Hindalco Industries | BUY

JM FINANCIAL

Novelis past its trough; strong performance in India business to continue

Ashutosh Somani
ashutosh.somani@jmfl.com | Tel: (91 22) 66303083
Anirudh Nagpal
anirudh.nagpal@jmfl.com | Tel: (91 22) 66303263

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With Aluminium prices remaining strong above ~USD2.6k/tn levels and the company guiding for Novelis' 4QFY25 performance to be in line with that of 2QFY25 (implied EBITDA/tn: ~USD490/t), makes Hindalco our preferred play in the aluminium space with good earnings visibility for the next six months. India business margins are expected to trend upwards primarily driven by a) deficit forecast in aluminium leading to prices sustaining above ~USD2.6k/tn levels b) subdued coal prices and c) value-accretive upstream expansion projects (180ktpa Al smelter, 0.85mtpa Al refinery). This has led to improved margins of Hindalco's India aluminium business with EBITDA/tn sustaining above USD 1k/tn (~USD 1.5k/tn in 3QFY25) for the past 4 quarters, significantly above historical levels of ~USD 0.7k/t. We also believe Novelis margins have troughed given a) high scrap prices leading to bottoming out of spreads – unlikely to worsen further as it would discourage recycling capacity and restrict demand b) recent imposition of tariffs has led to significant growth in Midwest premiums with spot premium at ¢38/lb, up 78% from Dec'24 levels, potentially leading to recovery in scrap spreads and c) volume growth driven by Bay Minette (600ktpa) and debottlenecking projects (~200ktpa). We expect Net debt/EBITDA to remain range-bound at ~1.2x over FY25-27. The outlook for Hindalco continues to be buoyant given resilient performance by India aluminium operations and enhanced coal security post acquisition of Meenakshi, Meenakshi West and Chakla coal mines. We re-iterate BUY.

- **Higher realisation / expansion projects to drive India business earnings:** The India business of Hindalco remains strong on all fronts with improving domestic demand, higher realisation and expansion-oriented capex, and a focus on increasing domestic capacity in aluminium and alumina. Aluminium prices have remained strong at USD2.6k/tn+ levels, significantly above 10-year average of ~USD2.1k/tn primarily on account of a) major global players like Alcoa / Norsk Hydro hinting at global aluminium deficit (~550k tonnes) in CY25 after 3 years of surplus, and b) lower inventory levels (519k tonnes vs. recent peak of 639k tonnes in Dec'24). This has boosted margins for Hindalco's India aluminium business with EBITDA/tn at ~USD 1.5k/tn in 3QFY25, up ~USD 0.6k/tn YoY. This trend is expected to continue with subdued coal prices alongside elevated metal prices. Focus on value-accretive upstream projects like 180ktpa Al smelter, 0.85mtpa alumina refinery and ~0.3mtpa copper smelter to further drive earnings.
- **Midwest premium expand given US tariffs; scrap spreads may have bottomed out:** We believe Novelis margins have troughed given a) high scrap prices have already led to bottoming out of spreads – unlikely to worsen further as it would discourage recycling capacity and restrict demand b) recent imposition of tariffs has led to significant growth in Midwest premiums with spot premium at ¢38/lb, up 78% from Dec'24 levels, potentially leading to recovery in scrap spreads and c) volume growth driven by Bay Minette (600ktpa) and debottlenecking projects (~200ktpa). Hindalco also guided for Novelis' EBITDA/tn to be in the vicinity of USD 500/tn in 4QFY25 driven by higher recycling rate / better sales mix and new contract pricing effective from 1st Jan'25.

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	800
Upside/(Downside)	15.7%
Previous Price Target	800
Change	0.0%

Key Data – HNDL IN	
Current Market Price	INR691
Market cap (bn)	INR1,553.6/US$17.9
Free Float	65%
Shares in issue (mn)	2,223.9
Diluted share (mn)	2,223.9
3-mon avg daily val (mn)	INR3,660.7/US$42.1
52-week range	773/501
Sensex/Nifty	74,333/22,553
INR/US$	86.9

