

August 14, 2024

Robust performance, profitable growth lies ahead

About stock: Hindalco, part of Aditya Birla group, is India's largest fully integrated aluminium and copper manufacturer. US based wholly owned subsidiary i.e. Novelis is the world's largest aluminium flat-rolled products (FRP) producer and recycler.

- Consol. Sales (FY24): India Aluminium: 19%, Copper: 22%, Novelis: 59%.

Q1FY25 Results: Hindalco reported healthy performance in Q1FY25 results. Consolidated topline stood at ₹57,013 crore (up 8% YoY, 2% QoQ). Reported EBITDA for the quarter stood at ₹7,585 crore (up 32% YoY) with corresponding EBITDA margins at 13.3%, up 250 bps YoY. PAT stood at ₹3,074 crore, up 25% YoY.

Investment Rationale

- India Business- Downstream expansion will aid healthy margins:** Hindalco delivered a robust performance in Q1FY25, with EBITDA/tonne of ~US\$1273 and ~US\$811 in India primary aluminium and copper segment, respectively, driven by better realization and lower input cost. With ongoing capacity expansion in downstream space, it is expected to further enhance margins, as \$1.13 billion of capex is strategically and primarily aimed at value added products, which are inherently more profitable. This expansion is well timed, as domestic demand for aluminium is projected to double from ~4.5 million tonne (MT) in FY23 to ~9 MT by FY33, fuelled by demand from infrastructure, packaging & sunrise sectors such as Electric Vehicle & renewable energy space. In copper domain too, it is strengthening its VAP portfolio with superior copper alloy rods and inner-grooved copper tubes for refrigeration and air conditioning. Thus, with emphasis on enhancing downstream capacities, Sales and EBITDA on standalone basis is seen growing at a CAGR of ~7%/11% over FY24-26E.
- Novelis-ambitious organic expansion seizing industry tailwinds:** Hindalco has a strong foothold in international markets through its US based wholly owned subsidiary, Novelis, which is the leading global supplier of beverage can sheet with ~40% global market share (Ex China). With ongoing capacity expansion of 600 KT of aluminium rolling capacity in North America (Bay Minette), thereby aiming to capitalize on growing opportunities in beverage can and automotive domains. This ambitious project is set to operational by H2CY26 at a total project cost of US\$4.1 billion. Given the continue focus towards value added products, cost control initiatives & increasing share of recycling content, we project EBITDA/tonne to reach \$525/tonne by FY26E amid its medium-term guidance of US\$600/tonne. Novelis listing could be added positive whenever it gets executed.

Rating and Target Price

- We maintain our **positive** view on Hindalco supported by strategic capacity expansions at Novelis & Indian operations, robust demand drivers for Aluminium metal & controlled leverage (D/E at ~0.5x). We assign a **BUY** rating on the stock, valuing it at **₹825** i.e. **7.5x EV/EBITDA on FY26E**.

Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,18,144	1,32,008	1,95,059	2,23,202	2,15,962	10.6%	2,33,826	2,44,273	6.4%
EBITDA	14,372	17,671	28,657	22,885	24,257	9.3%	28,307	29,655	10.6%
EBITDA Margins (%)	12.2	13.4	14.7	10.3	11.2		12.1	12.1	
Net Profit	3,767	3,483	13,730	10,097	10,155	13.1%	12,896	14,368	18.9%
EPS (₹/share)	17.0	15.7	61.8	45.5	45.7		58.1	64.7	
P/E	36.8	39.8	10.1	13.7	13.7		10.8	9.7	
RoNW (%)	6.8	7.5	17.7	10.8	9.8		11.1	10.9	
RoCE (%)	7.0	7.9	14.0	9.3	9.3		10.5	10.4	

Source: Company, ICICI Direct Research



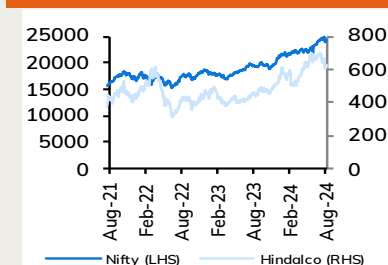
Particulars

Particulars	₹ crore
Market capitalisation	1,38,750
Total Debt (FY24)	54,501
Cash & Investment (FY24)	17,709
EV (₹ crore)	1,75,542
52 week H/L (₹)	715 / 438
Equity capital (₹ crore)	222
Face value (₹)	1

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoter	34.7	34.7	34.7	34.7
FII	27.0	27.9	26.8	27.2
DII	25.8	25.1	25.6	25.4
Other	12.6	12.4	12.9	12.8

Price Chart



Recent Event & Key risks

- Posted healthy Q1FY25 results with EBITDA Margins at 13.3%.
- Key Risk:** i) volatile global metal prices impacting realisations & margins (ii) setbacks in executing capex plans and budget overruns at Novelis.

