

Robust Indian Operations offsets Weakness at Novelis

Est. Vs. Actual for Q2FY25: Revenue – **INLINE**; Segmental EBITDA – **BEAT**; Adj PAT – **BEAT**

Change in Estimates post Q2FY25 results

FY25E/FY26E: Revenue: 3%/4%; EBITDA: 16%/9%; PAT: 25%/13%.

Recommendation Rationale

- **Upstream Aluminium CoP:** Despite lower shipments at 328kt, down 2% YoY, flat QoQ, and drop in LME prices QoQ, revenue rose by 16%/3% YoY/QoQ to Rs 9,125 Cr, led by higher metal premium. EBITDA/t jumped up by 80%/6% YoY/QoQ to \$1,349/t on account of lower input costs and higher revenue. In Q2FY25, the CoP was down by 1.6% QoQ, largely because of a drop in coal costs. In Q3FY25, it could be up by 1-1.5% QoQ as the coal spot e-auction premium could go up a little bit.
- **Aluminium downstream:** EBITDA/t dropped by 11% YoY (up 30% QoQ) to Rs 179/t, due to adverse product mix. Management expects EBITDA/t to pick up in H2FY25 due to strong domestic demand.
- **Copper business** EBITDA stood at a record high of Rs 829 Cr, up 27%/3% YoY/QoQ, a 20% beat vs our estimate. Management has maintained its sustainable guidance of Rs 650 Cr. Despite lower Tc/Rc, EBITDA was higher due to higher by-product realisations (Gold and Sulfuric acid).
- **Novelis:** Adjusted EBITDA, stood at \$462 Mn, down 5%/8% YoY/QoQ. Adjusted EBITDA/t stood at \$488/t, down 6%/7% YoY/QoQ due to Sierre impact and tighter scrap spreads. Management has withdrawn EBITDA/t guidance for the near term citing pressure on scrap spreads. Scrap prices have increased earlier than anticipated in the US and China, due to a surge in scrap imports from China.

Sector Outlook: Neutral.

Company Outlook & Guidance: Downstream projects capex (Silvassa 34 ktpa and FRP-2 170 ktpa) is almost complete and ramp-up will progress. The focus will be on Indian upstream projects (Aluminium and Copper smelter and Alumina Refinery) now with a total capex of \$4-5 Bn spread over the next 3-3.5 years. The company will use a combination of internal cash and will raise debt of \$1-1.5 Bn for funding this capex over the next 3-3.5 years. Capex guidance at Indian operations stands at Rs 6,000 Cr for FY25 and Rs 7,000 - 8,000 Cr for FY26. Novelis capex for FY25 will be at the lower end of \$1.8-2 Bn.

Current Valuation: SoTP with a 12MF EV/EBITDA target of 6.0x/5.5x/6.0x on Sep'26 EBITDA for Indian Aluminium, Copper, and Novelis (We roll forwards from Mar'26 to Sep'26 and downgrade our Novelis multiple at 6.0x from 6.5x)

Current TP: Rs 765/share (From Rs 715/share)

Recommendation: We maintain our BUY rating.

Financial Performance: Hindalco's Indian operations stood robust, offsetting Novelis's impacted profitability because of the flooding at its Sierre operations. Consolidated EBITDA grew by 42%/6% YoY/QoQ to Rs 8,029 Cr (11% beat vs. our and consensus) led by strong upstream Aluminium and Copper EBITDA. Revenue grew by 7%/2% YoY/QoQ to Rs 58,203 Cr, (in line with our estimate), despite a drop in LME prices which were down by 6% QoQ (up 10% YoY), due to higher metal premiums. Underlying PAT stood at Rs 4,423 Cr, up 104%/30% YoY/QoQ, led by higher other income which included a one-time gain of Rs 571 Cr from the sale of land in Maharashtra.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	58,203	2%	7%	58,860	-1%
EBITDA	8,029	6%	42%	7,251	11%
Novelis Adj EBITDA/t	489	-7%	-6%	488	0%
Aluminum India upstream EBITDA/t	1,349	6%	80%	NA	
Aluminum India downstream EBITDA/t	179	30%	-11%	NA	
Adj PAT	4,423	30%	104%	4,355	2%
Net Debt	36,033	1%	-4%	NA	NA

Source: Company, Axis Securities

(CMP as of 12th November 2024)

CMP (Rs)	651
Upside /Downside (%)	17%
High/Low (Rs)	772/482
Market cap (Cr)	1,46,339
Avg. daily vol. (6m) Shrs.	73,62,011
No. of shares (Cr)	222

