

Estimate change	↓
TP change	↓
Rating change	↔

**CMP: INR444      TP: INR570 (+28%)      Buy**

## Subdued performance; outlook positive

Bloomberg	HNDL IN
Equity Shares (m)	2247
M.Cap.(INRb)/(USDb)	998.5 / 12.1
52-Week Range (INR)	636 / 309
1, 6, 12 Rel. Per (%)	-4/3/-21
12M Avg Val (INR M)	5123
Free float (%)	65.4

### Financials & Valuations (INR b)

Y/E MARCH	2023E	2024E	2025E
Sales	2,208	2,230	2,274
EBITDA	239	320	348
Adj. PAT	105	155	177
EBITDA Margin (%)	11	14	15
Cons. Adj. EPS (INR)	47	70	80
EPS Gr. (%)	-23	48	14
BV/Sh. (INR)	285	345	415

### Ratios

Net D:E	0.6	0.4	0.2
RoE (%)	17.9	22.2	21.0
RoCE (%)	12.1	16.2	16.8
Payout (%)	13.6	9.2	8.1

### Valuations

P/E (x)	9.4	6.3	5.6
P/BV (x)	1.6	1.3	1.1
EV/EBITDA(x)	5.6	3.9	3.3
Div. Yield (%)	1.2	1.2	1.2
FCF Yield (%)	9.1	11.8	13.7

### Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	34.6	34.6	34.6
DII	27.1	30.8	21.2
FII	30.0	25.2	26.3
Others	8.3	9.4	17.9

FII Includes depository receipts

- Consolidated net sales rose 6% YoY (down 5% QoQ) to INR532b, 6% above our estimate of INR501b. Sales were driven by record-high production at the aluminum upstream vertical and better copper realizations.
- Consolidated EBITDA fell 52% YoY and 34% QoQ to INR35b, 39% below our estimate of INR58b. EBITDA was impacted by rising input costs, an adverse forex impact and unfavorable macros.
- Copper EBITDA rose 40% YoY to INR5.5b, significantly above our estimate, led by higher volumes of CC rods, higher realizations and better TC/RC.
- India aluminum sales volume rose 7% YoY to 349kt, while copper sales volume was down 1% YoY at 109kt. Trial production has started at the new 34kt aluminum extrusion facility at Silvassa.
- APAT was down 60% YoY and 38% QoQ at INR14b due to a decline in EBITDA and higher interest expenses.
- For 9MFY23, sales rose 20% YoY to INR1,673b, while EBITDA/PAT declined 18%/20% to INR173b/INR77b.

### Highlights from the management commentary

- Disciplined capital allocation will continue for both Indian operations and Novelis. New capex will be subject to incremental internal accruals only.
- Aluminum CoP in 4QFY23 is expected to fall by 5%.
- Novelis business is fundamentally strong on back of debottlenecking, new capacity coming on stream in the USA, better operational efficiencies and an increase in recycling, which is expected to add incremental volume. As a result, Novelis should achieve its EBITDA/t target of USD400/t in 4QFY23 and a sustainable target of USD525/t in the long run.

