



Quick Insight

HINDALCO INDUSTRIES LTD.



Industry	Metals & Mining - Aluminium
CMP	₹435.9
M Cap	₹979.1bn
Buy Range	₹420-430
Target	₹510-520
Recommendation	BUY

Highlights

- Aluminium is the second most used metal after steel, propelled by its inherent qualities of being light, sturdy, non-corrosive and recyclable. Aluminium's penetration in the cans market v/s tinplate will be close to ~100% by CY24. The company is the only manufacturer of Specialty Alumina in India. which is used in niche applications, such as refractories, glass, ceramics, wires & cables etc. Apart from existing ones, there are future applications, such as lithium-ion batteries, LED and advanced ceramics. The management views Specialty Alumina's global demand is set to grow at a CAGR of ~3% to 9.2mn tonne over CY19-24.
- Novelis to be growth driver post acquisition of Aleris. Current rolling capacity of 4mn tonne, is the world's largest producer of aluminium flat rolled products (FRP). In Q2FY23, Novelis' revenue stood \$4.8 bn (v/s \$4.1 bn), +17% YoY, supported by higher volumes, increased product pricing, favourable mix and higher average aluminium prices. Total shipments of flat rolled products (FRPs) were at 984 Kt v/s 968 Kt in Q2FY22 and 962kt in Q1FY23 supported by double digit increase in automotive and aerospace shipments
- The company targets to increase its value added products (VAP) capacity in India's aluminium business from the current 320,000 tonne to 600,000 tonne within five years. In terms of hedging for 2HFY23, ~30% of the domestic aluminium volume is hedged at US\$2500/tonne while for FY24, ~5% of domestic aluminium volume is hedged at US\$3000/tonne.
- Power and fuel cost impacted performance in Q2FY23. Consolidated net sales stood at ₹562bn (+18% YoY/-3% QoQ) with higher YoY sales were driven by strong performance from Asia operations of Novelis and higher copper ASP. Coal consumption costs increased due to lower availability of linkage coal during the quarter. Coal mix—linkage coal at 45-48%, e-auction coal at 30%, captive coal at 6%, and the remaining from private parties and import. Linkage coal in the past used to be 75%; the company expects it to gradually increase in coming quarters. Expects to commission the Chakala coal mine (5.5 mtpa) by Dec'23; the company is still awaiting official

notification of the awarding of the Meenakshi coal block. QoQ in Q2FY23, mainly led by power costs.

- For Q2FY23, Hindalco's India business reported topline of ₹189.63bn, +9% YoY. Indian aluminium business reported sales volume of 341,000 tonnes v/s 350,000 tonnes YoY. Indian copper business reported sales volume of 112,000 tonnes v/s 110,000 tonnes YoY. For Q2FY23, Hindalco's Indian Business EBITDA was at ₹20.91bn (-41% YoY). Hindalco's Indian aluminium business EBITDA was at ₹15.47bn v/s 32bn YoY. Hindalco's Indian copper business EBITDA was at ₹5.44bn, +54% YoY. PAT of Hindalco's India business for Q2FY23 was at ₹9.21bn (-49% YoY).
- As per the management, India's refined copper demand is expected to grow 7-8% over the next 8-10 years. Domestic copper demand is driven largely by rods which is the downstream product for the copper business. Hindalco's strategy of enhancement of Copper VAP capacity through Copper Rods and Copper Inner grooved tubes will help the company drive a larger market share and meet the growing demand for copper in the domestic market. Plans of adding a 25,000-tonne inner groove tubes & alloy rod capacity in India, which is likely to come on stream by FY24. The company targets to increase Copper VAP capacity from the current 315,000 tonne to 445,000 tonne within five years and 655,000 tonne (rise to 85% of total capacity) thereafter.

Hindalco Industries Ltd.

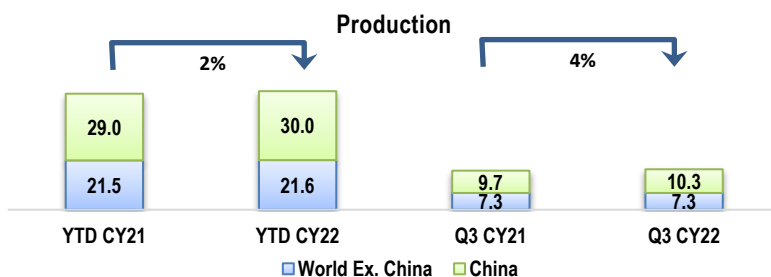
Company Background

Hindalco Industries Ltd (Hindalco) is India's leading manufacturer of Primary Aluminium and Copper with current capacity of ~1.3mn tonne and 0.42mn tonne, respectively. Current Alumina manufacturing capacity of 3.6mn tonne. Hindalco operates 50 units in 10 countries. Aluminium smelting operations are in Bargawan, Madhya Pradesh; Hirakud, Odisha and Renukoot, Uttar Pradesh while Copper facility is in Dahej, Gujarat. It operates captive bauxite mines in Jharkhand, Chhattisgarh, Maharashtra and Orissa, which provide the raw material to alumina refineries at Belagavi, Muri and Renukoot. Hindalco's Utkal Alumina refinery in Rayagada, Orissa became operational in 2013. Utkal Alumina refinery comprises of a 1.5 MTPA Alumina Refinery, Bauxite mines (Baphimali) with reserves lasting for over 25 yrs and captive co-generation power plant of 90 MW. Hindalco-Almex Aerospace Ltd (HAAL) operates a high-performance aluminium alloys facility in Shendra, Aurangabad. It has a global presence with 33 manufacturing facilities in nine countries on four continents through its US subsidiary, Novelis, which was acquired by the company in CY07. Novelis with a rolling capacity of 4mn tonne is the world's largest producer of flat rolled products (~38% rolling capacity in North America). It is also the largest firm and the global leader in aluminium recycling with around 2.5mn tonne capacity. In Apr'20 Novelis acquired Aleris, which is a global supplier of rolled aluminium products. Novelis has leveraged its extensive recycling footprint and favourable market conditions to increase its recycled content to 57% in FY22. In FY22, Hindalco made two acquisitions valued \$79 million of Hydro's Kuppam Extrusion facility in India to expand its presence in the upper end of the value-added to enhance our capabilities in high-end extrusions and a fabricated solutions and a Copper CCR facility of Ryker (now Asoj) with capacity of 225 kt, expanding overall capacities in the value-added segment. This will not only enhance the Company's capabilities but also help the Company to move towards a more sustainable business model.