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	34.64	34.64	34.64
FII	26.82	27.18	28.58
MF/UTI	13.28	13.21	12.86
Fin Institutions	0.21	0.10	0.18
Others	25.05	24.87	23.74

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	2,41,097	2,60,164	2,69,282
EBITDA	32,037	32,196	33,591
Net Profit	15,773	16,275	16,473
EPS (Rs.)	71.0	73.3	73.1
PER (x)	9.2	8.9	8.9
EV/EBITDA (x)	5.8	5.7	5.4
P/BV (x)	1.2	1.1	0.9
ROE (%)	13.9	12.6	11.3

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	3.4%	3.6%
EBITDA	15.5%	9.3%
PAT	25.0%	13.2%

Relative Performance



Source: Ace Equity, Axis Securities

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Outlook

Management envisages double-digit IRR and plans to complete the upstream expansion projects with a Net Debt/EBITDA < 1.0-1.5x. With the strong Indian balance sheet and robust domestic demand, Hindalco's capital allocations towards upstream assets look well placed, in our view. We raise our EBITDA estimates for FY25/26 as we revise our LME Aluminium and Alumina prices upwards.

Valuation & Recommendation

We value Hindalco using SoTP with a 12MF EV/EBITDA target of 6.0x/5.5x/6.0x on Sep'26 (from Mar'26) EBITDA for Indian Aluminium, Copper, and Novelis (from 6.5x) operations respectively. We add investments at market price and CWIP at 50% to arrive at our TP of Rs 765/share. The TP implies an upside potential of 17% from the CMP. We **maintain** our **BUY** rating on the stock.

Key Concall Highlights

Group

- **Consolidated Net debt** stood at Rs 36,033 Cr as of Sep'24 (From Rs 35,530 Cr as of Jun'24) with net debt to EBITDA at 1.19x from 1.24x. India's business is net cash with Net debt to EBITDA at -0.16x as of Sep'24 from -0.14x in Jun'24. Novelis' net debt stood at \$4,760 Mn, with Net Debt to EBITDA at 2.47x as of the end of Q2FY25 vs. 2.37x as of the end of Q1FY25. All the strategic Capex in India is matched with the cash flow from the business and is in line with the capital allocation policy.

Aluminium India

- **Coal Mix:** The coal mix was 50% linkage, 47% e-auction and the balance was from the company's own mines.
- **Downstream projects:** Downstream capex for Silvassa extrusion and FRP-2 is almost completed. The Silvassa extrusion plant will gradually ramp up and will operate at rated capacity by Q4FY25. Aditya FRP project is set to commission in FY26 taking total downstream capacity to 600kt. The company is also developing high-value-added product facilities such as AC-coated fins, battery foils (25ktpa) and enclosures to enhance aluminium downstream margins.
- **Upstream projects:** Focus will be on upstream projects of i) **Alumina expansion of 850 ktpa** in Odisha for low-cost captive supply to smelters and external Alumina exports. The company is in discussion for a long term partnership for surplus Alumina exports. Definitive agreements are now signed with OMC (Odisha Mining Corp) for Bauxite sourcing for the Alumina refinery. ii) **180-pot Aluminium smelter** (180 ktpa, brownfield) expansion in Aditya with RE-RTC power for supplying low-carbon Aluminium. Each of these projects will have a capex of \$1bn.
- **Coal Blocks:** The company is working towards getting stage I & II forest clearances. For the Chakla coal mine (5.5 mtpa), the company is working on forest clearance stage I, a box cut is expected by H2CY26. Meenakshi West (5 mtpa) exploration will start in the coming month and could start from CY27. For the Meenakshi mine (12 mtpa) company is awaiting allotment. The company currently needs 16 mtpa of coal.
- Company sold 197 ktpa 3rd party alumina in Q2FY25.

Copper India

- **Expansion projects:** Company will expand the smelting capacity at Dahej by 280-300kt which will lead to an upstream capacity of 800 kt ensuring full integration benefit of CCR mills while capitalizing on growing copper demand. In Jan'25, the company will launch an Inner grooved tube (IGT) plant of 25kt, which will help in reducing IGT imports for manufacturing ACs. The company will also set up a Copper scrap recycling facility of 50 ktpa and will also build high-performance alloy rods and battery foil plants.

