

Retail Equity Research

Hindalco Industries Ltd.

Metals & Mining

BSE CODE: 500440

NSE CODE: HINDALCO

Bloomberg CODE: HNDL:IN

SENSEX: 77,210

BUY

12 Months Investment Period Rating as per Large Cap

 CMP Rs. 684 TARGET Rs. 791 RETURN 16% 

(Closing: 21-06-24)

KEY CHANGES:
TARGET 
RATING 
EARNINGS 

Copper business logs strong growth

Hindalco Industries Ltd, Aditya Birla Group's metals flagship company, manufactures aluminium products and copper. Its operations include bauxite and coal mining, aluminium rolling and electricity generation via captive power plants.

- Consolidated revenue growth was flat YoY at Rs. 55,994cr in Q4FY24, mainly owing to a drop in revenue of its subsidiary, Novelis.
- The Group's EBITDA rose 23.8% YoY to Rs. 7,201cr and EBITDA margin improved 250bps YoY to 12.9%, led by robust performance and wider margins across all segments. Thus, adjusted profit after tax (PAT) jumped 31.6% YoY to Rs. 3,174cr.
- Hindalco registered flat YoY growth in Q4FY24. EBITDA improved across the business on higher volume and cost optimisation measures. Further, a strong recovery in Novelis, an improved leverage ratio, a focus on expansion, and tactical capex are expected to drive the company's performance. Therefore, we upgrade our rating on the stock to BUY, with a revised target price of Rs. 791 based on SOTP.

Higher volume across the business; Novelis hurts topline growth

Hindalco's consolidated revenue growth was flat YoY at Rs. 55,994cr, mainly because revenue from Novelis fell 6.4% YoY to Rs. 33,859cr, dented by lower average aluminium prices YoY. However, its copper business expanded 19.8% YoY to Rs. 13,424cr on account of higher volume. During the quarter, copper sales volume grew 16% YoY to 135,000 tonne. Further, revenue from the Aluminium business increased 5.6% YoY to Rs. 11,389cr, aided by both upstream and downstream revenue on account of higher volume. Aluminium upstream business volume rose 4% YoY to 337,000 tonne, while aluminium downstream business volume was up 17% YoY to 105,000 tonne on account of market recovery and better realisation.

EBITDA margin remains strong

EBITDA surged 23.8% YoY to Rs. 7,012cr, driven by lower cost of sales and higher volumes. Cost of sales declined 4.4% YoY to Rs. 38,003cr, mainly because of the lower cost of materials consumed and lower power and fuel expenses. Cost of materials consumed decreased 2.8% YoY to Rs. 32,758cr and power and fuel cost dropped 5.9% YoY to Rs. 3,624cr in Q4FY24. Consequently, the EBITDA margin expanded 250bps YoY to 12.9% in Q4FY24. Novelis's adjusted EBITDA increased 29% YoY to Rs. 4,270cr (as per the US GAAP), aided by favourable metal benefits from recycling and lower operating costs.

Key concall and other highlights

- Novelis's volume rose to 951,000 tonne in Q4FY24 as against 936,000 tonne in Q4FY23, led by stronger demand for beverage packaging and record automotive shipments.
- In February 2024, Novelis Inc., a wholly owned subsidiary of Hindalco Industries Limited, initiated a road show for the IPO of 45 million of its common shares. Following the IPO's conclusion, Hindalco will possess 555 million shares of Novelis', accounting for 92.5% of Novelis' total outstanding common shares.

Valuation

Hindalco reported muted revenue growth during the quarter. However, its EBITDA improved across the business, aided by higher volume and cost optimisation. Moreover, a strong recovery in Novelis's business, robust balance sheet, improved leverage ratio, sustained focus on expansion, resilient cash generation plan and strategic capex are expected to support the company's performance in the future. Hence, we have upgraded our rating on the stock to BUY, with a revised target price of Rs. 791 based on SOTP valuation.

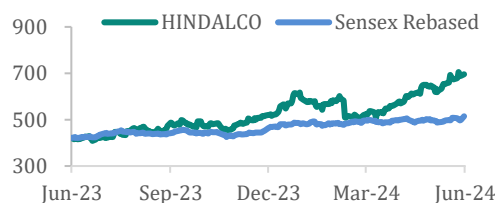
Company Data

Market Cap (cr)	Rs. 154,805
Enterprise Value (cr)	Rs. 193,373
Outstanding Shares (cr)	222.6
Free Float	65.0%
Dividend Yield	0.4%
52 week high	Rs. 715
52 week low	Rs. 407
6m average volume (lacs)	82.3
Beta	0.9
Face value	Rs. 1

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	34.6	34.6	34.6
FII's	30.7	31.6	30.5
MFs/Insti	25.8	25.2	25.8
Public	4.9	5.5	5.9
Others	3.9	3.1	3.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	33.2%	34.5%	65.4%
Absolute Sensex	3.6%	13.3%	22.3%
Relative Return*	29.6%	21.2%	43.1%

