

BSE SENSEX	S&P CNX
54,88	17,214

Estimate change

TP change

Rating change



Bloomberg	HNDL IN
Equity Shares (m)	2,247
M.Cap.(INRb)/(USDb)	950.3 / 12.3
52-Week Range (INR)	636 / 360
1, 6, 12 Rel. Per (%)	-18/3/-8
12M Avg Val (INR M)	5649
Free float (%)	65.4

Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Net Sales	1,318	1,981	2,091
EBITDA	174	287	319
PAT	55	140	158
EPS (INR)	25	63	71
Gr. (%)	40.7	155.9	12.9
BV/Sh (INR)	194	256	317
RoE (%)	13	28	25
RoCE (%)	24	16	17
P/E (x)	24.4	9.5	8.4
P/BV (x)	3.1	2.3	1.9

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	34.6	34.6	34.7
DII	19.2	21.2	20.8
FII	29.2	26.3	25.3
Others	17.0	17.9	19.3

FII Includes depository receipts

CMP: INR423

TP: INR680(+61%)

Buy

Novelis reports subdued but in-line results

Energy crisis and supply chain bottlenecks impact EBITDA adversely

- Novelis reported in-line quarter. Net sales/EBITDA/RPAT for the quarter, at USD4.8b/USD431m/USD215m, stood +12%/-15%/-18% QoQ, respectively. High energy costs in Europe and semiconductor chip shortages in the automotive business impaired profitability during the quarter.
- Shipments for the quarter stood in line at 987kt (up 1% QoQ). EBITDA/t stood at USD437 (down 20% QoQ), in line with our estimate of USD446.
- In FY22, Revenue/EBITDA/RPAT stood at USD17b/ USD2b/USD955m (up 40%/18%/303% YoY), respectively.

Guidance for FY23 is strong, returning to USD500/t+ EBITDA

- Management guided for EBITDA north of USD500/t driven by several factors including: a) improved semiconductor availability, and b) rolling over of new contracts that have a higher margin. The guidance has an upside risk if the Russia-Ukraine conflict subsides.
- With leverage at 2.2x on net debt-to-EBITDA basis, the priority has shifted to growth from debt reduction. Capex guidance for FY23E stands at USD1.3-1.6b, which includes USD300m of maintenance capex.
- Work will start on a Greenfield aluminum hot mill project in the US after a gap of 40 years, which is 600kt at a total outlay of USD2.5b and can be expanded to 900kt later on.

View and valuation

- We maintain our estimates for Novelis. However, we cut our LME aluminum estimate for FY23 to USD2,900/t (implying aluminum at USD2,850/t+ for the remaining of FY23) from USD3,300/t. The reduction in aluminum price is due to non-imposition of ban on aluminum from Russia, which was envisaged earlier.
- Since, Russian aluminum is not banned against previous expectations, the LME aluminum prices corrected through the entire rally – from USD2,700/t to USD4,000/t and now back to ~USD2,700/t.
- Accordingly, we reduce our SoTP-based TP of Hindalco to INR680 from INR745. The stock is trading at 3.9x/4.4x our FY23E/24E EV/EBITDA. The stock trades at 1.3x our FY23 P/B estimates, while offering an attractive RoE of 25%. LME aluminum has corrected 32% from its recent high of USD3,984/t. Hindalco has also corrected 33% over the same period. We believe high input cost inflation, especially thermal coal, will prevent further decline in LME. **Maintain BUY.**