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Key Takeaways of Recent Quarter

Q1FY25 Results: Reported Healthy Performance

- Total operating income for the quarter came in at ₹57,013 crore (up 8% YoY, 2% QoQ) with Novelis sales volume was up 8% YoY at 951 kt. India aluminium downs volumes were healthy at 96 kt (up 19% YoY). However, India upstream volumes reported a decline of 4% YoY to 329 kt. India copper segment came in broadly flat YoY at 119 kt.
- EBITDA for the quarter came in at ₹7,585 crore with corresponding EBITDA margins at 13.3% (up 250 bps YoY). EBITDA/tonne for Novelis was at \$525/tonne (up 10% YoY), while aluminium upstream and downstream were at \$1273/tonne (up 84% YoY) and \$138/tonne (down 31% YoY). EBITDA/tonne for copper was at \$811/tonne (up 48% YoY).
- PAT stood at ₹3,074 crore, up 25% YoY. Consolidated Net Debt stood at ₹35,350 crore, with a Net Debt to EBITDA of 1.24x at the end of June'24.

Q1FY25 Earnings Conference Call Highlights:

Indian Operation

- Hindalco's India aluminium downstream expansion is as per schedule and is expected to commence by FY26, with an anticipated EBITDA of \$200/tonne. It will focus on expanding the upstream capacities, including alumina expansion in Odisha, copper smelter and Aditya smelter expansion. Each of these large upstream projects is expected a capex of ~₹8,000 crores. It reiterated capex guidance of ₹5,500 to 6,000 crores for Indian operations for FY25E.
- Hindalco witnessed a 1% to 2% QoQ decline in coal costs in Q1FY25 and is expected to remain stable in Q2FY25. The commencement of Chakla coal and Meenakshi west coal mines is currently in the clearance stage.
- Coal sourcing mix for Q1FY25 was 48% from linkages and 48-50% from e-auction. It expects this coal sourcing mix to remain unchanged in 9MFY25.
- Hindalco anticipates sustainable quarterly EBITDA for copper segment to be at ~₹600 crore going forward, with copper demand remain to be robust in the coming quarters.
- For FY25, Hindalco has hedged ~22% of aluminium at a price of \$2,560/ton and ~15% of the commodity at zero collar with a bottom of \$2,258/ton and ceiling of \$2,539/ton. 11% of currency is hedged at ₹88.4 per dollar.
- Alumina sales for the quarter stood at 162 kt in Q1FY25, with expected sales of 190 to 200 kt alumina in Q2FY25.

The management of Hindalco's shared that the main aim behind the launch of Novelis IPO was to get the premium valuations. It will likely launch the IPO when the market conditions are conducive to the company's expected valuation.

Novelis capex for FY25 is expected to be in the range of \$1.8 to \$2 billion, with capex likely to be in the bottom end of this range.

Novelis- International Operation

- Novelis's Switzerland plant was affected by flooding in Q1FY25. It expects to resume operation by the end of Q2FY25. It has recognized \$30 million in fixed asset charges and \$10 million in inventory charges in Q1FY25. The total net cash impact will be \$80 million (net of insurance). Additionally, the net impact on adjusted EBITDA is expected to be \$30 million, which is likely to occur in Q2FY25.
- Despite the tight scrap supply market, the company has upheld its near-term EBITDA guidance of \$525/tonne. It also reaffirmed that there will be no changes to its capex plans and plant execution timeline.
- US recycling plant was commissioned in Q1FY25, and full capacity ramp up is expected in H2FY25. The South Korean recycling facility is also expected to be commissioned by H2FY25.

