

ADITYA BIRLA

HINDALCO

Target	₹510-520
Recommendation	BUY
Highlights	<ul style="list-style-type: none"> ○ Consolidated revenue was flat YoY at ₹559bn but grew 5.1% QoQ with EBITDA at ₹53.2bn down 27.1% YoY but grew sequentially by 50%. India's EBITDA of ₹24.1bn (-40% YoY, 29% QoQ), mainly led by the copper division. ○ Aluminium EBITDA was at ₹18.1bn with EBITDA/ton of US\$647/ton (-55% YoY, 39% QoQ), with higher prices and lower costs driving margin expansion. Cost of production declined 6% QoQ, mainly led by coal costs and management expects costs to remain stable in Q1FY24. The Chakla mine (5.5 mtpa) is expected to come on stream in FY25, and the work is progressing as per the timeline. A 30kt extrusion facility at Silvassa is expected to come on stream in FY24. ○ About 11% of the Indian aluminum business is hedged at US\$ 2,755/tonne. Further opportunistic hedging to happen at LME prices greater than US\$2,500. ○ Aluminium upstream Q4FY23 shipments stood at 323kt, taking yearly shipments to 1.3mt. Revenue for the upstream business was down 13% YoY at ₹80.5bn. EBITDA declined 41% YoY to ₹22bn, due to lower metal prices, higher input costs and unfavorable macros. EBITDA/t stood at US\$ 825/t, one of the best in the industry ○ Aluminium downstream Q4FY23 shipments stood at 90kt, taking yearly shipments to 354mt. Revenue for the downstream business was down 17% YoY at ₹27bn. EBITDA declined 20% YoY to ₹1.1bn, due to lower offtake from the consumer durable segment, an adverse sales mix, lower pricing and flat volumes. EBITDA/t stood at US\$ 152/t. ○ Q4FY23 copper metal shipments were the highest ever at 117kt, taking yearly shipments to 439mt. Copper EBITDA came at ₹6bn (54% YoY, 9.5% QoQ), led by strong volumes (11.4% YoY, 7.3% QoQ) and higher TcRc, according to the benchmark settlement. The Copper unit is currently under the planned maintenance shutdown, which will impact the margin in Q1FY24. Margin is expected to be in the range of US\$350-400/tonne. ○ FY23 revenue/EBITDA/Adjus.PAT stood at ₹2,232bn/₹227bn/₹100.5bn (+14.4%/-20%/-26.2% YoY) ○ Coal sourcing – Fuel mix for Q4FY23: Linkage coal at 52%, e-auction coal at 44% and remaining from captive/imports (Q3FY23 – linkage coal at 48%, e-auction coal at 37%). Management expects coal prices to inch downward, as captive mines get operationalised. Linkage coal proportion for FY24 is expected to be ~65%. The company is awaiting regulatory approvals for the Meenakshi coal block.

