

May 26, 2024

**RESULT REPORT Q4 FY24** | Sector: Metals and Mining

# Hindalco Industries Ltd

## Strong performance fueling growth plans

### Our view

Hindalco's Q4FY24 earnings was marginally above our estimates owing to better realizations for the Indian aluminium business and higher volumes seen on the copper front. Both copper and aluminium pricing is expected to remain strong and have now recovered from the bottoms of CY 2023, hence we believe, the pricing effect should reflect in the company's performance for the year.

Since our initiation on the company, the stock has delivered ~27% returns owing to business operations and a favorable macro-profile. We maintain our positive stance on Hindalco Industries Ltd and use the SOTP model to derive our target price of Rs 743/sh.

### Backward integration to help raw material supply and price volatility

Hindalco is keenly focusing on expanding its raw material security for its Indian aluminium upstream business. The total coal requirement on an annual basis is ~16.0 mtpa. The Chakla and Meenakshi coal mines are expected to be operational by the end of FY26. The cost savings effect from these will be reflected from FY27E onwards thereby strengthening the company's manufacturing capabilities on the aluminium front. The move on the backward integration also helps the company from the price volatility effect and more provides more control on the production front.

### LME aluminium prices expected to remain strong

LME prices have showcased a very strong recovery since the start of FY25E from the lows of \$2,150/t during most of FY24E. We expected this recovery on strong global demand cues for the metal. During the first two months of FY25E, the LME has averaged over \$2,550/t and we expect the metal prices to remain strong over the \$2,400/t range for the year thereby helping Hindalco's Indian operations. Strong LME Aluminium pricing coupled with backward integration will only help the company to expand on the margin front.

### VAP profile to help safeguard from LME pricing risks

Hindalco's focus continues to remain on expanding on the downstream businesses. HIL is determined to improve its VAP product mix to gain higher margins, especially in its Indian Aluminium business. Going forward, HIL intends to add ~200 ktpa downstream capacity in India, a likely gamechanger for its Aluminium business. The company sees this move to shift to a more consumer-centric business model, along with reducing pricing volatility risks.

### Exhibit 1: Actual vs estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	559,940	544,863	539,596	2.8%	3.8%	Strong performances expected to continue.
EBITDA	70,430	67,076	65,637	5.0%	7.3%	
EBITDA %	12.58%	12.31%	12.16%	2.2%	3.4%	
PAT	31,740	28,833	25,521	10.1%	24.4%	

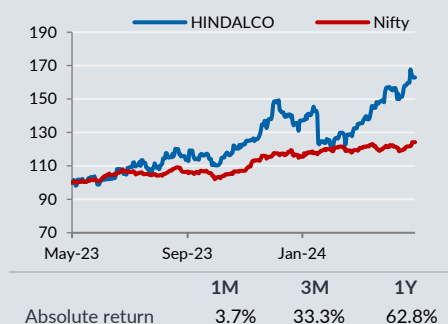
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 679
Target Price	: Rs 743
Potential Upside	: +10%

### Stock data (as on May 24, 2024)

Nifty	22,957
52 Week h/l (Rs)	699 / 398
Market cap (Rs/USD mn)	1506020 / 18132
Outstanding Shares (mn)	2,237
6m Avg t/o (Rs mn):	3,756
Div yield (%):	0.6
Bloomberg code:	HNDL IN
NSE code:	HINDALCO

### Stock performance



### Shareholding pattern (As of Mar'24 end)

Promoter	34.6%
FII+DII	57.0%
Others	7.9%

### Δ in estimates

FY26E	New	Old
LME Aluminium (\$/t)	\$2,750/t	\$2,550/t
EBITDA (Rs mn)	323,879	306,585

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	743	663

### Financial Summary

(Rs bn)	FY24	FY25E	FY26E
Revenue	2,159.6	2,280.9	2,582.6
YoY %	-3.2%	5.6%	13.2%
EBIDTA	253.7	280.4	323.9
EBITDA %	11.7%	12.3%	12.5%
PAT	101.6	129.4	159.5
EPS	45.74	58.27	71.83
ROE %	9.6%	10.9%	11.8%
ROCE %	10.3%	11.4%	12.4%

