

November 13, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	583		534	
Sales (Rs.bn)	2,229	2,398	2,130	2,309
% Chng.	4.7	3.9		
EBITDA (Rs.bn)	226	264	214	261
% Chng.	5.9	1.4		
EPS (Rs.)	41.9	51.8	38.3	50.3
% Chng.	9.3	3.0		

Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	2,232	2,229	2,398	2,556
EBITDA (Rs. bn)	229	226	264	281
Margin (%)	10.3	10.1	11.0	11.0
PAT (Rs. bn)	101	93	115	126
EPS (Rs.)	45.5	41.9	51.8	56.7
Gr. (%)	(26.5)	(7.9)	23.7	9.5
DPS (Rs.)	3.0	3.6	4.3	5.2
Yield (%)	0.6	0.7	0.9	1.1
RoE (%)	11.7	9.4	10.6	10.5
RoCE (%)	11.4	10.4	12.1	12.5
EV/Sales (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	6.3	6.3	5.2	4.4
PE (x)	10.6	11.5	9.3	8.5
P/BV (x)	1.1	1.0	0.9	0.9

Key Data

HALC.BO | HNDL IN

52-W High / Low	Rs.509 / Rs.381
Sensex / Nifty	65,259 / 19,526
Market Cap	Rs.1,084bn/ \$ 13,008m
Shares Outstanding	2,247m
3M Avg. Daily Value	Rs.2795.2m

Shareholding Pattern (%)

Promoter's	35.06
Foreign	30.69
Domestic Institution	25.82
Public & Others	8.43
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.4	19.2	12.2
Relative	2.0	13.3	6.3

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Novelis continues to deliver

Quick Pointers:

- India aluminium business volumes grew 1.4% QoQ to 428kt; copper business EBIT grew strong 23% QoQ on 14% volume growth (134kt).
- Novelis's adjusted EBITDA per ton declined 5% QoQ to USD 519/t (-1% YoY) better than PLe of USD 462/t mn on strong (6% QoQ) volume growth

Hindalco Industries (HNDL) 2QFY24 Consolidated revenue grew 2% QoQ to Rs 541bn (PLe Rs 554bn) on stronger Novelis and copper business performance. Novelis' Flat Rolled Products (FRP) volumes grew 6% QoQ to 933kt (-5.2% YoY; PLe 940kt) on stronger North America & European volumes. Consolidated EBITDA declined 2% QoQ to Rs 56.1bn (8% lower Vs PLe Rs61bn) despite lower input costs in India and better Novelis performance.

We believe HNDL is best placed amongst the metals space as a) Novelis is expected to witness gradual improvement in per ton EBITDA over next few quarters; b) opening up of captive coal mines to benefit India business post FY26; and c) rising focus on high margin value added products such as FRP expansion would drive volume growth from FY26. Despite business headwinds, Novelis continue to perform well and invest significantly in growth. We have raised our FY24/25/26E EBITDA by 6%/1%/4% respectively on robust Novelis performance. At CMP, stock is trading at attractive valuations of 5.2x/4.4x EV of FY25E/FY26E EBITDA. Retain 'Buy' rating with revised TP of Rs583 (earlier Rs557) valuing Novelis at 6.5x EV of Sept 2025E EBITDA, as we roll forward.

Novelis on track: Shipments grew 5% QoQ in N. America to 390kt; grew 2% QoQ to 256kt in Europe; declined 1% QoQ to 175kt in Asia and grew sharp 21% QoQ to 144kt in S. America. Lower beverage packaging shipments in Asia & South America and weak specialties in Europe affected volumes in 2QFY24. Beverage can destocking is largely over as per mgmt. and beverage can volumes are expected to improve in 2HFY24. Novelis incurred capex of USD 285mn during 2QFY24 (USD 333mn in 1Q) and maintained capex guidance on lower side of earlier given range of USD 1.5bn-1.8 bn for FY24. The USD 2.8bn Bay Minette greenfield project (600ktpa) is on track to be commissioned in FY26 and has already secured long term customer commitments for Beverage can capacity. Negotiations with Automotive OEMs are on track for rest of the capacity.

