ANANDRATHI

India I Equities

Metals
Result Update

Change in Estimates ☑ Target ☑ Reco ☐

14 August 2024

Hindalco Industries

Best upstream aluminium EBITDA margin, record copper EBITDA; Buy

Rating: **Buy**
Target Price (12-mth): Rs.800
Share Price: Rs.621

The strategic expansions in Bay Minette, UAL (South Korea), Aditya and Silvassa are on track, with Hindalco Industries commissioning its Guthrie plant in Q1 to enhance post-production and post-consumer automotive scrap-recycling capacity. Besides the ongoing downstream expansion, which would enhance capacity >0.6m tonnes, the company has identified many growth-capex projects for the domestic market. In the next phase, it plans to enhance its alumina refining capacity in Odisha, set up a 0.2m-tonne copper smelter and a 180-pot primary aluminium smelter at Aditya. In line with the extension of Novelis' IPO timeline, we slightly trim our EV/EBITDA multiple from 7x to 6.5x. Given softer LME prices, we slightly trim our FY25e LME. Considering the strong focus on recycling, adding capacity, integrating RM and enhancing VAPs, we retain a Buy with a sum-of-parts Rs.800 TP.

In-line Q1. Revenue increased 8% y/y to Rs570bn (in line with Are's Rs582bn). EBITDA moved up 31% y/y to Rs75bn (in line with our estimated Rs76bn) and adj. PAT 38% y/y to Rs34bn (in line with our Rs33.6bn estimate). Novelis' revenue rose 2% y/y to $4.2bn, missing our estimate by 6%; adj. EBITDA/tonne was $525 (in line with Are's $529).

Key takeaways. Coal cost for domestic operations is likely to be flat or inch up a bit, ~1% q/q, in Q2. Ahead, the copper vertical is likely to post Rs6bn EBITDA on a normalized basis. The Sierre plant, hurt by the Rhône overflowing, would restart by end-Q2. Capex for Bay Minette is on track; the plant would be commissioned in FY27. Of the 300MW domestic RE target, ~58% has been achieved and a further 25MW would come on stream by end-Mar'25. No major liability is expected due to the recent SC judgement on royalty.

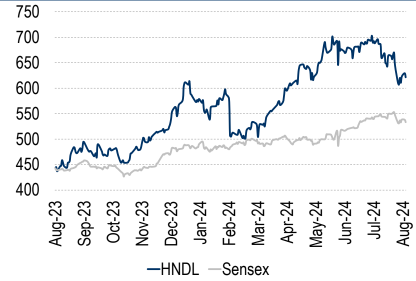
Outlook, Valuation. Though the company is expected to retain its volume momentum and focus on VAP, we slightly trim our TP due to the recent fall in LME prices and extension of Novelis' IPO timeline. We retain a Buy with a TP of Rs.800.

Key data	HNDL IN
52-week high / low	Rs.715 / 438
Sensex / Nifty	78,956 / 24,139
3-m average volume	$64.7m
Market cap	Rs.1,396bn / $16,629.7m
Shares outstanding	2247m

Shareholding pattern (%)	Jun'24	Mar '24	Dec '23
Promoters	34.6	34.6	34.6
- of which, Pledged	-	-	-
Free float	65.4	65.4	65.4
- Foreign institutions	30.9	30.5	31.6
- Domestic institutions	25.6	25.8	25.2
- Public	8.9	9.1	8.6

Estimates revision (%)	FY25e	FY26e
Sales	(2.5)	0.0
EBITDA	(7.1)	0.0
PAT	(12.3)	0.0

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs bn)	1,951	2,232	2,160	2,371	2,566
EBITDA (Rs bn)	283	227	239	278	329
Adj. PAT (Rs bn)	136	101	101	118	149
PE (x)	10.1	13.7	13.6	11.7	9.2
EV / EBITDA (x)	6.1	7.5	7.2	6.3	5.3

