

## Consolidated performance to improve, going forward

**About the stock:** Hindalco is the world's largest aluminium company by revenues and a major player in copper.

- Hindalco is one of Asia's largest producers of primary aluminium
- Novelis has leveraged its extensive recycling footprint and favourable market conditions to increase its recycled content to 61% in FY21

**Q3FY23 Results:** Hindalco reported a mixed bag performance in Q3FY23 wherein the India business performance came in better than our estimate but Novelis performance came in lower than our estimate.

- For Q3FY23, India business reported a topline of ₹ 19432 crore (our estimate: ₹ 19212 crore). Indian aluminium business reported sales volume of 349000 tonnes (our estimate of 340000 tonnes). Indian copper business reported sales volume of 109000 tonnes (our estimate of 110000 tonnes)
- Hindalco's Indian business EBITDA (business segment EBITDA) was at ₹ 2294 crore (our estimate: ₹ 2086 crore). Indian aluminium business EBITDA was at ₹ 1748 crore (our estimate of ₹ 1611 crore). Of the overall India aluminium business EBITDA, upstream aluminium business EBITDA was at ₹ 1591 crore while downstream aluminium business EBITDA was at ₹ 157 crore. Indian copper business EBITDA was at ₹ 546 crore (our estimate: ₹ 475 crore). Ensuing PAT of India business was at ₹ 1195 crore (our estimate: ₹ 760 crore)
- For Q3FY23, Novelis' shipments were at 908 KT, down 2% YoY, lower than our estimate of 950 KT. Adjusted EBITDA/tonne for the quarter was at US\$376/tonne, lower than our estimate of US\$400/tonne

**What should investors do?** Hindalco's share price has given a return of 56% in the last two years (from ~₹ 279 in February 2021 to ~₹ 436 in February 2023).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value Hindalco at ₹ 520, based on SoTP valuation.

### Key triggers for future price performance:

- Going forward, we assume Novelis will report EBITDA of US\$475/tonne for FY23E and US\$500/tonne for FY24E
- Going forward, we expect Hindalco to report consolidated EBITDA margin of 11.6% for FY23E and 11.9% for FY24E

**Alternate Stock Idea:** In our metal sector coverage, we also like Tata Steel.

- Tata Steel is one of the world's most geographically diversified steel producers, with operations and commercial presence across the world
- BUY with a target price of ₹ 130



### Particulars

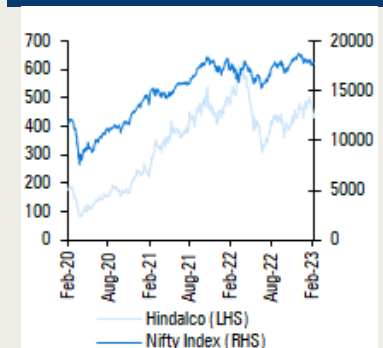
#### Particulars

Market Capitalization	₹ 99854 crore
Total Debt (Q3FY23)	₹ 59720 crore
Cash & Cash eq. (Q3FY23)	₹ 18004 crore
EV	₹ 141570 crore
52 week H/L (₹)	636 / 309
Equity capital	₹ 222 crore
Face value	₹ 1

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	34.6	34.6	34.7	34.7
FIs	28.9	24.8	24.9	25.7
DIs	19.2	21.5	26.8	26.9
Public	17.3	19.1	13.7	12.8
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Chart



### Key risks

- (i) Steep decline in aluminium prices on LME, (ii) Lower-than-expected profitability at Novelis will adversely impact consolidated earnings