Investment Rationale

- **Aluminium Industry in a Sweet Spot – Aluminium is the second most used metal after steel, propelled by its inherent qualities of being light, sturdy, non-corrosive and recyclable.** Emerged as a preferred substitute over steel, plastic and other materials. Transport, Construction, Packaging, Consumer Durables and Electricals are some major end-user industries for aluminium. India Share (%) - Transport: Construction: Packaging: Machinery & Equipment: Electrical: Consumer durables – 36:8:7:5:31:4:9. World Share (%) - Transport: Construction: Packaging: Machinery & Equipment: Electrical: Consumer durables – 26:24:16:1:11:6:6. As per Novelis, Can Packaging, which used to be ~30% of total beverage packaging in CY14, has increased to ~67% in CY19 in North America. **Aluminium's penetration in the cans market v/s tinplate will be close to ~100% by CY24.** Global production grew by 4% to 67.4 mn tonnes (mt), consumption rebounded by 10% to 69mt, leading to sharp deficit of 1.6 mt. **China: Production** increased by 5% to 38.6mt, while consumption was up by 6% to 40mt, resulting in a deficit of 1.6 mt. **World Ex-China: Production** grew by 3% to 28.8mt, consumption recovered by 15% to 28.8mt, leading to balanced market.

Global Demand & Supply Balance (Million Tons)



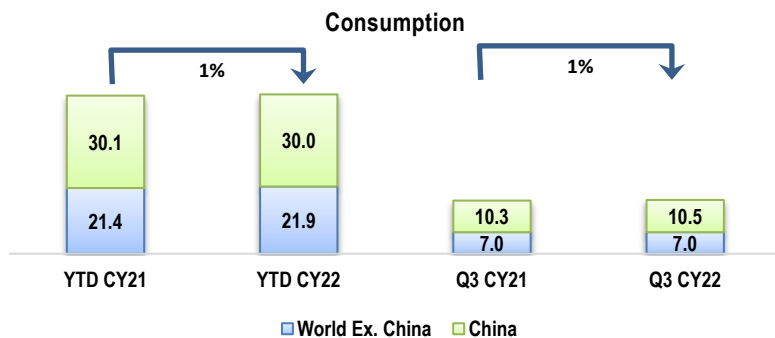
Source: Company, Way2Wealth Research

Nifty	18,656
Sensex	62,775
Key Stock Data	
CMP	₹435.9
Market Cap (₹)	₹979.1bn
52W High/Low	₹636/308
Shares o/s (mn)	2,224
Daily Vol. (3M NSE Avg.)	1,791,806
Shareholding Pattern (%) Sep'22	
Promoter	34.6
DIs	26.9
FIs	28.6
Public	9.4

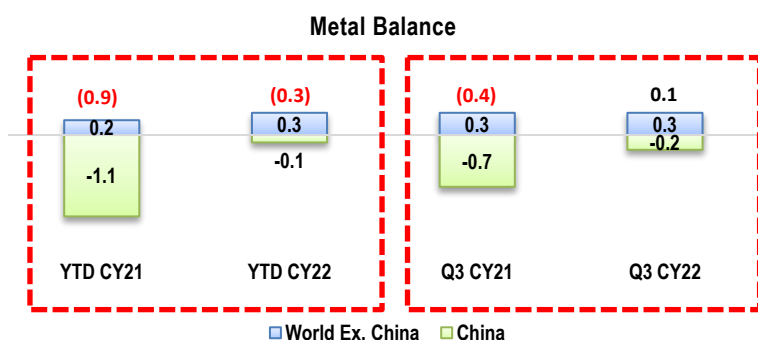
Particulars	FY19	FY20	FY21	FY22
Operating Revenue	1,305,423	1,181,440	1,319,850	1,950,590
EBITDA	155,105	142,060	176,480	283,470
EBITDA Margin (%)	11.9	12.0	13.4	14.5
Net Profit	54,946	37,669	141,950	137,300
EPS (₹)	24.7	16.9	63.8	61.7
DPS (₹)	1.2	1.3	3.5	4.0
RoE (%)	14.5	10.1	13.4	18.8
RoCE (%)	10.6	8.5	9.1	10.5
P/E (x)	17.6	25.7	6.8	7.1
EV/EBITDA (x)	8.8	9.7	8.2	4.8
P/BV (x)	2.5	2.5	2.2	1.8

Particulars	FY23E	FY24E
Operating Revenue	2,033,617	2,045,013
EBITDA	244,576	282,862
EBITDA Margin (%)	12.0	13.8
Net Profit	97,333	111,361
EPS (₹)	43.8	50.1
DPS (₹)	5.0	5.5
RoE (%)	17.7	18.8
RoCE (%)	11.9	13.1
P/E (x)	10.0	8.7
EV/EBITDA (x)	5.1	4.3
P/BV (x)	1.6	1.2

Source: Company, Way2Wealth



Source: Company, Way2Wealth Research



Source: Company, Way2Wealth Research

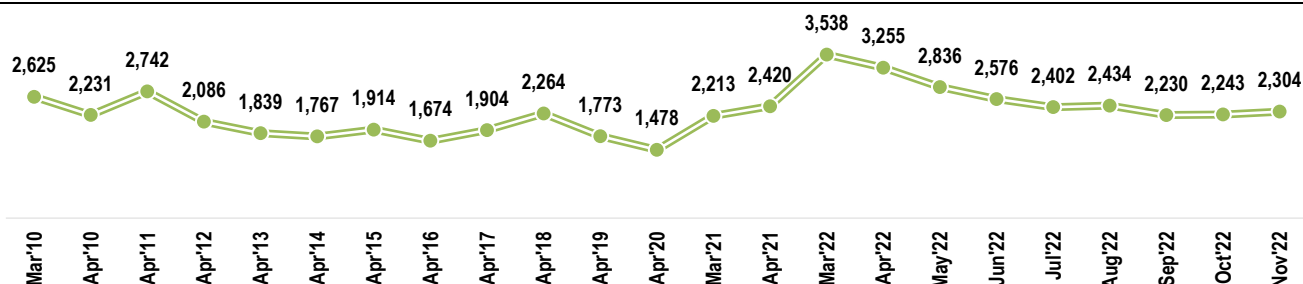
Global aluminum production in 9MCY22 was up 2% while consumption grew 1% with a marginal global deficit of 0.3mt. Global Flat rolled products (FRP) Demand is estimated to grow by ~3% in CY22 (v/s CY21 growth of ~11%). **The global aluminium supply market is tight with inventories at ~15 years' low.**