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Revenue	1,951	2,232	2,160	2,371	2,566
Revenue growth (%)	*47.8*	*14.4*	*-3.2*	*9.8*	*8.2*
Expenses	1,667	2,005	1,921	2,093	2,237
EBITDA	283	227	239	278	329
EBITDA growth (%)	*61.7*	*-20.0*	*5.3*	*16.3*	*18.7*
EBITDA margins (%)	*14.5*	*10.2*	*11.1*	*11.7*	*12.8*
Depreciation	67	71	75	90	99
Other income	11	13	15	13	13
Interest expenses	38	36	39	43	44
PBT before exc. items	190	132	140	158	199
Exceptional items	6	0	0	0	0
PBT after exceptional items	196	132	140	158	199
Effective tax	54	31	39	40	50
PAT (before Assoc./ (Mino.))	142	101	102	118	149
+ Associates / (Minorities)	5	0	0	0	0
Reported PAT	137	101	102	118	149
Adj. PAT	136	101	101	118	149
Adj. PAT growth (%)	*140.0*	*-26.2*	*0.8*	*16.6*	*26.3*

Fig 2 – Balance sheet (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	2	2	2	2	2
Net worth	782	948	1,061	1,166	1,301
Debt	632	583	545	533	520
Minority interest	0	0	0	0	0
DTL / (Asset)	44	73	82	82	82
Others	103	95	97	97	97
Capital employed	**1,562**	**1,699**	**1,785**	**1,877**	**1,999**
Net tangible assets	745	758	772	867	952
Net Intangible assets	306	324	323	316	307
CWIP	47	73	146	161	175
Investments	86	82	121	121	121
Other non-current assets	48	104	122	139	154
Inventory	445	430	408	448	485
Account receivables	211	162	164	180	195
Cash (incl. bank balance)	228	212	177	120	109
Other current assets	101	89	74	81	88
Current liabilities	657	536	522	556	587
Capital deployed	**1,562**	**1,699**	**1,785**	**1,877**	**1,999**

Fig 3 – Cash-flow statement (Rs bn)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
EBITDA	283	227	239	278	329
+ other Adj.	14	-3	9	0	0
- Incr./ (decr.) in WC	-91	-5	19	-30	-27
Others, incl. taxes	-38	-27	-27	-40	-50
CF from oper. activity	**168**	**192**	**241**	**208**	**252**
- Capex (tang. + Intang.)	-54	-97	-157	-210	-204
Free cash-flow	115	95	84	-2	48
Others	-17	16	14	13	13
CF from inves. activity	**-71**	**-81**	**-143**	**-197**	**-191**
- Div. (incl. buyback & taxes)	-7	-9	-7	-13	-14
+ Debt raised	-49	-82	-44	-13	-13
Others	-12	-13	-58	-43	-44
CF from finan. activity	**-68**	**-103**	**-108**	**-68**	**-71**
Closing cash balance	116	128	118	61	51
Closing balance (incl. bank bal.)	228	212	177	120	109