Price Performance			
%	1M	6M	12M
Absolute	13.8	5.0	28.8
Relative*	18.4	15.7	28.4

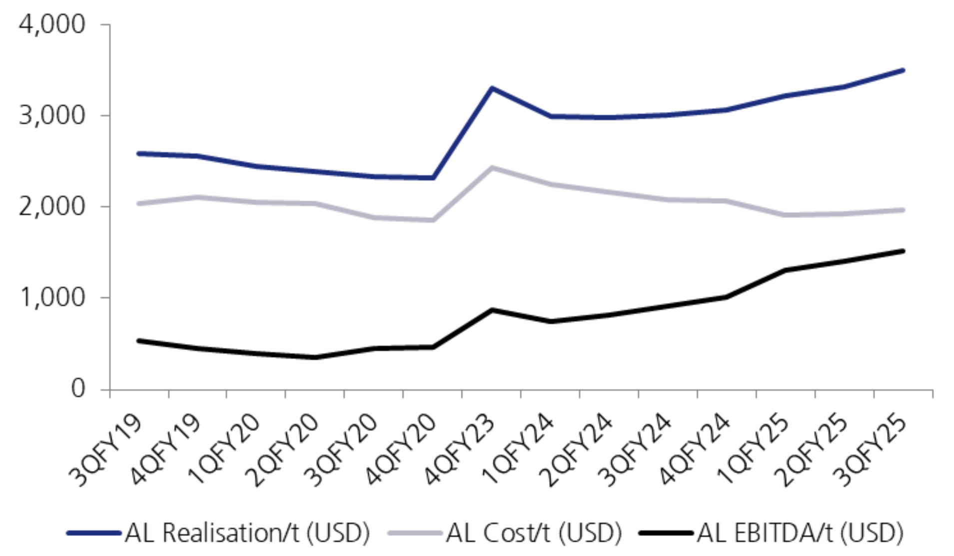
* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	22,32,020	21,59,620	23,12,014	24,47,420	25,46,319
Sales Growth (%)	14.4	-3.2	7.1	5.9	4.0
EBITDA	2,28,850	2,42,570	3,28,083	3,41,502	3,47,531
EBITDA Margin (%)	10.3	11.2	14.2	14.0	13.6
Adjusted Net Profit	1,02,750	1,05,190	1,51,772	1,54,354	1,56,860
Diluted EPS (INR)	46.2	47.3	68.2	69.4	70.5
Diluted EPS Growth (%)	-26.2	2.4	44.3	1.7	1.6
ROIC (%)	10.2	9.5	11.8	10.7	9.9
ROE (%)	11.9	10.5	13.3	12.0	10.8
P/E (x)	15.0	14.6	10.1	10.0	9.8
P/B (x)	1.6	1.4	1.3	1.1	1.0
EV/EBITDA (x)	8.4	7.9	5.9	5.6	5.6
Dividend Yield (%)	0.6	0.6	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 03/Jul/2025

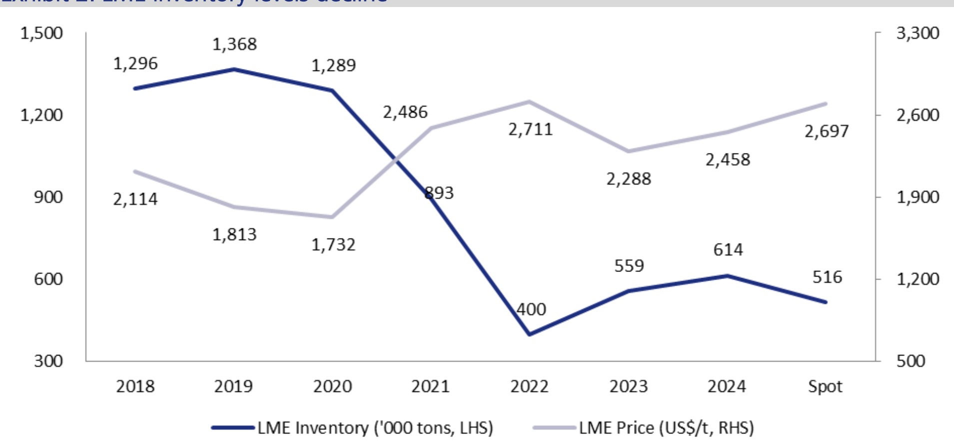
- **Bay Minette to drive volume growth; demand robust:** The new rolling mill and recycling capacity under construction at Bay Minette remains on track for completion by Dec'26. This will take Novelis' capacity to ~5mtpa post commissioning and the company expects double-digit IRR on the project. Bay Minette (600ktpa) along with debottlenecking (~200ktpa) projects should drive Novelis' volume growth which has remained stagnant over the last 3 years. The demand outlook for CY25 remains robust with Novelis' major customers guiding for strong demand for beverage cans in Europe and South America.

