

BSE SENSEX
66,801

S&P CNX
19,901



Stock Info

Bloomberg	HNDL IN
Equity Shares (m)	2247
M.Cap.(INRb)/(USDb)	1074.8 / 12.9
52-Week Range (INR)	509 / 359
1, 6, 12 Rel. Per (%)	6/7/2
12M Avg Val (INR M)	3061
Free float (%)	65.4

Financials Snapshot (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	2,232	2,055	2,092
EBITDA	227	232	226
Adj. PAT	101	95	100
EBITDA Margin (%)	10	11	11
Cons. Adj. EPS (INR)	45	43	45
EPS Gr. (%)	-26	-6	6
BV/Sh. (INR)	311	351	393

Ratios

Net D:E	0.5	0.4	0.3
RoE (%)	16.3	12.9	12.1
RoCE (%)	11.0	10.0	9.5
Payout (%)	7.7	8.2	7.8

Valuations

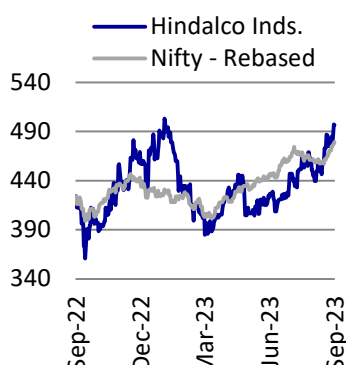
P/E (x)	10.6	11.2	10.6
P/BV (x)	1.5	1.4	1.2
EV/EBITDA(x)	6.3	6.0	5.9
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	8.8	7.0	9.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	34.6	34.6	34.6
DII	26.3	26.5	21.5
FII	30.3	30.3	25.1
Others	8.7	8.6	18.8

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR478

TP: INR550 (+15%)

Buy

Capacity expansion and shift to high value-added downstream products to drive profitability

- Hindalco (HNDL) plans to incur a capex of USD4.4b over the next five years for several projects, including FRP capacity expansion in USA, upstream expansion at Utkal, special alumina business capacities and downstream aluminum capacities, among others.
- Over USD3b of capex is allocated to the USA region. About 80% of the organic growth capex in India (USD1.1b) will be allocated to the downstream business.
- HNDL expects Novelis's EBITDA/t to touch USD525 by 4QFY24.
- We believe HNDL is adding downstream capacities at the right time to capture the robust growth opportunities. Despite near-term headwinds due to a slowdown in China and its impact on non-ferrous prices, the long-term outlook remains positive.
- We reiterate our BUY rating on the stock with our SOTP-based TP of INR550.

EBITDA guidance for Novelis kept unchanged at USD525/t

- As headwinds from channel destocking of beverage cans are over, HNDL expects EBITDA/t to touch USD525 by 4QFY24 for Novelis.
- For Novelis, we assume EBITDA/t at USD476/t for FY24E and USD506/t for FY25E.

Coal linkages to drive cost synergies

- HNDL's total coal requirement is around 16mt, which is currently fulfilled either by its own mines, linkages (~41%), e-auctions (~53%) or imports.
- Chakla mine, which has PRC of around 4.5mt, is progressing as per timelines. The box cut is expected to come on stream by Oct'24 and the mine is expected to be fully operational in FY26E.
- Once operational, it will reduce the company's dependency on procurement of coal from external sources.
- HNDL has also been declared as a preferred bidder for Meenakshi West mine at a ~33% premium, which has PRC of 6-7mt.

HNDL on track to enhance its capacities

- HNDL has undertaken a capex program of USD4.4b spread over five years.
- Out of the total capex, USD3.3b is allocated for growth projects for Novelis and USD1.1b for Indian operations.

Novelis:

- USD2.7-2.8b would be invested toward setting up a 600kt low-carbon recycling and rolling facility at Bay Minette, USA.
- Bay Minette facility, which will cater to North America's beverage can sheet requirements, is expected to commence production in FY26.

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- Recently, Novelis has entered into a long-term agreement with Ball Corp. With this contract, Novelis has now secured the entire beverage can sheet capacity from this new facility.
- Novelis is investing around USD365m to set up a 240kt automotive focused sheet ingot recycling facility at Guthrie (USA).