India volumes to improve further: India upstream aluminium business shipments declined 2% QoQ to 334 kt while downstream volumes grew 15% QoQ due to market recovery. Upstream AL EBITDA/t was up 9% QoQ at USD751 in 2Q vs USD691. Downstream AL EBITDA/t was flat QoQ at USD221. Strong 13% QoQ volume growth in copper business at 134kt led to stronger performance with EBITDA growth of 23% QoQ.

Global aluminium demand remains muted in near term: YTDCY23 global aluminium demand remains muted at 52.2mt as higher interest rates and inflation is keeping demand weak in developed nations, while in China demand (up 4.3% YoY to ~31.5mt) seems to be improving gradually. India demand remains strong in 2Q at ~1.3mt with ~10% YoY growth. Aluminium prices are expected to remain in a range of USD 2100-2300 in the near term, unless demand improves substantially.

Concall Highlights: (1) HNDL has reached 50% of its 2025 target of 300MW renewable energy (2) Sequentially coal cots were down 15% (3) India aluminium business, HNDL is hedged 11% at the price of USD2,755/t for H2FY24 (4) HNDL will invest ~Rs80bn in two phases for 2mtpa Odisha alumina refinery project and 160MW CPP at at Kansariguda. The investment shall be Rs60bn in the first phase of 1mtpa with 36 months' timeline (5) The alumina expansion is planned to cater to the middle east markets and the pricing will be indexed to LME with contracts being long term (6) Q3 cost of production is expected to be flat w.r.t Q2 (7) Alumina sales in Q2 stood at 138kt (8) The Chakla coal mine is expected to start operations from Oct'24 (9) Coal mix in the quarter stood at linkage: 53%, e-auction: 40%, own mines: 5% and import: 2% (10) The Clyaton plant will be shut down as it is an old plant and the products do not have a strong future (11) HNDL maintained the guidance of Rs 5-5.5bn quarterly profit run rate in copper business (12) FY24 capex for Novelis is expected to be USD 1.5-1.8bn and Indian operations ~Rs40-45bn (13) The volumes from 30kt Silvassa extrusion unit will start from FY25 and the Sambalpur FRP is expected to commission in the end of next year. (14) Novelis' beverage can volumes to improve in 2HFY24 as South America goes into summer, Auto and Aerospace demand to remain strong. High inflation & interest rates in developed world keeping Specialties volumes muted in the near term. (15) 3QFY24 is seasonally weak quarter for Novelis and volumes are expected to be muted due to planned maintenance shutdown. (16) Novelis EBITDA/t is expected to remain in USD450-500 range and by 4Q it will be in-line with guidance of USD 525/t.

Exhibit 1: Q2FY24 Result Overview - Consolidated (Rs bn)

Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Net Sales	541.7	561.8	-3.6	529.9	2.2	1071.6	1141.9	-6.2
Raw material	340.0	351.7	-3.3	332.4	2.3	672.4	705.1	-4.6
<i>% of Net Sales</i>	<i>62.8</i>	<i>62.6</i>		<i>62.7</i>		<i>62.7</i>	<i>61.7</i>	
Staff Cost	36.5	32.1	13.6	35.3	3.4	71.8	62.4	14.9
<i>% of Net Sales</i>	<i>6.7</i>	<i>5.7</i>		<i>6.7</i>		<i>6.7</i>	<i>5.5</i>	
Other expenses	109.1	124.4	-12.3	105.1	3.8	214.2	236.5	-9.5
<i>% of Net Sales</i>	<i>20.1</i>	<i>22.1</i>		<i>19.8</i>		<i>20.0</i>	<i>20.7</i>	
Total expenditure	485.6	508.1	-4.4	472.8	2.7	958.3	1004.0	-4.6
EBITDA	56.1	53.6	4.7	57.1	-1.8	113.3	137.9	-17.9
<i>Margin (%)</i>	<i>10.4</i>	<i>9.5</i>		<i>10.8</i>		<i>10.6</i>	<i>12.1</i>	
Depreciation	18.4	17.1	7.6	17.9	3.2	36.3	34.6	4.8
EBIT	37.7	36.5	3.3	39.3	-4.0	77.0	103.3	-25.5
Other income	4.6	3.3	41.2	3.9	18.4	8.5	5.4	58.4
Interest	10.3	8.8	17.6	9.9	4.2	20.3	17.3	17.4
PBT	32.0	31.0	3.2	33.3	-3.9	65.3	91.4	-28.6
Extraordinary income/(expense)	0.3	0.0		-0.1		0.2	0.4	
PBT (after EO)	32.3	31.0	4.3	33.1	-2.5	65.5	91.8	-28.7
Tax	10.4	9.0	15.6	8.6	19.9	19.0	28.6	-33.7
Reported PAT	21.96	22.0	-0.3	24.5	-10.4	46.5	63.2	-26.4
Minority interest	-	0.0		0.0		0.0	0.0	
Share of profit/(losses) in Associates		0.0		0.0		0.1	0.0	
Net Profit attributable to shareholders	22.0	22.1	-0.4	24.5	-10.5	46.5	63.2	-26.4
Adjusted PAT	21.6	22.1		24.7		46.3	63.4	

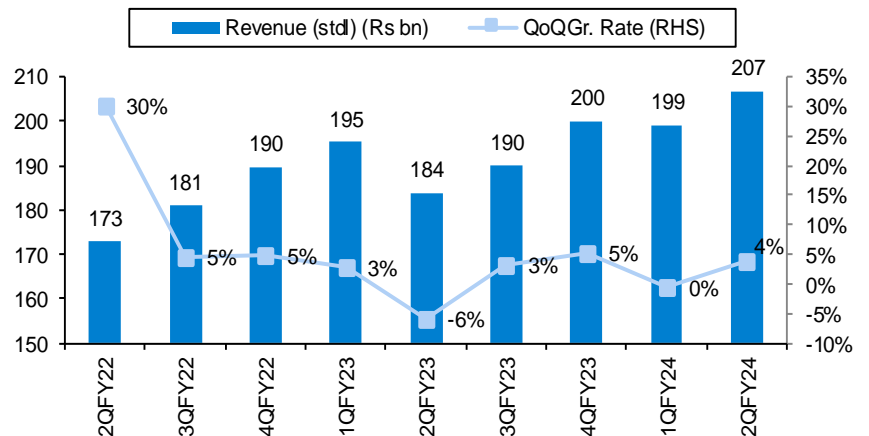
Source: Company, PL

Exhibit 2: Standalone Operating Matrix

(in Rs bn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Aluminium								
Revenue	86.6	93.0	-6.9	87.3	-0.8	173.9	185.1	-6.0
EBIT	22.4	19.8	13.1	20.7	8.3	43.2	53.5	-19.3
Volume (kt)	334	341	-2.1	341	-2.1	675	674	0.1
Copper								
Revenue	124.4	96.6	28.8	115.0	8.2	239.4	201.9	18.6
EBIT	6.5	5.4	20.0	5.3	23.0	11.8	11.1	6.8
Volume (kt)	134	112	19.6	118	13.6	252	213	18.3