Q4FY23 Result Highlights

- Strong QoQ recovery** – Consolidated revenue was flat YoY at ₹559bn but grew 5.1% QoQ with EBITDA at ₹53.2bn down 27.1% YoY but grew sequentially by 50%. India's EBITDA of ₹24.1bn (-40% YoY, 29% QoQ), mainly led by the copper division. Aluminium EBITDA was at ₹18.1bn with EBITDA/ton of US\$647/ton (-55% YoY, 39% QoQ), with higher prices and lower costs driving margin expansion. Cost of production declined 6% QoQ, mainly led by coal costs and management expects costs to remain stable in Q1FY24. The Chakla mine (5.5 mtpa) is expected to come on stream in FY25 and the work is progressing as per the timeline. A 30kt extrusion facility at Silvassa is expected to come on stream in FY24. About 11% of the Indian aluminium business is hedged at US\$ 2,755/tonne. Further opportunistic hedging to happen at LME prices greater than US\$2,500. Q4FY23 copper metal shipments were the highest ever at 117kt, taking yearly shipments to 439mt. Copper EBITDA came at ₹6bn (54% YoY, 9.5% QoQ), led by strong volumes (11.4% YoY, 7.3% QoQ) and higher Tc/Rc, according to the benchmark settlement. Spot Tc/Rc stood at USD21c/lb in Q4FY23 (v/s USD22/lb in Q3FY23). The company has long-term linkages of up to 80% from Chile, Peru and Indonesia. The Copper unit is currently under the planned maintenance shutdown, which will impact the margin in Q1FY24. Margin is expected to be in the range of US\$350-400/tonne. The finance cost was up 23% YoY at ~₹10bn, while depreciation came in at ₹19bn (+5% YoY). Adjus. PAT was down 41% YoY at ₹24.1bn. FY23 Revenue/EBITDA/Adjus. PAT stood at ₹2,232bn/₹227bn/₹100.5bn (+14.4/-20%/-26.2% YoY)
- Aluminium upstream business** – Q4FY23 shipments stood at 323kt, taking yearly shipments to 1.3mt. Revenue for the upstream business was down 13% YoY at ₹80.5bn. EBITDA declined 41% YoY to ₹22bn, due to lower metal prices, higher input costs and unfavourable macros. EBITDA/t stood at US\$ 825/t, one of the best in the industry
- Aluminium downstream business** – Q4FY23 shipments stood at 90kt, taking yearly shipments to 354mt. Revenue for the downstream business was down 17% YoY at ₹27bn. EBITDA declined 20% YoY to ₹1.1bn, due to lower offtake from the consumer durable segment, an adverse sales mix, lower pricing and flat volumes. EBITDA/t stood at US\$ 152/t.
- Aluminium bleak outlook with fading cost support and weak demand** – Aluminium prices have corrected 8-10% from the Q4FY23 average of 2395 US\$/ton, mainly led by persistently weak global demand outweighing supply-side risks in the market. Demand in world ex-China declined ~10% yoy in Q1CY23, whereas Chinese demand recovery has been disappointing (-2% yoy in Q1CY23). Furthermore, the cost support and supply risk has been fading with sharp declines in thermal coal (-45% CYTD) and spot energy prices in Europe (-60% CYTD).
- Novelis like to be muted in near term** – Novelis has a total manufacturing capacity of 1,000kt, which caters to the automotive sector and is currently operational at 75% capacity utilization. As demand for light-weight fuel-efficient vehicles increases, the capacity utilization is expected to improve. Long-term Flat-Rolled Products (FRP) demand fundamentals remain intact. Novelis' Q4FY23 EBITDA at US\$403mn degrew 6.3% YoY but +13.8% over Q4FY20, led by weaker volumes (-5% YoY), partly offset by a sequential recovery in margins. Headwinds from channel destocking and a weak macro continues to impact beverage cans and specialty segments, forming ~80% of volumes. The company has deferred the volume guidance for FY24, given near-term uncertainties. Management expects normalization of margins by Q4FY24, whereas the next 2-3 quarters are likely to remain choppy. Novelis has guided for healthy OCF in FY24 and will follow a disciplined approach to managing cash. It has guided for EBITDA/t of US\$ 525/t by Q4FY24.
- Coal sourcing** – Fuel mix for Q4FY23: Linkage coal at 52%, e-auction coal at 44% and remaining from captive/imports (Q3FY23 – linkage coal at 48%, e-auction coal at 37%). Linkage coal proportion in Q4FY23 was lower than some peers due to expiry of certain

Important Data

Nifty	18,383
Sensex	62,102

Key Stock Data

CMP	₹408.1
Market Cap (₹)	₹917.1bn
52W High/Low	₹504/309
Shares o/s (mn)	2,224
Daily Vol. (3M NSE Avg.)	15,445,353
BSE Code	500440
NSE Code	HINDALCO
Bloomberg Code	HNDL:IN

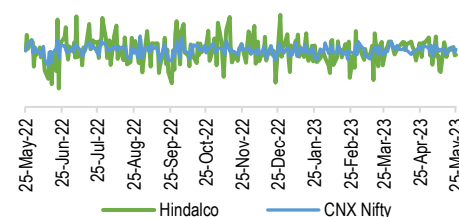
Shareholding Pattern (%) – Mar'23

Promoter	34.6
DII	26.2
FII	29.9
Public	9.3

Financials & Valuations

Particulars	FY20	FY21	FY22
Operating Revenue	1,181,440	1,319,850	1,950,590
EBITDA	142,060	176,480	283,470
EBITDA Margin (%)	12.0	13.4	14.5
Net Profit	37,669	141,950	137,300
EPS (₹)	16.9	63.8	61.7
DPS (₹)	1.3	3.5	4.0
RoE (%)	10.1	13.4	18.8
RoCE (%)	8.5	9.1	10.5
P/E (x)	24.1	6.4	6.6
EV/EBITDA (x)	9.2	7.9	4.6
P/BV (x)	2.4	2.1	1.7

Particulars	FY23P	FY24E	FY25E
Operating Revenue	2,232,020	2,188,862	2,264,911
EBITDA	226,660	261,927	282,724
EBITDA Margin (%)	10.2	12.0	12.5
Net Profit	100,970	104,572	119,365
EPS (₹)	45.4	47.0	53.7
DPS (₹)	3.0	4.0	5.0
RoE (%)	16.3	14.1	14.7
RoCE (%)	11.0	11.2	11.7
P/E (x)	9.0	8.7	7.6
EV/EBITDA (x)	6.2	4.4	3.6
P/BV (x)	1.3	1.2	1.0

