

Novelis aims to achieve sustainable EBITDA/tonne of US\$525/tonne by Q4FY24...

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

Investor Day Highlights: We attended Hindalco's Investor Day. Following are the key highlights of the meet...

- Novelis aims to achieve long term sustainable EBITDA/tonne of US\$525/tonne by Q4FY24
- Hindalco has indicated it is pacing spend on growth capex for both Novelis and Indian operations. Of ~US\$8 billion capex announced a year ago, the company is prioritising ~US\$4.4 billion capex projects, which are already under way while the balance is being classified under the bucket - identified future growth opportunities. The company did indicate that balance growth projects have been deferred and not cancelled
- At Novelis, Hindalco plans to spend ~US\$3.3 billion over FY24-28 while they have deferred ~US\$1.5-1.8 billion worth of projects
- For Indian operations, Hindalco plans to spend ~US\$1.13 billion over FY24-28 while it has deferred ~US\$2.32 billion worth of projects

What should investors do? Hindalco's share price has given a return of 17% in the last two years (from ~₹ 345 in April 2021 to ~₹ 402 in April 2023).

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

Target Price and Valuation: We value Hindalco at ₹ 465, based on SoTP valuation.

Key triggers for future price performance:

- We assume Novelis will report EBITDA of US\$475/tonne each for both FY23E & FY24E. For FY24E, we downward revise our Novelis EBITDA/tonne estimate to US\$475/tonne (from US\$500/tonne earlier)
- Going forward, we expect Hindalco to report consolidated EBITDA margin of 11.3% for FY23E and 11.2% for FY24E

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

- Tata Steel is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world
- BUY with a target price of ₹ 130



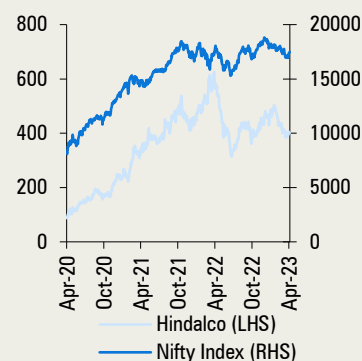
Particulars

Particulars	
Market Capitalization	₹ 90056 crore
Total Debt (Q3FY23)	₹ 59720 crore
Cash & Cash eq. (Q3FY23)	₹ 18004 crore
EV	₹ 131772 crore
52 week H/L (₹)	636 / 309
Equity capital	₹ 222 crore
Face value	₹ 1

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	34.6	34.6	34.7	34.7
FIs	28.9	24.8	24.9	25.7
DIs	19.2	21.5	26.8	26.9
Public	17.3	19.1	13.7	12.8
Total	100	100	100	100

Price Chart



Key risks

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

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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	2,15,804	2,21,811	6.6
EBITDA	15,511	14,306	17,536	28,347	18.0	24,396	24,819	-6.4
EBITDA Margin (%)	11.9	12.1	13.3	14.5		11.3	11.2	
Adj PAT	5,495	3,767	3,483	13,730	49.0	11,080	11,224	-9.6
EPS (₹)	24.7	16.9	25.5	59.1		49.8	50.5	
EV/EBITDA (x)	8.2	9.0	7.8	4.4		4.8	4.9	
RoCE (%)	10.3	7.8	8.8	15.5		12.6	11.9	
RoE (%)	9.6	6.9	8.5	16.8		12.5	11.4	

Source: Company, ICICI Direct Research

Exhibit 1: Novelis – Growth projects under execution – (FY24–28)

Novelis

Growth Projects Under Execution (FY24-28)

Identified Projects	Location	Primary Product Markets Supported	Capacity(Kt)	Cost(US\$)	Status/Estimated Commissioning
North America					
Hot mill debottlenecking & automotive upgrades	Oswego, US	Specialties, Auto	65	\$130 mn	FY 2024
Recycling expansion & upgrades	Greensboro, US	Auto	30	\$30 mn	Completed FY 2023
State-of-the art Automotive Recycling & Casting Centre	Guthrie, US	Auto	240	\$365 mn	FY 2025
Integrated Greenfield Rolling & Recycling Mill	Bay Minette, US	Can, Auto	600	\$2500 mn	FY 2026
NEW - Rolling debottlenecking	Logan, US	Can, Auto	80	\$150 mn	FY 2026
Asia					
Recycling and Casting Centre at UAL	UAL, S. Korea	All	100	\$50 mn	FY 2026
NEW - Rolling debottlenecking	Yeongju, S. Korea	Can	50	\$20 mn	FY 2024
South America					
Rolling Debottlenecking	Pinda, Brazil	Can	70	\$50 mn	FY 2024
Total projects under execution				\$3.3 bn	

