8.4
Effective tax rate (%)	23.8	26.9	28.0	28.0	28.0
NOPLAT (pre-IndAS)	128,240	133,130	152,416	141,235	152,965
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	193,133	178,077	195,892
Others (non-cash items)	(9,690)	1,820	(3,280)	0	0
Taxes paid	(27,330)	(26,750)	(54,077)	(49,862)	(54,850)
Change in NWC	20,630	6,510	17,672	18,238	(220)
Operating cash flow	192,080	240,560	266,796	264,891	265,186
Capital expenditure	(97,370)	(157,280)	(235,154)	(239,130)	(170,572)
Acquisition of business	(2,710)	18,560	0	0	0
Interest & dividend income	19,920	(4,040)	0	0	0
Investing cash flow	(80,160)	(142,760)	(235,154)	(239,130)	(170,572)
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)	(32,701)	(32,701)	(32,701)
Dividend paid (incl tax)	(8,900)	(6,670)	(9,504)	(8,975)	(9,873)
Others	30,340	(18,360)	0	0	0
Financing cash flow	(99,930)	(108,080)	(42,205)	(41,676)	(42,574)
Net chg in Cash	11,990	(10,280)	(10,562)	(15,916)	52,040
OCF	192,080	240,560	266,796	264,891	265,186
Adj. OCF (w/o NWC chg.)	171,450	234,050	249,125	246,652	265,407
FCFF	94,710	83,280	31,643	25,760	94,614
FCFE	12,840	39,350	31,643	25,760	94,614
OCF/EBITDA (%)	79.6	93.5	91.3	94.0	87.2
FCFE/PAT (%)	12.8	37.5	22.8	20.1	67.1
FCFF/NOPLAT (%)	73.9	62.6	20.8	18.2	61.9

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	1,185,511	1,304,752	1,435,921
Net worth	948,060	1,061,460	1,187,731	1,306,972	1,438,141
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	1,911,051	2,030,292	2,161,461
Net tangible fixed assets	831,890	917,940	1,072,445	1,225,840	1,304,748
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	133,808	117,892	169,932
Current assets (ex-cash)	742,280	679,060	675,658	666,900	692,860
Current Liab. & Prov.	535,570	522,450	536,719	546,200	571,939
NWC (ex-cash)	206,710	156,610	138,938	120,700	120,920
Total assets	1,699,320	1,784,780	1,911,051	2,030,292	2,161,461
Net debt	432,520	400,640	411,202	427,118	375,078
Capital employed	1,699,320	1,784,780	1,911,051	2,030,292	2,161,461
Invested capital	1,316,370	1,276,490	1,413,324	1,548,480	1,627,609
BVPS (Rs)	425.9	477.2	533.9	587.5	646.5
Net Debt/Equity (x)	0.5	0.4	0.3	0.3	0.3
Net Debt/EBITDA (x)	1.8	1.6	1.4	1.5	1.2
Interest coverage (x)	4.6	4.7	6.9	6.4	7.0
RoCE (%)	10.3	10.5	12.2	10.7	10.9

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	15.7	15.0	11.3	12.3	11.2
P/CE(x)	9.1	8.7	7.2	7.4	6.8
P/B (x)	1.7	1.5	1.3	1.2	1.1
EV/Sales (x)	0.9	0.9	0.9	0.9	0.8
EV/EBITDA (x)	8.3	7.7	6.8	7.1	6.4
EV/EBIT(x)	11.9	10.8	9.4	10.2	9.2
EV/IC (x)	1.5	1.5	1.4	1.3	1.2
FCFF yield (%)	4.7	4.2	1.6	1.3	4.9
FCFE yield (%)	0.6	2.0	1.6	1.3	4.9
Dividend yield (%)	0.4	0.5	0.6	0.6	0.6
DuPont-RoE split					
Net profit margin (%)	4.5	4.9	6.0	5.5	5.6
Total asset turnover (x)	1.4	1.2	1.2	1.2	1.2
Assets/Equity (x)	1.9	1.7	1.6	1.6	1.5
RoE (%)	11.6	10.4	12.4	10.3	10.3
DuPont-RoIC					
NOPLAT margin (%)	5.7	6.2	6.6	6.0	6.1
IC turnover (x)	1.8	1.7	1.7	1.6	1.6
RoIC (%)	13.3	14.0	15.7	13.2	13.4
Operating metrics					
Core NWC days	33.8	26.5	22.0	18.8	17.5
Total NWC days	33.8	26.5	22.0	18.8	17.5
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

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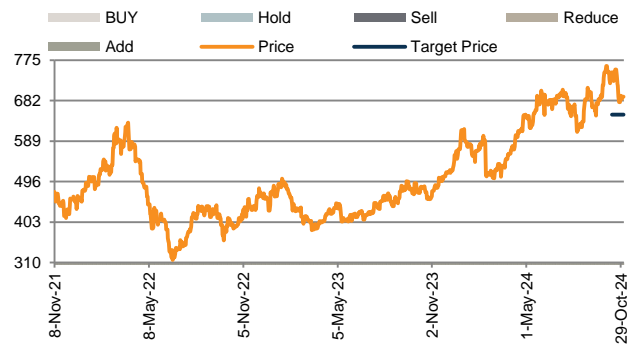
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
12-Oct-24	747	650	Reduce	Amit Lahoti

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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