

Estimate change

TP change

Rating change



CMP: INR447

TP: INR600(+34%)

Buy

Revenue in line; EBITDA misses on higher input costs

	HNDL IN
Bloomberg	
Equity Shares (m)	2247
M.Cap.(INRb)/(USD\$b)	1005.1 / 12.1
52-Week Range (INR)	636 / 309
1, 6, 12 Rel. Per (%)	-3/8/-16
12M Avg Val (INR M)	5147
Free float (%)	65.4

Financials & Valuations (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	2,212	2,239	2,273
EBITDA	253	331	343
Adj. PAT	110	161	174
EBITDA Margin (%)	11	15	15
Cons. Adj. EPS (INR)	50	73	78
EPS Gr. (%)	-19	46	8
BV/Sh. (INR)	287	350	418
Ratios			
Net D:E	0.5	0.3	0.2
RoE (%)	18.7	22.8	20.4
RoCE (%)	12.9	16.6	16.4
Payout (%)	13.0	8.9	8.2
Valuations			
P/E (x)	9.0	6.2	5.7
P/BV (x)	1.6	1.3	1.1
EV/EBITDA(x)	5.3	3.8	3.3
Div. Yield (%)	1.2	1.2	1.2
FCF Yield (%)	10.2	12.5	13.3

- Novelis reported a weak financial performance in 3QFY23, missing our estimates. The performance was affected by lower shipments due to beverage packaging destocking and a weak macro scenario.
- Revenue/adj. EBITDA/APAT declined by 12%/32%/39% QoQ to USD4,021m/USD341m/USD145m. Revenue was in line with our estimate, while Adj. EBITDA/APAT significantly missed our estimates of USD427m/USD175m.
- EBITDA was affected by lower volumes, higher operating costs and negative forex impact of USD18m. EBITDA/t at USD376/t (-31% YoY/-26% QoQ) was below our estimate of USD427/t.
- Shipments stood at 908kt (-2% YoY/-8% QoQ), 9% below our estimate of 1,000kt.
- Shipments were down across geographies. Shipments in North America/Europe/Asia/South America stood at 380kt/242kt/141kt/162kt (-2%/ -10%/ -32%/flat QoQ). The 3Q performance was affected by lower demand from the beverage industry, fewer metal benefits, higher inflation, high energy costs, Covid-related shutdowns in Asian countries, unfavorable forex, etc.
- For 9MFY23, revenue stood at USD14,089m (+15% YoY), EBITDA came in USD1,404m (-10% YoY), PAT stood at USD502m (-32% YoY) and APAT came in at USD662m (-8% YoY).
- As indicated by the management during the 2QFY23 call, high energy prices and logistics costs affected 3QFY23 EBITDA/t (at USD135/t). However, the management during the 3Q call has indicated that 4QFY23 EBITDA/t is expected to surpass USD400/t and the company has maintained its long-term target of USD525/t.
- Some of the contracts are reset from 1st Jan'23 and other contracts will be reset from 1st Apr'23 at much higher rates, which will help the company to improve margins and push for higher EBITDA/t of USD 525/t on normalized basis.
- Novelis's profitability was severely affected by an unfavorable metal price lag to the tune of USD109m and destocking by beverage companies to the tune of 60kt.
- The company expects some headwinds for the next couple of quarters; however, we note that these temporary headwinds do not dent the structural margin improvement story of Novelis.
- Net debt for the quarter stood at USD4.7b, marginally higher by USD103m QoQ. Leverage remains at a comfortable level of 2.6x.

EBITDA/t guidance for 4QFY23 stands at USD400/t

- EBITDA was dragged down by a number of factors such as lower shipments due to destocking in the beverage sector, higher energy costs in Europe, the forex impact, an unfavorable metal price lag, etc. Management expects the debottlenecking to continue over the next few quarters; however, its impact will not be as seen in 3QFY23.

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- Though the company might witness some headwinds in the short term, management is confident of achieving EBITDA/t of over USD400/t in 4QFY23.
- Management also highlighted that some of the contracts are reset from 1st Jan'23 and other contracts will be reset from 1st Apr'23 at much higher rates, which will help the company to improve margins and push for higher EBITDA/t of USD 525/t on normalized basis.
- Novelis has hedged about 60% of its energy costs for FY24. Europe is witnessing lower energy prices. Logistics costs too have normalized in recent weeks.

