15 February 2025

Hindalco Industries

In-line performance; retaining a Buy

Rating: **Buy**
Target Price (12-mth): Rs.800
Share Price: Rs.605

Hindalco's 600k-tonne strategic expansion in Bay Minette is on track to be completed in H2 CY26. The recently commissioned 250k-tonne Guthrie facility continues to ramp up automotive sheet ingot casting and the 100k-tonne recycling centre in Ulsan (South Korea) has been commissioned. Aditya FRP facility is to be commissioned in FY26, which would take the cumulative downstream capacity to 600k tonnes. The company is rapidly shifting to RE, with a 189MW capacity already commissioned; it targets to reach 300MW by H1 CY25. Despite better volumes and EBITDA/tonne expected for Novelis in Q4, we slightly trim our FY25e/26e/27e EBITDA/tonne by 4.3%/2.9%/3.3%, in line with reduced operating profit and scrap crunch. However, considering the best-in-industry aluminium EBITDA/tonne and strong domestic demand, we raise our upstream aluminium estimates by 13.6%/13.6%/10.1% for FY25/26/27. We retain a Buy rating, with a sum-of-parts TP of Rs800/sh on capex progressing per timeline, an uptick in beverage can shipments, Novelis' ongoing technology development to enhance scrap and the 12m-tonne Meenakshi coal block allocation.

In-line Q3 performance. Consolidated revenue rose 11% y/y to Rs.584bn, in line with ARe. EBITDA grew 29% y/y to Rs76bn, in line with ARe and APAT, 62% y/y to Rs38bn. Novelis' revenue grew 4% y/y to $4.08bn, in line with ARe of $4.265bn. Adjusted EBITDA fell 19% y/y to $367m, in line with ARe of $383m, and adjusted EBITDA/tonne stood at $406/tonne.

Impact of tariffs on Novelis. North America contributes ~40% of Novelis' volumes and ~33% of EBITDA. Being an American company, the net impact from tariffs is expected to be positive. As indicated by management, Novelis might see a transitionary impact on near-term cashflow as it imports scrap. However, considering the past, it might be eligible for certain exemptions in cross-border tariffs. Further, metal allows pass-through; increase in mid-west premium is charged to the customer.

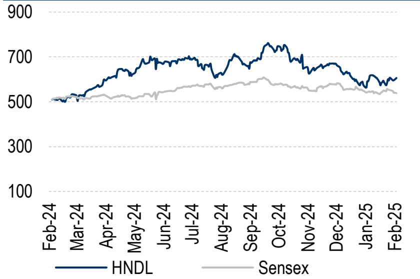
Outlook, Valuation. As the company has integrated its business model with its focus on integrating RM and enhancing the share of VAP, the impact in one business vertical is absorbed by others, thus reducing the impact on consolidated financials. We retain a Buy with an unchanged TP of Rs800/share.

Key data	HNDL IN / HALC.BO
52-week high / low	Rs773 / 499
Sensex / Nifty	75939 / 22929
3-m average volume	$38.1m
Market cap	Rs1362bn / $15689.4m
Shares outstanding	2247m

Shareholding pattern (%)	Dec'24	Sep'24	Jun'24
Promoters	34.6	34.6	34.6
- of which, Pledged	-	-	-
Free float	65.4	65.4	65.4
- Foreign institutions	31.7	32.3	30.9
- Domestic institutions	24.6	24.3	25.6
- Public	9.1	8.8	8.9

Estimates revision (%)	FY25e	FY26e	FY27e
Sales	(2.3)	(2.2)	(1.9)
EBITDA	2.5	2.0	0.9
PAT	3.4	2.3	0.2

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs bn)	1,951	2,232	2,160	2,395	2,533	2,647
EBITDA (Rs bn)	283	227	239	339	360	374
APAT (Rs bn)	136	101	101	161	164	165
EPS (Rs)	61.3	45.3	45.6	72.5	73.8	74.2
P/E (x)	9.9	13.4	13.3	8.3	8.2	8.2
EV/EBITDA (x)	6.0	7.3	7.0	5.1	4.8	4.7
Net debt/EBITDA (x)	1.2	1.4	1.4	1.1	1.1	1.1

Source: Company, Anand Rathi Research

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Research Analyst

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Research Analyst

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Revenue	2,232	2,160	2,395	2,533	2,647
Revenue growth (%)	*14.4*	*-3.2*	*10.9*	*5.8*	*4.5*
Total Expenses	2,005	1,921	2,056	2,173	2,273
EBITDA	227	239	339	360	374
EBITDA growth (%)	*-20.0*	*5.3*	*41.9*	*6.3*	*3.8*
EBITDA margins (%)	*10.2*	*11.1*	*14.1*	*14.2*	*14.1*
Depreciation	71	75	81	91	98
Other income	13	15	24	24	24
Interest Exp	36	39	41	49	54
PBT before exc. item	132	140	240	244	246
Exceptional item	0	0	0	0	0
PBT after exceptional item	132	140	240	244	246
Effective tax	31	39	79	81	81
PAT (before Ass./(Mino.))	101	102	161	164	165
+ Associates/(Minorities)	0	0	0	0	0
Reported PAT	101	102	161	164	165
APAT	101	101	161	164	165
APAT growth(%)	*-26.2*	*0.8*	*58.9*	*1.7*	*0.6*

