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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

16 February 2025

Hindalco Industries

Growth in focus with new capex outlined

RESULT UPDATE

Sector: Metals and mining Rating: BUY

CMP: Rs 606 Target Price: Rs 735

Stock Info

Sensex/Nifty	75,939/22,929
Bloomberg	HNDL IN
Equity shares (bn)	2.2
52-wk High/Low	772/499
Face value	Rs 1
M-Cap	Rs 1,362bn/USD 16bn

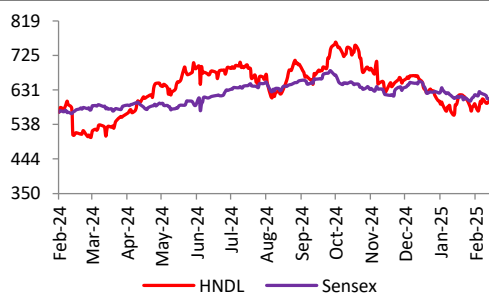
Financial Snapshot (Rs bn)

Y/E Mar	FY25E	FY26E	FY27E
Net sales	2,428	2,611	2,780
EBITDA	319	339	357
OPM	13%	13%	13%
PAT (adj.)	150	153	149
EPS (Rs)	67	68	66
PE (x)	9.1	8.9	9.1
P/B (x)	1.2	1.1	1.0
EV/EBITDA (x)	4.9	4.6	4.4
RoE	13%	12%	11%
RoCE	14%	13%	12%
Net-D/E (x)	0.3	0.2	0.2

Shareholding Pattern (%)

	Dec'24	Sep'24	Jun'24
Promoter	34.6	34.6	34.6
- Pledged	-	-	-
FII	31.7	32.3	30.9
DII	24.6	24.3	25.6
Others	9.0	8.8	8.9

Stock Performance (1-year)



Hindalco's (HNDL) 3QFY25 cons. EBITDA of Rs 76.0bn (+26%/-5% YoY/QoQ), was 11% below our estimate of Rs 85bn. Segment EBITDA of Rs 81bn was 5% below our estimate, impacted by weak volumes and margins at Novelis. Novelis reported quarterly shipment of 904kt (-1%/-4% YoY/QoQ), with an adjusted EBITDA of USD 406/t (-19%/-20% YoY/QoQ). India upstream segment EBITDA increased 73%/14% YoY/QoQ to Rs 42.2bn, with margins averaging at 42% (vs 41%/31% in 2QFY25/3QFY24), driven by lower input costs. The downstream segment reported EBITDA of Rs 1.5bn (+46%/-3% YoY/QoQ), with EBITDA/t at USD 179/t (+31%/+1% YoY/QoQ). The copper segment reported EBITDA of Rs 7.8bn (+18%/-6% YoY/QoQ). India aluminium upstream, downstream, and copper segment sales volume during the quarter were reported at 338kt (+2%/+3% YoY/QoQ), 99kt (+10%/-4% YoY/QoQ), and 120kt (+1%/+3% YoY/QoQ), respectively. Consolidated 3Q revenue of Rs 584bn increased by 11% YoY and flat sequentially, was short of our estimates by 4%. The company has outlined a capex of Rs 400bn for India upstream business spanning over 3-4 years for alumina refinery, aluminium smelter, and copper smelter expansions. Consolidated net debt as of December 2024 was Rs 418bn versus Rs 360bn in 2QFY25 with India business at a net cash position of ~Rs 19bn. We maintain BUY rating on the stock based on SOTP FY27E EV/EBITDA with a revised target price of Rs 735/share (Rs 821/share earlier).

What's driving growth from here:

- **India aluminium:** In India, the aluminium downstream capacity is projected to expand to 600ktpa by FY26, positioning the company to capitalize on enhanced margins through the production of high-value-added products such as AC-coated fins, battery foils, and enclosures.
- **Copper:** Within the copper segment, commissioning of the 25kt Inner Grooved Tubes (IGT) facility is scheduled for 4QFY25, set to drive both margin expansion and volume growth from FY26 onward.
- **Novelis:** Novelis's 240kt automotive recycling center in Guthrie has been commissioned as per the committed timelines and is currently in the ramp-up phase, with incremental volume contributions expected by FY26. Meanwhile, the 600ktpa Bay Minette expansion at Novelis remains on track for completion by the second half of CY2026. The total capital expenditure incurred for the project stood at USD 1.3bn as of 3QFY25, out of the total estimated investment of USD 4.1bn.