India (alumina and aluminum):

- HNDL is setting up a 34kt Silvassa extrusion facility. Two out of three presses have already been commissioned and the full capacity is expected to come on stream in FY24.
- HNDL is also setting up 170kt FRP casting and cold rolling facility at Aditya and Hirakud, along with coated aluminum AC fin project at Taloja.
- To capture the growing EV market, HNDL is setting up a 6.5kt battery enclosure facility and a 24kt battery foil mill, which are likely to commence production in FY24E and FY26E, respectively.
- HNDL is expanding its upstream alumina capacity at Utkal refinery, which will augment its current capacity by 350kt to 2.6mt by FY24E end.

Global and domestic demand scenario

Aluminum:

- Global aluminum production for 2QCY23 (1QFY24) was up 1% YoY to 17.3mt and consumption rose 2% YoY to 17.7mt, mainly led by higher demand from China. Domestic aluminum consumption in 1QFY24 grew 14% YoY to 1.14mt.
- Domestic aluminum demand is expected to double from 4.5mt to 9mt over the next decade, driven by robust demand from EV, packaging, automotive, transportation, infrastructure, construction, consumer durables and industrial sectors.

Copper:

- Global copper production during 2QCY23 (1QFY24) grew 3% YoY to 6.2mt and consumption improved 6% YoY to 6.7mt, a deficit of 0.5mt. Market demand in India was relatively better at 190kt (up 10% YoY).
- Global demand for refined copper is expected to increase by 2% YoY in CY23 (CY22 global consumption 24.9mt) and demand for refined copper in the domestic market is expected to reach pre-Covid levels of 790kt in CY23. Domestic copper demand is expected to more than double to 2mt by FY33.

Valuation and view: Healthy balance sheet; reiterate Buy

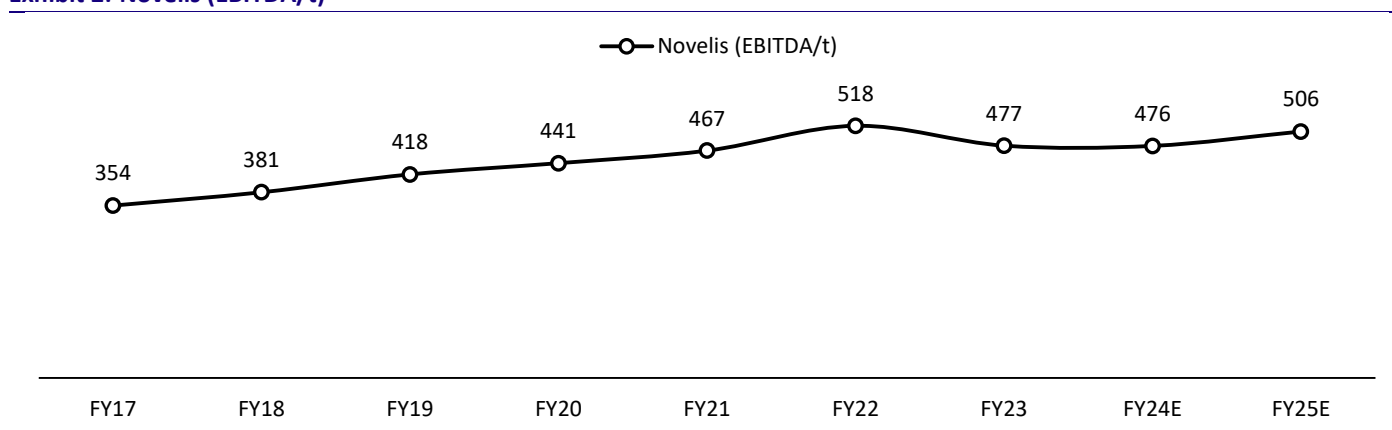
- The company's Indian operation had a net debt-to-EBITDA (NE) ratio of 0.22x as of 1QFY24 and is well on way to be net debt free. Novelis's NE ratio stands at 2.69x and consolidated NE ratio stands at 1.73x; in the long term, the company plans to keep it below 2x.
- HNDL has a strong balance sheet and all the incremental capex will be funded via internal accruals.
- We reiterate our BUY rating on the stock with our SOTP-based TP of INR550.