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	2	2	2	2	2
Net worth	948	1,061	1,209	1,359	1,509
Total debt	583	545	590	575	602
Minority interest	0	0	0	0	0
DTL/(Asset)	73	82	82	82	82
Others	95	97	97	97	97
Capital employed	**1,699**	**1,785**	**1,977**	**2,112**	**2,289**
Net tangible assets	758	772	883	1,005	1,130
Net Intangible assets	324	323	317	311	303
CWIP	73	146	170	196	222
Investments	82	121	121	121	121
Other non-current assets	104	122	125	127	130
Inventory	430	408	453	479	500
Account Receivables	162	164	182	192	201
Cash (incl bank balance)	212	177	206	177	191
Other current assets	89	74	82	87	91
Current Liabilities	536	522	560	582	600
Capital deployed	**1,699**	**1,785**	**1,977**	**2,112**	**2,289**

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
EBITDA	227	239	339	360	374
+ other Adj.	-3	9	0	0	0
- Incr./(decr.) in WC	-5	19	-33	-19	-16
Others incl. taxes	-27	-27	-79	-81	-81
CF from Op. Activity	**192**	**241**	**227**	**260**	**277**
- Capex (tang. + Intang.)	-97	-157	-212	-235	-245
Free cash-flow	95	84	15	26	32
Others	16	14	24	24	24
CF from Inv. Activity	**-81**	**-143**	**-188**	**-211**	**-221**
- Div. (incl. buyback & taxes)	-9	-7	-13	-14	-14
+ Debt raised	-82	-44	45	-15	27
Others	-13	-58	-41	-49	-54
CF from Fin. Activity	**-103**	**-108**	**-10**	**-78**	**-42**
Closing cash balance	128	118	147	118	132
Closing balance (incl. bank bal.)	212	177	206	177	191

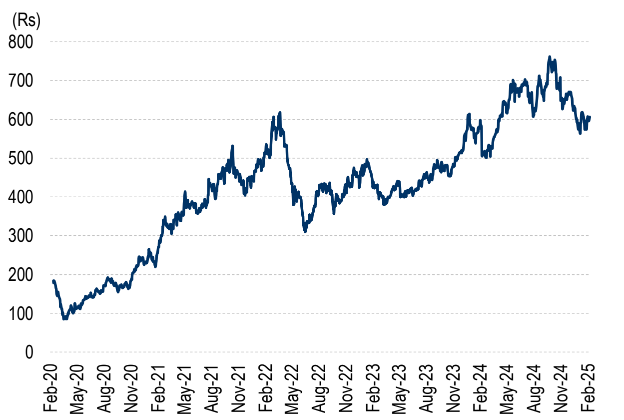
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
EPS	45.3	45.6	72.5	73.8	74.2
P/E (x)	13.4	13.3	8.3	8.2	8.2
P/BV (x)	1.4	1.3	1.1	1.0	0.9
EV/EBITDA (x)	7.3	7.0	5.1	4.8	4.7
EV/sales (x)	0.7	0.8	0.7	0.7	0.7
RoE (%)	11.6	10.1	14.2	12.8	11.5
RoCE (%)	10.3	10.2	15.0	14.3	13.6
DPS (Rs per share)	3.0	3.5	6.0	6.5	6.5
Dividend payout (%)	6.6	7.7	8.3	8.8	8.8
Net debt/EBITDA (x)	1.4	1.4	1.1	1.1	1.1
Inventory (Days)	70	69	69	69	69
Debtors (Days)	27	28	28	28	28
Payable (Days)	59	58	58	58	58
EBITDA Margins (%)	10.2	11.1	14.1	14.2	14.1
Net Profit Margins (%)	4.5	4.7	6.7	6.5	6.2

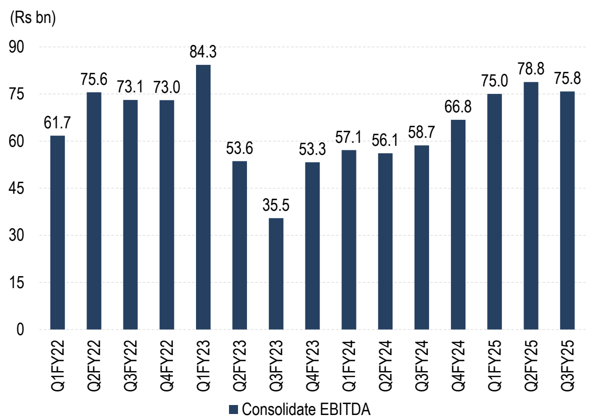
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Consolidated EBITDA remains above Rs75bn



