

BSE SENSEX
58,684

 S&P CNX
17,498

CMP: INR600 TP: INR750(+25%)
Buy

Stock Info

Bloomberg	HNDL IN
Equity Shares (m)	2,247
M.Cap.(INRb)/(USDb)	1347.9 / 17.8
52-Week Range (INR)	636 / 321
1, 6, 12 Rel. Per (%)	0/24/67
12M Avg Val (INR M)	5785
Free float (%)	65.4

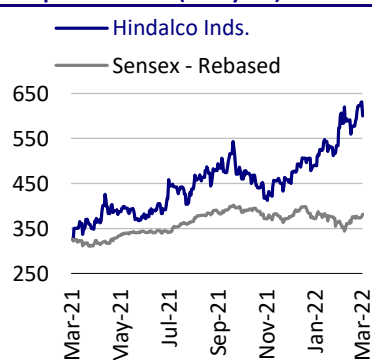
Financials Snapshot (INR b)

Y/E Mar	2021	2022E	2023E
Net Sales	1,318	1,959	2,238
EBITDA	174	291	345
PAT	55	135	172
EPS (INR)	25	61	77
Gr. (%)	40.7	147.0	27.5
BV/Sh (INR)	194	254	322
RoE (%)	13	27	27
RoCE (%)	24	16	19
P/E (x)	24.4	9.9	7.7
P/BV (x)	3.1	2.4	1.9
EV/EBITDA (x)	10.4	6.0	4.8

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	34.6	34.7	34.7
DII	21.2	20.6	22.1
FII	26.3	25.8	23.1
Others	17.9	19.0	20.2

FII Includes depository receipts

Stock performance (one-year)


Deleveraging behind, focus shifts to growth

Strong aluminum demand drives growth capex

- The management sees strong demand for aluminum from major segments like Beverage Can, Automotive Body Sheet, Specialties, and Aerospace.
- The supply disruption in aluminum will deepen the deficit and result in higher LME prices through FY23 and FY24.
- HNDL announced a strong growth capex pipeline of USD7.9b (including optional capex) over the next five years in both Novelis and its parent entity to deploy the strong cash flow expected in both companies. It expects to deploy ~75% of the FCF (post sustenance capex and working capital).
- We raise our FY22/FY23 EBITDA estimate by 2.4%/6.6%, led by a 0.6%/10% increase in LME aluminum prices and raise our SoTP-based TP to INR750/share (from INR700 earlier). The key risk to our call is a slowdown in China, resulting in a correction in aluminum prices.

Demand to stay strong across segments through the next decade

- The management sees strong growth for major downstream aluminum business segments where Novelis operates. The Flat Rolled Products (FRP) business is likely to clock 4% CAGR over FY22-26.
- The deficit in the Can Sheet market is expected to increase to 500kt by CY30 from 300kt in CY22.
- Deficit in the primary aluminum market is likely to deepen to 2.7mt in CY22 from 1.8mt in CY21, led by strong demand and a constrained supply due to the Russia-Ukraine conflict. **We highlighted the impact on aluminum in our previous report.**
- With the aluminum market in deficit, coupled with strong demand growth and ESG support, we expect aluminum prices to remain above the cycle averages. While we retain our FY24 aluminum price assumption of USD2,400/t, we raise our near-term estimate to USD3,300/t (from USD3,000/t earlier), led by the Russia-Ukraine war and the resulting impact on the global aluminum market.

Announces capex worth USD7.9b over the next five years

- HNDL announced a bouquet of capex across Novelis, its India operations, upstream, downstream, rolling, and recycling in anticipation of strong FCF generation over the next five years and a deleveraged Balance Sheet.
- Though some of this capex has so far been classified as under evaluation, we expect these to be taken up in due course of time.
- Of the USD7.9b capex (refer *Exhibit 12 and 13*), the management said capex worth USD5.6b is under evaluation. It is difficult to understand when ~70% of capex is under evaluation, why did the management announce all these new projects. The major projects under evaluation are brownfield and greenfield rolling mills, aluminum smelters, and an alumina refinery, all of

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which have a huge impact on operating cash flows and EBITDA. If these projects are approved, HNDL is likely to incur an annual capex of over USD2b over FY24-26E. We have factored in a capex of USD1.1b/USD2b for FY23/FY24.