➤ **YTD CY22 (v/s YTD CY21)**

- **China:** Production was up by 3%, while consumption was flattish, resulting in deficit of 0.1 Mt
- **World Ex-China:** Production was flattish, consumption improved by 2%, leading to deficit of 0.3 Mt

➤ **Q3 CY22 (v/s Q3 CY21)**

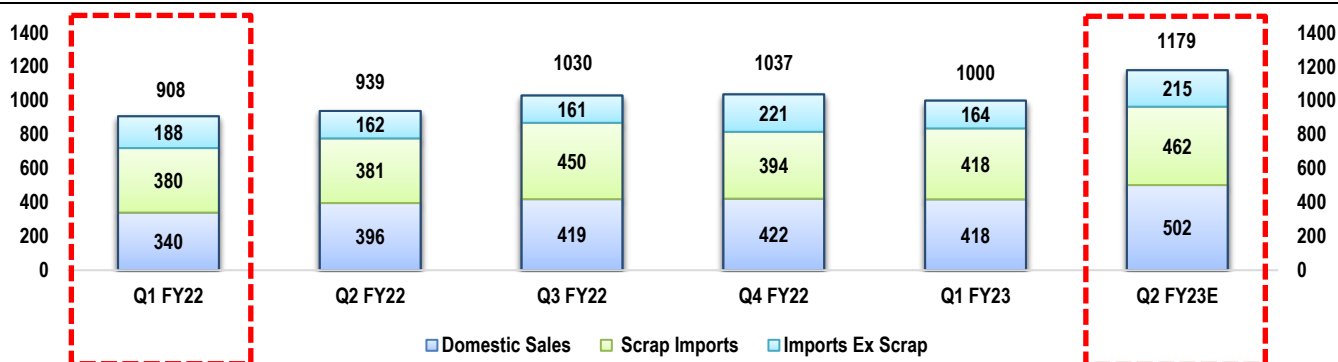
- **China:** Production increased by 6%, while consumption sharply grew by 2%, causing a deficit of 0.2 Mt
- **World Ex-China:** Production and Consumption were flattish, leading to surplus of 0.3 Mt



Source: Bloomberg

Q3CY22 prices declined to \$2,230/ton from \$2,576/ton in Q2CY22. Global aluminium prices in QTD (Q4CY22) is \$2,304/ton. As per the Hindalco's management, the Aluminum prices are likely to remain subdued due to a weakening demand outlook, despite increasing confirmation of supply closures. A sharp contraction in physical premiums confirms the underlying demand risks owing to deteriorating macros, mainly in the west.

- **India's Aluminium demand still untapped** – India's current per capita consumption of aluminium is ~2.9kg v/s global average of ~11kg. India's aluminium consumption to rise to more than 7.2mn tonne (v/s global demand of ~90mn tonne) by CY30 from the current 3.7mn tonne and a large part will come from Flat Rolled products (FRP) and Extrusion. Rising Aluminium use in - **Building & construction** led by an increase in urban housing demand **Automotive**, led by BS VI, focus on light-weighting and increasing share of EV. **Packaging** led by growing pharmaceuticals, liquor, food & beverages, and the FMCG industry along with ban on plastic and Several end-user industries, such as Electricals, Consumer Durables, Aluminium Cookware, Machinery & Equipment, Defense, Nuclear, Railways, Ship & Boat building. **As per the Hindalco's mgmt, the demand from building & construction, automotive, packaging and other segments is expected to register a CAGR of ~4%, ~9%, ~10% and ~6% respectively, over CY20-30.** The company is the only manufacturer of Specialty Alumina in India. Specialty Alumina is a non-metallurgical alumina and is used in niche applications, such as refractories, glass, ceramics, wires & cables etc. Apart from existing ones, there are future applications, such as lithium-ion batteries, LED and advanced ceramics. **The management views Specialty Alumina's global demand is set to grow at a CAGR of ~3% to 9.2mn tonne over CY19-24 while demand growth in India is likely to be higher at ~7% CAGR to 549,000 tonne over the same period.**

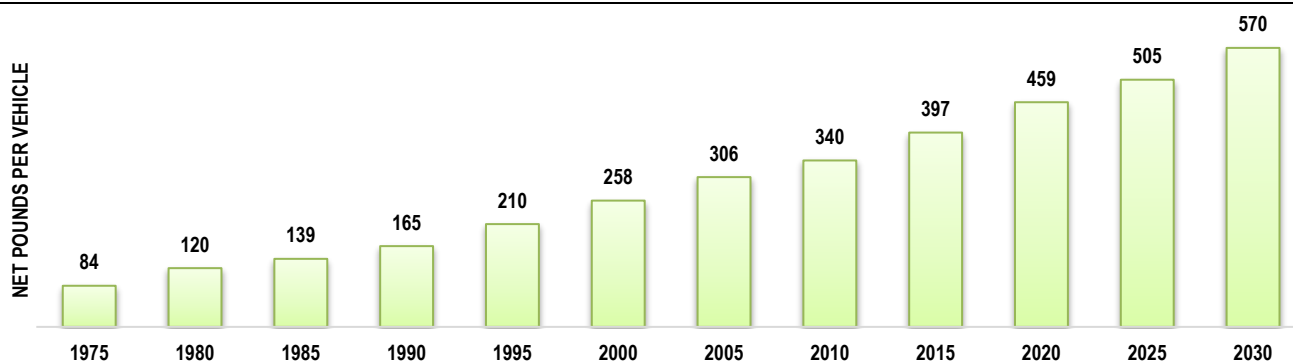


Source: Company, Way2Wealth Research

In Q2FY23, the domestic demand is likely to have reached 1,178 Kt (25% growth YoY) due to base effect, and 18% QoQ, due to sharp recovery of demand in electrical & power sector. **In Q2FY23, India FRP Demand is estimated to have grow ~37% YoY due to base effect.** Overall growth in the domestic market is led by improved demand across all sectors.