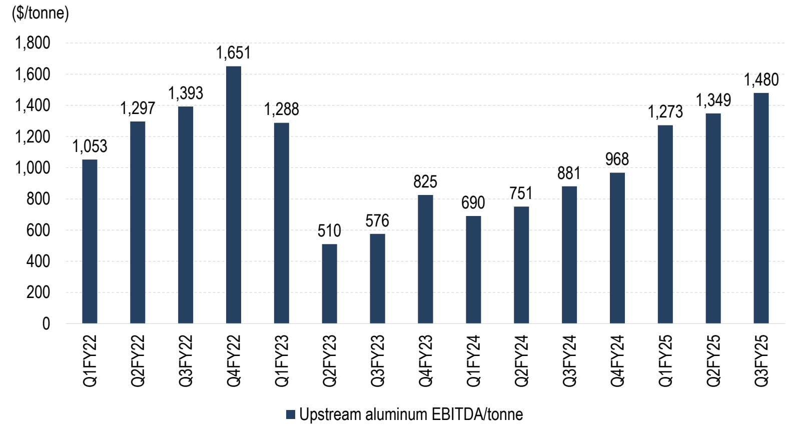
Source: Company, Anand Rathi Research

Detailed business-wise analysis

Aluminium upstream business: Industry-leading EBITDA, surpassed Q3 FY22 levels

Q3 shipments increased 2% y/y, 3% q/q to 338k tonnes, in line with the estimated 334k tonnes, taking the FY25e to ~1.335m tonnes. Revenue (non-adjusted to intersegmental) for the upstream business grew 25% y/y, 9% q/q to Rs99.9bn, driven by higher average aluminium prices. EBITDA increased 73% y/y, 14% q/q to Rs42bn (a 14% beat to our estimated Rs37bn). Lower input cost led to higher, 42%, margins (31% in Q3 FY24 and 41% in Q2 FY25); EBITDA/tonne was $1,480 (~$165/tonne above our estimate). The LME has been sustaining over $2,550/tonne, coupled with the company's cost-saving steps and CoP expected +/-1% q/q, we believe margins would remain at similar levels in Q4.

Fig 7 – Highest EBITDA/tonne in 11 quarters

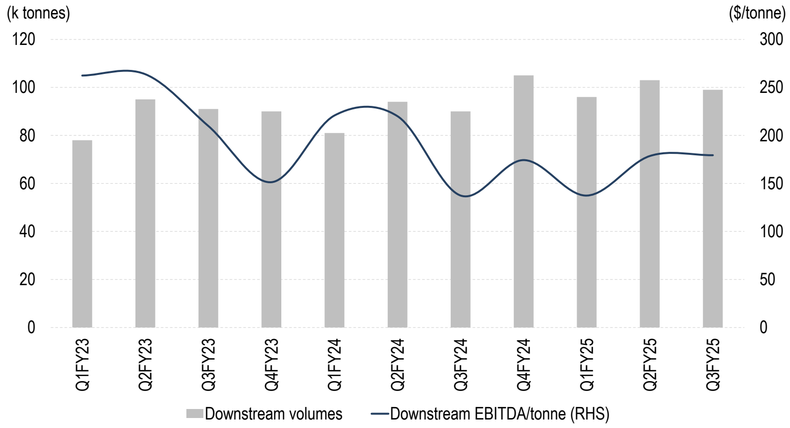


Source: Company, Anand Rathi Research

Aluminium downstream business

Q3 shipments rose 10% y/y but dipped 4% q/q to 99k tonnes, in line with our estimated 95k tonnes. Once the downstream capacity expansion at Aditya (FRP) completes in FY26, it will enhance the yearly downstream capacity to ~0.6m tonnes (600k tonnes). Revenue for the vertical rose 25% y/y, 1% q/q, to Rs31.95bn, in line with our estimated Rs30.4bn. The premium commanded by downstream business over LME slightly reduced q/q to $1,249/tonne in Q3, in line with our estimate. EBITDA increased 46% y/y, but fell 3% q/q to Rs15bn, slightly lower than ARe of Rs15.8bn. EBITDA/tonne remained flattish q/q at $179/tonne; with improved domestic demand and increase in its capacity, profitability is expected to gradually inch up to $200/tonne levels ahead. We believe as newer capacities come on stream, the share of downstream business would improve from 12.4% in FY24 to 17.1% by FY27.

Fig 8 – Downstream aluminum business volume (k tonnes) and EBITDA/tonne ($/tonne)

