

14 August 2024

India | Equity Research | Q1FY25 results review

Hindalco Industries

Metals

In capex mode

Hindalco Industries' (HNDL) Q1FY25 consol. EBITDA was 5% ahead of Street's estimate. Key points: 1) Record copper (Cu) EBITDA of INR 8.05bn on account of higher TC/RC margins and higher downstream sales volume. 2) Al (upstream) EBITDA/te was aided by higher LME Al prices and benign cost. 3) India operations reported net cash position of INR 17bn. 4) Consol. net debt/EBITDA was at 1.24x vs. 1.73x a year ago. Management expects to start the upstream capex in India across all three products – alumina, Cu and Al – aided by its healthy balance sheet that sports sufficient headroom for growth. At Novelis, we expect rejuvenated beverage can volumes and softening costs would maintain EBITDA in the range of USD 535-545/te. Maintain **BUY** and a TP of INR 830 on 7x FY26E EBITDA.

Performance ahead of estimates; record EBITDA at Cu division

HNDL's consolidated EBITDA of INR 75bn (up 31% YoY) was 5% ahead of our and Street's estimates. Key points: 1) All-time high quarterly Cu EBITDA of INR 8.05bn was aided by higher continuous Cu rod sales, derivative gains and robust TC/RC margins. 2) Al upstream EBITDA, at INR 34.9bn (up 81% YoY), was aided by lower cost (down 2% QoQ) and higher LME Al prices. EBITDA margin, at 40%, was among the best in the industry. 3) Downstream Al EBITDA/t was down 38% YoY (17% QoQ), at USD 137, owing to product mix issues. Management expects the performance to improve ahead. 4) Gross debt was down 6% YoY at INR 540bn while net debt/EBITDA was at 1.4x vs. 1.73x a year ago. Management expects to sustain EBITDA at its Cu division at INR 6bn and sees CoP/t of Al (upstream) rising between 0–1%. However, supportive consumption trends in both Al and Cu divisions shall aid earnings.

Upstream capex in wings; Alumina to be third revenue stream

Management mentioned during the earnings call that as downstream projects culminate by FY26, focus would be on upstream projects in India. For FY25, it expects India capex to be ~INR 55–60bn given the balance sheet headroom to pursue growth opportunities. Key upstream capex being pursued are: 1) Alumina expansion (two phases of 850ktpa each), once the bauxite sourcing contract with OMC is finalised. 2) Cu smelting capacity of 280–300ktpa. 3) Al smelting capacity of 180ktpa at Aditya once round-the-clock RE power is finalised. Management expects capex for Alumina expansion to be INR 80bn while that for the other two projects will be finalised based on the final configuration. In our view, HNDL is going to become a key seaborne alumina supplier to Alumina short smelters, especially in the Middle East.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	22,32,020	21,59,620	25,32,071	26,46,005
EBITDA	2,26,660	2,38,720	3,06,779	3,19,875
EBITDA Margin (%)	10.2	11.1	12.1	12.1
Net Profit	1,00,970	1,01,550	1,46,582	1,57,332
EPS (INR)	45.3	45.6	65.8	70.6
EPS % Chg YoY	(26.2)	0.8	44.7	7.3
P/E (x)	13.8	13.7	9.4	8.8
EV/EBITDA (x)	8.0	7.2	5.8	5.2
RoCE (%)	8.1	7.5	9.7	9.4
RoE (%)	12.6	10.9	13.8	13.2

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Market Data

Market Cap (INR)	1,396bn
Market Cap (USD)	16,642mn
Bloomberg Code	HNDL IN
Reuters Code	HALC.BO
52-week Range (INR)	715 /438
Free Float (%)	65.0
ADTV-3M (mn) (USD)	64.7

Price Performance (%)	3m	6m	12m
Absolute	(1.9)	21.8	34.4
Relative to Sensex	(10.4)	11.5	13.5

Previous Reports

08-08-2024: [Q1FY25 Novelis results](#)

25-05-2024: [Q4FY24 results review](#)

Outlook: Growth levers in place; maintain BUY

We are positive on the multi-pronged growth avenues that Hindalco is pursuing. By FY26, downstream Al capacity in India would be commissioned, followed by the commissioning of Bay Minette facility at Novelis by FY27. India (upstream) capacities are likely to be commissioned in stages starting with Alumina expansion. Hence, we see a long runway for earnings growth with prudent leverage. We maintain **BUY** on HNDL stock with an unchanged TP of INR 830 on 7x FY26E EBITDA.

