7 November 2023

2QFY24 Results Update | Sector: Metals

Hindalco

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	HNDL IN
Equity Shares (m)	2247
M.Cap.(INRb)/(USDb)	1088.9 / 13.1
52-Week Range (INR)	509 / 381
1, 6, 12 Rel. Per (%)	4/4/4
12M Avg Val (INR M)	2922
Free float (%)	65.4

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	2,232	2,105	2,219
EBITDA	227	240	237
Adj. PAT	101	107	108
EBITDA Margin (%)	10	11	11
Cons. Adj. EPS (INR)	45	48	49
EPS Gr. (%)	-24	6	1
BV/Sh. (INR)	311	354	399
Ratios			
Net D:E	0.5	0.4	0.3
RoE (%)	16.3	14.5	12.9
RoCE (%)	11.0	10.8	9.6
Payout (%)	7.7	7.3	7.2
Valuations			
P/E (x)	10.7	10.0	9.9
P/BV (x)	1.6	1.4	1.2
EV/EBITDA(x)	6.4	5.8	5.6
Div. Yield (%)	0.6	0.6	0.6
FCF Yield (%)	8.7	7.5	9.2

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	34.6	34.6	34.6
DII	26.0	26.3	27.1
FII	31.1	30.3	28.9
Others	8.2	8.7	9.4

FII Includes depository receipts

CMP: INR485 TP: INR580 (+20%) Buy

Performance above estimate; outlook bright

- Novelis (HNDL)’s 2QFY24 revenue stood at USD4.1b (down 14% YoY), higher than our estimate of USD3.6b. The YoY decline in revenue was due to lower FRP dispatches; lower metal prices which was partially offset by higher automotive shipments; favorable product mix; and increased product pricing.
- Adjusted EBITDA was down 4% YoY at USD484m (14% above our estimate of USD424m), while EBITDA/t stood at USD519/t (USD57/t above our estimate of USD462/t). EBITDA/t improved QoQ due to a sharp increase in volumes. APAT was down 9% YoY at USD223m, which was 34% above our estimate of USD167m in 2QFY24.
- Shipments volume stood at 933kt (down 5% YoY), in line with our estimate of 919kt. The shipments across North America (NA)/Europe (EU)/South America(SA) stood at 390kt/256kt/144kt, improving sequentially by 5%/2%/21% QoQ. However, shipments across Asia were down at 175kt due to low off-take from the beverage can sector. The YoY reduction in shipments was mainly attributed to lower beverage can shipments and macro-economic conditions which was partially offset by higher dispatches to auto OEMs.
- Net debt for 1HFY24 stood to USD4.4b (vs. USD4.1b in Mar’23) with net debt/Equity at 2.7x (2.3x in Mar’23).

EBITDA/t at USD519 in 2Q FY24; guidance maintained at USD525 for 4QFY24

- HNDL’s EBITDA had been under pressure since 2QFY23 due to lower beverage can shipments. However, over the last two quarters, the EBITDA/t has seen sharp improvement. With beverage can destocking now largely complete, HNDL expects demand from the can segment to stabilize going ahead.
- HNDL plans to take maintenance shutdown in 3QFY24 across geographies and considering 3Q being a seasonally slow quarter, HNDL has guided for EBITDA/t in the range of USD450-500/t for 3QFY24.
- In line with the robust demand across different geographies, HNDL has kept its EBITDA/t guidance of USD525/t unchanged for 4QFY24.

Valuation and view

- Volumes growth across geographies is expected to remain stable going ahead and Bay Minette expansion is likely to be completed as scheduled. HNDL has secured long-term contracts for supplying beverage cans from the Bay Minette facility, which gives future revenue visibility.
- We believe EBITDA/t improvement in Novelis is a positive development and EBITDA/t could be more than USD500 ahead on a sustainable basis. We have increased our FY24E/FY25E EBITDA estimate by 4.8%/4.2%. **We reiterate our BUY rating on HNDL with an SoTP-based TP of INR580. The stock is trading at 5.6x FY25E EV/EBITDA and 1.2x FY25E P/B.**