Source: Company, ICICI Direct Research

Exhibit 2: Novelis – Identified future growth opportunities – (FY24–28)

Novelis

Identified future growth opportunities (FY24-28)

Identified Projects	Location	Primary Product Markets Supported	Capacity(Kt)	Cost(US\$)	Status/Estimated Commissioning
Asia					
Delayed: Integrated cold mill and closed loop recycling	Zhenjiang, China	Auto	200	\$375 mn	Under Appraisal
Europe					
Under Appraisal: Brownfield rolling capacity	Germany	Can	200	\$200-300mn	Under Appraisal
Under Appraisal: Brownfield recycling capacity	Germany	Automotive	150	\$100-150 mn	Under Appraisal
South America					
Under Appraisal: Brownfield rolling & Recycling capacity	Brazil	Can	450	\$800 mn – 1.0 bn	Under Appraisal
Total projects as future growth opportunities				\$1.5-1.8 bn	

Source: Company, ICICI Direct Research

Exhibit 3: India Business – Growth projects under execution – (FY24–28)

India Business Growth Projects Under Execution (FY24-28)

Sr No.	Projects	Plant/Region	Capacity(Kt)	Estimated Cost(US\$ Mn)	Expected Year of Completion	Status of Projects
I Aluminium-Upstream						
1	Alumina Expansion (via Debottlenecking)	Utkal	350	\$40	FY24	On Track
2	Can Recycling	Aditya	100	NA	FY25	Project will be executed with a tolling partner; Hindalco will source recycled hot metal from the tolling partner
II Aluminium-Downstream						
3	Extrusions	Silvassa	34	\$97	FY 24	2 out of 3 Extrusion presses already commissioned
4	FRP –Casting & Cold Rolling	Aditya/Hirakud	170	\$450	FY 25	On Track
5	Coated AC Fins (under PLI)	Taloja	26	\$50	FY 25	On Track
6	Battery Foil Mill	Aditya	24	\$105	FY 26	On Track
7	Battery Enclosures	Pune	6.5	\$33	FY 25	On Track
Total (Aluminium Upstream + Downstream)				\$775 Mn		
III Copper Business						
8	Inner Grove Tubes (PLI Scheme) and Alloy Rods	Vadodara	25	\$66	FY 25	On Track
IV Specialty Alumina						
9	Precipitate Hydrate & White Hydrate	Belagavi	60	\$55	FY 25	On Track
10	Synthetic Aggregates (Fused & Tabular Alumina)	Aditya/TBD	90	\$55	FY 25	On Track
V Energy						
11	Chakla Coal Mine (For Mahan & Renukoot)	Odisha	4.5 MTPA	\$186	FY 26	On Track
Grand Total India Business Spends (Projects under execution)				\$1.13 Bn		

Source: Company, ICICI Direct Research

Exhibit 4: India Business – Identified future growth opportunities – (FY24–28)

India Business Identified future growth opportunities (FY24-28)

Sr No.	Identified Projects	Plant/Region	Capacity(Kt)	Estimated Cost(US\$ Mn)	Expected Year of Completion	Status of Projects
I Aluminium-Upstream						
1	Alumina Expansion (Greenfield)	Odisha	850	\$590	FY 27	Project is Under Appraisal : Bauxite Mining auctions are in progress
2	Brownfield Smelter Expansion (with 3 rd Party renewable power)	Aditya/Mahan	180	\$760	FY 27	Project is being contemplated subject to success of round the clock renewable power pilot project of 100 MW in Aditya
II Aluminium-Downstream						
3	Large Press Railway Extrusions	TBD	12	\$200	FY 26	Project is Under Appraisal
4	Other Extrusion Expansions	Silvassa & Kuppam	27	\$150	FY 26	Project is Under Appraisal
III Copper Business						
5	Recycling for copper and E-Waste	TBD	50	\$250	FY 26	Project is Under Appraisal
IV Specialty Alumina						
6	Other Specialty Alumina Products and Brownfield Expansions	Belagavi/TBD	165	\$94	FY 27	Projects are under Appraisal ; Timelines being ascertained
V Energy						
7	Meenakshi Coal Mine (For Aditya & Hirakud)	Odisha	10-12 MTPA	\$273	FY 28	Regulatory Approvals pending
Grand Total India Business Spends (as future growth opportunities)				\$2.32 Bn.		

