# BONANZA WEALTH MANAGEMENT RESEARCH

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11th October 2023

# Hindalco Industries Ltd. – BUY

CMP : Rs. 484.0
Target Price : Rs. 584.0
Upside : 21%
Stop Loss : Rs. 430.0

## Investment Thesis

- Hindalco Industries Ltd. (HNDL) has increased investments in high margin downstream plants in India and the USA. Novelis, which is a subsidery of HNDL stepped in the undersupplied North American 'CAN sheet' market. Over the coming quarters, Novelis is anticipated to have a steady increase in EBITDA/ton, driven by stable demand from Europe and China. Indian business will gain from the development of captive coal mines and growing emphasis on high margin value added products (VAP).
- Post pandemic, despite several challenges in its global operations, the output of Novelis increased to 3.8 MMT at a healthy 5% CAGR. HNDL has set aside an investment of $2.5bn for 600 ktpa on fully integrated Greenfield plant, which is anticipated to be operational in FY26. This facility's may lead to increase in market share and profitability would increase with addition in a market supply. Strong orders have already been received from current clients.
- The performance in 2HFY24 is expected to improve as a result of stedy uptick in South America's scrap supply. The Chinese government's initiatives to boost the economy are also playing a crucial role. There is strength evident in Automotive volumes, driven by electrification and high pent-up demand post pandemic. For FY24E and FY25E, Novelis is in a good position to provide growth. As per management, Novelis will meet its $500/ton EBITDA target, up from $453/ton in FY23.
- HNDL is emphasising on increasing capacity in downstream copper and aluminium in India, with a 350ktpa increase in alumina capacity at Utkal plant by the end of FY24. Long-term value accretion would occur after captive coal mining at its Chakla coal mine begins in FY26.
- Over the next two years, HNDL has planned $850 mn in capital expenditures. Numerous modest downstream projects have been prioritised in India to take advantage of the PLI scheme. Also with cashflows improvement, HNDL will undertake more capital expenditures. In the near term, these value-added developments in the aluminium industry will be advantageous for HNDL since this will dampen the metal price volatility. The VAP's capacity is 1672ktpa and will increase to 2362ktpa by 2027.

## Financials

In FY23, HNDL showed 14% YoY revenue growth, however EBITDA margin declined by 444 bps whereas PAT reduced by 26.5% . Reason for the decline was lower demand for metal and declining prices of metal at the global level.

| Particulars | FY20 | FY21 | FY22 | FY23 | FY24E |
|---|---|---|---|---|---|
| Revenue | 1,18,144 | 1,32,008 | 1,95,059 | 2,23,202 | 2,17,089 |
| EBITDA | 14,306 | 15,860 | 28,657 | 22,885 | 23,880 |
| Net profit | 3,767 | 3,483 | 13,730 | 10,097 | 10,268 |
| EPS | 19 | 26 | 62 | 46 | 46 |
| EV/EBITDA | 10 | 9 | 5 | 7 | 7 |
| ROE | 7 | 9 | 19 | 12 | 10 |

## Stock Data

| | |
|---|---|
| Market Cap (Rs. Crs) | 1,08,372 |
| Market Cap ($ Mn) | 13,067.41 |
| Shares O/S (in Mn) | 2250 |
| Avg. Volume (3 month) | 17,16,59,093 |
| 52-Week Range (Rs.) | 509/380 |

## Shareholding Pattern

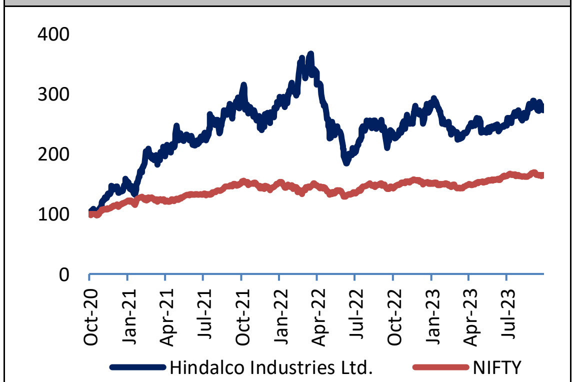
| | |
|---|---|
| Promoters | 34.65 |
| FIIs | 26.25 |
| Institutions | 26.08 |
| Others (incl. body corporate) | 13.02 |

## Key Ratios

| | |
|---|---|
| Div Yield | 0.61% |
| TTM PE | 12.9 |
| ROE | 11.7% |
| TTM EPS (Rs.) | 37.52 |

## Stock Performance

| Performance (%) | 1M | 6M | 1Yr |
|---|---|---|---|
| ABSOLUTE | (0.9%) | 16.8% | 18.0% |
| NIFTY 50 | 0.7% | 5.1% | 3.7% |



- Shipment of Novelis was reduced by 2% YoY in FY23 because of lower demand at the international markets. Shipment of aluminium upstream/ downstream and copper were improved by 2%/2% and 9%, respectively, because of increasing demand at domestic level.
- Due to falling metal prices, which are anticipated to rise in the coming year, EBITDA and EBITDA per tonne were negative at all levels, with the exception of aluminium downstream. Because of the strong domestic demand for aluminium and the ability to transfer risk, the company was able to retain profitability.

