

August 11, 2022

## Q1FY23 Result Update

■ Change in Estimates | ☒ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>580</b>		<b>545</b>	
Sales (Rs. m)	20,88,611	19,81,899	20,88,611	19,81,899
% Chng.	-	-	-	-
EBITDA (Rs. m)	2,91,010	2,77,776	2,91,010	2,77,776
% Chng.	-	-	-	-
EPS (Rs.)	56.8	51.5	56.8	51.5
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. bn)	1,320	1,989	2,089	1,982
EBITDA (Rs. bn)	177	279	291	278
Margin (%)	13.4	14.0	13.9	14.0
PAT (Rs. bn)	55	122	126	114
EPS (Rs.)	24.8	54.9	56.8	51.5
Gr. (%)	39.4	121.6	3.5	(9.5)
DPS (Rs.)	3.0	4.0	4.0	4.0
Yield (%)	0.7	0.9	0.9	0.9
RoE (%)	8.8	16.9	15.0	12.0
RoCE (%)	8.5	15.0	14.2	12.2
EV/Sales (x)	1.1	0.7	0.7	0.7
EV/EBITDA (x)	8.2	5.1	4.9	5.0
PE (x)	17.7	8.0	7.7	8.6
P/BV (x)	1.5	1.3	1.1	1.0

### Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.636 / Rs.309
Sensex / Nifty	58,817 / 17,535
Market Cap	Rs.989bn / \$ 12,437m
Shares Outstanding	2,247m
3M Avg. Daily Value	Rs.5575.14m

### Shareholding Pattern (%)

Promoter's	34.95
Foreign	29.85
Domestic Institution	18.22
Public & Others	16.98
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	23.1	(19.6)	3.1
Relative	14.0	(20.1)	(4.7)

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# Hindalco Industries (HNDL IN)

Rating: ACCUMULATE | CMP: Rs440 | TP: Rs580

## High by-product realisations and lower costs led the beat

### Quick Pointers:

- Cost of production (CoP) of Aluminium (AL) to rise by high teens QoQ in Q2
- Margins of India downstream AL operations will expand to US\$275-300/t

**Hindalco (HNDL) reported Q1FY23 EBITDA above our estimates by 19% at Rs38.9bn, down 12% QoQ. The beat was led by lower than expected costs in AL operations and strong by-product realisations in Copper (CU) business.**

**Novelis extended its strong performance with margins touching record high levels of US\$583/t in Q1FY23. Underpinned by strong demand across the segments and tight supplies, company upgraded its sustainable margins guidance by 5% to US\$525/t in the midst of worries regarding inflation and recession. High margins and quantum release of working capital due to fall in AL prices would deliver sound cash flow generation in Novelis in FY23. While, India operation's earnings would be under pressure in near term due to fall in LME and high energy costs. It is expected to recover in Q3Y22 and onwards on back of restoration of coal supplies by Coal India and stable LME. Led by strong outlook on Novelis and bottomed-out earnings in India operations, we maintain Accumulate rating on stock with revised TP of Rs580 (earlier Rs545), EV/EBITDA of 6x FY24e**