- **Rising Share of Aluminium in the Automotive industry** – As per Novelis, Aluminium sheet is a 2mn tonne market currently compared to 80mn tonne steel sheet. The increase in Aluminium pounds per vehicle is driven by growth in sheets. **Sheets represented ~23% of total Aluminium pounds per vehicle in CY20, which is expected to grow to ~30% by CY30, primarily led by replacement of steel with aluminium on hang-on part and body in white (BiW).** Advantages that Aluminium delivers - Up to a 20% reduction in total life cycle energy consumption. Up to a 17% reduction in CO2 emissions. Aluminium

battery structures are up to 50% lighter than an equivalent steel design. Protect batteries from road debris and vehicle crashes. Extends vehicle range 6-10% further on a single charge. **With rising EV production, Aluminium can be used for extrusions, structures that carry electric batteries and EV charging stations & other related infrastructure. Aluminium content likely to post CAGR of ~2% over CY20-30.** Despite the headwinds from the pandemic and supply chain challenges over the past two years, the automotive body sheet segment is poised to recover at a healthy rate; supported by pent-up demand for vehicles. Gradual global transition to electric vehicles is also expected to contribute towards growth of Novelis' Automotive Body Sheet (ABS) segment by 2026. Global automotive aluminium FRP demand is expected to grow at a CAGR of 11% between CY21-28 as per the management.



Source: Company, Way2Wealth Research

- **Novelis to be growth driver post acquisition of Aleris** – Current rolling capacity of 4mn tonne, is the world's largest producer of aluminium flat rolled products (FRP). It is also the largest firm and global leader in aluminium recycling with 2.5mn tonne recycling capacity. It is a prominent global flat rolled aluminium supplier for the beverage cans and automotive industries. The company sources primary aluminium in the form of sheet & standard ingots and molten metal. The company closed the Aleris deal on 14 April 2020 for ~US\$ 2.8bn. Prior to Aleris, Novelis did not have a presence in aerospace – Cans: Auto: Others – 66%:19%:16%. Post acquisition increases shipment mix in favor of Specialties and Auto - Cans: Auto: Specialties: Aerospace – 54%:21%:22%:3%. Novelis' Specialty products portfolio comprises light- as well as thick-gauge materials in the range of container foil to electronics to commercial trucks and trailers. With the acquisition of Aleris, the company has been able to expand its product reach to heat exchangers and building & construction. It has emerged as No 1 firm in commercial trucks & trailer sheets, building & construction and container sheet in North America, currently accounts for +50% of global specialties portfolio for Novelis. Provides a long-term strategic approach and provides benefits - The rising scale of operations by 0.5mn tonne post divestment of Aleris' two automotive units based in Belgium and the US, Diversified product portfolio, which includes aerospace, beverage cans, automotive, building & construction, commercial transportation and specialty products, Integration of assets in Asia to provide access to recycling, casting, rolling & finishing capabilities and allowing Novelis to strengthen its presence in Asia, and synergy benefits. The company targets to achieve synergy benefits of US\$ 185mn (USD 54mn already achieved until Q3FY21) and an EBITDA of US\$ 370mn over the next three years. As per the management the **Global FRP Demand is estimated to grow by ~3% in CY22 (v/s CY21 growth of ~11%)**.

In Q2FY23, Novelis' revenue stood \$4.8 bn (v/s \$4.1 bn), +17% YoY, supported by higher volumes, increased product pricing, favourable mix and higher average aluminium prices. Total shipments of flat rolled

products (FRPs) were at 984 Kt v/s 968 Kt in Q2FY22 and 962kt in Q1FY23 supported by double digit increase in automotive and aerospace shipments as Covid and supply chain challenges ease.

- **North America (+3%, YoY)** -Higher Automotive shipments with improving semiconductor supply to the Industry
- **Europe (+3%, YoY)** - Improving aerospace and automotive shipments with semiconductor supplies easing.
- **Asia (+6%, YoY)** - Record Shipments in the region, with higher Can shipments on strong demand and support to North America, and improving aerospace demand
- **South America (+10%, YoY)** - Record Shipments on increased capacity with strong Can demand across Americas.
- **1H FY23 Shipment mix (%)** - Can: Automotive: Specialities: Aerospace – 58:18:21:3

Adjusted EBITDA of \$506 mn v/s \$553 mn YoY and \$583 QoQ primarily due to inflationary pressures, unfavourable foreign exchange translation. Reported adjusted EBITDA per ton of \$514 in Q2FY23, compared to \$571 YoY and \$ 583 in Q1FY23. Broke ground in Oct'22 on \$2.5 bn greenfield, fully integrated rolling and recycling plant in Bay Minette, Alabama, expected to be completed in mid 2025. The company has indicated that higher energy and logistics costs and unfavourable metal price lag are likely to impact 2H FY23. On the back of the same, Novelis sees near term cost headwinds to the tune of ~US\$75–125/tonne (especially in Q3FY23). Sustainable EBITDA/tonne guidance remains unchanged at US\$ 525/tonne. EBITDA/tonne is likely to spring back to the guidance level once the re-negotiated contracts takes effect. Annual Contracts will get reset from 01 January 2023 when Novelis will try to cover most of the costs increased. The pass through will start happening from January 2023, with full benefits of pass through visible in next two quarters.

Novelis – USD mn	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q2FY23 v/s Q2FY20 (%)	YoY (%)
Sales (kt)	830	835	797	811	781	923	933	983	973	968	930	987	962	984	17.8	6.6
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		
Revenue	2925	2851	2715	2726	2426	2978	3241	3631	3855	4119	4326	4849	5089	4799	68.3	61.1
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		
EBITDA	368	378	343	354	253	455	476	505	508	553	506	430	561	502	32.8	10.3
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)		
EBITDA/tonne	443	453	430	436	324	493	510	514	522	571	544	436	583	510	12.6	3.4
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	48.8	594.6
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)		

	FY17	FY18	FY19	FY20	FY21	FY22
Novelis Volumes (kt)	3067	3188	3274	3273	3620	3858

Novelis EBITDA and EBITDA/t	FY17	FY18	FY19	FY20	FY21	FY22
EBITDA USD mn	1,085	1,215	1,368	1,443	1,689	1,997
EBITDA/t	354	381	418	441	467	518

Source: Company, Way2Wealth Research

Q2FY23 realisation at US\$ 4877/tonne (+2.3% YoY & -7.8% QoQ) compared to LME realisation of US\$ 2367/ tonne a premium of US\$ 2510/tonne. Q1FY23 realisation at US\$ 5290/tonne compared to LME realisation of US\$ 2896/ tonne a premium of US\$ 2394/tonne