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22) in %	FY23E	FY24E	CAGR (FY22-FY24E) in %
Net Sales	1,30,542	1,18,144	1,31,985	1,95,059	14.0	2,19,736	2,22,664	6.8
EBITDA	15,511	14,306	17,536	28,347	18.0	25,480	26,435	-3.4
EBITDA Margin (%)	11.9	12.1	13.3	14.5		11.6	11.9	
Adj PAT	5,495	3,767	3,483	13,730	49.0	11,893	12,463	-4.7
EPS (₹)	24.7	16.9	25.5	59.1		53.5	56.0	
EV/EBITDA (x)	8.9	9.7	8.4	4.8		5.0	4.8	
RoCE (%)	10.3	7.8	8.8	15.5		13.3	12.8	
RoE (%)	9.6	6.9	8.5	16.8		13.4	12.5	

Source: Company, ICICI Direct Research

## Key takeaways of conference call and other highlights...

### India Business

- In terms of hedging, for Q4FY23 ~32% of the domestic aluminium volume is hedged at ~US\$2500/tonne while for FY24 ~7% of domestic aluminium volume is hedged at US\$2900/tonne
- The company has guided that the cost of production (CoP) of the Indian aluminium business is likely to decline by ~ 5% in Q4FY23 when compared with Q3FY23. The sequential declining trend in coal prices is likely to aid this sequential fall in CoP. Furthermore, furnace oil prices have also slightly inched downwards in addition to a decline in coal prices
- With respect to the Indian business, the capex guidance for FY23E is ~₹ 2700 crore

### Novelis

- While the management has retained its guidance of sustainable EBITDA/tonne of US\$525/tonne, it has also indicated that near term cost headwinds are likely to persist. Furthermore, it has also indicated that, going forward, EBITDA/tonne is likely to improve from Q3FY23 level
- Depending on the time frame of contracts, Novelis is expected to get price hikes for some contracts from January 1, 2023 while for some it will be from April 1, 2023, thereby auguring well for the company
- Going forward, the company has indicated that Novelis' performance is progressively set to improve as inflationary costs ease off, higher prices in revised contracts materialise and destocking cycle in beverage can segment gets over
- Customer destocking in beverage can segment resulted in ~ 60 KT of lower shipments in Q3FY23
- With respect to Novelis, the management has given a capex guidance of ~US\$900 million for FY23, of which maintenance capex is likely to be ~US\$300 million. Also, the management expects Novelis to generate free cash flow of ~US\$400 million in FY23

### Others

- Consolidated net debt as of December 31, 2022 was at ₹ 41716 crore compared to ₹ 42063 crore as on September 30, 2022

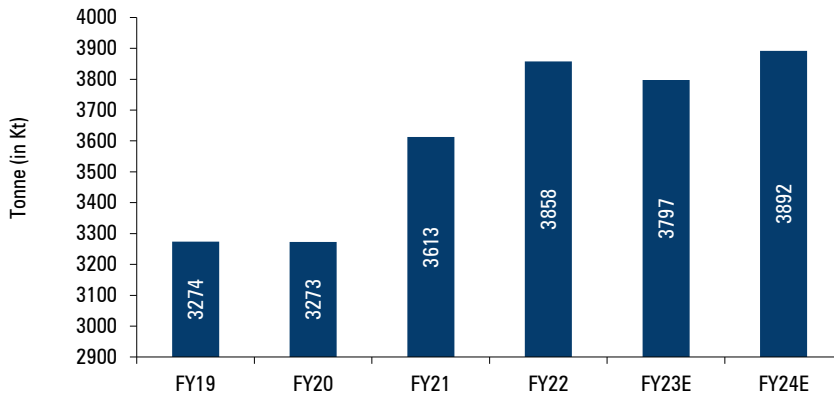
**Exhibit 1: Variance Analysis (Hindalco's India business, Novelis volumes, EBITDA/tonne)**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	19,432	19,212	18,486	5%	18,963	2%	Indian business segment topline came in broadly in line with our estimate
<b>Business Segment EBITDA</b>	<b>2,294</b>	<b>2,086</b>	<b>3,807</b>	<b>-40%</b>	<b>2,091</b>	<b>10%</b>	Business Segment EBITDA came in higher than our estimate
Aluminium (including Utkal)	1,748	1,611	3,417	-49%	1,547	13%	Indian aluminium business EBITDA came in higher than our estimate
Copper	546	475	390	40%	544	0%	Indian copper business EBITDA came in higher than our estimate
Intersegment (Profit) / loss elimination (net)	101	0	-111		437		
Unallocable Income / (Expense) net	-387	-125	-94		-244		
EBITDA	2,008	1,961	3,602	-44%	2,284	-12%	
Depreciation	572	625	541	6%	609	-6%	
Finance cost	314	375	429	-27%	345	-9%	
Exceptional item	0	0	0	NA	0	NA	
<b>PBT</b>	<b>1,122</b>	<b>961</b>	<b>2,632</b>	<b>-57%</b>	<b>1,330</b>	<b>-16%</b>	
Tax Outgo	-73	201	898	NA	409	NA	
<b>PAT</b>	<b>1,195</b>	<b>760</b>	<b>1,734</b>	<b>-31%</b>	<b>921</b>	<b>30%</b>	Ensuing India business PAT came in higher than our estimate
<b>Key Metrics</b>							
Total Copper sales (tonne)	109,000	110,000	110,000	-1%	112,000	-3%	Indian copper segment sales volume came in broadly in line with our estimate
Total Aluminium sales (tonne)	349,000	340,000	345,000	1%	341,000	2%	Indian aluminium segment sales volume came in higher than our estimate
Novelis, Rolled Product Shipments (Kt)	908	950	930	-2%	984	-8%	Novelis rolled product shipments came in lower than our estimate
Novelis, EBITDA/tonne (US\$/tonne)	376	400	544	-31%	514	-27%	Novelis EBITDA/tonne came in lower than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