Quarterly performance (USD m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	v/s Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Sales (000 tons)	781	923	933	983	973	968	930	987	3,620	3,858	975	1
Change (YoY %)	-5.9	10.5	17.1	21.2	24.6	4.9	-0.3	0.4	10.6	6.6	-0.8	
Change (QoQ %)	-3.7	18.2	1.1	5.4	-1.0	-0.5	-3.9	6.1			4.8	
Net Sales	2,426	2,978	3,241	3,631	3,855	4,119	4,326	4,849	12,276	17,149	4,831	0
Change (YoY %)	-17.1	4.5	19.4	33.2	58.9	38.3	33.5	33.5	9.4	39.7	33.0	
Change (QoQ %)	-11.0	22.8	8.8	12.0	6.2	6.8	5.0	12.1			11.7	
EBITDA (adjusted)	253	455	476	505	508	553	506	430	1,689	1,997	435	-1
Change (YoY %)	-31.3	20.4	38.8	42.7	100.8	21.5	6.3	-14.9	17.0	18.2	-13.8	
Change (QoQ %)	-28.5	79.8	4.6	6.1	0.6	8.9	-8.5	-15.0			-14.0	
EBITDA per ton (USD)	324	493	510	514	522	571	544	436	467	518	446	-2
Interest	67	69	63	59	56	59	54	54	258	223	34	61
Depreciation	118	141	137	147	134	134	137	145	543	550	143	1
PBT (before EO item)	68	245	276	299	318	360	315	231	888	1,224	259	-11
Extra-ordinary Income	(176)	(214)	(19)	(4)	30	(44)	36	(10)	(413)	12	-	NA
PBT (after EO item)	-108	31	257	295	348	316	351	221	475	1,236	259	-15
Total Tax	-29	68	80	119	108	79	89	5	238	281	78	-94
% Tax	26.9	219.4	31.1	40.3	31.0	25.0	25.4	2.3	50.1	22.7	30.0	NA
Reported PAT	-79	-37	178	176	240	237	262	215	237	955	181	19
Change (YoY %)	-162	-130	66	179	-404	-741	47	22	-44	303	3	
Adjusted PAT	97	177	197	180	210	281	226	227	651	944	181	25
Change (YoY %)	-37.4	-3.3	34.9	2.3	116.5	58.8	14.7	26.1	-1.4	45.0	0.6	
Change (QoQ %)	-44.9	82.5	11.3	-8.6	16.7	33.8	-19.6	0.4			-19.9	

Exhibit 1: Strong EBITDA/t especially in South America

Volumes -Rolled products (kt)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
North America	272	367	347	362	358	375	358	376
Europe	212	240	253	262	268	251	248	274
Asia	184	178	184	199	190	196	167	203
South America	113	148	158	160	157	146	157	156
Elimination	-7	-10	-9	-11	-13	0	-10	-22
Total sales volumes (kt)	774	923	933	972	960	968	920	987

Adj. EBITDA (USD m)

North America	78	205	206	174	172	172	181	105
Europe	20	63	73	104	102	102	71	73
Asia	75	74	78	78	88	88	76	96
South America	76	112	129	132	146	193	178	156

Adj. EBITDA per ton (USD)

North America	287	559	594	481	480	459	506	279
Europe	94	263	289	397	381	406	286	266
Asia	408	416	424	392	463	449	455	473
South America	673	757	816	825	930	1,322	1,134	1,000

Source: MOFSL, Company

Conference call takeaways

Outlook

- 1QFY23 Adj. EBITDA per ton guided to be 'over USD500', notwithstanding the cost challenges. This is not considering the record high aluminum prices but factoring in a more normalized price level.
- There is an upside risk to the above guidance, and the guidance will be revised as the concerns around semiconductor shortages and Russia-Ukraine crisis settle down and the contracts are renewed. Most of the contracts are due to be reset in FY24E and beyond.

End-market outlook: market demand growth in CY22

- **Beverage cans (~5% growth):** Management highlighted that it sees increased volumes in all the regions and the demand is driven by ongoing 'at-home' consumption trend and shift of beverage packaging preferences towards sustainable options. Significant can-maker capacity expansions were announced across all regions.
- **Automotive (~10% growth):** Underlying demand remains strong, driven by new program adoption and increased consumer preference for SUVs, pick-up trucks, electric and premium vehicles. Semiconductor shortages, supply chain issues pursuant to lockdowns in China and Russia-Ukraine conflict continue to weigh on the auto build rates in 2022.
- **Specialty (~4% growth):** Favorable housing fundamentals in the US and Europe are driving strong B&C demand across markets, including electronics, container and painted products.
- **Aerospace (~30% growth):** Consumer air travel and order bookings are likely to improve towards pre-COVID levels by the end of the year.

