

November 8, 2024

Base business at rescue amid muted Novelis show...

About stock: Hindalco, part of Aditya Birla group, is India's largest fully integrated aluminium and copper manufacturer. US based wholly owned subsidiary i.e. Novelis is the world's largest aluminium flat-rolled products (FRP) producer and recycler.

- Consol. Sales (FY24): India Aluminium: 19%, Copper: 22%, Novelis: 59%.

Key Event: Novelis reported muted performance in Q2FY25.

At Novelis, total operating income in Q2FY25 came in at \$4.3 billion (up 5% YoY) with shipments of flat rolled product at 945 kilo tonnes (kt) (up 1% YoY). Adjusted EBITDA stood at \$462 million (down 5% YoY) with EBITDA/tonne at \$489/tonne, down by 6% YoY. This includes one-time negative \$25 million impact from Sierre flood outage. Excluding this, Adj. EBITDA stood at \$487 million with EBITDA/tonne at >\$500/ton. Net Income for the quarter stood at \$128 million, down 18% YoY

Key Highlights from Novelis Conference Call:

- Novelis's o/p performance in Q2FY25 was impacted by a sharp rise in aluminium scrap prices & unfavourable product mix, with lower automotive shipments amid impact from production disruptions at Switzerland plant.
- With the unexpected rise in Aluminium scrap prices, the management has withdrawn its near-term EBITDA/ton guidance as the impact is expected to fully materialize in coming quarters. In order to reduce the impact, it has undertaken mitigation actions by using lower grade scrap and implementing new technology to expand scrap input options.
- Management is projecting shipments to grow by ~4% in FY25 driven by robust demand for beverage can and potential uptick in speciality space due to interest rate cut. However, it expects demand softness in auto space.
- An impact of \$101 million has been recognized from Sierre flood in YTD FY25 with total expected net cash impact (after insurance) at \$80 million. The net impact on Adjusted EBITDA is \$30 million, of which \$25 million occurred in Q2FY25. Sierre plant is expected to fully operatable in Q3FY25.
- Management remained firm with the long-term EBITDA guidance of \$600/ton supported by 600kt Bay Minette plant expansion, which is set to operational by end of CY26 and is projected to generate double digit IRR.

Rating and Target Price

- Novelis earnings decline in Q2FY25 and outlook came as a negative surprise resulting in downward revision in our earnings estimates for this entity. However, pick up in Aluminium base metal prices amidst its increasing application in automobile lightweighting and renewables as well as expectations of stimulus package in China leads to upward revision of earnings in Indian business, thereby neutralising the decline at Novelis. **We have a positive view on Hindalco and assign BUY rating on the stock valuing it at ₹ 800 i.e. 7.3x EV/EBITDA on FY26E. We believe the current correction offers good entry point for long term wealth generation.**



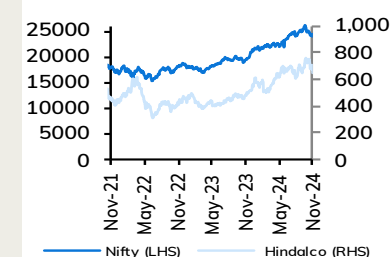
Particulars

Particulars	₹ crore
Market capitalisation	1,44,300
Total Debt (FY24)	54,501
Cash & Investment (FY24)	17,709
EV (₹ crore)	1,81,092
52 week H/L (₹)	772 / 479
Equity capital (₹ crore)	222
Face value (₹)	1

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	34.7	34.7	34.7	34.7
FII	27.9	26.8	27.2	28.6
DII	25.1	25.6	25.4	24.2
Other	12.4	12.9	12.8	12.6

Price Chart



Recent Event & Key risks

- Hindalco US Subsidiary Novelis posted muted Q2FY25 results with EBITDA/ton at US\$489/tonne.
- Key Risk:** i) sharp fluctuations in metal prices compressing margins (ii) challenges in executing capex plans and budget overruns at Novelis and Indian operations.

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Manisha Kesari
manisha.kesari@icicisecurities.com