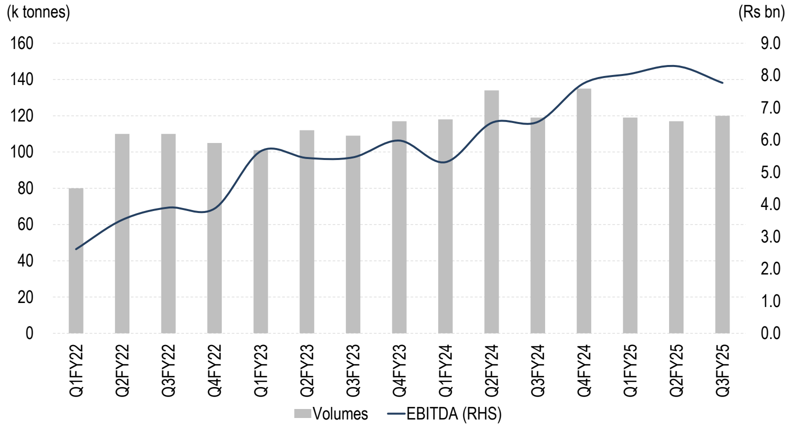


Source: Company, Anand Rathi Research

Copper business

Q3 metal shipments increased 1% y/y, 3% q/q to 120k tonnes, in line with our estimate. Revenue rose 15% y/y, 5% q/q to Rs137bn, slightly better than our estimated Rs129bn. The vertical posted EBITDA of Rs7.77bn, up 18% y/y, but down 6% q/q; 27% higher than ARe. The improvement was driven by higher average copper prices and higher sulphuric acid spreads. However, TC/RC for Q4 cooled off, which is expected to impact profitability (~¢5/pound vs. ¢15-16/pound in Q3 and ~¢20.4/pound in Q3 FY24). Mining companies pay smelters TC/RC and thus, it is a source of revenue for the latter. TC/RC are usually deducted from LME, which helps cover smelting and refining cost and thus, are viewed as upfront discount. Currently, TC/RC are at multi-decade lows and the reduction in recent quarters is due to commissioning of additional smelting capacities. China is adding ~16m tonnes of copper smelting capacity in CY25 and a 0.5m-tonne smelting plant by Adani Group is expected to come up in India. This has resulted in mining companies now having more leverage, thus forcing smelters to accept lower TC/RC. As the company has adequate inventory for the quarter, the impact of lower TC/RC will accrue from Q1 FY26. In line, Q4 EBITDA is expected to cool off near Rs6bn-6.5bn, taking FY25e EBITDA to Rs30.6bn; ahead, EBITDA is expected at Rs25bn-27bn p.a.

Fig 9 – Copper vertical volumes (k tonnes) and EBITDA (Rs bn)

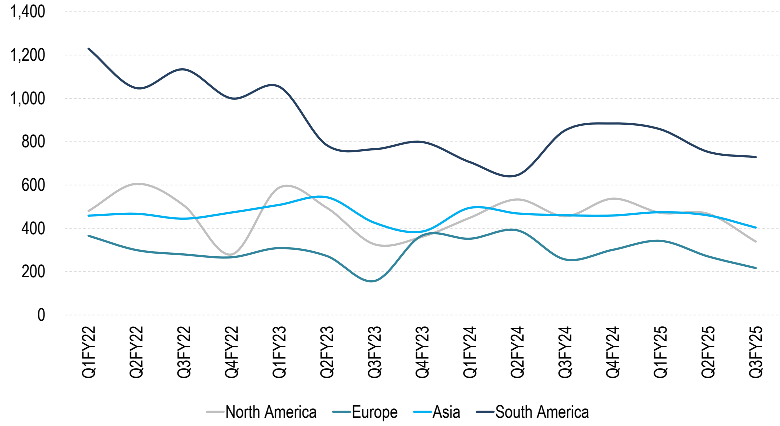


Source: Company, Anand Rathi Research

Novelis

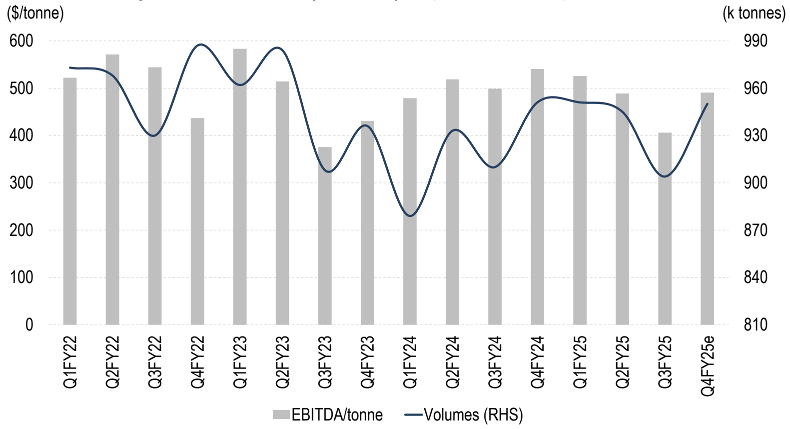
Shipments slightly dipped y/y to 904kt, in line with our estimated 910kt. Revenue increased 4% y/y, but dipped 5% q/q to $4.08bn, in line with ARe of $4.3bn. Adj. EBITDA fell 19% y/y, 21% q/q to $367m, in line with our estimated $383m. Adj. EBITDA/tonne came in line at $406/tonne vs. ARe of $421/tonne. Shipments from North America were 360k tonnes, down 0.6% y/y, 9.1% q/q, in line with ARe of 364k tonnes. Higher automotive shipments were offset by lower specialty volumes. Further, the planned facility shutdown impacted beverage can volumes, which was flat q/q. EU shipments stood at 226k tonnes, down 1.7% y/y, 3% q/q, but in line with our estimated 224k tonnes. Higher beverage can volumes were offset by lower automobile grade shipments. Asia shipments came at 186k tonnes, up 5.7% y/y, but in line with ARe of 191k tonnes. Q/q, South America continued to outperform other geographies with shipments at 166k tonnes (13.7% higher than our estimated 146k tonnes). Q3 is usually a holiday quarter in the west with many long weekends and planned facility shutdowns; hence, volumes and EBITDA would improve in Q4 (around Q2 levels).

