

Estimate change

TP change

Rating change



CMP: INR414

TP: INR490 (+18%)

Buy

Strong earnings beat, Novelis raises its FY23 guidance

Motilal Oswal values your support in the Asiamoney Brokers Poll 2022 for India Research, Sales, Corporate Access and Trading team. We [request your ballot](#).



Bloomberg	HNDL IN
Equity Shares (m)	2,247
M.Cap.(INRb)/(USDb)	931 / 11.8
52-Week Range (INR)	636 / 309
1, 6, 12 Rel. Per (%)	11/-18/-16
12M Avg Val (INR M)	5588
Free float (%)	65.4

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	1,951	2,031	1,973
EBITDA	283	240	251
Adj. PAT	136	103	112
EBITDA Margin (%)	15	12	13
Cons. Adj. EPS (INR)	61	46	50
EPS Gr. (%)	149	-24	8
BV/Sh. (INR)	244	283	324

Ratios

Net D:E	0.7	0.5	0.5
RoE (%)	28.0	17.6	16.6
RoCE (%)	16.1	12.0	12.2
Payout (%)	7.6	13.9	12.8

Valuations

P/E (x)	6.9	9.1	8.4
P/BV (x)	1.7	1.5	1.3
EV/EBITDA(x)	4.7	5.3	5.1
Div. Yield (%)	0.9	1.3	1.3
FCF Yield (%)	12.1	11.2	5.0

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	34.6	34.6	34.6
DII	21.5	19.2	20.6
FII	25.1	29.2	25.2
Others	18.8	17.0	19.6

FII Includes depository receipts

Performance at its North American facilities return to normalcy

- Novelis reported a strong 1QFY23, with net sales/adjusted EBITDA/APAT at USD5b/USD561m/USD279m, up 11%/12%/+2% QoQ. With an improvement in semiconductor supplies, its North American performance drove the overall beat in adjusted EBITDA.
- Shipments in 1QFY23 were marginally lower at 962kt (down 3% QoQ, flat on a YoY basis). EBITDA/t stood at USD583 (up 12% YoY and 34% QoQ), higher than our estimate of USD501/t.
- The management highlighted that they have now hedged ~80%/50% of its FY23/FY24 energy needs in Europe, and is currently in a comfortable position to raise its profitability guidance further.
- Net debt, at USD4.5b, was marginally higher (by USD64m) on a QoQ basis. Leverage remains at a comfortable level of 2.2x.

FY23 EBITDA/t guidance raised to USD525/t

- The company raised its FY23 EBITDA/t guidance to USD525/t (from USD500/t in 4QFY22), backed by its strong performance in 1Q. This guidance may be on the conservative side as the implied EBITDA for 9MFY23 works to USD505/t.
- This is on top of USD500/t guidance by the company in 4QFY22. As highlighted by the company in 4QFY22 also, semiconductor availability issues continue to ease. The rolling over to new contracts, at a higher margin, is also helping improve its EBITDA/t profile.
- However, working capital remained elevated with high LME aluminum prices in the quarter. However, management expects working capital release during the rest of the year as LME aluminum has corrected. The working capital release will ensure leverage remains under control and that operating cash flow suffice for its capex.

Valuation and view

- We have marginally raised our FY23 estimates for Novelis, given its strong performance in 1Q. We have reduced our FY23 volume estimate marginally by 1% to 3.96mt (v/s 4mt earlier), but raise our EBITDA/t by 4%, resulting in a 3% improvement in EBITDA to INR165b (v/s INR160b).
- Novelis continues to enjoy a strong leadership position in the secondary aluminum business. With ~58% sales in can sheets, which is a recession-resistant business, and automotive demand recovering, the company is well poised to reap the benefits from its organic expansion.
- Leverage remains in control at 2.2x, with a marginal change in its net debt position. Novelis expects a capex of USD1.3b to be funded mostly through internal accruals, barring some wild swings in costs or prices on the LME.
- We marginally raise our SoTP-based TP for HNDL to INR490 from INR475. The stock is trading at n FY23E/FY24E EV/EBITDA of 5.3x/5.1x. The stock is available at 1.3x FY23E P/B, while offering an attractive RoE of 18%. We **maintain our Buy rating**.

