

13 November 2024

India | Equity Research | Q2FY25 results review

## Hindalco Industries

Metals &amp; Mining

### Pushing the capex pedal in India

Hindalco's Q2FY25 consolidated EBITDA was 17% and 11% ahead of our and consensus estimates, respectively. Key points: 1) Al (upstream) EBITDA was up 80% YoY at USD 1,349mn, benefitting from lower cost and higher external alumina sales; 2) copper EBITDA stood at record INR 8.3bn on one-off impact of higher gold sales; 3) net debt/EBITDA stood at 1.29x, well within 1.5x. India business is in net cash position of INR 23bn; and 4) upstream capex of USD 2bn for Al and Cu smelters at India operations. While long-term prospects remain intact, we believe elevated scrap prices pose higher risk to our near term Novelis EBITDA/te estimates. Hence, we lower Novelis' valuation multiple to 7x (earlier 7.5x), resulting in revised TP of INR 750, implying EV/EBITDA of 6.6x (earlier 7x). Maintain **ADD**.

### Q2FY25 performance surpasses estimates

Hindalco's Q2FY25 EBITDA of INR 78.8bn (up 40.5% YoY) surpassed our and consensus estimates. Key points: 1) Al CoP/t was down 1.6% QoQ (our estimate: flat QoQ) on lower coal prices; 2) higher external alumina sales at 197kt (our estimate: 180kt) at favourable prices aided upstream Al business profitability; 3) downstream Al EBITDA/t recovered QoQ but is still down 19% YoY at USD 178/te, primarily due to import pressure and unfavourable product mix; 4) other income includes gain of INR 5.3bn from the sale of land at Kalwa; and 5) consolidated net debt to EBITDA stood at 1.29x with net debt at INR 360bn as of end-Sep'24. Going ahead, management expects Al CoP/t to be up 1-1.5% QoQ, tracking the spot e-auction premium, while sustainable Cu EBITDA would settle at INR 6-6.5bn a quarter; however, downstream Al EBITDA is likely to increase led by strong demand of those products.

### Upstream capex at India operations to foster growth

We believe upstream capex across alumina, Al and Cu would lead to volume-led growth in India operations. Besides, it leverages the balance sheet strength of India operations (net cash position of INR 23bn). In our view, the key advantages of capex are: 1) Would make Hindalco net long on alumina by almost 800-900ktpa, opening up an additional revenue stream; 2) balances the capacity of CC rods at Cu division; and 3) Al capacity expansion would be entirely fed by RE, paving the way for green aluminium, which would have wider acceptance globally. Smelting capex is pegged at USD 2bn, to be incurred over the next 3-3.5 years, funded through a mix of internal accruals and debt of USD 1-1.5bn.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	22,32,020	21,59,620	25,98,791	27,17,653
EBITDA	2,26,660	2,38,720	2,92,431	3,08,933
EBITDA Margin (%)	10.2	11.1	11.3	11.4
Net Profit	1,00,970	1,01,550	1,34,358	1,48,059
EPS (INR)	45.3	45.6	60.3	66.5
EPS % Chg YoY	(26.2)	0.8	32.6	10.2
P/E (x)	14.4	14.3	10.8	9.8
EV/EBITDA (x)	8.3	7.5	6.3	5.7
RoCE (%)	8.1	7.5	9.1	9.0
RoE (%)	12.6	10.9	12.7	12.6

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#### Market Data

Market Cap (INR)	1,464bn
Market Cap (USD)	17,351mn
Bloomberg Code	HNDL IN
Reuters Code	HALC.BO
52-week Range (INR)	773 /481
Free Float (%)	65.0
ADTV-3M (mn) (USD)	53.5

Price Performance (%)	3m	6m	12m
Absolute	3.5	4.2	35.1
Relative to Sensex	4.8	(4.1)	14.5

ESG Score	2022	2023	Change
ESG score	61.7	62.6	0.9
Environment	45.1	44.7	(0.4)
Social	59.3	61.2	1.9
Governance	77.8	76	(1.8)

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

#### Previous Reports

07-11-2024: [Q2FY25 Novelis results](#)