Balance Sheet in a comfortable position

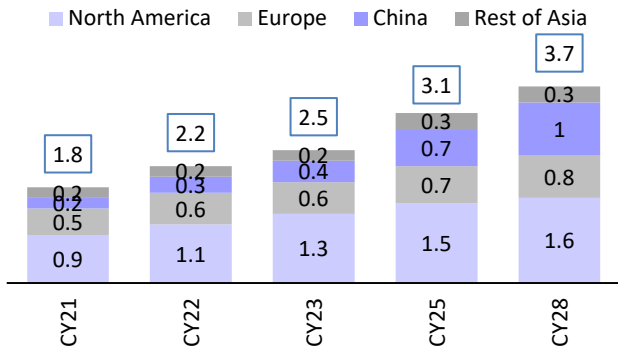
- Novelis has reduced its net debt/EBITDA ratio to 2.3x from 3.8x in the last seven quarters, driven by strong operating cash flows.
- Its India Balance Sheet has been deleveraged to 0.7x from 3.3x over the same period on strong LME prices.
- Going forward, the management expects LME prices to stay strong and capex to be funded via internal accruals.

Valuation and view

- The stock trades at 4.8x/5.8x our FY23/FY24 EV/EBITDA estimate. Novelis is the largest secondary aluminum producer and the largest aluminum recycling company globally.
- Novelis has a 40% global market share in can body stock, where demand remains robust.
- HNDL is one of the lowest-cost producers of alumina at its Utkal refinery. The same has been fully ramped up, driving costs down further.
- The company is expanding both downstream and upstream to raise its aluminum capacity as well as the share of value add products, which will eventually reflect in an improved EBITDA margin.
- We raise our FY23 LME aluminum price assumption by 10% to USD3,300/t, driving an upgrade in our consolidated revenue/EBITDA/PAT growth by 5.2%/6.6%/12.8%. Our FY24 aluminum assumption remains unchanged at USD2400/t as we expect normalcy to return in Europe and the shortage of the metal to ebb.
- We retain our Buy rating with an increased SoTP-based TP of INR750/share (from INR700 earlier).
- The key downside risk to our call is a slowdown in China. A sharp reduction in LME prices will impact HNDL's capex plans adversely.