- Lower costs in AL and strong by product realisations in CU led the beat:** AL/Copper (CU) sales volumes declined 4%/4% QoQ at 323kt/101kt (PLe:320kt/85kt). Blended AL realisations contracted 5% QoQ to US\$3,688/t, below our estimate of US\$3,800 due to lower premiums. Lower realisations were more than offset by stable costs QoQ against company's guidance of 15% QoQ increase. AL CoP/t increased marginally by 3% QoQ at US\$2,357 against our estimate of US\$2,600/t due to low cost finished good inventory. Led by lower than expected costs, AL's EBITDA came above our estimate at Rs33.2bn (PLe:Rs29.5bn), down 18% QoQ. While CU segment's EBITDA increased 46% QoQ at Rs5.7bn (PLe:Rs3.1bn) on account of strong sulphuric acid realisations and high conversion premiums on gold. PAT declined 15% QoQ at Rs17.6bn (PLe:Rs14.3bn), in line with fall in EBITDA.
- Key takeaways of earnings call: 1)** AL CoP increased 17% QoQ in Q1FY23 **2)** Maintained capex guidance for FY23e at Rs30bn in India operations **3)** AL smelter capacity expansion remains on last priority and maintained their aggressive focus on downstream capacity expansion **4)** All upcoming projects are built-in with hurdle IRR of mid-teens **5)** Downstream AL volumes in Q2 will be higher by 7-10kt as Q1 was impacted due to supply chain bottlenecks **6)** Expects linkage coal's share to increase to 60-65% in Q3FY23 with increase in supplies from Coal India against current 50% **7)** Share of E-auction coal stood at 31% and rest was contributed by imports and captive mines **8)** CU EBITDA would stabilise at Rs4bn/quarter with normalisation in acid realisations **9)** Third party Alumina sales fell 70% QoQ to 65kt **10)** Alumina sales volume target of 450kt for FY23e which includes 150kt in Q2 **11)** Hedging status remained unchanged QoQ with 30% of AL volumes at US\$2,500/t for FY23e

**Exhibit 1: Q1FY23 Result Overview (Rs m)**

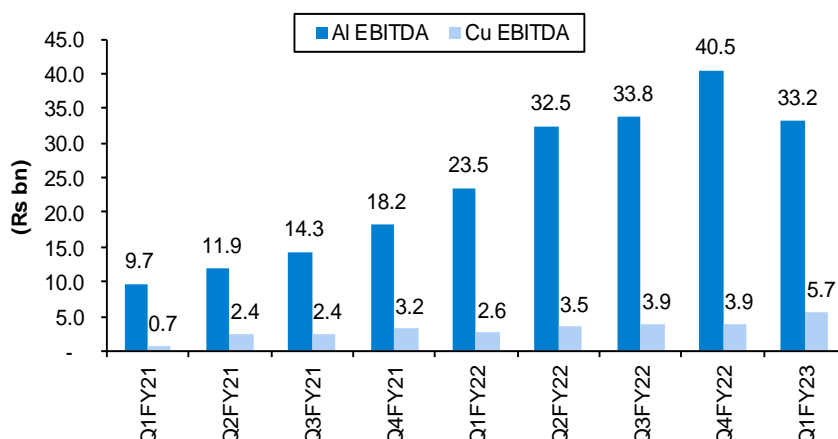
Y/e March	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
<b>Net Sales</b>	<b>1,95,180</b>	<b>1,32,980</b>	<b>46.8</b>	<b>1,89,690</b>	<b>2.9</b>
Raw Material	1,15,040	76,490	50.4	1,11,250	3.4
<i>% of Net Sales</i>	<i>58.9</i>	<i>57.5</i>		<i>58.6</i>	
Staff Costs	5,190	4,880	6.4	5,350	(3.0)
<i>% of Net Sales</i>	<i>2.7</i>	<i>3.7</i>		<i>2.8</i>	
Power & Fuel	25,120	15,200	65.3	19,070	31.7
<i>% of Net Sales</i>	<i>12.9</i>	<i>11.4</i>		<i>10.1</i>	
Other Expenses	20,540	15,430	33.1	21,400	(4.0)
<i>% of Net Sales</i>	<i>10.5</i>	<i>11.6</i>		<i>11.3</i>	
Total Expenditure	1,65,890	1,12,000	48.1	1,57,070	5.6
<b>EBITDA</b>	<b>29,290</b>	<b>20,980</b>	<b>39.6</b>	<b>32,620</b>	<b>(10.2)</b>
<i>Margin (%)</i>	<i>15.0</i>	<i>15.8</i>		<i>17.2</i>	
Depreciation	4,510	4,420	2.0	4,490	0.4
Other income	930	1,010	(7.9)	1,690	(45.0)
<b>EBIT</b>	<b>25,710</b>	<b>17,570</b>	<b>46.3</b>	<b>29,820</b>	<b>(13.8)</b>
Interest	3,330	3,450	(3.5)	3,560	(6.5)
<b>PBT</b>	<b>22,380</b>	<b>14,120</b>	<b>58.5</b>	<b>26,260</b>	<b>(14.8)</b>
Extraordinary income/(expense)	390	(40)		(1,050)	
<b>PBT (After EO)</b>	<b>22,770</b>	<b>14,080</b>	<b>61.7</b>	<b>25,210</b>	<b>(9.7)</b>
Tax	8,290	4,980	66.5	9,200	(9.9)
<i>% PBT</i>	<i>36.4</i>	<i>35.4</i>		<i>36.5</i>	<i>(0.2)</i>
<b>Reported PAT</b>	<b>14,480</b>	<b>9,100</b>	<b>59.1</b>	<b>16,010</b>	<b>(9.6)</b>
<b>Adjusted PAT</b>	<b>14,232</b>	<b>9,126</b>	<b>56.0</b>	<b>16,677</b>	<b>(14.7)</b>

