



Duration: 6-9 Months

CMP (Rs)	Target (Rs)	Potential Upside (%)
672	739	10%

MARKET DATA

No. of Shares	224 Cr
Market Cap (Rs Cr)	Rs. 1,51,956
52-week High / Low	715/449
BSE Code	500440
NSE Code	HINDALCO

Why Hindalco Industries Ltd?

- ✓ **Upstream Indian Aluminum at 1st quartile of cost curve**
- ✓ **Improving EBITDA/t trajectory**
- ✓ **Disciplined Capital Allocation**

About the Company

Hindalco Industries is the metals flagship company of Aditya Birla Group. It is one of the largest primary producers of Aluminium in Asia. Hindalco operates under three segments – low-cost vertically integrated Aluminum segment (1.3mt), World’s largest rolling and recycling Novelis operations (4mt rolling and 2.5mt recycling facility) and custom copper smelting (0.42mt copper cathodes capacity).

Investment Rationale

- A. Structural increase in EBITDA/t in future:** The company’s expansion projects such as the 600kt Bay Minette (by H2CY26), Copper Inner Grooved Tubes and Aluminium downstream projects (end of FY25-26), will lead to increase in the EBITDA/t from FY27 onwards as the projects get commission and start contributing fully from FY27.
- B. Upstream Aluminium performance to remain strong:** In Q2FY25, upstream Aluminum CoP is expected to remain flat or increase only slightly by 1% QoQ. International coal prices continues to remain soft which will keep the e-auction premiums softer, furthermore LME Aluminium prices have found support from the firm Alumina prices. The impending Fed rate cuts will also be supportive for base metal prices. Consumption season in China is coinciding with the fed rate cuts and higher Alumina prices supporting LME Aluminium prices, which along with the softer coal prices will dive better smelter spreads for Hindalco.
- C. Novelis EBITDA/t trajectory to get boost from Bay Minette project:** 600kt Bay Minette project capex at \$4.1 Bn is unchanged and is expected to start from H2CY26, 240kt automotive recycling capacity (\$365 Mn) at Guthrie began commissioning in 1QFY25. The project is expected to increase scrap consumption and reduce external sheet ingot supply. The 100kt recycling capacity at Ulsan (South Korea; \$65 Mn) is expected to be commissioned in 2HFY25. Novelis has additionally announced a \$90 Mn used beverage can (UBC) recycling and casting capacity expansion in the UK. Commissioning is expected by FY27. Novelis has multiple levers to reach EBITDA/t towards \$600/t.
- D. Disciplined Capital Allocation:** With the upstream smelters in the 1st quartile of the cost curve and Capex focus on the downstream assets at both India and Novelis, the capital allocation looks well-placed. All the strategic Capex in India is matched with the cash flow from the business and is in line with the capital allocation policy. At Novelis the company will do the expansion projects by maintaining the Net Debt: EBITDA below 3.0x.
- E. Recommendation:** We recommend a BUY rating on the stock with a near-term TP of Rs 739/share, implying an upside of 10% from the CMP.

Financial Summary

Y/E Mar (Rs Cr)	Revenues (Rs Cr)	EBITDA (Rs Cr)	PBT (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	PE (x)	Div. Payout (%)	RoE (%)	EV/EBITDA (x)
FY23	2,23,202	22,885	13,200	10,097	45.5	14.8	6.60%	11.7	8.4
FY24	2,15,962	24,257	13,991	10,155	45.7	14.7	7.65%	10.1	7.8
FY25E	2,33,156	27,748	18,294	12,964	58.4	11.5	1.71%	11.6	7.0
FY26E	2,51,217	29,453	19,351	14,382	64.8	10.4	1.54%	11.5	6.5

 Source: Axis Securities; CMP as on 13th September 2024

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