Novelis (From Novelis Concall)

- **Rising scrap prices:** With ~60% recycled input, higher scrap prices due to higher imports from China will increase input costs and negatively impact Adjusted EBITDA. Management has withdrawn its near-term EBITDA/t sustainable guidance citing pressure on margins due to the tight scrap spreads until further clarity on the scrap market and impact of mitigation actions emerges over the next quarter. It is taking mitigating measures such as i) using new technologies to diversify & expand scrap inputs and ii) Increasing pre & post-consumer scrap. The Longer-term EBITDA/t guidance of \$600/t is intact
- **Bay Minette Project Update:** The capex guidance of \$4.1bn Bay Minette project is unchanged. Novelis has spent about \$1.1 Bn capex through the end of Q2FY25. The plant is likely to be commissioned by H2CY26. The total finished good capacity is 600kt out of which ~420kt initially targeted for beverage packaging is fully contracted and ~180kt capacity is targeted primarily for automotive and flexible for specialities production. **Despite the increasing scrap prices, management said that they expect a double-digit IRR from Bay Minette. In the long term, the scrap spread impact will not be there.**
- **End market outlook: Beverage packaging,** 60% of Novelis end market is strong and long-term growth of 4% is maintained. **Auto** is soft due to the weaker macro environment in Europe. But seeing a good mix in North America with a higher share of Trucks and SUVs that use higher aluminium. **Aerospace** demand is strong due to the huge order backlog. **Building & Construction** demand is encouraging with declining interest rates as a favourable factor.
- **Flooding at Sierra plant in Switzerland:** Due to the flooding at Sierra plant in Switzerland in Jun'24, the net impact to adjusted EBITDA is estimated at \$30Mn, of which \$25Mn was booked 2QFY25. Key assets have been partly restarted in Sep'24 and the plant will be restored only by Q3FY25. Excluding the impact of this event the Adj. EBITDA/t would have been at \$502/t.
- **Other Updates: Update on Novelis IPO:** Novelis IPO was to get a premium valuation for Novelis. It's postponed and not cancelled. **Volume guidance:** Volumes are on track with market growth of ~4% YoY.

Key Risks to Our Estimates and TP

- Lower LME Aluminium prices than our forecasts. Higher coal and other input costs.
- The key risk to our **BUY** rating is a slower pace of expansion of the growth projects leading to cost overrun leading to lower returns.

Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	2,41,097	2,60,164	2,69,282	2,33,156	2,51,217	NA	3.4%	3.6%	NA
EBITDA	32,037	32,196	33,591	27,748	29,453	NA	15.5%	9.3%	NA
PAT	16,617	16,275	16,473	13,294	14,382	NA	25.0%	13.2%	NA
LME Aluminum	2,513	2,575	2,658	2,395	2,409	NA	4.9%	6.9%	NA
Novelis EBITDA/t	497	497	522	526	557	NA	-5.5%	-10.8%	NA

Source: Company, Axis Securities

Hindalco Results Review

Rs Cr	Q2FY24	Q1FY25	Q2FY25	Q2FY25	YoY	QoQ		Bloomberg	Vs
Consolidated	Actual	Actual	Axis Sec Est	Actual	%	%	vs Axis	Consensus	Consensus
LME Aluminum (\$/t)	2,160	2,525	2,385	2,385	10%	-6%	0%		
Revenues	54,169	57,013	58,860	58,203	7%	2%	-1%	55,132	6%
Total Expenditure	48,531	49,428	51,610	50,174	3%	2%	-3%		
Novelis	3,998	4,170	3,870	3,872	-3%	-7%	0%		
Aluminum Upstream	2,074	3,493		3,709	79%	6%	NA		
Aluminum Downstream	171	110		154	-10%	40%	NA		
Aluminum	2,245	3,603	2,689	3,863	72%	7%	44%		
Copper	653	805	691	829	27%	3%	20%		
All Other segments	-	-	-	-	NA	NA	NA		
Segmental EBITDA	6,896	8,578	7,251	8,564	24%	0%	18%		
Unallocable Income/ (Expense)	-800	-586		536	NA	NA	NA		
EBITDA	6,096	7,992	7,251	9,100	49%	14%	26%	7,189	27%
Calculated EBITDA	5,638	7,585	7,251	8,029	42%	6%	11%	7,189	12%
EBITDA margin (%)	10.4%	13.3%	12.3%	13.8%	339 bps	49 bps	148 bps		
Attributable PAT	2,196	3,074	4,355	3,909	78%	27%	-10%		
Adjusted Attributable PAT	2,163	3,404	4,355	4,423	104%	30%	2%	3,297	34%
EPS (Rs) Basic	9.89	13.85	19.61	17.59	78%	27%	-10%		
Net Debt	37,613	35,530		36,033	-4%	1%	NA		
Net Debt: EBITDA (x)	1.66	1.24		1.19					
Novelis Adj EBITDA/t (\$/t)	519	526	488	489	-6%	-7%	0%		
Aluminum India upstream EBITDA/t (\$/t)	751	1,273		1,349	80%	6%	NA		
Aluminum India downstream EBITDA/t (\$/t)	202	138		179	-11%	30%	NA		