Source: Company, PL

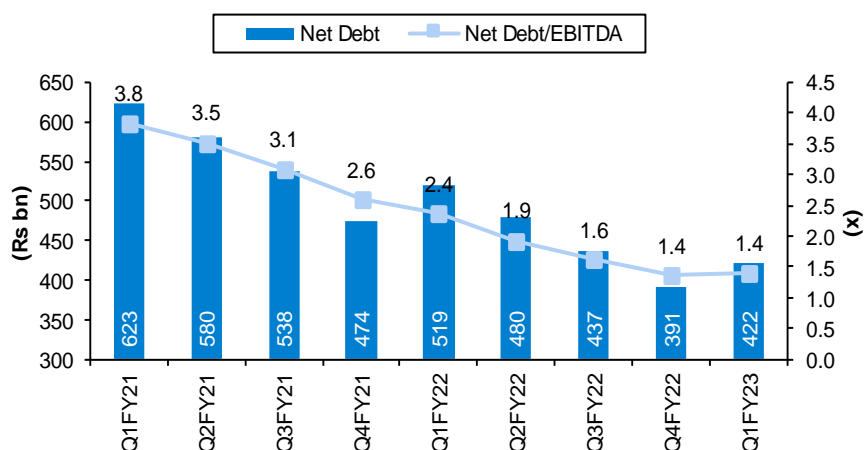
**Exhibit 2: Key Operating Metrics**

	Q1FY23	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)
LME Aluminum average (US\$)	2,875	2,400	19.8	3,270	(12.1)
LME Copper average (US\$)	9,513	9,700	(1.9)	9,985	(4.7)
Rs/US\$	77.3	73.8	4.7	75.2	2.7
<b>Sales volume (tonnes)</b>					
Aluminium	3,23,000	3,03,000	6.6	3,36,000	(3.9)
Copper	1,01,000	80,000	26.3	1,05,000	(3.8)
<b>Segment-wise break-up</b>					
<b>Revenue (Rs mn)</b>					
Aluminum	92,040	62,550	47.1	98,410	(6.5)
Copper	1,05,290	70,940	48.4	97,870	7.6
	<b>1,97,330</b>	<b>1,33,490</b>	<b>47.8</b>	<b>1,96,280</b>	<b>0.5</b>
<b>EBITDA (Rs mn)</b>					
Aluminum (Incl Utkal)					
Copper	33,210	23,520	41.2	40,500	(18.0)
<b>Total EBITDA (Domestic+Utkal)</b>	<b>5,650</b>	<b>2,610</b>	<b>116.5</b>	<b>3,870</b>	<b>46.0</b>