14-08-2024: [Q1FY25 results review](#)

### Outlook: Volume growth at India operations is positive

We view India capex in upstream operations as positive as it provides the much-needed volume growth trajectory to India operations. Besides, the investment in niche-copper inner grooved tubes (currently being imported) and e-waste/copper recycling plant would be value accretive. That said, in near term, we are cautious on Novelis' performance as uncertainty around elevated scrap prices puts our EBITDA/te for FY25/26E of USD 487/USD 527 at higher risk. Hence, we have lowered the valuation multiple of Novelis in SoTP by a notch to 7x (earlier 7.5x). Our revised TP works out to INR 750 (earlier INR 790) on revised implied multiple of 6.6x (earlier 7x) FY26E EBITDA. Maintain ADD.

### 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.

### Q2FY25 conference call: Key takeaways

- **Expect alumina market to remain tight in near term**, following the supply disruption of bauxite from Guinea.
- **Scrap prices** have surged as China is now putting almost 20mtpa of scrap melting capacity after putting a cap on 45mtpa (coal-powered) aluminium smelting capacity. In near term, this has created scrap scarcity in the market.
- At Novelis, contract structure does not allow passing the inflated scrap cost to end-consumers. Management is confident of mitigating the situation through a number of initiatives. It also mentioned that current scrap prices make it economical for some of the scrap going into the landfills to be purified and circulated. In US for instance, close to 1.5mt of scrap is generated per year, of which 750kt goes in landfills. If scrap prices stay elevated, a substantial portion of it might be purified and processed.
- **Aluminium- Indian market:** In Q2FY25, domestic aluminium demand likely reached 1,433kt (7% growth YoY) primarily led by strong demand in electrical and packaging. However, industry was impacted by an uptick in imports, particularly of solar-related equipment and weakness in automotive segment. **Copper- Indian market:** In Q2FY25, market demand increased by ~9% YoY at 218kt vs 201kt in Q2FY24 while share of domestic suppliers decreased to 63% from 73% due to import influx.
- **Upstream aluminium performance** benefitted from lower input cost, favourable macros and external sales of alumina. External sales of alumina stood at 197kt in Q2FY25. The company prices alumina as follows: 80% on one month lag and 20% on spot. Hence, the favourable impact of higher alumina prices is likely to flow in Q3FY25 as well.
- **Downstream Al segment:** Shipments up 10% YoY; however, unfavourable product mix impacted profitability. Management expects EBITDA/te to increase from Q3FY25 as end-segments show growth.
- **Copper EBITDA** stood at record USD 829/te aided by good operating efficiencies post the shutdown in Q1FY25. Higher prices of byproducts such as sulphuric acid also helped. There were one-off gains in Q2 from the sale of gold. Sustainable EBITDA for copper division is guided at INR 6-6.5bn per quarter.

