

Steady operational performance...

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

Q4FY23 Results: Hindalco's consolidated operations reported a steady operational performance. The Indian business reported a healthy operational performance for Q4FY23 while Novelis' performance was broadly in line with our estimates.

- For Q4FY23, the India business reported a topline of ₹ 20444 crore, up 4% YoY and 5% QoQ (our estimate of ₹ 19423 crore). For Q4FY23, Indian business EBITDA (business segment EBITDA) was at ₹ 2902 crore, up 27% QoQ (our estimate of ₹ 2510 crore)
- Indian aluminium business EBITDA was at ₹ 2304 crore, higher than our estimate of ₹ 1958 crore. Indian copper business EBITDA was at ₹ 598 crore, up 55% YoY and 10% QoQ, higher than our estimate of ₹ 552 crore
- Ensuing PAT of Hindalco's India business for Q4FY23 was at ₹ 1172 crore, higher than our estimate of ₹ 917 crore
- For the quarter, Novelis reported adjusted EBITDA of US\$403 million, broadly in line with our estimate of US\$404 million. Novelis reported adjusted EBITDA/tonne of US\$431/tonne (our estimate US\$425/tonne), while shipments for the quarter were at 936 KT (our estimate of 950 KT)

What should investors do? Hindalco's share price has given a return of ~201% in the last three years (from ~₹ 139 in May 2020 to ~₹ 419 in May 2023).

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

Target Price and Valuation: We value Hindalco at ₹ 485, based on SoTP valuation.

Key triggers for future price performance:

- Going forward, we assume Novelis will report EBITDA of US\$475/tonne for FY24E and US\$500/tonne for FY25E
- Going forward, we expect Hindalco to report consolidated EBITDA margin of 11.6% for FY24E and 11.8% for FY25E

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



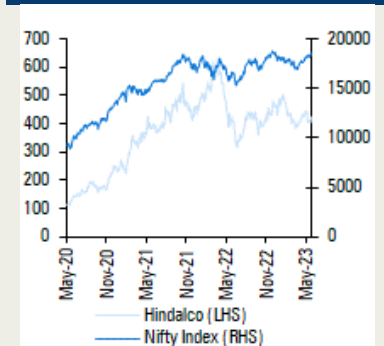
Particulars

Particulars	
Market Capitalization	₹ 94325 crore
Total Debt (Q4FY23)	₹ 58337 crore
Cash & Cash eq. (Q4FY23)	₹ 24378 crore
EV	₹ 128284 crore
52 week H/L (₹)	504 / 309
Equity capital	₹ 222 crore
Face value	₹ 1

Shareholding pattern

(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	34.6	34.7	34.7	34.7
FIs	24.8	24.9	25.7	26.1
DIs	21.5	26.8	26.9	26.2
Public	19.1	13.7	12.8	13.1
Total	100	100	100	100

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)	FY20	FY21	FY22	FY23	CAGR (FY18-FY23) in %	FY24E	FY25E	CAGR (FY23-FY25E) in %
Net Sales	1,18,144	1,31,985	1,95,059	2,23,202	14	2,23,826	2,29,819	1.5
EBITDA	14,306	17,536	28,347	22,666	10	25,855	27,024	9.2
EBITDA Margin (%)	12.1	13.3	14.5	10.2		11.6	11.8	
Adj PAT	4,051	5,674	13,148	10,056	18	11,906	12,540	11.7
EPS (₹)	16.9	25.5	59.1	45.2		53.5	56.4	
EV/EBITDA (x)	9.3	8.0	4.7	5.6		5.0	4.8	
RoCE (%)	7.8	8.8	15.5	10.4		12.2	11.7	
RoE (%)	6.9	8.5	16.8	10.6		12.4	11.6	

Source: Company, ICICI Direct Research

Key takeaways of conference call ...