Fig 10 – EBITDA/tonne ($/tonne), geography-wise



Source: Company, Anand Rathi Research

Fig 11 – Quarterly EBITDA/tonne ($/tonne) expected to improve in Q4 FY25



Source: Company, Anand Rathi Research

Result Highlights

Fig 12 – Quarterly consolidated performance at a glance

(Rs bn)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q3 FY25e	% chg to est	% Y/Y	% Q/Q
Revenue	530	542	528	560	570	582	584	602	-3.0	10.6	0.3
EBITDA	57	56	59	67	75	79	76	80	-4.7	29.3	-3.8
EBITDA margins (%)	*10.8*	*10.4*	*11.1*	*11.9*	*13.2*	*13.5*	*13.0*				
Interest	10	10	9	9	9	9	8	10	-20.5	-13.5	-6.0
Depreciation	18	18	19	20	19	19	19	20	-4.1	3.5	0.4
Other income	4	5	3	4	4	11	5	6	-9.0	81.8	-52.7
PBT before Exceptional item	33	32	33	41	52	62	53	55	-2.3	60.4	-13.3
Exceptional items	-0	0	0	0	-3	-5	-0	0			
PBT after Exceptional item	33	32	33	41	48	56	53	55	-3.1	59.2	-6.2
Tax	9	10	10	10	18	17	16	14	13.4	56.6	-10.0
PAT before MI/Asso.	25	22	23	32	31	39	37	41	-8.6	60.3	-4.5
+Assoc/(Minorities)	0	0	0	-0	0	0	0				
Reported PAT	25	22	23	32	31	39	37	41	-8.6	60.2	-4.5
Adj. PAT	25	22	23	32	34	44	38	41	-7.6	62.0	-14.6
Upstream aluminium shipments (k tonnes)	341	334	333	337	329	328	338	334	1.2	1.5	3.0
Downstream aluminium shipments (k tonnes)	81	94	90	105	96	103	99	95	4.2	10.0	-3.9
Copper metal shipments (k tonnes)	118	134	119	135	119	117	120	120	0.0	0.8	2.6
Novelis shipments (k tonnes)	879	933	910	951	951	945	904	910	-0.7	-0.7	-4.3
Upstream aluminium EBITDA/tonne	690	751	881	968	1,273	1,349	1,480	1,315	12.6	68.1	9.8
Downstream aluminium EBITDA/tonne	221	220	137	174	137	179	179	197	-8.9	30.6	0.5
Novelis EBITDA/tonne	479	519	499	540	525	489	406	421	-3.7	-18.6	-17.0

Source: Company, Anand Rathi Research

Novelis financial performance

Fig 13 – Quarterly consolidated performance at a glance

($ m)	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q 3FY25	Q3 FY25e	% chg to est	% Y/Y	% Q/Q
Revenue ($ m)	4,091	4,107	3,935	4,077	4,187	4,295	4,080	4,265	-4.3	3.7	-5.0
Adj. EBITDA ($ m)	421	484	454	514	500	462	367	383	-4.3	-19.2	-20.6
Adj. EBITDA/tonne ($/tonne)	479	519	499	540	525	489	406	421	-3.7	-18.6	-17.0
Shipments (k tonnes)	879	933	910	951	951	945	904	910	-0.7	-0.7	-4.3
North America shipments (k tonnes)	370	390	362	391	388	396	360	364	-1.1	-0.6	-9.1
Europe shipments (k tonnes)	250	256	230	246	263	233	226	224	0.9	-1.7	-3.0
Asia shipments (k tonnes)	176	175	176	183	194	198	186	191	-2.6	5.7	-6.1
South America shipments (k tonnes)	119	144	176	164	154	162	166	146	13.7	-5.7	2.5
North America Adj. EBITDA/tonne ($/tonne)	449	533	456	537	472	467	339	406	-16.6	-25.6	-27.5
Europe Adj. EBITDA/tonne ($/tonne)	352	391	257	301	342	270	217	236	-8.0	-15.5	-19.8
Asia Adj. EBITDA/tonne ($/tonne)	494	469	460	459	474	460	403	414	-2.6	-12.4	-12.3
South America Adj. EBITDA/tonne ($/tonne)	706	646	852	884	857	753	729	715	2.0	-14.5	-3.2

Source: Company, Anand Rathi Research

Geography-wise shipments

- Shipments from North America were 360k tonnes (down 0.6% y/y, 9.1% q/q), in line with ARe of 364k tonnes. Higher automotive shipments were offset by lower specialty volumes. Further, planned facility shutdown impacted beverage can volumes, which was flat q/q.
- EU shipments were 226k tonnes, down 1.7% y/y, 3% q/q, in line with our estimated 224k tonnes. Higher beverage can volumes were offset by lower auto-grade shipments.
- Asia shipments were 186k tonnes (up 5.7% y/y but down 6.1% q/q), in line with our estimated 191k tonnes. Beverage can segment continued to outperform other sectors.
- Q/q, South America continued to outperform other geographies, with shipments at 166k tonnes, a 13.7% beat to our estimate at 146k tonnes.

