

November 19, 2024

Robust Indian performance, stepping up capex spend

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%.

Q2FY25 Results: Hindalco reported healthy performance in Q2FY25 results. Consolidated topline stood at ₹58,203 crore (up 7% YoY, 2% QoQ). Reported EBITDA for the quarter stood at ₹8,029 crore (up 42% YoY) with corresponding EBITDA margins at 13.8%, up 340 bps YoY. PAT stood at ₹3,909 crore, up 78% YoY. Indian operations (primarily aluminium, copper business) outpace muted show at Novelis.

Investment Rationale

- India- aggressive capacity expansion to encash industry tailwinds:** Hindalco has recently announced ~US\$ 4-\$5 billion of capex spend in Indian operations, with ~US\$ 2 billion allocated for upstream aluminium and copper facilities. This is aimed to capitalize on growing opportunities in domestic space as demand for aluminium is projected to double from ~4.5 million tonne (MT) in FY23 to ~9 MT by FY33, and copper consumption expected to increase from ~1MT in FY23 to ~2 MT by FY33. This is driven by infrastructure, packaging & sunrise sectors such as EV& renewable energy. Within this, broader ~US\$1 billion is targeted towards downstream space focusing on high value-added products, which are inherently more profitable in nature. HIL is also expanding its VAP portfolio in premium copper alloy rods and inner-grooved copper tubes for refrigeration and air conditioning. Looking ahead, aggressive capex in place amidst robust demand for aluminium and copper, we have modelled in Sales & EBITDA on standalone basis, growing at a CAGR of ~6%/11% over FY24-27E.
- Novelis- near term uncertainties amid unchanged long-term investment thesis:** Novelis, the US based wholly owned subsidiary of Hindalco, saw decline in earnings in Q2FY25 and has withdrawn its near-term EBITDA/ton guidance due to unexpected rise in Aluminium scrap prices. However, management retains a long-term EBITDA guidance of ~US\$600/tonne supported by 600 KT of aluminium rolling capacity in North America (Bay Minette). This ambitious project is set to operational by H2CY26 at total project cost of ~US\$4.1 billion and aims to tap into growing opportunities in beverage can and automotive domains. With continued focus on value added products and cost control initiatives to counter rising scrap prices, we project EBITDA/tonne to reach \$500/520 by FY26E/27E.

Rating and Target Price

- We maintain our **positive** view on Hindalco amidst structural demand drivers in place for Copper and Aluminium metal, inexpensive valuations and controlled leverage (D/E at ~0.5x). We assign a **BUY rating** on the stock, with unchanged target price of ₹800 i.e. **7.3x EV/EBITDA on FY26E**.

Key Financial Summary

Key Financials ₹ crore	FY20	FY21	FY22	FY23	FY24	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Net Sales	1,18,144	1,32,008	1,95,059	2,23,202	2,15,962	10.6%	2,32,049	2,45,174	2,54,445	5.6%
EBITDA	14,372	17,671	28,657	22,885	24,257	9.3%	29,800	30,034	31,933	9.6%
EBITDA Margins (%)	12.2	13.4	14.7	10.3	11.2		12.8	12.3	12.6	
Net Profit	3,767	3,483	13,730	10,097	10,155	13.1%	13,951	14,490	15,261	14.5%
EPS (₹/share)	17.0	15.7	61.8	45.5	45.7		62.8	65.3	68.7	
P/E	38.3	41.4	10.5	14.3	14.2		10.3	10.0	9.5	
RoNW (%)	6.8	7.5	17.7	10.8	9.8		12.2	10.9	10.4	
RoCE (%)	7.0	7.9	14.0	9.3	9.3		11.2	10.1	10.0	

Source: Company, ICICI Direct Research



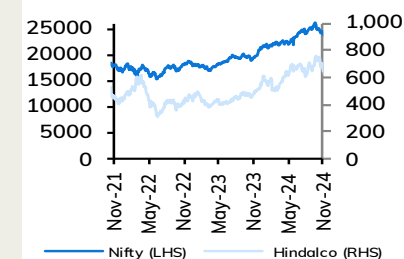
Particulars

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

- Posted healthy Q2FY25 results with EBITDA Margins at 13.8%.
- Key Risk:** i) volatile metal prices impacting margin profile (ii) challenges in executing capex plans and budget overruns at Novelis and Indian operations.