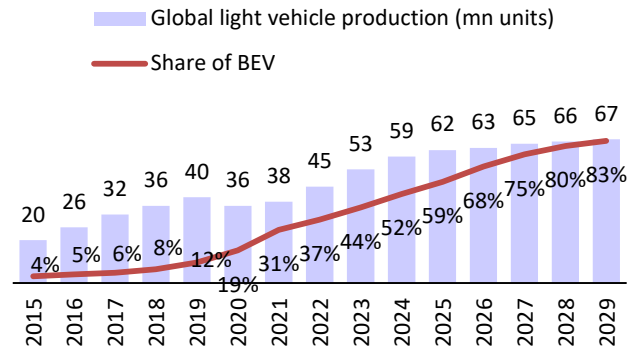
Story in charts

Exhibit 1: Global demand (mt) for Automotive aluminum FRP to stay strong



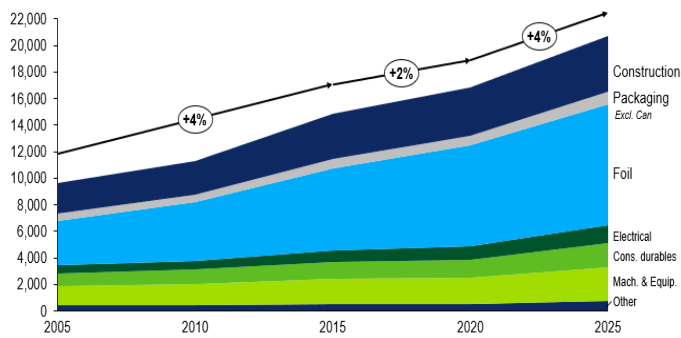
Source: MOFSL, Company

Exhibit 2: Light-weighting of vehicles to drive aluminum growth



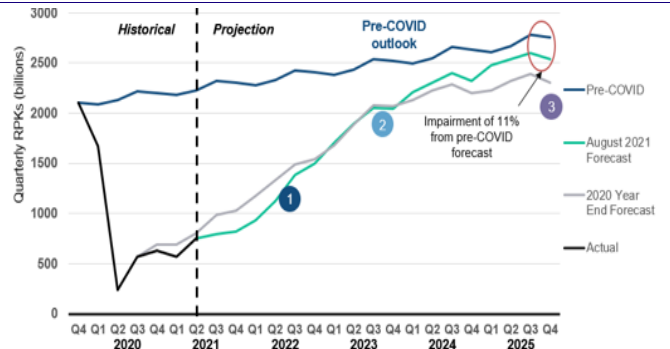
Source: MOFSL, Company

Exhibit 3: Global specialties market to stay buoyant



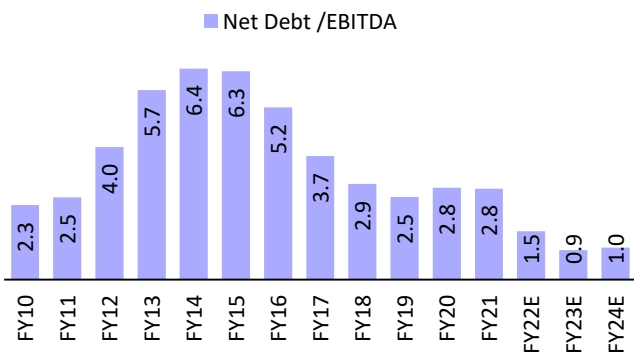
Source: MOFSL, Company

Exhibit 4: Aerospace demand to return once the COVID-19 pandemic ends



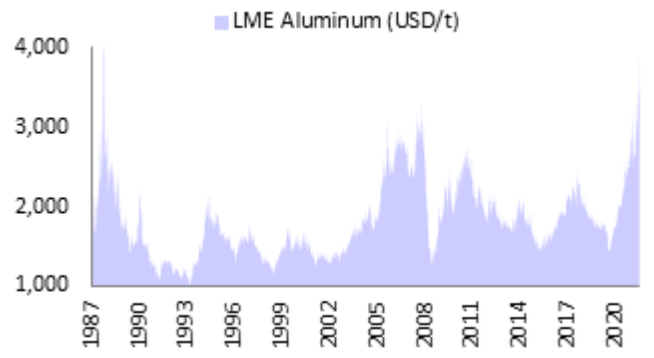
Source: MOFSL, Company

Exhibit 5: Net debt/EBITDA ratio at historic lows, driving capex



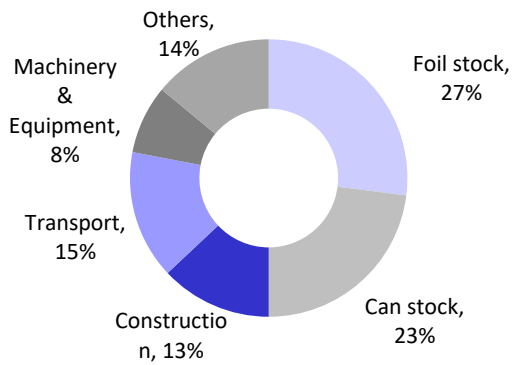
Source: MOFSL, Company

Exhibit 6: Aluminum prices at a multi-year high on the LME



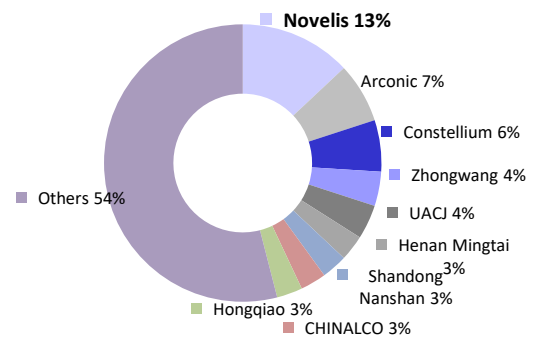
Source: MOFSL, Company

Exhibit 7: Global FRP aluminum consumption at 30mt (CY21)



Source: MOFSL, Company

Exhibit 8: Global FRP aluminum production at 30mt (CY21)

