

Reports highest ever quarterly net profit...

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

Q1FY22 Results: Hindalco reported a healthy performance in Q1FY22.

- Novelis reported a healthy performance in Q1FY22. For the quarter, it reported sales volume of 973 KT, higher than our estimate of 950 KT. Excluding non-recurring tax litigation benefit, adjusted EBITDA/tonne for Q1FY22 was at US\$522/tonne, higher than our estimate of US\$510/tonne
- Hindalco's India business reported revenue from operations of ₹ 13349 crore, higher than our estimate of ₹ 12752 crore. EBITDA of Hindalco's India business was at ₹ 2513 crore, higher than our estimate of ₹ 1930 crore. Ensuing PAT of Hindalco's India business was at ₹ 1037 crore higher than our estimate of ₹ 703 crore

What should investors do? Hindalco's share price has grown by ~2.5x over the last 12 months (from ~₹ 178 on August 2020 to ~₹ 441 levels in August 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value Hindalco at ₹ 525, based on SoTP valuation

Key triggers for future price performance:

- Novelis' expansion of recycling, casting, and rolling facilities in Pinda, Brazil is on track, with commissioning expected in Q2FY22. The Guthrie, Kentucky automotive finishing plants in the US and in Changzhou, China are both also ramping up well
- As part of the integration, expansion project in Zhenjiang, China, is expected to begin in the current year with investments of US\$375 million over three years. This includes a new cold mill, automotive casting house, recycling capabilities, hot mill upgrade, etc

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

- JSW Steel is the only Indian steel company to be ranked among the top 10 global steel producers by World Steel Dynamics for 10 consecutive years
- BUY with a target price of ₹ 850

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	1,70,364	1,76,161	15.5
EBITDA	13,820	15,511	14,306	17,536	15.0	22,700	24,205	17.5
EBITDA Margin (%)	12.0	11.9	12.1	13.3		13.3	13.7	
Adj PAT	4,434	5,495	4,051	5,674	67.2	10,220	11,356	41.5
EPS (₹)	19.9	24.7	18.2	25.5		46.0	51.1	
EV/EBITDA (x)	9.9	8.8	9.7	8.3		6.2	5.4	
RoCE (%)	9.4	10.3	7.8	8.8		12.4	13.0	
RoE (%)	8.1	9.6	6.9	8.5		14.3	13.9	

Source: Company, ICICI Direct Research



Particulars

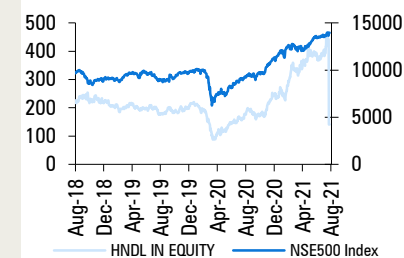
Particulars

Market Capitalization	₹ 99336 crore
Total Debt (Q1FY22)	₹ 67836 crore
Cash and Cash eq. (Q1FY22)	₹ 15923 crore
EV	₹ 151249 crore
52 week H/L (₹)	461 / 155
Equity capital	₹ 222 crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	34.7	34.7	34.6	34.6
FIIIs	19.6	22.8	25.0	25.0
DIIIs	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 & Event

- Healthy performance from Novelis and aluminium India business aids in registering highest ever quarterly net profit
- Key risks:** (i) Steep decline in aluminium prices on the LME (ii) Lower than expected profitability at Novelis could adversely impact consolidated earnings

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Key highlights and takeaways from conference call

Novelis

- For the quarter, Novelis' net sales increased 59% YoY to US\$3.9 billion. Adjusted EBITDA came in at US\$555 million, up 119% YoY. The increase in adjusted EBITDA is primarily due to higher volume and favourable product mix, as well as metal benefits and a \$47 million gain related to a favourable decision in a Brazilian tax litigation, partially offset by higher costs resulting from higher production volume and inflationary cost pressures. Excluding the non-recurring tax litigation benefit, adjusted EBITDA was at US\$508 million
- Novelis remains buoyant on demand outlook of various end products. Beverage can, which accounted for ~58% of Q1FY22 shipments, is likely to grow ~3-6% in CY21. Similarly, automotive which accounted for ~17% of Q1FY22 shipments is likely to grow ~20-25% in CY21. Specialty, which accounted for ~23% of Q1FY22 shipments is likely to grow ~5-10% in CY21. Similarly, aerospace, which accounted for ~2% of Q1FY22 shipments is likely to grow ~5-10% in CY21
- Aleris integration work continues with US\$100 million run-rate combination cost synergies achieved through the end of Q1FY22
- The company has maintained its EBITDA/tonne guidance of US\$500+/tonne