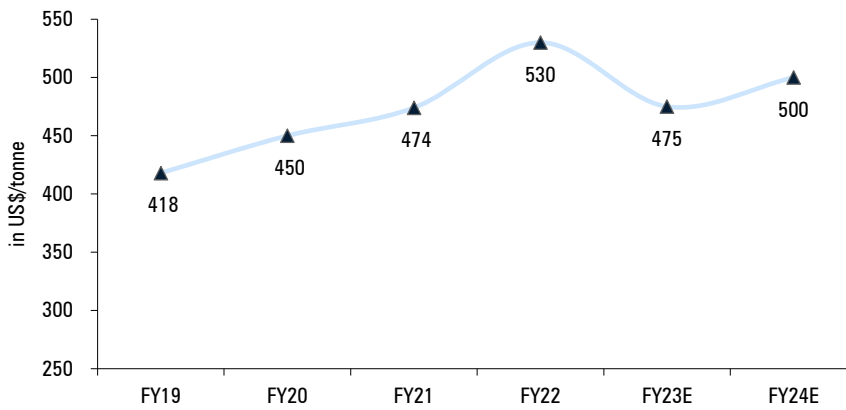
**Exhibit 1: Trend in Novelis sales volume (including Aleris sales volume) (in KT)**



*We model Novelis sales volume (including Aleris sales volume) of 3797 KT for FY23E and 3892 KT for FY24E*

Source: Company, ICICI Direct Research

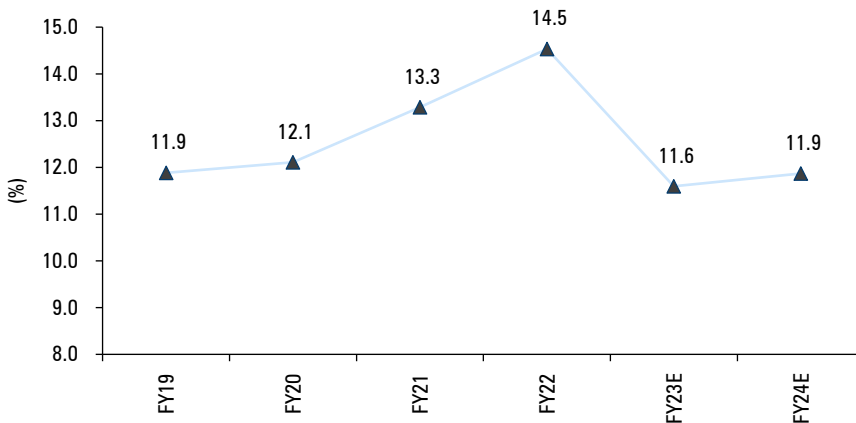
**Exhibit 2: Trend in Novelis EBITDA/tonne (in US\$/tonne)**