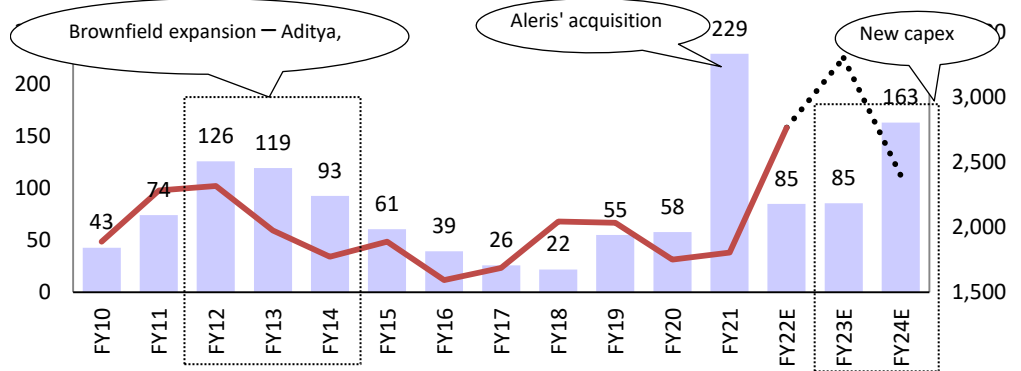


Source: MOFSL, Company

The next round of growth capex to be funded internally

HNDL is all set to embark on the next round of growth capex with a strong Balance Sheet. Historically, it acquired capacities or expanded organically during times of strong LME prices.

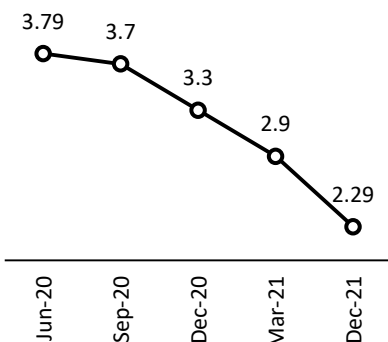
Exhibit 9: Historical capex and investment in strong LME prices environment



Source: MOFSL, Company

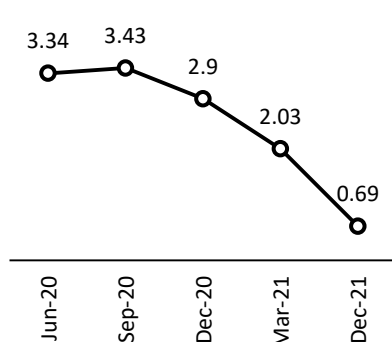
In the last three years, the company reduced its leverage substantially to prepare for the next round of growth capex, given the lack of M&A possibilities after the Aleris acquisition and the related anti-trust issues.

Exhibit 10: Net debt/EBITDA ratio for Novelis



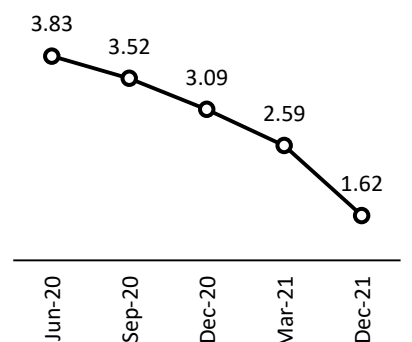
Source: MOFSL, Company

Exhibit 11: Net debt/EBITDA ratio for its India operations

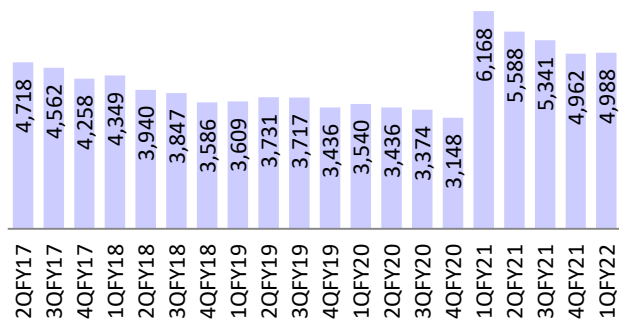


Source: MOFSL, Company

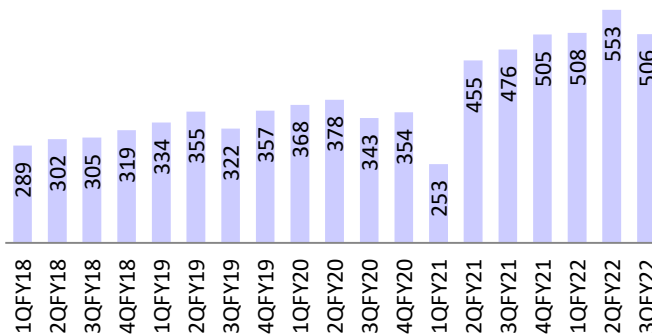
Exhibit 12: Net debt/EBITDA ratio for its consolidated operations



Source: MOFSL, Company

Exhibit 13: Novelis' net debt (USD m) continues to trend downward after the acquisition of Aleris...

Source: MOFSL, Company

Exhibit 14: ...while EBITDA (USD m) generation remains strong

Source: MOFSL, Company

Large part of the capex is still under evaluation

Out of the USD7.9b of announced capex, projects worth USD5.6b are still under evaluation. All of these projects will be implemented, provided aluminum prices on the LME remain strong.