Exhibit 1: Capex for projects across India and international geographies

Projects	Facility	Capacity (kt)	Est. Cost (USD m)	Year of Completion
Alumina debottlenecking	Utkal	350	40	FY24
Can recycling	Aditya	100	-	FY25
Extrusion (downstream)	Silvassa	34	97	FY24
FRP (downstream)	Aditya/Hirakud	170	450	FY25
Coated AC Fins (downstream)	Taloja	26	50	FY25
Battery foil mill (downstream)	Aditya	24	105	FY26
Battery enclosures (downstream)	Pune	6.5	33	FY25
Inner Grove Tubes (Copper)	Vadodara	25	66	FY25
Precipitate Hydrate & White Hydrate	Belagavi	60*	55	FY25
Synthetic Aggregates	Aditya	90	55	FY25
Hot/cold rolling and recycling facility	Bay Minette , USA	600	2,700-2,800	FY26
Automotive focused sheet ingot	Guthrie, USA	240	365	FY25
Casting	South Korea	100	50	FY25
Debottlenecking	Multiple locations	265	350	FY24-26
Continuous annealing line	Germany	-	30	-
Chakla Mine (capacity in mt)	India	4.5	-	FY26

*PPT Hydrate capacity is expected to be around 20kt

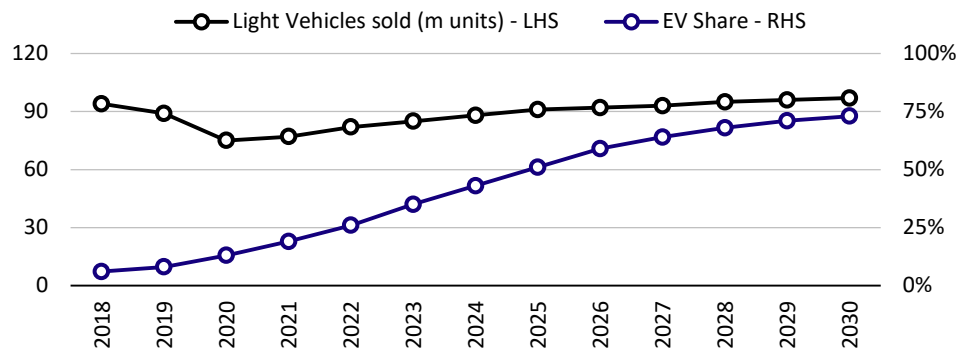
Source: MOFSL, Investor Day presentation, Annual Report, Company Presentation

Exhibit 2: Novelis (EBITDA/t)

Source: MOFSL, Company

- Novelis reported an all-time high EBITDA/t of USD518/t in FY22.
- In 1QFY24, Novelis posted EBITDA/t of USD479 (higher than our estimate). The company has raised its EBITDA/t guidance for the next few quarters.
- Though HNDL has kept its USD525/t guidance unchanged, we assume EBITDA/t at USD476/t for FY24 and USD506/t for FY25 in our estimates.
- Any improvement in EBITDA/t over and above our estimates provides further upside to our TP.

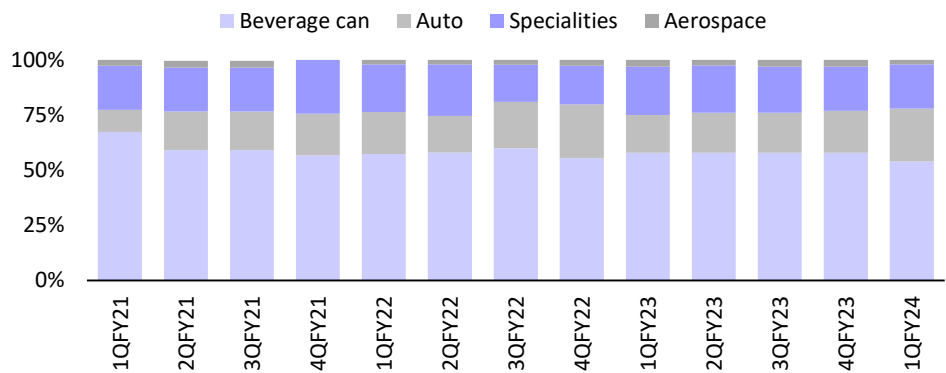
Exhibit 3: Global share in light vehicle (LHS) and EV (RHS)