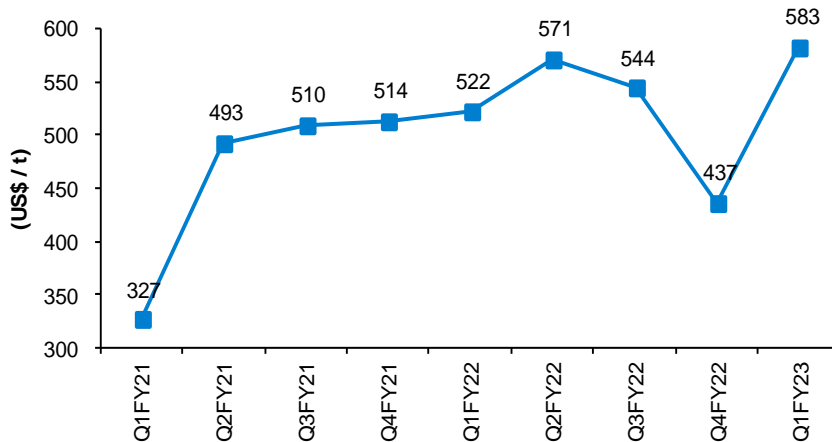
Source: Company, PL

**Exhibit 3: Domestic AL EBITDA fall due to weak LME and higher costs**


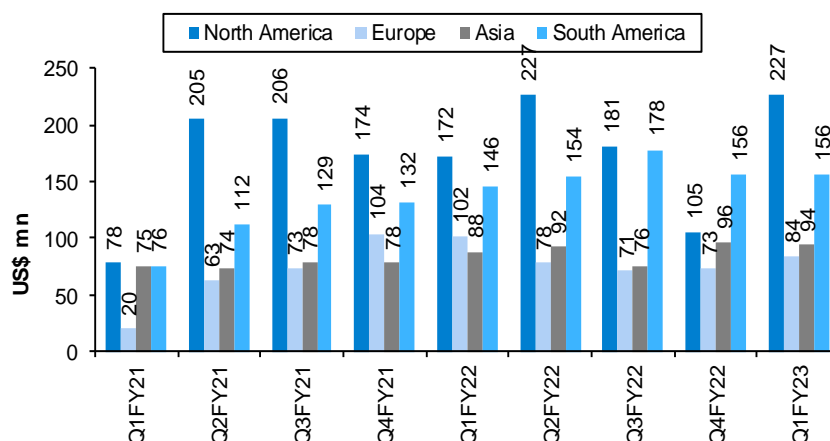
Source: Company, PL

**Exhibit 4: Consol Net Debt increased 8% QoQ to Rs422bn due to higher WC**


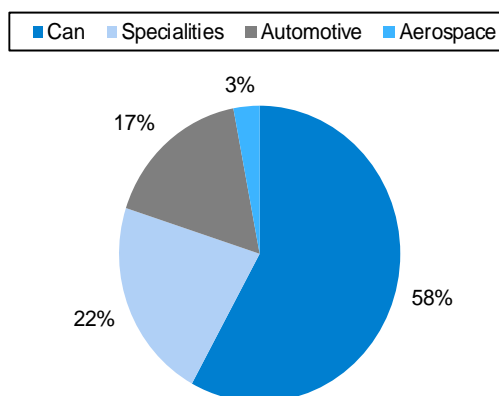
Source: Company, PL

**Exhibit 5: Novelis' EBITDA/t increased to record high levels**


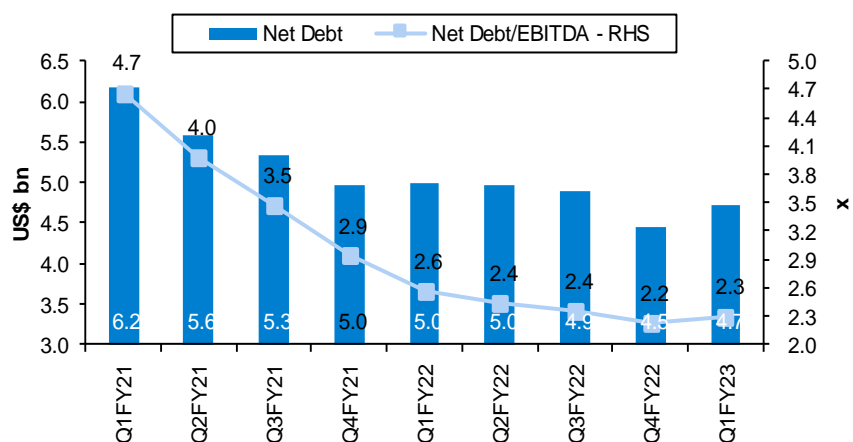
Source: Company, PL

**Exhibit 6: Novelis' EBITDA grew across the regions except Europe**


Source: Company, PL

**Exhibit 7: Novelis' diversified shipment mix**


Source: Company, PL

**Exhibit 8: Novelis' Net Debt increased 6% QoQ to US\$4.7bn due to high WC**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>13,19,850</b>	<b>19,88,648</b>	<b>20,88,611</b>	<b>19,81,899</b>
YoY gr. (%)	11.7	50.7	5.0	(5.1)
Cost of Goods Sold	7,51,450	11,85,936	12,46,960	11,82,116
Gross Profit	5,68,400	8,02,712	8,41,651	7,99,783
Margin (%)	43.1	40.4	40.3	40.4
Employee Cost	1,07,820	1,43,303	1,50,677	1,42,842
Other Expenses	1,34,920	2,30,141	2,41,983	2,29,400
<b>EBITDA</b>	<b>1,76,740</b>	<b>2,79,019</b>	<b>2,91,010</b>	<b>2,77,776</b>
YoY gr. (%)	23.2	57.9	4.3	(4.5)
Margin (%)	13.4	14.0	13.9	14.0
Depreciation and Amortization	67,660	69,501	75,239	79,118
<b>EBIT</b>	<b>1,09,080</b>	<b>2,09,518</b>	<b>2,15,771</b>	<b>1,98,658</b>
Margin (%)	8.3	10.5	10.3	10.0
Net Interest	37,380	35,987	36,684	36,264
Other Income	12,220	9,624	9,634	9,635
<b>Profit Before Tax</b>	<b>79,000</b>	<b>1,83,155</b>	<b>1,88,721</b>	<b>1,72,029</b>
Margin (%)	6.0	9.2	9.0	8.7
Total Tax	27,230	60,090	61,709	57,137
Effective tax rate (%)	34.5	32.8	32.7	33.2
<b>Profit after tax</b>	<b>51,770</b>	<b>1,23,066</b>	<b>1,27,012</b>	<b>1,14,892</b>
Minority interest	-	1,155	858	721
Share Profit from Associate	50	51	52	53
<b>Adjusted PAT</b>	<b>55,044</b>	<b>1,21,962</b>	<b>1,26,205</b>	<b>1,14,224</b>
YoY gr. (%)	39.4	121.6	3.5	(9.5)
Margin (%)	4.2	6.1	6.0	5.8
Extra Ord. Income / (Exp)	(3,224)	-	-	-
<b>Reported PAT</b>	<b>51,820</b>	<b>1,21,962</b>	<b>1,26,205</b>	<b>1,14,224</b>
YoY gr. (%)	37.6	135.4	3.5	(9.5)
Margin (%)	3.9	6.1	6.0	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	51,820	1,21,962	1,26,205	1,14,224
<b>Equity Shares O/s (m)</b>	<b>2,220</b>	<b>2,220</b>	<b>2,220</b>	<b>2,220</b>
<b>EPS (Rs)</b>	<b>24.8</b>	<b>54.9</b>	<b>56.8</b>	<b>51.5</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>13,37,350</b>	<b>14,13,025</b>	<b>15,29,976</b>	<b>15,76,937</b>
Tangibles	13,37,350	14,13,025	15,29,976	15,76,937
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>5,67,830</b>	<b>6,37,331</b>	<b>7,12,570</b>	<b>7,91,688</b>