These strategic developments reinforce the company's commitment to capacity enhancement, value-chain integration, and margin accretion, positioning it for sustained growth in the coming years.

Outlook and view: Novelis faced weak EBITDA performance over the past two quarters due to narrower scrap spreads. However, Hindalco's India business segments helped cushion this impact. Looking ahead, a recovery in Novelis shipments, supported by the Sierre plant resuming full operations and strong performance in India, is expected to drive near-term earnings growth.

In FY26 and FY27, multiple expansion projects slated for commissioning will fuel medium-term growth. Additionally, Hindalco's newly announced India capex of

Shweta Dikshit

shwetadikshit@systematixgroup.in
+91 22 6704 8042

Hinal Kothari

hinalkothari@systematixgroup.in
+91 22 6704 8076

Rs 400bn for alumina refinery, aluminium smelter, and copper smelter expansions is a positive development, providing earnings visibility and sustaining growth over the next five to six years.

However, this additional India capex coincides with the peak capital expenditure phase for Novelis's Bay Minette expansion, which is expected to weigh on return ratios, with peak capex and debt levels projected in FY27. Additionally, since Novelis's near-term EBITDA/t guidance remains under review, we have incorporated conservative assumptions in our estimates until clear signs of margin recovery emerge, sufficient to offset the potential impact of new import duties in the US, if any.

Valuation: We have marginally raised our FY25/FY26/FY27 EBITDA estimates by 1%-2%, factoring in a mix of volume and margin assumptions. HNDL is valued on a SOTP basis, using segment-wise EBITDA estimates and assigning a multiple of 5.5x each for its aluminium upstream and Novelis businesses, and 6x each for the aluminium downstream and copper segments. This results in an overall ~10% downward revision in our target multiples, translating to a ~5.6x FY27E EV/EBITDA on a weighted average basis.

Our valuation incorporates a forecasted net debt of Rs 563bn for FY27, compared to the current net debt of Rs 418bn. We maintain our BUY rating on the stock with a revised target price of Rs 735 per share, reflecting a 21% upside from the current market price.

We remain positive on HNDL, supported by strong fundamentals, value addition, and backward integration, further complemented by attractive valuations. The stock trades at 4.9x/4.6x/4.4x FY25E/FY26E/FY27E EV/EBITDA, with recent market volatility and industry developments already priced in. Our revised target multiple, though conservative and discounted relative to HNDL's long-term average to factor in macro uncertainties, still presents an undemanding valuation in our view. **Maintain BUY.**

Key highlights of the 3QFY25 earnings call

Project Update:

- **Aditya FRP Casting & Cold Rolling Facility:** The 170kt FRP casting and cold rolling unit at Aditya remains on track for commissioning by FY26, increasing total downstream capacity from 430kt to 600kt. The development of high-value-added products such as AC-coated fins, battery foils, and enclosures will be key margin expansion drivers.
- **Inner Grooved Tubes (IGT) Project:** The 25kt IGT project, an import substitution product for air conditioning and refrigeration, is expected to be commissioned by 4QFY25.
- **Copper & Alumina Expansion:** HNDL has commenced civil work for a 50kt copper & e-waste recycling facility at Dahej, Gujarat, and an 850kt alumina refinery at Aditya, Odisha. The estimated capex stands at Rs 70-75bn for the refinery and Rs 27bn for the copper recycling unit. The alumina refinery is slated for commissioning by Dec-2027.
- **Smelter Expansion & Environmental Clearance (EC):** The company has applied for EC approval for:
 - o 180kt aluminium smelter expansion at Aditya, Odisha, which will increase total upstream capacity to 1.52mt.

- o 280-300kt copper smelter expansion, raising total upstream capacity to ~800kt. These projects are expected to be commissioned between FY28-FY29.

Novelis Capex:

- Novelis expects to spend ~USD 1.4bn annually in FY26 and FY27 for the Bay Minette expansion, with an additional ~USD 700mn required for maintenance capex.
- Around 420kt of the 600kt Bay Minette volumes are fully contracted for beverage packaging segment while 180kt will cater to automotive and other segments.
- The cumulative capex over three years, including FY25, is estimated at USD 6bn.