*We expect Novelis to report EBITDA/tonne of US\$475/tonne for FY23E, US\$500/tonne for FY24E*

Source: Company, ICICI Direct Research

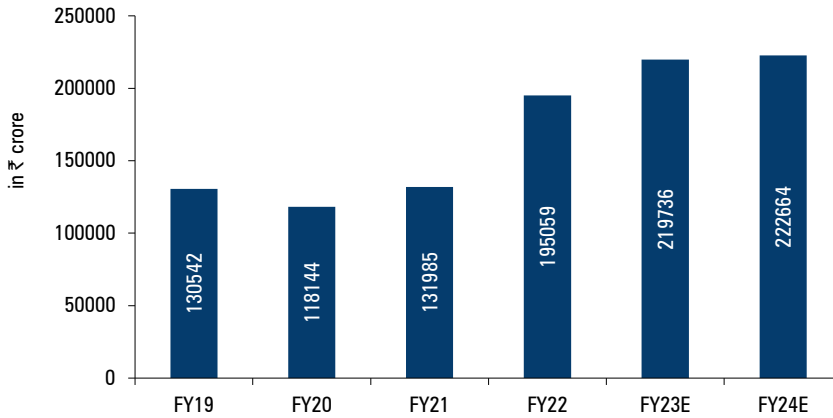
**Exhibit 3: Trend in consolidated EBITDA margin (in %)**



*We expect consolidated EBITDA margin for Hindalco to come in at 11.6% in FY23E and 11.9% in FY24E*

Source: Company, ICICI Direct Research

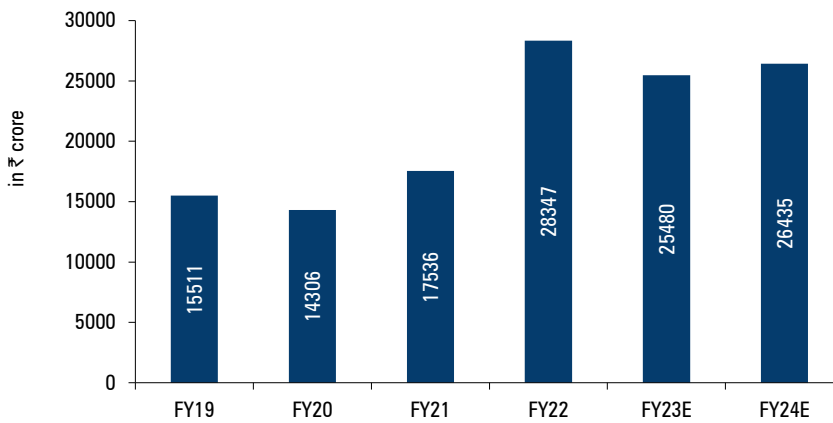
**Exhibit 4: Trend in consolidated topline (in ₹ crore)**



*We expect Hindalco's consolidated topline to grow at a CAGR of 7% during FY22-24E*