Source: MOFSL, Ducker 2022 Light Vehicle Aluminum Content and Outlook study, Company

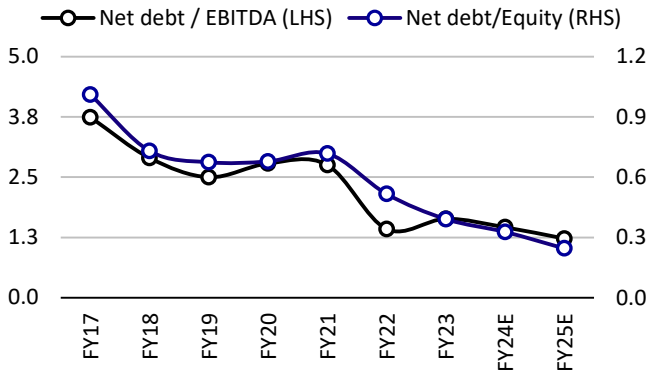
- Aluminum, which is a light metal compared to steel, improves efficiency of vehicles and thus, curtails emission.
- Electrification is expected to increase the aluminum content in light vehicles to over 555lbs per vehicle by 2030.

Exhibit 4: Novelis product mix



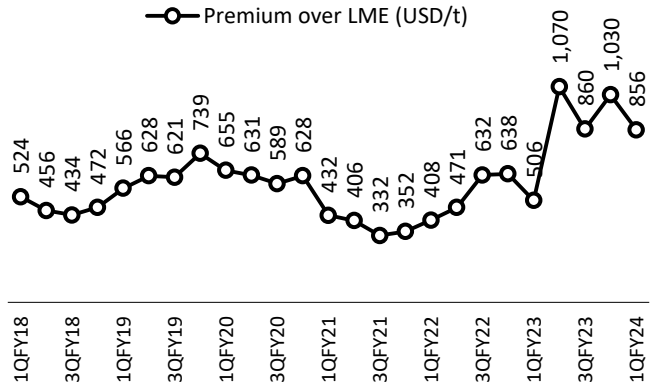
- In the product mix, the share of auto increased in 1QFY24 to 24% as compared to its long term average of 18%-19% on the back of record dispatches.
- Due to channel destocking of beverage cans in 4QFY23 and 1QFY24, its share in total sales contracted to 54% vs. its historical average of 57-58%.
- However, as demand for cans increases and as the new FRP facility comes on stream in USA, the share of Beverage can is expected to remain around 58-60%.

Exhibit 5: Net debt/EBITDA and Net debt/Equity to be at comfortable levels



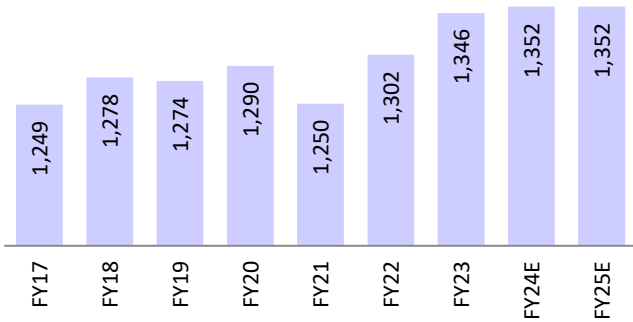
Source: MOFSL, Company

Exhibit 6: Aluminum premium over LME dropped in 1QFY24 (incl. hedged gains/loss) due to global macro impact