- **Power and fuel cost impacted performance in Q2FY23 – Consolidated net sales stood at ₹562bn (+18% YoY/-3% QoQ) with higher YoY sales were driven by strong performance from Asia operations of Novelis and higher copper ASP. Consolidated EBITDA at ₹53.6bn was down 29% YoY/36% QoQ impacted by the cost escalation, especially on thermal coal and the company was also carrying low-value inventory resulting in margin at 9.5% - 631 bps YoY and 498 bps QoQ. Adjust PAT was at ₹22.1bn, -36% YoY and 47% QoQ. Coal consumption costs increased due to lower availability of linkage coal during the quarter. Coal mix—linkage coal at 45-48%, e-auction coal at 30%, captive coal at 6%, and the remaining from private parties and import. Linkage coal in the past used to be 75%; the company expects it to gradually increase in coming quarters. Expects to commission the Chakala coal mine (5.5 mtpa) by Dec'23; the company is still awaiting official notification of the awarding of the Meenakshi coal block. Aluminum cost of production increased 20% QoQ in Q2FY23, mainly led by power costs. Management expects CoP to decline 3-5% QoQ in Q3FY23; deflation in coal costs should continue in future quarters, with improving availability of domestic coal. For Q2FY23, Hindalco's India business reported topline of ₹189.63bn, +9% YoY. Indian aluminium business reported sales volume of 341,000 tonnes v/s 350,000 tonnes YoY. Indian copper business reported sales volume of 112,000 tonnes v/s 110,000 tonnes YoY. For Q2FY23, Hindalco's Indian Business EBITDA was at ₹20.91bn (-41% YoY). Hindalco's Indian aluminium business EBITDA was at ₹15.47bn v/s 32bn YoY. Hindalco's Indian copper business EBITDA was at ₹5.44bn, +54% YoY. PAT of Hindalco's India business for Q2FY23 was at ₹9.21bn (-49% YoY). As per the management, traditionally Q3FY23 is a weak quarter due to annual maintenance for several customers. Hence, there should be a dip in margins in Q3FY23. All major costs will become pass-through from Q1CY23 (Q4FY23). However, the full benefit of the pass through will be visible in two quarters. Net debt was ~₹421bn as on Sep'22 v/s ~₹480bn in Sep'21 and ~₹422bn in Jun'22**

Aluminium including Utkal - Operational Performance

	Q1 FY20	Q 2FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q2FY23 v/s Q2FY20	YoY
ALUMINIUM Sales (kt)	320	328	320	314	303	315	324	329	303	338	325	336	333	341	4.0%	0.9%
YoY (%)	6.7	0.6	1.5	(3.4)	(5.3)	(4.0)	1.3	4.8	-	7.3	0.3	2.1	9.9	0.9		
QoQ (%)	(1.5)	2.5	(2.4)	(1.9)	(3.5)	4.0	2.9	1.5	(7.9)	11.6	(3.8)	3.4	(0.9)	2.4		
Average LME Aluminum (USD/t)	1792	1762	1752	1694	1493	1703	1925	2100	2395	2648	2759	3254	2882	2354	33.6%	-11.1%
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)		
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)		
EBITDA-Aluminum (USD/t)	379	349	413	457	423	527	619	746	1052	1296	1389	1601	1304	644	84.5%	-50.3%
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)		
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)		

Source: Company, Way2Wealth Research

For the Copper business the management indicated that EBITDA run-rate of ₹4.5-5bn on a quarterly basis to be sustainable

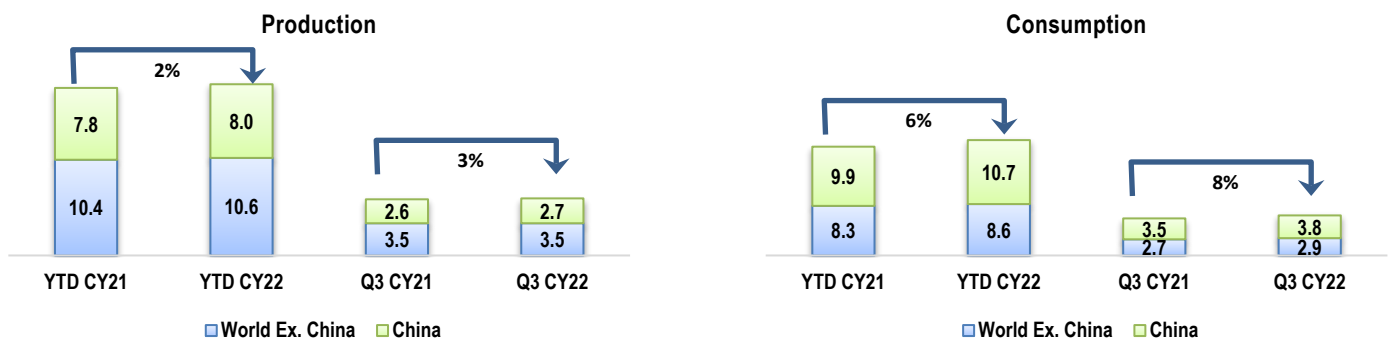
	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q2FY23 v/s Q2FY20	YoY
COPPER Production (kt)	76	84	86	75	41	73	51	97	63	100	102	94	92	105	25.0%	5.0%
COPPER Sales (kt)	82	82	84	86	58	75	73	107	80	110	110	105	101	112	36.6%	1.8%
YoY (%)	-	3.8	(15.2)	(14.0)	(29.3)	(8.5)	(13.1)	24.4	37.9	46.7	50.7	(1.9)	26.3	1.8		
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		
COPPER Rods Production (kt)	66	65	60	71	26	36	67	76	44	70	77	69	79	86	32.3%	22.9%
COPPER Rod Sales (kt)	63	63	58	73	31	64	65	73	46	70	71	74	80	85	34.9%	21.4%
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		
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		
EBITDA/tonne (USD/t)	138	134	112	134	150	429	431	406	442	432	453	489	726	610	356.7%	41.2%
YoY (%)	(16.0)	(21.2)	(39.4)	(3.0)	8.5	221.2	285.3	203.8	194.7	0.7	5.1	20.4	64.3	41.2		
QoQ (%)	(12.0)	(3.4)	(16.3)	19.5	12.2	186.0	0.5	(5.8)	8.9	(2.3)	4.9	7.9	48.5	(16.0)		