### Valuation and view

- Management expects robust demand in India, with an increase in prices, robust thrust from the manufacturing sector, higher spending by the government on infrastructure and higher business investment.
- In line with the 3Q financial performance and management guidance, we lower our FY23/FY24 EBITDA estimate by 7%/3%, primarily due to a weak macroeconomic condition, fears of recession in Europe and higher input costs. However, we believe that the stock has fully priced in these headwinds. We remain confident about the company's long-term growth opportunities and believe that the weakness in the stock post 3Q results should be an opportunity to buy.
- We maintain our Buy rating and lower our SoTP-based TP to INR570 (from INR600 earlier). A weak European economic scenario remains the key risk to the sector.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Consolidated quarterly performance (INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Net Sales</b>	<b>414</b>	<b>477</b>	<b>503</b>	<b>558</b>	<b>580</b>	<b>562</b>	<b>532</b>	<b>535</b>	<b>1,951</b>	<b>2,208</b>	<b>501</b>	<b>6.0</b>
Change (YoY %)	63.6	52.6	43.8	37.7	40.2	17.9	5.7	-4.1	48.0	13.2	-0.3	
Change (QoQ %)	2.1	15.2	5.5	10.9	4.0	-3.2	-5.4	0.6			-10.8	
Total Expenditure	352	401	429	485	496	508	496	469	1,667	1,969	444	
<b>EBITDA</b>	<b>61</b>	<b>75</b>	<b>74</b>	<b>73</b>	<b>84</b>	<b>54</b>	<b>35</b>	<b>66</b>	<b>283</b>	<b>239</b>	<b>58</b>	<b>-38.4</b>
Change (YoY %)	218.8	55.9	41.8	29.4	37.5	-28.9	-51.9	-9.8	63.4	-15.6	-21.9	
Change (QoQ %)	8.6	22.9	-2.2	-0.9	15.4	-36.4	-33.8	85.8			7.3	
As % of Net Sales	14.8	15.8	14.7	13.1	14.5	9.5	6.7	12.3	14.5	10.8	11.5	
Interest	8	13	9	8	9	9	9	7	38	34	8	
Depreciation	16	16	17	18	17	17	18	18	67	71	18	
Other Income	3	4	2	3	2	3	4	1	11	10	1	
<b>PBT (before EO item)</b>	<b>39</b>	<b>51</b>	<b>50</b>	<b>50</b>	<b>60</b>	<b>31</b>	<b>12</b>	<b>42</b>	<b>190</b>	<b>145</b>	<b>34</b>	<b>-63.9</b>
Extra-ordinary Income	6	0	2	-3	0	0	0	-3	6	-2	-2	
<b>PBT (after EO item)</b>	<b>45</b>	<b>51</b>	<b>52</b>	<b>48</b>	<b>61</b>	<b>31</b>	<b>12</b>	<b>39</b>	<b>196</b>	<b>143</b>	<b>31</b>	<b>-61.0</b>
Current Tax	7	11	10	10	11	7	4	10	38	32	8	
Deferred Tax	6	5	5	-1	9	2	-5	3	16	8	2	
Total Tax	13	16	15	9	20	9	-1	13	54	40	10	
% Tax	33.1	31.9	31.0	18.2	32.6	28.9	-12.2	30.8	27.5	28.0	30.1	
<b>Reported PAT</b>	<b>32</b>	<b>35</b>	<b>37</b>	<b>39</b>	<b>41</b>	<b>22</b>	<b>14</b>	<b>26</b>	<b>142</b>	<b>103</b>	<b>21</b>	
<b>Adjusted PAT</b>	<b>26</b>	<b>35</b>	<b>34</b>	<b>41</b>	<b>41</b>	<b>22</b>	<b>14</b>	<b>29</b>	<b>136</b>	<b>105</b>	<b>23</b>	<b>-42.1</b>
Change (YoY %)	-1,854.0	78.7	55.5	115.3	55.0	-36.1	-60.3	-30.0	174.3	-27.4	-31.4	
Change (QoQ %)	37.7	31.1	-0.8	20.2	-0.9	-45.9	-38.3	111.9			6.5	

Source: MOFSL, Company

## Exhibit 1: Quarterly (SA+Utkal) (INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Aluminium sales vol ( kt)	303	338	325	336	333	341	349	325	1,302	1,348	325	7.4
Copper sales vol (kt)	80	110	110	105	101	112	109	107	405	429	98	11.2
Exchange USD/INR	73.8	74.1	74.8	75.3	77.1	79.7	82.1	83.5	74.6	80.6	82.2	
Avg LME Aluminium (USD/t)	2,395	2,648	2,759	3,254	2,882	2,354	2,324	2,350	2,764	2,476	2,322	
<b>Net Sales</b>	<b>133</b>	<b>174</b>	<b>185</b>	<b>196</b>	<b>192</b>	<b>190</b>	<b>194</b>	<b>198</b>	<b>689</b>	<b>774</b>	<b>173</b>	<b>12.1</b>
Change (YoY %)	78.8	81.8	61.8	35.6	44.0	9.0	5.1	0.9	60.4	12	-6.2	
Change (QoQ %)	-7.8	30.3	6.3	6.2	-2.0	-1.4	2.5	1.9			-8.6	
<b>EBITDA</b>	<b>24</b>	<b>35</b>	<b>36</b>	<b>42</b>	<b>37</b>	<b>23</b>	<b>22</b>	<b>32</b>	<b>137</b>	<b>114</b>	<b>24</b>	<b>-7.9</b>
Change (YoY %)	172.3	173.6	136.0	124.5	52.4	-34.5	-39.7	-23.8	146.5	-17	-34.5	
Change (QoQ %)	29.4	43.3	3.2	17.2	-12.1	-38.4	-4.9	48.1			3.2	
Aluminium (incl. Utkal)	24	32	34	41	33	18	18	28	130	97	21	
USD/t	1,052	1,296	1,389	1,601	1,304	644	611	1,039	1,341	890	770	
Copper	3	4	4	4	6	5	5	5	14	22	4	
USD/t	442	432	453	489	726	610	610	584	460	630	528	
Interest	4	4	4	4	4	3	3	4	16	14	4	
Depreciation	5	6	5	6	6	6	6	6	22	23	6	
Other Income	1	2	0	0	0	0	0	1	3	1	1	
<b>PBT (before EO item)</b>	<b>16</b>	<b>27</b>	<b>26</b>	<b>33</b>	<b>28</b>	<b>13</b>	<b>13</b>	<b>24</b>	<b>102</b>	<b>78</b>	<b>15</b>	<b>-15.2</b>
EO item	0	0	0	-1	0	0	0	0	-1	0	0	
<b>PBT (after EO item)</b>	<b>16</b>	<b>27</b>	<b>26</b>	<b>32</b>	<b>28</b>	<b>13</b>	<b>13</b>	<b>24</b>	<b>101</b>	<b>78</b>	<b>15</b>	<b>-15.2</b>
Total Tax	6	9	9	11	10	4	-1	8	35	21	5	
% Tax	35.8	33.5	34.1	36.4	36.4	30.8	-5.7	33.0	34.9	27.5	33.0	
<b>Reported PAT</b>	<b>10</b>	<b>18</b>	<b>17</b>	<b>20</b>	<b>18</b>	<b>9</b>	<b>14</b>	<b>16</b>	<b>66</b>	<b>57</b>	<b>10</b>	<b>33.8</b>
<b>Adjusted PAT</b>	<b>10</b>	<b>18</b>	<b>17</b>	<b>21</b>	<b>18</b>	<b>9</b>	<b>14</b>	<b>16</b>	<b>67</b>	<b>56</b>	<b>10</b>	<b>33.8</b>
Change (YoY %)	846.2	374.1	222.0	224.5	69.7	-49.3	-21.7	-22.7	298.8	-16	-41.5	
Change (QoQ %)	62.4	75.0	-4.5	19.5	-15.1	-47.7	47.4	17.9			10.2	

