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India | Equity Research | Re-initiating Coverage

Hindalco Industries

Metals & Mining

Novelis Q1FY26: Performance dips amid trade war friction

Novelis' (Hindalco's 100% subsidiary) Q1FY26 (adj.) EBITDA of USD 416mn (and ~USD 432/te) has missed consensus estimates (~USD 445–450/te), mainly on account of: 1) negative tariff impact of USD 28mn; and 2) change in product mix. Management's new estimate pegs the scrap imports cost escalating – due to the 50% tariff – to USD 60mn vs. USD 40mn earlier at 25% duty. However, commentary indicated that the performance is nearing its bottom with Q2 likely to be similar to Q1. Net debt increased to USD 5.6bn (vs. USD 5.2bn in Q4FY25); management targets ~3.5x max net leverage through the cycle (except for one-offs). We re-initiate coverage on the stock with a **HOLD** rating and an SoTP-based target price of INR 720 (6.5x FY27E EV/EBITDA for Novelis and 6x for the domestic business).

EBITDA missed estimates

Novelis' Q1FY26 (adj.) EBITDA of USD 416mn (down 17% YoY) has missed consensus estimates. Takeaways: 1) Shipments rose 1% YoY/QoQ to 963kte, as higher beverage packaging shipments were partly offset by lower automotive and specialties shipments. Further, Asia's shipment grew by 11% YoY, while the other markets remained flat. 2) Adj. EBITDA/te reduced to USD 432/te (vs. USD 525 in Q1FY25 and USD 494 in Q4FY25). 3) US EBITDA at USD 133mn (-27%/-11% YoY/QoQ); South America EBITDA at USD 119mn (-10%/-11% YoY/QoQ) and Europe at USD 70mn (-22%/-33% YoY/QoQ). Asia was at USD 93mn (+1%/+4% YoY/QoQ). 4) Novelis has increased the cost takeout guidance from USD 75mn to USD 100mn for FY26. 5) Adj. net debt/adj. EBITDA has increased to 3.2x (vs. 2.9x, as of FY25-end). 6) Targeted capex for FY26 is expected to be in a range of USD 1.9bn to USD 2.2bn.

Takeaways from the call

Takeaways include: 1) Adj. EBITDA/te at USD 432/te is likely to have bottomed out and Q2 is expected to be similar. 2) Elevated scrap prices in Q1FY26 have eased now. 3) Decline in EBITDA is mainly on account of product mix, tariff impact and elevated scrap prices. 4) Recycling content is likely to increase to ~75% in the next few years, from ~63% in FY25. 5) Overall shipments grew 1% YoY/QoQ – growth is mainly in the beverage packaging segment, which has partially offset the lower specialties and automotive shipments. 6) Targeting 3.5x net leverage through cycle.

Financial Summary

Y/E March (INR mn)	FY24A	FY25A	FY26E	FY27E
Net Revenue	21,59,620	23,84,960	24,92,066	25,96,221
EBITDA	2,38,720	3,18,050	2,87,351	3,15,780
EBITDA Margin (%)	11.1	13.3	11.5	12.2
Net Profit	1,09,840	1,68,590	1,35,561	1,46,859
EPS (INR)	49.5	75.9	61.1	66.2
EPS % Chg YoY	6.3	53.5	(19.6)	8.3
P/E (x)	13.6	8.9	11.0	10.2
EV/EBITDA (x)	3.4	2.8	3.2	3.1
RoCE (%)	8.5	10.4	7.7	7.7
RoE (%)	11.8	15.6	11.1	10.8

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Market Data

Market Cap (INR)	1,512bn
Market Cap (USD)	17,240mn
Bloomberg Code	HNDL IN
Reuters Code	HALC.BO
52-week Range (INR)	773 /546
Free Float (%)	64.0
ADTV-3M (mn) (USD)	37.2

Price Performance (%)	3m	6m	12m
Absolute	7.3	12.9	8.0
Relative to Sensex	5.8	7.3	6.9

ESG Score	2023	2024	Change
ESG score	62.6	64.7	2.1
Environment	44.7	53.2	8.5
Social	61.2	65.8	4.6
Governance	76.0	75.8	(0.2)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

21-05-2025: [Q4FY25 results review](#)

13-05-2025: [Q4FY25 Novelis results](#)

Outlook: Near-term headwinds persist

Novelis's Q1FY26 performance was marred by tariff related vagaries translating to poor performance, partially impacted by a USD 28mn net negative tariff impact. Though, the company is indicating that performance is near bottom and Q2 would largely be in line with Q1, we suspect that Q2FY26 is where the margin may bottom out with slow and steady recovery in H2. The elusive USD 500mn EBITDA/te looks out of reach in the near to medium term despite management maintaining its long-term EBITDA/te target of USD 600 (once Bay Minette ramps up). We do believe in the promising long-term story; however, near-term headwinds and normalisation of Utkal's performance means FY26E EBITDA is expected to be lower than FY25. For the next couple of years, higher capex intensity will likely keep debt levels high; thus, weighing on the stock's performance. Commissioning of Bay Minette and captive coal shall be the next big triggers for the company, which is an FY27–28 story.