Exhibit 1. Improving margins for Hindalco's India aluminium business



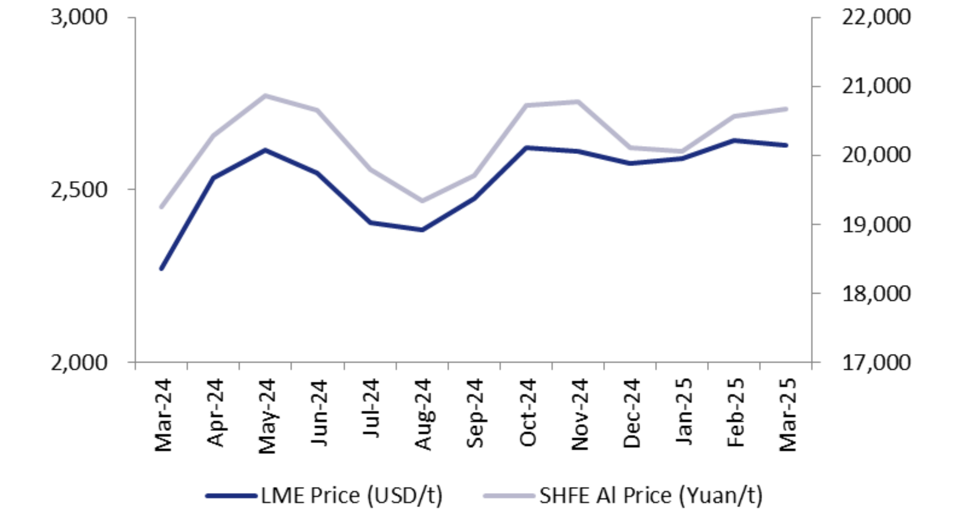
Source: Bloomberg, JM Financial

Exhibit 2. LME inventory levels decline



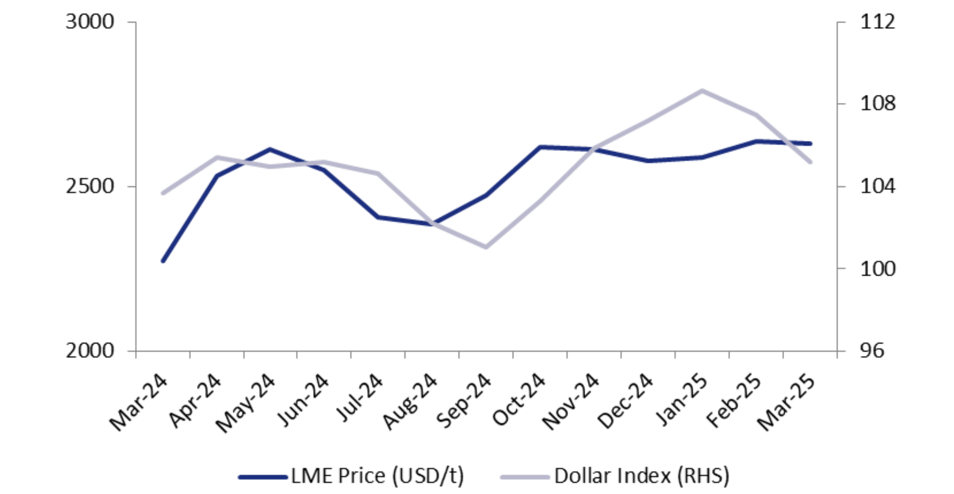
Source: Bloomberg, JM Financial

Exhibit 3. Divergence in LME-SHFE aluminium price



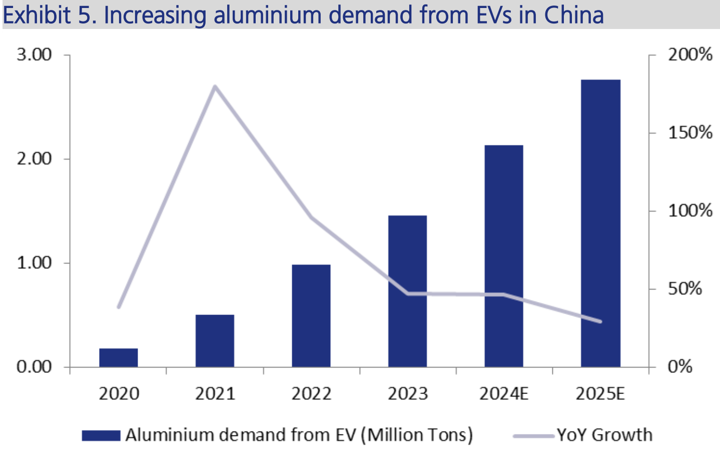
Source: Bloomberg, JM Financial

Exhibit 4. US Dollar index vs LME price



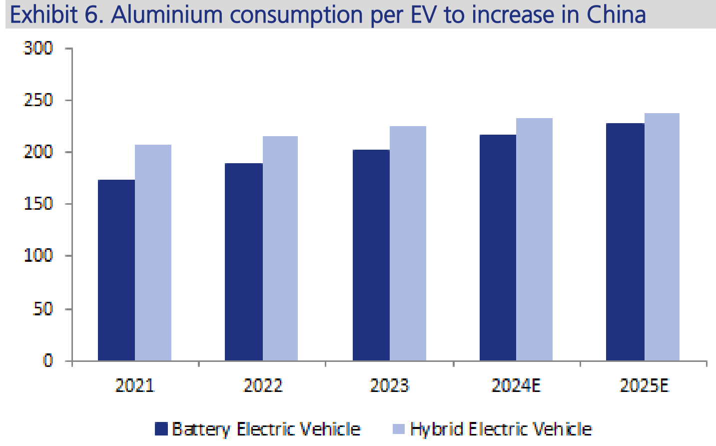
Source: Bloomberg, JM Financial

Exhibit 5. Increasing aluminium demand from EVs in China



Source: Bloomberg, JM Financial

Exhibit 6. Aluminium consumption per EV to increase in China



Source: Bloomberg, JM Financial

Exhibit 7. Global aluminium market dynamics

	2018	2019	2020	2021	2022	2023	2024E	2025E
China Capacity	43,770	41,168	42,318	42,856	44,549	45,095	45,095	45,106
World ex-China Capacity	32,136	32,613	32,852	33,381	33,892	34,057	34,657	34,235
Global capacity ('000 tons)	**75,906**	**73,781**	**75,169**	**76,237**	**78,441**	**79,152**	**79,752**	**79,342**
World ex-China production (000' tons)	27,681	27,934	28,007	28,878	28,757	29,097	29,475	31,449
World ex-China consumption (000' tons)	29,314	28,358	25,103	28,809	28,415	27,305	27,851	29,490
