

Indian aluminium business CoP likely to fall in Q3FY23

About the stock: Hindalco is the world's largest aluminium company by revenues and a major player in copper.

- Over the years, Hindalco has transformed its business model to reduce dependence on volatile LME price movement and is focusing on a stable portfolio of value added produces
- Novelis has leveraged its extensive recycling footprint and favourable market conditions to increase its recycled content to 61% in FY21

Key Highlights:

- Hindalco's subsidiary Novelis reported a healthy performance in Q1FY23 wherein it reported quarterly adjusted EBITDA/tonne of US\$583/tonne (up 33% QoQ). On the back of a healthy operational performance during Q1FY23, Novelis has upward revised its full year EBITDA/tonne guidance to US\$525/tonne from US\$500/tonne earlier
- During Q1FY23, coal sourcing for Hindalco's India aluminium business was as follows - ~ 50% of the requirement was met through linkage coal, ~ 31% was met through e-auction coal and balance was met through imports and captive mines. For Q2FY23 also, the coal sourcing mix is likely to be similar to Q1FY23. However, from Q3FY23 linkage coal sourcing is likely to increase to ~60-65%. With higher proportion of linkage coal in overall coal sourcing mix, Hindalco's India aluminium business cost of production (CoP) is likely to decline in Q3FY23, thereby auguring well for the company

What should investors do? Hindalco's share price has given a return of 118% in the last two years (from ~₹ 192 in September 2020 to ~₹ 418 in September 2022).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value Hindalco at ₹ 500, based on SoTP valuation.

Key triggers for future price performance:

- For Novelis, we model EBITDA of US\$525/tonne each for both FY23E, FY24E
- We model consolidated EBITDA margin of 12.9% for FY23E and 13.4% for FY24E

Alternate Stock Idea: In our metal sector coverage, we also like RMTL.

- Ratnamani Metals and Tubes (RMTL) is a niche player with superior capabilities in the industrial pipes and tubes segment
- BUY with a target price of ₹ 2000



Particulars

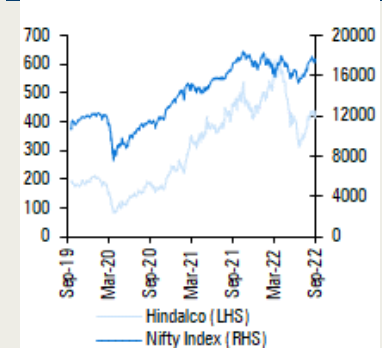
Particulars

Market Capitalization	₹ 93145 crore
Total Debt (FY22)	₹ 63237 crore
Cash and Cash eq. (FY22)	₹ 24141 crore
EV	₹ 132241 crore
52 week H/L (₹)	636 / 309
Equity capital	₹ 222 crore
Face value	₹ 1

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	34.6	34.6	34.6	34.6
Flls	25.5	26.0	28.9	24.8
Dlls	20.6	21.2	19.2	21.5
Public	19.3	18.2	17.3	19.1
Total	100.0	100.0	100.0	100.0

Price Chart



Key risks

- (i) Steep decline in aluminium prices on LME, (ii) Lower-than-expected profitability at Novelis will adversely impact consolidated earnings

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

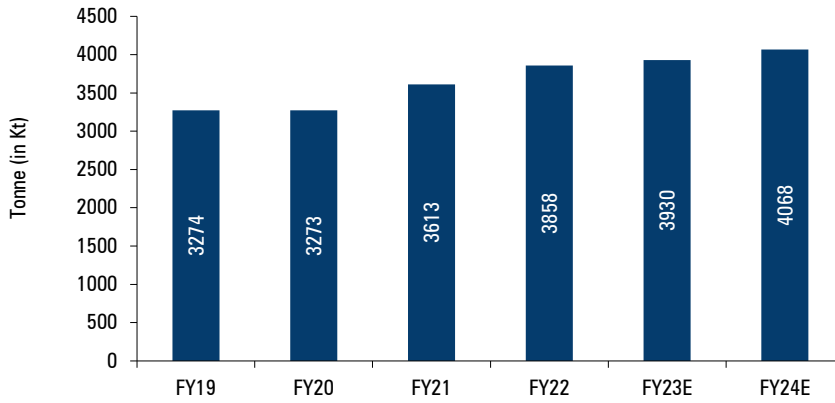
Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22) in %	FY23E	FY24E	CAGR (FY22-FY24E) in %
Net Sales	1,30,542	1,18,144	1,31,985	1,95,059	14.0	2,02,211	2,07,008	3.0
EBITDA	15,511	14,306	17,536	28,347	18.0	26,171	27,713	-1.1
EBITDA Margin (%)	11.9	12.1	13.3	14.5		12.9	13.4	
Adj PAT	5,495	3,767	3,483	13,730	49.0	12,170	13,231	-1.8
EPS (₹)	24.7	16.9	25.5	59.1		54.7	59.5	
EV/EBITDA (x)	8.5	9.3	8.0	4.6		4.7	4.5	
RoCE (%)	10.3	7.8	8.8	15.5		13.7	13.6	
RoE (%)	9.6	6.9	8.5	16.8		13.6	13.1	