We re-initiate coverage on the stock with a HOLD rating and an SoTP-based target price of INR 720 based on 6.5x FY27E EV/EBITDA for Novelis and 6x for domestic business (near to long term mean multiple).

Exhibit 1: SoTP Valuation

(INR mn)	FY27 EBITDA	Multiple	
Aluminium	1,45,544	6.0	8,73,266
Novelis	1,69,264	6.5	11,00,217
Copper	25,971	6.0	1,55,828
Total EV			21,29,311
Net Debt/ (cash)			5,36,212
Equity holders			15,93,098
No. of Shares			2,220
Target Price			720

Source: I-Sec research

Key risks

Upside Risk

- Novelis allowed to import scarp without paying traffic
- Price hike by Novelis to pass on tariff impact to customers

Downside Risk

- Sharp drop in LME Al or metal premium.
- Lower-than-expected spreads at Novelis.
- Slower-than-expected ramp up of Indian downstream capacity.

Novelis' Q1FY26 conference call: Highlights

- In Q1FY26, total shipments grew by ~1% YoY/QoQ.
- Net sales increased ~13% due to: 1) higher average aluminum prices; and 2) growth in shipments.
- Financial performance was hurt by: 1) high scarp prices YoY; 2) less stable product mix; and 3) higher tariff costs.
- Tariff impact during the quarter was at ~USD 60mn, (expected ~USD 40mn). However, with cost mitigation strategy total accrued impact was at ~USD 28mn.
- Guidance: Target of EBITDA/te at ~USD 600 is unchanged for FY26.

- EBITDA/te, in Q2FY26, is expected to be in line with Q1FY26.
- In Q3FY26, cost mitigation strategy should start to reflect; and by Q4FY26, EBITDA/te is expected to expand.
- Managements target of ~3.5x leverage ratio remains unchanged for FY26.
- Management expects recycling share to rise to ~75% (currently ~63%) as more recycling facilities come online.
- Cost saving: Management has revised its target to ~USD 100mn (earlier ~USD 75mn) in cost savings by FY26 and ~USD 300mn in total savings by FY28.
- Capex: Management has planned USD 1.9–2.2bn of capex for FY26, out of which ~USD 300mn shall be for maintenance.
- Management's scrap crunch mitigation strategy is as follows: 1) Increasing the share of captive recycling. 2) Diversifying from UBC scrap. 3) Using higher share of dirty scrap. 4) Improving the scrap supply chain
- Tariff: Management is diligently working through mitigation strategies such as: 1) advocacy for fair exemptions; 2) customer pass throughs; and 3) opportunities to produce more in US.

Exhibit 2: Novelis Q1FY26 performance review

(USD mn)	Q1FY26	Q1FY25	YoY growth %	Q4FY25	QoQ growth %
Net Sales	4,717	4,187	12.7	4,587	2.8
EBITDA	361	422	(14.5)	520	(30.6)
Margins (%)	8	10		11	
Other Income	84	18	366.7	26	223.1
Interest	67	72	(6.9)	65	3.1
Depreciation	148	140	5.7	152	(2.6)
PBT	146	210	(30.5)	303	(51.8)
Exceptional					
Tax	50	60	(16.7)	9	455.6
Adj. PAT	96	150	(36.0)	294	(67.3)

Source: I-Sec research, Company data

Exhibit 3: Novelis operational performance review

(USD mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Volumes (kte)	951	945	904	957	963
Revenue	4,187	4,295	4,080	4,587	4,717
Adj EBITDA	500	462	367	473	416
Adj EBITDA (USD/te)	526	489	406	494	432
Net Leverage ratio (x)	2.4	2.5	2.9	2.9	3.2

Source: Company data, I-Sec research

Exhibit 4: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	34.6	34.6	36.6
Institutional investors	57.1	54.8	54.5
MFs and others	13.3	13.3	13.7
FIs/Banks	2.4	0.7	0.6
Insurance	8.5	8.9	8.8
FIIIs	32.9	31.8	31.4
Others	8.3	10.6	8.9