India Capex:

- Management has guided for Rs 80bn capex in FY26, with peak spending expected in FY28, aligning with major expansions nearing the commissioning stage.
- The Rs 70-75bn alumina refinery expansion would augment residue handling systems and conveyor systems capacity for the long-term 3mtpa capacity, however, one 850ktpa line will come on stream in the first phase with this outlay.

Coal Mines:

- Initial box cut excavation at the Chakla coal mine is expected by Oct-Nov 2025, with production commencing by Feb-Mar 2026.
- HNDL has also secured the 12mt Meenakshi coal mine, expected to come online by FY28.
- These captive mines are anticipated to reduce coal costs by ~30%, making the company self-sufficient, with external coal sourcing limited to meeting requirements for the copper unit at Dahej, Gujarat.

Guidance for Copper Segment:

- The copper segment posted an EBITDA of Rs 7.8bn in 3QFY25, supported by favorable factors and higher byproduct realizations.
- Management now anticipates a quarterly EBITDA run rate of ~Rs 6bn from FY26 onward.
- The impact of lower TCRCs is expected to be reflected in 1QFY26, while 4QFY25 will remain unaffected as the company utilizes its existing copper concentrate inventory.

Renewable Energy (RE) Expansion:

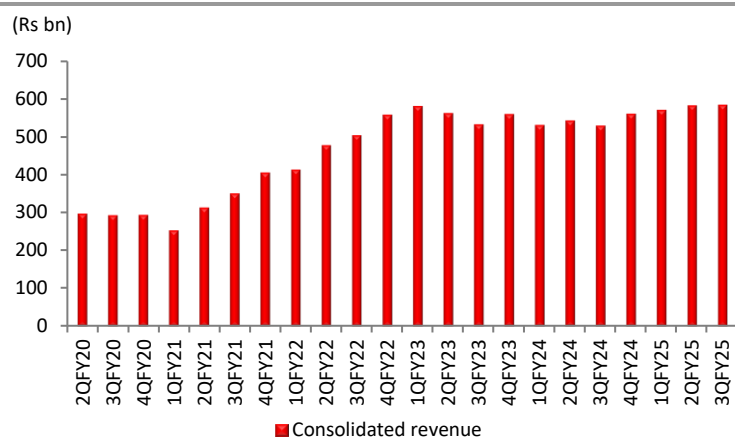
- Total RE capacity stands at 189MW, primarily solar and wind.
- The 6.3MW floating solar project at Mahan has been commissioned, with an additional 9MW of solar capacity under development.
- A 100MW hybrid (solar+storage) project is slated for commissioning in 1HCY25, supporting HNDL's target of 300MW RE capacity by 1HCY25.
- An additional 20MW hybrid (solar+wind) capacity is expected to be operational by 2HFY26.

Exhibit 1: Quarterly snapshot

(Rs bn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Net revenues	528	560	570	582	584
YoY change (%)					11
QoQ change (%)					0
EBITDA	60	68	76	80	76
YoY change (%)					26
QoQ change (%)					-5
EBITDA Margin (%)	11	12	13	14	13
Net earnings (adjusted)	23	32	31	39	37
YoY change (%)					60
QoQ change (%)					-4

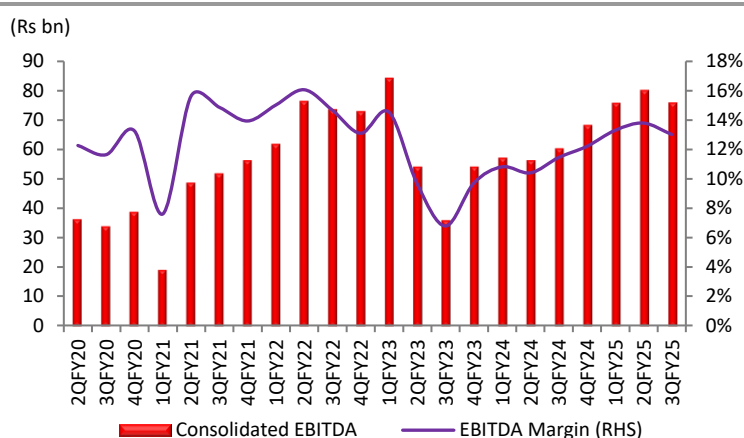
Source: Company, Systematix Institutional Research