Key risks

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

Q1FY25 conference call: Key takeaways

- Q1FY25 performance was driven by cost control at Al division and record performance at CU division.
- **Hedging position as on end-Q1FY25:** 22% of commodity hedged at USD 2,550/te, 15% of commodity hedged at zero-collar with range of USD 2,258/t- USD 2,539/t and 11% currency hedged at USD 88.43.
- INR 17.7bn net cash at India
- All ongoing expansion projects are on track. Aditya FRP project is expected to be commissioned by FY26 to take downstream Al capacity to 600ktpa.
- **Upstream Al operations** in India gained from lower input cost and better LME Al price.
- **Downstream Al operations** were impacted by unfavourable product mix. Management mentioned that they had to fulfil certain orders at lower premium. However, outlook remains strong with Jul'24 being strong.
- **Copper:** Record EBITDA in Q1 FY25, up 52% YoY on account of higher average copper prices and robust operations. Management mentioned that more CC rods are being sold at its Cu division. Compared to smelting capacity of 380kt, the company is targeting selling 515kt of finished Cu due to robust domestic demand. The division might see fluctuations owing to derivative gains. However, management guides for sustainable EBITDA of INR 6bn per quarter. TC/RC is expected to remain low due to constrained supply of concentrate.
- **India Al demand:** In Q1FY25, domestic demand is likely to reach 1,319 Kt (15% growth YoY), primarily led by strong demand in electrical, packaging, industrial machinery, and consumer durables segments, though auto was weak. India FRP market in FY25 is estimated to grow by ~7–8%, led by growth in packaging, auto, and construction.
- **India Copper demand:** In Q1FY25, market demand increased by ~4% YoY to 201kt vs. 194 KT in Q1FY24 while the share of domestic suppliers increased to 73%, from 71%.
- 57% of the 300MW target by first half of CY24 is achieved with total renewables reaching 173MW in Q1FY25. 100MW hybrid (with storage) to be commissioned by H1CY25.
- **Al CoP/t guidance for Q2FY25:** CoP/t in Q1FY25 was down 2% QoQ largely due to lower coal and carbon derivatives cost. In Q2FY25, management expects CoP/t

to remain flat or rise up to 1% YoY owing to firm e-auction prices and rising caustic soda prices.

- **Coal sourcing mix in Q1FY25:** 48% linkage, 48–50% e-auction and remaining imports. Coal sourcing mix is unlikely to change in FY25. Start of operations at Chakla mines is likely going to make a difference.
- **Upstream expansion plans in India:** Alumina expansion in two stages of 850ktpa each – Cu smelter of 280-300kt and Al capacity expansion of 180ktpa at Aditya. The capex for Alumina refinery expansion is expected at INR 80bn. Engineering work has already started for Aditya expansion.
- Alumina expansion is likely to be the best RoCE project the company could have done.
- Working through Stage 1 and Stage 2 clearances for Chakla and Meenakshi blocks. Management is engaging with government authorities to get requisite approvals.
- Rationale for Novelis IPO: Management mentioned that the target was not to raise money but get the right valuation for Novelis.
- FY25 capex for India operations kept unchanged at INR 55-60bn.
- **Third-party Alumina sales in Q1FY25:** 162kt.

Exhibit 1: Hindalco Q1FY25 standalone performance review

Standalone (INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Net sales	2,21,550	1,99,040	11.3	2,21,400	0.1
Raw Material Consumed	1,49,750	1,22,600	22.1	1,44,060	3.9
Stock Adjustment	(6,820)	6,200	(210.0)	5,470	(224.7)
Gross Margin	78,620	70,240	11.9	71,870	9.4
Gross Margin (%)	35.5%	35.3%		32.5%	
Employee cost	6,250	5,790	7.9	6,260	(0.2)
Power & Fuel cost	21,150	24,300	(13.0)	21,860	(3.2)
Other expenditure	20,570	17,890	15.0	20,270	1.5
EBITDA	27,490	15,610	76.1	22,200	23.8
Margin (%)	12.4%	7.8%		10.0%	
Other Income	1,550	2,250	(31.1)	1,790	(13.4)
Depreciation	4,990	4,820	3.5	5,070	(1.6)
EBIT	24,050	13,040	84.4	18,920	27.1
Interest	2,440	3,520	(30.7)	2,610	(6.5)
PBT	21,610	9,520	127.0	16,310	32.5
Tax expense:	6,900	3,400	102.9	2,190	215.1
PAT	14,710	6,000	145.2	14,120	4.2