Exhibit 15: Novelis' investment by projects (approved and under appraisal)

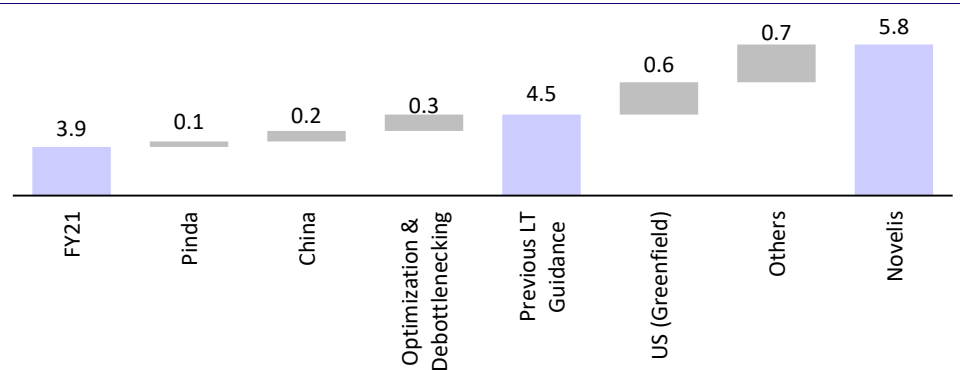
Projects	Location	Capacity addition (ktpa)	Expected completion	Total capex (USD m)
North America				3,025
Hot mill debottlenecking and automotive upgrades	Oswego, US	124	FY24	130
Recycling expansion and upgrades	Greensboro, US	30	FY23	30
State of the art automotive recycling and casting center	Guthrie, US	240	FY26	365
Under appraisal: Fully integrated greenfield rolling and recycling mill	US	600	FY26	2,500
Asia				445-455
Integrated cold mill and closed loop recycling	Zhenjiang, China	200	FY26	375
Recycling and casting center at UAL	UAL, S. Korea	100	FY26	50
Under appraisal: Brownfield rolling capacity	S. Korea	50	FY24	20-30
Europe				300-450
Under appraisal: Brownfield rolling capacity	Germany	200	FY26	200-300
Under appraisal: Brownfield recycling capacity	Germany	150	FY27	100-150
South America				850-1,050
Rolling debottlenecking	Pinda, Brazil	70	FY24	50
Under appraisal: Brownfield rolling and recycling capacity	Brazil	450	FY27	800-1,000
Total				4,500-4,800

Source: MOFSL, Company

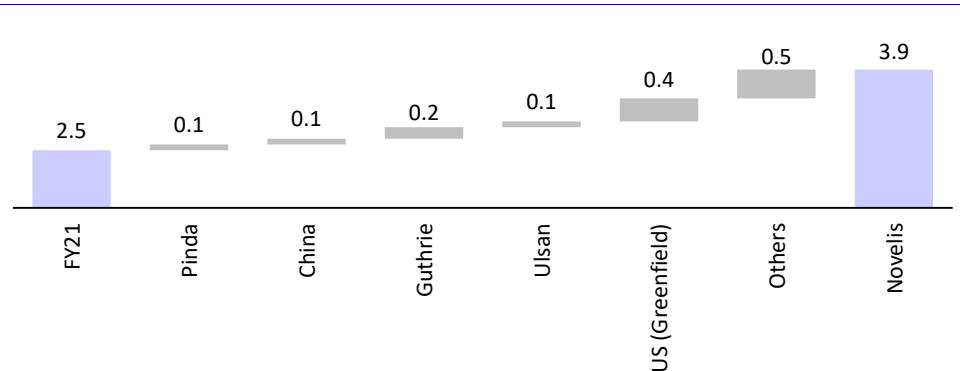
Exhibit 16: India business investments by projects (approved and under appraisal)