View and valuation

- Management has guided for a substantial release of working capital, which will lead to FCF of USD400m in FY23 v/s a negative FCF of USD170m in 9MFY23.
- Both capex projects at Bay Minette and Guthrie are on track and will be funded through internal accruals. The release of working capital and funding of capex from internal cash generation should improve net debt/EBITDA.
- We note that the stock now fully prices in 1) lower LME aluminum prices, 2) a weak macro economy, 3) recession in Europe, 4) rising inflation reflected in higher input costs and lower premiums. As a result, we believe that Novelis reflects strongly on long-term opportunities rather than focusing on just one quarter of weak operating results.
- We believe the weakness in the stock post the 3Q results should be an opportunity to buy as we remain confident about long-term opportunities for Novelis and its leadership in both beverage can and automotive markets.
- Our SoTP-based TP for Hindalco works out to INR600. The stock is trading at 5.3x/3.8x our FY23E/24E EV/EBITDA and 1.3x FY24E P/B. **Maintain BUY.**

Quarterly performance (USD m)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales (000 tons)	973	968	930	987	962	984	908	975	3,858	3,829	1,000	-9
Change (YoY %)	24.6	4.9	-0.3	0.4	-1.1	1.7	-2.4	-1.2	6.6	-0.8	7.5	
Change (QoQ %)	-1.0	-0.5	-3.9	6.1	-2.5	2.3	-7.7	7.4	0.0	0.0	1.6	
Net Sales	3,855	4,119	4,326	4,849	5,089	4,799	4,201	4,024	17,149	18,113	4,040	4
Change (YoY %)	58.9	38.3	33.5	33.5	32.0	16.5	-2.9	-17.0	39.7	5.6	-6.6	
Change (QoQ %)	6.2	6.8	5.0	12.1	4.9	-5.7	-12.5	-4.2	0.0	0.0	-15.8	
EBITDA (adjusted)	508	553	506	430	561	502	341	420	1,997	1,824	427	-20
Change (YoY %)	100.8	21.5	6.3	-14.9	10.4	-9.2	-32.6	-2.4	18.2	-8.7	-15.7	
Change (QoQ %)	0.6	8.9	-8.5	-15.0	30.5	-10.5	-32.1	23.0	0.0	0.0	-15.0	
EBITDA per ton (USD)	522	571	544	436	583	510	376	430	518	476	427	-12
Interest	56	59	54	54	58	65	69	42	223	234	48	
Depreciation	134	134	137	145	138	134	133	149	550	554	141	
PBT (before EO item)	318	360	315	231	365	303	139	228	1,224	1,035	237	
Extra-ordinary Income	30	(44)	36	(10)	28	(55)	(133)	(30)	12	(190)	(30)	
PBT (after EO item)	348	316	351	221	393	248	6	198	1,236	845	207	
Total Tax	108	79	89	5	87	65	-6	60	281	206	62	
% Tax	31.0	25.0	25.4	2.3	22.1	26.2	NA	30.0	22.7	24.3	30.0	
Reported PAT	240	237	262	217	307	183	12	139	956	641	145	
Change (YoY %)	-404	-741	47	23	28	-23	-95	-36	303	-33	-45	
Adjusted PAT	210	281	226	227	279	238	145	169	944	831	175	-17
Change (YoY %)	116.5	58.8	14.7	26.1	32.9	-15.3	-35.8	-25.6	45.0	-12.0	-22.5	
Change (QoQ %)	16.7	33.8	-19.6	0.4	22.9	-14.7	-39.1	16.5			-26.4	

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

Volumes -Rolled products (in kt)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
North America	358	375	358	376	386	386	380
Europe	268	251	248	274	272	268	242
Asia	190	196	167	203	185	208	141
South America	157	146	157	156	148	162	162
Elimination	-13	0	-10	-22	-29	-40	-17
Total Third Party Shipments	960	968	920	987	962	984	908
Adj. EBITDA (USD m)							
North America	172	172	181	105	227	191	124
Europe	102	102	71	73	85	73	38
Asia	88	88	76	96	94	113	60
South America	146	193	178	156	156	127	124
Adj. EBITDA per ton (USD)							
North America	480	459	506	279	588	495	326
Europe	381	406	286	266	313	272	157
Asia	463	449	455	473	508	543	426
South America	930	1,322	1,134	1,000	1,054	784	765