Exhibit 2: Revenue improved by 11% YoY but remained flat sequentially



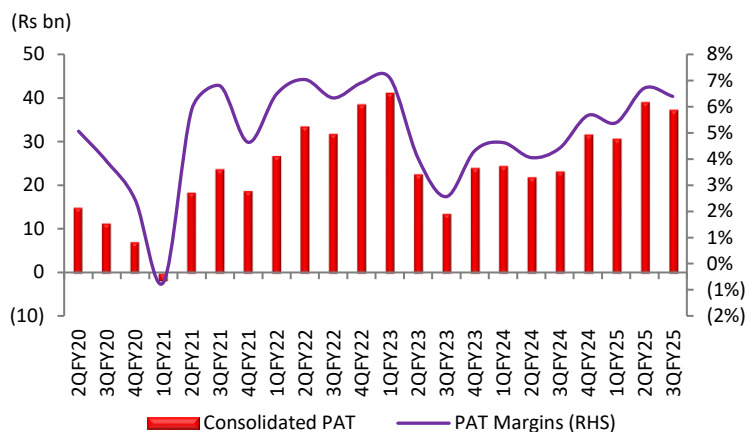
Source: Company, Systematix Institutional Research

Exhibit 3: EBITDA improved by 26% YoY but declined by 5% QoQ. Margin at 13% (+156bps/-78bps YoY/QoQ)



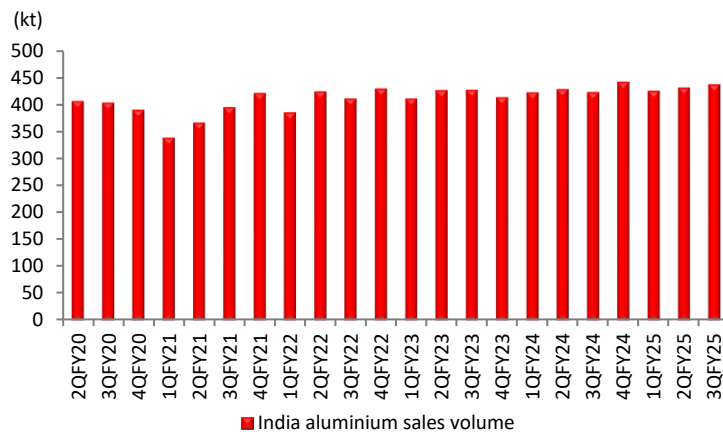
Source: Company, Systematix Institutional Research

Exhibit 4: Consolidated PAT at Rs 37bn (+60%/-4% YoY/QoQ)

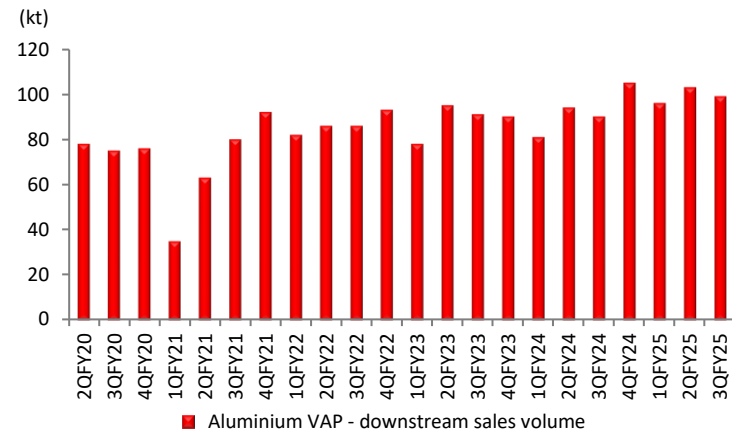


Source: Company, Systematix Institutional Research

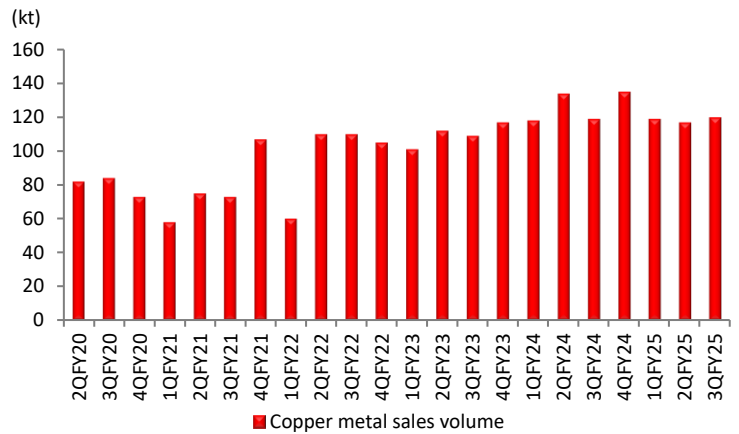
Exhibit 5: India aluminium sales volume at 437kt increasing by 3%/1% YoY/QoQ



