

Steady consolidated performance...

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

- Hindalco is one of Asia's largest producers of primary aluminium
- Novelis has leveraged its extensive recycling footprint and favourable market conditions to increase its recycled content to 61% in FY21

Q2FY23: Hindalco reported steady consolidated performance for Q2FY23.

- For Q2FY23, Hindalco's India business reported topline of ₹ 18963 crore (our estimate: ₹ 17543 crore). Indian aluminium business reported sales volume of 341000 tonnes (our estimate: 335000 tonnes). Indian copper business reported sales volume of 112000 tonnes (our estimate: 105000 tonnes)
- For Q2FY23, Hindalco's Indian Business EBITDA (business segment EBITDA) was at ₹ 2091 (our estimate of ₹ 1782 crore). Hindalco's Indian aluminium business EBITDA was at ₹ 1547 crore (our estimate of ₹ 1350 crore). Hindalco's Indian copper business EBITDA was at ₹ 544 crore, up 54% YoY (our estimate of ₹ 432 crore). Ensuing PAT of Hindalco's India business for Q2FY23 was at ₹ 921 crore
- For Q2FY23 Novelis shipments was at 984 KT, up 2% YoY, broadly in line with our estimate of 985 KT. Adjusted EBITDA/tonne for the quarter was at US\$514/tonne compared to our estimate of US\$525/tonne. EBITDA for the quarter was at US\$506 million (our estimate of US\$517 million)

What should investors do? Hindalco's share price has given a return of 111% in the last two years (from ~₹ 204 in November 2020 to ~₹ 430 in November 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:

- Going forward we assume Novelis to report EBITDA of US\$485/tonne for FY23E and US\$525/tonne for FY24E
- Going forward, we expect Hindalco to report consolidated EBITDA margin of 12.9% for FY23E and 13.1% for FY24E

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

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha.
- BUY with a target price of ₹ 180



Particulars

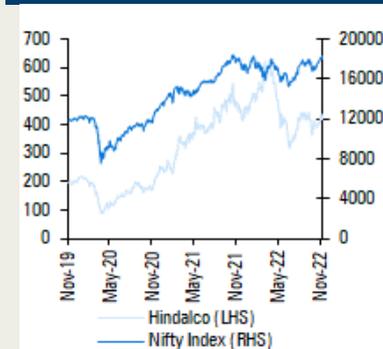
Particulars

Market Capitalization	₹ 96573 crore
Total Debt (Q2FY23)	₹ 61536 crore
Cash and Cash eq. (FY22)	₹ 19473 crore
EV	₹ 138636 crore
52 week H/L (₹)	636 / 309
Equity capital	₹ 222 crore
Face value	₹ 1

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	34.6	34.6	34.6	34.7
Fils	26.0	28.9	24.8	24.9
Dils	21.2	19.2	21.5	26.8
Public	18.2	17.3	19.1	13.7
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

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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	2,03,012	2,07,809	3.2
EBITDA	15,511	14,306	17,536	28,347	18.0	26,248	27,314	-1.8
EBITDA Margin (%)	11.9	12.1	13.3	14.5		12.9	13.1	
Adj PAT	5,495	3,767	3,483	13,730	49.0	12,225	12,944	-2.9
EPS (₹)	24.7	16.9	25.5	59.1		55.0	58.2	
EV/EBITDA (x)	8.7	9.5	8.2	4.7		4.8	4.6	
RoCE (%)	10.3	7.8	8.8	15.5		13.8	13.4	
RoE (%)	9.6	6.9	8.5	16.8		13.7	12.8	

Source: Company, ICICI Direct Research

Key Highlights on conference call and other highlights...