Quarterly performance (USD m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Sales (000 tons)	973	968	930	987	962	1,000	1,000	1,000	3,858	3,962	1,000	-4
Change (YoY %)	24.6	4.9	-0.3	0.4	-1.1	3.3	7.5	1.3	6.6	2.7	2.8	
Change (QoQ %)	-1.0	-0.5	-3.9	6.1	-2.5	4.0	0.0	0.0			1.3	
Net Sales	3,855	4,119	4,326	4,849	5,089	4,178	4,198	4,227	17,149	17,692	4,577	11
Change (YoY %)	58.9	38.3	33.5	33.5	32.0	1.4	-3.0	-12.8	39.7	3.2	18.7	
Change (QoQ %)	6.2	6.8	5.0	12.1	4.9	-17.9	0.5	0.7			-5.6	
EBITDA (adjusted)	508	553	506	430	561	510	519	528	1,997	2,119	501	12
Change (YoY %)	100.8	21.5	6.3	-14.9	10.4	-7.7	2.6	22.7	18.2	6.1	-1.4	
Change (QoQ %)	0.6	8.9	-8.5	-15.0	30.5	-9.0	1.7	1.6			16.5	
EBITDA per ton (USD)	522	571	544	436	583	510	519	528	518	535	501	16
Interest	56	59	54	54	58	48	48	48	223	202	48	21
Depreciation	134	134	137	145	138	138	141	149	550	566	138	0
PBT (before EO item)	318	360	315	231	365	324	330	330	1,224	1,350	315	16
Extra-ordinary Income	30	(44)	36	(10)	28	(30)	(30)	(30)	12	(62)	(30)	NA
PBT (after EO item)	348	316	351	221	393	294	300	300	1,236	1,288	285	38
Total Tax	108	79	89	5	87	88	90	90	281	355	85	2
% Tax	31.0	25.0	25.4	2.3	22.1	30.0	30.0	30.0	22.7	27.6	30.0	
Reported PAT	240	237	262	217	307	206	210	210	955	932	199	54
Change (YoY %)	-404	-741	47	23	28	-13	-20	-3	303	-2	-17	
Adjusted PAT	210	281	226	227	279	236	240	240	944	995	229	22
Change (YoY %)	116.5	58.8	14.7	26.1	32.9	-16.0	6.2	5.8	45.0	5.4	9.2	
Change (QoQ %)	16.7	33.8	-19.6	0.4	22.9	-15.4	1.7	0.0			1.1	

Exhibit 1: Strong EBITDA/t especially in North America after resurgence of automotive performance

Volumes -Rolled products	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
North America	272	367	347	362	358	375	358	376	386
Europe	212	240	253	262	268	251	248	274	272
Asia	184	178	184	199	190	196	167	203	185
South America	113	148	158	160	157	146	157	156	148
Elimination	-7	-10	-9	-11	-13	0	-10	-22	-29
Total third party Shipments	774	923	933	972	960	968	920	987	962
Adj. EBITDA (USD m)									
North America	78	205	206	174	172	172	181	105	227
Europe	20	63	73	104	102	102	71	73	85
Asia	75	74	78	78	88	88	76	96	94
South America	76	112	129	132	146	193	178	156	156
Adj. EBITDA /t (USD/t)									
North America	287	559	594	481	480	459	506	279	588
Europe	94	263	289	397	381	406	286	266	313
Asia	408	416	424	392	463	449	455	473	508
South America	673	757	816	825	930	1,322	1,134	1,000	1,054

Source: MOFSL, Company



Conference call takeaways

Outlook

- The company has raised the FY23 EBITDA/t guidance to USD525/t despite rising costs. This was mainly on account of a strong 1QFY23 performance. The implied EBITDA/t for 9MFY23 works to USD505/t. We have built in EBITDA/t of USD519/t as we believe the EBITDA guidance is conservative given strong performance of the automotive segment in US.
- Strong 1QFY23 profitability was driven by high metal spreads in the quarter, which has now started coming off, hence a slightly conservative guidance by the management.
- The revised guidance is also driven by the fact that the company has hedged about 80% of its power requirements in Europe for FY23 and about 50% for FY24. Hence, it has a higher visibility on costs. It is also reducing or eliminating the supply chain issues faced in 4QFY22 after the launch of Russia-Ukraine war.
- While the company had previously highlighted that a large part of its contracts will get reset from FY24 onwards, we note that it has started re-pricing some of its contracts already in this quarter.
- The company does not expect a very tight scrap market in the US, though it is experiencing little tightening there. It remains comfortably placed in the Asia and EU markets on scrap availability.