3rd party Shipments

Upstream shipment (kt) 3rd party	245	232		230	-6%	-1%	NA		
Downstream shipment (kt) 3rd party	94	96		103	10%	7%	NA		
India Primary Aluminum Total (kt)	338	328	345	333	-1%	2%	-3%		
Total Copper Metal sales (kt)	134	119	125	117	-13%	-2%	-6%		

Source: Company, Axis Securities

Hindalco Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Total Operating income	2,15,962	2,41,097	2,60,164	2,69,282
Total Expenditure	1,91,705	2,09,060	2,27,968	2,35,692
EBITDA	24,257	32,037	32,196	33,591
Depreciation and Amortization	7,521	7,464	7,739	8,242
EBIT	16,736	24,573	24,457	25,349
Other Income	1,496	1,891	754	761
Share Of P/L Of Associates (Net of Tax)	2	2	-	-
Less: Interest & Fin Chg.	3,858	3,476	3,585	3,674
Less: Impairment loss/(Reversal)	385	228	-	-
Profit before tax	13,991	22,762	21,626	22,436
Provision for Tax	3,857	6,146	5,351	5,963
Reported PAT	10,134	16,617	16,275	16,473
Excp items	21	(844)	-	-
Adjusted PAT	10,155	15,773	16,275	16,473
EPS (Rs/sh)	45.7	71.0	73.3	73.1
DPS (Rs/sh)	3.5	1.0	1.0	1.0

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Block	77,151	84,330	96,748	1,09,956
Other Tangible assets	2,593	2,593	2,593	2,593
CWIP	14,643	20,157	21,450	21,450
Intangible assets	32,290	32,290	32,290	32,290
Investments	15,444	15,444	15,444	15,444
Inventories	40,812	45,562	49,165	50,888
Trade Receivables	16,404	18,313	19,761	20,454
Cash / Bank balance	14,437	15,734	17,766	21,546
Misc. Assets	18,133	18,133	18,133	18,133
Total assets	2,31,907	2,52,556	2,73,350	2,92,755
Equity capital	222	222	222	222
Reserves	1,05,924	1,20,920	1,36,973	1,53,223
Minority Interests	11	11	11	11
Borrowings	54,501	56,146	57,846	59,546
Def Tax Liabilities	9,344	9,344	9,344	9,344
Other Liabilities and Provision	60,050	64,059	67,100	68,554
Capital employed	2,31,907	2,52,556	2,73,350	2,92,755

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Profit before tax	14,012	21,918	21,626	22,436
Depreciation	7,521	7,464	7,739	8,242
Interest Expenses	3,858	3,476	3,585	3,674
Non-operating/ EO item	(604)	-	-	-
Change in W/C	1,944	(2,650)	(2,011)	(961)
Income Tax	(2,675)	(6,146)	(5,351)	(5,963)
Operating Cash Flow	24,056	24,062	25,589	27,426
Capital Expenditure	(15,728)	(20,157)	(21,450)	(21,450)
Acquisition of business	-	-	-	-
Free cash Flow	8,328	3,905	4,139	5,976
Other Investments	1,452	-	-	-
Investing Cash Flow	(14,276)	(20,157)	(21,450)	(21,450)
Borrowings	3,990	2,215	1,700	1,700
Repayment of Borrowings	(8,883)	(571)	-	-
Finance cost paid	(3,912)	(3,476)	(3,585)	(3,674)
Dividend paid	(667)	(777)	(222)	(222)
Other financing activities	(1,345)	-	-	-
Financing Cash Flow	(10,817)	(2,608)	(2,107)	(2,196)
Change in Cash	(1,037)	1,297	2,031	3,781
Opening Cash	12,838	14,437	15,734	17,766
Closing Cash	11,810	15,734	17,766	21,546