Future growth/capex plans

- FY23E capex is pegged at USD1.3-1.6b, including ~USD300m for maintenance capex.
- The company has embarked on a five-year organic growth plan, which will entail USD3.4b of strategic capex. This was already announced and will be fully funded by internal accruals.
- First Greenfield facility in the US was announced with an initial FRP capacity of 600kt with focus on can products (but has the flexibility for automotive and specialty production). This will be complete in FY26E with a capex of USD2.5b and return of mid-teens is expected from the project. Contracts of only ~50% of initial capacity are in place, which are secured to capture the potential demand and higher pricing.
- The company is on track to increase its UBC recycling capacity to 90b units p.a. from 74b units p.a. at present.

Industry Demand-Supply

- North American can sheet market deficit expected to grow to >500kt by 2030 (from 300kt in 2022).

Costs

- Inflation, including significant energy cost increase largely at German plants due to the Russia-Ukraine conflict. Energy inflation is the headwind that the company will need to navigate.

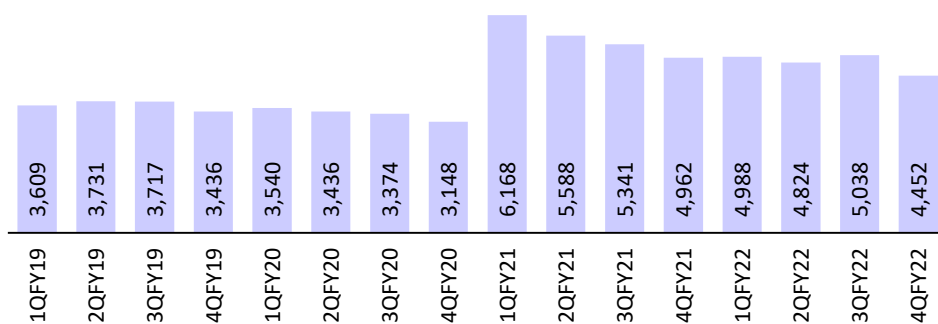
Energy situation

- Energy situation in Europe will continue to be challenging until the Russia-Ukraine conflict ends. Energy costs have gone up 2.5-3 times, but the company had taken up some hedges. Open market position is ~25% of total requirements. This results in USD15-20m per quarter of impact until the Russia-Ukraine situation is sorted.

Capital allocation/cash flow

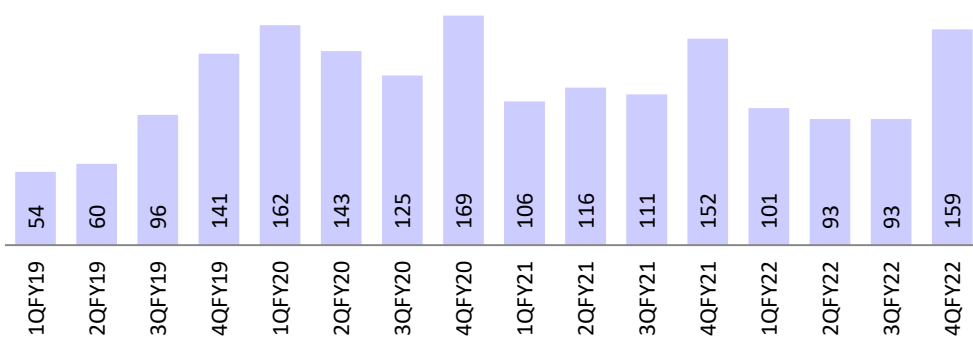
- Capital allocation strategy is now focusing towards growth (*from deleveraging earlier*) and INR4.5-5b will go towards growth. The year 2024 will be the peak capex period when many of the projects will be on stream.
- Novelis has achieved a debt reduction of USD2.6b post the acquisition of Aleris and only a meager debt of USD300m remains. A leverage ratio of sub-2.5x is targeted and there are no plans to add any further debt. Capex needs will be met from internal accruals.
- A decent release of cash (net working capital) would happen as and when the LME prices correct. The real benefit could accrue in 2QFY23E if the prices stay at these levels.