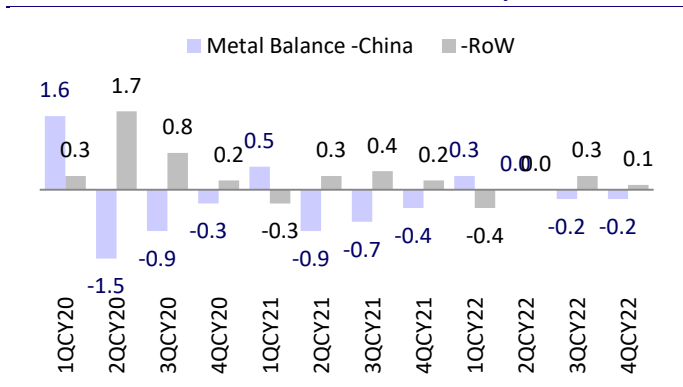
Source: MOFSL, Company

**Exhibit 2: Quarterly performance for Novelis (USD m)**

Y/E March	FY22				FY23E				FY22	FY23E	FY23 3QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Sales (000 tons)</b>	<b>973</b>	<b>968</b>	<b>930</b>	<b>987</b>	<b>962</b>	<b>984</b>	<b>908</b>	<b>975</b>	<b>3,858</b>	<b>3,829</b>	<b>1,000</b>	<b>-9</b>
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	
<b>Net Sales</b>	<b>3,855</b>	<b>4,119</b>	<b>4,326</b>	<b>4,849</b>	<b>5,089</b>	<b>4,799</b>	<b>4,201</b>	<b>4,073</b>	<b>17,149</b>	<b>18,162</b>	<b>4,040</b>	<b>4</b>
Change (YoY %)	58.9	38.3	33.5	33.5	32.0	16.5	-2.9	-16.0	39.7	5.9	-6.6	
Change (QoQ %)	6.2	6.8	5.0	12.1	4.9	-5.7	-12.5	-3.1	0.0	0.0	-15.8	
<b>EBITDA (adjusted)</b>	<b>508</b>	<b>553</b>	<b>506</b>	<b>430</b>	<b>561</b>	<b>502</b>	<b>341</b>	<b>420</b>	<b>1,997</b>	<b>1,824</b>	<b>427</b>	<b>-20</b>
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	
<b>EBITDA per ton (USD)</b>	<b>522</b>	<b>571</b>	<b>544</b>	<b>436</b>	<b>583</b>	<b>510</b>	<b>376</b>	<b>430</b>	<b>518</b>	<b>476</b>	<b>427</b>	<b>-12</b>
Interest	56	59	54	54	58	65	69	42	223	234	48	
Depreciation	134	134	137	145	138	134	133	149	550	554	141	
<b>PBT (before EO item)</b>	<b>318</b>	<b>360</b>	<b>315</b>	<b>231</b>	<b>365</b>	<b>303</b>	<b>139</b>	<b>228</b>	<b>1,224</b>	<b>1,035</b>	<b>237</b>	<b>-41</b>
Extra-ordinary Income	30	(44)	36	(10)	28	(55)	(133)	(30)	12	(190)	(30)	
<b>PBT (after EO item)</b>	<b>348</b>	<b>316</b>	<b>351</b>	<b>221</b>	<b>393</b>	<b>248</b>	<b>6</b>	<b>198</b>	<b>1,236</b>	<b>845</b>	<b>207</b>	<b>-97</b>
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	-100.0	30.0	22.7	24.3	30.0	
<b>Reported PAT</b>	<b>240</b>	<b>237</b>	<b>262</b>	<b>217</b>	<b>307</b>	<b>183</b>	<b>12</b>	<b>139</b>	<b>956</b>	<b>641</b>	<b>145</b>	<b>-92</b>
Change (YoY %)	-404	-741	47	23	28	-23	-95	-36	303	-33	-45	
<b>Adjusted PAT</b>	<b>210</b>	<b>281</b>	<b>226</b>	<b>227</b>	<b>279</b>	<b>238</b>	<b>145</b>	<b>169</b>	<b>944</b>	<b>831</b>	<b>175</b>	<b>-17</b>
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	