Source: Bloomberg, I-Sec research

Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Net Sales	21,59,620	23,84,960	24,92,066	25,96,221
Operating Expenses	5,82,350	6,17,420	3,12,164	3,07,861
EBITDA	2,38,720	3,18,050	2,87,351	3,15,780
EBITDA Margin (%)	11.1	13.3	11.5	12.2
Depreciation & Amortization	75,210	78,810	82,751	86,888
EBIT	1,63,510	2,39,240	2,04,600	2,28,892
Interest expenditure	-	-	-	-
Other Non-operating Income	14,960	27,080	27,351	27,624
Recurring PBT	1,39,890	2,32,130	1,93,658	2,09,799
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	30,050	63,540	58,097	62,940
PAT	1,09,840	1,68,590	1,35,561	1,46,859
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	210	(8,790)	-	-
Net Income (Reported)	1,10,260	1,51,010	1,35,561	1,46,859
Net Income (Adjusted)	1,09,840	1,68,590	1,35,561	1,46,859

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Total Current Assets	8,28,990	9,26,480	9,88,762	11,23,830
of which cash & cash eqv.	1,44,370	1,08,460	1,50,123	2,46,992
Total Current Liabilities & Provisions	5,22,450	5,77,140	6,11,901	6,34,248
Net Current Assets	3,06,540	3,49,340	3,76,861	4,89,582
Investments	1,54,900	2,42,030	2,03,041	2,18,079
Net Fixed Assets	7,96,980	8,42,370	10,29,850	11,92,192
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,46,430	2,70,230	2,49,230	2,34,230
Total Intangible Assets	3,22,900	3,26,480	3,27,480	3,28,480
Other assets	-	-	-	-
Deferred Tax Assets	11,840	16,910	16,910	16,910
Total Assets	17,96,620	20,82,770	22,40,372	25,18,019
Liabilities				
Borrowings	5,45,010	6,56,420	6,99,746	8,35,864
Deferred Tax Liability	93,440	1,04,710	1,04,710	1,04,710
provisions	62,350	62,270	56,386	62,270
other Liabilities	34,250	22,160	20,066	22,160
Equity Share Capital	2,220	2,220	2,220	2,220
Reserves & Surplus	10,59,240	12,34,870	13,57,111	14,90,650
Total Net Worth	10,61,460	12,37,090	13,59,331	14,92,870
Minority Interest	110	120	132	145
Total Liabilities	17,96,620	20,82,770	22,40,372	25,18,019

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25A	FY26E	FY27E
Operating Cashflow	2,41,190	1,73,070	2,35,922	2,41,325
Working Capital Changes	20,400	(89,780)	42,119	(11,515)
Capital Commitments	(1,55,160)	(2,45,500)	(2,50,230)	(2,35,230)
Free Cashflow	86,030	(72,430)	(14,308)	6,095
Other investing cashflow	(14,200)	(38,370)	66,340	12,586
Cashflow from Investing Activities	(1,69,360)	(2,83,870)	(1,83,890)	(2,22,644)
Issue of Share Capital	7,820	20,860	12	13
Interest Cost	(38,580)	(34,190)	(38,293)	(46,717)
Inc (Dec) in Borrowings	(39,760)	99,320	41,232	1,38,212
Dividend paid	(7,770)	(11,100)	(13,320)	(13,320)
Others	-	-	-	-
Cash flow from Financing Activities	(78,290)	74,890	(10,369)	78,188
Chg. in Cash & Bank balance	(6,460)	(35,910)	41,663	96,869
Closing cash & balance	1,44,370	1,08,460	1,50,123	2,46,992

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY24A	FY25A	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	49.5	75.9	61.1	66.2
Adjusted EPS (Diluted)	49.5	75.9	61.1	66.2
Cash EPS	83.4	111.4	98.3	105.3
Dividend per share (DPS)	3.5	5.0	5.0	5.0
Book Value per share (BV)	478.1	557.2	612.3	672.5
Dividend Payout (%)	7.1	6.6	8.2	7.6
Growth (%)				
Net Sales	(3.2)	10.4	4.5	4.2
EBITDA	5.3	33.2	(9.7)	9.9
EPS (INR)	6.3	53.5	(19.6)	8.3
Valuation Ratios (x)				
P/E	13.6	8.9	11.0	10.2
P/CEPS	8.1	6.0	6.8	6.4
P/BV	1.4	1.2	1.1	1.0
EV / EBITDA	3.4	2.8	3.2	3.1
P / Sales	0.7	0.6	0.6	0.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	38.0	39.2	24.1	24.0
EBITDA Margins (%)	11.1	13.3	11.5	12.2
Effective Tax Rate (%)	21.5	27.4	30.0	30.0
Net Profit Margins (%)	5.1	7.1	5.4	5.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.2	0.2	0.3	0.2
Net Debt / EBITDA (x)	1.0	1.0	1.2	1.2
Profitability Ratios				
RoCE (%)	8.5	10.4	7.7	7.7
RoE (%)	11.8	15.6	11.1	10.8
RoIC (%)	10.6	12.7	9.4	9.4
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	70	79	79	78
Receivables Days	28	32	32	32
Payables Days	64	71	67	66

Source Company data, I-Sec research

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