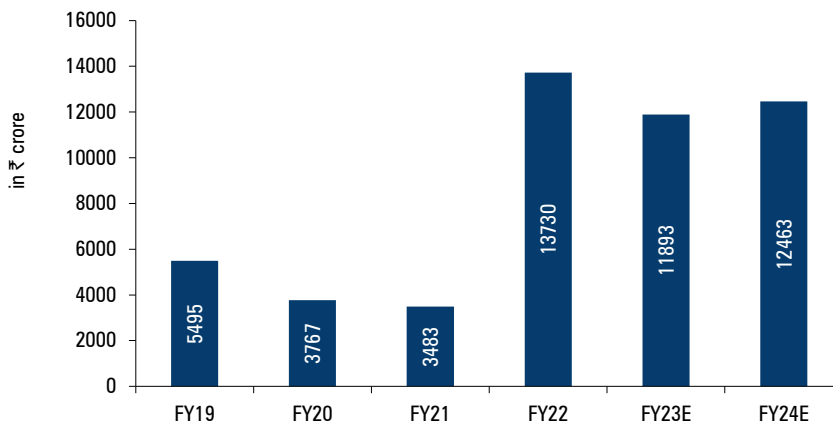
Source: Company, ICICI Direct Research

**Exhibit 5: Trend in consolidated EBITDA (in ₹ crore)**



Source: Company, ICICI Direct Research

**Exhibit 6: Trend in consolidated PAT (in ₹ crore)**



Source: Company, ICICI Direct Research

**Exhibit 7: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	118144	-9	16.9	-31	26	9.7	6.9	7.8
FY21	131985	12	25.5	51	17	8.4	8.5	8.8
FY22	195059	48	59.1	132	8	4.8	16.8	15.5
FY23E	219736	13	53.5	-10	8	5.0	13.4	13.3
FY24E	222664	1	56.0	5	8	4.8	12.5	12.8

Source: Company, ICICI Direct Research

**Exhibit 8: SoTP Valuation**

<b>Particulars</b>	<b>In ₹ crore</b>	<b>Multiple</b>	<b>In ₹ crore</b>
Novelis EBITDA (FY24E)	15568	6.0	93411
Indian Operation EBITDA (FY24E)	10867	5.0	54335
<b>EV (A) (Novelis + Indian Operations)</b>			<b>147745</b>
Gross Consl. Debt (FY24E)			54997
Cash and Cash Equivalents (Consol) (FY24E) *			22818
<b>Net Debt (FY24E) (B)</b>			<b>32179</b>
<b>Market Capitalisation (A)- (B)</b>			<b>115566</b>
No. of shares			222
Implied Target Price			520
CMP			436
Upside (%)			19%

Source: Company, ICICI Direct Research, \* - Liquid Investments valued at a 25% discount.