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Novelis Quarterly Performance (USD m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales (in kt)	**962**	**984**	**908**	**936**	**879**	**933**	**933**	**975**	**3,790**	**3,720**	**919**	**1.5**
Change (YoY %)	-1.1	1.7	-2.4	-5.2	-8.6	-5.2	2.8	4.2	-1.8	-1.8		
Change (QoQ %)	-2.5	2.3	-7.7	3.1	-6.1	6.1	0.0	4.5				
Net Sales	**5,089**	**4,799**	**4,201**	**4,397**	**4,091**	**4,107**	**3,864**	**4,128**	**18,486**	**16,190**	**3,605**	**13.9**
Change (YoY %)	32.0	16.5	-2.9	-9.3	-19.6	-14.4	-8.0	-6.1	7.8	-12.4		
Change (QoQ %)	4.9	-5.7	-12.5	4.7	-7.0	0.4	-5.9	6.8				
EBITDA (adjusted)	**561**	**506**	**341**	**403**	**421**	**484**	**453**	**486**	**1,811**	**1,844**	**424**	**14.1**
Change (YoY %)	10.4	-8.5	-32.6	-6.3	-25.0	-4.3	32.7	20.7	-9.3	1.8		
Change (QoQ %)	30.5	-9.8	-32.6	18.2	4.5	15.0	-6.5	7.5				
EBITDA per ton (USD)	**583**	**514**	**376**	**431**	**479**	**519**	**485**	**499**	**478**	**496**	**462**	**12.4**
Interest	58	61	69	70	70	74	72	72	258	288		
Depreciation	138	134	133	135	131	136	136	136	540	539		
PBT (before EO item)	**365**	**311**	**139**	**198**	**220**	**274**	**245**	**278**	**1,013**	**1,017**		
Extra-ordinary Income	28	(63)	(133)	(41)	(10)	(66)	-	-	(209)	(76)		
PBT (after EO item)	**393**	**248**	**6**	**157**	**210**	**208**	**245**	**278**	**804**	**941**		
Total Tax	87	65	-6	1	54	51	62	70	147	237		
% Tax	22.1	26.2	-100.0	0.6	25.7	24.5	25.2	25.2	18.3	25.2		
PAT (before MI)	**306**	**183**	**12**	**156**	**156**	**157**	**183**	**208**	**657**	**704**		
Minority interest	-1	0	0	0	0	0	0	0	-1	0		
Reported PAT (after MI)	**307**	**183**	**12**	**156**	**156**	**157**	**183**	**208**	**658**	**704**		
Change (YoY %)	28	-23	-95	-28	-49	-14	1,425	33	-31	7		
Adjusted PAT	**279**	**246**	**145**	**197**	**166**	**223**	**183**	**208**	**867**	**780**	**167**	**33.6**
Change (YoY %)	32.9	-12.5	-35.8	-13.2	-40.5	-9.3	26.2	5.6	-8.2	-10.0		
Change (QoQ %)	22.9	-11.8	-41.1	35.9	-15.7	34.3	-17.9	13.7				

Volumes -Rolled products (in kt)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
North America	386	386	380	363	370	390
Europe	272	268	242	248	250	256
Asia	185	208	141	187	176	175
South America	148	162	162	144	119	144
Elimination	-29	-40	-17	-6	-36	-32
Total Third Party Shipments	962	984	908	936	879	933
Adj. EBITDA (USD m)						
North America	227	191	124	131	166	208
Europe	85	73	38	91	88	100
Asia	94	113	60	72	87	82
South America	156	127	124	115	84	93
Adj. EBITDA per ton (USD)						
North America	588	495	326	361	449	533
Europe	313	272	157	367	352	391
Asia	508	543	426	385	494	469
South America	1,054	784	765	799	706	646

Source: MOFSL, Company

CONFERENCE CALL

Conference call takeaways

EBITDA/t guidance maintained at USD525/t for 4QFY24:

- Novelis is expected to take multiple plant shutdowns across the US and other geographies and considering 3Q being a subdued quarter for aluminum, management has guided for EBITDA/t in the range of USD450-500/t for 3QFY24.
- The 4QFY24 EBITDA/t target remains unchanged at USD525/t.
- The overhang from can destocking is now completed in South America and Volumes as well as EBITDA/t are expected to bounce back in 3QFY24 and South America is expected to perform better than it did in 1HFY24.

Debt and liquidity:

- Net debt for 1HFY24 stood at USD4.4b (USD4.1b in FY23) and net leverage ratio stood at 2.7x (2.3x in FY23)
- Novelis has a strong liquidity position of around USD2.3b, consisting of ~USD1.2b in cash and cash equivalents.
- Novelis has maintained its upper threshold limit of long-term net leverage ratio at 3x and anticipates staying below this limit.
- The company has successfully refinanced its Jan '25 Term Loan of USD750m, which was due in Sept'26. There is no significant debt maturity in the near term.

