

Strength in aluminium prices augurs well...

About the stock: Hindalco is the world's largest aluminium company by revenues, and a major player in copper. Its wholly owned subsidiary Novelis is the world's largest producer of aluminium beverage can stock.

- Over the years, Hindalco has transformed its business model to reduce dependence on the volatile LME price movement and is focusing on a stable portfolio of value added produces
- Novelis has leveraged its extensive recycling footprint and favourable market conditions to increase its recycled content to 61% in FY21

Rationale: Strong aluminium prices coupled with healthy performance from Novelis augurs well for Hindalco.

- Global aluminium prices on the LME witnessed a sharp rally during the current calendar year. Aluminium prices on the LME have increased from US\$2028/tonne in January 4, 2021 to US\$3149/tonne on October 15, 2021, indicating an increase of 55% in the period. Increase in aluminium prices augurs well for an integrated player like Hindalco (domestic operations)
- In the last few quarters Novelis has been reporting a healthy performance, which has aided Hindalco's consolidated performance. Going forward, on the back of healthy demand from key user industries we upward revise Novelis' EBITDA/tonne estimate to US\$525/tonne each for both FY22E & FY23 (earlier estimate of US\$500/tonne each for both FY22E, FY23E)

What should investors do? Hindalco's share price has grown by ~3.5x over the last five years (from ~₹ 155 on October 2016 to ~₹ 543 levels in October 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value Hindalco at ₹ 650, based on SoTP valuation

Key triggers for future price performance:

- Global aluminium prices witnessed a sharp rally over the last few quarters and Hindalco is well placed to reap the benefit of the same
- Going forward, during FY21-23E we expect Hindalco's consolidated revenue to grow at a CAGR of 16.8% while ensuing EBITDA and PAT are likely to register a CAGR of 26.3% and 58.1%, respectively

Alternate Stock Idea: In our metal sector coverage, we also like Tata Steel.

- India's share in Tata Steel's overall consolidated production capacity has risen from 29% in 2010 to 57% in 2020 and is likely to reach 73% in 2030
- BUY with a target price of ₹ 1750



Particulars

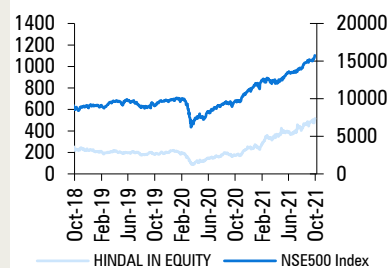
Particulars

Market Capitalization	₹ 122040 crore
Total Debt (Q1FY22)	₹ 67836 crore
Cash and Cash eq. (Q1FY22)	₹ 15923 crore
EV	₹ 173953 crore
52 week H/L (₹)	551 / 165
Equity capital	₹ 222 crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	34.7	34.7	34.6	34.6
FIs	19.6	22.8	25.0	25.0
DIs	25.1	22.1	20.8	20.6
Public	20.4	20.2	19.3	19.6
Others	0.3	0.3	0.3	0.3
Total	100	100	100	100

Price Chart



Key Risks

- (i) Steep decline in aluminium prices on the LME (ii) Lower than expected profitability at Novelis could adversely impact consolidated earnings