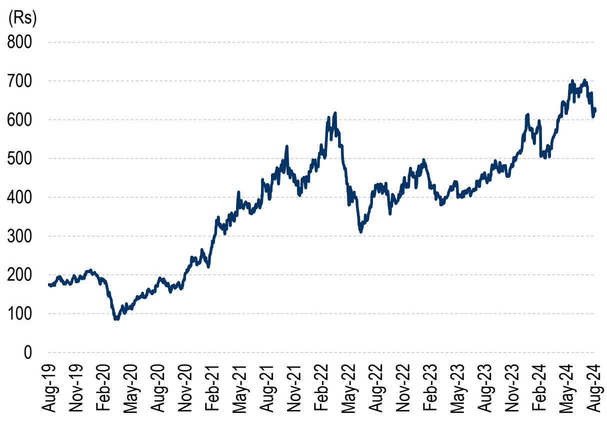
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
EPS	61.3	45.3	45.6	53.2	67.2
P/E (x)	10.1	13.7	13.6	11.7	9.2
P/BV (x)	1.8	1.5	1.3	1.2	1.1
EV / EBITDA (x)	6.1	7.5	7.2	6.3	5.3
EV / Sales (x)	0.9	0.8	0.8	0.7	0.7
RoE (%)	18.8	11.6	10.1	10.6	12.1
RoCE (%)	15.0	10.3	10.2	11.0	12.6
DPS (Rs)	4.0	3.0	3.5	6.0	6.5
Dividend payout (%)	6.5	6.6	7.7	11.3	9.7
Net debt / EBITDA (x)	1.2	1.4	1.4	1.4	1.1
Inventory (days)	83	70	69	69	69
Debtors (days)	39	27	28	28	28
Payable (days)	77	59	58	58	58
EBITDA margins (%)	14.5	10.2	11.1	11.7	12.8
Net profit margins (%)	7.0	4.5	4.7	5.0	5.8

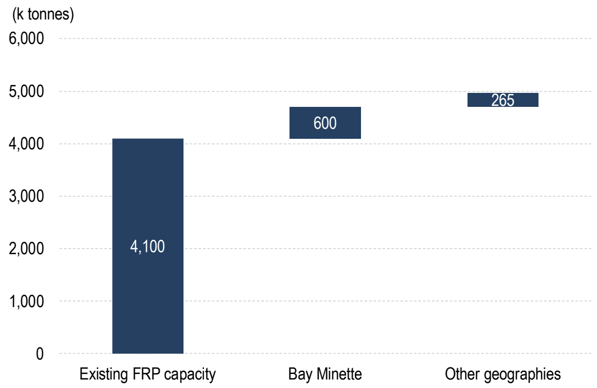
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Novelis' FRP capacity to cross 4.9m tonnes by FY27



Source: Company, Anand Rathi Research

Detailed business-wise analysis

Aluminium upstream

Q1 shipments declined 4% y/y to 329k tonnes (in line with the 333k-estimate), taking FY25 shipment estimates to ~1.35m. The upstream business revenue (not- inter-segmentally adjusted) rose 10% y/y to Rs.88.4bn due to higher realizations on better aluminium prices. EBITDA grew 81% y/y to Rs.35bn (19% ahead of Are's Rs29bn.). Lower input cost led to higher, 40%, margins (24% a year ago) and $1,273 EBITDA/ tonne (~$690 a year back).

Aluminium downstream

Q1 shipments grew 19% y/y to 96k tonnes (in line with Are's 95k). Once downstream capacity expansion at Aditya (FRP) is complete and the Silvassa plant fully ramped up by end-Mar'25, the company will increae downstream capacity to >0.6m tonnes. Revenue rose 18% y/y to Rs.29bn (in line with Are's Rs29bn.). The premium commanded by the downstream business to the LME narrowed to $1,065/tonne in the quarter ($1,397 a year ago; $1,147 the quarter prior). EBITDA, which was hurt by the unfavourable product mix, lower premium and realizations, was Rs.1.1bn. Q1 EBITDA/tonne came to $138. As the share of the downstream vertical in the product mix rises, ~Rs10bn EBITDA potential is expected.

Copper, all-time high EBITDA

Q1 metal shipments rose 1% y/y to 119k tonnes (in line with Are's 121k). Revenue grew 16% y/y to Rs133bn (in line with Ares' Rs132bn.). The vertical posted an all-time high EBITDA, which surged 52% y/y to Rs8bn (36% higher than we estimated), driven by better realisations, higher average copper prices and improved operations. However, the company has guided to quarterly EBITDA of Rs6bn on an ongoing basis.