	FY18	FY19	FY20	FY21	FY22	CAGR FY18-22
India Copper volumes (000 tons)	410	359	335	313	405	(0.3)
TCRC margin (cents/lb)	21	21	16	16	16	(6.6)
EBITDA (₹ bn)	15	17	12	7	14	(1.7)
EBITDA/ton (US\$/ton)	582	669	495	308	520	(2.8)

Source: Company, Way2Wealth Research

As per the management, India's refined copper demand is expected to grow 7-8% over the next 8-10 years. Domestic copper demand is driven largely by rods which is the downstream product for the copper business. Hindalco's strategy of enhancement of Copper VAP capacity through Copper Rods and Copper Inner grooved tubes will help the company drive a larger market share and meet the growing demand for copper in the domestic market. Inner grooved tubes industry is likely to be another opportunity which is specifically applicable in air conditioning & refrigeration systems, heat exchangers and the plumbing industry. The management views total demand for inner grooved tubes in India at ~50,000 tonnes and the company accounts for 40% of total tubes at present. Plans of adding a 25,000-tonne inner groove tubes & alloy rod capacity in India, which is likely to come on stream by FY24. Copper business capacity for primary cathodes, including recycling, is likely to go up from the current 421,000 tonne to 521,000 tonne within five years, and it may consider adding 250,000 tonne smelting capacity thereafter. The company targets to increase Copper VAP capacity from the current 315,000 tonne to 445,000 tonne within five years and 655,000 tonne (rise to 85% of total capacity) thereafter.

Global Demand & Supply Balance (Million Tons)



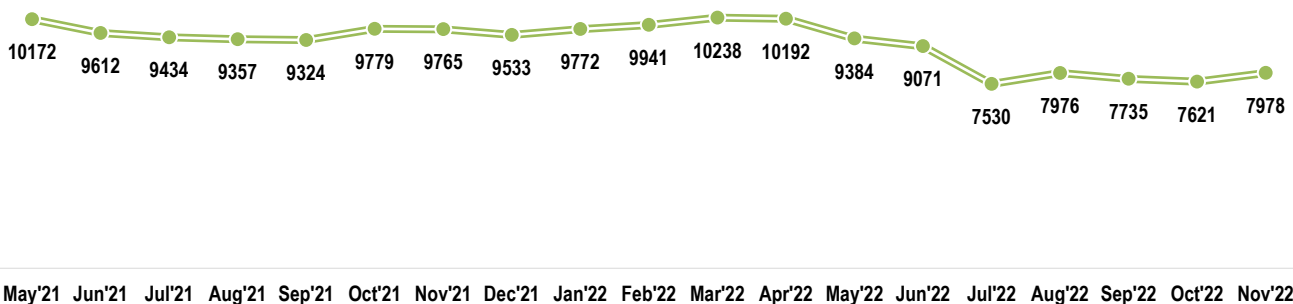
Source: Company, Way2Wealth Research

➤ YTD CY22 (v/s YTD CY21)

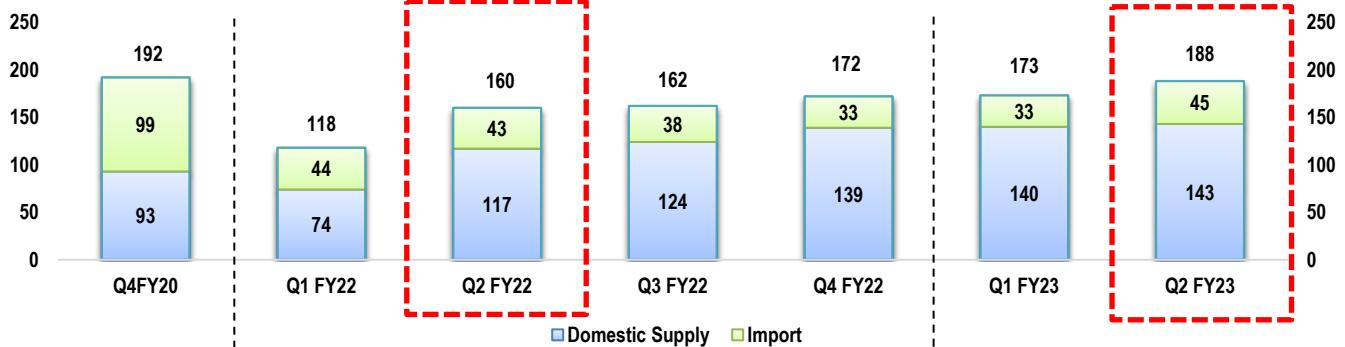
- China's production increased by ~3.0%, and consumption grew by ~8.0% YoY
- World Ex China production increased by 2% on a YoY basis, whereas consumption grew by ~4% YoY

➤ Q3 CY22 (v/s Q3 CY21)

- China's production increased by 4% YoY while consumption grew by 8% YoY
- World Ex China Production increased marginally by 1%, and consumption increased by ~7% on a YoY basis

Copper price trend USD/ tonne


Source- Bloomberg

Domestic Copper Industry


Source: Company, Way2Wealth Research

In Q2FY23, market demand increased by ~18% YoY at 188 kt v/s 160 kT in Q2FY22. On a sequential basis, In Q2FY23, market demand increased by 9%, while domestic producer's share is close to 76%. Global copper consumption in 9MCY22 grew 3% and consumption was up by 6%. Spot Copper concentrates TC/RC has increased to US\$ 21.5/lb from US\$ 18/lb QoQ and management expects CY23 benchmark to settle at higher level versus CY22

- **Future Commitments** – Hindalco remains committed towards on-going projects however new capex projects will be undertaken based on free cashflow generated. The company's additional 350 Kt expansions via debottlenecking at Utkal Alumina remains in progress. The company entered into a commercial agreement with Greenko to supply 100 MW round-the-clock carbon free power with a combination of solar, wind and hydro pump storage. Construction of the first Greenfield aluminum rolling mill in last 40 years has been started. The US\$2.5bn project will be completed by mid-CY25. Projects worth US\$4.5bn have

been identified and capex worth US\$ 3.4bn have been planned. These include US automotive and recycling plant in Kentucky, S. Korea recycling plant and debottlenecking opportunities in US and Brazil with integration of facilities of Novelis and erstwhile Aleris in China. . 50% of the new beverage can capacity has been committed, while balance capacity has not been committed for want of higher prices as the capacity comes online between 12-18 months. Novelis does not expect prices to come off from the already contracted prices. Net Debt / EBITDA for Novelis in the guiding range of 2.5x. Gross debt in India at ₹140bn and cash position at ₹100bn. India is an upstream business, the gross debt level in India will be under control and Company does not expect any further increase in gross debt at India business. As per the management, Pension liabilities remain under control with liabilities in the range of US\$ 600mn with cash outflow annually being about US\$100mn. Assets are also close to US\$ 600mn with no major surprises.