India Business

- In terms of hedging, for FY24 ~11% of domestic aluminium volume is hedged at ~US\$2755/tonne
- For Q4FY23, in terms of coal mix, contribution of linkage coal was ~52%, e-auction was 44%, own mines was ~3% and balance was imports. Contribution of linkage coal in FY24E is likely to increase to ~55%
- For the Indian copper segment, there was a major planned shutdown of smelter April 2023 to mid-June 2023. Hence, copper segment EBITDA is likely to be ~₹ 350-400 crore in Q1FY24
- With respect to the Indian business, the capex guidance for FY24E is ~₹ 5000 crore

Novelis

- In the near term, the management expects some challenging times. However, it has maintained guidance of EBITDA/tonne of US\$525/tonne by Q4FY24
- With respect to Novelis, capex spending rose 76% YoY to US\$786 million. Going forward, the FY24 capex guidance is at ~US\$1.6-1.9 billion, including US\$300 million of maintenance capex. Besides, FY25 capex is also likely to be ~US\$1.6-1.9 billion

Others

- Consolidated net debt as of March 31, 2023 was at ₹ 33959 crore compared to ₹ 41716 crore as on December 31, 2022

Hindalco - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	17.6	17.6	25.5
Social	17.7	17.7	23.1
Governance	84.9	84.9	84.9
Overall ESG Score	40.1	40.1	44.5

*Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures*

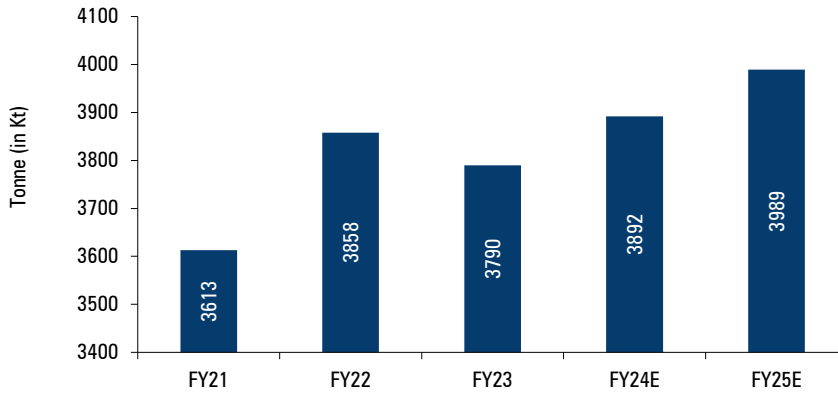
Exhibit 1: Variance Analysis (Hindalco's India business, Novelis volumes, EBITDA/tonne)

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	20,444	19,423	19,629	4%	19,431	5%	Indian business segment topline came in higher than our estimate
Business Segment EBITDA	2,902	2,510	4,264	-32%	2,294	27%	
Aluminium (including Utkal)	2,304	1,958	3,877	-41%	1,748	32%	Indian aluminium business EBITDA came in higher than our estimate
Copper	598	552	387	55%	546	10%	Indian copper business EBITDA came in higher than our estimate
Intersegment (Profit) / loss elimination (net)	-58	0	-19		101		
Unallocable Income / (Expense) net	-268	-250	-24		-387		
EBITDA	2,576	2,260	4,221	-39%	2,008	28%	
Depreciation	617	575	555	11%	572	8%	
Finance cost	339	375	407	-17%	314	8%	
Exceptional item	0	0	-107	NA	0	NA	
PBT	1,620	1,310	3,152	-49%	1,122	44%	
Tax Outgo	448	393	1,148	-61%	-73	-714%	
PAT	1,172	917	2,004	-42%	1,195	-2%	Ensuing Indian business PAT came in higher than our estimate
Key Metrics							
Total Copper sales (tonne)	1,17,000	1,05,000	1,05,000	11%	1,09,000	7%	Indian copper segment sales volume came in higher than our estimate
Total Aluminium sales (tonne)	3,23,000	3,40,000	3,25,000	-1%	3,36,000	-4%	Indian aluminium segment sales volume came in lower than our estimate
Novelis, Rolled Product Shipments (Kt)	936	950	983	-5%	908	3%	Novelis rolled segment shipment came in marginally lower than our estimate
Novelis, EBITDA/tonne (US\$/tonne)	431	425	437	-1%	376	15%	Novelis EBITDA/tonne came in marginally higher than our estimate

