

May 27, 2024

All segments perform well, poised for profitable growth

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%.

Q4FY24 Results: Hindalco reported healthy performance in Q4FY24 results. Consolidated topline stood at ₹55,994 crore (flat YoY, up 6% QoQ). Reported EBITDA for the quarter stood at ₹6,838 crore (up 26% YoY) with corresponding EBITDA margins at 12.2%, up 250 bps YoY. PAT stood at ₹3,174 crore, up 32% YoY.

Investment Rationale

- India Business- Downstream Capacity expansion to fuel growth:** Hindalco reported robust performance in Q4FY24 with EBITDA/tonne of ~US\$960 and ~US\$690 in India aluminium primary and copper segment, respectively, driven by higher shipments and low input cost. With strategic focus on value added products which is margin accretive in nature, it plans to invest \$1.13 billion over FY24-28, with >70% allocated towards expanding aluminium downstream capacity and speciality alumina domain. This is amidst healthy domestic demand for aluminium which is expected to double from ~4.5 million tonne (MT) in FY23 to ~9 MT by FY33, fuelled by demand from infrastructure, packaging & sunrise sectors such as Electric Vehicle & renewable energy space. In copper domain too, it is strengthening its VAP portfolio with superior copper alloy rods and inner-grooved copper tubes for refrigeration and air conditioning. Thus, with emphasis on enhancing downstream capacities, Sales and EBITDA on standalone basis is seen growing at a CAGR of ~9% over FY24-26E.
- Novelis- ambitious organic expansion capturing industry tailwinds:** Hindalco has sizeable presence in international markets through its US based wholly owned subsidiary, Novelis, the world's largest supplier of beverage can sheet with ~40% global market share (Ex China). With fundamental drivers of growth in place in beverage can and automotive domains, it has embarked on an ambitious project of 600 KT of aluminium rolling capacity in North America (Bay Minette), which is set to be operational by H2CY26 at a total project cost of US\$4.1 billion. With a focus on value added products, cost control measures & increasing share of recycling content, we project EBITDA/tonne to reach \$550/tonne by FY26E amid the company's medium-term guidance at ~US\$600/tonne.

Rating and Target Price

- We maintain our **positive** view on Hindalco driven by its strategic capacity expansions at Novelis & Indian operations, strong demand drivers for Aluminium metal & controlled leverage (Debt: Equity at ~0.5x). We assign BUY rating on the stock, valuing it at ₹835 i.e. 7.5x EV/EBITDA on FY26E.

Key Financial Summary

₹ crore	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	1,30,542	1,18,144	1,32,008	1,95,059	2,23,202	2,15,962	10.6%	2,46,344	2,55,100	8.7%
EBITDA	15,529	14,372	17,671	28,657	22,885	24,257	9.3%	27,147	29,847	10.9%
EBITDA Margins (%)	11.9	12.2	13.4	14.7	10.3	11.2		11.0	11.7	
Net Profit	5,495	3,767	3,483	13,730	10,097	10,155	13.1%	12,476	14,422	19.2%
EPS (₹/share)	24.8	17.0	15.7	61.8	45.5	45.7		56.2	65.0	
P/E	27.5	40.1	43.3	11.0	15.0	14.9		12.1	10.5	
RoNW (%)	9.6	6.8	7.5	17.7	10.8	9.8		10.6	11.0	
RoCE (%)	9.3	7.0	7.9	14.0	9.3	9.3		9.9	10.4	

Source: Company, ICICI Direct Research



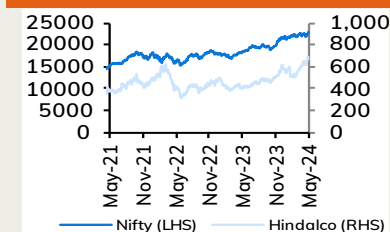
Particulars

Particulars	₹ crore
Market capitalisation	1,50,960
Total Debt (FY24P)	54,501
Cash & Investment (FY24P)	14,437
EV (₹ crore)	1,91,024
52 week H/L (₹)	699 / 404
Equity capital (₹ crore)	222
Face value (₹)	1

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	34.7	34.7	34.7	34.7
FII	26.3	27.0	27.9	26.8
DII	26.1	25.8	25.1	25.6
Other	13.0	12.6	12.4	12.9

Price Chart



Recent Event & Key risks

- Posted healthy Q4FY24 results with EBITDA Margins at 12.2%.
- Key Risk:** i) sharp volatility in metal prices putting pressure on realisations and associated margins (ii) delay in executing capex plans and cost overruns at Novelis and Indian operations.

