**Hindalco**

**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.**

**Shareholding pattern (%)**

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<tr>
<th>As On</th>
<th>Sep-23</th>
<th>Jun-23</th>
<th>Sep-22</th>
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<tbody>
<tr>
<td>Promoter</td>
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<td>34.6</td>
<td>34.6</td>
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<tr>
<td>DII</td>
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<td>26.3</td>
<td>27.1</td>
</tr>
<tr>
<td>FIH</td>
<td>31.1</td>
<td>30.3</td>
<td>28.9</td>
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<tr>
<td>Others</td>
<td>8.2</td>
<td>8.7</td>
<td>9.4</td>
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**FII includes depository receipts**

---

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

Novelis Quarterly Performance (USD m)

<table>
<thead>
<tr>
<th>Y/E March</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY23</th>
<th>FY24E</th>
<th>vs Est</th>
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<tr>
<td></td>
<td>1Q</td>
<td>2Q</td>
<td>3Q</td>
<td>4Q</td>
<td>1Q</td>
</tr>
<tr>
<td>Sales (in kt)</td>
<td>962</td>
<td>984</td>
<td>908</td>
<td>936</td>
<td>879</td>
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<tr>
<td>Change (YoY %)</td>
<td>-1.1</td>
<td>1.7</td>
<td>-2.4</td>
<td>-5.2</td>
<td>-8.6</td>
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<tr>
<td>Change (QoQ %)</td>
<td>-2.5</td>
<td>2.3</td>
<td>-7.7</td>
<td>3.1</td>
<td>-6.1</td>
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<tr>
<td>Net Sales</td>
<td>5,089</td>
<td>4,799</td>
<td>4,201</td>
<td>4,397</td>
<td>4,091</td>
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<td>Change (YoY %)</td>
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<td>-2.9</td>
<td>-9.3</td>
<td>-19.6</td>
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<tr>
<td>Change (QoQ %)</td>
<td>4.9</td>
<td>-5.7</td>
<td>-12.5</td>
<td>4.7</td>
<td>-7.0</td>
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<tr>
<td>EBITDA (adjusted)</td>
<td>561</td>
<td>506</td>
<td>341</td>
<td>403</td>
<td>421</td>
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<td>Change (YoY %)</td>
<td>10.4</td>
<td>-8.5</td>
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<td>-25.0</td>
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<td>Change (QoQ %)</td>
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<td>-32.6</td>
<td>18.2</td>
<td>4.5</td>
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<td>EBITDA per ton (USD)</td>
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<td>514</td>
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<td>431</td>
<td>479</td>
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<td>Interest</td>
<td>58</td>
<td>61</td>
<td>69</td>
<td>70</td>
<td>70</td>
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<tr>
<td>Depreciation</td>
<td>138</td>
<td>134</td>
<td>133</td>
<td>135</td>
<td>131</td>
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<td>PBT (before EO item)</td>
<td>365</td>
<td>311</td>
<td>139</td>
<td>198</td>
<td>220</td>
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<td>Extra-ordinary Income</td>
<td>28</td>
<td>(63)</td>
<td>(133)</td>
<td>(41)</td>
<td>(10)</td>
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<tr>
<td>Total Tax</td>
<td>393</td>
<td>248</td>
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<td>157</td>
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<td>% Tax</td>
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<td>PAT (before MI)</td>
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<td>183</td>
<td>12</td>
<td>156</td>
<td>156</td>
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<tr>
<td>Minority interest</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<td>Reported PAT (after MI)</td>
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<td>183</td>
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<td>156</td>
<td>156</td>
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<td>Adjusted PAT</td>
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<td>246</td>
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<td>197</td>
<td>166</td>
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<tr>
<td>Change (YoY %)</td>
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<td>-12.5</td>
<td>-35.8</td>
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<td>-40.5</td>
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<tr>
<td>Change (QoQ %)</td>
<td>22.9</td>
<td>-11.8</td>
<td>-41.1</td>
<td>35.9</td>
<td>-15.7</td>
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</table>

Volumes - Rolled products (in kt)