Source: Company, ICICI Direct Research

Financial story in charts

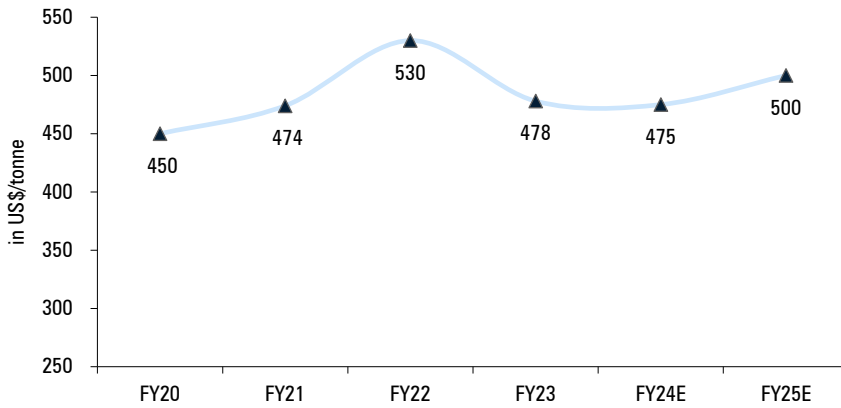
Exhibit 1: Trend in Novelis sales volume (including Aleris sales volume) (in KT)



We model Novelis sales volume (including Aleris sales volume) of 3892 KT for FY24E and 3989 KT for FY25E

Source: Company, ICICI Direct Research

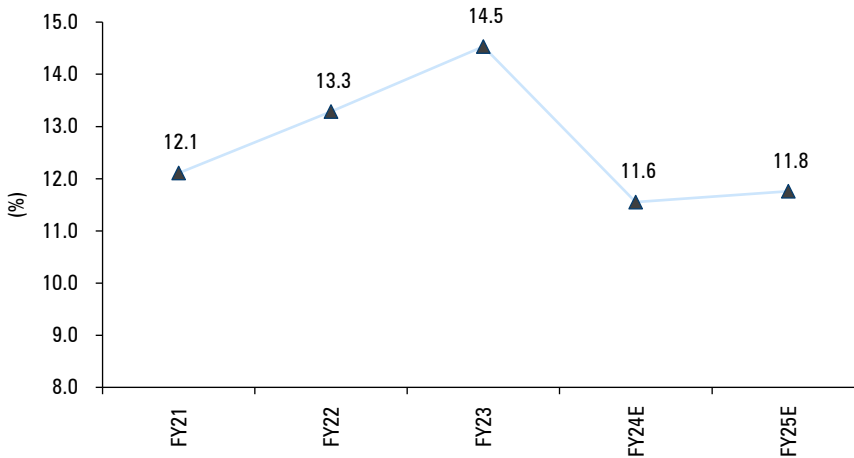
Exhibit 2: Trend in Novelis EBITDA/tonne (in US\$/tonne)



We expect Novelis to report EBITDA/tonne of US\$475/tonne for FY24E, US\$500/tonne for FY25E

Source: Company, ICICI Direct Research

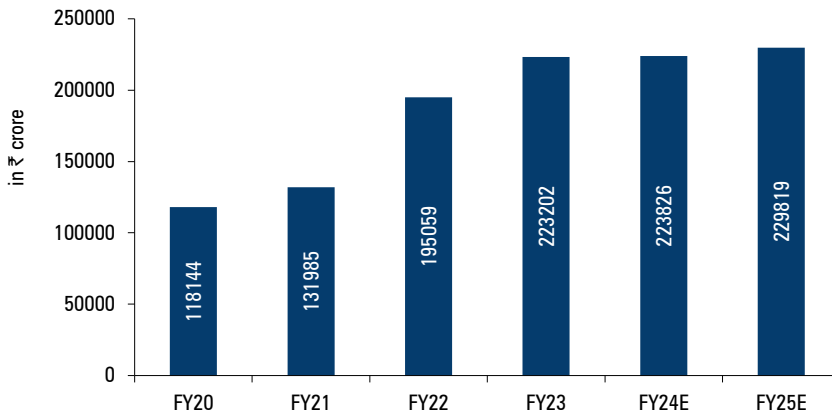
Exhibit 3: Trend in consolidated EBITDA margin (in %)