Projects	Location	Capacity addition (ktpa)	Expected completion	Total capex (USD m)
Aluminum – upstream				1,710
Alumina expansion (via debottlenecking)	Utkal	350	FY24	40
Under appraisal: Alumina expansion (greenfield)	Odisha	1,000	FY26	850
Brownfield smelter expansion (via debottlenecking)	Aditya/Mahan	50	FY24	135
Under appraisal: Brownfield smelter expansion (with third-party renewable power)	Aditya/Mahan	180	FY26	685
Aluminum – downstream				719
Extrusions	Silvassa	34	FY25	97
FRP – casting and cold rolling	Aditya/Hirakud	170	FY25	400
Coated AC fins (under PLI)	Taloja	26	FY25	50
Under appraisal: Can recycling	Aditya	100	FY27	67
Under appraisal: Battery foil mill	Aditya	24	FY26	105
Copper business				286
Under appraisal: Recycling + e-waste	TBD	100	FY25	220
Inner groove tubes (PLI scheme) and alloy rods	Dahej	25	FY25	66
Specialty alumina				194
Precipitate hydrate and white hydrate	Belagavi	60	FY25	45
Synthetic aggregates (fused and tabular alumina)	Aditya/TBD	90	FY25	55
Under appraisal: Other specialty alumina products and brownfield expansions	Belagavi/TBD	165	FY27	94
Energy				459
Chakla coal mine (For Mahan and Renukoot)	Odisha	4-4.5mtpa	FY25	186
Meenakshi coal mine (For Aditya and Hirakud)	Odisha	10-12mtpa	FY27	273
Total spends in the India business				3,368

Source: MOFSL, Company

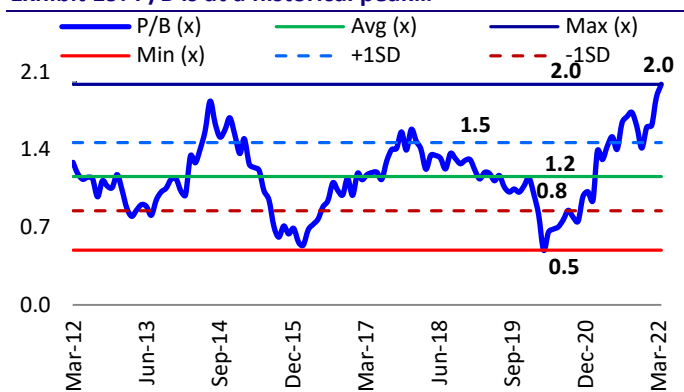
Exhibit 17: Novelis' rolling capacity after expansion (mt)

Source: MOFSL, Company

Exhibit 18: Novelis' recycling capacity after expansion (mt)

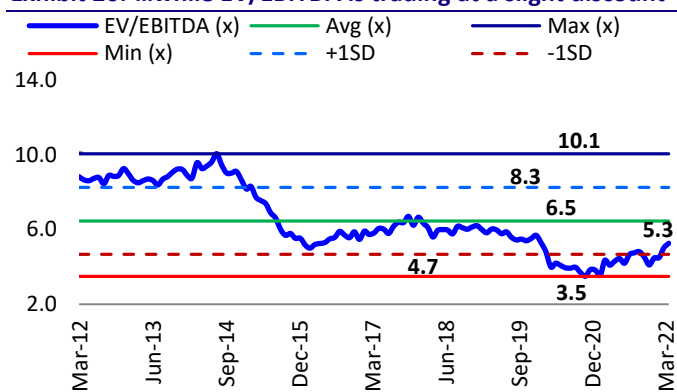
Source: MOFSL, Company

Exhibit 19: P/B is at a historical peak...



Source: MOFSL, Company

Exhibit 20: ...while EV/EBITDA is trading at a slight discount



Source: MOFSL, Company

Exhibit 21: Key assumptions and changes to our estimates

		FY22E			FY23E			FY24E		
		New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
USD:INR	USD:INR	74.6	74.7	-0.1	75.6	76.4	-1.0	76.8	78.3	-1.9
LME Al.	USD/t	2,764	2,753	0.4	3,300	3,000	10.0	2,400	2,400	0.0
Volume										
Aluminum	kt	1,301	1,301	0.0	1,300	1,300	0.0	1,300	1,300	0.0
Copper	kt	410	410	0.0	400	400	0.0	400	400	0.0
Novelis	kt	3,826	3,826	0.0	4,000	4,000	0.0	4,160	4,160	0.0
EBITDA/t										
Aluminum (incl. Utkal)	USD/t	1,335	1,339	-0.3	1,832	1,656	10.6	1,100	1,142	-3.6
Copper	"	443	444	-0.1	425	425	0.0	425	425	0.0
Novelis	"	539	539	0.0	524	524	0.0	514	514	0.0
Consolidated result										
Revenue	INR b	1,959	1,923	1.8	2,238	2,127	5.2	2,213	2,159	2.5
EBITDA	"	291	284	2.4	345	324	6.6	278	288	-3.4
- India	"	137	130	5.4	187	164	14.1	117	124	-5.4
- Novelis	"	154	154	-0.1	158	160	-1.0	164	168	-1.9
Consolidated PAT		135	125	8.0	172	153	12.8	130	136	-4.7
EPS		61	56	8.0	77	69	12.8	58	61	-4.7