Novelis

Shipments rose 8% y/y to 951k tonnes (higher than Are's 945k). Revenue rose 2% y/y to $4.2bn (missing our $4.5bn estimate 6%). The miss was due to the unfavourable balance between scrap and the LME prices. Adj. EBITDA grew 19% to $500m (in line with our estimated $500m). The adj. EBITDA/tonne came to $525 vs. our estimated $529. The reduced raw material cost was offset by lower realisations. Adj. PAT rose 43% y/y to $237m (19% above our estimated $200m). Net debt was $4.6bn (up from $4.3bn in Mar'24).

Result Highlights

Fig 7 – Quarterly consolidated performance at a glance

Quarter-end (Rs bn)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY23	Q3 FY24	Q4 FY24	Q1 FY25	Q1 FY25 est	% Change to est.	% Y/Y	% Q/Q
Revenue	580	562	532	559	530	542	528	560	570	582	*-2.0*	*7.6*	*1.8*
EBITDA	84	54	35	53	57	56	59	67	75	76	*-1.3*	*31.3*	*12.3*
EBITDA margins (%)	*14.5*	*9.5*	*6.7*	*9.5*	*10.8*	*10.4*	*11.1*	*11.9*	*13.2*				
Interest	8	9	9	10	10	10	9	9	9				
Depreciation	17	17	18	19	18	18	19	20	19				
Other income	2	3	4	4	4	5	3	4	4				
PBT before exceptional items	60	31	12	28	33	32	33	41	52	45	*15.4*	*55.6*	*25.1*
Exceptional items	0	0	0	0	-0	0	0	0	-3				
PBT after exceptional items	61	31	12	28	33	32	33	41	48				
Tax	20	9	-1	4	9	10	10	10	18				
PAT before MI / Asso.	41	22	14	24	25	22	23	32	31				
+Assoc / (Minorities)	0	0	0	0	0	0	0	-0	0				
Reported PAT	41	22	14	24	25	22	23	32	31	34	*-8.4*	*25.3*	*-3.2*
Adj. PAT	41	22	14	24	25	22	23	32	34	34	*1.4*	*38.0*	*7.2*
Upstream aluminium shipments (k tonnes)	329	331	336	323	341	334	333	337	329	333	*-1.2*	*-3.5*	*-2.4*
Downstream aluminium shipments (k tonnes)	78	95	91	90	81	94	90	105	96	95	*1.1*	*18.5*	*-8.6*
Copper metal shipments (k tonnes)	101	112	109	117	118	134	119	135	119	121	*-1.7*	*0.8*	*-11.9*
Novelis shipments (k tonnes)	962	984	908	936	879	933	910	951	951	945	*0.6*	*8.2*	*0.0*
Upstream aluminium EBITDA / tonne	1,288	510	576	825	690	751	881	968	1,273	1,059	*20.3*		
Downstream aluminium EBITDA / tonne	262	264	210	151	221	220	137	174	137	194	*-29.2*		
Novelis EBITDA / tonne	583	514	376	431	479	519	499	540	526	529	*-0.6*		

Downstream financial numbers are restated by the company for Q4 FY24 and Q1 FY24, we shall change the same in coming quarters
Source: Company, Anand Rathi Research

Novelis' performance, concall highlights

Geographical mix

North America

- **Volumes** up 5% y/y but q/q down 1% to 388k tonnes (in line with Are's 379k).
- **EBITDA** grew 10% y/y but dipped 13% q/q to $183m (in line with our estimate).
- **EBITDA/tonne** was $472, slightly missing our $505 estimate.
- Higher beverage can shipments, driven by strong demand.
- The EBITDA miss was led by lower metal benefit and a less favourable product mix.
- The US imports ~400k-500k tonnes of beverage can-sheets pa; however, once the Bay Minette plant comes on stream, it would replace imports from Asia.

