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Company update

Metals

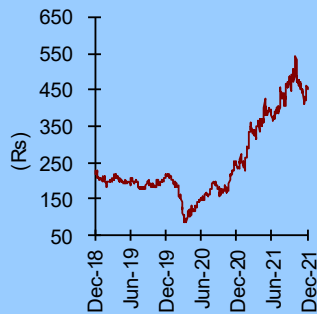
Target price: Rs550

Shareholding pattern

	Mar '21	Jun '21	Sep '21
Promoters	34.6	34.6	34.6
Institutional investors	45.8	45.6	46.1
MFs and others	11.4	11.9	11.9
FIs and Banks	0.2	0.2	0.0
Insurance Cos.	9.2	8.5	8.7
FII	25.0	25.0	25.5
Others	19.6	19.8	19.3

Source: NSE

Price chart



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INDIA

Hindalco Industries

BUY

Maintained

Look downstream, look converter series - Focus on
downstream remains key to value creation

Rs433

Hindalco's decision to acquire Hydro's aluminium extrusions business in India (Kuppam in AP) for Rs2.5bn ([Link](#)) falls within the envelope of Hindalco's 'Doubling the downstream' strategy wherein the company has entailed a capex of US\$1.1bn. The plant will also serve as an archetype for Hindalco's upcoming extrusions plant in Silvassa (Rs7.3bn capex for 34ktpa greenfield plant). Once commissioned, the Kuppam and Silvassa units are expected to boost Hindalco's total aluminium extrusions capacity from 60ktpa to 109ktpa. The transaction is expected to close by Q1CY22. Sales in extrusion market is driven by dealer network, differentiated by quick turnaround and increasing SKUs, and customers prefer distributed setup closer to demand footprint. This, in our view, will be a deviation from the current means of doing business in Hindalco. We maintain BUY on Hindalco; stated downstream shift excites us.

- **Capacity map of global aluminium extrusions.** Global supply of extrusions is ~30mtpa with ~19mtpa being provided by China. China has been the largest exporter to the world (~0.9mtpa); global trade flows are estimated at ~4mtpa (Bloomberg). Indian demand (our estimates) is ~400ktpa with 7-8% import supplied and industry utilisation at 80%. India is < 2% of global demand, concentrated in Building and construction (~60%+) and Industrial demand (25%+). Globally, extrusions is an extremely fragmented market (~25% capacity with ~45 companies >100kte in size and ~50% global capacity with long tail of players <20kte in size).
- **Indian market can potentially grow to 0.8-1mtpa market by CY30.** The incremental demand is driven by B&C through expected increase in fabrication of formwork in India along with ductwork. Increased solar panel manufacturing within the country is also being looked upon as a catalyst for Aluminium extrusion demand ([Link](#)).
- **Jindal Aluminium has grown to be the largest Aluminium extrusion player in India.** Jindal enjoys largest dealer network in India (100+ dealers across 30 cities). There is a reasonable amount of dealer comfort due to timely product availability, with a typical product shipment time of ~1 week. Jindal, currently enjoys a decent brand premium, has gradually evolved to cash and carry during the pandemic by increasing the cash discount to distributors. Distributed setup is preferred by customers, closer to the demand footprint. For Hindalco, such a distributed play will be different from the rule book it is accustomed to.
- **Hindalco can choose to invest in foundry and drive metal cost savings through increased usage of scrap.** With ~60% of Indian demand being generated by building and construction sector where demand is expected to witness an uptick in the medium term, investment in foundry may not be a bad idea in our view.

Market Cap	Rs973bn/US\$12.8bn	Year to March	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	HALC.BO/HNDL IN	Revenue (Rs mn)	1,181,440	1,319,850	1,927,349	1,877,537
Shares Outstanding (mn)	2,247.2	Net Income (Rs mn)	41,070	56,740	142,845	143,947
52-week Range (Rs)	543/226	EPS (Rs)	18.5	25.5	64.2	64.7
Free Float (%)	65.4	% Chg YoY	(25.3)	38.2	151.8	0.8
FII (%)	25.5	P/E (x)	23.4	17.0	6.7	6.7
Daily Volume (US\$/'000)	68,498	CEPS (Rs)	41.6	55.3	95.0	95.8
Absolute Return 3m (%)	(2.6)	EV/E (x)	9.7	8.3	5.1	5.2
Absolute Return 12m (%)	74.4	Dividend Yield (%)	0.2	0.7	2.6	2.6
Sensex Return 3m (%)	(4.4)	RoCE (%)	8.4	8.9	16.6	15.2
Sensex Return 12m (%)	20.0	RoE (%)	7.1	9.1	19.7	17.1

Please refer to important disclosures at the end of this report

Valuation methodology and key risks

We maintain **BUY** with a target price of Rs550/share at 1.37x FY23E book value. Novelis is improving consolidated RoE. Earnings though are benefitting from cyclicalities, from the elevated scrap to LME spread in particular.

Key risks

Key upside risks are aluminium prices, higher than expected spreads at Novelis and faster than expected deleveraging of the consolidated entity. Key downside risks are lower Aluminium prices; lower profitability at Aleris and Novelis, reduction in scrap LME spreads impacting Novelis EBITDA/te.