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR (FY16-FY21) in %	FY22E	FY23E	CAGR (FY21-FY23E) in %
Net Sales	1,15,172	1,30,542	1,18,144	1,31,985	5.7	1,73,576	1,79,948	16.8
EBITDA	13,820	15,511	14,306	17,536	15.0	25,911	27,992	26.3
EBITDA Margin (%)	12.0	11.9	12.1	13.3		14.9	15.6	
Adj PAT	4,434	5,495	4,051	5,674	67.2	12,623	14,190	58.1
EPS (₹)	19.9	24.7	18.2	25.5		56.8	63.8	
EV/EBITDA (x)	11.6	10.3	11.3	9.6		6.3	5.3	
RoCE (%)	9.4	10.3	7.8	8.8		14.5	15.2	
RoE (%)	8.1	9.6	6.9	8.5		17.1	16.4	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total Operating Income	118144	131985	173576	179948	
Growth (%)	-9	12	32	4	
Total Operating Expend.	103838	114449	147665	151956	
EBITDA	14306	17536	25911	27992	
Growth (%)	-8	23	48	8	
Depreciation	5091	6628	7058	7373	
Interest	4197	3738	3245	2961	
Other Income	1186	1222	1253	1296	
Exceptional Item	284	492	0	0	
PBT	5920	7900	16861	18954	
Total Tax	2157	2723	4244	4771	
PAT	3763	5177	12617	14183	
Growth (%)	-32	38	144	12	
Minorities + loss from discontinue op	4	-1694	6	7	
Rep PAT after Assoc., MI	3767	3483	12623	14190	
Adj PAT after Assoc., MI	4051	5674	12623	14190	
Growth (%)	-26	40	122	12	
EPS (₹)	18.2	25.5	56.8	63.8	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	3767	3483	12623	14190	
Add: Depreciation	5091	6628	7058	7373	
Add: Interest	4197	3738	3245	2961	
(Inc)/dec in Current Assets	4231	-12027	-15500	-7015	
Inc/(dec) in CL and Prov.	-253	15413	14773	7331	
CF from operating activities	17033	17235	22198	24839	
(Inc)/dec in Investments	-379	-7717	750	750	
(Inc)/dec in Fixed Assets	-11871	-20188	-7432	-7431	
Others	-1843	355	133	152	
CF from investing activities	-14093	-27550	-6549	-6529	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	15981	-1741	-7500	-7500	
Interest Paid	-4197	-3738	-3245	-2961	
Dividend paid & dividend tax	-290	-619	-1136	-1342	
Inc/(dec) in Share Cap	-2652	3654	-4423	0	
Others	0	0	0	0	
CF from financing activities	8842	-2445	-16304	-11803	
Net Cash flow	11782	-12760	-654	6507	
Opening Cash	9787	21569	8809	8155	
Closing Cash	21569	8809	8155	14662	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Share Capital	222	222	222	222	
Reserve and Surplus	58105	66321	73385	86233	
Total Shareholders funds	58327	66543	73608	86455	
Total Debt	68238	65994	58997	51497	
Deferred Tax Liability	4671	4493	4493	4493	
Minority Interest & Others	1391	1551	1601	1626	
Total Liabilities	132627	138581	138699	144071	
Assets					
Net Block	69249	77187	76288	76345	
Goodwill	20098	23317	22591	22591	
CWIP	7610	10013	12013	12013	
Investments	9370	17087	16337	15587	
Inventory	22384	30668	38044	40427	
Debtors	9401	13012	14266	14790	
Loans and Advances	3600	4046	6943	10611	
Other Current Assets	3458	3144	7117	7558	
Cash	21569	8809	8155	14662	
Total Current Assets	60412	59679	74525	88048	
Trade Payables	23700	36439	47555	49301	
Provisions & Other Curren Liabilities	13201	14679	17833	23418	
Current Liabilities & Prov	36901	51118	65388	72719	
Net Current Assets	23511	8561	9137	15329	
others	2789	2416	2333	2206	
Application of Funds	132627	138581	138699	144071	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		FY20	FY21	FY22E	FY23E
(Year-end March)					
Per share data (₹)					
Reported EPS		18.2	25.5	56.8	63.8
Cash EPS		41.1	55.3	88.5	97.0
BV		262.3	299.2	331.0	388.8
DPS		1.2	3.0	5.5	6.5
Cash Per Share		97.0	39.6	36.7	65.9
Operating Ratios (%)					
EBITDA Margin		12.1	13.3	14.9	15.6
PBT / Total Operating income		5.0	6.0	9.7	10.5
Adj PAT Margin		3.4	4.3	7.3	7.9
Inventory days		69	85	80	82
Debtor days		29	36	30	30
Creditor days		73	99	100	100
Return Ratios (%)					
Adj RoE		6.9	8.5	17.1	16.4
Adj RoCE		7.8	8.8	14.5	15.2
RoC		12.0	12.5	21.8	24.1
Valuation Ratios (x)					
P/E		29.8	21.3	9.6	8.5
EV / EBITDA		11.3	9.6	6.3	5.3
EV / Net Sales		1.4	1.3	0.9	0.8
Market Cap / Sales		1.0	0.9	0.7	0.7
Price to Book Value		2.1	1.8	1.6	1.4
Solvency Ratios					
Net Debt/EBITDA		2.8	2.7	1.6	1.0
Debt / Equity		1.2	1.0	0.8	0.6
Current Ratio		1.6	1.2	1.1	1.2
Quick Ratio		1.0	0.6	0.6	0.7

Source: Company, ICICI Direct Research

Exhibit 5: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	185	160	Hold	115023	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	543	650	Buy	122040	25.5	56.8	63.8	21.3	9.6	8.5	9.6	6.3	5.3	8.8	14.5	15.2	8.5	17.1	16.4
JSW Steel	716	850	Buy	173073	32.9	87.7	71.6	22.7	8.5	10.4	11.5	6.1	6.8	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	157	210	Buy	46186	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2221	2400	Buy	10380	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	620	825	Buy	12127	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1411	1750	Buy	169807	77.1	260.2	179.9	18.9	5.6	8.1	8.4	4.0	4.9	13.1	29.5	20.2	12.4	30.5	17.5
Jindal Stainless	185	200	Buy	9035	8.6	16.9	16.3	18.8	9.6	9.9	7.7	5.9	6.0	16.0	20.0	17.5	13.0	20.4	16.4
Jindal Stainless Hisar	330	390	Buy	7804	29.0	42.0	45.0	9.9	6.9	6.6	7.4	5.5	4.8	18.6	20.6	18.1	23.2	24.2	19.8
Vardhman Special Steel	265	300	Buy	1074	10.9	20.2	26.0	22.7	12.3	9.5	10.9	7.5	6.3	13.7	18.0	19.2	9.6	15.3	16.6
Tata Metaliks	1083	1300	Buy	3423	69.9	88.9	101.2	15.5	12.1	10.7	8.3	7.1	5.7	24.6	24.9	23.0	17.0	18.1	17.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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