# Key Business Highlights

- Hindalco Industries (HNDL) is a market leader in the copper and aluminium industries in India, it is part of well-diversified Aditya Birla group. The company's operations in India include low-cost integrated primary aluminium smelting, special-grade alumina and custom copper smelting. The largest manufacturer of aluminium Flat Rolled Products (FRP) and aluminium recycler in the world, Novelis is a wholly owned subsidiary of HNDL with production facilities located across Asia, Europe and North America. After acquisition of Novelis for USD 6 billion in FY07, HNDL successfully expanded its FRP business. HNDL has also acquired Aleris Corp. in April 2020.
- HNDL has several capacity expansion plans that cater to diverse market segments. HNDL is setting up a new 1105 ktpa capacity in Novelis to support rolling and recycling activities which will support the upcoming demand growth. In the Indian business, HNDL is adding 350 kpta aluminia, 100 kpta can recycling, 170 kpta casting & rolling and 90 kpta Synthetic Aggregates Alumina, all expansion activities will be completed by FY26.
- HNDL is well placed to benefit from these high margin value added projects in aluminium and copper business over the near term. It has added capacity and introducing different products like aluminium truck body and aluminium wegons/coaches.
- As China is lowering interest rates as well as providing stimulus, these actions will support production activities. Also, the US has already raised interest rates to higher levels which give expectation that interest rate can be hiked only 1 or 2 times maximum, which is giving confidance to manufacturers for production activities. Higher production activities boost metal demand and help firms to earn higher margins. We are anticipating an improvement in EBITDA margins of HNDL in the coming years.

# Valuation

HNDL has stepped up investments in high margin downstream units in India and the US. Novelis has identified undersupplied North American CAN sheet market and aims to cater with indigenous plant. We expect consolidated EBITDA to grow at 4.40% over FY23-24E, with maintained EPS.

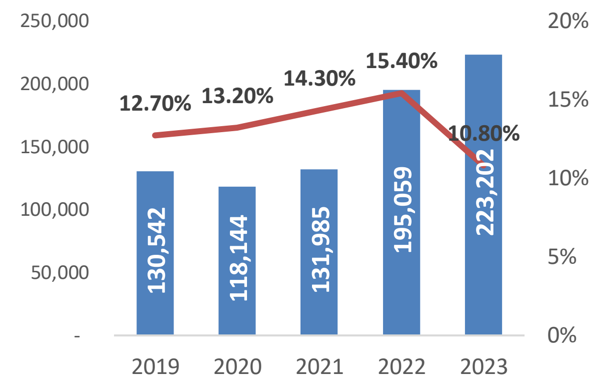
As profitability is improving and company can utilize that amount for the payment of debt which would improve the net debt position and strengthen the balance sheet. The stock trades at EV/EBITDA of 7x FY24E . We recommend 'Buy' on HNDL with target price of Rs.584, an upside of 21%.

# Risk & Concern

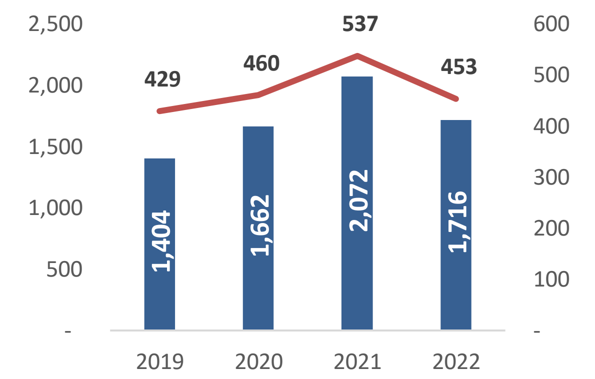
- Weak global demand situation can affect volumes and profitability.
- Volatility in metal prices can impact standalone business performance.

# Graphs & Charts

## Figure 1: Revenue & EBITDA Margin Trend



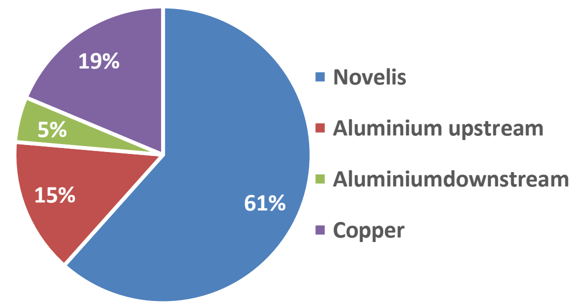

## Figure 2: Novelis EBITDA/Tone (USD)




## Figure 3: Capacity across HNDL

| Name | Capacity |
|---|---|
| Alumina | 3.6mtpa |
| Primary metal | 1.3mtpa |
| VAP | 400ktpa |
| Copper cathode | 421ktpa |
| Copper rods | 540ktpa |
| Novelis rolling capacity | 4.1ktpa |
| Recycling capacity | 2.2mtpa |

## Figure 4: Revenue classification of HNDL



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