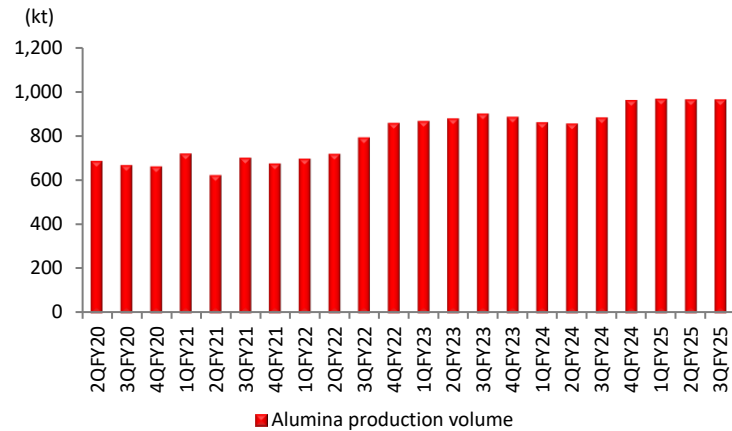
Source: Company, Systematix Institutional Research

Exhibit 6: Downstream sales volume at 99kt improved by 10% YoY but fell by 4% sequentially

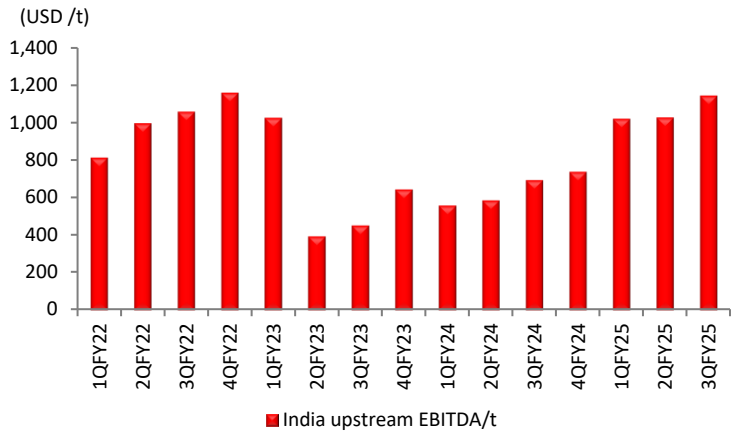
Source: Company, Systematix Institutional Research

Exhibit 7: Copper sales volume rose by 1%/3% YoY/QoQ to 120kt

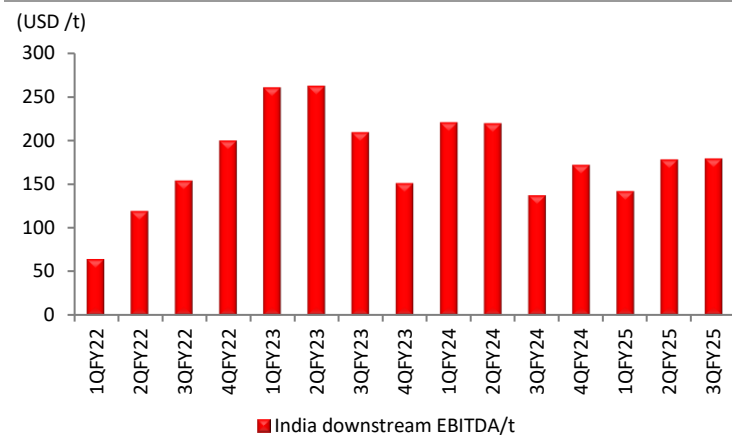
Source: Company, Systematix Institutional Research