Source: Company, ICICI Direct Research

Exhibit 5: India aluminium consumption expected to double from ~4.5 MT in FY23 to ~ 9 MT in FY33

Domestic Aluminium Consumption Expected to Double from ~4.5 MT in FY23 to ~9.0 MT in FY33



Building & Construction

Outlook: 3rd largest market in the World by FY33

Demand drivers: Increase in urban housing demand, premium urban projects and infra

Applications: Façade, Formwork, Roofing, hardware etc.

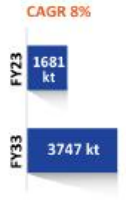


Transport/Automotive

Outlook: 3rd largest market in the World by 2030

Demand drivers: Focus on light weighting and increasing share of EVs

Applications: Engine castings, Auto Fin/Clad, cylinder blocks, alloy wheels, steering wheels, CMS etc.



Packaging

Outlook: Pharma sales increase 2.6x by 2030

Demand drivers: Growing pharmaceutical, food & beverage and liquor industry
Ban on plastics; online food delivery

Applications: Foils (flexible, pharmaceutical, household foils, Semi Rigid Containers), closures/caps and beverage cans



Other

Other industries include Electrical, Consumer durable, Aluminium cookware, machinery and equipment, railways, Printing,

Applications: Wire, Frames & mounting structures for solar modules, cables / conductors, lugs, heat sinks, transformers, consumer durable, etc.



Source: Company, ICICI Direct Research

Exhibit 6: India copper consumption expected to double from ~1.0 MT in FY23 to ~ 2 MT in FY33

Domestic Copper Consumption is Expected to double from ~1.0 MT in FY23 to ~2.0 MT in FY33



Transport

EV Growth accelerating on the back of GOI push as well as consumer demand. (Copper Intensity in EV 3-4x higher)



Applications: Electric motors, batteries, inverters, wiring and in charging stations



Urbanization & Smart Cities

Rapid urbanization and housing growth accelerating home demand

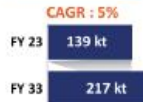


Applications: Wires & Cables, Pipes, tubing, and smart systems



IoT Enabled Industry

Make in India and targeted PLIs moving copper demand to India

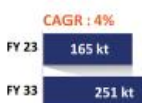


Applications: Electrical motors & sensors, electronics & cables



New Age Lifestyle

Digitalization and improved standard of living expanding home white goods consumption

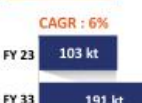


Applications: Copper tubes in ACs, Refrigerators, wiring systems, micro processors & copper alloys etc



Reliable Clean Energy Infra

Copper intensity 2-8x higher in renewables (India to triple Renewable Power by 2030)



Applications: Renewable energy systems, T&D systems, and hydro/thermal power systems



Other

Other articles of Copper like kitchen ware, utensils, brass and other copper alloys.