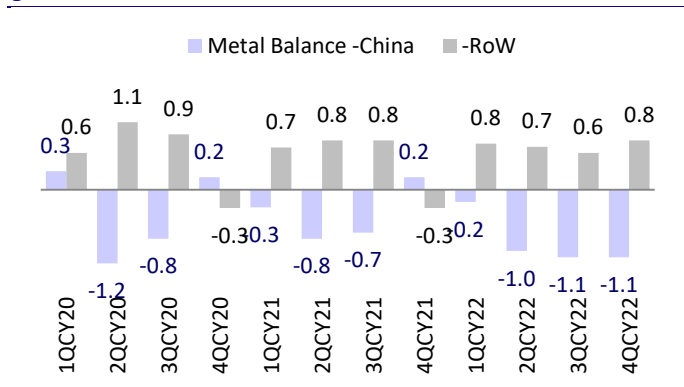
Source: MOFSL, Company

**Exhibit 3: Aluminum market balance: Surplus/(deficit) (mt): China has a deficit of 0.2mt and ex-China surplus at 0.1mt**



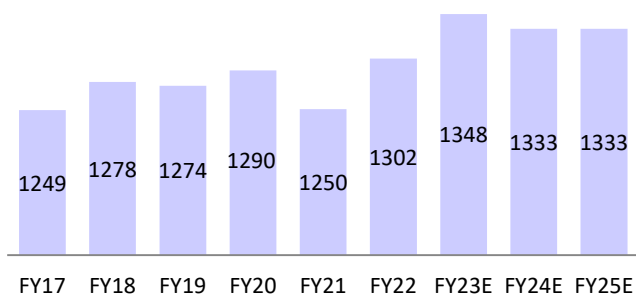
Source: MOFSL, Company

**Exhibit 4: Copper market balance: Surplus/(deficit) (mt): net global deficit of 0.2mt**



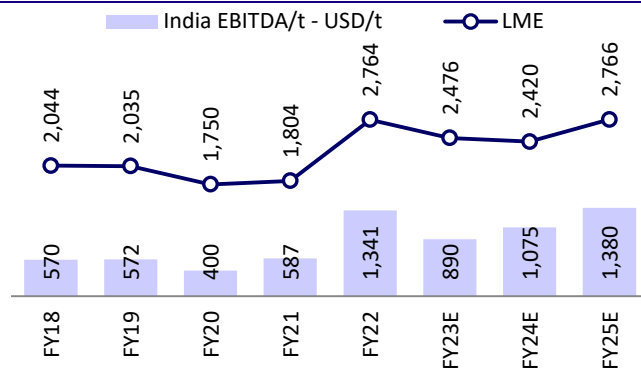
Source: MOFSL, Company

**Exhibit 5: Al upstream production (kt) - no more growth**



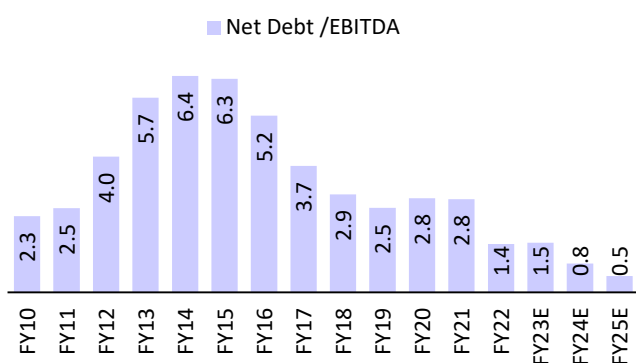
Source: MOFSL, Company

**Exhibit 6: India EBITDA (USD/t) in direct relation to LME**



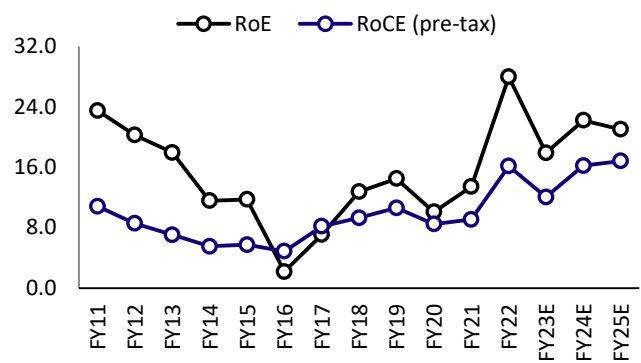
Source: MOFSL, Company

**Exhibit 7: Leverage to remain at record low level**



Source: MOFSL, Company

**Exhibit 8: Returns to improve from FY24E onwards**



Source: MOFSL, Company



## Highlights from the management commentary

### Guidance:

- The India aluminum business is hedged at 32% at USD2,500/t for 4QFY23 and 7% at USD2,900/t for FY24. Going forward, management will hedge at USD2,600/t and above levels.
- For Novelis, EBITDA/t guidance revised upwards to over USD400/t in 4QFY23
- Long term sustainable EBITDA/t target at Novelis has been retained at USD525/t
- The Beverage cans segment is expected to post a CAGR of 3-4%. With easing supply chain constraints, the automobile segment is witnessing huge demand and is expected to grow at a CAGR of 11%.
- With Chakla mine commencing its commercial production from FY25E, the coal availability is expected to improve substantially. Kathautia mine is expected to produce ~0.8-1mt in FY23E.
- The company will return Dumri mine.
- Aluminum CoP is expected to decline by 5% in 4QFY23, which will improve aluminum upstream margins.
- Energy costs and freight costs at Novelis have started to come down.
- 141mw of RE projects are under execution (total RE target of 300mw by FY25).
- 75% of the cash generated by the company will be used for growth capex, 15% for net debt reduction and 10% for shareholders returns.

**Copper Tc/Rc negotiations:**

- Tc/Rc negotiations are currently happening with more interest in buying from China and supply constraint from Peru and Panama.
- Spot Tc/Rc at USD22c/lb v/s USD22.6/lb.

**Global / domestic demand:**

- Global aluminum production for 4QCY22 was up 3% YoY to 17.3mt, primarily driven by a 6% increase in production from China.
- Global aluminum consumption during the quarter was down 1% at 17.3mt, primarily driven by consumption decrease of 6% ex-China. However, considering China, there was a deficit of 0.1mt.