End-market outlook: market demand growth in CY22 maintained

- The company highlighted that it remains confident of its demand growth and expects a strong traction in the aerospace business with pent up demand in travel.
- Demand for Beverage cans remain resilient at 5% boosted by improvement in demand for sustainable packaging. We believe the intense summer in Europe, driven by climate change, will lead to a strong beverage can consumption for the company.
- The automotive growth forecast remains stable at 10% with high level of pent up demand and low dealer inventory.
- Strong B&C market will continue to drive the specialty business

Future growth/capex plans

- FY23E capex is pegged at USD1.3-1.6b, including ~USD300m for maintenance capex. The company is now planning the capex more at the lower end of the guidance.
- Novelis is on track for its USD4.5b transformational organic growth journey and there is no change in the plans. This USD4.5b comprises of USD3.4b growth capex and balance maintenance over the next four years.

Others

- Shipments in South Korea were marginally impacted by truckers strike leading to about 6kt lower sales. This is likely to be made up in the next three quarters
- Shipments in EU were marginally impacted as the company had lower heat exchanged shipments.

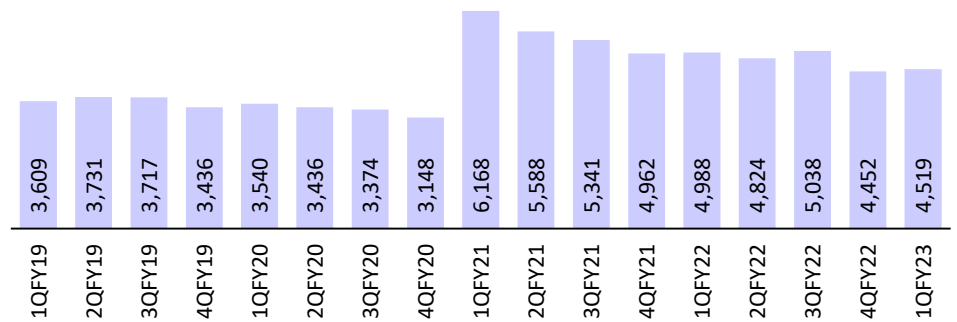
Costs

- Costs remain a concern though the company has hedged its energy costs in Europe.

Capital allocation/cash flow

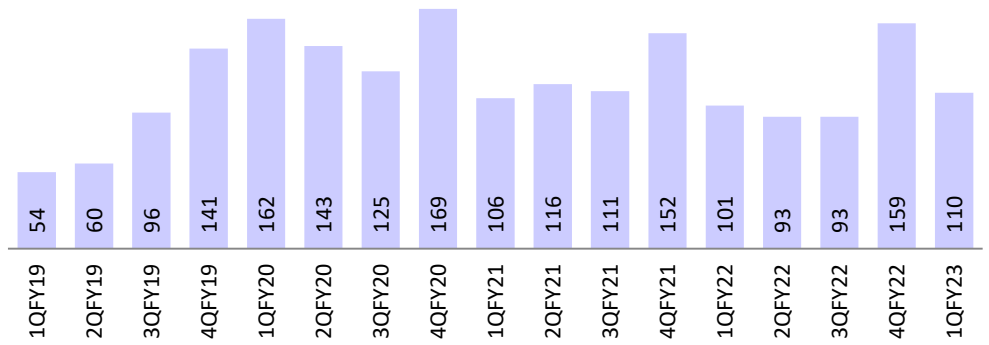
- Novelis expects a strong release of cash (net working capital) in 2QFY23E if the prices stay at current levels.
- The company also mentioned that it remains committed to its plans to return 10% of the profits to the parent as part of its capital allocation plan.