Geography-wise EBITDA

- North America EBITDA stood at $122m (down 26.1% y/y, 34.1% q/q), a 17.5% miss to our estimated $148m. Lower metal benefit due to higher scrap prices impacted EBITDA.
- EU EBITDA stood at $49m (down 16.9% y/y, 22.2% q/q), a 7% miss to our estimate of $53m. Lower metal benefit due to higher scrap prices impacted EBITDA. Further, an unfavourable product mix and lower specialty prices also hurt profitability.
- Asia EBITDA stood at $75m (down 7.4% y/y, 17.6% q/q), in line with our estimated $79m. The unfavourable product mix and higher scrap prices impacted Q3 performance.
- South America EBITDA was $121m (down 19.3% y/y, 0.8% q/q); a 15.9% beat to our estimate of $104m.

Net debt, leverage and capex

- Q3 adjusted net debt was $5.3bn (up from $4.4bn in FY24 and $4.7bn in H1 FY25).
- Net leverage ratio (adjusted net debt/EBITDA) was 2.9x, the highest since FY21.
- In line with increased capex (as it progresses towards completion), the company is expected to touch net leverage of 3.5x over the next two years, post which it will deleverage its balance sheet.
- 9M FY25 capex at $1.175bn and is expected ~$1.8bn in FY25 (incl. $300m towards maintenance capex).
- The company is expected to spend $6bn (total) as capex over 3-4 years (incl. ~$300m-350m p.a. as maintenance capex).

Bay Minette project update

- Steel installation at Bay Minette is progressing per timeline and the project is to complete by H2 CY26.
- 2/3rd of the capacity (of ~600k-tonne installed capacity) is earmarked for the beverage can sector and the rest for automobile, which is a fungible capacity.
- Of $4.1bn capex, $1.3bn was expensed as of Dec'24.
- $2.8bn capex of the targeted $6bn is towards Bay Minette facility.

Q4 guidance - EBITDA to improve

- Though scrap is expected to remain elevated in Q4, profitability is to improve to previous levels, driven by
- Higher volumes in Q4 vs. Q3 (across sectors) and a favourable product mix.
- The company renewed its beverage can contract on Jan 1, which are at a higher price.
- Higher recycled volumes will be available, which will drive Q4 performance.
- Q3 saw planned shutdowns across locations, which would not be the case in Q4.
- The Sierre (Switzerland) facility is now fully operational.

Impact of tariffs on Novelis

- North America contributes ~40% of volumes and ~33% of EBITDA.
- In the past, when the US imposed tariffs, LME prices increased.
- Being an American company, the net impact from tariff is expected to be positive. As indicated by management, Novelis might see a transitionary impact on its near-term cash flow as it imports scrap from neighbouring countries. However, considering the past, it might be eligible for certain exemptions in cross-border tariffs.
- Under Section 232, scrap is not subject to tariffs.
- Further, metal allows pass-through; increase in mid-west premium is charged to customers.

Other updates

- Novelis is developing technologies and partnerships with local scrap companies/yards to expand availability of recycled inputs, which will help mitigate scrap pressure in the long run.
- It is also in discussions to utilize the scrap which gets dumped to landfills in the US.
- Guthrie recycling facility continues to ramp up its automotive sheet ingot casting.
- The South Korea facility is under commissioning.
- The 80k-tonne hot mill expansion in Logan (USA) via de-bottlenecking is on track and is expected to complete by Q1 FY26.

Most of the q/q reduction in EBITDA/tonne in Q3 was attributed to scrap pressure.

Conference call key takeaways

Total RE capacity as on date is 189MW and the company is adding 109MW by H1 CY25, taking the cumulative RE to 300MW. Further, 20MW of hybrid capacity (solar + wind) is expected to be operational by H2 FY26.

Coal cost in Q3 was flattish q/q and is expected to remain similar in Q4. The share of linkage coal stood at 50% and the rest was procured via e-auction.

Chakla coal block box-cut is progressing per timeline (Q3 CY25) and production is expected to commence from Feb'26.

The company secured 12m tonnes of Meenakshi coal block allocation. As a next step, the company will apply for EC and FC. This coal block is expected to be operational by FY28.

Once Chakla and Meenakshi mines are operational, they would meet coal requirement for domestic operations (except for the Dahej facility), thus saving ~30% compared to current levels.