### MANAV GOGIA

Research Analyst  
manav.gogia@ysil.in



## Result Highlights

- Consolidated revenue from operations for the quarter stood at Rs 559,940 mn (vs our estimate of Rs 544,863 mn), reporting a 6% QoQ jump and a flattish YoY growth.
- Consolidated EBITDA margins stood at 12.6% for the current quarter (vs our estimate of 12.31%). The absolute EBITDA came in at Rs 70,430 mn (vs our estimate of Rs 67,076 mn), a jump of 14.6% QoQ basis and up 24% YoY.
- Consolidated PAT for the quarter stood at Rs 31,740 mn (vs our estimate of Rs 28,833 mn), a 36% QoQ jump and 31.6% YoY growth.

## Operational Highlights

- Novelis reported a strong operational performance with EBITDA/t of \$540/t.
- Indian Aluminium business remained strong due to favorable macros and the company's cost efficiencies. The upstream business reported an EBITDA/t of \$967/t, up 17% YoY.
- The copper business saw higher demand thereby a rise in the company's shipments which is reflective of the performance. EBITDA for the business was up 30% YoY at Rs 7,760 mn.

## Exhibit 2: Quarterly Snapshot

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	% qoq	% yoy
Revenue	580,180	561,760	531,510	558,570	529,910	541,690	528,080	559,940	6.0%	0.2%
Cost of goods sold	393,600	401,710	388,340	397,510	369,980	376,230	357,070	380,030	6.4%	(4.4%)
Employee costs	30,340	32,100	32,590	35,600	35,290	36,480	38,450	37,560	(2.3%)	5.5%
Other expenses	71,910	73,750	74,490	71,230	67,310	72,600	72,080	73,970	2.6%	3.8%
EBITDA	86,400	56,900	39,140	56,790	61,050	60,750	61,450	70,430	14.6%	24.0%
EBITDA margins (%)	14.9%	10.1%	7.4%	10.2%	11.5%	11.2%	11.6%	12.6%	8.1%	23.7%
Depreciation	17,490	17,130	17,680	18,560	17,860	18,430	18,740	20,180	7.7%	8.7%
Finance costs	8,470	8,790	9,340	9,860	9,920	10,340	9,440	8,880	(5.9%)	(9.9%)
Exceptional items	410	-	-	-	-120	330	-	-	NA	NA
Profit before tax	60,880	31,000	12,140	28,390	33,170	32,310	33,280	41,360	24.3%	45.7%
Taxes	19,690	8,950	-1,480	4,280	8,630	10,350	9,970	9,620	(3.5%)	124.8%
Profit after tax	41,190	22,050	13,620	24,110	24,540	21,960	23,310	31,740	36.2%	31.6%
Share of profit/(loss)	30	20	20	20	20	-	10	-10	(200.0%)	(150.0%)
Minority interest	-	-	-	-	-	-	-	-	NA	NA
Profit attributable to owners	41,190	22,050	13,620	24,110	24,540	21,960	23,310	31,740	36.2%	31.6%
EPS	19	10	6	11	11	10	11	14	36.2%	31.6%

Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

### Global Outlook

- US growth to accelerate, Eurozone to gradually pick up, and moderate economic growth in China expected in 2024.
- Improving manufacturing sector momentum, reduction in supplier delivery times and rebound in global trade bode well for growth outlook.