Long-term strategic partnership:

- Recently, Novelis entered into a long-term multi-decade partnership with Ball Corp. in Sept '23 to supply sustainable beverage can sheet from its newly setup facility at Bay Minette, USA.
- With this contract, Novelis has completely secured beverage can volumes from its Bay Minette facility two years before the commencement of the facility.
- Novelis also entered into a contract with Airbus in Oct'23 to supply aluminum wingskins, plates, and sheets from its Germany and China facility.
- Novelis is the only supplier that manufactures aero grade FRP in both Europe and Asia.

Capex and timelines:

- Novelis is currently undertaking multiple greenfield and brownfield capex, which will enhance its capacity across all the geographies.
- The USD2.7-2.8b Bay Minette facility is progressing as scheduled and is expected to commence production in the end of CY25 with the incremental volume will from FY26-27.
- Once operational, the Bay Minette facility will add an incremental ~400kt of beverage can volumes and ~200kt of auto grade volumes.
- The brownfield debottlenecking at Oswego is currently getting commissioned.
- Debottlenecking at Pinda, Brazil, and Yeongju, South Korea is expected to be completely operational in FY24 and is expected to add ~40kt and ~50kt.
- Total capex earmarked for FY24 is ~1.6-1.9b (toward the lower end).

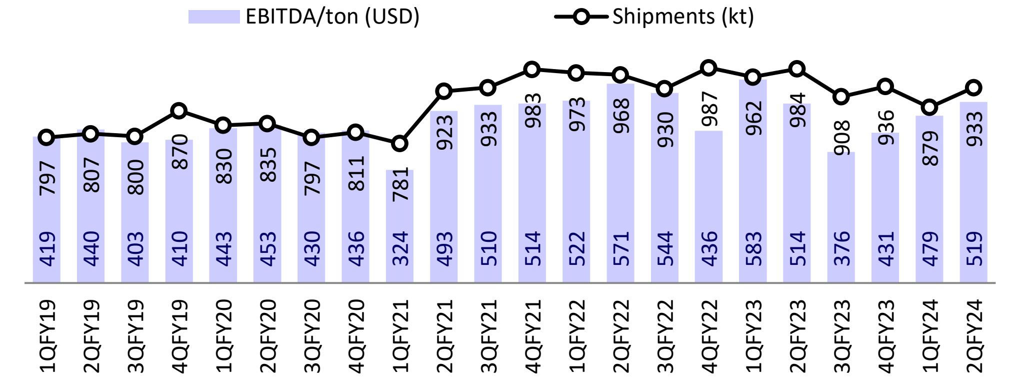
Global demand:

- As South America enters the summer season, the demand for Beverage can is expected to improve, which will drive the volumes and EBITDA/t for South America.
- Beverage can demand in certain parts of Asia, Mexico, and Europe continues to remain under pressure.
- Auto demand continues to remain stable across geographies, particularly in North America, and is anticipated to further improve due to pent-up demand for automobiles. Novelis expects robust demand in the auto sector, driven by higher shipments to EV, an increase in the usage of aluminum per car, and the need for high-performance vehicles.
- The company expects near-term volatility, considering higher interest rate, higher inflation, global uncertainties across geographies, and lower demand from Asian countries.
- However, the demand for sustainable recycled beverage cans is expected to rebound across various regions in 4QFY24.

Other developments:

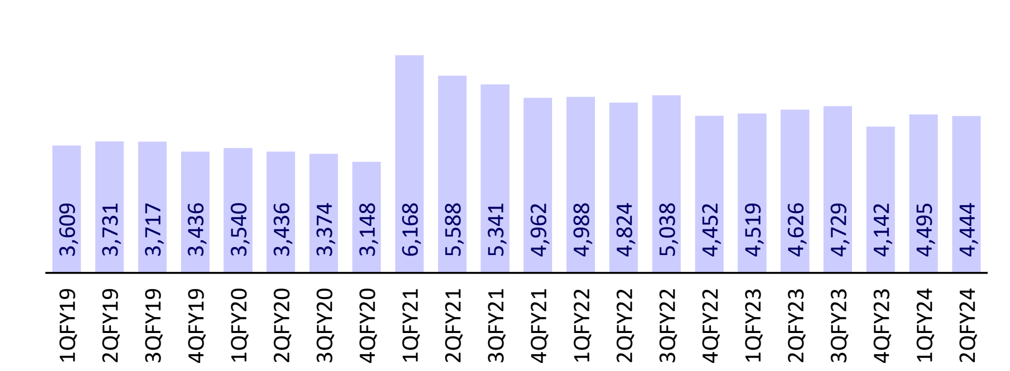
- Considering the elevated energy cost compared to historical levels, Novelis has hedged ~70% of its energy.
- The Beverage can segment contributes ~60% of the overall volumes, Auto ~20%, specialty ~15%, and aerospace ~5%.
- Inventory, which was accumulated in 1H, is expected to be liquidated in 2HFY24, leading to the release of working capital.