Source: Company, Axis Securities

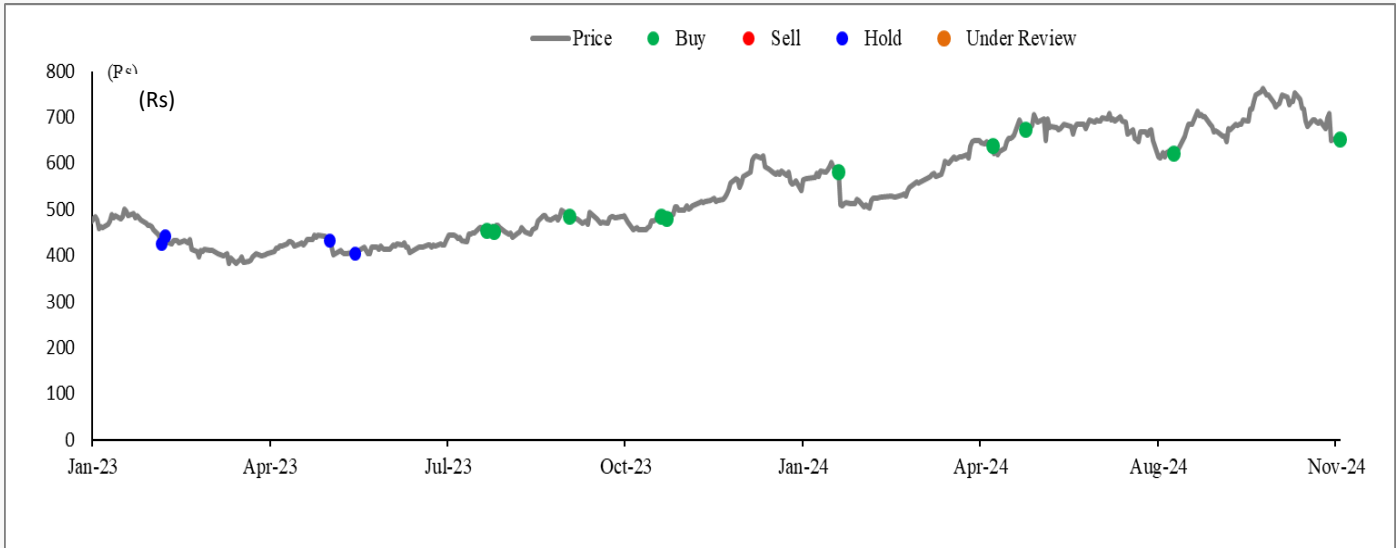
Ratio Analysis

(%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Operational Ratios				
Sales growth (% YoY)	-3%	12%	8%	4%
EBITDA growth (% YoY)	6%	32%	0%	4%
Op. profit growth (% YoY)	6%	47%	0%	4%
Net Profit growth (% YoY)	1%	55%	3%	1%
EBITDA Margin %	12%	14%	12%	12%
Net profit Margin %	5%	7%	6%	6%
AI: EBITDA/t (Rs/tonne)	70,999	1,08,852	92,639	92,481
Novelis: EBITDA/t (\$/tonne)	510	497	497	522
Tax Rate %	28%	28%	25%	27%
Efficiency Ratios				
Total Asset Turnover (x)	0.9	1.0	1.0	1.0
Sales/Gross block (x)	1.5	1.6	1.5	1.4
Sales/Net block(x)	2.8	3.0	2.9	2.6
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Valuation Ratios				
PER (x)	14.2	9.2	8.9	8.9
P/BV (x)	1.4	1.2	1.1	0.9
EV/Ebitda (x)	7.6	5.8	5.7	5.4
EV/Sales (x)	0.9	0.8	0.7	0.7
Return Ratios				
ROE	10.1%	13.9%	12.6%	11.3%
ROCE	9.9%	13.6%	12.4%	11.8%
ROIC	8.3%	10.9%	10.4%	9.7%
Leverage Ratios				
Debt/equity (x)	0.5	0.5	0.4	0.4
Net debt/ Equity (x)	0.4	0.3	0.3	0.2
Net debt/Ebitda (x)	1.5	1.2	1.2	1.1
Interest Coverage ratio (x)	6.7	9.6	9.0	9.1

Source: Company, Axis Securities

Hindalco Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
08-Feb-23	HOLD	470	Result Update
10-Feb-23	HOLD	470	Result Update
11-May-23	HOLD	470	Result Update
24-May-23	HOLD	470	Result Update
04-Aug-23	BUY	515	Result Update
08-Aug-23	BUY	515	Result Update
18-Sep-23	BUY	545	Pick of the Week
08-Nov-23	BUY	555	Result Update
11-Nov-23	BUY	555	Result Update
13-Feb-24	BUY	660	Result Update
07-May-24	BUY	720	Result Update
27-May-24	BUY	755	Result Update
14-Aug-24	BUY	715	Result Update
13-Nov-24	BUY	765	Result Update

Source: Axis Securities

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