Source: MOFSL, Company

**Conference call takeaways****Guidance for FY23 and FY24**

- Management believes that Novelis's 3QFY23 EBITDA/t of USD376/t was at the low point and expects a sharp recovery from the current levels.
- It has guided for EBITDA/t of over USD400/t for 4QFY23 while keeping its long-term target of USD525/t intact.
- Energy costs have cooled down for the last two quarters and logistics costs have normalized, along with improved pricing. These factors should drive the profitability in coming quarters.
- Some of the contracts are reset from 1st Jan'23 and other contracts will be reset from 1st Apr'23 at much higher rates, which will help the company to improve margins and push for higher EBITDA/t of USD 525/t on normalized basis.
- The company expects a substantial working capital release in 4QFY23, which will improve the FCF to ~USD400m in FY23 v/s a negative FCF of USD170m in 9MFY23.
- Price gain will continue in 1QFY24. No volume guidance was given for 4QFY23.
- Novelis expects to achieve net debt/EBITDA at its historical average in the medium term.

Demand

- **Beverage Can:** The beverage can sector is resilient to recessionary pressures. The sector had witnessed destocking when it went through a structural shift following a decline in home consumption demand after people resumed offices post Covid lockdowns, especially in Asian countries. However, the destocking is only temporary and might last for a few more quarters, post which this sector is expected to see a CAGR of 3-4%. As on date, over 500kt of beverage can sheets are imported to USA and once Novelis's Bay Minette (USA) rolling and recycling facility is set up by 2025, the demand for beverage sheets can even exceed the expected growth rate.
- **Automobiles:** With easing supply chain challenges and the availability of chips, the demand for automobiles has been rising. Novelis expects strong growth from this segment and expects a CAGR of 11% in demand. With healthy demand

for light weight vehicles, an increase in the number of EV launches and improved fuel efficiencies, the demand for aluminium is expected to remain high.

- **Speciality:** This segment is directly linked to the macro economy and housing demand of the country. The company is witnessing some softness in this segment.
- **Aerospace:** This is a low-volume and high-value segment. Novelis expects robust demand from this segment as the air traffic increases.

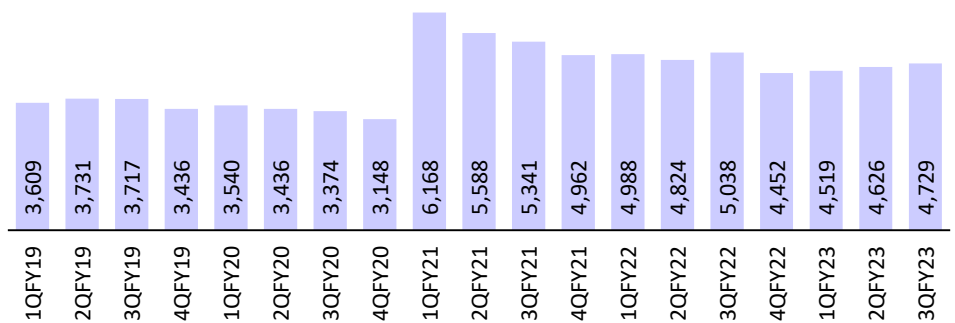
Capex

- The USD2.5b state-of-the-art rolling and recycling facility at Bay Minette (USA) is expected to be commissioned by 2025.
- The USD365m automotive recycling center at Guthrie (USA) is expected to be commissioned in 2HFY24.
- The total capex for FY23 is expected to be around USD900m and will be funded via internal accruals.
- Net Debt to EBITDA at 2.6x would be maintained despite capex. In the short term, it could rise.

Energy hedge

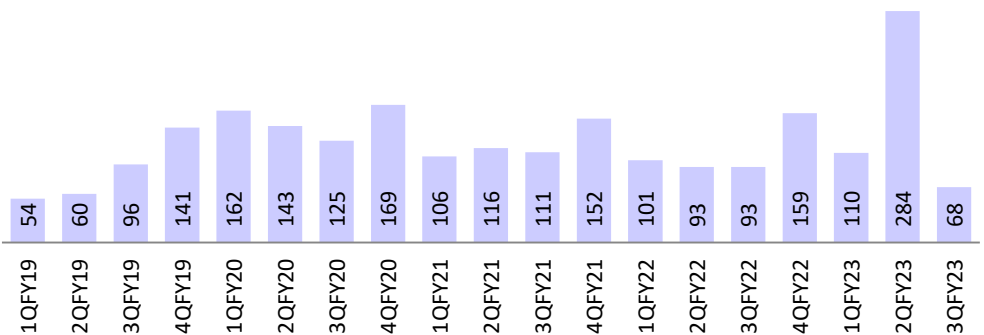
- Novelis has hedged about 60% of its energy costs for FY24. Europe is witnessing lower energy prices in recent weeks.
- Spot energy prices in Europe have come off drastically.