The company is expected to spend ~Rs400bn over the next few years as capex for domestic operations. 9M FY25 capex was Rs44bn, FY25e ~Rs60bn and FY26e ~Rs80bn. Domestic capex is expected to peak by FY27-28.

In the next phase of expansion, the company is setting up a 0.85m-tonne alumina refinery at Aditya at an outlay of Rs75bn-80bn and a 50k-tonne copper recycling unit in Gujarat at an outlay of Rs27bn.

The company has also submitted its plan and has applied for EC to set up a 180pots smelter at Aditya and a 300k-tonne copper smelter unit in Dahej. These facilities are expected to come on stream by FY28-29.

Though over the next few years, the primary aluminum smelting capacity is expected to remain stable, the capacity for downstream facilities are expected to increase to 600k tonnes by Q2 FY26. Silvassa and Aditya FRP projects are expected to drive downstream performance.

In Q4, 35% of commodity is hedged at $2,600/tonne and ~15% at zero collar with bottom of $2,262/tonne and ceiling of $2,558/tonne. 16% currency is hedged at Rs88:$1.

For FY26, 12% commodity is hedged at $2,700/tonne and 13% currency at Rs87.33:$1.

Aluminium and copper demand-supply balance

Aluminium

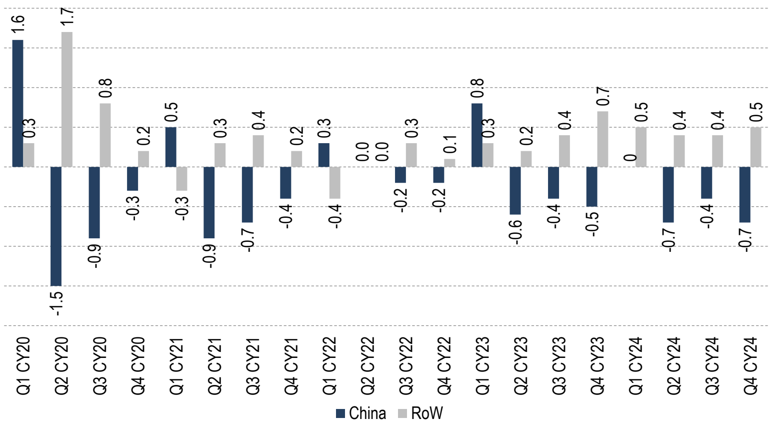
Like other ferrous and base metals, China commands a lion's share in global aluminium production (~59%). Aluminium production in China improved ~0.2m tonnes in Q4 CY24 to 10.9m tonnes and consumption stood at 11.6m tonnes (up 3.5% y/y), which led to a deficit of ~0.7m tonnes.

CY24 global consumption improved by 2.4m tonnes to 72.5m tonnes. As China continues to face a cap of 45m tonnes on its yearly primary aluminium production, this led to a deficit of 1.9m tonnes there. Demand in China was driven by a surge in solar and new energy sector, increase in exports of semi-fabricated parts, which was offset by reduced demand from real estate.

Just like other metals, India continues to outperform other global majors. Aluminium demand during the quarter improved 11% y/y to 1.403m tonnes, primarily driven by strong demand in packaging sector. Ahead, demand is expected to be driven by electricals, cable/connectors, solar RE, consumer durables, packaging and construction sectors. Domestic FRP demand is expected to increase 20% y/y in FY25 vs. 5% (excl. China) globally (CY25).

Tariffs might shift the global aluminium export landscape; considering China is already facing deficit due to high demand in its domestic market, it might not face major headwinds. 76% of aluminium imports in the US are from Canada, followed by the UAE (10%), Argentina (5%), Bahrain (3%), Australia (2%) and India (2%). Chinese export of primary aluminium to the US is <1% of its total output, with Chalco and Hongqiao having meagre presence. As China and the EU are not major exporters to the US, as seen in the past, tariff had a limited impact on LME and SHFE prices in the long run.

Fig 14 – Global aluminium demand-supply balance (m tonnes)

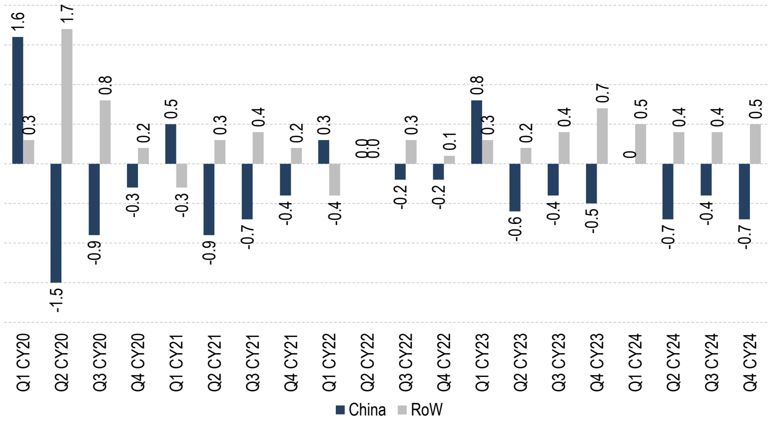


Source: Company, Anand Rathi Research

Copper

Globally, production in Q4 CY24 increased 3% y/y to 6.8m tonnes and consumption, 5% y/y to 6.9m tonnes, thereby resulting in a ~0.1m tonne deficit. Demand in China exceeded production, which led to a deficit of ~1m tonnes there, which was offset by slower demand in the RoW (which saw a surplus of 0.9m tonnes). Refined domestic copper demand was slightly subdued q/q at 206k tonnes. The shortfall in domestic market is met via imports. The share of domestic suppliers improved to 76% during Q3.