Key Risk

Slowdown in demand from China. Fluctuations in global aluminium prices. Adverse currency movement.

View

Hindalco's Q2FY23 EBITDA was impacted by lower LME aluminium (Al) price and significant cost headwinds. Al upstream EBITDA was down 62% YoY to US\$495/tonne while Al downstream EBITDA was stable QoQ at US\$264/tonne. Copper (Cu) EBITDA gained from higher spot TC/RC margin and by-product prices; value-added product (VAP) sales volume in both Al and Cu businesses was up; and net debt/EBITDA rose slightly to 1.47x. Going ahead, we believe, progressively lower cost in Al division and robust TC/RC levels in Cu division are likely to aid India earnings, despite transient cost headwinds at Novelis. In our view, adherence to capital allocation policy of pacing (under appraisal) projects in line with cash generation in India business is a key positive. While management reiterates Novelis' long-term EBITDA/tonne guidance of US\$ 525, near-term headwinds may cause a fall by US\$ 75-125. On the contrary, at a time when soft aluminium prices will likely reduce working capital for Novelis, gradual fall in operating cost on improved availability and lower prices of coal, continued focus on value-added products and backward integration should help India aluminium business to contain any further margin contraction. **Considering the above mentioned factors, we view it as an BUY having implied EV ₹1,555,741mn with Net Debt at ₹420,630mn deriving implied MCAP of ₹1,135,111mn resulting in fair value of ₹510-520 per share.**

Q2FY23 FINANCIAL PERFORMANCE

Particulars (₹ mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Revenue	561,760	476,650	17.9	580,180	(3.2)	1,141,940	890,230	28.3
Cost of Matl	342,850	300,920	13.9	353,130	(2.9)	695,980	561,070	24.0
Trade Purchases	3,120	3,920	(20.4)	1,200	160.0	4,320	6,490	(33.4)
Inventory Changes	5,700	(17,580)	132.4	(910)	(726.4)	4,790	(42,770)	(111.2)
Employee Exps	32,100	29,210	9.9	30,340	5.8	62,440	59,490	5.0
Power & Fuel Cost	50,040	25,950	92.8	40,180	24.5	90,220	50,010	80.4
Other Exps	73,750	57,660	27.9	71,910	2.6	145,660	116,160	25.4
Impairment Loss/(Reversal) on Noncurrent & Financial Assets	580	990	(41.4)	40	1,350.0	620	2,470	(74.9)
EBITDA	53,620	75,580	(29.1)	84,290	(36.4)	137,910	137,310	0.4
EBITDA Margin (%)	9.5	15.9	(631)	14.5	(498)	12.1	15.4	(335)
Other Income	3,280	3,950	(17.0)	2,110	55.5	5,390	6,620	(18.6)
Depreciation	17,130	16,400	4.5	17,490	(2.1)	34,620	32,850	5.4
Finance Cost	8,790	12,910	(31.9)	8,470	3.8	17,260	21,110	(18.2)
Profit/ (Loss) from JVs & Associates	20	-	NM	30	(33.3)	50	20	150.0
Exceptional Income/ (Exps)	-	200	(100.0)	410	(100.0)	410	5,960	(93.1)
PBT	31,000	50,420	(38.5)	60,880	(49.1)	91,880	95,950	(4.2)
Tax	8,950	16,150	(44.6)	19,690	(54.5)	28,640	29,140	(1.7)
Profit /(Loss) from Discontinued operations	-	(100)	(100.0)	-	-	-	(4,770)	(100.0)
Net Profit	22,050	34,170	(35.5)	41,190	(46.5)	63,240	62,040	1.9
EPS (₹)	9.9	15.4	(35.5)	18.6	(46.5)	28.5	27.9	1.9

As % of Sales	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)	1HFY23	1HFY22	YoY (bps)
Mat Cost	62.6	60.3	234	60.9	169	61.7	58.9	279
Gross Profit	37.4	39.7	(234)	39.1	(169)	38.3	41.1	(279)
Employee Exps	5.7	6.1	(41)	5.2	48	5.5	6.7	(121)
Power & Fuel Cost	8.9	5.4	346	6.9	198	7.9	5.6	228
Other Exps	13.1	12.1	103	12.4	73	12.8	13.0	(29)

Source: Company, Way2Wealth Research

Q2FY23 SEGMENTAL PERFORMANCE

Segmental Revenue (₹ mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Novelis	383,210	305,120	25.6	392,890	(2.5)	776,100	589,400	31.7
Aluminium Upstream	82,150	74,210	10.7	86,990	(5.6)	169,140	135,720	24.6
Aluminium Downstream	28,840	25,490	13.1	27,400	5.3	56,240	48,420	16.2
Copper	96,580	95,870	0.7	105,290	(8.3)	201,870	166,810	21.0

Segmental EBIT (₹ mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	1HFY23	1HFY22	YoY (%)
Novelis	40,470	41,000	(1.3)	43,340	(6.6)	83,810	81,900	2.3
Aluminium Upstream	13,470	31,280	(56.9)	32,720	(58.8)	46,190	54,450	(15.2)
Aluminium Downstream	2,000	760	163.2	1,580	26.6	3,580	1,150	211.3
Copper	5,440	3,520	54.5	5,650	(3.7)	11,090	6,130	80.9

Segmental EBIT Margin (%)	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)	1HFY23	1HFY22	YoY (bps)
Novelis	10.6	13.4	(288)	11.0	(47)	10.8	13.9	(310)
Aluminium Upstream	16.4	42.2	(2,575)	37.6	(2,122)	27.3	40.1	(1,281)
Aluminium Downstream	6.9	3.0	395	5.8	117	6.4	2.4	399
Copper	5.6	3.7	196	5.4	27	5.5	3.7	182