Exhibit 8: Alumina production to ramp up through the year

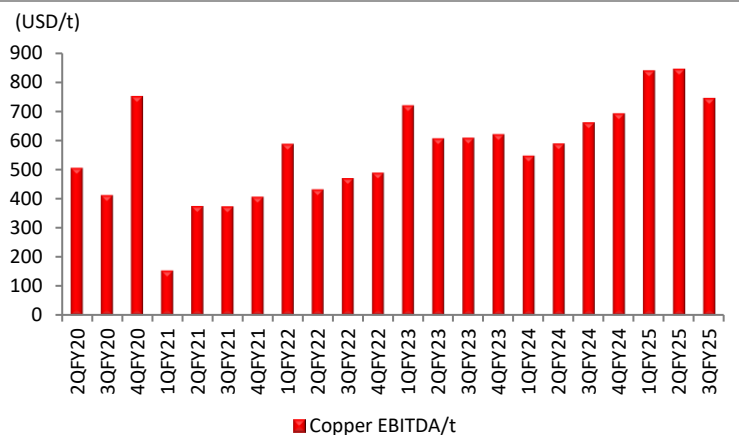
Source: Company, Systematix Institutional Research

Exhibit 9: India upstream aluminium EBITDA/t increased by 65%/11% YoY/QoQ.

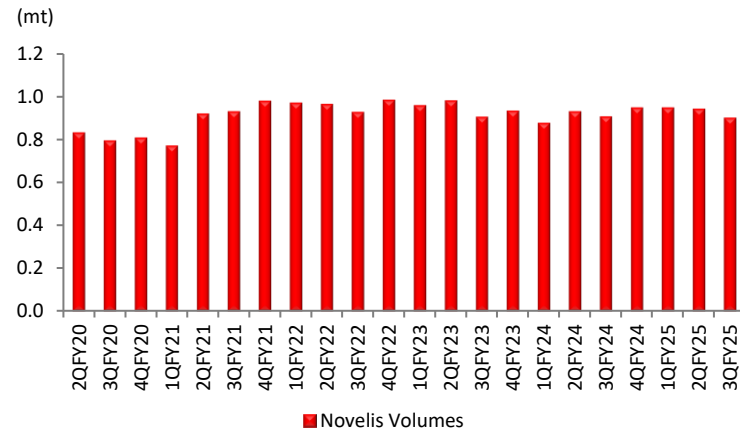
Source: Company, Systematix Institutional Research

Exhibit 10: India aluminium downstream EBITDA/t at USD 179/t Improving by 31%/1% YoY/QoQ.

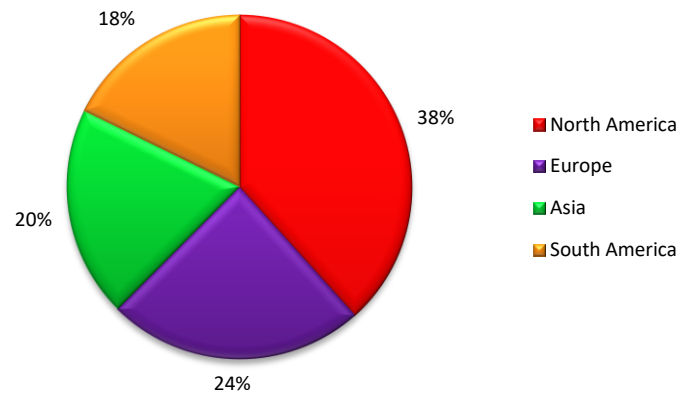
Source: Company, Systematix Institutional Research

Exhibit 11: Copper EBITDA/t improved by 13% YoY but declined by 12% sequentially

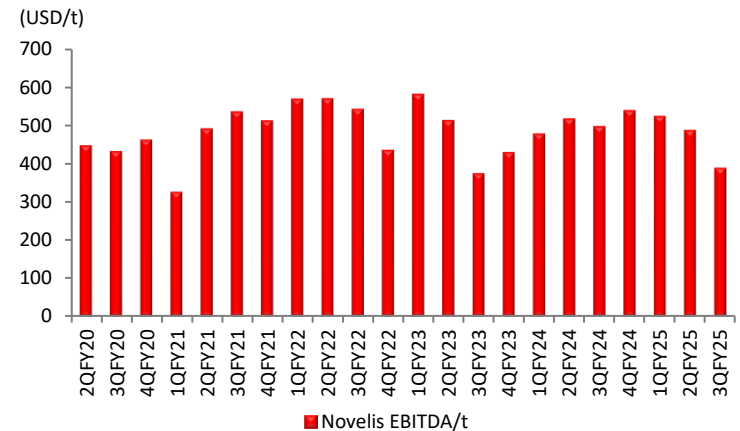
Source: Company, Systematix Institutional Research