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Key Takeaways of Recent Quarter

Q4FY24 Results: Reported Healthy Performance

- Total operating income for the quarter came in at ₹55,994 crore (flat YoY, up 6% QoQ) with Novelis sales volume was broadly flat YoY at 951 kt. India aluminium downstream and upstream volumes were healthy at 105 kt (up 17% YoY) and 337 kt (up 4% YoY), respectively. India copper segment reported all time high sales volume for a quarter at 135 kt, up by 15% YoY.
- EBITDA for the quarter came in at ₹6,838 crore with corresponding EBITDA margins at 12.2% (up 250 bps YoY). EBITDA/tonne for Novelis was at \$540/tonne (up 25% YoY), while aluminium upstream and downstream were at \$967/tonne (up 17% YoY) and \$174/tonne (up 15% YoY). EBITDA/tonne for copper was at \$692/tonne (up 12% YoY).
- PAT stood at ₹3,174 crore, up 32% YoY. Net Debt stood at ₹36,972 crore, with a Net Debt to EBITDA at 1.5x in FY24, compared to 1.6x in FY23. Hindalco generated a healthy CFO to the tune of ~₹24,400 crore in FY24, with capex spend pegged at ~₹16,000 crore.

Q4FY24 Earnings Conference Call Highlights:

Indian Operation

- Capex: Company plans to incur a capex spend of ~₹ 6,000 crore in FY25E and expected to be funded through internal accruals. It will be commencing alumina refinery facility in FY25 and the inner grooved copper tubes plant will be commissioned by the end of CY24.
- Coal Mines and Input Cost: Coal cost was flat on a QoQ basis in Q4FY24 and is expected to decline by ~1% in Q1FY25. The Chakla coal mine will start operation by Q3FY25, while the Meenakshi west coal mine will commence operation in CY26.
- Copper: It anticipates sustainable quarterly EBITDA for copper segment to be at ~₹600 crore going forward. It will focus on increasing copper rod capacity to meet future demand and will explore copper concentrate in India.
- Others: For FY25, Hindalco has currently hedged ~22% of aluminium at a price of \$2,550 per ton and 11% of currency is hedged at ₹88.4 per dollar. It has repaid long term debt of ₹4,495 crore and bonds of ₹700 crore in Indian operations. Alumina sales for the quarter stood at 227 kt in Q4FY24, with expected sales of 160 to 170 kt alumina in Q1FY25.

Novelis- International Operation

- Demand Outlook: The demand for aluminium beverage packaging sheets is positive with robust markets in US and South America. However, the demand outlook remains cautious in Europe and Asia. The demand for speciality market was muted due to increase in competition, particularly for container foil from Chinese markets
- Capex: FY24 capex stood at \$1.4 billion, with \$700 million of capex allocated for expansion of Bay Minette plant. Novelis plans for capital expenditure in the range of \$1.8 billion to \$2.1 billion in FY25, with 60% to 65% allocated to Bay Minette, which is likely to commission by H2CY26 and ramp up in the next 18-24 months.
- Recycle Content: Novelis increased its recycle content to 63% in FY24 from 61% in FY23. It will commission advanced automotive recycling centre in Guthrie, US with a capacity of 240 kt, commissioning in Q1FY25. Additionally, a recycling plant at Ulsan, South Korea will be commissioned by H2FY25. Novelis targets 75% recycle content by 2030.
- Guidance: Novelis aims EBITDA/tonne of \$600 for medium to long term period. Despite higher capex spend, it aims to maintain Net Debt to EBITDA level below 3x in FY25.

Novelis Inc has submitted documentation for an initial public offering (IPO) to the U.S. Securities and Exchange Commission. It intends to list its common shares on the New York Stock Exchange ("NYSE") under the ticker symbol "NVL". The IPO will involve the offering of common shares by Hindalco, the sole shareholder of Novelis. Proceeds from the IPO will be directed to Hindalco, with Novelis not receiving any proceeds from the sale of common shares. The number of shares to be offered and the price range for the proposed offerings have not been determined yet by the company.