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Key Takeaways of Recent Quarter

Q2FY25 Results: Reported Healthy Performance

- Total operating income for the quarter came in at ₹58,203 crore (up 7% YoY, 2% QoQ) with Novelis sales volume up 1.3% YoY at 945 kt. India aluminium downstream volumes were healthy at 103 kt (up 9.6% YoY), while upstream volumes reported a decline of 2% YoY to 328 kt. However, India copper segment volumes declined by 13% at 117 kt.
- Reported consolidated EBITDA for the quarter stood at ₹8,029 crore (up 42% YoY) with corresponding EBITDA margins at 13.8%, up 340 bps YoY. Adj. EBITDA/tonne for Novelis was at \$489/tonne (down 6% YoY), while aluminium upstream and downstream were at \$1,349/tonne (up 80% YoY) and \$179/tonne (down 11% YoY). EBITDA/tonne for copper was at \$846/tonne (up 43.5% YoY).
- Consolidated PAT stood at ₹3,909 crore, up 78% YoY. Net Debt stood at ₹36,033 crore, with Net Debt to EBITDA of 1.19x at the end of Sept'24.

Q2FY25 Earnings Conference Call Highlights:

- **Aluminium Downstream:** Aditya FRP capacity expansion of 600kt is expected to be commissioned by FY26, which will bring total aluminium downstream capacity to 600kt. This expansion will enable HIL to develop high value-added products such as AC coated fins, battery foils, & battery enclosure. Moreover, it expects aluminium downstream EBITDA/ton to improve in the coming quarters as demand continue to remain robust.
- **Aluminium Upstream:** HIL will focus on expanding aluminium upstream smelter capacity by 180kt, which will bring the total upstream capacity of 1.52 MT. This new facility is expected to come on stream in Oct'27.
- **Alumina Refinery Expansion:** HIL is working on Greenfield Alumina refinery of 850 kt, which will supply low-cost alumina to existing smelters with an aim of improving margins. This facility is scheduled for commissioning by CY27. Moreover, HIL is already in discussion for a long-term partnership to export surplus alumina to international markets.
- **Copper Smelter Expansion:** HIL plans to expand copper smelting capacity by 280kt to 300kt, resulting in total copper upstream capacity will reach to 800kt. This new copper smelter capacity is expected to commence by 2029. Also, HIL will be commissioning a greenfield inner grooved tubes plant of 25kt by Jan'25.
- **Cost of Production:** HIL experienced a 1.6% QoQ decline in COGS in Q2FY25 and expects cost to increase by 1% to 1.5% in Q3FY25 due to marginal increase in coal spot premium. It will begin the exploration in Meenakshi West in the coming months, with production to start by FY27. Chakla coal mine is currently under forest clearance and expected to commission by latter half of CY25. Coal sourcing mix for Q2FY25 was 50% from linkages, ~47% from e-auction and the remaining ~2% from captive mines
- **Copper Segment:** During the quarter, a reduction in import duties on gold and robust prices on sulphuric acid has led to the highest EBITDA for copper. Going forward, HIL anticipates sustainable quarterly EBITDA for this segment to be at ~₹650 crore in Q3FY25 and Q4FY25.
- **India Capex Guidance:** Capex guidance for FY25 is maintained at ₹6,000 crores. HIL expects capex for FY26 to be in the range of ₹7,000 to ₹8,000 crores.
- **Hedging:** For H2FY25, Hindalco has hedged ~30% of aluminium at a price of \$2,579/ton and ~15% of the commodity at zero collar with a floor of \$2,262/ton and ceiling of \$2,547/ton. 15% of the currency is hedged at ₹88 per dollar.

Hindalco has increased its domestic capex from the earlier planned ~\$1.3 billion to ~\$4 to \$5 billion. This capex will be funded through internal accruals and debt with an addition of \$1 to \$1.5 billion. These projects expected to generate double digit IRR.

Novelis Q2FY25 Call Highlights:

Bay Minette plant expansion remain on track high is set to operational by end of CY26. It is projected to generate double digit IRR despite the sharp rise in scrap prices.

Management has withdrawn its near-term EBITDA/ton guidance due to unexpected rise in aluminium scrap prices, which is projected to impact fully in coming quarters.

Moreover, Novelis 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.