Exhibit 2: Net debt (USD m) remains stable QoQ



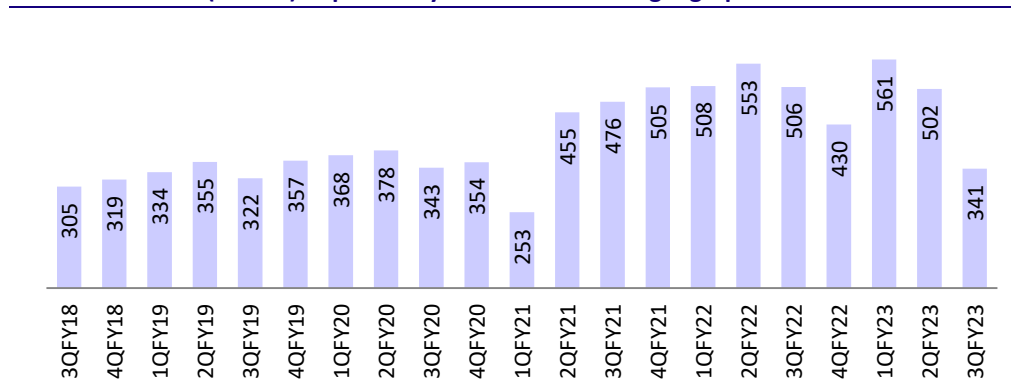
Source: MOFSL, Company

Exhibit 3: Capex (USD m) in 3QFY23 was lower; total capex of USD900m expected in FY23



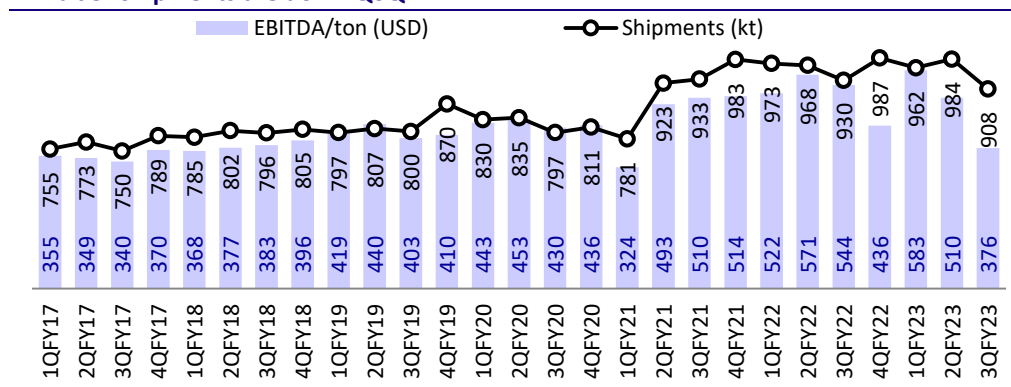
Source: MOFSL, Company

Exhibit 4: EBITDA (USD m) impacted by headwinds across geographies



Source: MOFSL, Company

Exhibit 5: Shipments are down QoQ



Source: MOFSL, Company

Exhibit 6: Key assumptions and change in estimates

		FY23E			FY24E		
		New	Old	% change	New	Old	% change
INR/USD	INR/USD	80.6	80.6	0.0	84.4	84.4	0.0
LME Al.	USD/t	2,465	2,465	0.0	2,420	2,420	0.0
Volumes							
Aluminium	kt	1,324	1,324	0.0	1,324	1,324	0.0
Copper	kt	413	413	0.0	396	396	0.0
Novelis	kt	3,829	3,946	-3.0	4,180	4,160	0.5
EBITDA/t							
Aluminium (incl Utkal)	USD/t	896	896	0.0	1,182	1,182	0.0
Copper	"	606	606	0.0	561	561	0.0
Novelis	"	476	486	-2.0	538	538	0.0
Consolidated Results							
Revenue	INR b	2,212	2,153	2.7	2,239	2,194	2.1
EBITDA	"	253	258	-1.8	331	330	0.3
- India	"	106	103	2.8	141	141	0.0
- Novelis	"	147	155	-5.0	190	189	0.5
Consol PAT	"	110	112	-1.8	161	162	-0.6
EPS	"	50	51	-1.8	73	73	-0.6