Exhibit 1: Shipments improved QoQ; EBITDA/t at a five-quarter high of USD519/t



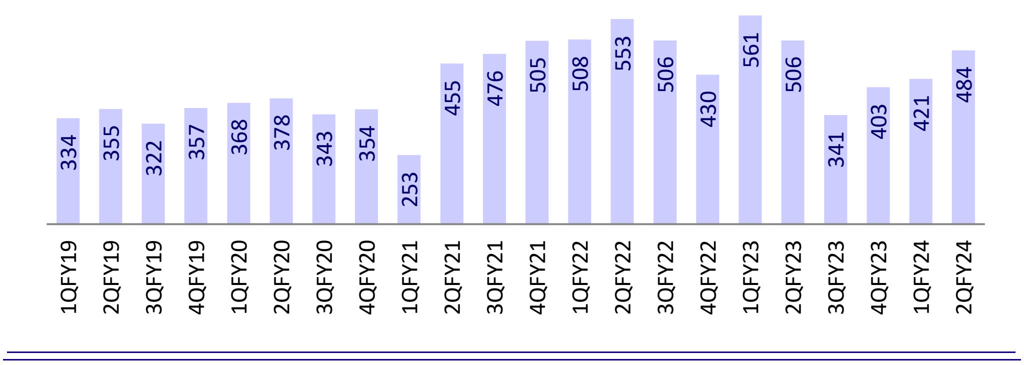
Source: MOFSL, Company

Exhibit 2: Net debt (USD m) reduced USD51m in 2QFY24



Source: MOFSL, Company

Exhibit 3: EBITDA (USD m) improved QoQ due to enhanced operating efficiencies, improved recycling volumes, and completion of can destocking.



Source: MOFSL, Company

Exhibit 4: Key assumptions and changes to our estimates

		FY24E			FY25E		
	UoM	New	Old	% change	New	Old	% change
Volumes	`						
Aluminium	kt	1,352	1,352	0.0	1,352	1,352	0.0
Copper	kt	432	432	0.0	410	410	0.0
Novelis	kt	3,720	3,680	1.1	3,920	3,777	3.8
EBITDA/t							
Aluminium (incl Utkal)	USD/t	648	648	0.0	548	548	0.0
Copper	"	556	556	0.0	564	564	0.0
Novelis	"	496	478	3.7	511	509	0.4
Consolidated Results							
Revenue	INR b	2,105	2,051	2.6	2,219	2,087	6.3
EBITDA	"	240	233	3.0	237	230	2.9
- India	"	86	86	0.0	70	70	0.0
- Novelis	"	154	147	4.8	167	160	4.2
Consol PAT	"	107	101	5.9	108	108	0.1