### Business Operations

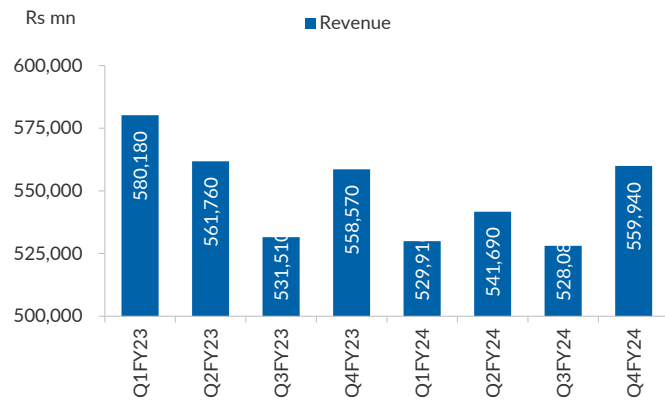
- The Indian balance sheet is net cash positive. The management explained that such a balance sheet helps organic growth. The company will be opening two mines, one alumina refinery which would be requiring substantial capex. The health of the balance sheet allows undertaking these projects without resorting to debt.
- Copper volumes were quite high for the quarter thereby providing exceptional numbers. However, a much more sustainable run-rate for the copper business EBITDA should be in the range of Rs 600-650 crs per quarter.
- The company's internal hurdle rate for any project is mid-teens for the IRR. The company reiterated that no project below the mid-teens for IRR will be taken up.
- The company wants to take on more long-term contracts for cans, foil stock thereby with upcoming capacity on the downstream side, the company will be moving towards more manageable number of downstream products with more stable pricing thereby less volatile EBITDA.
- The aluminium hedges led to a gain of Rs 263 crs in Q4FY24. Q4FY24 hedged quantity was 77kt at a rate of \$2,636/t.
- Costs on the upstream aluminium business fell for the quarter due to a fall in the coal prices for the business. Q1FY25 should see 1-2% lower in terms of margins vs Q4FY24.
- Copper rods continue to be the focal product. The company gets a premium from selling copper rods, thereby sustaining margins. The company also gets to generate revenues on by-products of the copper value-chain.
- Not looking to take on debt in the near future. Net cash balance sheet provides room to undertake capex without debt overload.

### Capex and Growth Plans

- Capex guidance: Rs 6,000 crs for FY25E.
- The coal block should be active sometime in Q3FY26E. Will help gain more cost control on the raw material side.
- The Meenakshi coal block still under consideration. Post the election, the company will be bidding for the same.
- The company has started the groundwork for upstream capacity expansion in India both for the Aluminium and Copper business. The current focus stays on finishing the capex for the alumina refinery.
- RTC power contract starting this year which would help save costs as well as help with the sustainable operations for the aluminium production.
- On the copper front, Hindalco is currently focused on increasing the copper rods capacity. No plans to enter the copper wire business segment.