Source: Company, ICICI Direct Research

Financial story in charts

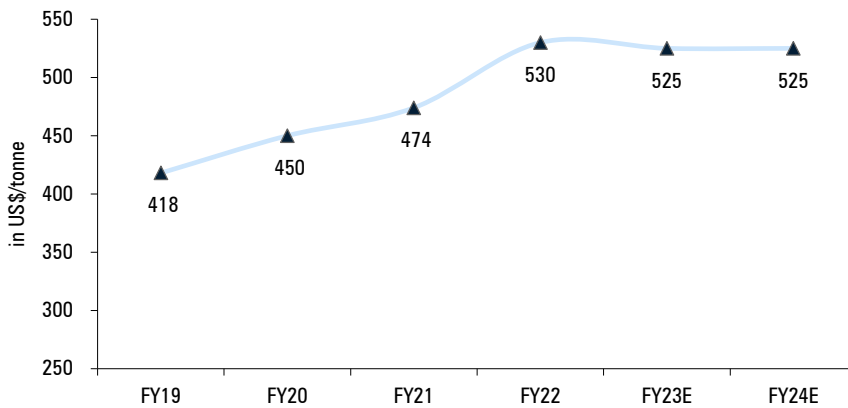
Exhibit 1: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



We model Novelis sales volume (including Aleris sales volume) of 3930 KT for FY23E and 4068 KT for FY24E

Source: Company, ICICI Direct Research

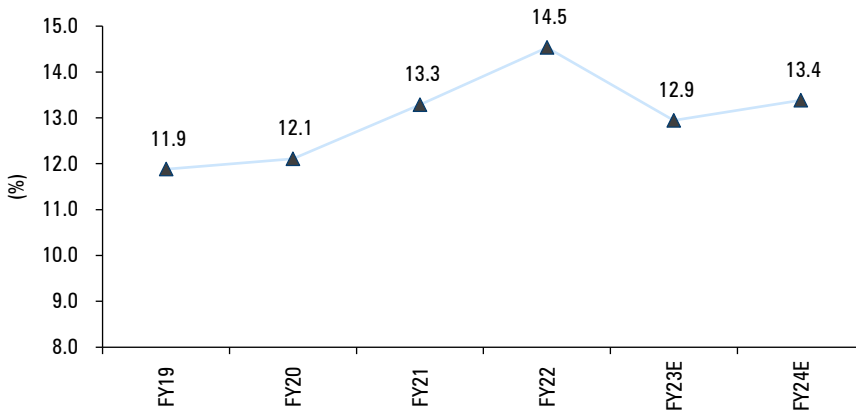
Exhibit 2: Trend in Novelis EBITDA/tonne (in US\$/tonne)



We model Novelis EBITDA/tonne of US\$525/tonne each for both FY23E and FY24E

Source: Company, ICICI Direct Research

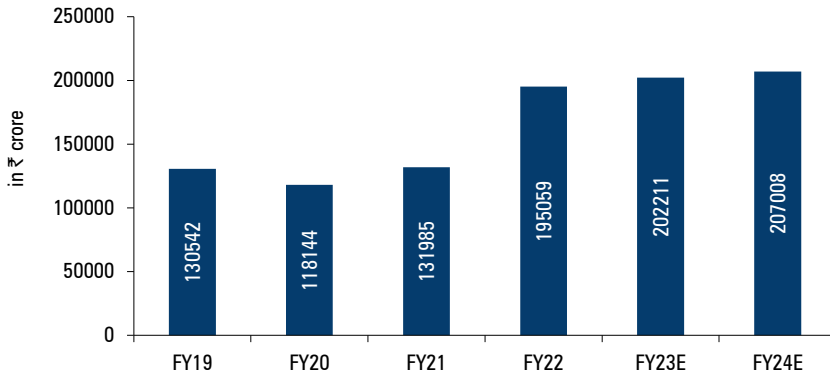
Exhibit 3: Trend in consolidated EBITDA margin (in %)