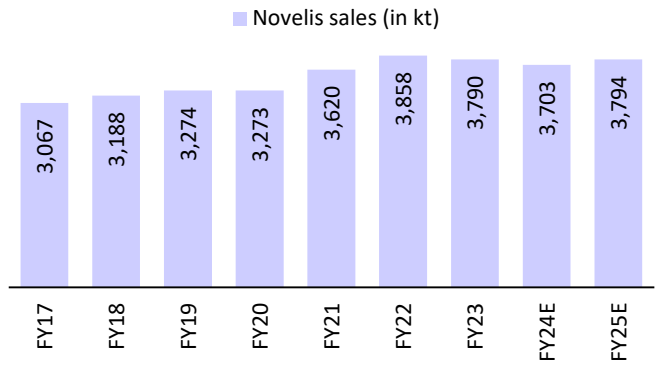
Source: MOFSL, Company

Exhibit 7: Al upstream production (kt) expected to surpass 1.35mt in FY24E (100% capacity utilization)



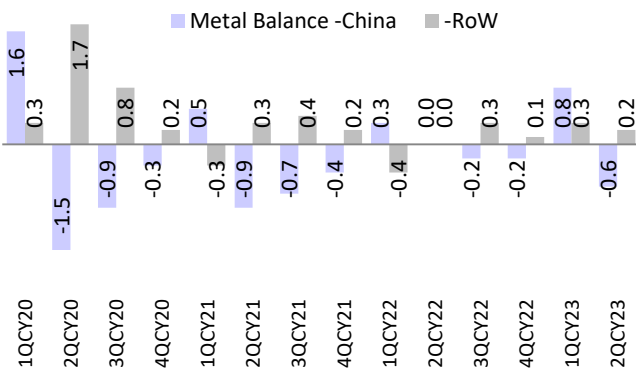
Source: MOFSL, Company

Exhibit 8: Novelis sales expected to pick up from FY25E onward



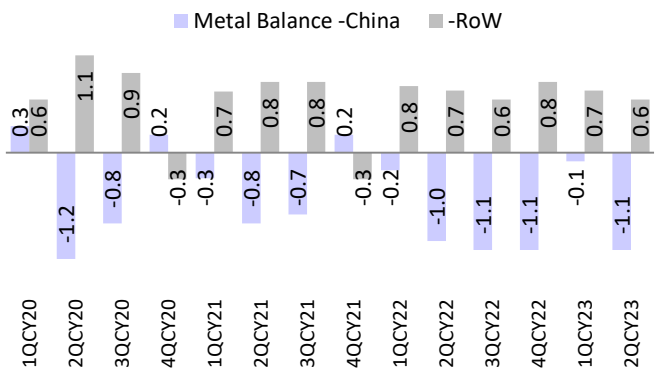
Source: MOFSL, Company

Exhibit 9: Aluminum market balance (mt): China has a deficit of 0.6mt and ex-China the surplus is at 0.2mt



Source: MOFSL, Company

Exhibit 10: Copper market balance – Surplus/(deficit) (mt): net global deficit at 0.5mt



Source: MOFSL, Company

Exhibit 11: TP calculation

Y/E March	UoM	FY25E
Hindalco - India		
Aluminum		
Volumes	kt	1,352
EBITDA	INR/t	42,801
EBITDA	USD/t	514
EBITDA	INR m	57,888
Copper		
Volumes	kt	410
EBITDA	INR/t	47,020
EBITDA	USD/t	564
EBITDA	INR m	19,278
Others	INR m	-11,197
EBITDA Hindalco - India	INR m	65,969
EV/EBITDA (x)	x	6
Target EV	INR m	4,09,006
Novelis		
Volumes	kt	3,794
EBITDA	USD/t	506
USD/INR	x	83
EBITDA	INR m	1,59,880
EV/EBITDA (x)	x	6
Target EV	INR m	10,07,244
Target EV - Group	INR m	14,16,249
Net Debt	INR m	2,77,302
Equity Value	INR m	11,38,947
Equity Value	INR/sh	513
Investments (quoted)	INR m	96,561
Investments (quoted)	INR/sh	43
Discount factor	%	10%
Target Price	INR/sh	550