Exhibit 2: Net debt (USD m) continues to trend down after the acquisition of Aleris

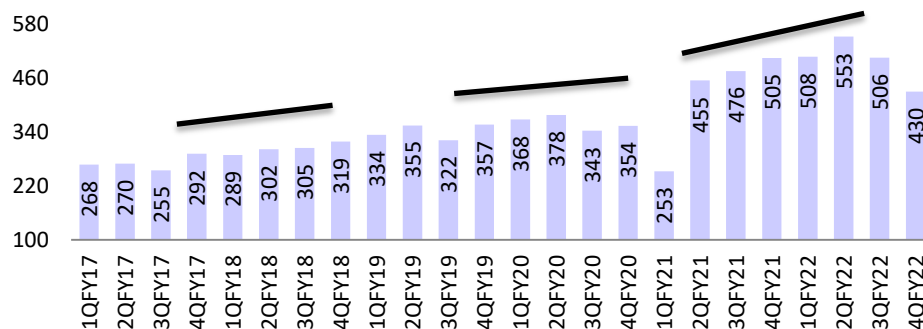


Source: MOFSL, Company

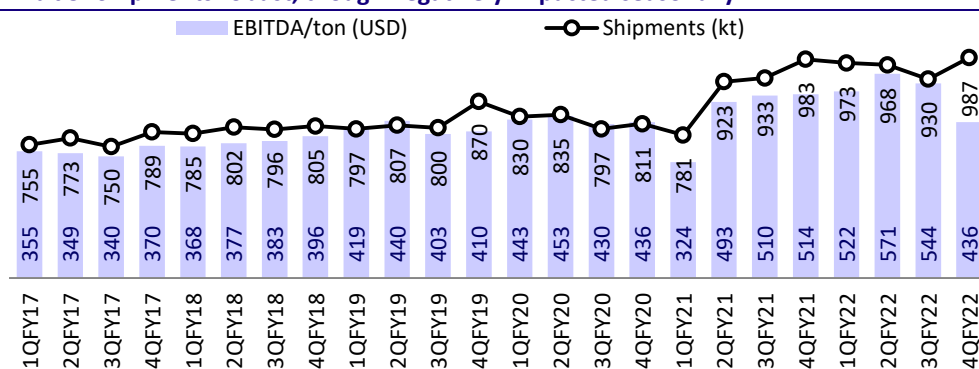
Exhibit 3: Capex (USD m) was lower in 3QFY22 due to COVID-related issues



Source: MOFSL, Company

Exhibit 4: EBITDA (USD m) trajectory structurally strong for Novelis

Source: MOFSL, Company

Exhibit 5: Shipments robust, though negatively impacted seasonally

Source: MOFSL, Company

Exhibit 6: Changes in our key assumptions and key financials

		FY23E			FY24E		
		New	Old	% change	New	Old	% change
INR/USD	INR/USD	75.6	75.6	0.0	76.8	76.8	0.0
LME Al.	USD/t	2,900	3,300	-12.1	2,400	2,400	0.0
Volumes							
Aluminium	kt	1,300	1,300	0.0	1,300	1,300	0.0
Copper	kt	400	400	0.0	400	400	0.0
Novelis	kt	4,000	4,000	0.0	4,160	4,160	0.0
EBITDA/t							
Aluminium (incl Utkal)	USD/t	1,564	1,832	-14.6	1,100	1,100	0.0
Copper	"	425	425	0.0	425	425	0.0
Novelis	"	524	524	0.0	514	514	0.0
Consolidated Results							
Revenue	INR b	2,091	2,238	-6.6	2,085	2,213	-5.8
EBITDA	"	319	346	-7.6	278	278	0.0
- India	"	161	187	-14.1	114	114	0.0
- Novelis	"	158	158	0.0	164	164	0.0
Consol PAT	"	158	175	-9.8	132	132	-0.1
EPS	"	71	79	-9.8	59	59	-0.1