Source: MOFSL

Exhibit 22: Valuations remain comfortable

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Consolidated EBITDA (INR b)	124	138	155	142	174	291	345
EBITDA: Hindalco – India (INR b)					48	137	187
EV/EBTIDA (x)							5.0
EBITDA: Novelis (INR b)					125	154	158
EV/EBTIDA (x)							6.0
Target EV (INR b)							1,885
Net debt (INR b)	465	401	388	396	478	425	308
Target equity value (INR b)							1,577
Target equity value (INR/share)							709
Market value of investments (quoted) (INR b)							92
Market value of investments (quoted) (INR/share) at a 10% discount							41
Target price (INR/share)							750

Source: MOFSL

Exhibit 23: Valuation comparison of companies across the globe

Company	M-cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (x)		
		CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23
Hindalco*	17,767	9.9	7.7	10.3	6.0	4.8	5.8	2.4	1.9	1.6	27.1	26.9	16.8
Nalco*	2,828	7.3	5.4	7.6	4.5	3.3	4.6	1.8	1.5	1.4	25.7	30.5	19.0
Alcoa	16,611	8.0	8.6	9.3	3.8	3.9	3.7	2.4	1.8	1.5	43.6	22.9	14.2
Norsk Hydro	21,168	8.3	9.8	11.0	4.8	4.9	5.2	1.9	1.9	1.8	22.9	17.3	15.4
CHALCO	14,668	7.9	8.2	8.2	6.4	5.7	6.6	1.0	0.9	0.8	13.8	12.4	9.5
RUSAL	9,492	2.7	2.7	4.0	3.2	2.7	2.7	0.7	0.6	0.5	27.2	21.1	17.5
Alumina	4,328	11.1	13.2	13.8	10.2	11.3	8.5	2.4	2.5	2.1	21.8	16.9	16.5

Source: MOFSL, Company, *denotes MOFSL estimates

Financials and valuations

Consolidated Income Statement								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	1,002	1,152	1,305	1,181	1,318	1,959	2,238	2,213
Change (%)	1.4	15.0	13.3	-9.5	11.6	48.6	14.3	-1.1
Total Expenses	877	1,014	1,150	1,039	1,144	1,668	1,893	1,935
EBITDA	124	138	155	142	174	291	345	278
As a percentage of Net Sales	12.4	12.0	11.9	12.0	13.2	14.8	15.4	12.6
Depn. and Amortization	45	45	48	51	65	67	69	74
EBIT	80	93	107	91	109	224	276	204
Net Interest	57	39	38	42	37	31	29	26
Other income	11	10	11	12	12	5	6	8
PBT before EO	33	64	81	61	83	197	253	186
EO income/(exp.)	0	18	0	-2	-4	8.33	-9.072	-3.816
PBT after EO	33	82	81	59	79	206	244	182
Current tax	13	16	19	15	19	50	64	45
Deferred tax (net)	1	5	7	6	8	12	16	11
Tax	14	21	26	22	27	62	81	56
Rate (%)	42.9	25.4	32.0	36.4	34.5	30.2	33.1	30.9
Reported PAT	19	61	55	38	52	143	163	126
Minority interests	0	0	0	0	0	0	0	0
Share of asso.	0	-1	0	0	0	0	0	0
Adjusted PAT	19	42	55	39	55	135	172	130
Change (%)	-22.9	120.7	30.6	-29.2	40.7	147.0	27.5	-24.7
Balance Sheet								(INR b)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	2	2	2	2	2	2	2	2
Reserves	458	546	573	581	663	795	946	1,060
Net Worth	461	549	575	583	665	798	949	1,062
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	638	520	524	674	660	612	564	514
Deferred Tax Liability	20	31	37	38	36	48	65	76
Capital Employed	1,118	1,100	1,136	1,295	1,361	1,458	1,577	1,652
Gross Block	1,041	1,083	1,131	1,200	1,343	1,391	1,438	1,438
Less: Accum. Deprn.	365	410	458	509	574	641	710	784
Net Fixed Assets	676	673	673	691	770	750	729	655
Goodwill	171	178	186	201	233	233	233	233
Capital WIP	18	21	41	77	102	141	181	344
Investments	62	69	52	31	77	77	77	77
Working capital Assets	530	530	567	686	706	919	1,080	1,060
Inventory	183	216	222	224	307	456	521	515
Account Receivables	83	100	115	93	130	188	215	212
Cash and Bank Balance	172	120	136	278	182	187	256	245
Others (incl. LT)	92	94	94	90	88	88	88	88
Working capital liability	338	370	383	391	527	662	722	717
Account Payables	179	204	207	183	283	419	478	473
Others (incl. LT)	160	166	175	208	244	244	244	244
Net Working Capital	191	160	185	295	180	257	357	344
Appl. of Funds	1,118	1,100	1,136	1,295	1,361	1,458	1,577	1,652