World ex-China Surplus/(Deficit) (000' tons)	**-1,633**	**-424**	**2,904**	**68**	**342**	**1,792**	**1,624**	**1,959**
China production (000' tons)	36,317	35,352	36,745	38,524	40,080	41,584	42,956	43,974
China consumption (000' tons)	35,934	36,276	37,722	40,144	40,812	42,887	44,174	46,715
China Surplus/(Deficit) (000' tons)	**382**	**-924**	**-977**	**-1,620**	**-733**	**-1,304**	**-1,218**	**-2,740**
Global production (000' tons)	63,998	63,286	64,751	67,402	68,837	70,681	72,431	75,423
Global consumption (000' tons)	65,248	64,634	62,825	68,954	69,228	70,192	72,025	76,205
Global Surplus/(Deficit) (000' tons)	**-1,250**	**-1,348**	**1,927**	**-1,552**	**-390**	**488**	**406**	**-781**

Source: Industry, JM Financial

Exhibit 8. HNDL: Key assumptions table

	FY24	FY25E	FY26E	FY27E
Aluminium (USD/ton)	2,300	2,600	2,600	2,600
USD/INR	82.0	84.0	86.0	87.0
India aluminium				
Volume ('000 tons)	1,327	1,327	1,327	1,337
EBITDA (INR mn)	75,711	146,642	143,916	139,650
EBITDAUS$/t	713	1,381	1,356	1,305
India Copper				
Volume (mn tons)	0.4	0.5	0.5	0.5
EBITDA (INR mn)	17,542	31,823	34,106	38,894
EBITDA/t (INR)	46,058	69,630	73,160	75,847
Novelis ('000 tons)	3,707	3,850	4,000	4,050
Novelis - EBITDA (USD mn)	1,798	1,781	1,901	1,942
Novelis - EBITDA/ton (USD)	485	463	475	480