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

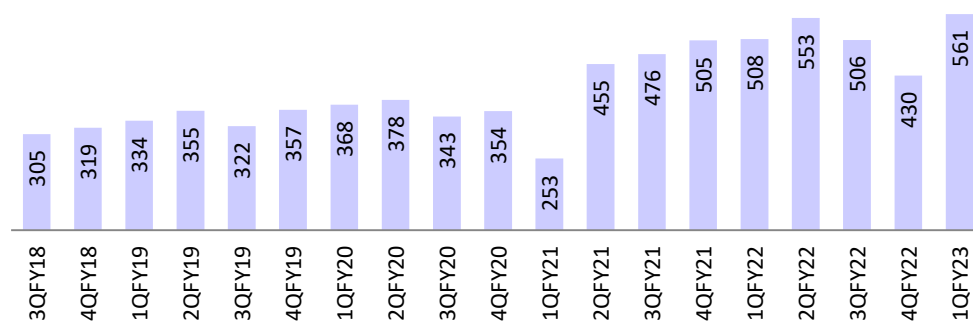


Source: MOFSL, Company

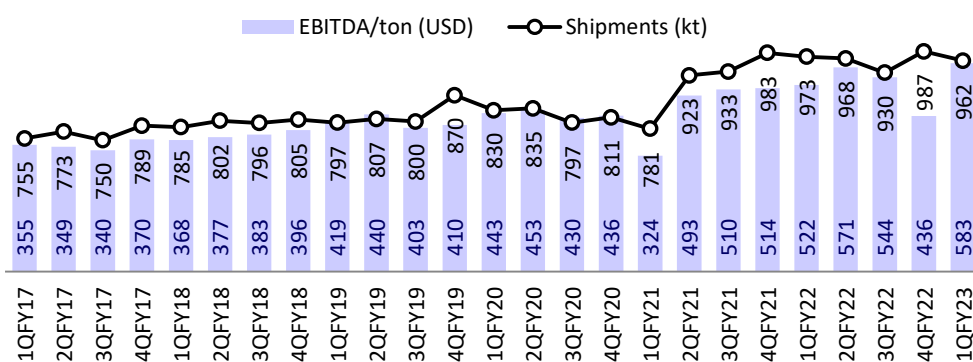
Exhibit 3: Capex (USD m) was lower in 1QFY23 due to delay in equipment supplies



Source: MOFSL, Company

Exhibit 4: Strong EBITDA (USDm) trajectory is strong

Source: MOFSL, Company

Exhibit 5: Shipments down QoQ on several minor issues, but would be made by in FY23

Source: MOFSL, Company

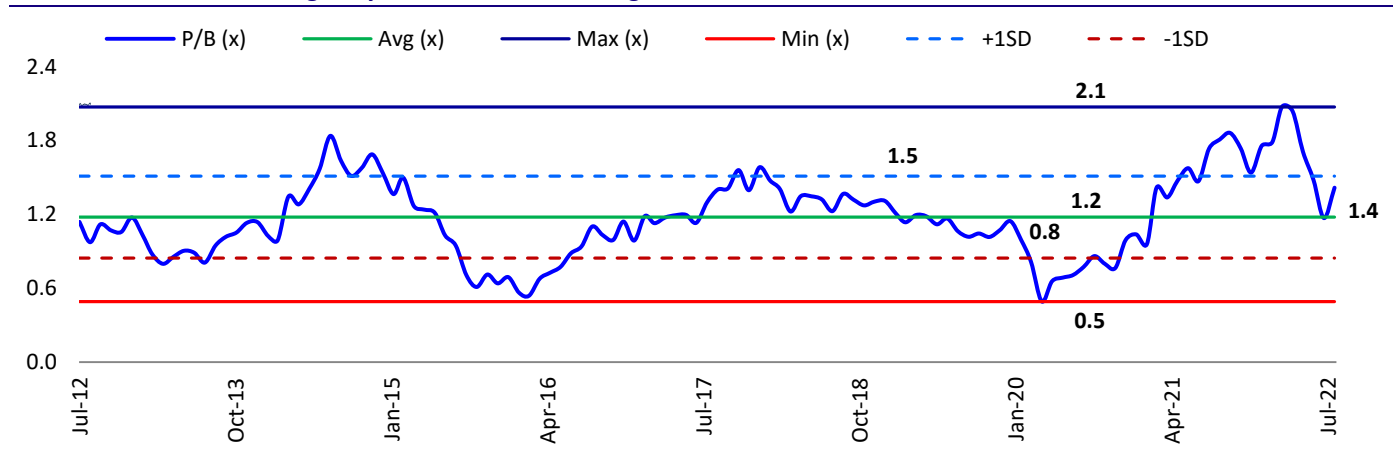
Exhibit 6: Changes in our key assumptions and key financials