Exhibit 12: Novelis shipments declined by 1%/4% YoY/QoQ to 904kt

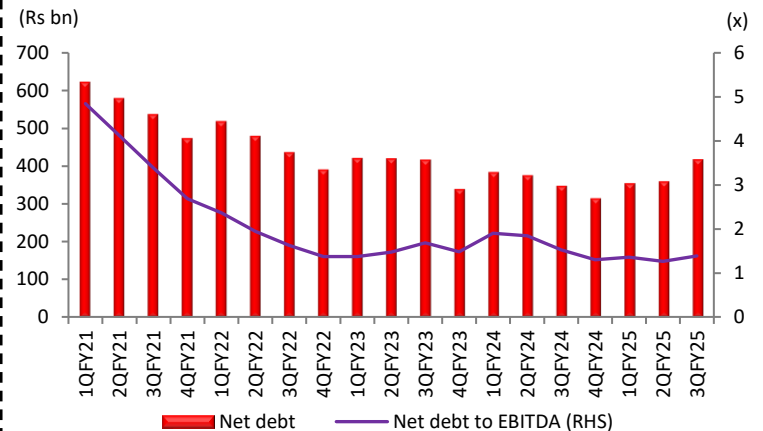
Source: Company, Systematix Institutional Research

Exhibit 13: 3QFY25 Novelis geographical volume mix

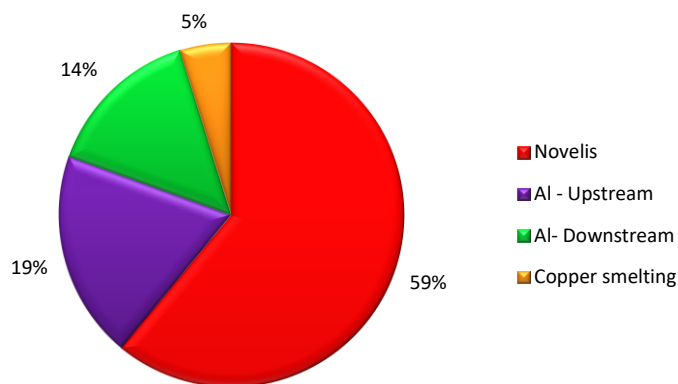
Source: Company, Systematix Institutional Research

Exhibit 14: EBITDA/t for Novelis at USD 389/t

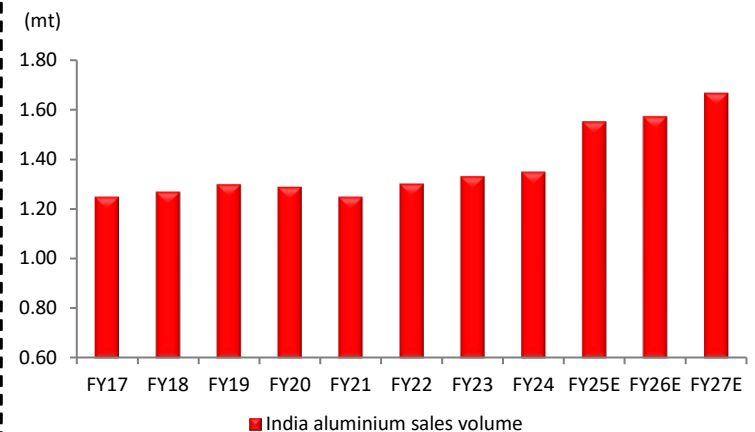
Source: Company, Systematix Institutional Research

Exhibit 15: Net debt at Rs 418bn as compared to Rs 360bn in 2QFY25

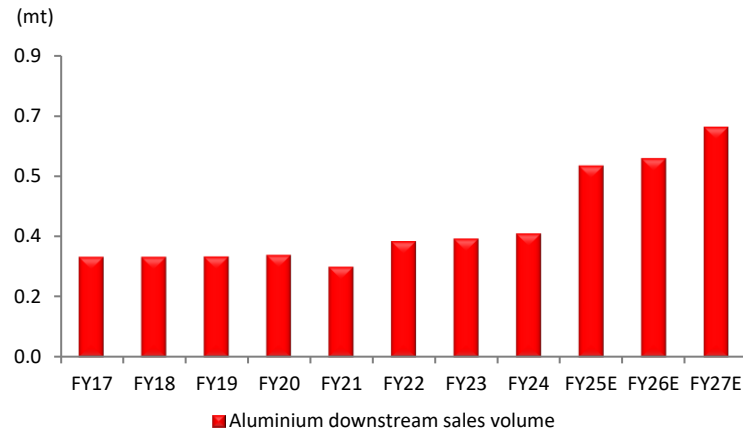
Source: Company, Systematix Institutional Research