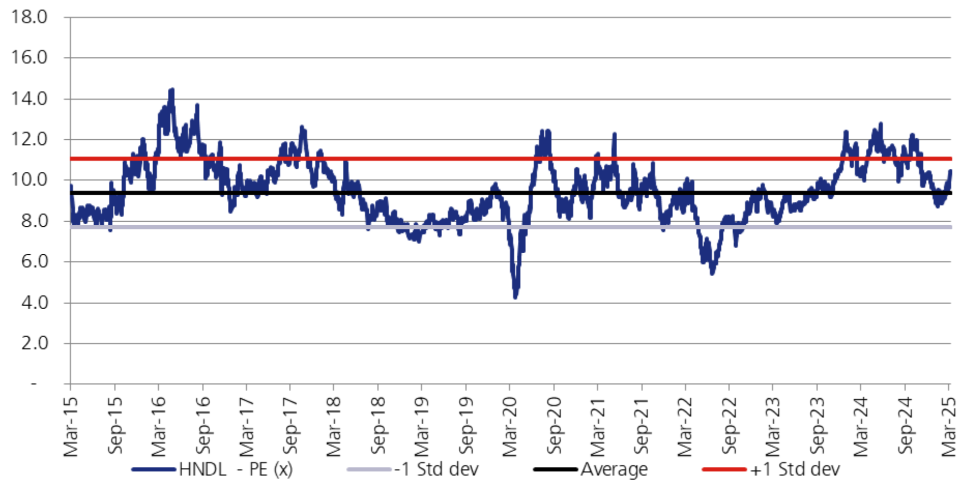
Source: Company, JM Financial

Exhibit 9. Hindalco – SOTP valuation

	FY27EBITDA (INR bn)	Multiple (x)	Value (INR bn)
Indian Aluminium	139	6.0	837
India Copper	38	5.5	213
Novelis	168	6..0	1,013
Total EV			**2,065**
Net Debt			394
Implied Mcap			**1,671**
No. of shares (bn)			**2.2**
Value (INR/share)			**753**
Investments (INR/share)			**51**
Target price			**800**