Key Tables and Charts

Exhibit 1: Quarterly Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	55,994	55,857	0.2	52,808	6.0	Topline came in up 6% QoQ owing to better realisations and volumes in Indian operation
Raw Material Expenses	34,379	35,899	-4.2	32,234	6.7	Raw Material cost came in marginally higher by 40 bps QoQ at 61.4% of sales
Employee Expenses	3,756	3,560	5.5	3,845	-2.3	
Power & Fuel expenses	3,624	3,852	-5.9	3,473	4.3	Savings were realised on the power costs front at 6.5% of sales
Other expenses	7,397	7,123	3.8	7,208	2.6	
EBITDA	6,838	5,423	26.1	6,048	13.1	EBITDA margins expanded healthy 76 bps QoQ at 12.2% of sales amid operating leverage benefits
EBITDA Margin (%)	12.2%	9.7%	250 bps	11.5%	76 bps	
Other Income	362	352	2.8	280	29.3	
Depreciation	2,018	1,952	3.4	1,874	7.7	Depreciation was on expected line
Interest	888	986	-9.9	944	-5.9	Interest cost came in lower on account of decline in debt levels
Tax	962	428	124.8	997	-3.5	
PAT	3,174	2,411	31.6	2,331	36.2	Profit for the quarter came in higher due to rise in margins supported by lower interest cost
Key Metrics						
India Aluminium Upstream						
Sales Volume (KT)	337	323	4.3	333	1.2	Sales volume were up 4% YoY at 337 KT
Blended Realisation (\$/tonne)	3,026	3,028	-0.1	2,874	5.3	Blended realization were flat YoY at \$3026 per tonne
EBITDA (\$/tonne)	967	825	17.2	880	9.9	EBITDA/tonne was up sharply by 17% YoY at \$967/tonne
India Aluminium Downstream						
Sales Volume (KT)	105	90	16.7	90	16.7	Sales volume were sharply up 17% YoY at 105 KT
Blended Realisation (\$/tonne)	3,349	3,697	-9.4	3,398	-1.4	Blended realization were lower by 9% YoY at \$3349 per tonne
EBITDA (\$/tonne)	174	152	14.5	137	27.0	EBITDA/tonne were up sharply by 15% YoY at \$174/tonne
Novelis- US operations						
Sales Volume (KT)	951	936	1.6	910	4.5	Sales volume were broadly flat YoY at 951 KT
Blended Realisation (\$/tonne)	4,290	4,701	-8.7	4,330	-0.9	Blended realization were lower by 9% YoY at \$4290 per tonne
EBITDA (\$/tonne)	540	431	25.5	499	8.3	EBITDA/tonne were up sharply by 26% YoY at \$540/tonne
India Copper						
Sales Volume (KT)	135	117	15.4	119	13.4	Sales volume were up 15% YoY at 135 KT
CCR Sales Volume (KT)	98	95	3.2	93	2.2	CCR Sales volume were up 3% YoY at 98 KT
Blended Realisation (\$/tonne)	11,975	11,638	2.9	12,061	-0.7	Blended realization were up by 3% YoY at \$11,975 per tonne
EBITDA (\$/tonne)	692	621	11.5	662	4.6	EBITDA/tonne were up sharply by 12% YoY at \$692/tonne

Source: Company, ICICI Direct Research

Exhibit 2: Key Assumptions

	FY22	FY23	FY24P	FY25E	FY26E
India Aluminium Upstream					
Sales Volume (KT)	1,296	1,319	1,345	1,365	1,378
Blended Realisation (\$/tonne)	3,193	3,113	2,908	3,163	3,100
EBITDA (\$/tonne)	1,294	792	823	925	930
India Aluminium Downstream					
Sales Volume (KT)	348	354	370	399	459
Blended Realisation (\$/tonne)	4,245	3,868	3,447	3,663	3,650
EBITDA (\$/tonne)	147	221	187	175	200
Novelis- US operations					
Sales Volume (KT)	3,858	3,790	3,673	3,857	4,001
Blended Realisation (\$/tonne)	4,432	4,881	4,594	4,563	4,500
EBITDA (\$/tonne)	530	478	510	525	550
India Copper					
Sales Volume (KT)	405	439	506	511	526
CCR Sales Volume (KT)	262	347	389	398	421
Blended Realisation (\$/tonne)	12,167	11,815	11,773	13,425	13,500
EBITDA (\$/tonne)	461	638	624	625	625