Fig 15 – Global copper demand-supply balance (m tonnes)



Source: Company, Anand Rathi Research

Valuations

We believe that with the move toward greener alternatives globally, demand for aluminium and copper would be robust, driven by the strong push from EVs, RE, packaging, consumer durables, energy, aerospace, infrastructure, construction, automobiles, etc.

The company, which is at the forefront of FRP and VAP capacity expansions, would be one of the biggest beneficiaries of the ongoing change in the non-ferrous landscape. Along with planned capex, the company is strengthening its presence in backward integration, primary metal and VAP products.

Novelis being an American company, the net impact from tariffs is expected to be positive. As indicated by management, Novelis might see a transitionary impact on its near-term cashflow as it imports scrap from neighbouring countries. However, considering the past, it might be eligible for certain exemptions in cross-border tariffs.

Considering all the positive triggers, we have built in a ~7% revenue CAGR and a 16% EBITDA CAGR over FY24-27. As the company has integrated its business model with its focus on integrating RMs and enhancing the share of VAP, the impact in one business vertical is absorbed by others, thus reducing the impact on consolidated financials. We retain our Buy rating and a sum-of-parts TP of Rs800/share.

Fig 16 – Change in estimates

	FY25e			FY26e			FY27e		
(Rs bn)	New	Old	% chg	New	Old	% chg	New	Old	% chg
Revenue	2,395	2,452	-2.3	2,533	2,590	-2.2	2,647	2,700	-1.9
EBITDA	339	331	2.5	360	353	2.0	374	371	0.9
APAT	161	156	3.4	164	160	2.3	165	164	0.2

Source: Anand Rathi Research

Fig 17 – TP of Rs800/share

Particulars	UoM	FY27e
Aluminium – upstream		
Volumes	kt	1,350
EBITDA / tonne	$	1,296
EBITDA	Rs m	1,50,711
EV / EBTIDA (x)	x	5.0
Target EV	**Rs m**	**7,53,556**
Aluminium – downstream		
Volumes	Kt	555
EBITDA / tonne	$	207
EBITDA	Rs m	9,920
EV / EBTIDA (x)	X	5.5
Target EV	**Rs m**	**54,557**
Copper		
Volumes	Kt	530
EBITDA	Rs m	26,840
EV / EBTIDA (x)	X	5.5
Target EV	**Rs m**	**1,47,620**
Novelis		
Volumes	kt	3,960
EBITDA / tonne	$	523
EBITDA (converted to Rs)	Rs m	1,78,360
EV / EBTIDA (x)	x	6.0
Target EV	**Rs m**	**10,70,162**
Other Adj.		
EBITDA	Rs m	8,252
EV / EBTIDA (x)	X	3.0
Target EV	**Rs m**	**24,755**
Target Group EV	Rs m	20,50,650
Less: Net debt	Rs m	4,10,810
Add: Adj. CWIP (@ 50%)	Rs m	1,11,244
No. of shares	M	2,220
Per share value	Rs	789
Add: Adj. per share value of investment (Adj. to holding co. discount)	Rs	15
Target price	**Rs/sh**	**800**

Source: Anand Rathi Research *Rounded off to nearest 10's*

Appendix

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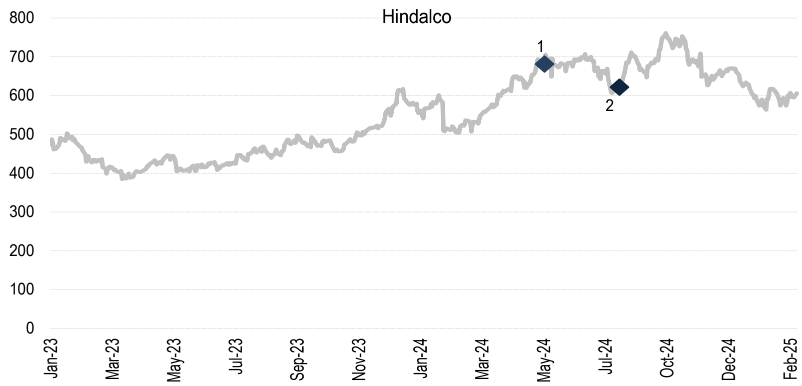

	Date	Rating	TP (Rs)	Share Price (Rs)
1	03-Jun-24	**Buy**	850	693
2	14-Aug-24	**Buy**	800	621

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