Source: Company data, I-Sec research

Exhibit 2: Hindalco Q1FY25 consolidated performance review

Consolidated (INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Net sales	5,70,130	5,29,910	7.6	5,59,940	1.8
Raw Material Consumed	3,53,690	3,17,860	11.3	3,27,580	8.0
Stock Adjustment	3,170	6,660	(52.4)	1,310	142.0
Gross Margin	2,13,270	2,05,390	3.8	2,31,050	(7.7)
Gross Margin (%)	37.4%	38.8%		41.3%	
Employee cost	38,770	35,290	9.9	37,560	3.2
Power & Fuel cost	34,690	37,570	(7.7)	36,240	(4.3)
Other expenditure	80,690	67,500	19.5	75,540	6.8
EBITDA	75,030	57,140	31.3	66,810	12.3
Margin (%)	13.2%	10.8%		11.9%	
Other Income	4,240	3,910	8.4	3,620	17.1
Depreciation	18,920	17,860	5.9	20,180	(6.2)
EBIT	60,350	43,190	39.7	50,250	20.1
Interest	8,590	9,920	(13.4)	8,880	(3.3)
PBT	51,760	33,270		41,370	
Tax expense:	17,740	8,630	105.6	9,620	84.4
Reported PAT	30,740	24,540		31,740	
Adj. PAT	34,020	24,640	38.1	31,750	7.1

Source: I-Sec research, Company data

Exhibit 3: Hindalco operational performance review

	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Aluminium- Upstream					
Sales volume (kte)	329	341	(3.5)	337	(2.4)
EBITDA/te (USD/te)	1,271	690	84.2	968	31.3
Aluminium- Downstream					
Sales volume (kte)	96	81	18.5	105	(8.6)
EBITDA/te (USD/te)	137	221	(37.8)	165	(16.9)
Copper					
Sales volume (kte)	119	118	0.8	135	(11.9)
Sales volume (kte) - CC Rods	100	98	2.0	98	2.0
Novelis					
Sales volume (kte)	951	879	8.2	951	-
EBITDA/te (USD/te)	526	479	9.8	540	(2.7)
Gross debt	5,40,190	5,73,820	(5.9)	5,45,010	(0.9)
Net debt	3,55,300	3,84,630	(7.6)	3,15,360	12.7
Net debt/EBITDA (x)	1.4	1.9	(28.2)	1.3	4.8
EBITDA (INR mn)					
Aluminium- Upstream	34,930	19,350	80.5	27,090	28.9
Aluminium- Downstream	1,100	1,470	(25.2)	1,440	(23.6)
Copper	8,050	5,310	51.6	7,760	3.7
Novelis	41,700	34,560	20.7	42,700	(2.3)

Source: Company data, I-Sec research

Exhibit 4: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	34.6	34.6	34.6
Institutional investors	58.5	57.0	54.5
MFs and others	12.9	13.3	13.2
FIs/Banks	1.6	1.8	0.8
Insurance	11.5	11.4	9.6
FIIIs	31.5	30.5	30.9
Others	7.9	8.4	10.9

Source: Bloomberg

Exhibit 5: Price chart


Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	22,32,020	21,59,620	25,32,071	26,46,005
Operating Expenses	20,05,360	19,20,900	22,25,293	23,26,130
EBITDA	2,26,660	2,38,720	3,06,779	3,19,875
EBITDA Margin (%)	10.2	11.1	12.1	12.1
Depreciation & Amortization	70,860	75,210	81,879	88,394
EBIT	1,55,800	1,63,510	2,24,899	2,31,480
Interest expenditure	36,460	38,580	34,822	34,379
Other Non-operating Income	12,570	14,960	12,180	19,988
Recurring PBT	1,31,910	1,39,890	2,02,256	2,17,089
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	31,440	38,570	55,674	59,757
PAT	1,00,470	1,01,320	1,46,582	1,57,332
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,00,970	1,01,550	1,46,582	1,57,332
Net Income (Adjusted)	1,00,970	1,01,550	1,46,582	1,57,332