Tangibles	5,67,830	6,37,331	7,12,570	7,91,688
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>7,69,520</b>	<b>7,75,694</b>	<b>8,17,407</b>	<b>7,85,249</b>
Tangibles	7,69,520	7,75,694	8,17,407	7,85,249
Intangibles	-	-	-	-
Capital Work In Progress	1,05,040	1,02,436	1,76,763	3,18,821
Goodwill	2,33,170	2,33,170	2,33,170	2,33,170
Non-Current Investments	91,310	91,361	91,413	91,466
Net Deferred tax assets	(36,060)	(51,017)	(66,904)	(81,440)
Other Non-Current Assets	12,270	12,270	12,270	12,270
<b>Current Assets</b>				
Investments	94,170	94,170	94,170	94,170
Inventories	3,06,680	4,15,337	3,93,027	3,75,278
Trade receivables	1,30,120	1,88,937	1,90,672	1,78,855
Cash & Bank Balance	88,090	1,46,932	1,49,009	1,62,788
Other Current Assets	29,920	33,229	33,723	33,196
<b>Total Assets</b>	<b>18,96,990</b>	<b>21,29,898</b>	<b>22,28,697</b>	<b>23,22,198</b>
<b>Equity</b>				
Equity Share Capital	2,220	2,220	2,220	2,220
Other Equity	6,63,110	7,78,342	8,95,574	10,00,825
<b>Total Network</b>	<b>6,65,330</b>	<b>7,80,562</b>	<b>8,97,794</b>	<b>10,03,045</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,59,780	6,80,600	6,77,580	6,71,580
Provisions	81,460	81,460	81,460	81,460
Other non current liabilities	15,390	15,390	15,390	15,390
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,82,800	3,63,543	3,31,385	3,10,378
Other current liabilities	1,29,770	1,29,770	1,29,770	1,29,770
<b>Total Equity &amp; Liabilities</b>	<b>18,96,990</b>	<b>21,29,898</b>	<b>22,28,697</b>	<b>23,22,198</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	79,050	1,83,155	1,88,721	1,72,029
Add. Depreciation	66,280	69,501	75,239	79,118
Add. Interest	37,380	35,987	36,684	36,264
Less Financial Other Income	12,220	9,624	9,634	9,635
Add. Other	(5,070)	(9,624)	(9,634)	(9,635)
Op. profit before WC changes	1,77,640	2,79,019	2,91,010	2,77,776
Net Changes-WC	14,040	(89,701)	(12,788)	9,224
Direct tax	(12,560)	(45,132)	(45,823)	(42,600)
<b>Net cash from Op. activities</b>	<b>1,79,120</b>	<b>1,44,185</b>	<b>2,32,398</b>	<b>2,44,400</b>
Capital expenditures	(2,50,410)	(64,925)	(1,27,460)	(1,79,709)
Interest / Dividend Income	-	-	-	-
Others	(28,410)	9,624	9,634	9,635
<b>Net Cash from Invt. activities</b>	<b>(2,78,820)</b>	<b>(55,301)</b>	<b>(1,17,826)</b>	<b>(1,70,074)</b>
Issue of share cap. / premium	50	-	-	-
Debt changes	(8,920)	(6,000)	(6,000)	(6,000)
Dividend paid	(2,220)	(6,730)	(8,973)	(8,973)
Interest paid	(36,780)	(35,987)	(36,684)	(36,264)
Others	(790)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(48,660)</b>	<b>(48,716)</b>	<b>(51,657)</b>	<b>(51,237)</b>
<b>Net change in cash</b>	<b>(1,48,360)</b>	<b>40,168</b>	<b>62,916</b>	<b>23,089</b>
Free Cash Flow	1,23,950	79,260	1,04,938	64,691