Hindalco

- For Q1FY22, aluminium India business reported metal production of 319 KT (compared to 316 KT in Q4FY21 and 291 KT in Q1FY21). Aluminium metal sales for Q1FY22 were at 303 KT (compared to 329 KT in Q4FY21 and 303 KT in Q1FY21). Aluminium VAP sales volumes (excluding wire rods) were at 82 KT (compared to 92 KT in Q4FY21 and 35 KT in Q1FY21)
- Aluminium India segment reported all-time high EBITDA of ₹ 2352 crore in Q1FY22, up 142% YoY. This was primarily due to favourable macros, improved product-mix and better operational efficiencies. EBITDA margins reached a 13 year high of 37.5% and continued to be among the best in the industry
- Successful ramp-up happened of smelter-3, post shutdown in Q1FY22. Copper cathode production was at 63 KT in Q1FY22 compared to 41 KT in Q1FY21, up 52% YoY, while overall copper metal sales were at 80 KT compared to 58 KT in Q1FY21. EBITDA for the copper segment was at ₹ 261 crore compared to ₹ 66 crore in Q1FY21, up 295% YoY
- For FY22, the capex guidance for the domestic operations is ₹ 2700 crore
- Hindalco has also approved downstream Flat Rolled Project (FRP) at its existing facilities at Hirakud & Aditya. The total investment for the project is ~₹ 3000 crore for a production of capacity of 170 KTPA of FRP Products. Project implementation period is of 36 months. The commercial production from project is expected to commence by FY25
- The 500 KT Utkal Alumina expansion project to start commercial production in Q2FY22

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP		TP Rating	Mcap (₹)	Topline(in ₹ crore)			EBITDA (in ₹crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
	(₹)	(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindalco	441	525	Buy	99336	131985	170364	176161	17,536	22,700	24,205	5,674	10,220	11,356	17.3	9.6	8.6	8.3	6.2	5.4
Hindustan Zinc	333	340	Hold	140598	22629	27471	30423	11,272	14,940	16,847	7,980	9,424	10,809	17.6	14.9	13.0	10.8	8.1	6.8

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	13,349	12,752	7,464	79 %	14,471	(8)%	Topline came in higher than our estimate
EBITDA							
Aluminium (including Utkal)	2,352	1,825	973	142 %	1,820	29 %	Aluminium segment EBITDA came in higher than our estimate
Copper	261	105	66	295 %	322	(19)%	Copper segment EBITDA came in higher than our estimate
Other Segments	1	0	1	0 %	7	(86)%	
Business Segment EBITDA	2,614	1,930	1,040	151 %	2,149	22 %	
Unallocable Income / (Expense) net	-101	10	98	(203)%	-248	(59)%	
EBITDA	2,513	1,940	1,138	121 %	1,901	32 %	
Finance Cost	373	375	457	(18)%	359	4 %	
PBDT	2,140	1,565	681	214 %	1,542	39 %	
Depreciation	525	625	514	2 %	526	NA	
Profit before Exceptional Items and Tax	1,615	940	167	867 %	1,016	59 %	
Exceptional Income/ (Expenses) (Net)	0	0	-39	(100)%	23	(100)%	
Profit Before Tax (After Exceptional Item)	1,615	940	128	1162 %	1,039	55 %	
Tax Outgo	578	237	44	1214 %	386	50 %	
PAT	1,037	703	84	1135 %	653	59 %	Reported PAT came in higher than our estimate
Key Metrics							
Total Copper sales (tonne)	80,000	85,000	58,000	38 %	1,07,000	(25)%	Copper sales volume came in marginally higher than our estimate
Total Aluminium sales (tonne)	3,03,000	3,05,000	3,03,000	0 %	3,29,000	(8)%	Aluminium sales volume came broadly in line with our estimate
Novelis, Rolled Product Shipments (Kt)	973	950	774	26 %	983	(1)%	Novelis sales volume came in higher our estimate
Novelis, EBITDA/tonne (US\$/tonne)	522	510	327	60 %	514	2 %	Novelis EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