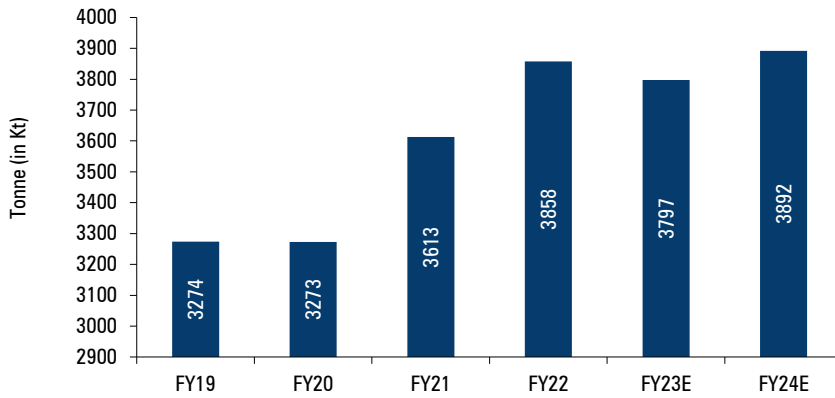


Applications: Kitchenware/cookware, copper films/sheets, Copper Alloy articles

Source: Company, ICICI Direct Research

Financial story in charts

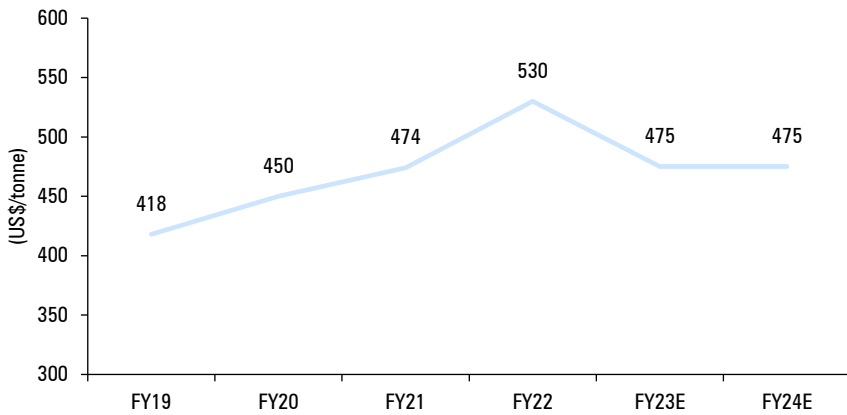
Exhibit 7: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



We model Novelis sales volume (including Aleris sales volume) of 3797 KT for FY23E and 3892 KT for FY24E

Source: Company, ICICI Direct Research

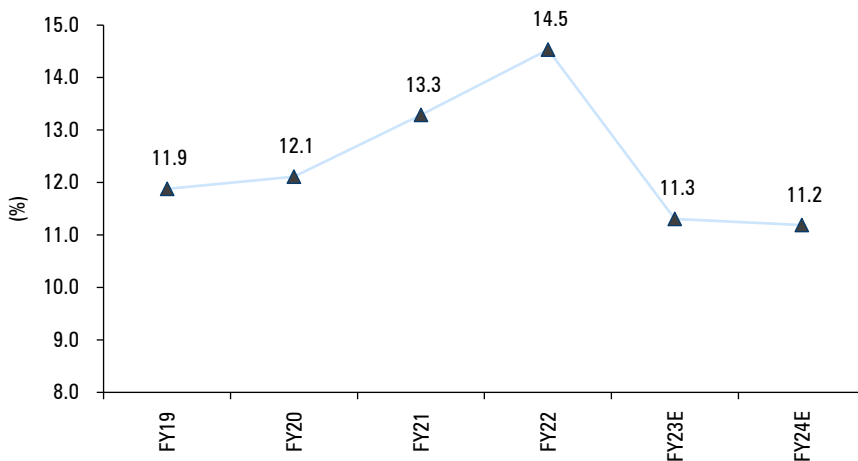
Exhibit 8: Trend in Novelis EBITDA/tonne (in US\$/tonne)



We expect Novelis to report EBITDA/tonne of US\$475/tonne each for FY23E and FY24E

Source: Company, ICICI Direct Research

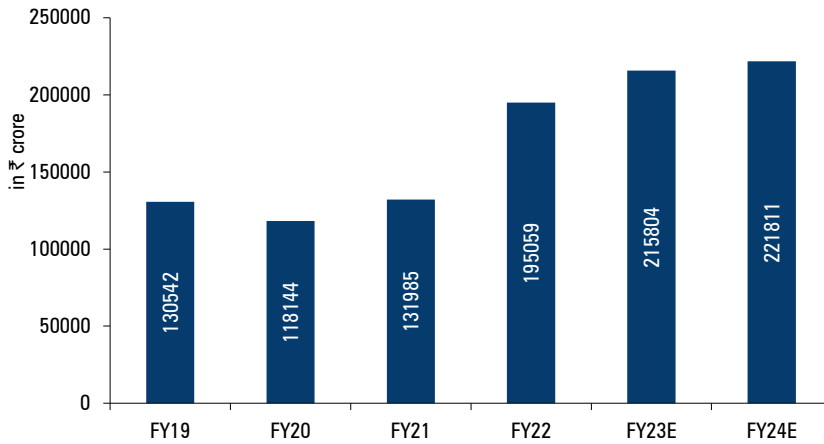
Exhibit 9: Trend in consolidated EBITDA margin (in %)



We expect consolidated EBITDA margin for Hindalco to come in at 11.3% in FY23E and 11.2% in FY24E