Source: MOFSL

Exhibit 7: SoTP valuation

Y/E March	2023E
Hindalco - India	
Aluminum	
Volumes (kt)	1,300
EBITDA/t (INR)	1,18,244
EBITDA (INR m)	1,53,717
Copper	
Volumes (kt)	400
EBITDA/t (INR)	32,110
EBITDA (INR m)	12,844
EBITDA Hindalco - India (INR m)	1,61,061
EV/EBTIDA (x)	5.0
Target EV	8,05,306
Novelis	
Volumes (kt)	4,000
EBITDA/t (USD)	524
USD/INR	75.6
EBITDA (INR m)	1,58,387
EV/EBTIDA (x)	6.0
Target EV	9,50,319
Target EV - Group	17,55,625
Net Debt	3,13,375
Equity Value	14,42,251
A. INR/share(EQ)	648
Investments (quoted)	78,081
B. INR/share (investments) (net of Holdco Discount of 10%)	32
Target Price	680

Exhibit 8: Consolidated EBITDA sensitivity on LME/FX (INR b)

EBITDA (INR b)	Spot LME Ali		Base Case			
	319	2,700	2,800	2,900	3,000	3,100
FX	73.6	293	299	306	312	319
	74.6	300	306	313	319	326
	75.6	306	313	319	326	333
	76.6	313	320	326	333	340
	77.6	320	326	333	340	347

Source: MOFSL

Exhibit 9: TP sensitivity on LME/FX (INR/sh)

Target Price	Spot LME Ali		Base Case			
	680	2,700	2,800	2,900	3,000	3,100
FX	73.6	615	630	645	660	675
	74.6	635	650	665	680	695
	75.6	650	665	680	695	710
	76.6	665	680	695	710	725
	77.6	685	700	715	730	745

Source: MOFSL

Exhibit 10: EBITDA sensitivity on Novelis EBITDA/t

	-20%	-10%	Base Case	+10%	+20%
	424	471	524	576	634
EBITDA (INR b)	289	304	319	335	353

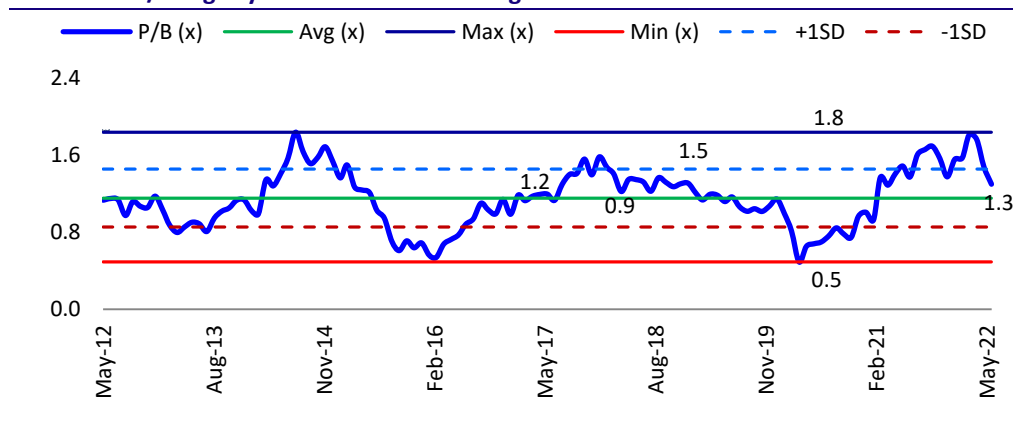
Source: MOFSL

Exhibit 11: TP sensitivity on Novelis EBITDA/t

	-20%	-10%	Base Case	+10%	+20%
	424	471	524	576	634
Target Price	590	630	680	730	780