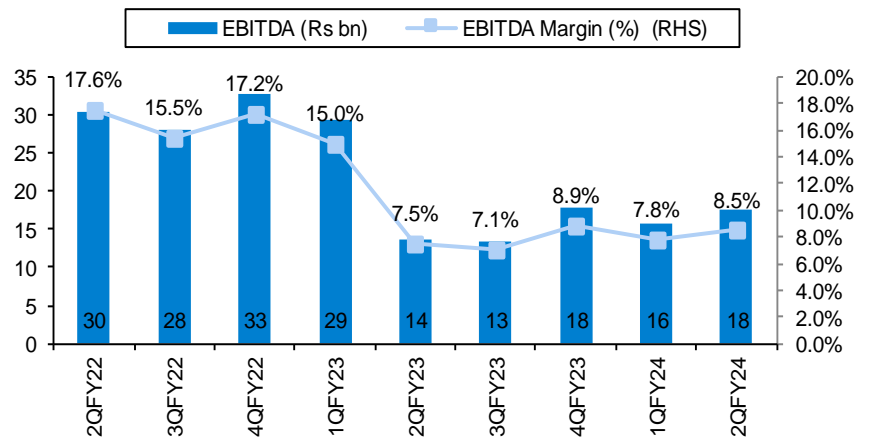
Source: Company, PL

Exhibit 3: Standalone revenue grew 4% QoQ as LME remains weak



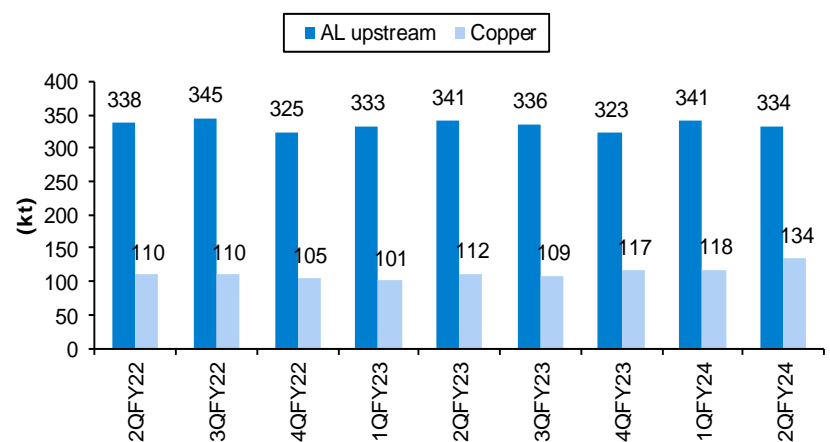
Source: Company, PL

Exhibit 4: Standalone EBITDA margins depend on LME pricing

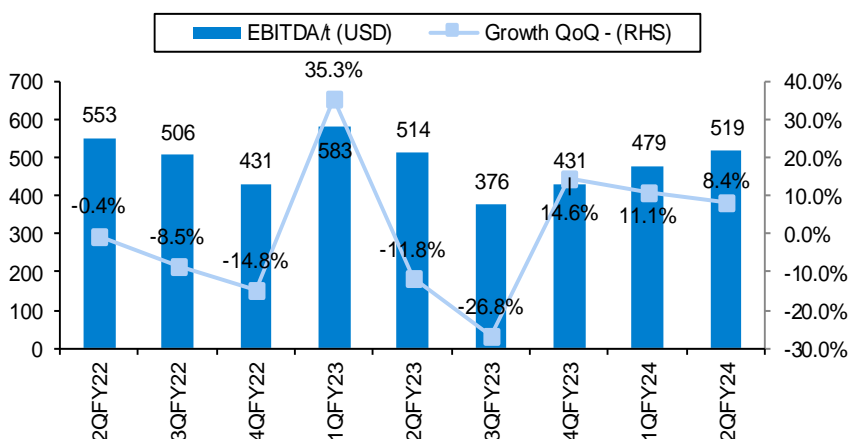


Source: Company, PL

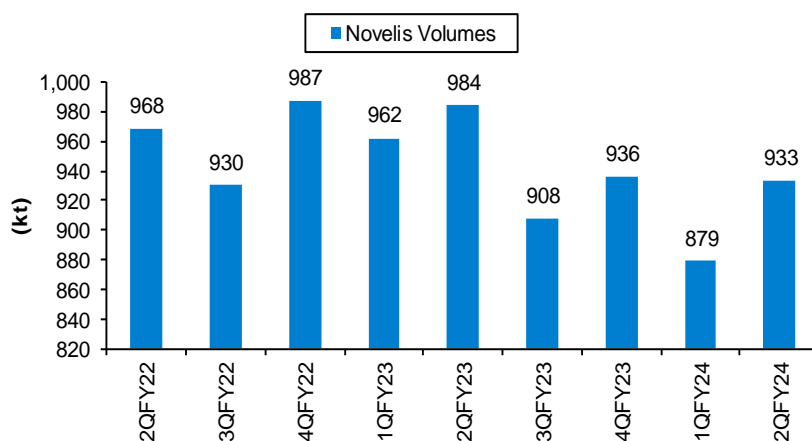
Exhibit 5: Domestic AL volumes flat; Copper grew 14% QoQ in 2Q