Key Financial Summary

₹ crore	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,18,144	1,32,008	1,95,059	2,23,202	2,15,962	10.6%	2,40,713	2,55,736	8.8%
EBITDA	14,372	17,671	28,657	22,885	24,257	9.3%	27,441	29,491	10.3%
EBITDA Margins (%)	12.2	13.4	14.7	10.3	11.2		11.4	11.5	
Net Profit	3,767	3,483	13,730	10,097	10,155	13.1%	12,072	14,077	17.7%
EPS (₹/share)	17.0	15.7	61.8	45.5	45.7		54.4	63.4	
P/E	38.3	41.4	10.5	14.3	14.2		12.0	10.3	
RoNW (%)	6.8	7.5	17.7	10.8	9.8		10.5	10.8	
RoCE (%)	7.0	7.9	14.0	9.3	9.3		10.0	10.3	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Net Sales	2,23,202	2,15,962	2,40,713	2,55,736
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2,23,202	2,15,962	2,40,713	2,55,736
Growth (%)	14.4	-3.2	11.5	6.2
Raw Material Expenses	1,40,770	1,33,855	1,48,335	1,57,707
Employee Expenses	13,063	14,778	16,338	17,390
Other Operating Expense	46,484	43,072	48,600	51,147
Total Operating Expenditure	2,00,317	1,91,705	2,13,272	2,26,244
EBITDA	22,885	24,257	27,441	29,491
Growth (%)	-20.1	6.0	13.1	7.5
Depreciation	7,086	7,521	8,184	8,439
Interest	3,646	3,858	3,608	3,375
Other Income	1,257	1,496	1,546	1,606
PBT	13,410	14,374	17,195	19,283
Exceptional Item	169	362	328	0
Total Tax	3,144	3,857	4,795	5,206
PAT	10,097	10,155	12,072	14,077
Growth (%)	-26.5	0.6	18.9	16.6
EPS (₹)	45.5	45.7	54.4	63.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Profit after Tax	10,097	10,155	12,072	14,077
Add: Depreciation	7,086	7,521	8,184	8,439
(Inc)/dec in Current Assets	7,328	3,737	-8,264	-4,550
Inc/(dec) in CL and Provisions	-12,254	-1,280	7,326	3,756
Others	3,646	3,858	3,608	3,375
CF from operating activities	15,903	23,991	22,926	25,098
(Inc)/dec in Investments	3	-1,328	950	-50
(Inc)/dec in Fixed Assets	-11,813	-15,542	-21,000	-20,000
Others	-4,374	-1,260	0	0
CF from investing activities	-16,184	-18,130	-20,050	-20,050
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-4,900	-3,834	2,000	-500
Dividend & interest outgo	-4,536	-4,525	-4,551	-4,485
Inc/(dec) in Share Cap	0	0	0	0
Others	7,408	1,852	0	0
CF from financing activities	-2,028	-6,507	-2,551	-4,985
Net Cash flow	-2,309	-646	325	63
Opening Cash	17,392	15,083	14,437	14,762
Closing Cash	15,083	14,437	14,762	14,825

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity Capital	222	222	222	222
Reserve and Surplus	94,584	1,05,924	1,17,053	1,30,019
Total Shareholders funds	94,806	1,06,146	1,17,275	1,30,241
Total Debt	58,335	54,501	56,501	56,001
Deferred Tax Liability	8,650	9,344	9,344	9,344
Minority Interest / Others	8,883	9,053	9,153	9,253
Total Liabilities	1,70,674	1,79,044	1,92,273	2,04,839
Assets				
Gross Block	1,56,690	1,64,401	1,80,268	1,85,268
Less: Acc Depreciation	71,809	78,666	86,850	95,290
Net Block	84,881	85,735	93,418	89,978
Capital WIP	7,700	14,867	20,000	35,000
Total Fixed Assets	92,581	1,00,602	1,13,418	1,24,978
Investments	39,861	41,519	40,569	40,619
Inventory	42,958	40,812	46,164	49,045
Debtors	16,214	16,404	18,466	19,618
Loans and Advances	8	32	36	38
Other Current Assets	9,191	7,386	8,232	8,746
Cash	15,083	14,437	14,762	14,825
Total Current Assets	83,454	79,071	87,660	92,273
Current Liabilities	35,860	34,444	39,569	42,039
Provisions	2,663	2,639	3,032	3,221
Current Liabilities & Prov	54,143	52,863	60,189	63,946
Net Current Assets	29,311	26,208	27,471	28,327
Others Assets	8,921	10,715	10,815	10,915
Application of Funds	1,70,674	1,79,044	1,92,273	2,04,839

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
EPS	45.5	45.7	54.4	63.4
Cash EPS	77.4	79.6	91.2	101.4
BV	427.1	478.1	528.3	586.7
DPS	4.0	3.0	4.3	5.0
Cash Per Share	67.9	65.0	66.5	66.8
Operating Ratios (%)				
EBITDA Margin	10.3	11.2	11.4	11.5
PAT Margin	4.5	4.7	5.0	5.5
Inventory days	70.2	69.0	70.0	70.0
Debtor days	26.5	27.7	28.0	28.0
Creditor days	58.6	58.2	60.0	60.0
Return Ratios (%)				
RoE	10.8	9.8	10.5	10.8
RoCE	9.3	9.3	10.0	10.3
RoIC	11.1	11.4	12.4	13.7
Valuation Ratios (x)				
P/E	14.3	14.2	12.0	10.3
EV / EBITDA	7.9	7.5	6.7	6.2
EV / Net Sales	0.8	0.8	0.8	0.7
Market Cap / Sales	0.6	0.7	0.6	0.6
Price to Book Value	1.5	1.4	1.2	1.1
Solvency Ratios				
Debt/EBITDA	2.5	2.2	2.1	1.9
Debt / Equity	0.6	0.5	0.5	0.4
Current Ratio	1.8	1.7	1.7	1.7
Quick Ratio	0.7	0.6	0.6	0.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according -to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets), Manisha Kesari, PGDM (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.