We expect consolidated EBITDA margin for Hindalco to come in at 11.6% in FY24E and 11.8% in FY25E

Source: Company, ICICI Direct Research

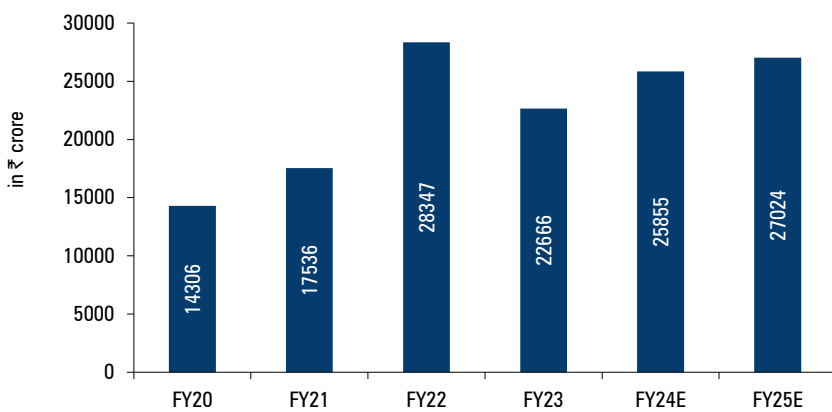
Exhibit 4: Trend in consolidated topline (in ₹ crore)



We expect Hindalco's consolidated topline to grow at a CAGR of 1.5% during FY23-25E

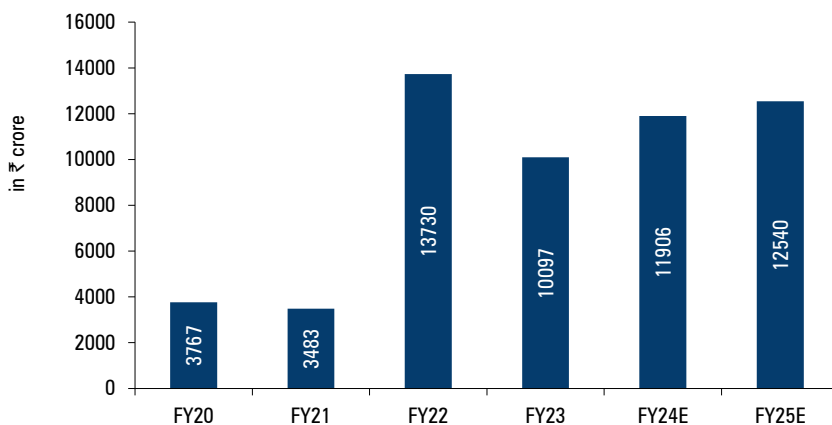
Source: Company, ICICI Direct Research

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	25	9.3	6.9	7.8
FY21	131985	12	25.5	51	16	8.0	8.5	8.8
FY22	195059	48	59.1	132	7	4.7	16.8	15.5
FY23	223202	14	45.2	-24	9	5.6	10.6	10.4
FY24E	223826	0	53.5	18	8	5.0	12.4	12.2
FY25E	229819	3	56.4	5	7	4.8	11.6	11.6

Source: Company, ICICI Direct Research

Financial Summary (Consolidated)