Key Tables and Charts

Exhibit 1: Quarterly Analysis

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Total Operating Income	57,013	52,991	7.6	55,994	1.8	Topline came in up 8% YoY owing to better realisations
Raw Material Expenses	34,095	33,241	2.6	34,379	-0.8	RM cost came in lower by 160 bps QoQ at 59.8% of sales
Employee Expenses	3,877	3,529	9.9	3,756	3.2	
Power & Fuel expenses	3,469	3,757	-7.7	3,624	-4.3	Savings were realised on the power costs front at 6% of sales
Other expenses	7,987	6,731	18.7	7,397	8.0	
EBITDA	7,585	5,733	32.3	6,838	10.9	EBITDA margins expanded healthy 109 bps QoQ at 13.3% of sales amid lower raw material cost benefits
EBITDA Margin (%)	13.3%	10.8%	249 bps	12.2%	109 bps	
Other Income	424	391	8.4	362	17.1	
Depreciation	1,974	1,786	10.5	2,018	-2.2	Depreciation came in on expected lines
Interest	859	992	-13.4	888	-3.3	Interest cost came in a tad lower
Tax	1,774	863	105.6	962	84.4	
PAT	3,074	2,454	25.3	3,174	-3.2	Profit for the quarter came in higher YoY due to rise in margins supported by lower interest cost
Key Metrics						
India Aluminium Upstream						
Sales Volume (KT)	329	341	-3.5	337	-2.4	Sales volume were down 3.5% YoY at 329 KT
Blended Realisation (\$/tonne)	3,221	2,878	11.9	3,026	6.4	Blended realization were up 12% YoY at \$3221 per tonne
EBITDA (\$/tonne)	1,273	691	84.2	967	31.6	EBITDA/tonne was up sharply by more than 80% YoY at \$1273/tonne, it is expected to normalise going forward
India Aluminium Downstream						
Sales Volume (KT)	96	81	18.5	105	-8.6	Sales volume were sharply up by 19% YoY at 96 KT
Blended Realisation (\$/tonne)	3,581	3,658	-2.1	3,349	6.9	Blended realization were lower by 2% YoY at \$3581 per
EBITDA (\$/tonne)	138	202	-31.7	174	-20.7	EBITDA/tonne were up sharply down 32% YoY at \$138/tonne
Novelis- US operations						
Sales Volume (KT)	951	879	8.2	951	0.0	Sales volume were up by 8% YoY at 951 KT
Blended Realisation (\$/tonne)	4,403	4,664	-5.6	4,290	2.6	Blended realization were down by 5.6% YoY at \$4403/tonne
EBITDA (\$/tonne)	526	479	9.8	540	-2.7	EBITDA/tonne were up by 10% YoY at \$526/tonne
India Copper						
Sales Volume (KT)	119	118	0.8	135	-11.9	Sales volume were broadly flat YoY at 119 KT
CCR Sales Volume (KT)	100	98	2.0	98	2.0	CCR Sales volume were up 2% YoY at 100 KT
Blended Realisation (\$/tonne)	13,389	11,862	12.9	11,975	11.8	Blended realization were up by 13% YoY at \$13,389 per
EBITDA (\$/tonne)	811	548	48.1	692	17.1	EBITDA/tonne were up sharply by 48% YoY at \$811/tonne

Source: Company, ICICI Direct Research

Exhibit 2: Key Assumptions

	FY22	FY23	FY24	FY25E	FY26E
India Aluminium Upstream					
Sales Volume (KT)	1,296	1,319	1,345	1,339	1,365
Blended Realisation (\$/tonne)	3,193	3,113	2,908	3,055	3,000
EBITDA (\$/tonne)	1,294	792	823	1,067	1,000
India Aluminium Downstream					
Sales Volume (KT)	348	354	370	395	459
Blended Realisation (\$/tonne)	4,245	3,868	3,447	3,408	3,350
EBITDA (\$/tonne)	147	221	183	147	175
Novelis- US operations					
Sales Volume (KT)	3,858	3,790	3,673	3,857	4,001
Blended Realisation (\$/tonne)	4,432	4,881	4,594	4,326	4,300
EBITDA (\$/tonne)	530	478	510	519	525
India Copper					
Sales Volume (KT)	405	439	506	530	551
CCR Sales Volume (KT)	262	347	389	424	441
Blended Realisation (\$/tonne)	12,167	11,815	11,773	12,722	12,500
EBITDA (\$/tonne)	461	638	624	653	600