		FY23E			FY24E		
		New	Old	% change	New	Old	% change
INR/USD	INR/USD	77.7	77.7	0.0	77.0	77.0	0.0
LME Al.	USD/t	2,581	2,581	0.0	2,400	2,400	0.0
Volumes							
Aluminum	kt	1,300	1,300	0.0	1,300	1,300	0.0
Copper	kt	398	398	0.0	396	396	0.0
Novelis	kt	3,962	4,000	-0.9	4,160	4,160	0.0
EBITDA/t							
Aluminum	USD/t	723	723	0.0	765	765	0.0
Copper	"	431	431	0.0	429	429	0.0
Novelis	"	535	515	3.9	538	537	0.1
Consolidated Results							
Revenue	INR b	2,031	1,992	2.0	1,973	1,973	0.0
EBITDA	"	240	235	2.0	251	251	0.0
- India	"	75	75	0.0	79	79	0.0

Source: MOFSL

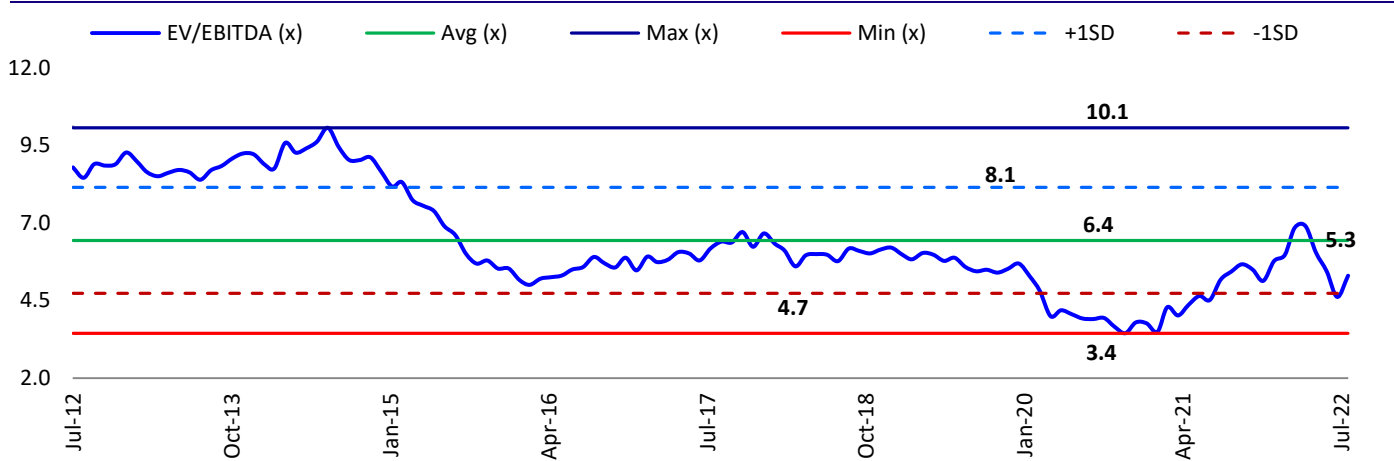
Exhibit 7: SoTP valuation

Y/E March	2023E
Hindalco - India	
Aluminum	
Volumes (kt)	1,300
EBITDA/t (INR)	56,170
EBITDA (INR m)	71,074
Copper	
Volumes (kt)	398
EBITDA/t (INR)	33,435
EBITDA (INR m)	13,307
EBITDA Hindalco - India (INR m)	
	84,381
EV/EBTIDA (x)	5.0
Target EV	4,21,903
Novelis	
Volumes (kt)	3,962
EBITDA/t (USD)	506
USD/INR	77.7
EBITDA (INR b)	1,55,586
EV/EBTIDA (x)	6.0
Target EV	9,33,514
Target EV - Group	13,55,417
Net Debt	3,40,076
Equity Value	10,15,340
A. INR/share(EQ)	457
Investments (quoted)	80,692
B. INR/share (investments) (net of Holdco Discount of 10%)	33
Target Price	490

Exhibit 8: P/B remains marginally above historical averages...

Source: Company, MOFSL

Exhibit 9: ...while the stock is not expensive on EV/EBITDA basis



Source: Company, MOFSL

Exhibit 10: 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*	11,761	6.8	9.3	8.2	4.7	5.4	5.0	1.7	1.5	1.3	28.0	17.1	16.8
Nalco*	1,797	4.8	9.5	5.4	2.3	4.8	3.1	1.1	1.1	1.0	25.4	11.6	19.0
Alcoa	8,651	6.5	6.5	5.8	3.6	3.3	2.6	1.5	1.3	1.1	21.2	15.7	18.0
Norsk Hydro	13,248	5.8	7.5	7.1	3.3	4.0	3.8	1.3	1.2	1.2	23.7	15.0	15.5
CHALCO	9,901	6.3	5.8	4.8	7.2	6.0	5.0	0.6	0.6	0.5	8.9	9.3	11.6
RUSAL	5,980	1.9	2.5	6.6	2.3	3.0	NA	0.5	0.4	0.4	25.3	20.4	11.5
Alumina	3,034	14.9	15.2	12.2	14.8	12.6	10.5	1.7	1.9	1.6	12.3	11.6	13.2

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

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Net sales	1,002	1,152	1,305	1,181	1,318	1,951	2,031	1,973