Source: Company, PL

Exhibit 6: Novelis adj. EBITDA/t improving gradually


Source: Company, PL

Exhibit 7: Novelis volumes grew 6.1% QoQ


Source: Company, PL

Exhibit 8: Target Price Calculation

(In Rs bn)	Sept'25 PLe	EV/EBITDA (x)	EV
Novelis EBITDA	195	6.5	1,267
HNDL Standalone EBITDA	78	5	388
Net debt			359
Equity value			1,296
Per share equity value			583

Source: PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	2,232	2,229	2,398	2,556
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	1,408	1,649	1,773	1,901
Gross Profit	824	581	625	655
Margin (%)	36.9	26.0	26.1	25.6
Employee Cost	131	137	147	158
Other Expenses	465	217	213	216
EBITDA	229	226	264	281
YoY gr. (%)	(20.1)	(1.2)	16.8	6.4
Margin (%)	10.3	10.1	11.0	11.0
Depreciation and Amortization	73	77	83	85
EBIT	156	149	181	196
Margin (%)	7.0	6.7	7.5	7.7
Net Interest	36	38	40	41
Other Income	13	13	13	13
Profit Before Tax	132	123	154	169
Margin (%)	5.9	5.5	6.4	6.6
Total Tax	31	30	39	43
Effective tax rate (%)	23.8	24.5	25.5	25.4
Profit after tax	101	93	115	126
Minority interest	-	-	-	-
Share Profit from Associate	0	0	0	0
Adjusted PAT	101	93	115	126
YoY gr. (%)	(26.5)	(7.9)	23.7	9.5
Margin (%)	4.5	4.2	4.8	4.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	101	93	115	126
YoY gr. (%)	(26.5)	(7.9)	23.7	9.5
Margin (%)	4.5	4.2	4.8	4.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	101	93	115	126
Equity Shares O/s (m)	2	2	2	2
EPS (Rs)	45.5	41.9	51.8	56.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,567	1,640	1,715	1,885
Tangibles	1,410	1,483	1,558	1,728
Intangibles	157	157	157	157
Acc: Dep / Amortization	718	796	879	963
Tangibles	624	702	785	869
Intangibles	94	94	94	94
Net fixed assets	849	845	837	922
Tangibles	786	782	773	859
Intangibles	63	63	63	63
Capital Work In Progress	77	150	225	98
Goodwill	257	257	257	257
Non-Current Investments	116	116	116	116
Net Deferred tax assets	(73)	(73)	(73)	(73)
Other Non-Current Assets	43	43	43	43
Current Assets				
Investments	59	59	59	59
Inventories	430	428	427	455
Trade receivables	162	183	197	210
Cash & Bank Balance	154	127	134	230
Other Current Assets	57	57	57	57
Total Assets	2,248	2,310	2,397	2,492
Equity				
Equity Share Capital	2	2	2	2
Other Equity	946	1,032	1,139	1,255
Total Networkth	948	1,034	1,141	1,258
Non-Current Liabilities				
Long Term borrowings	514	474	424	374
Provisions	6	6	6	6
Other non current liabilities	71	71	71	71
Current Liabilities				
ST Debt / Current of LT Debt	69	69	69	69
Trade payables	359	366	394	420
Other current liabilities	177	184	187	190
Total Equity & Liabilities	2,248	2,310	2,397	2,492