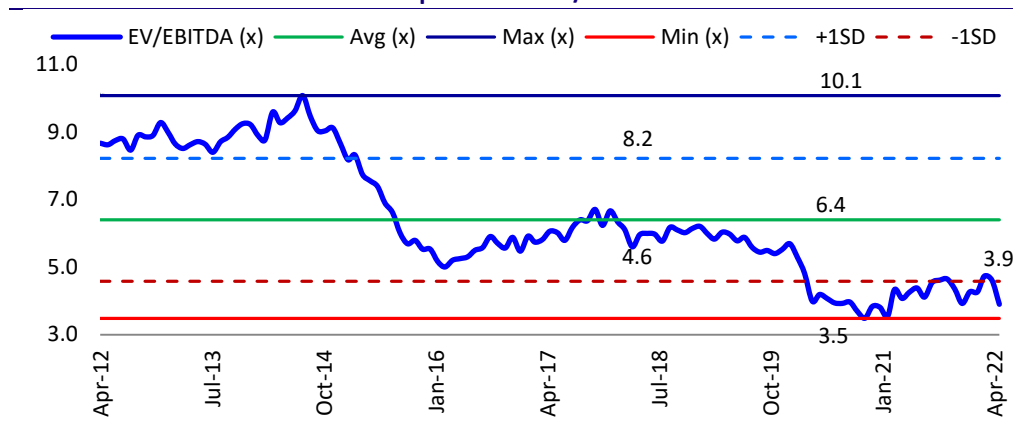
Source: MOFSL

Exhibit 12: P/B slightly above historical averages...



Source: Company, MOFSL

Exhibit 13: ...while the stock is not expensive on EV/EBITDA basis



Source: Company, MOFSL

Exhibit 14: Global comparable valuation

Company	M-Cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
Hindalco*	12,290	6.8	6.0	7.1	4.8	3.9	4.4	1.7	1.3	1.1	27.5	24.9	17.3
Nalco*	2,154	5.7	4.9	6.3	3.4	3.0	3.8	1.4	1.2	1.1	25.4	26.1	18.1
Alcoa	10,807	4.8	5.4	5.9	2.6	2.4	2.6	1.8	1.4	1.2	40.3	23.4	15.3
Norsk Hydro	14,528	5.9	6.7	7.5	3.3	3.6	3.7	1.4	1.4	1.3	25.8	19.9	17.0
CHALCO	10,509	5.9	5.6	5.0	5.8	5.0	4.7	0.7	0.6	0.5	13.0	12.2	11.3
RUSAL	6,755	2.2	2.2	NA	2.4	NA	NA	0.6	0.5	NA	29.2	24.3	NA
Alumina	3,351	9.0	9.8	10.4	7.7	8.5	7.2	1.9	1.9	1.9	21.3	18.2	17.3

Source: MOFSL, Company, Bloomberg (*) denotes MOFSL estimates

Financials and valuations

Consolidated Income Statement								(INR b)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net sales	1,002	1,152	1,305	1,181	1,318	1,977	2,091	2,085
Change (%)	1.4	15.0	13.3	-9.5	11.6	50.0	5.7	-0.2
Total Expenses	877	1,014	1,150	1,039	1,144	1,691	1,771	1,807
EBITDA	124	138	155	142	174	286	319	278
% of Net Sales	12.4	12.0	11.9	12.0	13.2	14.5	15.3	13.3
Deprn. & Amortization	45	45	48	51	65	63	65	70
EBIT	80	93	107	91	109	223	254	208
Net Interest	57	39	38	42	37	33	29	26
Other income	11	10	11	12	12	4	5	7
PBT before EO	33	64	81	61	83	194	230	189
EO income (exp)	0	18	0	-2	-4	8.33	-9.072	-3.816
PBT after EO	33	82	81	59	79	202	221	185
Current tax	13	16	19	15	19	45	58	46
Deferred tax (net)	1	5	7	6	8	11	14	11
Tax	14	21	26	22	27	56	72	57
Rate (%)	42.9	25.4	32.0	36.4	34.5	27.9	32.7	30.9
Reported PAT	19	61	55	38	52	146	149	128
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	138	158	132
Change (%)	-22.9	120.7	30.6	-29.2	40.7	151.4	14.8	-16.4
Balance Sheet								(INR b)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Share Capital	2	2	2	2	2	2	2	2
Reserves	458	546	573	581	663	798	934	1,050
Net Worth	461	549	575	583	665	800	937	1,053
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	47	62	73
Capital Employed	1,118	1,100	1,136	1,295	1,361	1,460	1,562	1,640
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	637	702	772
Net Fixed Assets	676	673	673	691	770	754	736	666
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	921	1,026	1,009
Inventory	183	216	222	224	307	460	487	486
Account Receivables	83	100	115	93	130	190	200	200
Cash and Bank Balance	172	120	136	278	182	183	251	236
Others (incl. LT)	92	94	94	90	88	88	88	88
Working capital liability	338	370	383	391	527	666	691	690
Account Payables	179	204	207	183	283	423	447	446
Others (incl. LT)	160	166	175	208	244	244	244	244
Net Working Capital	191	160	185	295	180	254	335	319
Appl. of Funds	1,118	1,100	1,136	1,295	1,361	1,460	1,562	1,640