- Indian aluminum demand is expected to be ~11.6mt (down 2% QoQ) due to lower demand from consumer durables and the packaging sector.
- Global copper production in 4QCY22 grew by 6% YoY to 6.4mt and consumption grew by 5.2% YoY to 6.6mt, a deficit of 0.2mt. Market demand was flat in India at 186kt.
- Domestic demand is expected to be robust in India, with an increase in price, robust thrust from the manufacturing sector, higher demand of automobiles and higher business investment.
- The thrust on infrastructure seen during the recent Union Budget (i.e., setting up of new airports, growth of metro lines and increase in RE) is expected to keep the demand for aluminum elevated.
- Novelis expects robust demand from the aerospace segment as the air traffic increases.

**Cost of Production:**

- Aluminum CoP is expected to decline by 5% in 4QFY23.
- Better coal linkages and the availability of captive coal over the next few years will further reduce CoP.
- Management expects 4QFY23 to be better than 3QFY23.

**Coal linkages:**

- During 3QFY23, 48% of coal requirement was met via linkage, 37% via e-auction and remaining was a mix of own mines and imports.
- E-auction premium, which was ~400% during previous quarters, has now declined to 200% and the company expects it to fall further in coming quarters as the availability of coal has started improving.
- Management is being cautious for price movement in coal for summer months of May-Jul'23.
- Kathautia Mine is expected to produce ~0.8-1mt in FY23E.

**Capex:**

- All expansion projects across India and Novelis are on stream.
- New strategic capex will be in line with FCF generated by the company.
- FY23 capex is expected to be around INR27b.

**Captive coal Mines:**

- Dumri Mine: The mine is non-operational due to regulatory issues, and hence the company plans to return the same.
- Chakla Mine – (peak rated capacity) PRC 5.5mt: The mine is likely to commence commercial production from FY25 onward. The coal availability is expected to improve substantially.
- Meenakshi Mine (PRC 12mt): The company is awaiting clearance and expects the land acquisition issue to be resolved soon.
- Kathautia Mine: The mine is operational (expected production of 0.8-1mt in FY23).

**Priorities for the management**

- Value enhancing growth
- Focused approach on ESG and maintaining leadership in the sector
- FY25 RE target of 300mw
- Industry leader in sustainability and being zero waste landfill company by 2030
- New strategic capex in line with FCF both in India as well as Novelis

**Leverage position:**

- Net debt in India is INR 31b and consolidated net debt is INR417b.
- Cash position is INR180b.
- Net debt/EBITDA is 1.6x.