Key near terms earnings risks are linked to spread compression (scrap vis-à-vis LME Aluminium).

Financial summary (consolidated)

Table 1: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income (Sales)	1,181,440	1,319,850	1,927,349	1,877,537
Operating Expenses	1,037,380	1,144,490	300,223	285,092
EBITDA	144,060	175,360	296,534	284,791
% margins	12.2	13.3	15.4	15.2
Depreciation & Amortization	51,350	66,280	68,330	69,080
Gross Interest	41,970	37,380	33,790	25,000
Other Income	11,860	12,220	8,000	8,000
Recurring PBT	62,600	83,920	202,414	198,711
Add: Extra ordinaries	-	-	-	-
Less: Taxes	21,570	27,230	65,620	61,459
Less: Minority Interest	(40)	(50)	(50)	(50)
Net Income (Reported)	37,670	34,830	136,844	137,302
Recurring Net Income	41,070	56,740	136,844	137,302

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	632,010	620,950	789,705	765,107
of which cash & cash eqv.	215,690	88,090	158,104	115,845
Total Current Liabilities & Provisions	363,786	497,076	553,110	541,676
Net Current Assets	268,224	123,874	236,596	223,431
Investments	94,330	171,540	171,540	171,540
Strategic/Group	630	670	670	670
Other Marketable	93,700	170,870	170,870	170,870
Net Fixed Assets	767,960	871,330	879,500	855,795
Capital Work-in-Progress	77,210	102,020	17,090	17,090
Goodwill	200,980	233,170	233,170	233,170
Total Assets	1,331,494	1,399,914	1,546,081	1,509,211
Liabilities				
Borrowings	701,510	689,550	722,821	572,677
Deferred Tax Liability	46,710	44,930	44,930	44,930
Minority Interest	100	100	50	-
Equity Share Capital	2,224	2,224	2,224	2,224
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	580,950	663,110	776,056	889,380
Net Worth	583,174	665,334	778,280	891,604
Total Liabilities	1,331,494	1,399,914	1,546,081	1,509,211

Source: Company data, I-Sec research

* Ex Aleris

Table 3: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	98,270	109,020	171,899	198,382
Working Capital Changes	(11,780)	16,750	(42,708)	(29,094)
Capital Commitments	(67,910)	(169,650)	(76,500)	(45,375)
Free Cashflow	18,580	(43,880)	52,691	123,912
Cashflow from Investing Activities	(19,020)	(64,990)	8,000	8,000
Issue of Share Capital	70	-	-	-
Buyback of shares	(70)	-	-	-
Inc (Dec) in Borrowings	109,460	(11,960)	33,271	(150,144)
Dividend paid	(3,200)	(6,660)	(23,948)	(24,028)
Extraordinary Items	12,000	-	-	-
Chg. in Cash & Bank balances	117,820	(127,490)	70,014	(42,259)

Source: Company data, I-Sec research

Table 4: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic Recurring)	18.5	25.5	61.5	61.7
Diluted Recurring EPS	18.5	25.5	61.5	61.7
Recurring Cash EPS	41.6	55.3	92.3	92.8
Dividend per share (DPS)	1.0	3.0	10.8	10.8
Book Value per share (BV)	262.2	299.2	350.0	400.9
Growth Ratios (%)				
Operating Income	(13.5)	11.7	46.0	(2.6)
EBITDA	(7.1)	21.7	69.1	(4.0)
Recurring Net Income	(25.3)	38.2	141.3	0.3
Diluted Recurring EPS	(25.3)	38.2	141.2	0.3
Diluted Recurring CEPS	(9.9)	33.1	66.8	0.6
Valuation Ratios (x)				
P/E	23.4	17.0	6.7	6.7
P/CEPS	10.4	7.8	4.6	4.5
P/BV	1.7	1.4	1.2	1.1
EV / EBITDA	9.7	8.3	5.1	5.2
EV / Operating Income	1.2	1.1	0.8	0.8
EV / Operating FCF	14.3	13.3	8.8	7.4
Operating Ratios (%)				
Raw Material/Sales	57.9	58.2	58.2	58.2
SG&A/Sales	14.4	14.0	2.3	2.5
Other Income / PBT	18.9	14.6	4.0	4.0
Effective Tax Rate	34.5	32.4	32.4	30.9
NWC / Total Assets	3.9	2.6	5.1	7.1
Inventory Turnover (days)	98.9	103.0	94.4	102.4
Receivables (days)	32.2	31.1	27.9	35.7
Payables (days)	128.9	137.3	638.4	700.8
D/E Ratio (x)	1.28	1.10	0.99	0.69
Profitability Ratios (%)				
Net Income Margins	3.4	4.3	7.1	7.3
RoCE	8.4	8.9	16.0	14.6
RoNW	7.1	9.1	19.0	16.4
Dividend Payout Ratio	5.4	11.7	17.5	17.5
Dividend Yield	0.2	0.6	2.3	2.3
EBITDA Margins	12.2	13.3	15.4	15.2

Source: Company data, I-Sec research

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