Key Tables and Charts

Exhibit 1: Quarterly Analysis

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Total Operating Income	58,203	54,169	7.4	57,013	2.1	Topline came in up 7.4% YoY owing to better realisations
Raw Material Expenses	35,788	34,001	5.3	34,095	5.0	Raw Material cost came in marginally higher by 170 bps QoQ
Employee Expenses	3,799	3,648	4.1	3,877	-2.0	
Power & Fuel expenses	3,585	3,622	-1.0	3,469	3.3	Power cost was marginally higher by 3% QoQ
Other expenses	7,002	7,260	-3.6	7,987	-12.3	
EBITDA	8,029	5,638	42.4	7,585	5.9	EBITDA margins expanded by 49 bps QoQ at 13.8% of sales amid better realization and lower other expenses
EBITDA Margin (%)	13.8%	10.4%	339 bps	13.3%	49 bps	
Other Income	1,075	463	132.2	424	153.5	
Depreciation	2,078	1,843	12.8	1,974	5.3	Depreciation came in on expected lines
Interest	869	1,034	-16.0	859	1.2	Interest cost came in broadly flat on QoQ basis
Tax	1,734	1,035	67.5	1,774	-2.3	
PAT	3,909	2,196	78.0	3,074	27.2	Profit for the quarter came in higher YoY due to rise in margins
Key Metrics						
India Aluminium Upstream						
Sales Volume (KT)	328	334	-1.8	329	-0.3	Sales volume were down 2% YoY at 328 KT
Blended Realisation (\$/tonne)	3,321	2,854	16.4	3,221	3.1	Blended realization were up 16% YoY
EBITDA (\$/tonne)	1,349	751	79.6	1,273	6.0	EBITDA/tonne were sharply up by more than 80% YoY at \$1,349/tonne owing to low input cost and high alumina sales
India Aluminium Downstream						
Sales Volume (KT)	103	94	9.6	96	7.3	Sales volume were sharply up by 9.6% YoY at 103 KT
Blended Realisation (\$/tonne)	3,663	3,384	8.3	3,581	2.3	Blended realization were up by 8% YoY at \$3,663 per tonne
EBITDA (\$/tonne)	179	202	-11.4	138	29.7	EBITDA/tonne down 11% YoY due to unfavourable product mix
Novelis- US operations						
Sales Volume (KT)	945	933	1.3	951	-0.6	Sales volume were flat YoY at 945 KT impacted by Sierre flood
Blended Realisation (\$/tonne)	4,545	4,394	3.4	4,403	3.2	Blended realization were up by 3% YoY at \$4,545/tonne
EBITDA (\$/tonne)	489	519	-5.8	526	-7.0	EBITDA/tonne were marginally down by 6% YoY at \$489/tonne
India Copper						
Sales Volume (KT)	117	134	-12.7	119	-1.7	Sales volume were down by 12.7% YoY at 117 KT
CCR Sales Volume (KT)	90	100	-10.0	100	-10.0	CCR Sales volume were down 10% YoY at 90 KT
Blended Realisation (\$/tonne)	13,380	11,232	19.1	13,389	-0.1	Blended realization were up by 19% YoY at \$13,380 per tonne
EBITDA (\$/tonne)	846	590	43.5	811	4.3	EBITDA/tonne were up sharply by 44% YoY at \$846/tonne

Source: Company, ICICI Direct Research

Exhibit 2: Key Assumptions

	FY22	FY23	FY24	FY25E	FY26E	FY27E
India Aluminium Upstream						
Sales Volume (KT)	1,296	1,319	1,345	1,317	1,359	1,401
Blended Realisation (\$/tonne)	3,193	3,113	2,908	3,348	3,300	3,300
EBITDA (\$/tonne)	1,294	792	823	1,281	1,100	1,100
India Aluminium Downstream						
Sales Volume (KT)	348	354	370	409	459	525
Blended Realisation (\$/tonne)	4,245	3,868	3,447	3,686	3,600	3,600
EBITDA (\$/tonne)	147	221	178	170	185	200
Novelis- US operations						
Sales Volume (KT)	3,858	3,790	3,673	3,803	4,001	4,072
Blended Realisation (\$/tonne)	4,432	4,881	4,416	4,487	4,400	4,400
EBITDA (\$/tonne)	530	478	510	479	500	520
India Copper						
Sales Volume (KT)	405	439	506	474	530	551
CCR Sales Volume (KT)	262	347	389	379	424	441
Blended Realisation (\$/tonne)	12,167	11,815	11,773	12,992	12,500	12,500
EBITDA (\$/tonne)	461	638	624	739	650	650