Source: Company, ICICI Direct Research

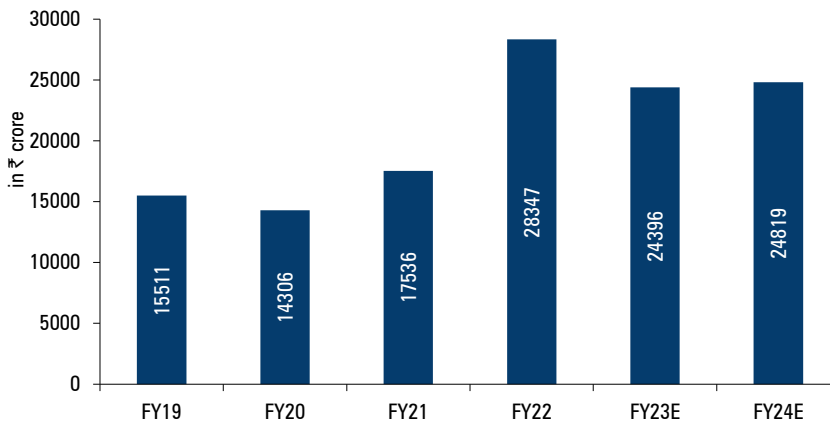
Exhibit 10: Trend in consolidated topline (in ₹ crore)



We expect Hindalco's consolidated topline to grow at a CAGR of 6.6% during FY22-24E

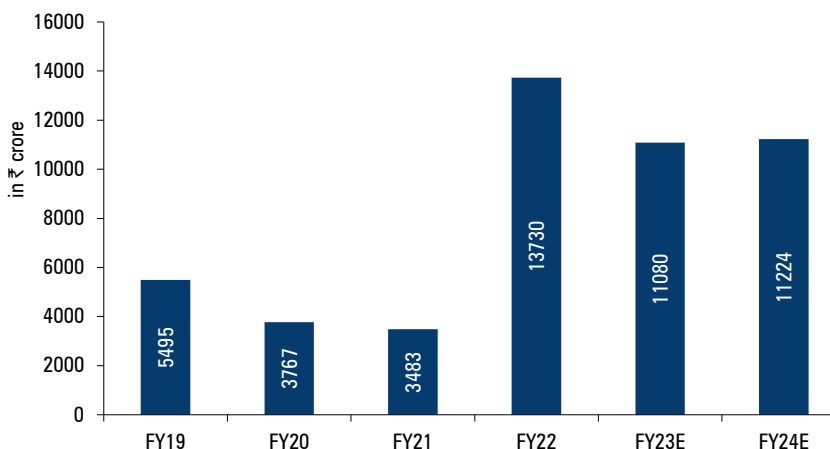
Source: Company, ICICI Direct Research

Exhibit 11: Trend in consolidated EBITDA (in ₹ crore)



Source: Company, ICICI Direct Research

Exhibit 12: Trend in consolidated PAT (in ₹ crore)



Source: Company, ICICI Direct Research

Exhibit 13: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	118144	-9	16.9	-31	24	9.0	6.9	7.8
FY21	131985	12	25.5	51	16	7.8	8.5	8.8
FY22	195059	48	59.1	132	7	4.4	16.8	15.5
FY23E	215804	11	49.8	-16	8	4.8	12.5	12.6
FY24E	221811	3	50.5	1	8	4.9	11.4	11.9

Source: Company, ICICI Direct Research

Exhibit 14: SoTP valuation

Particulars	In ₹ crore	Multiple	In ₹ crore
Novelis EBITDA (FY24E)	15160	6.0	90959
Indian Operation EBITDA (FY24E)	9659	5.0	48296
EV (A) (Novelis + Indian Operations)			139255
Gross Consl. Debt (FY24E)			55497
Cash and Cash Equivalents (Consol) (FY24E) *			19704
Net Debt (FY24E) (B)			35793
Market Capitalisation (A)- (B)			103462
No. of shares			222
Implied Target Price			465
CMP			402
Upside (%)			16%

Source: Company, ICICI Direct Research, * - Liquid Investments valued at a 20% discount.