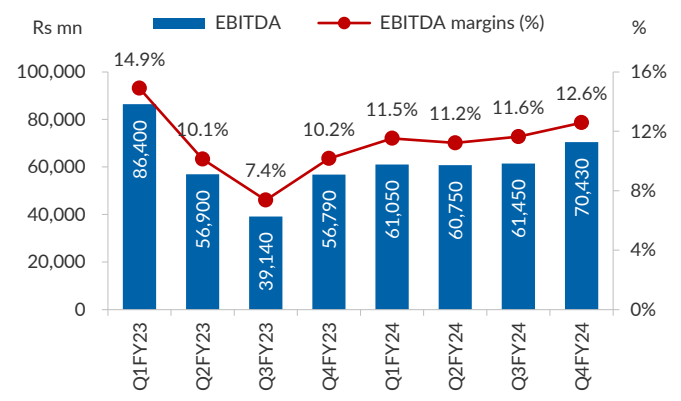
## QUARTERLY TRENDS

**Exhibit 3: Revenue increases 6% QoQ...**



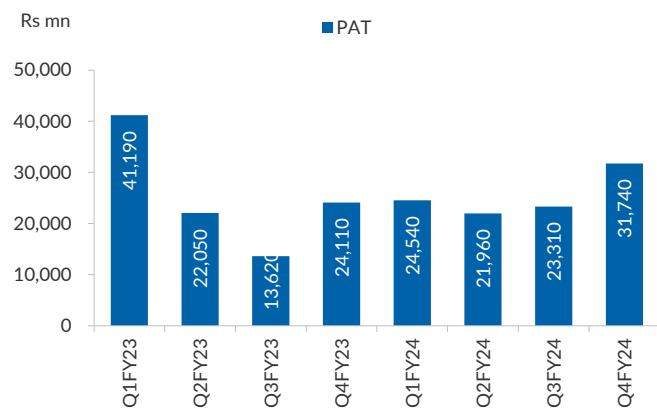
Source: Company, YES Sec

**Exhibit 4: EBITDA margins continue to remain strong...**



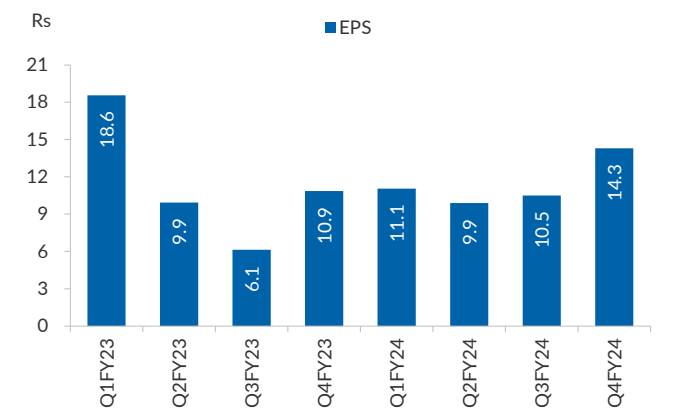
Source: Company, YES Sec

**Exhibit 5: PAT growth steady...**



Source: Company, YES Sec

**Exhibit 6: The EPS picture...**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 7: Income Statement**

Y/e 31 Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,951	2,232	2,160	2,281	2,583
COGS	1,287	1,581	1,483	1,563	1,762
Employee Cost	120	131	148	137	158
Other Expenses	3	2	4	4	4
Other Income	11	13	15	-	-
EBITDA	295	239	254	280	324
EBITDA (%)	15.1%	10.7%	11.7%	12.3%	12.5%
Depreciation	67	71	75	71	78
EBIT	228	168	178	209	246
EBIT (%)	11.7%	7.5%	8.3%	9.2%	9.5%
Finance Costs	38	36	39	37	34
Exceptional Items	6	0	0	0	0
PBT	196	132	140	172	213
Tax	54	31	39	43	53
PAT	137	101	102	129	159

**Exhibit 8: Balance Sheet**

Y/e 31 Mar (Rs bn)	FY22	FY23	FY24	FY25E	FY26E
Net Block	765	758	772	814	866
CWIP	47	73	146	154	161
Non-current Assets	1,245	1,355	1,496	1,546	1,605
Inventory	445	430	408	460	519
Receivables	211	162	164	197	223
Cash & Bank	174	151	144	157	184
Current Assets	985	893	823	937	1,056
<b>Total Assets</b>	<b>2,231</b>	<b>2,248</b>	<b>2,319</b>	<b>2,482</b>	<b>2,661</b>
Share Capital	2	2	2	2	2
Reserves	780	946	1,059	1,189	1,348
Non-current Liabilities	676	695	664	649	629
Current Liabilities	773	605	594	642	682
<b>Total Equity and Liabilities</b>	<b>2,231</b>	<b>2,248</b>	<b>2,319</b>	<b>2,482</b>	<b>2,661</b>