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Total Operating Income	195059	223202	223826	229819	
Growth (%)	48	14	0	3	
Total Operating Expend.	166712	200536	197972	202795	
EBITDA	28347	22666	25855	27024	
Growth (%)	62	-20	14	5	
Depreciation	6729	7086	7237	7534	
Interest	3768	3646	4084	4186	
Other Income	1136	1257	1326	1399	
Exceptional Item	-582	-41	0	0	
PBT	19568	13232	15860	16704	
Total Tax	5373	3144	3965	4176	
PAT	14195	10088	11895	12528	
Growth (%)	174	-29	18	5	
Minorities + loss from discontinue op	-465	9	10	12	
Rep PAT after Assoc., MI	13730	10097	11906	12540	
Adj PAT after Assoc., MI	13148	10056	11906	12540	
Growth (%)	132	-24	18	5	
EPS (₹)	59.1	45.2	53.5	56.4	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Profit after Tax	13730	10097	11906	12540	
Add: Depreciation	6729	7086	7237	7534	
Add: Interest	3768	3646	4084	4186	
(Inc)/dec in Current Assets	-26731	6594	1803	125	
Inc/(dec) in CL and Prov.	31802	-15151	3999	1067	
CF from operating activities	29298	12272	29029	25451	
(Inc)/dec in Investments	3019	31	0	1600	
(Inc)/dec in Fixed Assets	-8082	-13621	-20000	-20000	
Others	865	1590	84	86	
CF from investing activities	-4198	-12000	-19915	-18314	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	-7500	-4898	0	0	
Interest Paid	-3768	-3646	-4084	-4186	
Dividend paid & dividend tax	-826	-620	-826	-890	
Inc/(dec) in Share Cap	-4423	6868	-4807	-3770	
Others	0	0	865	1142	
CF from financing activities	-16517	-2296	-8852	-7703	
Net Cash flow	8583	-2024	262	-566	
Opening Cash	8809	17392	15368	15630	
Closing Cash	17392	15368	15630	15064	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Liabilities					
Equity Share Capital	222	222	222	222	
Reserve and Surplus	77980	94595	95785	107499	
Total Shareholders funds	78202	94817	96008	107721	
Total Debt	63235	58337	58337	58337	
Deferred Tax Liability	5631	8650	9515	10657	
Minority Interest & Others	0	0	0	0	
Total Liabilities	147068	161804	163860	176715	
Assets					
Gross Block	148030	157259	158920	170920	
Less: Acc Depreciation	64852	71938	79175	86710	
Net Block	83178	85320	79744	84210	
Goodwill	23965	25745	25745	25745	
CWIP	4727	7340	21213	33679	
Investments	14068	14037	14037	12437	
Inventory	44483	42958	42926	42816	
Debtors	21076	16214	15331	15741	
Loans and Advances	4033	9004	8779	8529	
Other Current Assets	5209	8863	8201	8026	
Cash	17392	15368	15630	15064	
Total Current Assets	92193	92408	90866	90175	
Trade Payables	41382	35860	39860	40927	
Provisions & Other Curren Liabilities	32312	31406	32191	32996	
Current Liabilities & Prov	73694	67266	72051	73923	
Net Current Assets	18499	25141	18815	16253	
others	2631	4221	4305	4392	
Application of Funds	147068	161804	163860	176715	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E	
Per share data (₹)					
Reported EPS	59.1	45.2	53.5	56.4	
Cash EPS	89.4	77.1	86.1	90.3	
BV	352	426	432	484	
DPS	4	3	4	4	
Cash Per Share	78.2	69.1	70.3	67.7	
Operating Ratios (%)					
EBITDA Margin	14.5	10.2	11.6	11.8	
PBT / Total Operating income	10.0	5.9	7.1	7.3	
Adj PAT Margin	6.7	4.5	5.3	5.5	
Inventory days	83	70	70	68	
Debtor days	39	27	25	25	
Creditor days	77	59	65	65	
Return Ratios (%)					
Adj RoE	16.8	10.6	12.4	11.6	
Adj RoCE	15.5	10.4	12.2	11.7	
RoIC	24.9	15.7	14.9	14.1	
Valuation Ratios (x)					
P/E	7.1	9.3	7.8	7.4	
EV / EBITDA	4.7	5.6	5.0	4.8	
EV / Net Sales	0.7	0.6	0.6	0.6	
Market Cap / Sales	0.5	0.4	0.4	0.4	
Price to Book Value	1.2	1.0	1.0	0.9	
Solvency Ratios					
Net Debt/EBITDA	1.4	1.5	1.4	1.4	
Debt / Equity	0.8	0.6	0.6	0.5	
Current Ratio	1.3	1.4	1.3	1.2	
Quick Ratio	0.6	0.7	0.7	0.6	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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