Europe

- **Volumes** up 5% y/y, 7% q/q, to 263k tonnes (a positive surprise to our estimated 238k).
- **EBITDA** rose 2% y/y, 22% q/q to $90m (26% above our estimate).
- **EBITDA/tonne** was $342, 14% above our estimated $300.
- Higher beverage can shipments drove volumes, partially offset by lower automobile segment offtake.

Asia

- **Volumes** up 10% y/y, 6% q/q, to 194k tonnes (in line with our estimate).
- **EBITDA** rose 6% y/y, 10% q/q to $92m; EBITDA/tonne $474 (in line with our estimate).
- Higher inter-regional beverage can shipments to North America drove volumes.

South America

- **Volumes** up 29% y/y but q/q down 6% to 154k tonnes (less than our estimated 164k).
- **EBITDA** grew 57% y/y but dipped 9% q/q to $132m. EBITDA/tonne was $857 (in line with our estimated $875).
- Volumes improved driven by more beverage can-sheet shipments to North America.

Capex

- Capex for Bay Minette is progressing per timeline, with no cost escalation likely.
- A complete automotive volume tie-up is expected before the plant comes on stream by FY27.

- Novelis commissioned the 240k-tonne recycling plant in Gunthrie. The advanced sorting technology and automotive 'closed loop' recycling would re-use post-production and post-consumer scrap.
- The 100k-tonne UAL recycling plant in South Korea is expected to be commissioned in H2.
- Novelis is undertaking a $90m UBC recycling and casting expansion in the UK, which would enhance capacity by 350k tonnes. This plant is expected to be commissioned by FY27 and would capture the UK recycling market.

Flooding in Sierre, Switzerland

- In Jun'24, the Rhône overflowed, which caused the Sierre plant to temporarily shut operations.
- It is to restart by end-Q2 FY25.
- The net-cash impact of the flooding is expected at ~$80m (after considering the insurance payout).
- The estimated net EBITDA impact is ~$30m, most expected in Q2 FY25.
- The impact on EBITDA only pertains to volumes. Any other impact pertaining to repairs/maintenance of machinery would be additional.
- Though the plant is insured, a lag between when the amount is received from the insurance company and the cost incurred is possible, which might stretch funds needed for Novelis in the near term.

Fig 8 – Novelis' financial performance at a glance

Novelis quarter-end	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY23	Q3 FY24	Q4 FY24	Q1 FY25	Q1 FY25 est	% Change to est.	% Y/Y	% Q/Q
Revenue ($ m)	5,089	4,799	4,201	4,397	4,091	4,107	3,935	4,077	4,187	4,476	-6.4	2.3	2.7
EBITDA ($ m)	561	506	341	403	421	484	454	514	500	500	0.0	18.8	-2.7
EBITDA / tonne ($)	583	514	376	431	479	519	499	540	525	529	-0.8	9.6	-2.9
Shipments (k tonnes)	962	984	908	936	879	933	910	951	951	945	0.6	8.2	0.0
North America shipments (k tonnes)	386	386	380	363	370	390	362	391	388	379	2.4	4.9	-0.8
Europe shipments (k tonnes)	272	268	242	248	250	256	230	246	263	238	10.6	5.2	6.9
Asia shipments (k tonnes)	185	208	141	187	176	175	176	183	194	195	-0.3	10.2	6.0
South America shipments (k tonnes)	148	162	162	144	119	144	176	164	154	164	-6.1	29.4	-6.1
North America EBITDA / tonne ($)	588	495	326	361	449	533	456	537	472	505	-6.6	5.1	-12.2
Europe EBITDA / tonne ($)	309	272	157	367	352	391	257	301	342	300	14.1	-2.8	13.8
Asia EBITDA / tonne ($)	508	543	426	385	494	469	460	459	474	500	-5.2	-4.1	3.3
South America EBITDA / tonne ($)	1,054	784	765	799	706	646	852	884	857	875	-2.0	21.4	-3.1

Source: Company, Anand Rathi Research

Conference call key takeaways (HNDL)