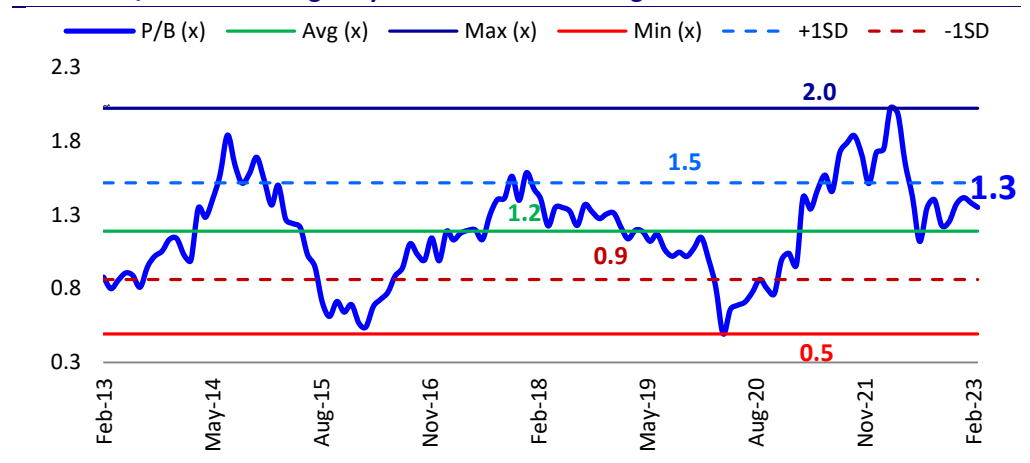
Source: MOFSL

Exhibit 7: SoTP valuation

Y/E March	UoM	2024E
Hindalco - India		
Aluminum		
Volumes	kt	1,324
EBITDA	INR/t	99,738
EBITDA	USD/t	1,182
EBITDA	INR m	1,23,895
Copper		
Volumes	kt	396
EBITDA	INR/t	47,357
EBITDA	USD/t	561
EBITDA	INR m	18,753
Others	INR m	1,268
EBITDA Hindalco - India	INR m	1,43,917
EV/EBTIDA (x)	x	4.0
Target EV	INR m	5,75,667
Novelis		
Volumes	kt	4,180
EBITDA	USD/t	530
USD/INR	x	84.4
EBITDA	INR m	1,87,034
EV/EBTIDA (x)	x	5.0
Target EV	INR m	9,35,169
Target EV - Group	INR m	15,10,836
Net Debt	INR m	2,52,883
Equity Value	INR m	12,57,954
Equity Value	INR/sh	567
Investments (quoted)	INR m	88,732
Investments (quoted)	INR/sh	36
Discount factor	%	10
Target Price	INR/sh	600