*over or under performance to benchmark index



Consolidated (cr)	FY24A	FY25E	FY26E
Sales	215,962	230,421	246,319
Growth (%)	(3.2)	6.7	6.9
EBITDA	25,753	29,535	32,153
EBITDA Margin (%)	11.9	12.8	13.1
Adj. PAT	10,134	12,859	14,324
Growth (%)	0.8	26.9	11.4
Adj. EPS	45.6	57.8	64.4
Growth (%)	0.8	26.9	11.4
P/E	12.3	12.0	10.8
P/B	1.2	1.3	1.2
EV/EBITDA	6.5	6.5	5.9
ROE (%)	9.6	10.9	10.9
D/E	0.5	0.5	0.4

Quarterly Financials (Consolidated)

Profit & Loss Account

Rs. cr	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Revenue	55,994	55,857	0.2	52,808	6.0	215,962	223,202	(3.2)
EBITDA	7,201	5,818	23.8	6,322	13.9	25,728	24,131	6.6
EBITDA margins	12.9	10.4	250bps	12.0	90bps	11.9	10.8	110bps
Depreciation	2,018	1,856	8.7	1,874	7.7	7,521	7,086	6.1
EBIT	5,183	3,962	30.8	4,448	16.5	18,207	17,045	6.8
Interest	888	986	(9.9)	944	(5.9)	3,858	3,646	5.8
Other Income	(158)	(139)	(13.7)	(177)	10.7	(360)	(208)	(73.1)
Exceptional Items	-	-	-	-	-	21	41	(48.8)
Share of profit from Associate	(1)	2	n.m.	1	n.m.	2	9	(77.8)
PBT	4,136	2,839	45.7	3,328	24.3	14,012	13,241	5.8
Tax	962	428	124.8	997	(3.5)	3,857	3,144	22.7
Reported PAT	3,174	2,411	31.6	2,331	36.2	10,155	10,097	0.6
Minority Interest	-	-	-	-	-	-	-	-
PAT att. to shareholders	3,174	2,411	31.6	2,331	36.2	10,155	10,097	0.6
Adjustments	-	-	-	-	-	(21)	(41)	48.8
Adj. PAT	3,174	2,411	31.6	2,331	36.2	10,134	10,056	0.8
No. of shares	222.6	222.6	(0.0)	222.2	0.2	222.5	222.6	(0.1)
Adj. EPS (Rs.)	14.3	10.8	31.7	10.5	35.9	45.6	45.2	0.8

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	218,974	226,722	230,421	246,319	5.2	8.6
EBITDA	25,694	27,240	29,535	32,153	14.9	18.0
Margins (%)	11.7	12.0	12.8	13.1	10bps	9bps
Adj. PAT	11,151	12,291	12,859	14,324	15.3	16.5
Adj. EPS	50.1	55.2	57.8	64.4	15.4	16.6

Sum of the parts (SOTP) valuation

Particulars	Basis	Multiple	Year	Value (Rs. Cr)	Value/share (Rs.)
Aluminium	EV/EBITDA	5.8x	FY26E	70,581	317
Copper	EV/EBITDA	5.8x	FY26E	18,969	85
Novelis	EV/EBITDA	6.0x	FY26E	116,319	523
Net Debt				42,275	190
Quoted Investments @ 20% discount				12,390	56
Target SOTP				157,015	791

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	195,059	223,202	215,962	230,421	246,319
% change	47.8	14.4	(3.2)	6.7	6.9
EBITDA	29,793	24,142	25,753	29,535	32,153
% change	66.6	(18.2)	6.6	14.8	8.9
Depreciation	(6,729)	(7,086)	(7,521)	(8,246)	(9,068)
EBIT	22,754	17,045	18,207	21,290	23,086
Interest	3,768	3,646	3,858	3,297	3,085
Other Income	588	(158)	(337)	(358)	(358)
PBT	19,574	13,241	14,012	17,634	19,643
% change	191.9	(32.4)	5.8	25.8	11.4
Tax	5,373	3,144	3,857	4,775	5,319
Tax Rate (%)	27.4	23.7	27.5	27.1	27.1
Reported PAT	14,201	10,097	10,155	12,859	14,324
PAT att. to common shareholders	13,730	10,097	10,155	12,859	14,324
Adj*	(111)	(41)	(21)	-	-
Adj PAT	13,619	10,056	10,134	12,859	14,324
% change	204.3	(26.2)	0.8	26.9	11.4
No. of shares (cr)	222.7	222.6	222.5	222.5	222.5
Adj EPS (Rs.)	61.2	45.2	45.6	57.8	64.4
% change	203.4	(26.1)	0.8	26.9	11.4
DPS (Rs.)	4.0	3.0	3.5	3.8	4.2