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24P	FY25E	FY26E
Net Sales	2,23,202	2,15,962	2,46,344	2,55,100
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	2,23,202	2,15,962	2,46,344	2,55,100
Growth (%)	14.4	-3.2	14.1	3.6
Raw Material Expenses	1,40,770	1,33,855	1,52,733	1,57,142
Employee Expenses	13,063	14,778	16,751	17,857
Other Operating Expense	46,484	43,072	49,712	50,255
Total Operating Expenditure	2,00,317	1,91,705	2,19,197	2,25,253
EBITDA	22,885	24,257	27,147	29,847
Growth (%)	-20.1	6.0	11.9	9.9
Depreciation	7,086	7,521	8,129	8,546
Interest	3,646	3,858	3,885	3,656
Other Income	1,257	1,496	1,546	1,636
PBT	13,410	14,374	16,679	19,281
Exceptional Item	169	362	0	0
Total Tax	3,144	3,857	4,203	4,859
PAT	10,097	10,155	12,476	14,422
Growth (%)	-26.5	0.6	22.9	15.6
EPS (₹)	45.5	45.7	56.2	65.0

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24P	FY25E	FY26E
Profit after Tax	10,097	10,155	12,476	14,422
Add: Depreciation	7,086	7,521	8,129	8,546
(Inc)/dec in Current Assets	7,328	3,737	-9,969	-2,652
Inc/(dec) in CL and Provisions	-12,254	-1,280	8,734	2,189
Others	3,646	3,858	3,885	3,656
CF from operating activities	15,903	23,991	23,255	26,162
(Inc)/dec in Investments	3	-1,328	950	-250
(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	-20,250
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	-4,635	-4,829	-4,766
Inc/(dec) in Share Cap	0	0	0	0
Others	7,408	1,962	0	0
CF from financing activities	-2,028	-6,507	-2,829	-5,266
Net Cash flow	-2,309	-646	377	645
Opening Cash	17,392	15,083	14,437	14,814
Closing Cash	15,083	14,437	14,814	15,459

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24P	FY25E	FY26E
Liabilities				
Equity Capital	222	222	222	222
Reserve and Surplus	94,584	1,05,924	1,17,456	1,30,768
Total Shareholders funds	94,806	1,06,146	1,17,678	1,30,990
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	1,92,676	2,05,588
Assets				
Gross Block	1,56,690	1,65,065	1,80,932	1,85,932
Less: Acc Depreciation	71,809	79,330	87,459	96,005
Net Block	84,881	85,735	93,473	89,927
Capital WIP	7,700	14,867	20,000	35,000
Total Fixed Assets	92,581	1,00,602	1,13,473	1,24,927
Investments	39,861	41,519	40,569	40,819
Inventory	42,958	40,812	47,244	48,923
Debtors	16,214	16,404	18,898	19,569
Loans and Advances	8	32	37	38
Other Current Assets	9,191	7,386	8,425	8,725
Cash	15,083	14,437	14,814	15,459
Total Current Assets	83,454	79,071	89,417	92,714
Current Liabilities	35,860	34,444	40,495	41,934
Provisions	2,663	2,639	3,103	3,213
Current Liabilities & Prov	54,143	52,863	61,597	63,787
Net Current Assets	29,311	26,208	27,819	28,927
Others Assets	8,921	10,715	10,815	10,915
Application of Funds	1,70,674	1,79,044	1,92,676	2,05,588

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY23	FY24P	FY25E	FY26E
Per share data (₹)				
EPS	45.5	45.7	56.2	65.0
Cash EPS	77.4	79.6	92.8	103.5
BV	427.1	478.1	530.1	590.0
DPS	4.0	3.5	4.3	5.0
Cash Per Share	67.9	65.0	66.7	69.6
Operating Ratios (%)				
EBITDA Margin	10.3	11.2	11.0	11.7
PAT Margin	4.5	4.7	5.1	5.7
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	10.6	11.0
RoCE	9.3	9.3	9.9	10.4
RoC	11.1	11.4	12.2	13.9
Valuation Ratios (x)				
P/E	15.0	14.9	12.1	10.5
EV / EBITDA	8.2	7.7	7.0	6.3
EV / Net Sales	0.8	0.9	0.8	0.7
Market Cap / Sales	0.7	0.7	0.6	0.6
Price to Book Value	1.6	1.4	1.3	1.2
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

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