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>1,72,900</b>	<b>1,80,960</b>	<b>1,89,690</b>	<b>1,95,180</b>
YoY gr. (%)	81.7	59.4	31.6	46.8
Raw Material Expenses	1,07,130	1,11,040	1,11,250	1,15,040
Gross Profit	65,770	69,920	78,440	80,140
Margin (%)	38.0	38.6	41.4	41.1
<b>EBITDA</b>	<b>31,330</b>	<b>28,020</b>	<b>32,620</b>	<b>29,290</b>
YoY gr. (%)	217.1	143.9	119.5	39.6
Margin (%)	18.1	15.5	17.2	15.0
Depreciation / Depletion	4,240	4,370	4,490	4,510
<b>EBIT</b>	<b>27,090</b>	<b>23,650</b>	<b>28,130</b>	<b>24,780</b>
Margin (%)	15.7	13.1	14.8	12.7
Net Interest	3,430	3,710	3,560	3,330
Other Income	1,630	1,020	1,690	930
<b>Profit before Tax</b>	<b>24,340</b>	<b>20,940</b>	<b>25,210</b>	<b>22,770</b>
Margin (%)	14.1	11.6	13.3	11.7
Total Tax	8,260	7,060	9,200	8,290
Effective tax rate (%)	33.9	33.7	36.5	36.4
<b>Profit after Tax</b>	<b>16,080</b>	<b>13,880</b>	<b>16,010</b>	<b>14,480</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>16,708</b>	<b>13,893</b>	<b>16,677</b>	<b>14,232</b>
YoY gr. (%)	633.2	282.7	247.5	56.0
Margin (%)	9.7	7.7	8.8	7.3
Extra Ord. Income / (Exp)	(628)	(13)	(667)	248
<b>Reported PAT</b>	<b>16,080</b>	<b>13,880</b>	<b>16,010</b>	<b>14,480</b>
YoY gr. (%)	712.1	308.2	223.4	59.1
Margin (%)	9.3	7.7	8.4	7.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>16,080</b>	<b>13,880</b>	<b>16,010</b>	<b>14,480</b>
Avg. Shares O/s (m)	2,229	2,229	2,229	2,229
<b>EPS (Rs)</b>	<b>7.5</b>	<b>6.2</b>	<b>7.5</b>	<b>6.4</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	24.8	54.9	56.8	51.5
CEPS	55.3	86.2	90.7	87.1
BVPS	299.7	351.6	404.4	451.8
FCF	55.8	35.7	47.3	29.1
DPS	3.0	4.0	4.0	4.0
<b>Return Ratio(%)</b>				
RoCE	8.5	15.0	14.2	12.2
ROIC	6.5	12.2	11.4	9.7
RoE	8.8	16.9	15.0	12.0
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.6	0.5	0.4
Net Working Capital (Days)	43	44	44	45
<b>Valuation(x)</b>				
PER	17.7	8.0	7.7	8.6
P/B	1.5	1.3	1.1	1.0
P/CEPS	8.0	5.1	4.9	5.1
EV/EBITDA	8.2	5.1	4.9	5.0
EV/Sales	1.1	0.7	0.7	0.7
Dividend Yield (%)	0.7	0.9	0.9	0.9