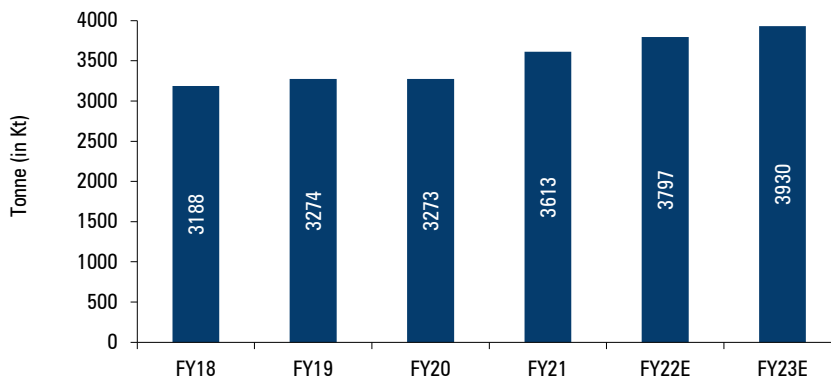
Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	New	Old	% Change	New	Old	% Change	
Revenue	1,70,364	1,69,364	0.6	1,76,161	1,75,144	0.6	
EBITDA	22,700	21,698	4.6	24,205	22,616	7.0	EBITDA revised upwards for FY22E & FY23E
EBITDA Margin (%)	13.3	12.8	51 bps	13.7	12.9	83 bps	EBITDA margins revised upwards
PAT	10,214	9,465	7.9	11,349	10,161	11.7	Upward revised estimates for FY22E & FY23E

Source: Company, ICICI Direct Research

Financial story in charts

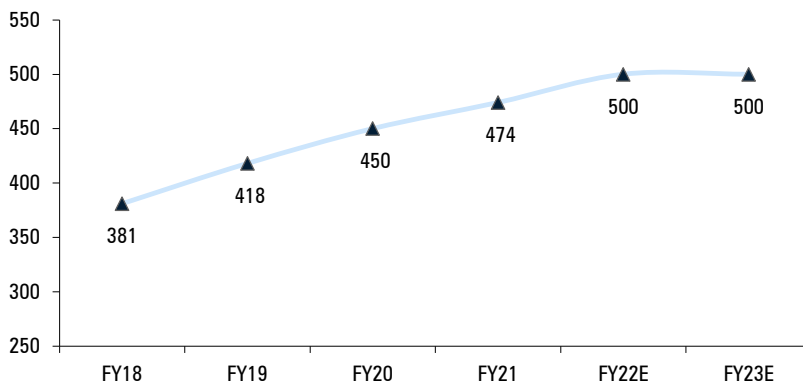
Exhibit 4: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



We model Novelis sales volume (including Aleris sales volume) of 3797KT for FY22E and 3930 MT for FY23E

Source: Company, ICICI Direct Research

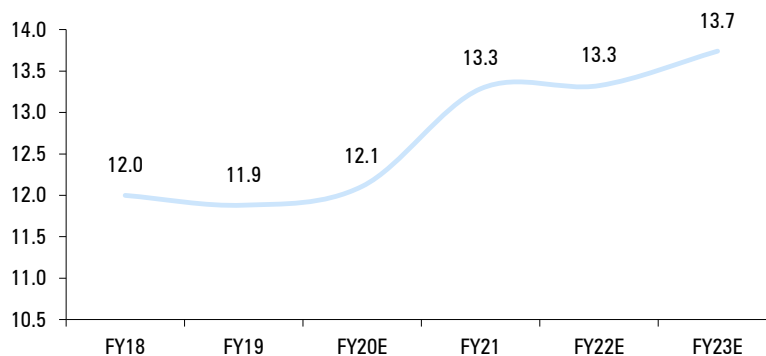
Exhibit 5: Trend in Novelis EBITDA/tonne (in US\$ per tonne)



We model Novelis EBITDA/tonne of \$500/tonne for FY22E and FY23E each

Source: Company, ICICI Direct Research

Exhibit 6: Consolidated EBITDA margin trend (in %)



We expect consolidated EBITDA margin for Hindalco to come at 13.3% in FY22E & 13.7% in FY23E

Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	115172	15	19.9	135	22	9.9	8.1	9.4
FY19	130542	13	24.7	24	18	8.8	9.6	10.3
FY20	118144	-9	18.2	-26	24	9.7	6.9	7.8
FY21	131985	12	25.5	40	17	8.3	8.5	8.8
FY22E	170364	29	46.0	80	10	6.2	14.3	12.4
FY23E	176161	3	51.1	11	9	5.4	13.9	13.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Total Operating Income	118144	131985	170364	176161	
Growth (%)	-9	12	29	3	
Total Operating Expend.	103838	114449	147664	151956	
EBITDA	14306	17536	22700	24205	
Growth (%)	-8	23	29	7	
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	13650	15167	
Total Tax	2157	2723	3436	3817	
PAT	3763	5177	10214	11349	
Growth (%)	-32	38	97	11	
Minorities + loss from discontinue op	4	-1694	6	7	
Rep PAT after Assoc., MI	3767	3483	10220	11356	
Adj PAT after Assoc., MI	4051	5674	10220	11356	
Growth (%)	-26	40	80	11	
EPS (₹)	18.2	25.5	46.0	51.1	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	3767	3483	10220	11356	
Add: Depreciation	5091	6628	7058	7373	
Add: Interest	4197	3738	3245	2961	
(Inc)/dec in Current Assets	4231	-12027	-14272	-6699	
Inc/(dec) in CL and Prov.	-253	15413	13563	7010	
CF from operating activities	17033	17235	19814	22001	
(Inc)/dec in Investments	-379	-7717	750	750	
(Inc)/dec in Fixed Assets	-11871	-20188	-7432	-7431	
Others	-1843	355	160	153	
CF from investing activities	-14093	-27550	-6522	-6528	
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	-826	-1033	
Inc/(dec) in Share Cap	-2652	3654	-4423	0	
Others	0	0	0	0	
CF from financing activities	8842	-2445	-15994	-11494	
Net Cash flow	11782	-12760	-2703	3980	
Opening Cash	9787	21569	8809	6107	
Closing Cash	21569	8809	6107	10086	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Liabilities					
Equity Share Capital	222	222	222	222	
Reserve and Surplus	58105	66321	71292	81615	
Total Shareholders funds	58327	66543	71514	81838	
Total Debt	68238	65994	58997	51497	
Deferred Tax Liability	4671	4493	4493	4493	
Minority Interest & Others	1391	1551	1601	1626	
Total Liabilities	132627	138581	136605	139454	
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	37340	39576	
Debtors	9401	13012	14003	14479	
Loans and Advances	3600	4046	6815	10388	
Other Current Assets	3458	3144	6985	7399	
Cash	21569	8809	6107	10086	
Total Current Assets	60412	59679	71249	81928	
Trade Payables	23700	36439	46675	48263	
Provisions & Other Curren Liabilities	13201	14679	17503	22925	
Current Liabilities & Prov	36901	51118	64178	71188	
Net Current Assets	23511	8561	7071	10739	
others	2789	2416	2306	2178	
Application of Funds	132627	138581	136605	139454	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY20	FY21	FY22E	FY23E	
Per share data (₹)					
Reported EPS	18.2	25.5	46.0	51.1	
Cash EPS	41.1	55.3	77.7	84.2	
BV	262.3	299.2	321.6	368.0	
DPS	1.2	3.0	4.0	5.0	
Cash Per Share	97.0	39.6	27.5	45.4	
Operating Ratios (%)					
EBITDA Margin	12.1	13.3	13.3	13.7	
PBT / Total Operating income	5.0	6.0	8.0	8.6	
Adj PAT Margin	3.4	4.3	6.0	6.4	
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	14.3	13.9	
Adj RoCE	7.8	8.8	12.4	13.0	
RoIC	12.0	12.5	18.1	19.7	
Valuation Ratios (x)					
P/E	24.2	17.3	9.6	8.6	
EV / EBITDA	9.7	8.3	6.2	5.4	
EV / Net Sales	1.2	1.1	0.8	0.7	
Market Cap / Sales	0.8	0.7	0.6	0.6	
Price to Book Value	1.7	1.5	1.4	1.2	
Solvency Ratios					
Net Debt/EBITDA	2.8	2.7	1.9	1.3	
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	0.5	0.6	

Source: Company, ICICI Direct Research

Exhibit 12: 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	146	165	Hold	90877	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	442	525	Buy	99336	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
Hind Zinc	319	340	Hold	140598	18.9	22.3	25.6	17.6	14.9	13.0	10.8	8.1	6.8	27.8	33.1	37.8	24.7	26.3	26.0
JSW Steel	757	850	Buy	173411	32.9	87.7	71.6	21.8	8.2	10.0	11.2	6.0	6.6	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	178	210	Buy	52077	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	2143	2400	Buy	9652	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.	729	800	Buy	12388	-2.0	48.0	80.0	NA	13.1	7.9	NA	8.5	4.7	-5.4	20.0	28.1	-0.7	18.1	24.8
Tata Steel	1428	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	141	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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