Financials and valuations

Cash Flow Statement						(INR b)		
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
EBITDA	124	138	155	142	174	286	319	278
XO Exp. (income)	4	3	0	-3	-3	8	-9	-4
tax paid	-8	-14	-19	-1	-13	-45	-58	-46
Change in WC	7	-18	-17	-12	14	-74	-13	1
CF from Op. Activity	127	109	120	127	172	175	240	229
(Inc)/Dec in FA + CWIP	-29	-30	-60	-68	-56	-85	-85	-163
Free Cash Flow to firm	97	79	60	59	117	90	154	66
(Pur)/Sale of Inv. & yield	6	25	7	7	9	4	5	7
Others & M&A	4	8	5	10	-173	0	0	0
CF from Inv. Activity	-20	3	-48	-51	-220	-80	-80	-156
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	-33	-29	-26
Dividend (incl. tax)	-2	-3	-3	-3	-2	-11	-12	-12
CF from Fin. Activity	-56	-164	-55	66	-49	-94	-91	-88
(Inc)/Dec in Cash	51	-53	17	142	-96	0	68	-15
Add: Opening Balance	121	172	120	136	278	182	183	251
Closing Balance	172	120	136	278	182	183	251	236
Ratios								
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS	8.6	18.9	24.7	17.5	24.6	61.8	71.0	59.4
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.0	96.2	89.1
BV/Share (adj.)	129.9	166.1	175.0	171.8	194.3	254.9	316.3	368.5
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	9.5	9.1	10.8
Valuation (x)								
P/E	49.4	22.4	17.1	24.2	17.2	6.8	6.0	7.1
Cash P/E	14.8	8.9	9.2	10.6	8.1	4.5	4.4	4.7
P/BV	3.3	2.5	2.4	2.5	2.2	1.7	1.3	1.1
EV/Sales	1.4	1.2	1.0	1.1	1.1	0.7	0.6	0.6
EV/EBITDA	11.3	9.7	8.6	9.4	8.2	4.8	3.9	4.4
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.8	1.2	1.3	1.3
Return Ratios (%)								
EBITDA Margins (%)	12.4	12.0	11.9	12.0	13.2	14.5	15.3	13.3
Net Profit Margins (%)	1.9	3.7	4.2	3.3	4.1	7.0	7.6	6.3
RoE	7.1	12.8	14.5	10.1	13.4	27.5	24.9	17.3
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.1	17.2	13.4
RoIC (pre-tax)	9.1	10.8	11.9	10.3	11.5	21.6	24.1	20.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.0	1.1	1.2	1.0	1.0	1.4	1.5	1.5
Asset Turnover (x)	0.9	1.0	1.1	0.9	1.0	1.4	1.3	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 Cover Ratio	1.4	2.4	2.8	2.2	2.9	6.7	8.7	8.1
Debt/Equity	1.6	1.1	1.0	1.0	1.1	0.8	0.4	0.3

NOTES

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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