India Business

- The global aluminium supply market is tight with inventories at ~15 years' low
- In terms of hedging, for H2FY23 ~30% of the domestic aluminium volume is hedged at US\$2500/tonne while for FY24 ~5% of domestic aluminium volume is hedged at US\$3000/tonne
- For domestic copper operations, ~₹ 450-500 crore quarterly EBITDA run rate is sustainable. This is on the back of better Tc/Rc margins
- During Q2FY23, in terms of coal mix - ~ 47-48% was from linkage coal, ~30% from e-auction and balance was through the mix of imports, captive mines, etc

Novelis

- The company has indicated that higher energy and logistics costs and unfavourable metal price lag are likely to impact the second half (i.e. H2FY23). On the back of the same, Novelis sees near term cost headwinds to the tune of ~US\$75-125/tonne (especially in Q3FY23). Sustainable EBITDA/tonne guidance remains unchanged at US\$ 525/tonne. EBITDA/tonne is likely to spring back to the guidance level once the re-negotiated contracts takes effect. Annual Contracts will get reset from January 1, 2023 when Novelis will try to cover most of the costs increased. The pass through will start happening from January 2023, with full benefits of pass through visible in next two quarters
- Broke ground in October 2022 on US\$2.5 billion greenfield, fully integrated rolling and recycling plant in Bay Minette, Alabama, expected to be completed in mid-2025
- For FY23, Novelis has trimmed down capex guidance to ~US\$900 million to ~US\$1 billion (from earlier guidance of ~US\$1.3 billion to US\$1.6 billion) in line with cash generations. This is more like pacing of the capex plans

Others

- Consolidated net debt as September 30, 2022 was at ₹ 42063 crore

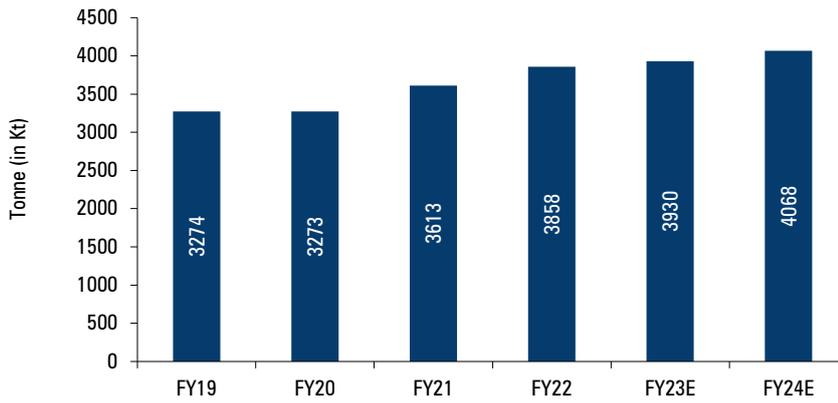
Exhibit 1: Variance Analysis (Hindalco's India business, Novelis volumes, EBITDA/tonne)

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	18,963	17,543	17,393	9 %	19,733	(4)%	Topline came in higher than our estimate
Business Segment EBITDA	2,091	1,782	3,556	(41)%	3,995	(48)%	EBITDA came in higher than our estimate
Aluminium (including Utkal)	1,547	1,350	3,203	(52)%	3,430	(55)%	Indian aluminium business EBITDA came in higher than our estimate
Copper	544	432	353	54 %	565	(4)%	Indian copper business EBITDA came in higher than our estimate
Intersegment (Profit) / loss elimination (net)	437	0	-52	LP	-66	LP	
Unallocable Income / (Expense) net	-244	-125	213	PL	-223	9 %	
EBITDA	2,284	1,657	3,717	(39)%	3,706	(38)%	
Depreciation	609	575	608	0 %	556	10 %	
Finance cost	345	390	378	(9)%	383	(10)%	
Exceptional item	0	0	0	NA	41	LP	
PBT	1,330	692	2,731	(51)%	2,808	(53)%	
Tax Outgo	409	242	913	(55)%	1,022	(60)%	
PAT	921	450	1,818	(49)%	1,786	(48)%	Ensuing India business PAT came in higher than our estimate
Key Metrics							
Total Copper sales (tonne)	112,000	105,000	110,000	2 %	101,000	11 %	Indian copper business sales volume came in higher than our estimate
Total Aluminium sales (tonne)	341,000	335,000	350,000	(3)%	333,000	2 %	Indian aluminium business sales volume came in higher than our estimate
Novelis, Rolled Product Shipments (Kt)	984	985	968	2 %	962	2 %	Novelis sales volume came in broadly in line with our estimate