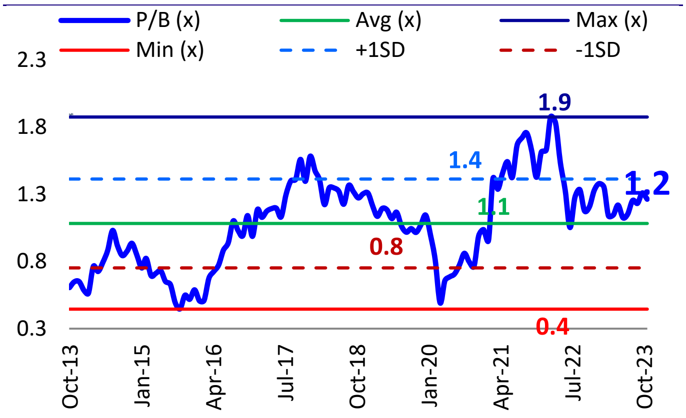
Source: MOFSL

Exhibit 5: SoTP valuation

Y/E March	UoM	FY25E
Hindalco - India		
Aluminum		
Volumes	kt	1,352
EBITDA	INR/t	45,643
EBITDA	USD/t	548
EBITDA	**INR m**	61,731
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**	69,812
EV/EBTIDA (x)	x	6
Target EV	INR m	4,18,871
Novelis		
Volumes	kt	3,920
EBITDA	USD/t	511
USD/INR	x	83
EBITDA	**INR m**	1,66,927
EV/EBTIDA (x)	x	6
Target EV	**INR m**	**10,51,640**
Target EV - Group	**INR m**	14,70,511
Net Debt	INR m	2,56,383
Equity Value	INR m	12,14,128
Equity Value	INR/sh	547
Investments (quoted)	INR m	91,005
Investments (quoted)	INR/sh	41
Discount factor	%	10%
Target Price	**INR/sh**	**580**

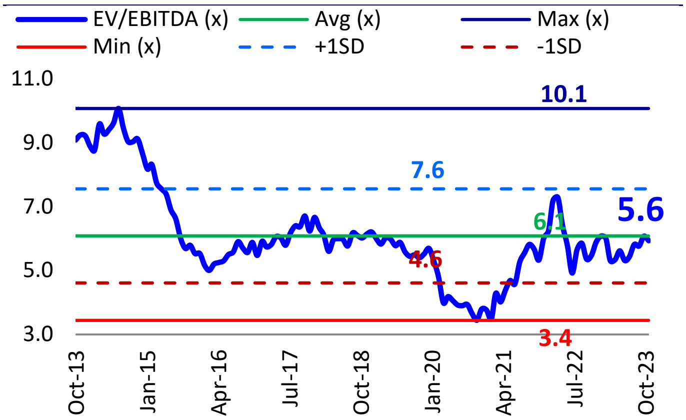
Source: MOFSL

Exhibit 6: P/B above LTA but below +1SD



Source: MOFSL, Company

Exhibit 7: EV/EBITDA near LTA



Source: MOFSL, Company

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**	**2,105**	**2,219**
Change (%)	1.4	15.0	13.3	-9.5	11.6	48.0	14.4	-5.7	5.4
Total Expenses	877	1,014	1,150	1,039	1,144	1,667	2,005	1,865	1,982
EBITDA	**124**	**138**	**155**	**142**	**174**	**283**	**227**	**240**	**237**
% of Net Sales	12.4	12.0	11.9	12.0	13.2	14.5	10.2	11.4	10.7
Depn. & Amortization	45	45	48	51	65	67	71	69	69
EBIT	**80**	**93**	**107**	**91**	**109**	**216**	**156**	**171**	**168**
Net Interest	57	39	38	42	37	38	36	39	29
Other income	11	10	11	12	12	11	13	11	7
PBT before EO	**33**	**64**	**81**	**61**	**83**	**190**	**132**	**142**	**146**
EO income (exp)	0	18	0	-2	-4	6	0	-6	0
PBT after EO	**33**	**82**	**81**	**59**	**79**	**196**	**132**	**137**	**146**
Current tax	13	16	19	15	19	38	29	32	38
Deferred tax (net)	1	5	7	6	8	16	3	4	0
Tax	14	21	26	22	27	54	31	35	38
Rate (%)	42.9	25.4	32.0	36.4	34.5	27.5	23.8	26.0	26.0
PAT (before MI and Sh. of Asso.)	**19**	**61**	**55**	**38**	**52**	**142**	**101**	**101**	**108**
Minority interests and disc. Operations	0	0	0	0	17	5	0	0	0
Share of asso.	0	-1	0	0	0	0	0	0	0
Reported PAT (after MI and Sh. of Asso.)	**19**	**60**	**55**	**38**	**35**	**137**	**101**	**101**	**108**
Adjusted PAT	**19**	**42**	**55**	**40**	**39**	**131**	**101**	**107**	**108**
Change (%)	-22.8	120.7	30.6	-28.1	-0.7	235.3	-23.5	6.2	1.1