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	17,392	15,368	14,437	16,405	18,735
Accounts Receivable	21,076	16,214	16,404	17,512	18,967
Inventories	44,483	42,958	40,812	43,979	46,343
Other Cur. Assets	15,592	14,771	10,690	11,618	12,967
Investments	8,688	8,279	12,218	13,183	13,834
Gross Fixed Assets	131,519	140,942	156,620	177,358	199,527
Net Fixed Assets	76,470	78,530	79,698	90,726	102,216
CWIP	4,727	7,340	14,643	16,107	17,718
Intangible Assets	30,601	32,436	32,290	32,590	32,904
Def. Tax (Net)	1,207	1,328	1,184	1,466	1,633
Other Assets	2,826	7,593	9,531	10,100	10,413
Total Assets	223,062	224,817	231,907	253,685	275,730
Current Liabilities	65,394	53,092	51,821	60,482	69,262
Provisions	6,858	5,891	6,235	6,484	6,744
Debt Funds	65,089	60,554	56,712	54,962	53,212
Other Liabilities	7,519	10,463	10,982	13,576	14,937
Equity Capital	222	222	222	222	222
Reserves & Surplus	77,969	94,584	105,924	117,948	131,342
Shareholder's Fund	78,191	94,806	106,146	118,170	131,564
Minority Interest	11	11	11	11	11
Total Liabilities	223,062	224,817	231,907	253,685	275,730
BVPS (Rs.)	351	426	477	531	591

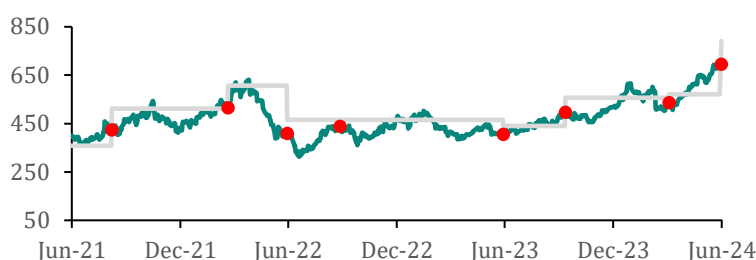
CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	20,930	17,183	17,676	21,104	23,391
Non-cash adj.	4,801	(38)	5,729	2,491	904
Changes in W.C	(8,893)	2,063	651	4,138	4,688
C.F. Operation	16,838	19,208	24,056	27,733	28,983
Capital exp.	(5,355)	(9,637)	(15,678)	(20,738)	(22,169)
Change in inv.	4,242	(264)	1,826	(1,292)	(1,011)
Other invest.CF	(5,961)	1,885	(424)	(1,150)	(794)
C.F - Investment	(7,074)	(8,016)	(14,276)	(23,180)	(23,974)
Issue of equity	(73)	(125)	(99)	-	-
Issue/repay debt	(4,599)	(8,187)	(4,393)	(1,750)	(1,750)
Dividends paid	(667)	(890)	(667)	(835)	(930)
Other finance.CF	(1,426)	(1,248)	(5,658)	(0)	0
C.F - Finance	(6,765)	(10,450)	(10,817)	(2,585)	(2,680)
Chg. in cash	2,999	742	(1,037)	1,968	2,329
Closing cash	17,392	15,368	14,437	16,405	18,735

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	15.3	10.8	11.9	12.8	13.1
EBIT margin (%)	11.7	7.6	8.4	9.2	9.4
Net profit mgn.(%)	7.0	4.5	4.7	5.6	5.8
ROE (%)	17.6	10.7	9.6	10.9	10.9
ROCE (%)	15.9	11.0	11.2	12.3	12.5
W.C & Liquidity					
Receivables (days)	39.4	26.5	27.7	27.7	28.1
Inventory (days)	126.2	99.2	100.4	102.2	100.4
Payables (days)	124.3	95.8	95.8	110.0	120.9
Current ratio (x)	1.3	1.5	1.4	1.3	1.3
Quick ratio (x)	0.6	0.6	0.6	0.6	0.5
Turnover & Leverage					
Gross asset T.O (x)	1.5	1.6	1.5	1.4	1.3
Total asset T.O (x)	0.9	1.0	0.9	0.9	0.9
Int. coverage ratio (x)	6.0	4.7	4.7	6.5	7.5
Adj. debt/equity (x)	0.8	0.6	0.5	0.5	0.4
Valuation					
EV/Sales (x)	0.9	0.6	0.8	0.8	0.8
EV/EBITDA (x)	5.9	5.6	6.5	6.5	5.9
P/E (x)	9.3	9.0	12.3	12.0	10.8
P/BV (x)	1.6	1.0	1.2	1.3	1.2

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
10-Aug-21	BUY	512
22-Feb-22	BUY	608
2-Jun-22	BUY	466
30-Aug-22	HOLD	465
1-Jun-23	HOLD	440
14-Sep-23	BUY	557
7-Mar-24	HOLD	571
24-Jun-24	BUY	791

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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