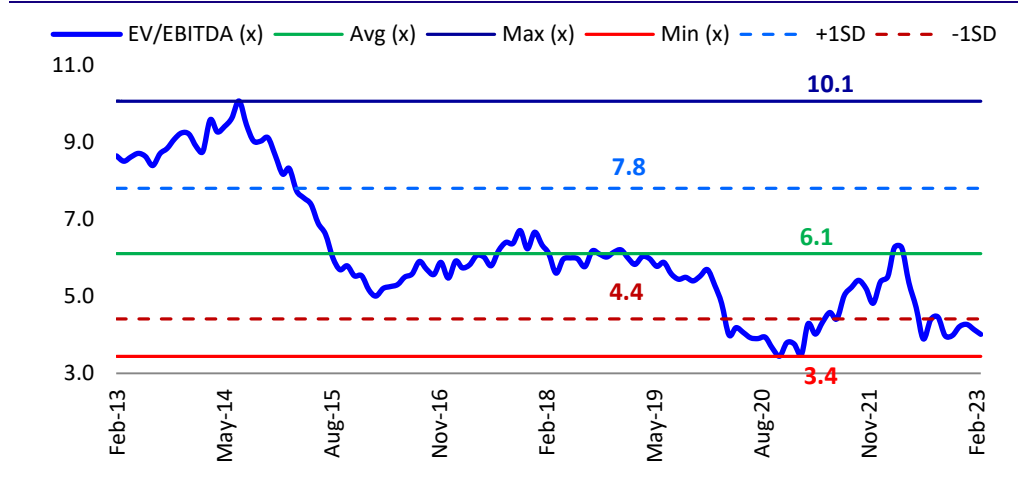
Source: MOFSL

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



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 mn	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*	12,612	7.3	9.0	6.2	4.9	5.3	3.8	1.8	1.6	1.3	28.0	18.7	22.8
Nalco*	1,761	4.8	14.6	6.6	2.3	6.4	3.5	1.1	1.1	1.0	25.4	7.7	15.8
Alcoa	9,494	14.4	24.6	8.7	5.0	7.9	3.9	1.8	1.8	1.5	14.1	7.5	12.1
Norsk Hydro	16,436	7.0	11.6	11.7	4.2	6.0	5.4	1.5	1.5	1.4	25.7	12.1	13.7
CHALCO	12,582	10.7	10.7	8.3	6.8	6.6	5.6	1.0	0.9	0.8	9.3	8.5	10.2
RUSAL	7,862	3.2	3.2	4.3	3.6	3.7	NA	0.6	0.5	0.5	25.3	20.3	11.5
Alumina	3,502	28.7	54.9	17.7	24.8	31.0	11.9	2.1	2.1	2.0	7.8	3.1	10.1

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	2025E
Net sales	1,002	1,152	1,305	1,181	1,318	1,951	2,212	2,239	2,273
Change (%)	1.4	15.0	13.3	-9.5	11.6	48.0	13.4	1.2	1.5
Total Expenses	877	1,014	1,150	1,039	1,144	1,667	1,959	1,908	1,930
EBITDA	124	138	155	142	174	283	253	331	343
% of Net Sales	12.4	12.0	11.9	12.0	13.2	14.5	11.4	14.8	15.1
Deprn. & Amortization	45	45	48	51	65	67	70	73	72
EBIT	80	93	107	91	109	216	183	258	271
Net Interest	57	39	38	42	37	38	33	29	24
Other income	11	10	11	12	12	11	9	3	5
PBT before EO	33	64	81	61	83	190	159	233	252
EO income (exp)	0	18	0	-2	-4	6	-2,095	-10,128	-9,996
PBT after EO	33	82	81	59	79	196	157	223	242
Current tax	13	16	19	15	19	38	34	57	62
Deferred tax (net)	1	5	7	6	8	16	15	14	16
Tax	14	21	26	22	27	54	49	72	78
Rate (%)	42.9	25.4	32.0	36.4	34.5	27.5	31.1	32.1	32.2
Reported PAT	19	61	55	38	52	142	108	151	164
Minority interests	0	0	0	0	0	0	0	0	0
Share of asso.	0	-1	0	0	0	0	0	0	0
Adjusted PAT	19	42	55	39	55	136	110	161	174
Change (%)	-22.9	120.7	30.6	-29.2	40.7	147.8	-19.1	46.3	8.1

Balance Sheet								(INR b)	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Share Capital	2	2	2	2	2	2	2	2	2
Reserves	458	546	573	581	663	780	876	1,014	1,166
Net Worth	461	549	575	583	665	782	878	1,017	1,169
Minority Interest	0	0	0	0	0	0	0	0	0
Total Loans	638	520	524	674	660	632	584	534	484
Deferred Tax Liability	20	31	37	38	36	44	59	74	89
Capital Employed	1,118	1,100	1,136	1,295	1,361	1,459	1,521	1,625	1,742
Gross Block	1,041	1,083	1,131	1,200	1,343	1,470	1,517	1,517	1,517
Less: Accum. Deprn.	365	410	458	509	574	641	711	784	856
Net Fixed Assets	676	673	673	691	770	829	806	733	661
Goodwill	171	178	186	201	233	240	240	240	240
Capital WIP	18	21	41	77	102	49	85	220	354
Investments	62	69	52	31	77	87	87	87	87
Working capital Assets	530	530	567	686	706	1,014	1,125	1,172	1,235
Inventory	183	216	222	224	307	445	515	521	529
Account Receivables	83	100	115	93	130	211	236	239	243
Cash and Bank Balance	172	120	136	278	182	228	244	281	333
Others (incl. LT)	92	94	94	90	88	130	130	130	130
Working capital liability	338	370	383	391	527	760	821	827	835
Account Payables	179	204	207	183	283	442	503	509	517
Others (incl. LT)	160	166	175	208	244	318	318	318	318
Net Working Capital	191	160	185	295	180	254	304	345	400
Appl. of Funds	1,118	1,100	1,136	1,295	1,361	1,459	1,521	1,625	1,742