## Financial Summary (Consolidated)

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>131985</b>	<b>195059</b>	<b>219736</b>	<b>222664</b>
Growth (%)	12	48	13	1
Total Operating Expend.	114449	166712	194257	196228
<b>EBITDA</b>	<b>17536</b>	<b>28347</b>	<b>25480</b>	<b>26435</b>
Growth (%)	23	62	-10	4
Depreciation	6628	6729	6940	7237
Interest	3738	3768	3885	3850
Other Income	1222	1136	1193	1258
Exceptional Item	492	-582	0	0
<b>PBT</b>	<b>7900</b>	<b>19568</b>	<b>15848</b>	<b>16607</b>
Total Tax	2723	5373	3962	4152
<b>PAT</b>	<b>5177</b>	<b>14195</b>	<b>11886</b>	<b>12455</b>
Growth (%)	38	174	-16	5
Minorities + loss from discontinue op	-1694	-465	7	8
Rep PAT after Assoc., MI	3483	13730	11893	12463
<b>Adj PAT after Assoc., MI</b>	<b>5674</b>	<b>13148</b>	<b>11893</b>	<b>12463</b>
Growth (%)	40	132	-10	5
<b>EPS (₹)</b>	<b>25.5</b>	<b>59.1</b>	<b>53.5</b>	<b>56.0</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>3483</b>	<b>13730</b>	<b>11893</b>	<b>12463</b>
Add: Depreciation	6628	6729	6940	7237
Add: Interest	3738	3768	3885	3850
(Inc)/dec in Current Assets	-12027	-26731	-1797	-2683
Inc/(dec) in CL and Prov.	15413	31802	-5144	-825
<b>CF from operating activities</b>	<b>17235</b>	<b>29298</b>	<b>15776</b>	<b>20042</b>
(Inc)/dec in Investments	-7717	3019	4651	0
(Inc)/dec in Fixed Assets	-20188	-8082	-10000	-15000
Others	355	865	-1611	-21
<b>CF from investing activities</b>	<b>-27550</b>	<b>-4198</b>	<b>-6960</b>	<b>-15021</b>
Issue/(Buy back) of Equity	0	0	0	0
Inc/(dec) in loan funds	-1741	-7500	-3500	-500
Interest Paid	-3738	-3768	-3885	-3850
Dividend paid & dividend tax	-619	-826	-1239	-1239
Inc/(dec) in Share Cap	3654	-4423	0	0
Others	0	0	0	0
<b>CF from financing activities</b>	<b>-2445</b>	<b>-16517</b>	<b>-8624</b>	<b>-5589</b>
Net Cash flow	-12760	8583	193	-569
Opening Cash	21569	8809	17392	17585
<b>Closing Cash</b>	<b>8809</b>	<b>17392</b>	<b>17585</b>	<b>17016</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Share Capital	222	222	222	222
Reserve and Surplus	66321	77980	88634	99857
Total Shareholders funds	66543	78202	88856	100080
Total Debt	65994	63235	55497	54997
Deferred Tax Liability	4493	5631	4493	4493
Minority Interest & Others	1551	0	0	0
<b>Total Liabilities</b>	<b>138581</b>	<b>147068</b>	<b>148846</b>	<b>159570</b>
<b>Assets</b>				
Gross Block	135310	148030	150745	161545
Less: Acc Depreciation	58123	64852	71792	79029
Net Block	77187	83178	78953	82516
Goodwill	23317	23965	23965	23965
CWIP	10013	4727	12013	16213
Investments	17087	14068	12595	12595
Inventory	30668	44483	39131	42703
Debtors	13012	21076	24081	24401
Loans and Advances	4046	4033	6957	6825
Other Current Assets	3144	5209	9229	8152
Cash	8809	17392	17585	17016
Total Current Assets	59679	92193	96983	99097
Trade Payables	36439	41382	45151	45753
Provisions & Other Curren Liabilities	14679	32312	32122	30696
Current Liabilities & Prov	51118	73694	77273	76448
Net Current Assets	8561	18499	19710	22649
others	2416	2631	1611	1632
<b>Application of Funds</b>	<b>138581</b>	<b>147068</b>	<b>148846</b>	<b>159570</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
Reported EPS	25.5	59.1	53.5	56.0
Cash EPS	55.3	89.4	84.7	88.6
BV	299	352	400	450
DPS	3	4	6	6
Cash Per Share	39.6	78.2	79.1	76.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.3	14.5	11.6	11.9
PBT / Total Operating income	6.0	10.0	7.2	7.5
Adj PAT Margin	4.3	6.7	5.4	5.6
Inventory days	85	83	65	70
Debtor days	36	39	40	40
Creditor days	99	77	75	75
<b>Return Ratios (%)</b>				
Adj RoE	8.5	16.8	13.4	12.5
Adj RoCE	8.8	15.5	13.3	12.8
RoIC	12.5	24.9	22.4	21.4
<b>Valuation Ratios (x)</b>				
P/E	17.4	7.5	8.3	7.9
EV / EBITDA	8.4	4.8	5.0	4.8
EV / Net Sales	1.1	0.7	0.6	0.6
Market Cap / Sales	0.7	0.5	0.5	0.4
Price to Book Value	1.5	1.3	1.1	1.0
<b>Solvency Ratios</b>				
Net Debt/EBITDA	2.7	1.4	1.1	1.4
Debt / Equity	1.0	0.8	0.6	0.5
Current Ratio	1.2	1.3	1.3	1.3
Quick Ratio	0.6	0.6	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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