Source: Company, ICICI Direct Research

Financial story in charts

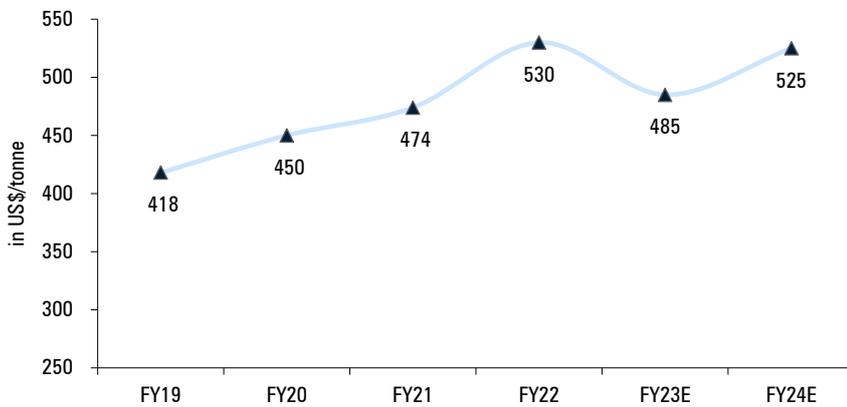
Exhibit 1: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



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

Source: Company, ICICI Direct Research

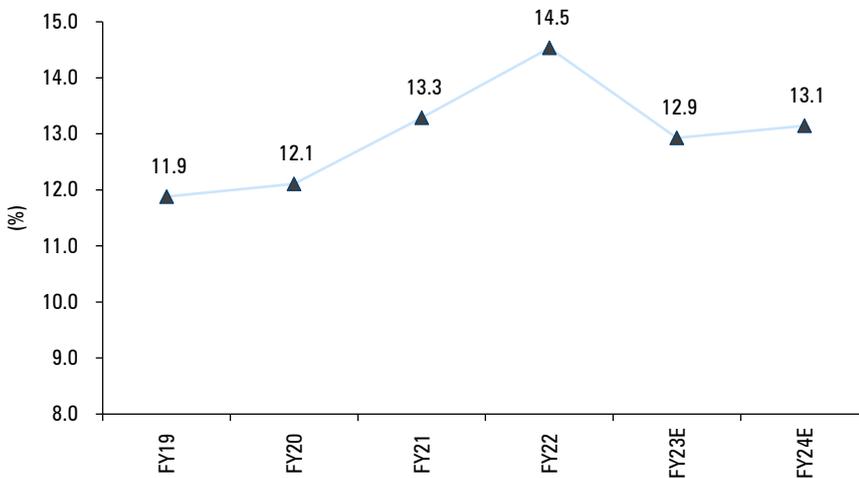
Exhibit 2: Trend in Novelis EBITDA/tonne (in US\$/tonne)



We expect Novelis to report EBITDA/tonne of US\$485/tonne for FY23E, US\$525/tonne for FY24E

Source: Company, ICICI Direct Research

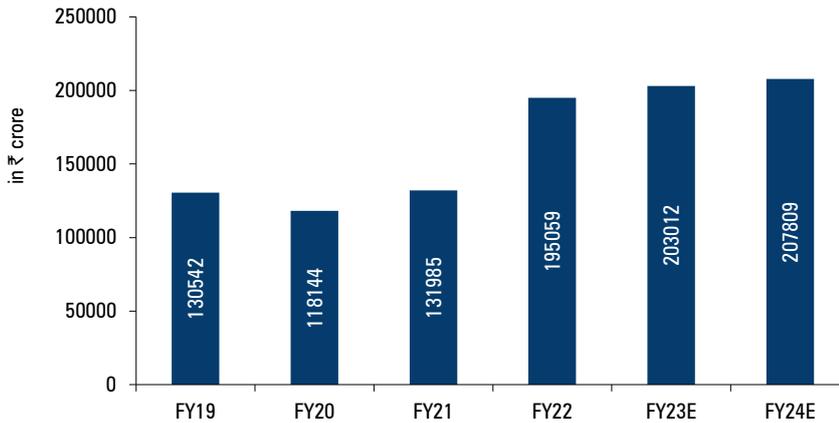
Exhibit 3: Trend in consolidated EBITDA margin (in %)