Change (%)	1.4	15.0	13.3	-9.5	11.6	48.0	4.1	-2.9
Total Expenses	877	1,014	1,150	1,039	1,144	1,667	1,791	1,722
EBITDA	124	138	155	142	174	283	240	251
% of Net Sales	12.4	12.0	11.9	12.0	13.2	14.5	11.8	12.7
Deprn. & Amortization	45	45	48	51	65	67	67	68
EBIT	80	93	107	91	109	216	173	183
Net Interest	57	39	38	42	37	38	31	28
Other income	11	10	11	12	12	11	4	4
PBT before EO	33	64	81	61	83	190	146	160
EO income (exp)	0	18	0	-2	-4	6	-4,8462	-9.24
PBT after EO	33	82	81	59	79	196	141	150
Current tax	13	16	19	15	19	38	34	38
Deferred tax (net)	1	5	7	6	8	16	9	10
Tax	14	21	26	22	27	54	43	48
Rate (%)	42.9	25.4	32.0	36.4	34.5	27.5	30.3	31.9
Reported PAT	19	61	55	38	52	142	98	102
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	136	103	112
Change (%)	-22.9	120.7	30.6	-29.2	40.7	147.8	-24.3	8.2

Balance Sheet

(INR b)

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	2	2	2	2	2	2	2	2
Reserves	458	546	573	581	663	780	866	956
Net Worth	461	549	575	583	665	782	868	958
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	638	520	524	674	660	632	584	534
Deferred Tax Liability	20	31	37	38	36	44	53	62
Capital Employed	1,118	1,100	1,136	1,295	1,361	1,459	1,505	1,555
Gross Block	1,041	1,083	1,131	1,200	1,343	1,470	1,517	1,517
Less: Accum. Deprn.	365	410	458	509	574	641	708	775
Net Fixed Assets	676	673	673	691	770	829	810	742
Goodwill	171	178	186	201	233	240	240	240
Capital WIP	18	21	41	77	102	49	91	254
Investments	62	69	52	31	77	87	87	87
Working capital Assets	530	530	567	686	706	1,014	1,057	998
Inventory	183	216	222	224	307	445	463	450
Account Receivables	83	100	115	93	130	211	219	213
Cash and Bank Balance	172	120	136	278	182	228	244	205
Others (incl. LT)	92	94	94	90	88	130	130	130
Working capital liability	338	370	383	391	527	760	778	765
Account Payables	179	204	207	183	283	442	460	447
Others (incl. LT)	160	166	175	208	244	318	318	318
Net Working Capital	191	160	185	295	180	254	278	233
Appl. of Funds	1,118	1,100	1,136	1,295	1,361	1,459	1,505	1,555