Guidance

- The FRP capex at Aditya is on track and expected to be commissioned by FY26.
- The Silvassa plant is being ramped up and is likely to reach optimum utilisation by end-Mar'25.
- Once capex for downstream plants is completed, domestic capacity of >0.6m tonnes is expected, with ~Rs10bn EBITDA potential.
- Coal cost would be flat or move up a bit (1%) in Q2 FY25.
- The current coal linkage is ~48% and the share of e-auction is 49%; to be the same till the Chakla mine comes on stream.
- A slight increase in mining cost is likely ahead, however, the company does not anticipate significantly increased liability from the recent Supreme Court judgement on royalty.
- The company has hedged ~22% at $2,550/tonne and 15% at zero collar with a base of $2,258/tonne and a cap of $2,539/tonne.
- ~10-12% of the bauxite required is met from mines in Jharkhand; the rest from Odisha.
- Of its 300MW domestic RE target, ~58% has been achieved; a further 25MW is expected to come on stream by end-Mar'25.

Capex

- On completion of the ongoing downstream capex, the company plans to expand its alumina refining capacity in Odisha, a 0.2m-tonne copper smelter and a 180-pot primary aluminium smelter at Aditya.
- It has earmarked ~Rs240bn capex for the three projects, which would take 3-4 years to be commissioned.
- It plans to expand the 50k-tonne copper recycling unit at Dahej from Oct'24.

Aluminium and copper demand-supply balance

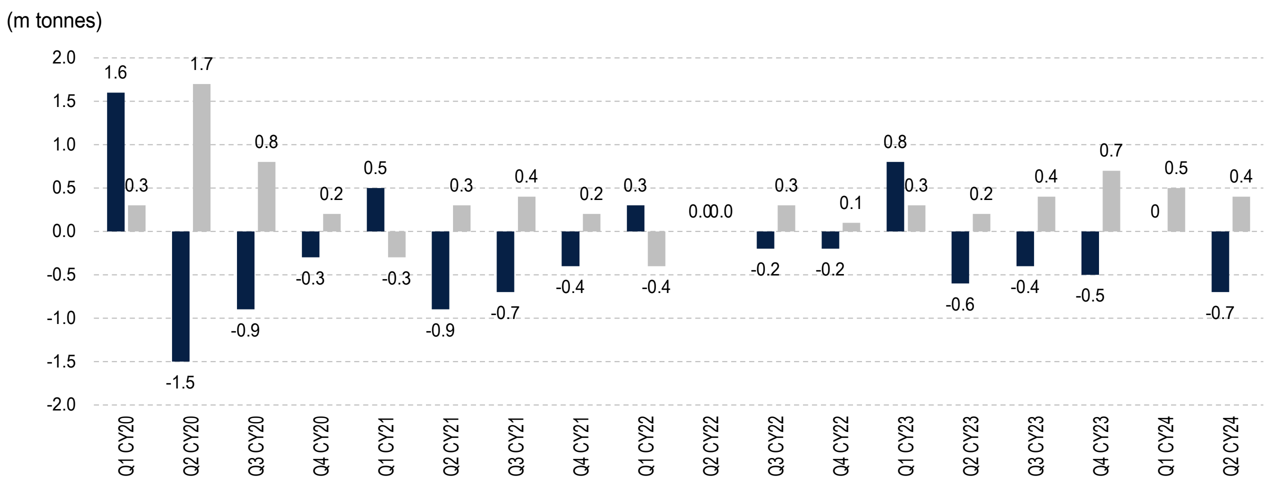
Aluminium

Like other ferrous and base metals, China produces the lion's share in global aluminium (~59%). Its production outpaced the increase in global demand, increasing ~0.4m tonnes in Q2 CY24 to 10.6m tonnes (vs. ~0.1m tonne for the RoW. Chinese aluminium consumption in Q2 CY24 was 11.3m tonnes (up 2.7% y/y), compared to a 0.1m tonne decline for the RoW. The reduction in demand was due to subdued macros in Europe and MENA, partially offset by greater aluminium demand in India. China's continuing cap on yearly production targets led to the 0.7m-tonne deficit in the country.