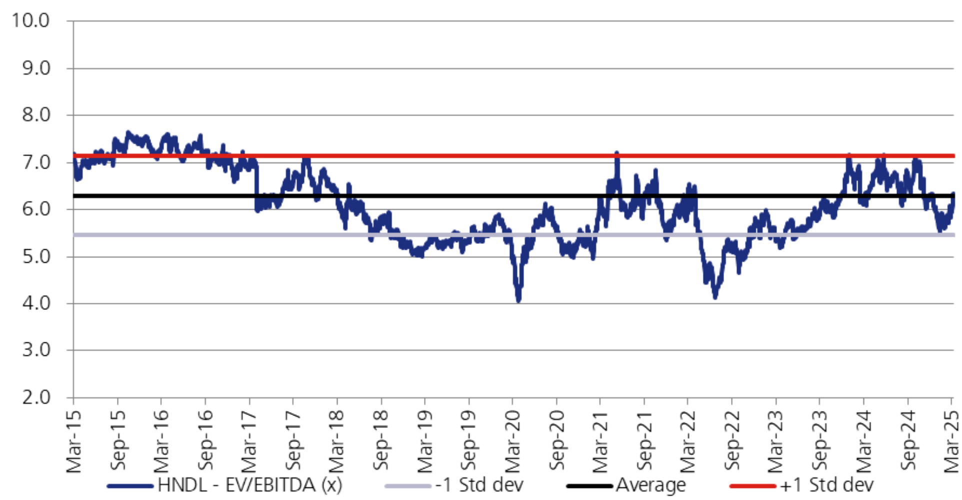
Source: JM Financial

Exhibit 10. HNDL: 1yr forward P/E valuation



Source: Bloomberg, JM Financial

Exhibit 11. HNDL: 1yr forward EV/EBITDA valuation



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	22,32,020	21,59,620	23,12,014	24,47,420	25,46,319
Sales Growth	14.4%	-3.2%	7.1%	5.9%	4.0%
Other Operating Income	0	0	0	0	0
Total Revenue	**22,32,020**	**21,59,620**	**23,12,014**	**24,47,420**	**25,46,319**
Cost of Goods Sold/Op. Exp	14,07,700	13,38,550	13,29,731	14,29,353	15,09,395
Personnel Cost	1,30,630	1,47,780	77,950	80,645	83,610
Other Expenses	4,64,840	4,30,720	5,76,249	5,95,921	6,05,785
EBITDA	**2,28,850**	**2,42,570**	**3,28,083**	**3,41,502**	**3,47,531**
EBITDA Margin	10.3%	11.2%	14.2%	14.0%	13.6%
EBITDA Growth	-20.1%	6.0%	35.3%	4.1%	1.8%
Depn. & Amort.	70,860	75,210	85,652	94,537	97,829
EBIT	1,57,990	1,67,360	2,42,431	2,46,965	2,49,702
Other Income	12,570	14,960	8,389	9,272	9,746
Finance Cost	36,460	38,580	31,460	33,517	33,252
PBT before Excep. & Forex	1,34,100	1,43,740	2,19,360	2,22,720	2,26,196
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,34,100	1,43,740	2,19,360	2,22,720	2,26,196
Taxes	31,440	38,570	67,588	68,366	69,337
Extraordinary Inc./Loss(-)	-1,780	-3,640	0	0	0
Assoc. Profit/Min. Int.(-)	90	20	0	0	0
Reported Net Profit	1,00,970	1,01,550	1,51,772	1,54,354	1,56,860
Adjusted Net Profit	**1,02,750**	**1,05,190**	**1,51,772**	**1,54,354**	**1,56,860**
Net Margin	4.6%	4.9%	6.6%	6.3%	6.2%
Diluted Share Cap. (mn)	2,223.9	2,223.9	2,223.9	2,223.9	2,223.9
Diluted EPS (INR)	**46.2**	**47.3**	**68.2**	**69.4**	**70.5**
Diluted EPS Growth	-26.2%	2.4%	44.3%	1.7%	1.6%
Total Dividend + Tax	10,402	10,402	5,201	5,201	5,201
Dividend Per Share (INR)	4.0	4.0	2.0	2.0	2.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Shareholders' Fund	9,48,060	10,61,460	12,13,232	13,67,585	15,24,445
Share Capital	2,220	2,220	2,220	2,220	2,220
Reserves & Surplus	9,45,840	10,59,240	12,11,012	13,65,365	15,22,225
Preference Share Capital	0	0	0	0	0
Minority Interest	110	110	513	535	546
Total Loans	6,02,910	5,63,560	5,23,072	5,62,788	5,97,646
Def. Tax Liab. / Assets (-)	86,500	93,440	93,440	93,440	93,440
Total - Equity & Liab.	**16,37,580**	**17,18,570**	**18,30,256**	**20,24,347**	**22,16,076**
Net Fixed Assets	11,83,260	12,66,770	14,40,008	15,54,745	16,73,253
Gross Fixed Assets	15,46,975	16,30,725	19,54,081	21,63,113	23,79,329
Intangible Assets	2,57,450	2,60,750	2,60,750	2,60,750	2,60,750
Less: Depn. & Amort.	6,98,165	7,73,375	8,59,027	9,53,564	10,51,393
Capital WIP	77,000	1,48,670	84,204	84,446	84,567
Investments	1,41,160	1,54,440	1,54,440	1,54,440	1,54,440
Current Assets	9,23,750	8,97,860	8,95,626	10,12,078	10,98,442
Inventories	4,29,580	4,08,120	4,75,071	5,02,895	5,23,216
Sundry Debtors	1,62,140	1,64,040	1,71,026	1,87,747	2,02,310
Cash & Bank Balances	1,53,680	1,44,370	59,500	1,06,868	1,28,748
Loans & Advances	1,78,350	1,81,330	1,90,029	2,14,568	2,44,168
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	6,10,590	6,00,500	6,59,818	6,96,916	7,10,059
Current Liabilities	5,83,960	5,74,110	6,33,428	6,70,526	6,83,669
Provisions & Others	26,630	26,390	26,390	26,390	26,390
Net Current Assets	3,13,160	2,97,360	2,35,807	3,15,162	3,88,383
Total – Assets	**16,37,580**	**17,18,570**	**18,30,256**	**20,24,347**	**22,16,076**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profit before Tax	1,34,190	1,43,760	2,19,360	2,22,720	2,26,196
Depn. & Amort.	70,860	75,210	85,652	94,537	97,829
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,21,660	6,490	-23,317	-31,987	-51,341
Others	40,390	3,280	0	0	0
Taxes Paid	-31,440	-38,570	-67,588	-68,366	-69,337
Operating Cash Flow	**92,340**	**1,90,170**	**2,14,106**	**2,16,904**	**2,03,348**
Capex	-98,420	-1,57,280	-2,58,890	-2,09,274	-2,16,337
Free Cash Flow	-6,080	32,890	-44,784	7,630	-12,989
Inc (-) / Dec in Investments	30	-13,280	0	0	0
Others	36,644	19,310	4,440	4,440	4,440
Investing Cash Flow	**-61,746**	**-1,51,250**	**-2,54,450**	**-2,04,834**	**-2,11,897**
Inc / Dec (-) in Capital	-4	0	0	0	0
Dividend + Tax thereon	-8,880	-8,880	-4,440	-4,440	-4,440
Inc / Dec (-) in Loans	-41,950	-39,350	-40,489	39,716	34,858
Others	0	0	403	22	11
Financing Cash Flow	**-50,834**	**-48,230**	**-44,526**	**35,298**	**30,429**
Inc / Dec (-) in Cash	**-20,240**	**-9,310**	**-84,870**	**47,368**	**21,880**
Opening Cash Balance	1,73,920	1,53,680	1,44,370	59,500	1,06,868
Closing Cash Balance	1,53,680	1,44,370	59,500	1,06,868	1,28,748