- In copper, TC/RC remains at historically low levels. Annual TC/RC negotiations are scheduled to commence soon on the sidelines of World Copper Conference.
- **Hedging position:** 27% of commodity hedged stood at USD 2,539/te. In addition, zero cost collar with bottom and top ceiling of USD 2,262/te and USD 2,547/te were also in place. For FY26, the management has hedged 14% at USD 2,700/te.
- **Al CoP/t:** In Q2FY25, it was 1.6% lower QoQ. In Q3FY25, CoP/t is likely to be 1-1.5% higher, going by the current trend of spot e-auction coal premium. E-auction premium in NCL was higher; MCL was flat.
- **Captive coal blocks:** Chakla has received stage 1 forest clearance. At Meenakshi-West, the company is likely to start exploration shortly while the management is awaiting the allocation of Meenakshi block. At Chakla, box-cut is likely in H2CY25.
- **Coal sourcing mix in Q2FY25:** Linkage- 50%; e-auction- 47%; captive mines- 2%.
- **Capex projects:** 1) Alumina: Greenfield alumina refinery with capacity of 850kt will supply low-cost alumina to existing smelters, resulting in cost savings. Discussions are underway for long-term supply partnerships to export excess alumina; 2) copper: 280-300ktpa smelting capacity expansion to take total upstream capacity to ~800kt, providing full integration advantages to the existing CCR mill; and 3) expansion of 180kt in aluminium upstream capacity, powered by renewable energy, will increase total upstream capacity to 1.52mn tons, significantly boosting sales of low-carbon aluminium. IRR for new upstream projects is likely to be in double digits.
- **Other projects:** Copper division: 1) India's first 25kt greenfield inner grooved tubes, expected commissioning in Jan'25; and 2) establishing India's first e-waste and copper scrap recycling plant. The first phase, with capacity of 50kt, is currently underway.
- **Capex:** Both aluminium and copper smelter are likely to cost USD 1bn each. The spend would be incurred over a period of next 3-3.5 years. It would be funded through internal cash generation and debt addition of USD 1-1.5bn.
- India capex is likely to be INR 70-80bn in FY26 compared to INR 60bn in FY25. Capex for India operations would be mapped to cashflow generation.
- **Commissioning of new capacities:** 1) 180ktpa Al smelter in Oct'27; 2) copper smelter in CY29; and 3) 850ktpa refinery by CY27.
- Management mentioned power cost of new aluminium smelter (powered by RE) is likely to be in the same range of coal-fired power cost, adjusted to inflation (5% p.a.) when the smelter would be commissioned. The difference would be that RE rates are fixed for 20 years.
- **Net debt:** Net cash of INR 22.4bn for standalone operations. Net debt for Novelis stood at INR 392bn. Net debt/EBITDA persists well below 1.5x.

**Exhibit 1: Hindalco Q2FY25 standalone performance review**

Standalone (INR mn)	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ
<b>Net sales</b>	<b>2,22,620</b>	<b>2,06,760</b>	7.7	<b>2,21,550</b>	0.5
Raw Material Consumed	1,57,610	1,52,000	3.7	1,49,750	5.2
Stock Adjustment	(12,080)	(12,470)	(3.1)	(6,820)	77.1
<b>Gross Margin</b>	<b>77,090</b>	<b>67,230</b>	14.7	<b>78,620</b>	(1.9)
Gross Margin (%)	34.6%	32.5%		35.5%	
Employee cost	6,480	6,100	6.2	6,250	3.7
Power & Fuel cost	21,760	22,830	(4.7)	21,150	2.9
Other expenditure	15,100	18,150	(16.8)	20,570	(26.6)
<b>EBITDA</b>	<b>27,490</b>	<b>17,560</b>	56.5	<b>27,490</b>	-
Margin (%)	12.3%	8.5%		12.4%	
Other Income	8,250	1,660	397.0	1,550	432.3
Depreciation	4,920	4,890	0.6	4,990	(1.4)
<b>EBIT</b>	<b>30,820</b>	<b>14,330</b>	115.1	<b>24,050</b>	28.1
Interest	2,340	3,380	(30.8)	2,440	(4.1)
<b>PBT</b>	<b>28,480</b>	<b>10,950</b>	160.1	<b>21,610</b>	31.8
Tax expense:	9,570	2,810	240.6	6,900	38.7
<b>PAT</b>	<b>18,910</b>	<b>8,470</b>	123.3	<b>14,710</b>	28.6

Source: Company data, I-Sec research

**Exhibit 2: Hindalco Q2FY25 consolidated performance review**

Consolidated (INR mn)	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ
<b>Net sales</b>	<b>5,82,030</b>	<b>5,41,690</b>	7.4	<b>5,70,130</b>	2.1
Raw Material Consumed	3,63,330	3,48,510	4.3	3,53,690	2.7
Stock Adjustment	6,260	2,570	143.6	3,170	97.5
<b>Gross Margin</b>	<b>2,12,440</b>	<b>1,90,610</b>	11.5	<b>2,13,270</b>	(0.4)
Gross Margin (%)	36.5%	35.2%		37.4%	
Employee cost	37,990	36,480	4.1	38,770	(2.0)
Power & Fuel cost	35,850	36,220	(1.0)	34,690	3.3
Other expenditure	71,480	72,860	(1.9)	80,690	(11.4)
<b>EBITDA</b>	<b>78,830</b>	<b>56,120</b>	40.5	<b>75,030</b>	5.1
Margin (%)	13.5%	10.4%		13.2%	
Other Income	10,750	4,630	132.2	4,240	153.5
Depreciation	19,320	18,430	4.8	18,920	2.1
<b>EBIT</b>	<b>70,260</b>	<b>42,320</b>	66.0	<b>60,350</b>	16.4
Interest	8,690	10,340	(16.0)	8,590	1.2
<b>PBT</b>	<b>61,570</b>	<b>31,980</b>		<b>51,760</b>	
Tax expense:	17,340	10,350	67.5	17,740	(2.3)
<b>Reported PAT</b>	<b>42,560</b>	<b>21,960</b>		<b>30,740</b>	
<b>Adj. PAT</b>	<b>44,230</b>	<b>21,630</b>	104.5	<b>34,020</b>	30.0