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	1,040	1,142
Net Worth	**460**	**548**	**575**	**583**	**665**	**782**	**948**	**1,043**	**1,144**
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**	**1,753**	**1,904**
Gross Block	1,041	1,083	1,131	1,200	1,343	1,459	1,567	1,638	1,680
Less: Accum. Deprn.	365	410	458	509	574	630	718	788	857
Net Fixed Assets	**676**	**673**	**673**	**691**	**770**	**829**	**849**	**850**	**823**
Goodwill	171	178	186	201	233	240	257	257	257
Capital WIP	18	21	41	77	102	49	77	148	190
Investments	62	69	52	31	77	87	83	83	83
Working capital Assets	**529**	**530**	**567**	**685**	**706**	**1,014**	**969**	**1,021**	**1,179**
Inventory	183	216	222	224	307	445	430	405	427
Account Receivables	83	100	115	93	130	211	162	153	161
Cash and Bank Balance	172	120	136	278	182	228	212	307	427
Others (incl. LT)	92	94	94	90	88	130	165	156	164
Working capital liability	**338**	**370**	**383**	**391**	**527**	**760**	**630**	**606**	**628**
Account Payables	179	204	207	183	283	442	418	395	416
Others (incl. LT)	160	166	175	208	244	318	212	212	212
Net Working Capital	**191**	**160**	**184**	**294**	**180**	**254**	**339**	**415**	**552**
Appl. of Funds	**1,118**	**1,100**	**1,136**	**1,295**	**1,361**	**1,459**	**1,605**	**1,753**	**1,904**

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	240	237
Others	4	3	0	-2	-3	15	-3	-6	0
tax paid	-8	-14	-19	-1	-13	-38	-27	-32	-38
Change in WC	7	-18	-17	-12	14	-92	-5	19	-17
CF from Op. Activity	**127**	**109**	**120**	**127**	**172**	**168**	**192**	**222**	**182**
(Inc)/Dec in FA + CWIP	-29	-30	-60	-68	-56	-54	-98	-142	-83
Free Cash Flow to firm	**97**	**79**	**60**	**60**	**117**	**114**	**94**	**80**	**98**
(Pur)/Sale of Inv. & yield	6	25	7	7	9	-59	20	11	7
Others & M&A	-4	56	-3	-23	-210	42	-3	0	0
CF from Inv. Activity	**-28**	**50**	**-57**	**-84**	**-256**	**-71**	**-81**	**-131**	**-76**
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	-39	-29
Dividend (incl. tax)	-2	-3	-3	-3	-2	-7	-9	-7	-7
CF from Fin. Activity	**-56**	**-164**	**-55**	**67**	**-49**	**-68**	**-103**	**4**	**14**
(Inc)/Dec in Cash	**43**	**-5**	**9**	**110**	**-133**	**30**	**7**	**95**	**120**
Add: Opening Balance	43	82	80	91	213	83	116	128	223
Changes in forex	-4	3	2	12	4	3	5	0	0
Closing cash Balance	82	80	91	213	83	116	128	223	343
Bank balance (inc. O/D adj.)	90	39	45	65	99	112	84	84	84
Closing Balance (incl. bank balance)	**172**	**120**	**136**	**278**	**182**	**228**	**212**	**307**	**427**

Ratios									
Y/E March	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024E**	**2025E**
Basic (INR)									
EPS	**8.6**	**18.9**	**24.7**	**17.8**	**17.6**	**59.2**	**45.3**	**48.1**	**48.6**
Cash EPS	28.6	47.6	46.2	39.8	52.5	94.3	77.4	76.8	79.7
BV/Share (adj.)	129.8	166.1	175.0	171.7	194.3	244.3	311.1	353.7	399.3
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	7.9	23.2	7.9	7.7	7.3	7.2
Valuation (x)									
P/E	56.4	25.6	19.5	27.2	27.4	8.2	10.7	10.0	9.9
Cash P/E	16.9	10.1	10.5	12.1	9.2	5.1	6.2	6.3	6.1
P/BV	3.7	2.9	2.8	2.8	2.5	2.0	1.6	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	12.4	10.7	9.4	10.3	8.9	5.2	6.4	5.8	5.6
Dividend Yield (%)	0.2	0.3	0.2	0.2	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	11.4	10.7
Net Profit Margins (%)	1.9	3.7	4.2	3.3	3.0	6.7	4.5	5.1	4.9
RoE	7.1	12.8	14.5	10.2	9.6	27.0	16.3	14.5	12.9
RoCE (pre-tax)	8.2	9.3	10.6	8.5	9.1	16.1	11.0	10.8	9.6
RoIC (pre-tax)	9.3	10.8	11.9	10.3	11.5	21.6	14.6	13.9	13.9
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	1.2
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	4.4	5.7
Debt/Equity	1.6	1.1	1.0	1.0	1.1	0.7	0.5	0.4	0.3

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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