We expect consolidated EBITDA margin for Hindalco to come in at 12.9% in FY23E and 13.1% in FY24E

Source: Company, ICICI Direct Research

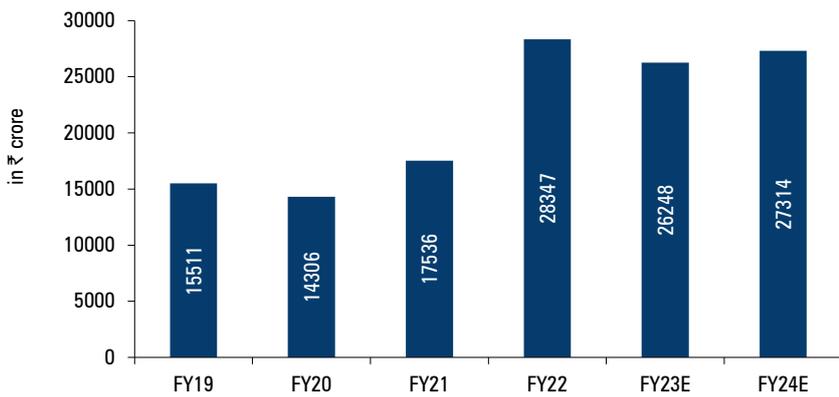
Exhibit 4: Trend in consolidated topline (in ₹ crore)



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

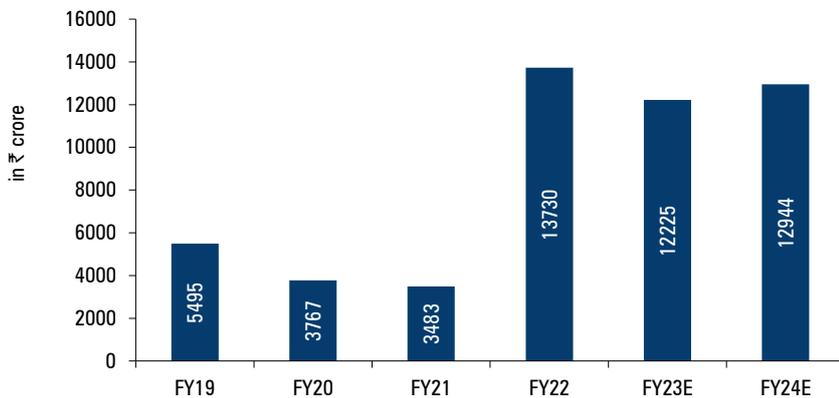
Source: Company, ICICI Direct Research

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	9.5	6.9	7.8
FY21	131985	12	25.5	51	17	8.2	8.5	8.8
FY22	195059	48	59.1	132	7	4.7	16.8	15.5
FY23E	203012	4	55.0	-7	8	4.8	13.7	13.8
FY24E	207809	2	58.2	6	7	4.6	12.8	13.4

Source: Company, ICICI Direct Research

Exhibit 8: SoTP Valuation

Particulars	In ₹ crore	Multiple	In ₹ crore
Novelis EBITDA (FY24E)	17084	5.5	93963
Indian Operation EBITDA (FY24E)	10230	5.0	51149
EV (A) (Novelis + Indian Operations)			145112
Gross Consl. Debt (FY24E)			49997
Cash and Cash Equivalents (Consol) (FY24E) *			16018
Net Debt (FY24E) (B)			33979
Market Capitalisation (A)- (B)			111132
No. of shares			222
Implied Target Price			500
CMP			430
Upside (%)			16%

Source: Company, ICICI Direct Research, * - Liquid Investments valued at a 25% discount.