Source: Company, JM Financial (Note: Others includes Aleris acquisition and FX translation gains/losses apart from other items)

Dupont Analysis					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Margin	4.6%	4.9%	6.6%	6.3%	6.2%
Asset Turnover (x)	1.4	1.3	1.3	1.3	1.2
Leverage Factor (x)	1.8	1.7	1.6	1.5	1.5
RoE	11.9%	10.5%	13.3%	12.0%	10.8%

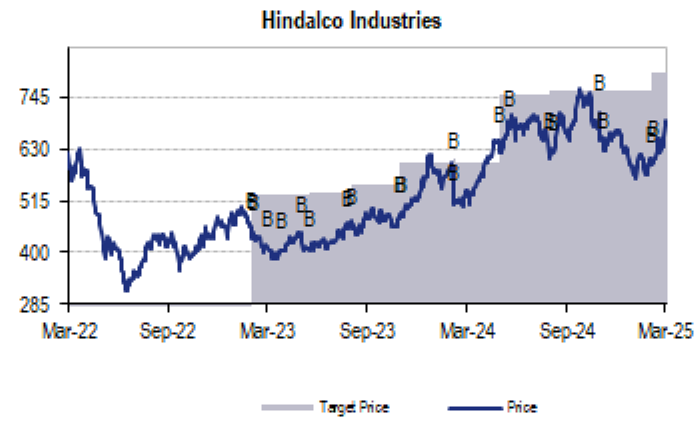
Key Ratios					
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
BV/Share (INR)	426.3	477.3	545.5	614.9	685.5
ROIC	10.2%	9.5%	11.8%	10.7%	9.9%
ROE	11.9%	10.5%	13.3%	12.0%	10.8%
Net Debt/Equity (x)	0.4	0.4	0.3	0.3	0.3
P/E (x)	15.0	14.6	10.1	10.0	9.8
P/B (x)	1.6	1.4	1.3	1.1	1.0
EV/EBITDA (x)	8.4	7.9	5.9	5.6	5.6
EV/Sales (x)	0.9	0.9	0.8	0.8	0.8
Debtor days	27	28	27	28	29
Inventory days	70	69	75	75	75
Creditor days	106	109	117	116	113

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
6-Feb-23	Buy	530	
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
6-May-24	Buy	750	25.0
24-May-24	Buy	750	0.0
7-Aug-24	Buy	760	1.3
13-Aug-24	Buy	760	0.0
6-Nov-24	Buy	760	0.0
13-Nov-24	Buy	760	0.0
10-Feb-25	Buy	800	5.2
14-Feb-25	Buy	800	0.0

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.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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