Financial Summary (Consolidated)

Exhibit 15: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	131985	195059	215804	221811
Growth (%)	12	48	11	3
Total Operating Expend.	114449	166712	191408	196992
EBITDA	17536	28347	24396	24819
Growth (%)	23	62	-14	2
Depreciation	6628	6729	6940	7237
Interest	3738	3768	3885	3885
Other Income	1222	1136	1193	1258
Exceptional Item	492	-582	0	0
PBT	7900	19568	14764	14956
Total Tax	2723	5373	3691	3739
PAT	5177	14195	11073	11217
Growth (%)	38	174	-22	1
Minorities + loss from discontinue op	-1694	-465	7	8
Rep PAT after Assoc., MI	3483	13730	11080	11224
Adj PAT after Assoc., MI	5674	13148	11080	11224
Growth (%)	40	132	-16	1
EPS (₹)	25.5	59.1	49.8	50.5

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	3483	13730	11080	11224
Add: Depreciation	6628	6729	6940	7237
Add: Interest	3738	3768	3885	3885
(Inc)/dec in Current Assets	-12027	-26731	-269	-6688
Inc/(dec) in CL and Prov.	15413	31802	-6336	337
CF from operating activities	17235	29298	15300	15995
(Inc)/dec in Investments	-7717	3019	4651	0
(Inc)/dec in Fixed Assets	-20188	-8082	-10000	-15000
Others	355	865	-1582	-44
CF from investing activities	-27550	-4198	-6931	-15044
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1741	-7500	-3500	0
Interest Paid	-3738	-3768	-3885	-3885
Dividend paid & dividend tax	-619	-826	-826	-826
Inc/(dec) in Share Cap	3654	-4423	0	0
Others	0	0	0	0
CF from financing activities	-2445	-16517	-8211	-4711
Net Cash flow	-12760	8583	158	-3760
Opening Cash	21569	8809	17392	17550
Closing Cash	8809	17392	17550	13790

Source: Company, ICICI Direct Research

Exhibit 17: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Share Capital	222	222	222	222
Reserve and Surplus	66321	77980	88233	98632
Total Shareholders funds	66543	78202	88456	98854
Total Debt	65994	63235	55497	55497
Deferred Tax Liability	4493	5631	4493	4493
Minority Interest & Others	1551	0	0	0
Total Liabilities	138581	147068	148446	158844
Assets				
Gross Block	135310	148030	150745	161545
Less: Acc Depreciation	58123	64852	71792	79029
Net Block	77187	83178	78953	82516
Goodwill	23317	23965	23965	23965
CWIP	10013	4727	12013	16213
Investments	17087	14068	12595	12595
Inventory	30668	44483	38431	45578
Debtors	13012	21076	23650	24308
Loans and Advances	4046	4033	6725	6556
Other Current Assets	3144	5209	9064	8116
Cash	8809	17392	17550	13790
Total Current Assets	59679	92193	95420	98348
Trade Payables	36439	41382	44343	45578
Provisions & Other Curren Liabilities	14679	32312	31738	30840
Current Liabilities & Prov	51118	73694	76081	76418
Net Current Assets	8561	18499	19338	21930
others	2416	2631	1582	1626
Application of Funds	138581	147068	148446	158844

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	25.5	59.1	49.8	50.5
Cash EPS	55.3	89.4	81.0	83.0
BV	299	352	398	445
DPS	3	4	4	4
Cash Per Share	39.6	78.2	78.9	62.0
Operating Ratios (%)				
EBITDA Margin	13.3	14.5	11.3	11.2
PBT / Total Operating income	6.0	10.0	6.8	6.7
Adj PAT Margin	4.3	6.7	5.1	5.1
Inventory days	85	83	65	75
Debtor days	36	39	40	40
Creditor days	99	77	75	75
Return Ratios (%)				
Adj RoE	8.5	16.8	12.5	11.4
Adj RoCE	8.8	15.5	12.6	11.9
RoIC	12.5	24.9	21.2	19.1
Valuation Ratios (x)				
P/E	15.6	6.7	8.0	7.9
EV / EBITDA	7.8	4.4	4.8	4.9
EV / Net Sales	1.0	0.6	0.5	0.5
Market Cap / Sales	0.7	0.5	0.4	0.4
Price to Book Value	1.3	1.1	1.0	0.9
Solvency Ratios				
Net Debt/EBITDA	2.7	1.4	1.2	1.7
Debt / Equity	1.0	0.8	0.6	0.6
Current Ratio	1.2	1.3	1.3	1.3
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%



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