Just like other metals, India continues to outperform other global majors. Aluminium demand in the quarter stepped up 15% y/y to 1.32m tonnes, driven by strong demand in electricals, packaging, industrial machinery, and consumer durables.

Excl. China, global FRP demand is expected to grow ~4% in CY24, driven by greater demand for beverage cans in North America, a favourable vehicle mix, more construction in North America and India and robust demand from aerospace.

Fig 9 – Global aluminium demand-supply balance (m tonnes)

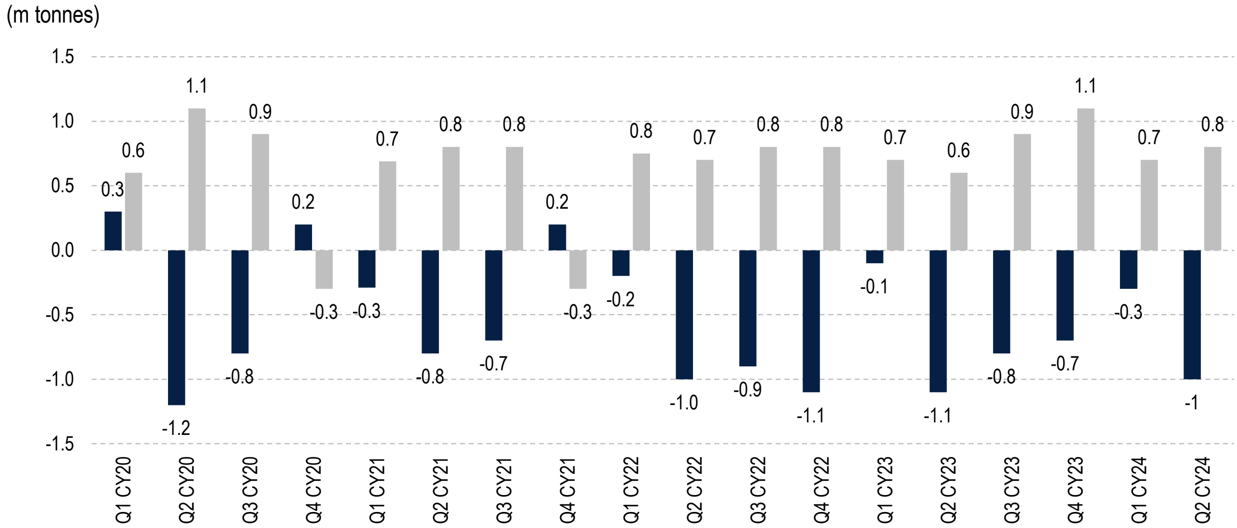


Source: Company, Anand Rathi Research

Copper

Global copper production in Q2 CY24 stepped up 3% y/y to 6.4m tonnes but consumption slipped 1% y/y to 6.6m tonnes, resulting in a ~0.2m-tonne deficit. Demand in China exceeded production, which led to a ~1m tonne deficit. This was offset by slower demand in the RoW, which saw a 0.8m-tonne surplus. Domestic demand for refined copper grew slower (4% y/y) to 201k tonnes. As domestic demand outpaces production, the shortfall would be met via imports. The share of domestic suppliers improved to 73% during the quarter.

Fig 10 – 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 expansion, would be one of the biggest beneficiaries of the ongoing change in the non-ferrous landscape. Along with planned capex, it is strengthening backward integration by setting up recycling capacities internationally and operationalising mines in India.

Considering all the positive triggers, we have built in a ~7% revenue CAGR over FY24-26 for Novelis, driven by the volume momentum, better realisations and a consolidated ~9% revenue CAGR stemming from the greater share of downstream VAPs and support from LME in FY26. Further, we expect a ~10% EBITDA CAGR for Novelis and ~17.5% consolidated EBITDA CAGR over FY24-26.