Financials and valuations

Cash Flow Statement							(INR b)		
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
EBITDA	124	138	155	142	174	283	253	331	343
XO Exp. (income)	4	3	0	-3	-3	15	-2	-10	-10
tax paid	-8	-14	-19	-1	-13	-38	-34	-57	-62
Change in WC	7	-18	-17	-12	14	-92	-35	-3	-4
CF from Op. Activity	127	109	120	127	172	168	182	261	267
(Inc)/Dec in FA + CWIP	-29	-30	-60	-68	-56	-54	-81	-136	-134
Free Cash Flow to firm	97	79	60	59	117	114	102	125	133
(Pur)/Sale of Inv. & yield	6	25	7	7	9	0	9	3	5
Others & M&A	4	8	5	10	-173	0	0	0	0
CF from Inv. Activity	-20	3	-48	-51	-220	-55	-71	-133	-129
Equity raised/(repaid)	33	0	-1	0	0	-1	0	0	0
Debt raised/(repaid)	-25	-123	-14	109	-10	-28	-50	-50	-50
Interest	-61	-38	-36	-40	-37	-33	-33	-29	-24
Dividend (incl. tax)	-2	-3	-3	-3	-2	-7	-12	-12	-12
CF from Fin. Activity	-56	-164	-55	66	-49	-68	-95	-91	-86
(Inc)/Dec in Cash	51	-53	17	142	-96	46	16	37	52
Add: Opening Balance	121	172	120	136	278	182	228	244	281
Closing Balance	172	120	136	278	182	228	244	281	333

Ratios									
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Basic (INR)									
EPS	8.6	18.9	24.7	17.5	24.6	61.3	49.6	72.6	78.5
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.3	80.4	100.8	106.5
BV/Share (adj.)	129.9	166.1	175.0	171.8	194.3	244.3	287.4	350.0	418.5
DPS	1.1	1.4	1.2	1.2	3.5	4.0	5.5	5.5	5.5
Payout (%)	15.0	8.7	5.7	8.0	16.7	7.6	13.0	8.9	8.2
Valuation (x)									
P/E	52.2	23.7	18.1	25.6	18.2	7.3	9.0	6.2	5.7
Cash P/E	15.7	9.4	9.7	11.2	8.5	4.7	5.6	4.4	4.2
P/BV	3.4	2.7	2.6	2.6	2.3	1.8	1.6	1.3	1.1
EV/Sales	1.5	1.2	1.1	1.2	1.1	0.7	0.6	0.6	0.5
EV/EBITDA	11.8	10.1	8.9	9.8	8.5	4.9	5.3	3.8	3.3
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.8	0.9	1.2	1.2	1.2
Return Ratios (%)									
EBITDA Margins (%)	12.4	12.0	11.9	12.0	13.2	14.5	11.4	14.8	15.1
Net Profit Margins (%)	1.9	3.7	4.2	3.3	4.1	7.0	5.0	7.2	7.7
RoE	7.1	12.8	14.5	10.1	13.4	28.0	18.7	22.8	20.4
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.1	12.9	16.6	16.4
RoIC (pre-tax)	9.1	10.8	11.9	10.3	11.5	21.6	16.6	24.1	27.0
Working Capital Ratios									
Fixed Asset Turnover (x)	1.0	1.1	1.2	1.0	1.0	1.3	1.5	1.5	1.5
Asset Turnover (x)	0.9	1.0	1.1	0.9	1.0	1.3	1.5	1.4	1.3
Debtor (Days)	30	32	32	29	36	39	39	39	39
Inventory (Days)	67	69	62	69	85	83	85	85	85
Payable (Days)	65	65	58	56	78	83	83	83	83
Leverage Ratio (x)									
Current Ratio	1.6	1.4	1.5	1.8	1.3	1.3	1.4	1.4	1.5
Interest Cover Ratio	1.4	2.4	2.8	2.2	2.9	5.7	5.5	9.0	11.3
Debt/Equity	1.6	1.1	1.0	1.0	1.1	0.7	0.5	0.3	0.2

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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