**Takeaways from the Novelis' conference call****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 1<sup>st</sup> Jan'23 and other contracts will be reset from 1<sup>st</sup> 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 form 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 9: Change in key assumptions and our 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	2,476	2,465	0.5	2,420	2,420	0.0
<b>Volumes</b>							
Aluminium	kt	1,348	1,324	1.8	1,333	1,324	0.7
Copper	kt	429	413	3.9	404	396	2.0
Novelis	kt	3,829	3,946	-3.0	4,180	4,160	0.5
<b>EBITDA/t</b>							
Aluminium (incl Utkal)	USD/t	890	896	-0.7	1,075	1,182	-9.0
Copper	"	630	606	3.8	568	561	1.2
Novelis	"	476	486	-2.0	538	538	0.0
<b>Consolidated Results</b>							
Revenue	INR b	2,208	2,153	2.6	2,230	2,194	1.7
<b>EBITDA</b>	"	239	258	-7.1	320	330	-2.9
- India	"	92	103	-10.4	131	141	-7.4
- Novelis	"	147	155	-5.0	190	189	0.5
Consol PAT	"	105	112	-6.2	155	162	-4.2

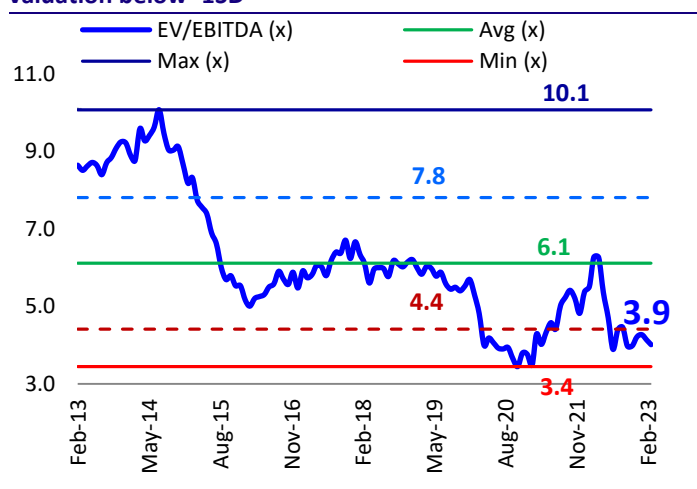
Source: MOFSL

**Exhibit 10: Valuation**

Y/E March	UoM	2024E
<b>Hindalco - India</b>		
<b>Aluminum</b>		
Volumes	kt	1,333
EBITDA	INR/t	90,765
EBITDA	USD/t	1,075
<b>EBITDA</b>	<b>INR m</b>	<b>1,12,811</b>
<b>Copper</b>		
Volumes	kt	404
EBITDA	INR/t	47,906
EBITDA	USD/t	568
<b>EBITDA</b>	<b>INR m</b>	<b>19,354</b>
<b>Others</b>	<b>INR m</b>	<b>1,268</b>
<b>EBITDA Hindalco - India</b>	<b>INR m</b>	<b>1,33,433</b>
EV/EBTIDA (x)	x	4.0
Target EV	INR m	5,33,732
<b>Novelis</b>		
Volumes	kt	4,180
EBITDA	USD/t	530
USD/INR	x	84.4
<b>EBITDA</b>	<b>INR m</b>	<b>1,87,034</b>
EV/EBTIDA (x)	x	5.0
Target EV	INR m	9,35,169
<b>Target EV - Group</b>	<b>INR m</b>	<b>14,68,901</b>
Net Debt	INR m	2,71,604
Equity Value	INR m	11,97,297
Equity Value	INR/sh	539
Investments (quoted)	INR m	88,732
Investments (quoted)	INR/sh	36
Discount factor	%	10
<b>Target Price</b>	<b>INR/sh</b>	<b>570</b>

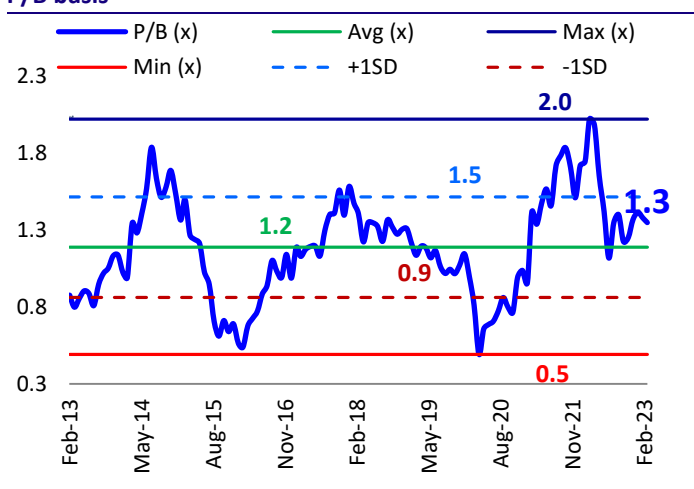
Source: MOFSL

**Exhibit 11: Stock remains comfortable on EV/EBITDA valuation below -1SD**



Source:

**Exhibit 12: ... but remains higher than long term average on P/B basis**



Source:



**Exhibit 13: 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
<b>Hindalco*</b>	<b>12,015</b>	<b>7.2</b>	<b>9.4</b>	<b>6.3</b>	<b>4.9</b>	<b>5.6</b>	<b>3.9</b>	<b>1.8</b>	<b>1.6</b>	<b>1.3</b>	<b>28.0</b>	<b>17.9</b>	<b>22.2</b>
Nalco*	1,734	4.9	14.6	6.7	2.3	6.5	3.5	1.1	1.1	1.0	25.4	7.7	15.8
Alcoa	8,957	13.6	23.2	8.2	4.7	7.5	3.7	1.7	1.7	1.4	14.1	7.5	12.1
Norsk Hydro	16,531	7.0	11.8	11.8	4.2	6.2	5.5	1.5	1.6	1.5	26.1	12.2	13.9
CHALCO	12,494	10.9	10.9	8.4	6.8	6.5	5.5	1.0	0.9	0.8	9.4	8.6	10.4
RUSAL	7,704	3.2	3.2	4.2	3.5	3.7	NA	0.6	0.5	0.5	25.3	20.3	11.5
Alumina	3,375	30.6	52.9	17.1	24.0	30.0	11.5	2.0	2.0	1.9	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
<b>Net sales</b>	<b>1,002</b>	<b>1,152</b>	<b>1,305</b>	<b>1,181</b>	<b>1,318</b>	<b>1,951</b>	<b>2,208</b>	<b>2,230</b>	<b>2,274</b>
Change (%)	1.4	15.0	13.3	-9.5	11.6	48.0	13.2	1.0	2.0
Total Expenses	877	1,014	1,150	1,039	1,144	1,667	1,969	1,909	1,926
<b>EBITDA</b>	<b>124</b>	<b>138</b>	<b>155</b>	<b>142</b>	<b>174</b>	<b>283</b>	<b>239</b>	<b>320</b>	<b>348</b>
% of Net Sales	12.4	12.0	11.9	12.0	13.2	14.5	10.8	14.4	15.3
Deprn. & Amortization	45	45	48	51	65	67	71	71	71
<b>EBIT</b>	<b>80</b>	<b>93</b>	<b>107</b>	<b>91</b>	<b>109</b>	<b>216</b>	<b>169</b>	<b>249</b>	<b>277</b>
Net Interest	57	39	38	42	37	38	34	28	24
Other income	11	10	11	12	12	11	10	3	3
<b>PBT before EO</b>	<b>33</b>	<b>64</b>	<b>81</b>	<b>61</b>	<b>83</b>	<b>190</b>	<b>145</b>	<b>224</b>	<b>257</b>
EO income (exp)	0	18	0	-2	-4	6	-2	-10	-10
<b>PBT after EO</b>	<b>33</b>	<b>82</b>	<b>81</b>	<b>59</b>	<b>79</b>	<b>196</b>	<b>143</b>	<b>214</b>	<b>247</b>
Current tax	13	16	19	15	19	38	32	55	64
Deferred tax (net)	1	5	7	6	8	16	8	14	16
Tax	14	21	26	22	27	54	40	69	79
Rate (%)	42.9	25.4	32.0	36.4	34.5	27.5	28.0	32.1	32.2
<b>Reported PAT</b>	<b>19</b>	<b>61</b>	<b>55</b>	<b>38</b>	<b>52</b>	<b>142</b>	<b>103</b>	<b>145</b>	<b>167</b>
<b>Adjusted PAT</b>	<b>19</b>	<b>42</b>	<b>55</b>	<b>39</b>	<b>55</b>	<b>136</b>	<b>105</b>	<b>155</b>	<b>177</b>
Change (%)	-22.9	120.7	30.6	-29.2	40.7	147.8	-22.7	47.7	14.1

### 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	871	1,004	1,159
<b>Net Worth</b>	<b>461</b>	<b>549</b>	<b>575</b>	<b>583</b>	<b>665</b>	<b>782</b>	<b>873</b>	<b>1,006</b>	<b>1,161</b>
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	52	66	82
<b>Capital Employed</b>	<b>1,118</b>	<b>1,100</b>	<b>1,136</b>	<b>1,295</b>	<b>1,361</b>	<b>1,459</b>	<b>1,509</b>	<b>1,606</b>	<b>1,727</b>
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	712	783	853
<b>Net Fixed Assets</b>	<b>676</b>	<b>673</b>	<b>673</b>	<b>691</b>	<b>770</b>	<b>829</b>	<b>806</b>	<b>735</b>	<b>664</b>
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
<b>Working capital Assets</b>	<b>530</b>	<b>530</b>	<b>567</b>	<b>686</b>	<b>706</b>	<b>1,014</b>	<b>1,113</b>	<b>1,150</b>	<b>1,218</b>
Inventory	183	216	222	224	307	445	514	519	529
Account Receivables	83	100	115	93	130	211	236	238	243
Cash and Bank Balance	172	120	136	278	182	228	233	263	315
Others (incl. LT)	92	94	94	90	88	130	130	130	130
<b>Working capital liability</b>	<b>338</b>	<b>370</b>	<b>383</b>	<b>391</b>	<b>527</b>	<b>760</b>	<b>820</b>	<b>825</b>	<b>835</b>
Account Payables	179	204	207	183	283	442	502	507	517
Others (incl. LT)	160	166	175	208	244	318	318	318	318
<b>Net Working Capital</b>	<b>191</b>	<b>160</b>	<b>185</b>	<b>295</b>	<b>180</b>	<b>254</b>	<b>293</b>	<b>325</b>	<b>383</b>
<b>Appl. of Funds</b>	<b>1,118</b>	<b>1,100</b>	<b>1,136</b>	<b>1,295</b>	<b>1,361</b>	<b>1,459</b>	<b>1,509</b>	<b>1,606</b>	<b>1,727</b>