Source: I-Sec research, Company data

### Exhibit 3: Hindalco operational performance review

	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ
<b>Aluminium- Upstream</b>					
Sales volume (kte)	328	334	(1.8)	329	(0.3)
EBITDA/te (USD/te)	1,349	751	79.7	1,271	6.1
<b>Aluminium- Downstream</b>					
Sales volume (kte)	103	94	9.6	96	7.3
EBITDA/te (USD/te)	178	220	(18.9)	137	30.0
<b>Copper</b>					
Sales volume (kte)	117	134	(12.7)	119	(1.7)
Sales volume (kte) - CC Rods	90	100	(10.0)	100	(10.0)
<b>Novelis</b>					
Sales volume (kte)	945	933	1.3	951	(0.6)
EBITDA/te (USD/te)	489	519	(5.8)	526	(7.0)
Gross debt	5,91,210	5,65,780	4.5	5,40,190	9.4
Net debt	3,60,330	3,76,130	(4.2)	3,55,300	1.4
Net debt/EBITDA (x)	1.3	1.9	(30.7)	1.4	(6.8)
<b>EBITDA (INR mn)</b>					
Aluminium- Upstream	37,090	20,740	78.8	34,930	6.2
Aluminium- Downstream	1,540	1,710	(9.9)	1,100	40.0
Copper	8,290	6,530	27.0	8,050	3.0
Novelis	38,720	39,980	(3.2)	41,700	(7.1)

Source: Company data, I-Sec research

### Exhibit 4: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	34.6	34.6	34.6
Institutional investors	57.0	55.5	56.7
MFs and others	13.3	13.2	12.9
FIs/Banks	1.8	1.1	2.2
Insurance	11.4	9.6	8.7
FIIIs	30.5	31.6	32.9
Others	8.4	9.9	8.7

Source: Bloomberg

### Exhibit 5: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>22,32,020</b>	<b>21,59,620</b>	<b>25,98,791</b>	<b>27,17,653</b>
Operating Expenses	20,05,360	19,20,900	23,06,360	24,08,720
<b>EBITDA</b>	<b>2,26,660</b>	<b>2,38,720</b>	<b>2,92,431</b>	<b>3,08,933</b>
EBITDA Margin (%)	10.2	11.1	11.3	11.4
Depreciation & Amortization	70,860	75,210	81,879	88,394
EBIT	1,55,800	1,63,510	2,10,552	2,20,539
Interest expenditure	36,460	38,580	34,822	34,379
Other Non-operating Income	12,570	14,960	9,660	18,135
<b>Recurring PBT</b>	<b>1,31,910</b>	<b>1,39,890</b>	<b>1,85,389</b>	<b>2,04,294</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	31,440	38,570	51,031	56,235
PAT	1,00,470	1,01,320	1,34,358	1,48,059
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,00,970</b>	<b>1,01,550</b>	<b>1,34,358</b>	<b>1,48,059</b>
<b>Net Income (Adjusted)</b>	<b>1,00,970</b>	<b>1,01,550</b>	<b>1,34,358</b>	<b>1,48,059</b>