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	132	123	154	169
Add. Depreciation	71	77	83	85
Add. Interest	36	38	40	41
Less Financial Other Income	13	13	13	13
Add. Other	(16)	(13)	(13)	(13)
Op. profit before WC changes	224	226	264	281
Net Changes-WC	(5)	(4)	17	(13)
Direct tax	(27)	(30)	(39)	(43)
Net cash from Op. activities	192	192	242	226
Capital expenditures	(97)	(147)	(150)	(42)
Interest / Dividend Income	5	13	13	13
Others	11	-	-	-
Net Cash from Inv. activities	(81)	(134)	(137)	(30)
Issue of share cap. / premium	-	-	-	-
Debt changes	(82)	(40)	(50)	(50)
Dividend paid	(9)	(7)	(8)	(10)
Interest paid	(38)	(38)	(40)	(41)
Others	30	-	-	-
Net cash from Fin. activities	(99)	(85)	(98)	(100)
Net change in cash	12	(27)	7	96
Free Cash Flow	94	46	92	183

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	532	559	530	542
YoY gr. (%)	5.7	0.2	(8.7)	(3.6)
Raw Material Expenses	344	359	332	340
Gross Profit	188	200	198	202
Margin (%)	35.4	35.7	37.3	37.2
EBITDA	35	53	57	56
YoY gr. (%)	(51.5)	(27.1)	(32.2)	4.7
Margin (%)	6.7	9.5	10.8	10.4
Depreciation / Depletion	18	19	18	18
EBIT	18	35	39	38
Margin (%)	3.3	6.2	7.4	7.0
Net Interest	9	10	10	10
Other Income	4	4	4	5
Profit before Tax	12	28	33	32
Margin (%)	2.3	5.1	6.3	5.8
Total Tax	(1)	4	9	10
Effective tax rate (%)	(12.2)	15.1	25.8	32.7
Profit after Tax	14	24	25	21
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	14	24	25	21
YoY gr. (%)	(57.3)	(44.8)	(38.6)	(3.3)
Margin (%)	2.6	4.3	4.7	3.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	14	24	25	21
YoY gr. (%)	(57.3)	(44.8)	(38.6)	(3.3)
Margin (%)	2.6	4.3	4.7	3.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	14	24	25	21
Avg. Shares O/s (bn)	2	2	2	2
EPS (Rs)	6.1	10.8	11.1	9.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	45.5	41.9	51.8	56.7
CEPS	78.4	76.7	89.2	94.8
BVPS	427.1	465.9	514.1	566.5
FCF	42.2	20.5	41.6	82.6
DPS	3.0	3.6	4.3	5.2
Return Ratio(%)				
RoCE	11.4	10.4	12.1	12.5
ROIC	9.4	8.2	9.5	10.6
RoE	11.7	9.4	10.6	10.5
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.3	0.1
Net Working Capital (Days)	38	40	35	35
Valuation(x)				
PER	10.6	11.5	9.3	8.5
P/B	1.1	1.0	0.9	0.9
P/CEPS	6.2	6.3	5.4	5.1
EV/EBITDA	6.3	6.3	5.2	4.4
EV/Sales	0.6	0.6	0.6	0.5
Dividend Yield (%)	0.6	0.7	0.9	1.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Novelis volumes (mt)	3.8	3.8	4.0	4.2
Novelis EBITDA/t	453	485	510	525
Aluminium Price (USD/t)	2,491	2,232	2,300	2,323
Standalone EBITDA (Rs bn)	74.2	57.3	77.8	77.4

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Oct-23	BUY	557	469
2	07-Oct-23	BUY	557	473
3	28-Aug-23	BUY	557	450

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	557	469
2	Jindal Stainless	BUY	543	469
3	Jindal Steel & Power	BUY	751	634
4	JSW Steel	BUY	903	769
5	National Aluminium Co.	Accumulate	100	91
6	NMDC	Accumulate	147	146
7	Steel Authority of India	Accumulate	95	89
8	Tata Steel	BUY	138	118

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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