## 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	239	320	348
XO Exp. (income)	4	3	0	-3	-3	15	-2	-10	-10
tax paid	-8	-14	-19	-1	-13	-38	-32	-55	-64
Change in WC	7	-18	-17	-12	14	-92	-34	-2	-5
<b>CF from Op. Activity</b>	<b>127</b>	<b>109</b>	<b>120</b>	<b>127</b>	<b>172</b>	<b>168</b>	<b>171</b>	<b>253</b>	<b>270</b>
(Inc)/Dec in FA + CWIP	-29	-30	-60	-68	-56	-54	-81	-136	-134
<b>Free Cash Flow to firm</b>	<b>97</b>	<b>79</b>	<b>60</b>	<b>59</b>	<b>117</b>	<b>114</b>	<b>90</b>	<b>117</b>	<b>136</b>
(Pur)/Sale of Inv. & yield	6	25	7	7	9	0	10	3	3
Others & M&A	4	8	5	10	-173	0	0	0	0
<b>CF from Inv. Activity</b>	<b>-20</b>	<b>3</b>	<b>-48</b>	<b>-51</b>	<b>-220</b>	<b>-55</b>	<b>-70</b>	<b>-133</b>	<b>-131</b>
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	-34	-28	-24
Dividend (incl. tax)	-2	-3	-3	-3	-2	-7	-12	-12	-12
<b>CF from Fin. Activity</b>	<b>-56</b>	<b>-164</b>	<b>-55</b>	<b>66</b>	<b>-49</b>	<b>-68</b>	<b>-96</b>	<b>-90</b>	<b>-86</b>
<b>(Inc)/Dec in Cash</b>	<b>51</b>	<b>-53</b>	<b>17</b>	<b>142</b>	<b>-96</b>	<b>46</b>	<b>4</b>	<b>30</b>	<b>53</b>
Add: Opening Balance	121	172	120	136	278	182	228	233	263
<b>Closing Balance</b>	<b>172</b>	<b>120</b>	<b>136</b>	<b>278</b>	<b>182</b>	<b>228</b>	<b>233</b>	<b>263</b>	<b>315</b>

### Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
<b>Basic (INR)</b>									
<b>EPS</b>	<b>8.6</b>	<b>18.9</b>	<b>24.7</b>	<b>17.5</b>	<b>24.6</b>	<b>61.3</b>	<b>47.4</b>	<b>70.0</b>	<b>79.9</b>
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.3	78.2	97.5	107.3
BV/Share (adj.)	129.9	166.1	175.0	171.8	194.3	244.3	285.2	345.2	415.1
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	13.6	9.2	8.1
<b>Valuation (x)</b>									
P/E	51.9	23.5	18.0	25.4	18.1	7.2	9.4	6.3	5.6
Cash P/E	15.6	9.3	9.6	11.2	8.5	4.7	5.7	4.6	4.1
P/BV	3.4	2.7	2.5	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	11.7	10.1	8.9	9.7	8.4	4.9	5.6	3.9	3.3
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.8	0.9	1.2	1.2	1.2
<b>Return Ratios (%)</b>									
EBITDA Margins (%)	12.4	12.0	11.9	12.0	13.2	14.5	10.8	14.4	15.3
Net Profit Margins (%)	1.9	3.7	4.2	3.3	4.1	7.0	4.8	7.0	7.8
RoE	7.1	12.8	14.5	10.1	13.4	28.0	17.9	22.2	21.0
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.1	12.1	16.2	16.8
RoIC (pre-tax)	9.1	10.8	11.9	10.3	11.5	21.6	15.4	23.3	27.6
<b>Working Capital Ratios</b>									
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
<b>Leverage Ratio (x)</b>									
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	5.0	8.8	11.7
Debt/Equity	1.6	1.1	1.0	1.0	1.1	0.7	0.6	0.4	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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