Source: MOFSL

Exhibit 12: Global comparative valuations

Company	M-Cap USD m	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
		CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24
Hindalco*	12,938	10.6	11.2	6.3	6.0	1.5	1.4	16.3	12.9
Nalco*	2,107	11.4	9.7	6.2	4.6	1.3	1.2	11.9	13.2
Alcoa	5,057	NA	14.6	12.0	5.4	1.1	1.1	-7.9	3.5
Norsk Hydro	11,852	10.6	9.2	5.0	4.7	1.1	1.1	11.1	12.0
CHALCO	14,213	12.8	10.6	6.4	5.4	1.2	1.1	10.6	11.6
RUSAL	5,244	3.8	2.7	NA	NA	0.4	0.3	10.6	14.1
Alumina	1,870	NA	19.0	1,030.1	11.0	1.2	1.2	-3.6	6.7

Source: MOFSL, Company. (*) denotes MOFSL estimates

Financials and valuations

Consolidated Income Statement

(INR b)

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Net sales	1,002	1,152	1,305	1,181	1,318	1,951	2,232	2,055	2,092
Change (%)	1.4	15.0	13.3	-9.5	11.6	48.0	14.4	-7.9	1.8
Total Expenses	877	1,014	1,150	1,039	1,144	1,667	2,005	1,823	1,866
EBITDA	124	138	155	142	174	283	227	232	226
% of Net Sales	12.4	12.0	11.9	12.0	13.2	14.5	10.2	11.3	10.8
Deprn. & Amortization	45	45	48	51	65	67	71	68	55
EBIT	80	93	107	91	109	216	156	164	171
Net Interest	57	39	38	42	37	38	36	40	31
Other income	11	10	11	12	12	11	13	4	2
PBT before EO	33	64	81	61	83	190	132	128	143
EO income (exp)	0	18	0	-2	-4	6	0	0	0
PBT after EO	33	82	81	59	79	196	132	128	143
Current tax	13	16	19	15	19	38	29	30	43
Deferred tax (net)	1	5	7	6	8	16	3	4	0
Tax	14	21	26	22	27	54	31	33	43
Rate (%)	42.9	25.4	32.0	36.4	34.5	27.5	23.8	26.1	29.8
Reported PAT	19	61	55	38	52	142	101	95	100
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	101	95	100
Change (%)	-22.9	120.7	30.6	-29.2	40.7	149.0	-26.2	-5.8	5.9

Balance Sheet

(INR b)

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	2	2	2	2	2	2	2	2	2
Reserves	458	546	573	581	663	780	946	1,034	1,127
Net Worth	461	549	575	583	665	782	948	1,036	1,130
Minority Interest	0	0	0	0	0	0	0	0	0
Total Loans	638	520	524	674	660	632	583	633	683
Deferred Tax Liability	20	31	37	38	36	44	73	77	77
Capital Employed	1,118	1,100	1,136	1,295	1,361	1,459	1,605	1,746	1,890
Gross Block	1,041	1,083	1,131	1,200	1,343	1,470	1,561	1,631	1,673
Less: Accum. Deprn.	365	410	458	509	574	641	712	780	835
Net Fixed Assets	676	673	673	691	770	829	849	852	839
Goodwill	171	178	186	201	233	240	257	257	257
Capital WIP	18	21	41	77	102	49	77	148	189
Investments	62	69	52	31	77	87	83	83	83
Working capital Assets	530	530	567	686	706	1,014	969	1,004	1,126
Inventory	183	216	222	224	307	445	430	395	403
Account Receivables	83	100	115	93	130	211	162	149	152
Cash and Bank Balance	172	120	136	278	182	228	212	294	406
Others (incl. LT)	92	94	94	90	88	130	165	165	165
Working capital liability	338	370	383	391	527	760	630	597	604
Account Payables	179	204	207	183	283	442	418	385	392
Others (incl. LT)	160	166	175	208	244	318	212	212	212
Net Working Capital	191	160	185	295	180	254	339	407	522
Appl. of Funds	1,118	1,100	1,136	1,295	1,361	1,459	1,605	1,746	1,890