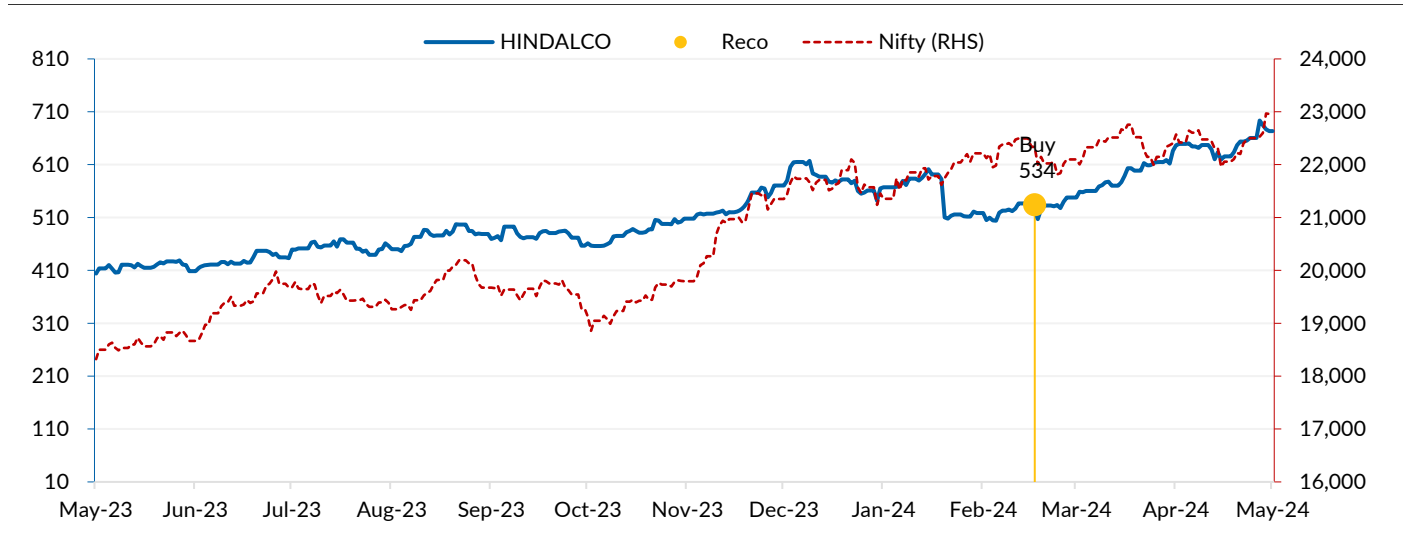
## Exhibit 9: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before taxes	196	132	140	172	213
Profit before working capital changes	297	224	248	281	324
Working capital changes	(91)	(5)	19	(26)	(33)
Cash flow from operations	206	220	267	254	291
Taxes paid	(38)	(28)	(27)	(43)	(53)
<b>Net cash flow from operating activities</b>	<b>168</b>	<b>192</b>	<b>241</b>	<b>211</b>	<b>237</b>
Capex	(54)	(98)	(157)	(114)	(129)
Other investments	(16)	18	15	(7)	(8)
<b>Net cash flow from investing activities</b>	<b>(71)</b>	<b>(80)</b>	<b>(143)</b>	<b>(121)</b>	<b>(137)</b>
Proceeds/(repayment) from borrowings	(46)	(82)	(30)	(40)	(40)
Other financial activities	(22)	(23)	(78)	(37)	(34)
<b>Net cash flow from financing activities</b>	<b>(68)</b>	<b>(105)</b>	<b>(108)</b>	<b>(77)</b>	<b>(74)</b>
Opening cash balance	83	116	128	118	131
Net change in cash	30	7	(10)	13	27
FX changes	3	5	0	-	-
<b>Ending cash balance</b>	<b>116</b>	<b>128</b>	<b>118</b>	<b>131</b>	<b>158</b>

## Exhibit 10: Key Ratios

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth (%)</b>					
Total Sales	47.8%	14.4%	-3.2%	5.6%	13.2%
EBITDA	57.2%	-18.9%	6.0%	10.6%	15.5%
EBIT	87.6%	-26.0%	6.0%	17.2%	17.8%
PAT	174.0%	-28.9%	0.6%	27.4%	23.3%
<b>Profitability (%)</b>					
GP Margins	34.0%	29.2%	31.3%	31.5%	31.8%
EBIDTA Margins	15.1%	10.7%	11.7%	12.3%	12.5%
EBIT Margins	11.7%	7.5%	8.3%	9.2%	9.5%
PAT Margins	7.3%	4.5%	4.7%	5.7%	6.2%
ROCE	15.6%	10.2%	10.3%	11.4%	12.4%
ROE	17.6%	10.6%	9.6%	10.9%	11.8%
<b>Per Share Data (Rs)</b>					
EPS	61.8	45.5	45.7	58.3	71.8
BVPS	352.3	427.1	478.2	536.5	608.3
<b>Valuations (x)</b>					
P/E	9.2	9.2	14.3	11.2	9.1
P/BV	1.6	1.0	1.4	1.2	1.1
EV/EBIDTA	6.0	5.8	7.4	6.5	5.4
Market cap/sales	0.6	0.4	0.7	0.6	0.6

## Recommendation Tracker



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**Correspondence Address:** 7<sup>th</sup> Floor, Urmi Estate Tower A, Ganpatrao  
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✉ research@ysil.in | Website: www.yesinvest.in

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**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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