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	8,93,110	8,23,430	7,92,047	9,47,859
of which cash & cash eqv.	1,53,680	1,44,370	1,11,458	2,03,891
Total Current Liabilities & Provisions	4,74,560	4,81,940	5,03,834	5,52,287
Net Current Assets	4,18,550	3,41,490	2,88,214	3,95,572
Investments	82,590	1,21,720	1,21,720	1,21,720
Net Fixed Assets	7,58,490	7,71,510	8,21,418	8,61,760
ROU Assets	-	-	-	-
Capital Work-in-Progress	73,400	1,46,430	2,57,473	2,80,737
Total Intangible Assets	3,24,560	3,23,360	3,23,360	3,23,360
Other assets	1,15,550	1,32,550	1,32,550	1,32,550
Deferred Tax Assets	-	-	-	-
Total Assets	17,73,610	18,37,130	19,44,804	21,15,768
Liabilities				
Borrowings	6,59,260	5,99,830	5,99,830	5,99,830
Deferred Tax Liability	86,500	93,440	93,440	93,440
provisions	58,910	62,350	62,350	62,350
other Liabilities	20,770	19,940	19,940	19,940
Equity Share Capital	2,220	2,220	2,220	2,220
Reserves & Surplus	9,45,840	10,59,240	11,66,914	13,37,878
Total Net Worth	9,48,060	10,61,460	11,69,134	13,40,098
Minority Interest	110	110	110	110
Total Liabilities	17,73,610	18,37,130	19,44,804	21,15,768

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	5,41,690	5,28,080	5,59,940	5,70,130
% growth (YoY)	(3.6)	(0.6)	0.2	7.6
EBITDA	56,120	58,650	66,810	75,030
Margin %	10.4	11.1	11.9	13.2
Other Income	4,630	2,800	3,620	4,240
Extraordinaries	330	-	-	(3,300)
Adjusted Net Profit	21,960	23,310	31,740	30,740

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,92,080	2,40,560	2,83,649	2,65,181
Working Capital Changes	(32,370)	(7,310)	(35,310)	(74,682)
Capital Commitments	(97,420)	(1,56,780)	(2,42,830)	(1,52,000)
Free Cashflow	94,660	83,780	40,819	1,13,181
Other investing cashflow	17,260	14,020	(4,843)	(4,843)
Cashflow from Investing Activities	(80,160)	(1,42,760)	(2,47,673)	(1,56,843)
Issue of Share Capital	-	-	-	-
Interest Cost	(38,450)	(39,120)	(34,822)	(34,379)
Inc (Dec) in Borrowings	(1,02,230)	(36,900)	-	-
Dividend paid	(8,900)	(6,670)	(7,795)	(7,795)
Others	45,080	(25,480)	-	-
Cash flow from Financing Activities	(1,04,500)	(1,08,170)	(42,618)	(42,174)
Chg. in Cash & Bank balance	7,420	(10,370)	(6,642)	66,163
Closing cash & balance	1,23,810	1,18,010	1,11,458	2,03,891

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	45.1	45.5	65.8	70.6
Adjusted EPS (Diluted)	45.3	45.6	65.8	70.6
Cash EPS	77.2	79.4	102.6	110.3
Dividend per share (DPS)	3.0	3.5	3.5	3.5
Book Value per share (BV)	425.7	476.6	524.9	601.7
Dividend Payout (%)	6.7	7.7	5.3	5.0
Growth (%)				
Net Sales	14.4	(3.2)	17.2	4.5
EBITDA	(20.0)	5.3	28.5	4.3
EPS (INR)	(26.2)	0.8	44.7	7.3
Valuation Ratios (x)				
P/E	13.8	13.7	9.4	8.8
P/CEPS	8.1	7.8	6.1	5.6
P/BV	1.5	1.3	1.2	1.0
EV / EBITDA	8.0	7.2	5.8	5.2
Dividend Yield (%)	0.5	0.6	0.6	0.6
Operating Ratios				
Gross Profit Margins (%)	36.9	38.0	36.0	35.4
EBITDA Margins (%)	10.2	11.1	12.1	12.1
Effective Tax Rate (%)	23.8	27.6	27.5	27.5
Net Profit Margins (%)	4.5	4.7	5.8	5.9
Net Debt / Equity (x)	0.4	0.3	0.3	0.2
Net Debt / EBITDA (x)	1.9	1.4	1.2	0.9
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	85	70	62	66
Receivables Days	32	28	29	29
Payables Days	71	59	58	62
Profitability Ratios				
RoCE (%)	8.1	7.5	9.7	9.4
RoE (%)	12.6	10.9	13.8	13.2
RoIC (%)	9.5	9.0	11.4	11.1

Source Company data, I-Sec research

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