We expect consolidated EBITDA margin for Hindalco to come in at 12.9% in FY23E and 13.4% in FY24E

Source: Company, ICICI Direct Research

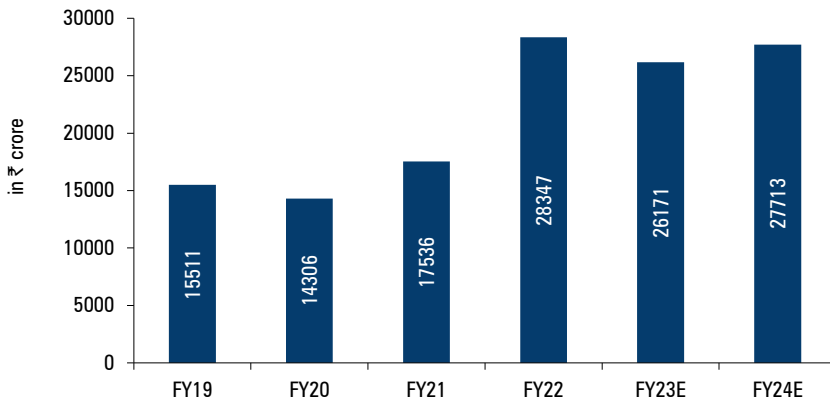
Exhibit 4: Trend in consolidated topline (in ₹ crore)



We expect Hindalco's consolidated topline to grow at a CAGR of 3% during FY22-24E

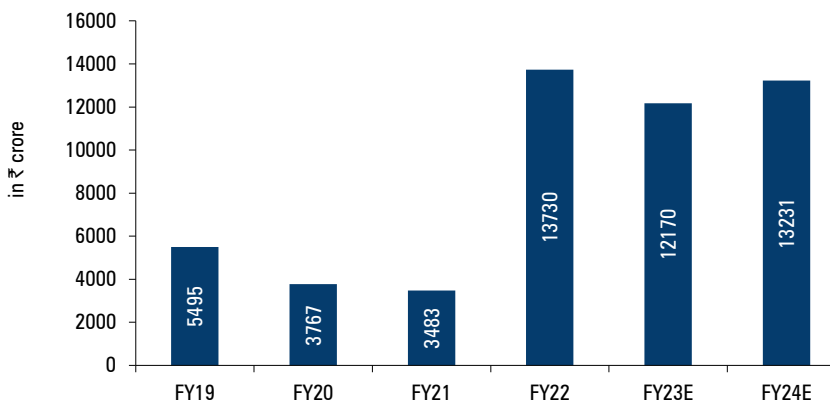
Source: Company, ICICI Direct Research

Exhibit 5: Trend in consolidated EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

Exhibit 6: Trend in consolidated PAT (in ₹ crore)



Source: Company, ICICI Direct Research

Exhibit 7: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	118144	-9	16.9	-31	25	9.3	6.9	7.8
FY21	131985	12	25.5	51	16	8.0	8.5	8.8
FY22	195059	48	59.1	132	7	4.6	16.8	15.5
FY23E	202211	4	54.7	-7	8	4.7	13.6	13.7
FY24E	207008	2	59.5	9	7	4.5	13.1	13.6

Source: Company, ICICI Direct Research

Exhibit 8: SoTP Valuation

Particulars	In ₹ crore	Multiple	In ₹ crore
Novelis EBITDA (FY24E)	16657	5.5	91613
Indian Operation EBITDA (FY24E)	11056	5.0	55279
EV (A) (Novelis + Indian Operations)			146893
Gross Consl. Debt (FY24E)			49997
Cash and Cash Equivalents (Consol) (FY24E) *			14235
Net Debt (FY24E) (B)			35762
Market Capitalisation (A)- (B)			111130
No. of shares			222
Implied Target Price			500
CMP			418
Upside (%)			20%

Source: Company, ICICI Direct Research, * - Liquid Investments valued at a 50% discount.