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Aluminium (Al) prod (t)	12,28,948	13,02,000	13,06,624	13,19,384
Copper (Cu) prod (t)	2,62,203	3,91,500	4,00,000	4,25,000
LME-Al (USD/t)	1,802	2,495	2,780	2,500
LME-Cu (USD/t)	6,880	9,600	8,500	8,000
EBITDA-Al (Rs m)	54,120	1,17,872	1,27,261	1,12,441
EBITDA-Cu (Rs m)	8,700	11,000	11,000	11,000
Novelis (volumes kt)	3,613	3,841	3,917	3,996
Novelis-EBITDA/t (US\$)	460	530	525	520
Novelis-EBITDA (US\$ mn)	1,662	2,036	2,057	2,078

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-22	Accumulate	545	358
2	27-May-22	Accumulate	545	408
3	23-May-22	Hold	673	428
4	11-Apr-22	Hold	673	582
5	31-Mar-22	Hold	673	600
6	11-Feb-22	BUY	645	547
7	11-Jan-22	BUY	620	493
8	15-Nov-21	BUY	570	469
9	07-Oct-21	BUY	570	478

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	Reduce	2,250	2,160
2	Ambuja Cement	Hold	385	371
3	Coal India	Accumulate	220	190
4	Dalmia Bharat	Accumulate	1,827	1,616
5	Heidelberg Cement India	Reduce	183	181
6	Hindalco Industries	Accumulate	545	358
7	Hindustan Zinc	Reduce	283	263
8	Jindal Steel & Power	Reduce	360	346
9	JK Lakshmi Cement	Accumulate	555	437
10	JSW Steel	Reduce	560	582
11	NMDC	Reduce	120	109
12	Shree Cement	Hold	22,080	20,415
13	Steel Authority of India	Reduce	55	72
14	Tata Steel	Reduce	975	950
15	The Ramco Cements	Reduce	700	752
16	Ultratech Cement	Accumulate	7,180	6,459

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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