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	8,05,020	9,30,173
of which cash & cash eqv.	1,53,680	1,44,370	81,626	1,81,955
Total Current Liabilities & Provisions	4,74,560	4,81,940	5,29,030	5,56,098
<b>Net Current Assets</b>	<b>4,18,550</b>	<b>3,41,490</b>	<b>2,75,989</b>	<b>3,74,075</b>
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	-	-	-	-
<b>Total Assets</b>	<b>17,73,610</b>	<b>18,37,130</b>	<b>19,32,580</b>	<b>20,94,271</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>6,59,260</b>	<b>5,99,830</b>	<b>5,99,830</b>	<b>5,99,830</b>
<b>Deferred Tax Liability</b>	<b>86,500</b>	<b>93,440</b>	<b>93,440</b>	<b>93,440</b>
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	11,54,690	13,16,381
<b>Total Net Worth</b>	<b>9,48,060</b>	<b>10,61,460</b>	<b>11,56,910</b>	<b>13,18,601</b>
Minority Interest	110	110	110	110
<b>Total Liabilities</b>	<b>17,73,610</b>	<b>18,37,130</b>	<b>19,32,580</b>	<b>20,94,271</b>

Source Company data, I-Sec research

### Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	5,28,080	5,59,940	5,70,130	5,82,030
% growth (YoY)	(0.6)	0.2	7.6	7.4
EBITDA	58,650	66,810	75,030	78,830
Margin %	11.1	11.9	13.2	13.5
Other Income	2,800	3,620	4,240	10,750
Extraordinary	-	-	(3,300)	(1,670)
<b>Adjusted Net Profit</b>	<b>23,310</b>	<b>31,740</b>	<b>30,740</b>	<b>42,560</b>

Source Company data, I-Sec research

### Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>1,92,080</b>	<b>2,40,560</b>	<b>2,53,817</b>	<b>2,73,076</b>
Working Capital Changes	(32,370)	(7,310)	(48,273)	(53,992)
Capital Commitments	(97,420)	(1,56,780)	(2,42,830)	(1,52,000)
<b>Free Cashflow</b>	<b>94,660</b>	<b>83,780</b>	<b>10,987</b>	<b>1,21,076</b>
<b>Other investing cashflow</b>	<b>17,260</b>	<b>14,020</b>	<b>(4,843)</b>	<b>(4,843)</b>
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)
<b>Chg. in Cash &amp; Bank balance</b>	<b>7,420</b>	<b>(10,370)</b>	<b>(36,474)</b>	<b>74,059</b>
Closing cash & balance	1,23,810	1,18,010	81,626	1,81,955

Source Company data, I-Sec research

### Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	45.1	45.5	60.3	66.5
Adjusted EPS (Diluted)	45.3	45.6	60.3	66.5
Cash EPS	77.2	79.4	97.1	106.2
Dividend per share (DPS)	3.0	3.5	3.5	3.5
Book Value per share (BV)	425.7	476.6	519.4	592.0
Dividend Payout (%)	6.7	7.7	5.8	5.3
<b>Growth (%)</b>				
Net Sales	14.4	(3.2)	20.3	4.6
EBITDA	(20.0)	5.3	22.5	5.6
EPS (INR)	(26.2)	0.8	32.6	10.2
<b>Valuation Ratios (x)</b>				
P/E	14.4	14.3	10.8	9.8
P/CEPS	8.4	8.2	6.7	6.1
P/BV	1.5	1.4	1.3	1.1
EV / EBITDA	8.3	7.5	6.3	5.7
P / Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	0.5	0.5	0.5	0.5
<b>Operating Ratios</b>				
Gross Profit Margins (%)	36.9	38.0	35.1	34.3
EBITDA Margins (%)	10.2	11.1	11.3	11.4
Effective Tax Rate (%)	23.8	27.6	27.5	27.5
Net Profit Margins (%)	4.5	4.7	5.2	5.4
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.4	0.3	0.3	0.2
Net Debt / EBITDA (x)	1.9	1.4	1.4	1.0
<b>Profitability Ratios</b>				
RoCE (%)	8.1	7.5	9.1	9.0
RoE (%)	12.6	10.9	12.7	12.6
RoIC (%)	9.5	9.0	10.6	10.5
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	85	70	67	65
Receivables Days	32	28	30	29
Payables Days	71	59	61	61

Source Company data, I-Sec research

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