During our recent initiation, we had assigned 7x FY26 EV/EBITDA for Novelis, which was in line with the valuation at the lower end of the band of the proposed IPO. However, with the IPO being extended with no clear timeline, we slightly trim our ascribed EV/EBITDA multiple from 7x to 6.5x for Novelis. Further, considering the recently softer LME prices, we slightly trim our FY25e LME. We retain our Buy rating and a sum-of-parts TP of Rs.800.

Fig 11 – Change in estimates

	FY25e			FY26e		
(Rs bn)	New	Old	% variance	New	Old	% variance
Revenue	2,371	2,431	*-2.5*	2,566	2,566	*0.0*
EBITDA	278	299	*-7.1*	329	329	*0.0*
Adj. PAT	118	135	*-12.3*	149	149	*0.0*

Source: Anand Rathi Research

Fig 12 – TP of Rs.800

Particulars	UoM	FY26e
Aluminium – upstream		
Volumes	kt	1,350
EBITDA / tonne	$	927
EBITDA	Rs m	1,07,374
EV / EBTIDA (x)	x	5.0
Target EV	**Rs m**	**536,872**
Aluminium – downstream		
Volumes	Kt	455
EBITDA / tonne	$	225
EBITDA	Rs m	8,796
EV / EBTIDA (x)	x	6.5
Target EV	**Rs m**	**57,173**
Copper		
Volumes	kt	522
EBITDA	Rs m	27,477
EV / EBTIDA (x)	x	6.0
Target EV	**Rs m**	**164,863**
Novelis		
Volumes	kt	3,994
EBITDA / tonne	$	566
EBITDA (converted to Rs)	Rs m	193,798
EV / EBTIDA (x)	x	6.5
Target EV	**Rs m**	**12,59,688**
Other Adj.		
EBITDA	Rs m	-8,000
EV / EBTIDA (x)	x	4.5
Target EV	**Rs m**	**-36,000**
Target group EV	**Rs m**	**19,82,596**
Less: Net debt	Rs m	3,77,854
Add: Adj. CWIP (@ 50%)	Rs m	87,720
No. of shares	m	2,220
Per share value	Rs	762
Add: Adj. per share value of investment (holding co. disc @ 35%)	Rs	38
Target price	**Rs / sh**	**800**

Source: Anand Rathi Research

Appendix

Analyst Certification

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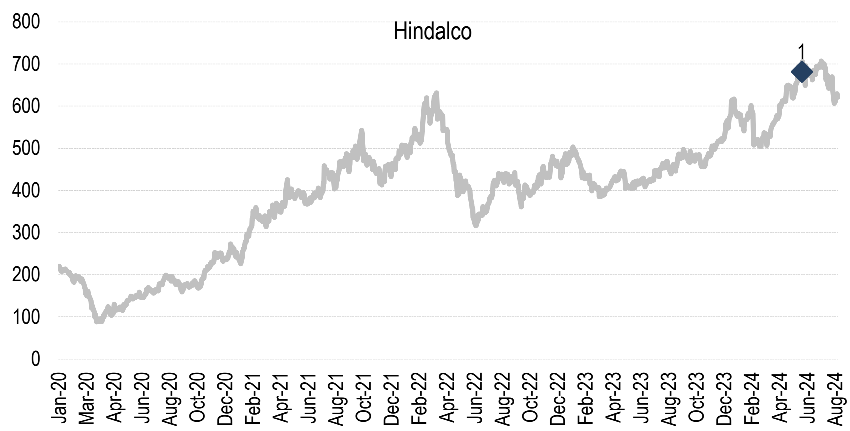
Rating and Target Price History (as of 13 August 2024)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	03-Jun-24	**Buy**	850	693

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