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<tr>
<th></th>
<th>1QFY23</th>
<th>2QFY23</th>
<th>3QFY23</th>
<th>4QFY23</th>
<th>1QFY24</th>
<th>2QFY24</th>
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<tbody>
<tr>
<td>North America</td>
<td>386</td>
<td>386</td>
<td>386</td>
<td>363</td>
<td>370</td>
<td>390</td>
</tr>
<tr>
<td>Europe</td>
<td>272</td>
<td>268</td>
<td>242</td>
<td>248</td>
<td>250</td>
<td>256</td>
</tr>
<tr>
<td>Asia</td>
<td>185</td>
<td>208</td>
<td>141</td>
<td>187</td>
<td>176</td>
<td>175</td>
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<tr>
<td>South America</td>
<td>148</td>
<td>162</td>
<td>162</td>
<td>144</td>
<td>119</td>
<td>144</td>
</tr>
<tr>
<td>Elimination</td>
<td>-29</td>
<td>-40</td>
<td>-17</td>
<td>-6</td>
<td>-36</td>
<td>-32</td>
</tr>
<tr>
<td>Total Third Party Shipments</td>
<td>962</td>
<td>984</td>
<td>908</td>
<td>936</td>
<td>879</td>
<td>933</td>
</tr>
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</table>

Adj. EBITDA (USD m)

<table>
<thead>
<tr>
<th></th>
<th>1QFY24</th>
<th>2QFY24</th>
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<tbody>
<tr>
<td>North America</td>
<td>227</td>
<td>191</td>
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<td>Europe</td>
<td>85</td>
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<td>94</td>
<td>113</td>
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<tr>
<td>South America</td>
<td>156</td>
<td>127</td>
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</table>

Adj. EBITDA per ton (USD)

<table>
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<tr>
<th></th>
<th>1QFY24</th>
<th>2QFY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>588</td>
<td>495</td>
</tr>
<tr>
<td>Europe</td>
<td>313</td>
<td>272</td>
</tr>
<tr>
<td>Asia</td>
<td>508</td>
<td>543</td>
</tr>
<tr>
<td>South America</td>
<td>1,054</td>
<td>784</td>
</tr>
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</table>

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

Exhibit 4: Key assumptions and changes to our estimates

<table>
<thead>
<tr>
<th>Volumes</th>
<th>UoM</th>
<th>FY24E New</th>
<th>FY24E Old</th>
<th>% change</th>
<th>FY25E New</th>
<th>FY25E Old</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium</td>
<td>kt</td>
<td>1,352</td>
<td>1,352</td>
<td>0.0</td>
<td>1,352</td>
<td>1,352</td>
<td>0.0</td>
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<tr>
<td>Copper</td>
<td>kt</td>
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<td>432</td>
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<td>410</td>
<td>410</td>
<td>0.0</td>
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<tr>
<td>Novelis</td>
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<td>3,680</td>
<td>1.1</td>
<td>3,920</td>
<td>3,777</td>
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</table>

EBITDA/t

<table>
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<tr>
<th>Volumes</th>
<th>UoM</th>
<th>FY24E New</th>
<th>FY24E Old</th>
<th>% change</th>
<th>FY25E New</th>
<th>FY25E Old</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminium (incl Utkal)</td>
<td>USD/t</td>
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<td>648</td>
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<td>548</td>
<td>548</td>
<td>0.0</td>
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<tr>
<td>Copper</td>
<td>&quot;</td>
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<td>556</td>
<td>0.0</td>
<td>564</td>
<td>564</td>
<td>0.0</td>
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<tr>
<td>Novelis</td>
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<td>478</td>
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<td>509</td>
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Consolidated Results

<table>
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<tr>
<th>Volumes</th>
<th>UoM</th>
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<th>FY24E Old</th>
<th>% change</th>
<th>FY25E New</th>
<th>FY25E Old</th>
<th>% change</th>
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<td>- India</td>
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<td>86</td>
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<td>70</td>
<td>70</td>
<td>0.0</td>
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<tr>
<td>- Novelis</td>
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<td>147</td>
<td>4.8</td>
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<td>160</td>
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Source: MOFSL, Company
**Exhibit 5: SoTP valuation**