Financials and valuations

Cash Flow Statement							(INR b)	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
EBITDA	124	138	155	142	174	283	240	251
XO Exp. (income)	4	3	0	-3	-3	15	-5	-9
tax paid	-8	-14	-19	-1	-13	-38	-34	-38
Change in WC	7	-18	-17	-12	14	-92	-9	6
CF from Op. Activity	127	109	120	127	172	168	192	210
(Inc)/Dec in FA + CWIP	-29	-30	-60	-68	-56	-54	-87	-163
Free Cash Flow to firm	97	79	60	59	117	114	105	47
(Pur)/Sale of Inv. & yield	6	25	7	7	9	0	4	4
Others & M&A	4	8	5	10	-173	0	0	0
CF from Inv. Activity	-20	3	-48	-51	-220	-55	-83	-159
Equity raised/(repaid)	33	0	-1	0	0	-1	0	0
Debt raised/(repaid)	-25	-123	-14	109	-10	-28	-50	-50
Interest	-61	-38	-36	-40	-37	-33	-31	-28
Dividend (incl. tax)	-2	-3	-3	-3	-2	-7	-12	-12
CF from Fin. Activity	-56	-164	-55	66	-49	-68	-93	-90
	0	0	0	0	0	0	0	0
(Inc)/Dec in Cash	51	-53	17	142	-96	46	16	-39
Add: Opening Balance	121	172	120	136	278	182	228	244
Closing Balance	172	120	136	278	182	228	244	205

Ratios								
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)								
EPS	8.6	18.9	24.7	17.5	24.6	61.3	46.5	50.3
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.3	74.2	76.6
BV/Share (adj.)	129.9	166.1	175.0	171.8	194.3	244.3	283.0	323.6
DPS	1.1	1.4	1.2	1.2	3.5	4.0	5.5	5.5
Payout (%)	15.0	8.7	5.7	8.0	16.7	7.6	13.9	12.8
Valuation (x)								
P/E	49.4	22.4	17.1	24.2	17.2	6.9	9.1	8.4
Cash P/E	14.8	8.9	9.2	10.6	8.1	4.5	5.7	5.5
P/BV	3.3	2.5	2.4	2.5	2.2	1.7	1.5	1.3
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	4.7	5.3	5.1
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.8	0.9	1.3	1.3
Return Ratios (%)								
EBITDA Margins (%)	12.4	12.0	11.9	12.0	13.2	14.5	11.8	12.7
Net Profit Margins (%)	1.9	3.7	4.2	3.3	4.1	7.0	5.1	5.7
RoE	7.1	12.8	14.5	10.1	13.4	28.0	17.6	16.6
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.1	12.0	12.2
RoIC (pre-tax)	9.1	10.8	11.9	10.3	11.5	21.6	15.9	17.5
Working Capital Ratios								
Fixed Asset Turnover (x)	1.0	1.1	1.2	1.0	1.0	1.3	1.3	1.3
Asset Turnover (x)	0.9	1.0	1.1	0.9	1.0	1.3	1.3	1.3
Debtor (Days)	30	32	32	29	36	39	39	39
Inventory (Days)	67	69	62	69	85	83	83	83
Payable (Days)	65	65	58	56	78	83	83	83
Leverage Ratio (x)								
Current Ratio	1.6	1.4	1.5	1.8	1.3	1.3	1.4	1.3
Interest Cover Ratio	1.4	2.4	2.8	2.2	2.9	5.7	5.6	6.6
Debt/Equity	1.6	1.1	1.0	1.0	1.1	0.7	0.5	0.5

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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