Relative performance

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linkages aggregating to ~3 mn tons. The company is in the process of signing up for new linkages. Management expects coal prices to inch downward, as captive mines get operationalised. Linkage coal proportion for FY24 is expected to be ~65%.The company is awaiting regulatory approvals for the Meenakshi coal block

- Capex for FY23 stood at ₹30bn. Guidance for FY24 at ₹50bn for India business, to be funded through internal accruals for the rolling mill expansion in Hirakud and Aditya along with the Chakala coal mine. Consolidated net debt at ₹480bn is almost entirely Novelis. Net debt to EBITDA returned to below 2.5x levels at Novelis.

Operational Performance – STANDALONE

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q	Q2	Q3	Q4	Q4FY23 v/s	YoY (%)
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	1FY23	FY23	FY23	FY23	Q4FY20 (%)	
ALUMINIUM Sales (kt)	320	328	320	314	303	315	324	329	303	338	345	325	329	331	336	323	2.9	-0.6
YoY (%)	6.7	0.6	1.5	(3.4)	(5.3)	(4.0)	1.3	4.8	-	7.3	6.5	(1.2)	8.6	(2.1)	(2.6)	(0.6)		
QoQ (%)	(1.5)	2.5	(2.4)	(1.9)	(3.5)	4.0	2.9	1.5	(7.9)	11.6	2.1	(5.8)	1.2	0.6	1.5	(3.9)		
Average LME Aluminium (USD/t)	1792	1762	1752	1694	1493	1703	1925	2100	2395	2648	2759	3254	2882	2354	2324	2395	41.4	-26.4
YoY (%)	(20.5)	(14.3)	(10.9)	(9.0)	(16.7)	(3.3)	9.9	24.0	60.4	55.5	43.3	55.0	20.3	(11.1)	(15.8)	(26.4)		
QoQ (%)	(3.7)	(1.7)	(0.6)	(3.3)	(11.9)	14.1	13.0	9.1	14.0	10.6	4.2	17.9	(11.4)	(18.3)	(1.3)	3.1		
EBITDA-Aluminium (USD/t)	379	349	413	457	423	527	619	746	1052	1296	1389	1601	1304	644	611	825	80.5	-48.5
YoY (%)	(47.5)	(42.3)	(23.3)	3.5	11.6	51.0	49.9	63.2	148.7	145.9	124.4	114.6	24.0	(50.3)	(56.0)	(48.5)		
QoQ (%)	(14.0)	(7.9)	18.3	10.7	(7.4)	24.6	17.5	20.5	41.0	23.2	7.2	15.3	(18.6)	(50.6)	(5.1)	35.0		

Source – Company, Way2Wealth

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4FY23 v/s	YoY (%)
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	Q4FY20 (%)	
COPPER Production (kt)	76	84	86	75	41	73	51	97	63	100	102	94	92	105	104	106	41.3	12.8
COPPER Sales (kt)	82	82	84	86	58	75	73	107	80	110	110	105	101	112	109	117	36.0	11.4
YoY (%)	-	3.8	(15.2)	(14.0)	(29.3)	(8.5)	(13.1)	24.4	37.9	46.7	50.7	(1.9)	26.3	1.8	(0.9)	11.4		
QoQ (%)	(18.0)	-	2.4	2.4	(32.6)	29.3	(2.7)	46.6	(25.2)	37.5	-	(4.5)	(3.8)	10.9	(2.7)	7.3		
COPPER Rods Production (kt)	66	65	60	71	26	36	67	76	44	70	77	69	79	86	91	91	28.2	31.9
COPPER Rod Sales (kt)	63	63	58	73	31	64	65	73	46	70	71	74	80	85	88	95	30.1	28.4
YoY (%)	3.3	14.5	(41.4)	4.0	(50.8)	1.6	12.1	-	48.4	9.4	9.2	1.4	73.9	21.4	23.9	28.4		
QoQ (%)	(10.0)	-	(7.9)	25.9	(57.5)	106.5	1.6	12.3	(37.0)	52.2	1.4	4.2	8.1	6.3	3.5	8.0		
EBITDA/tonne (USD/t)	138	134	112	134	150	429	431	406	442	432	453	489	726	610	610	623	366.1	27.4