<table>
<thead>
<tr>
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<th>FY25E</th>
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<tbody>
<tr>
<td><strong>Hindalco - India</strong></td>
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<tr>
<td><strong>Aluminum</strong></td>
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<td></td>
</tr>
<tr>
<td>Volumes</td>
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</tr>
<tr>
<td>EBITDA</td>
<td>INR/t</td>
<td>45,643</td>
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<td>EBITDA</td>
<td>USD/t</td>
<td>548</td>
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<tr>
<td>EBITDA</td>
<td>INR m</td>
<td>61,731</td>
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<tr>
<td><strong>Copper</strong></td>
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<tr>
<td>Volumes</td>
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<td>410</td>
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<td>EBITDA</td>
<td>INR/t</td>
<td>47,020</td>
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<td>EBITDA</td>
<td>USD/t</td>
<td>564</td>
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<td>EBITDA</td>
<td>INR m</td>
<td>19,278</td>
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<td><strong>Others</strong></td>
<td>INR m</td>
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<td>EBITDA Hindalco - India</td>
<td>INR m</td>
<td>69,812</td>
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<td>EV/EBITDA (x)</td>
<td>x</td>
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<tr>
<td><strong>Novelis</strong></td>
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<tr>
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<tr>
<td>USD/INR</td>
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<td>EV/EBITDA (x)</td>
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<td>6</td>
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<td><strong>Target EV</strong></td>
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<td>10,51,640</td>
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<tr>
<td><strong>Target EV - Group</strong></td>
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<tr>
<td><strong>Net Debt</strong></td>
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<td><strong>Discount factor</strong></td>
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<td><strong>Target Price</strong></td>
<td>INR/sh</td>
<td>580</td>
</tr>
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</table>

Source: MOFSL

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

```
<table>
<thead>
<tr>
<th></th>
<th>P/B (x)</th>
<th>Avg (x)</th>
<th>Max (x)</th>
<th>Min (x)</th>
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<th>-1SD</th>
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<td>Apr-16</td>
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Source: MOFSL, Company

**Exhibit 7: EV/EBITDA near LTA**

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Source: MOFSL, Company
## Financials and valuations

### Consolidated Income Statement

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## Financials and valuations

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<td>Bank balance (incl. O/D adj.)</td>
<td>90</td>
<td>39</td>
<td>45</td>
<td>65</td>
<td>99</td>
<td>112</td>
<td>84</td>
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<td>172</td>
<td>120</td>
<td>136</td>
<td>278</td>
<td>182</td>
<td>228</td>
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### Ratios

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<td>47.6</td>
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<td>94.3</td>
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<td>BV/Share (adj.)</td>
<td>129.8</td>
<td>166.1</td>
<td>175.0</td>
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<tr>
<td>Payout (%)</td>
<td>15.0</td>
<td>8.7</td>
<td>5.7</td>
<td>7.9</td>
<td>23.2</td>
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<td>7.7</td>
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<td>P/E</td>
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<td>25.6</td>
<td>19.5</td>
<td>27.2</td>
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<td>16.9</td>
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<td>10.5</td>
<td>12.1</td>
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<td>6.2</td>
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<td>EV/Sales</td>
<td>1.5</td>
<td>1.3</td>
<td>1.1</td>
<td>1.2</td>
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<td>0.8</td>
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<td>EV/EBITDA</td>
<td>12.4</td>
<td>10.7</td>
<td>9.4</td>
<td>10.3</td>
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<td>Return Ratios (%)</td>
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<td>EBITDA Margins (%)</td>
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<td>Net Profit Margins (%)</td>
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<td>3.7</td>
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<td>Fixed Asset Turnover (x)</td>
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<td>Current Ratio</td>
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<td>1.3</td>
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<tr>
<td>Debt/Equity</td>
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<td>1.1</td>
<td>1.0</td>
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<td>0.7</td>
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<th>Investment Rating</th>
<th>Expected return (over 12-month)</th>
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<td>BUY</td>
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<tr>
<td>SELL</td>
<td>&lt; -10%</td>
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<td>NEUTRAL</td>
<td>&lt; -10% to 15%</td>
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<td>UNDER REVIEW</td>
<td>Rating may undergo a change</td>
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<tr>
<td>NOT RATED</td>
<td>We have forward looking estimates for the stock but we refrain from assigning recommendation</td>
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