Financial Summary (Consolidated)

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	131985	195059	202211	207008
Growth (%)	12	48	4	2
Total Operating Expend.	114449	166712	176040	179295
EBITDA	17536	28347	26171	27713
Growth (%)	23	62	-8	6
Depreciation	6628	6729	7373	7689
Interest	3738	3768	2961	2875
Other Income	1222	1136	1176	1217
Exceptional Item	492	-582	0	0
PBT	7900	19568	17012	18366
Total Tax	2723	5373	4849	5142
PAT	5177	14195	12164	13223
Growth (%)	38	174	-14	9
Minorities + loss from discontinue op	-1694	-465	7	8
Rep PAT after Assoc., MI	3483	13730	12170	13231
Adj PAT after Assoc., MI	5674	13148	12170	13231
Growth (%)	40	132	-7	9
EPS (₹)	25.5	59.1	54.7	59.5

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	3483	13730	12170	13231
Add: Depreciation	6628	6729	7373	7689
Add: Interest	3738	3768	2961	2875
(Inc)/dec in Current Assets	-12027	-26731	5014	-3656
Inc/(dec) in CL and Prov.	15413	31802	-10456	-258
CF from operating activities	17235	29298	17063	19881
(Inc)/dec in Investments	-7717	3019	4651	0
(Inc)/dec in Fixed Assets	-20188	-8082	-15000	-15200
Others	355	865	-1482	-35
CF from investing activities	-27550	-4198	-11831	-15235
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1741	-7500	-7500	-1500
Interest Paid	-3738	-3768	-2961	-2875
Dividend paid & dividend tax	-619	-826	-1033	-1239
Inc/(dec) in Share Cap	3654	-4423	0	0
Others	0	0	0	0
CF from financing activities	-2445	-16517	-11494	-5614
Net Cash flow	-12760	8583	-6261	-968
Opening Cash	21569	8809	17392	11131
Closing Cash	8809	17392	11131	10163

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Share Capital	222	222	222	222
Reserve and Surplus	66321	77980	89118	101110
Total Shareholders funds	66543	78202	89340	101332
Total Debt	65994	63235	51497	49997
Deferred Tax Liability	4493	5631	4493	4493
Minority Interest & Others	1551	0	0	0
Total Liabilities	138581	147068	145330	155822
Assets				
Gross Block	135310	148030	155745	166745
Less: Acc Depreciation	58123	64852	72226	79915
Net Block	77187	83178	83519	86830
Goodwill	23317	23965	23965	23965
CWIP	10013	4727	12013	16213
Investments	17087	14068	12595	12595
Inventory	30668	44483	36010	39700
Debtors	13012	21076	22160	22686
Loans and Advances	4046	4033	5924	6362
Other Current Assets	3144	5209	8493	7494
Cash	8809	17392	11131	10163
Total Current Assets	59679	92193	83718	86405
Trade Payables	36439	41382	41550	42536
Provisions & Other Curren Liabilities	14679	32312	30411	29168
Current Liabilities & Prov	51118	73694	71962	71703
Net Current Assets	8561	18499	11756	14702
others	2416	2631	1482	1517
Application of Funds	138581	147068	145330	155822

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	25.5	59.1	54.7	59.5
Cash EPS	55.3	89.4	87.9	94.1
BV	299.2	351.7	401.7	455.7
DPS	3.0	4.0	5.0	6.0
Cash Per Share	39.6	78.2	50.1	45.7
Operating Ratios (%)				
EBITDA Margin	13.3	14.5	12.9	13.4
PBT / Total Operating income	6.0	10.0	8.4	8.9
Adj PAT Margin	4.3	6.7	6.0	6.4
Inventory days	85	83	65	70
Debtor days	36	39	40	40
Creditor days	99	77	75	75
Return Ratios (%)				
Adj RoE	8.5	16.8	13.6	13.1
Adj RoCE	8.8	15.5	13.7	13.6
RoIC	12.5	24.9	22.0	21.6
Valuation Ratios (x)				
P/E	16.4	7.1	7.6	7.0
EV / EBITDA	8.0	4.6	4.7	4.5
EV / Net Sales	1.1	0.7	0.6	0.6
Market Cap / Sales	0.7	0.5	0.5	0.4
Price to Book Value	1.4	1.2	1.0	0.9
Solvency Ratios				
Net Debt/EBITDA	2.7	1.4	1.2	1.4
Debt / Equity	1.0	0.8	0.6	0.5
Current Ratio	1.2	1.3	1.2	1.2
Quick Ratio	0.6	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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