Financial Summary (Consolidated)

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	131985	195059	203012	207809
Growth (%)	12	48	4	2
Total Operating Expend.	114449	166712	176764	180495
EBITDA	17536	28347	26248	27314
Growth (%)	23	62	-7	4
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	17089	17967
Total Tax	2723	5373	4870	5031
PAT	5177	14195	12219	12936
Growth (%)	38	174	-14	6
Minorities + loss from discontinue op	-1694	-465	7	8
Rep PAT after Assoc., MI	3483	13730	12225	12944
Adj PAT after Assoc., MI	5674	13148	12225	12944
Growth (%)	40	132	-7	6
EPS (₹)	25.5	59.1	55.0	58.2

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	3483	13730	12225	12944
Add: Depreciation	6628	6729	7373	7689
Add: Interest	3738	3768	2961	2875
(Inc)/dec in Current Assets	-12027	-26731	4703	-3666
Inc/(dec) in CL and Prov.	15413	31802	-10213	-258
CF from operating activities	17235	29298	17050	19583
(Inc)/dec in Investments	-7717	3019	4651	0
(Inc)/dec in Fixed Assets	-20188	-8082	-13500	-16500
Others	355	865	-1488	-35
CF from investing activities	-27550	-4198	-10337	-16535
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	-1239	-1239
Inc/(dec) in Share Cap	3654	-4423	0	0
Others	0	0	0	0
CF from financing activities	-2445	-16517	-11700	-5614
Net Cash flow	-12760	8583	-4987	-2566
Opening Cash	21569	8809	17392	12405
Closing Cash	8809	17392	12405	9839

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	88966	100671
Total Shareholders funds	66543	78202	89189	100893
Total Debt	65994	63235	51497	49997
Deferred Tax Liability	4493	5631	4493	4493
Minority Interest & Others	1551	0	0	0
Total Liabilities	138581	147068	145178	155383
Assets				
Gross Block	135310	148030	154245	166545
Less: Acc Depreciation	58123	64852	72226	79915
Net Block	77187	83178	82019	86630
Goodwill	23317	23965	23965	23965
CWIP	10013	4727	12013	16213
Investments	17087	14068	12595	12595
Inventory	30668	44483	36153	39854
Debtors	13012	21076	22248	22774
Loans and Advances	4046	4033	5971	6409
Other Current Assets	3144	5209	8527	7528
Cash	8809	17392	12405	9839
Total Current Assets	59679	92193	85303	86404
Trade Payables	36439	41382	41715	42701
Provisions & Other Curren Liabilities	14679	32312	30490	29246
Current Liabilities & Prov	51118	73694	72204	71946
Net Current Assets	8561	18499	13099	14457
others	2416	2631	1488	1523
Application of Funds	138581	147068	145178	155383

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	55.0	58.2
Cash EPS	55.3	89.4	88.1	92.8
BV	299.2	351.7	401.1	453.7
DPS	3	4	6	6
Cash Per Share	39.6	78.2	55.8	44.2
Operating Ratios (%)				
EBITDA Margin	13.3	14.5	12.9	13.1
PBT / Total Operating income	6.0	10.0	8.4	8.6
Adj PAT Margin	4.3	6.7	6.0	6.2
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	13.7	12.8
Adj RoCE	8.8	15.5	13.8	13.4
RoIC	12.5	24.9	22.4	21.2
Valuation Ratios (x)				
P/E	16.9	7.3	7.8	7.4
EV / EBITDA	8.2	4.7	4.8	4.6
EV / Net Sales	1.1	0.7	0.6	0.6
Market Cap / Sales	0.7	0.5	0.5	0.5
Price to Book Value	1.4	1.2	1.1	0.9
Solvency Ratios				
Net Debt/EBITDA	2.7	1.4	1.1	1.5
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	0.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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