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	2,15,962	2,32,049	2,45,174	2,54,445
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2,15,962	2,32,049	2,45,174	2,54,445
Growth (%)	-3.2	7.4	5.7	3.8
Raw Material Expenses	1,33,855	1,43,488	1,53,234	1,58,647
Employee Expenses	14,778	15,279	16,182	17,175
Other Operating Expense	43,072	43,482	45,725	46,691
Total Operating Expenditure	1,91,705	2,02,249	2,15,141	2,22,512
EBITDA	24,257	29,800	30,034	31,933
Growth (%)	6.0	22.9	0.8	6.3
Depreciation	7,521	8,238	8,704	9,669
Interest	3,858	3,438	3,480	3,407
Other Income	1,496	2,499	1,999	2,049
PBT	14,374	20,624	19,849	20,906
Exceptional Item	362	842	0	0
Total Tax	3,857	5,831	5,359	5,645
PAT	10,155	13,951	14,490	15,261
Growth (%)	0.6	37.4	3.9	5.3
EPS (₹)	45.7	62.8	65.3	68.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	10,155	13,951	14,490	15,261
Add: Depreciation	7,521	8,238	8,704	9,669
(Inc)/dec in Current Assets	3,737	-5,640	-3,975	-2,808
Inc/(dec) in CL and Provisions	-1,280	5,160	3,282	2,318
Others	3,858	3,438	3,480	3,407
CF from operating activities	23,991	25,147	25,981	27,848
(Inc)/dec in Investments	-1,328	-250	-750	-750
(Inc)/dec in Fixed Assets	-15,542	-21,000	-25,000	-20,000
Others	-1,260	0	0	0
CF from investing activities	-18,130	-21,250	-25,750	-20,750
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-3,834	1,000	5,000	-2,500
Dividend & interest outgo	-4,525	-4,437	-4,590	-4,628
Inc/(dec) in Share Cap	0	0	0	0
Others	1,852	0	0	0
CF from financing activities	-6,507	-3,437	410	-7,128
Net Cash flow	-646	460	641	-30
Opening Cash	15,083	14,437	14,897	15,538
Closing Cash	14,437	14,897	15,538	15,507

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	222	222	222	222
Reserve and Surplus	1,05,924	1,18,876	1,32,256	1,46,297
Total Shareholders funds	1,06,146	1,19,098	1,32,478	1,46,519
Total Debt	54,501	55,501	60,501	58,001
Deferred Tax Liability	9,344	9,344	9,344	9,344
Minority Interest / Others	9,053	9,153	9,253	9,353
Total Liabilities	1,79,044	1,93,096	2,11,576	2,23,217
Assets				
Gross Block	1,64,401	1,80,268	1,90,268	2,30,268
Less: Acc Depreciation	78,666	86,904	95,607	1,05,276
Net Block	85,735	93,364	94,661	1,24,992
Capital WIP	14,867	20,000	35,000	15,000
Total Fixed Assets	1,00,602	1,13,364	1,29,661	1,39,992
Investments	41,519	41,769	42,519	43,269
Inventory	40,812	44,503	47,020	48,798
Debtors	16,404	17,801	18,808	19,519
Loans and Advances	32	34	36	38
Other Current Assets	7,386	7,936	8,385	8,702
Cash	14,437	14,897	15,538	15,507
Total Current Assets	79,071	85,171	89,787	92,564
Current Liabilities	34,444	38,145	40,303	41,827
Provisions	2,639	2,923	3,088	3,205
Current Liabilities & Prov	52,863	58,023	61,305	63,623
Net Current Assets	26,208	27,148	28,482	28,941
Others Assets	10,715	10,815	10,915	11,015
Application of Funds	1,79,044	1,93,096	2,11,576	2,23,217

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
Per share data (₹)				
EPS	45.7	62.8	65.3	68.7
Cash EPS	79.6	100.0	104.5	112.3
BV	478.1	536.5	596.7	660.0
DPS	3.0	4.5	5.0	5.5
Cash Per Share	65.0	67.1	70.0	69.9
Operating Ratios (%)				
EBITDA Margin	11.2	12.8	12.3	12.6
PAT Margin	4.7	6.0	5.9	6.0
Inventory days	69.0	70.0	70.0	70.0
Debtor days	27.7	28.0	28.0	28.0
Creditor days	58.2	60.0	60.0	60.0
Return Ratios (%)				
RoE	9.8	12.2	10.9	10.4
RoCE	9.3	11.2	10.1	10.0
RoC	11.4	13.9	13.6	11.8
Valuation Ratios (x)				
P/E	14.2	10.3	10.0	9.5
EV / EBITDA	7.5	6.1	6.2	5.7
EV / Net Sales	0.8	0.8	0.8	0.7
Market Cap / Sales	0.7	0.6	0.6	0.6
Price to Book Value	1.4	1.2	1.1	1.0
Solvency Ratios				
Debt/EBITDA	2.2	1.9	2.0	1.8
Debt / Equity	0.5	0.5	0.5	0.4
Current Ratio	1.7	1.7	1.7	1.7
Quick Ratio	0.6	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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