Segmental Revenue (%)	Q2FY23	Q2FY22	YoY (bps)	Q1FY23	QoQ (bps)	1HFY23	1HFY22	YoY (bps)
Novelis	68.2	64.0	420	67.7	50	68.0	66.2	176
Aluminium Upstream	14.6	15.6	(95)	15.0	(37)	14.8	15.2	(43)
Aluminium Downstream	5.1	5.3	(21)	4.7	41	4.9	5.4	(51)
Copper	17.2	20.1	(292)	18.1	(96)	17.7	18.7	(106)

Source: Company, Way2Wealth Research

FINANCIALS & VALUATIONS

₹ mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Revenues	1,151,717	1,305,423	1,181,440	1,319,850	1,950,590	2,033,617	2,045,013
YoY Growth (%)	15	13.3	(9.5)	11.7	47.8	4.3	0.6
EBITDA	139,206	155,105	142,060	176,480	283,470	244,576	282,862
EBITDA margin (%)	12.1	11.9	12.0	13.4	14.5	12.0	13.8
YoY Growth (%)	11.9	11.4	(8.4)	24.2	60.6	(13.7)	15.7
Net Profit	60,829	54,946	37,669	141,950	137,300	97,333	111,361
YoY Growth (%)	219.0	(9.7)	(31.4)	276.8	(3.3)	(29.1)	14.4
EPS (₹)	27.3	24.7	16.9	63.8	61.7	44	50
DPS (₹)	1.4	1.2	1.3	3.5	4.0	5.0	5.5
RoE (%)	12.8	14.5	10.1	13.4	18.8	17.7	18.8
RoCE (%)	9.3	10.6	8.5	9.1	10.5	11.9	13.1
Debtors days	32	32	29	36	39	38	39
Inventory days	69	62	69	85	83	86	85
Creditors days	65	58	56	78	83	84	83
Net Debt-Equity	2.8	2.5	2.8	2.7	1.4	1.3	1.2
Interest Coverage Ratio	2.4	2.8	2.2	2.9	5.7	5.7	7.3
Net Debt-EBITDA	2.8	2.5	2.8	2.7	1.4	1.4	1.3
Cash Balances	80,578	97,870	215,690	83,390	173,920	129,861	179,778
FCF	79,000	60,000	59,000	117,000	114,000	84,971	98,134
P/E (x)	16.0	17.6	25.7	6.8	7.1	10.0	8.7
EV/ EBITDA (x)	9.9	8.8	9.7	8.2	4.8	5.1	4.3
P/BV (x)	2.6	2.5	2.5	2.2	1.8	1.6	1.2

Source: Company, Way2Wealth Research

Peer Comparison

COMPANY	CMP (Rs)	MCAP (Rs bn)	Revenue (Rs mn)				EBITDA (Rs mn)				EBITDA Margin (%)				Net Profit (Rs mn)				EPS (Rs)				DPS (Rs)			
			FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
HINDALCO	435.9	979.1	1,305,423	1,181,440	1,319,850	1,950,590	155,105	142,060	176,480	283,470	11.9	12.0	13.4	14.5	54,946	37,669	141,950	137,300	24.7	16.9	63.8	61.7	1.2	1.3	3.5	4.0
NALCO	76.1	139.8	114,993	84,718	89,558	141,808	29,561	4,892	17,828	45,172	25.7	5.8	19.9	31.9	17,324	1,382	12,995	29,521	9.5	0.7	5.4	16.1	4.5	2.8	2.5	3.0

COMPANY	CMP (Rs)	MCAP (Rs bn)	RoE (%)				RoCE (%)				P/E (x)				EV/EBITDA (x)				P/BV (x)				MCAP/ Sales (x)			
			FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
HINDALCO	435.9	979.1	14.5	10.1	13.4	18.8	10.6	8.5	9.1	10.5	17.6	25.7	6.8	7.1	8.8	9.7	8.2	4.8	2.5	2.5	2.2	1.8	0.8	0.8	0.7	0.5
NALCO	76.1	139.8	17.2	1.4	9.7	25.4	24.0	2.0	11.7	31.7	8.0	108.7	14.1	4.7	3.7	25.5	7.3	2.4	1.4	1.4	1.3	1.1	1.2	1.6	1.6	1.0

COMPANY	CMP (Rs)	MCAP (Rs bn)	Cash flow from Operations (Rs mn)				FCF (Rs mn)				Cash Balances (Rs mn)				Net D/E (x)				Interest Coverage (x)				NWC Days			
			FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22	FY19	FY20	FY21	FY22
HINDALCO	435.9	979.1	1,20,000	1,27,000	1,72,000	1,68,000	60,000	59,000	1,17,000	114,000	97,870	2,15,690	83,390	1,73,920	2.5	2.8	2.7	1.4	2.8	2.2	2.9	5.7	36	42	43	39
NALCO	76.1	139.8	24,779	-3,486	21,990	39,584	17,099	-12,064	9,802	26,755	34,964	19,805	17,498	37,061	-0.3	(0.1)	(0.1)	-0.2	1,152.3	40.4	187.0	208.2	5	45	26	6

Source: Company, Way2Wealth Research

Technical View

After hitting an all time high of 629.96(29th March 2022), the HINDALCO witnessed profit booking and selling pressure at higher levels and fell by 51% (tested the low of 312 on 23rd June 2022). On daily chart, HINDALCO at 428-415 is holding right at important support formed through the convergence of rising demand line (joining June 2021 trend line and September 2022 downward falling resistance line) and given an upside breakout from the downward falling resistance line on weekly chart suggesting uptrend may remain intact and the stock can be expected to test the 50% retracement level of 470 and 506 of 61.80% retracement level in short to medium term scenario. Sustaining above 506 levels would take stock at 546 which is the starting June 2021 trend line in weekly chart. The weekly Momentum indicators MACD and Stochastic is signaling consolidation with negative bias and break down of 415/409 would invite fresh short term selling pressure. On weekly chart, the stock has been trading well above its major short to medium term exponential moving averages suggesting the medium term trend on HINDALCO continues to remain bullish. Overall, **we advocate to Buy HINDALCO around 428 – 440 range and add on dips till 409-380 for above mentioned targets 506 then 546 levels. On the downside 380-358 would act as strong support and slip below that would negate above positive view.**



Source: Falcon 7

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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
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Investment Banking relationship with company covered	NIL

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