Financials and valuations

Cash Flow Statement								(INR b)	
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
EBITDA	124	138	155	142	174	283	227	232	226
XO Exp. (income)	4	3	0	-3	-3	15	-3	0	0
tax paid	-8	-14	-19	-1	-13	-38	-27	-30	-43
Change in WC	7	-18	-17	-12	14	-92	-5	14	-3
CF from Op. Activity	127	109	120	127	172	168	192	216	180
(Inc)/Dec in FA + CWIP	-29	-30	-60	-68	-56	-54	-98	-142	-83
Free Cash Flow to firm	97	79	60	59	117	114	94	74	97
(Pur)/Sale of Inv. & yield	6	25	7	7	9	-59	20	4	2
Others & M&A	4	8	5	10	-173	59	-26	0	0
CF from Inv. Activity	-20	3	-48	-51	-220	-55	-105	-138	-81
Equity raised/(repaid)	33	0	-1	0	0	-1	-1	0	0
Debt raised/(repaid)	-25	-123	-14	109	-10	-28	-55	50	50
Interest	-61	-38	-36	-40	-37	-33	-38	-40	-31
Dividend (incl. tax)	-2	-3	-3	-3	-2	-7	-9	-7	-7
CF from Fin. Activity	-56	-164	-55	66	-49	-68	-103	3	13
(Inc)/Dec in Cash	51	-53	17	142	-96	46	-16	82	112
Add: Opening Balance	121	172	120	136	278	182	228	212	294
Closing Balance	172	120	136	278	182	228	212	294	406
Ratios									
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)									
EPS	8.6	18.9	24.7	17.5	24.6	61.3	45.3	42.7	45.2
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.3	77.4	73.3	69.8
BV/Share (adj.)	129.9	166.1	175.0	171.8	194.3	244.3	311.1	350.7	392.9
DPS	1.1	1.4	1.2	1.2	3.5	4.0	3.0	3.0	3.0
Payout (%)	15.0	8.7	5.7	8.0	16.7	7.6	7.7	8.2	7.8
Valuation (x)									
P/E	55.9	25.4	19.4	27.4	19.5	7.8	10.6	11.2	10.6
Cash P/E	16.8	10.1	10.4	12.0	9.1	5.1	6.2	6.5	6.9
P/BV	3.7	2.9	2.7	2.8	2.5	2.0	1.5	1.4	1.2
EV/Sales	1.5	1.3	1.1	1.2	1.2	0.8	0.6	0.7	0.6
EV/EBITDA	12.3	10.6	9.4	10.3	8.9	5.2	6.3	6.0	5.9
Dividend Yield (%)	0.2	0.3	0.3	0.3	0.7	0.8	0.6	0.6	0.6
Return Ratios (%)									
EBITDA Margins (%)	12.4	12.0	11.9	12.0	13.2	14.5	10.2	11.3	10.8
Net Profit Margins (%)	1.9	3.7	4.2	3.3	4.1	7.0	4.5	4.6	4.8
RoE	7.1	12.8	14.5	10.1	13.4	28.0	16.3	12.9	12.1
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.1	11.0	10.0	9.5
RoIC (pre-tax)	9.3	10.8	11.9	10.3	11.5	21.6	14.6	13.4	14.1
Working Capital Ratios									
Fixed Asset Turnover (x)	1.0	1.1	1.2	1.0	1.0	1.3	1.4	1.3	1.3
Asset Turnover (x)	0.9	1.0	1.1	0.9	1.0	1.3	1.4	1.2	1.1
Debtor (Days)	30	32	32	29	36	39	27	27	27
Inventory (Days)	67	69	62	69	85	83	70	70	70
Payable (Days)	65	65	58	56	78	83	68	68	68
Leverage Ratio (x)									
Current Ratio	1.6	1.4	1.5	1.8	1.3	1.3	1.5	1.7	1.9
Interest Cover Ratio	1.4	2.4	2.8	2.2	2.9	5.7	4.3	4.1	5.6
Debt/Equity	1.6	1.1	1.0	1.0	1.1	0.7	0.5	0.4	0.3

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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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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