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	8.6	18.9	24.7	17.5	24.6	60.8	77.5	58.4
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.6	104.4	89.9
BV/Share (adj.)	129.9	166.1	175.0	171.8	194.3	253.8	321.7	372.9
DPS	1.1	1.4	1.2	1.2	3.5	5.0	5.5	5.5
Payout (%)	15.0	8.7	5.7	8.0	16.7	9.6	8.3	11.0
Valuation (x)								
P/E	70.1	31.8	24.3	34.3	24.4	9.9	7.7	10.3
Cash P/E	21.0	12.6	13.0	15.1	11.4	6.3	5.7	6.7
P/BV	4.6	3.6	3.4	3.5	3.1	2.4	1.9	1.6
EV/Sales	1.8	1.5	1.3	1.5	1.4	0.9	0.7	0.7
EV/EBITDA	14.5	12.6	11.1	12.2	10.4	6.0	4.8	5.8
Dividend Yield (%)	0.2	0.2	0.2	0.2	0.6	0.8	0.9	0.9
Return Ratios (%)								
EBITDA Margin (%)	12.4	12.0	11.9	12.0	13.2	14.8	15.4	12.6
Net Profit Margin (%)	1.9	3.7	4.2	3.3	4.1	6.9	7.7	5.9
RoE	7.1	12.8	14.5	10.1	13.4	27.1	26.9	16.8
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.2	18.6	13.1
RoIC (pre-tax)	9.1	10.8	11.9	10.3	11.5	21.8	26.1	19.9
Working Capital Ratios								
Fixed Asset Turnover (x)	1.0	1.1	1.2	1.0	1.0	1.4	1.6	1.5
Asset Turnover (x)	0.9	1.0	1.1	0.9	1.0	1.3	1.4	1.3
Debtor (Days)	30	32	32	29	36	35	35	35
Inventory (Days)	67	69	62	69	85	85	85	85
Payable (Days)	65	65	58	56	78	78	78	78
Leverage Ratio (x)								
Current Ratio	1.6	1.4	1.5	1.8	1.3	1.4	1.5	1.5
Interest Coverage Ratio	1.4	2.4	2.8	2.2	2.9	7.1	9.5	7.9
Debt/Equity ratio	1.6	1.1	1.0	1.0	1.1	0.8	0.4	0.3

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
EBITDA	124	138	155	142	174	291	345	278
EO Exp./ (income)	4	3	0	-3	-3	8	-9	-4
Tax paid	-8	-14	-19	-1	-13	-50	-64	-45
Change in WC	7	-18	-17	-12	14	-72	-32	3
CF from Op. Activity	127	109	120	127	172	177	240	232
(Inc.)/Dec. in FA + CWIP	-29	-30	-60	-68	-56	-85	-85	-163
Free Cash Flow to the firm	97	79	60	59	117	93	154	69
(Pur.)/Sale of Inv. and yield	6	25	7	7	9	5	6	8
Others and M&A	4	8	5	10	-173	0	0	0
CF from Inv. Activity	-20	3	-48	-51	-220	-80	-80	-155
Equity raised/(repaid)	33	0	-1	0	0	0	0	0
Debt raised/(repaid)	-25	-123	-14	109	-10	-50	-50	-50
Interest	-61	-38	-36	-40	-37	-31	-29	-26
Dividend (incl. tax)	-2	-3	-3	-3	-2	-11	-12	-12
CF from Fin. Activity	-56	-164	-55	66	-49	-93	-91	-88
(Inc.)/Dec. in Cash	51	-53	17	142	-96	5	69	-11
Add: Opening Balance	121	172	120	136	278	182	187	256
Closing Balance	172	120	136	278	182	187	256	245

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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