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Net Sales	2,23,202	2,15,962	2,33,826	2,44,273
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2,23,202	2,15,962	2,33,826	2,44,273
Growth (%)	14.4	-3.2	8.3	4.5
Raw Material Expenses	1,40,770	1,33,855	1,42,835	1,49,007
Employee Expenses	13,063	14,778	15,900	16,855
Other Operating Expense	46,484	43,072	46,783	48,757
Total Operating Expenditure	2,00,317	1,91,705	2,05,518	2,14,618
EBITDA	22,885	24,257	28,307	29,655
Growth (%)	-20.1	6.0	16.7	4.8
Depreciation	7,086	7,521	7,950	8,183
Interest	3,646	3,858	3,608	3,375
Other Income	1,257	1,496	1,546	1,586
PBT	13,410	14,374	18,296	19,683
Exceptional Item	169	362	328	0
Total Tax	3,144	3,857	5,072	5,314
PAT	10,097	10,155	12,896	14,368
Growth (%)	-26.5	0.6	27.0	11.4
EPS (₹)	45.5	45.7	58.1	64.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Profit after Tax	10,097	10,155	12,896	14,368
Add: Depreciation	7,086	7,521	7,950	8,183
(Inc)/dec in Current Assets	7,328	3,737	-6,178	-3,164
Inc/(dec) in CL and Provisions	-12,254	-1,280	5,604	2,612
Others	3,646	3,858	3,608	3,375
CF from operating activities	15,903	23,991	23,880	25,375
(Inc)/dec in Investments	3	-1,328	950	-250
(Inc)/dec in Fixed Assets	-11,813	-15,542	-22,000	-20,000
Others	-4,374	-1,260	0	0
CF from investing activities	-16,184	-18,130	-21,050	-20,250
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-4,900	-3,834	2,000	-500
Dividend & interest outgo	-4,536	-4,525	-4,551	-4,485
Inc/(dec) in Share Cap	0	0	0	0
Others	7,408	1,852	0	0
CF from financing activities	-2,028	-6,507	-2,551	-4,985
Net Cash flow	-2,309	-646	279	140
Opening Cash	17,392	15,083	14,437	14,716
Closing Cash	15,083	14,437	14,716	14,856

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity Capital	222	222	222	222
Reserve and Surplus	94,584	1,05,924	1,17,877	1,31,135
Total Shareholders funds	94,806	1,06,146	1,18,099	1,31,357
Total Debt	58,335	54,501	56,501	56,001
Deferred Tax Liability	8,650	9,344	9,344	9,344
Minority Interest / Others	8,883	9,053	9,153	9,253
Total Liabilities	1,70,674	1,79,044	1,93,097	2,05,955
Assets				
Gross Block	1,56,690	1,64,401	1,81,268	1,86,268
Less: Acc Depreciation	71,809	78,666	86,616	94,799
Net Block	84,881	85,735	94,652	91,469
Capital WIP	7,700	14,867	20,000	35,000
Total Fixed Assets	92,581	1,00,602	1,14,652	1,26,469
Investments	39,861	41,519	40,569	40,819
Inventory	42,958	40,812	44,843	46,847
Debtors	16,214	16,404	17,937	18,739
Loans and Advances	8	32	35	36
Other Current Assets	9,191	7,386	7,997	8,354
Cash	15,083	14,437	14,716	14,856
Total Current Assets	83,454	79,071	85,528	88,832
Current Liabilities	35,860	34,444	38,437	40,154
Provisions	2,663	2,639	2,945	3,077
Current Liabilities & Prov	54,143	52,863	58,467	61,080
Net Current Assets	29,311	26,208	27,061	27,752
Others Assets	8,921	10,715	10,815	10,915
Application of Funds	1,70,674	1,79,044	1,93,097	2,05,955

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	45.5	45.7	58.1	64.7
Cash EPS	77.4	79.6	93.9	101.6
BV	427.1	478.1	532.0	591.7
DPS	4.0	3.0	4.3	5.0
Cash Per Share	67.9	65.0	66.3	66.9
Operating Ratios (%)				
EBITDA Margin	10.3	11.2	12.1	12.1
PAT Margin	4.5	4.7	5.5	5.9
Inventory days	70.2	69.0	70.0	70.0
Debtor days	26.5	27.7	28.0	28.0
Creditor days	58.6	58.2	60.0	60.0
Return Ratios (%)				
RoE	10.8	9.8	11.1	10.9
RoCE	9.3	9.3	10.5	10.4
RoC	11.1	11.4	13.0	13.9
Valuation Ratios (x)				
P/E	13.7	13.7	10.8	9.7
EV / EBITDA	7.7	7.2	6.3	6.0
EV / Net Sales	0.8	0.8	0.8	0.7
Market Cap / Sales	0.6	0.6	0.6	0.6
Price to Book Value	1.5	1.3	1.2	1.1
Solvency Ratios				
Debt/EBITDA	2.5	2.2	2.0	1.9
Debt / Equity	0.6	0.5	0.5	0.4
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	0.7	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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