Source – Company, Way2Wealth

Operational Performance – Novelis

(USD mn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4FY23 v/s	YoY (%)
	FY20	FY20	FY20	FY20	FY21	FY21	FY21	FY21	FY22	FY22	FY22	FY22	FY23	FY23	FY23	FY23	Q4FY20 (%)	
Sales (kt)	830	835	797	811	781	923	933	983	973	968	930	987	962	984	908	936	15.4	-5.2
YoY (%)	4.1	3.5	(0.4)	(6.8)	(5.9)	10.5	17.1	21.2	24.6	4.9	(0.3)	0.4	(1.1)	1.7	(2.4)	(5.2)		
Revenue	2925	2851	2715	2726	2426	2978	3241	3631	3855	4119	4326	4849	5089	4799	4201	4400	61.4	-9.3
YoY (%)	(5.6)	(9.1)	(9.8)	(11.6)	(17.1)	4.5	19.4	33.2	58.9	38.3	33.5	33.5	32.0	16.5	(2.9)	(9.3)		
EBITDA	368	378	343	354	253	455	476	505	508	553	506	430	561	502	341	403	13.8	-6.3
YoY (%)	10.2	6.5	6.5	(0.8)	(31.3)	20.4	38.8	42.7	100.8	21.5	6.3	(14.9)	10.4	(9.2)	(32.6)	(6.3)		
EBITDA/tonne	443	453	430	436	324	493	510	514	522	571	544	436	583	510	376	431	-1.1	-1.1
PAT	127.0	123.0	107.0	63.0	(79.0)	(37.0)	178.0	176.0	240.0	237.0	262.0	217.0	307.0	183.0	12.0	156.0	147.6	-27.4
YoY (%)	(7.0)	6.0	37.0	(39.0)	(162.2)	(130.1)	66.4	179.4	(403.8)	(740.5)	47.2	23.3	27.9	(22.8)	(95.4)	(27.4)		

Source – Company, Way2Wealth

VIEW

The quarterly performance was largely on expected lines. Management has not guided for any Cost of production (CoP) reduction and as the copper unit, which contributes substantially to domestic operations, is currently undergoing a scheduled maintenance shutdown until mid-Jun'23, which will impact margin to some extent. The stock price looks to have fully priced in the headwinds, such as a slowdown in China, the impact of high interest rates and higher input costs. Robust demand in India, an increase in capacity utilization, higher spends on infrastructure, better business sentiment and moderating commodity prices should support the company's performance ahead. We remain confident about the company's long-term growth opportunities and believe that any weakness in the stock after Q4FY23 results should subside. **Hence continue to maintain our BUY stance with the stock trading at P/E 7.6x FY25E EPS ₹53.7.**

FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23P	FY24E	FY25E
Revenues	1,151,717	1,305,423	1,181,440	1,319,850	1,950,590	2,232,020	2,188,862	2,264,911
YoY Growth (%)	15	13.3	(9.5)	11.7	47.8	14.4	(1.9)	3.5
EBITDA	139,206	155,105	142,060	176,480	283,470	226,660	261,927	282,724
EBITDA margin (%)	12.1	11.9	12.0	13.4	14.5	10.2	12.0	12.5
YoY Growth (%)	11.9	11.4	(8.4)	24.2	60.6	(20.0)	15.6	7.9
Net Profit	60,829	54,946	37,669	141,950	137,300	100,970	104,572	119,365
YoY Growth (%)	219.0	(9.7)	(31.4)	276.8	(3.3)	(26.5)	3.6	14.1
EPS (₹)	27.3	24.7	16.9	63.8	61.7	45.4	47.0	53.7
DPS (₹)	1.4	1.2	1.3	3.5	4.0	3.0	4.0	5.0
RoE (%)	12.8	14.5	10.1	13.4	18.8	16.3	14.1	14.7
RoCE (%)	9.3	10.6	8.5	9.1	10.5	11.0	11.2	11.7
Debtors days	32	32	29	36	39	27	27	27
Inventory days	69	62	69	85	83	70	70	69
Creditors days	65	58	56	78	83	68	68	67
Net Debt-Equity	2.8	2.5	2.8	2.7	1.4	1.5	1.6	1.5
Interest Coverage Ratio	2.4	2.8	2.2	2.9	5.7	4.3	5.2	5.6
Cash Balances	80,578	97,870	215,690	83,390	173,920	153,680	209,243	254,072
FCF	79,000	60,000	59,000	117,000	114,000	93,660	40,771	28,242
P/E (x)	15.0	16.5	24.1	6.4	6.6	9.0	8.7	7.6
EV/ EBITDA (x)	9.4	8.4	9.2	7.9	4.6	6.2	4.4	3.6
P/BV (x)	2.5	2.3	2.4	2.1	1.7	1.3	1.2	1.0

Source – Company, Way2Wealth

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Disclosure of Interest Statement HINDALCO INDUSTRIES LTD as on 26th May 2023

Name of the Security	HINDALCO INDUSTRIES LTD
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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