Exhibit 16: FY24 segment wise revenue mix

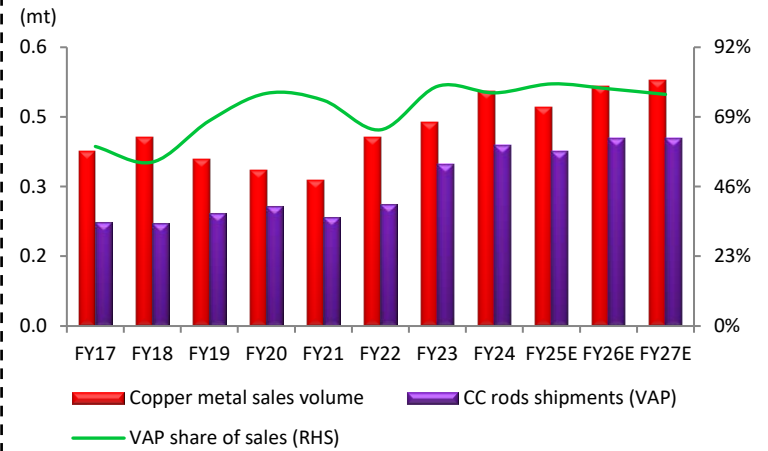
Source: Company, Systematix Institutional Research

Exhibit 17: Rise in Indian operations aluminium sales volume over FY25E-FY27E...

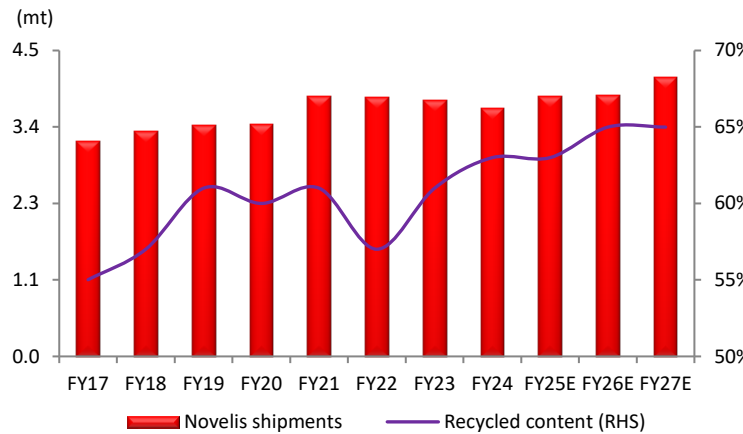
Source: Company, Systematix Institutional Research

Exhibit 18: ...with downstream capacity addition

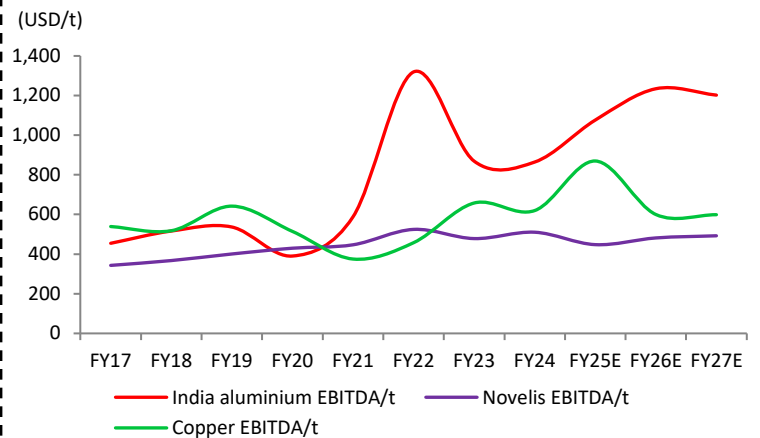
Source: Company, Systematix Institutional Research

Exhibit 19: CC rods (VAP) volumes to drive the growth in performance

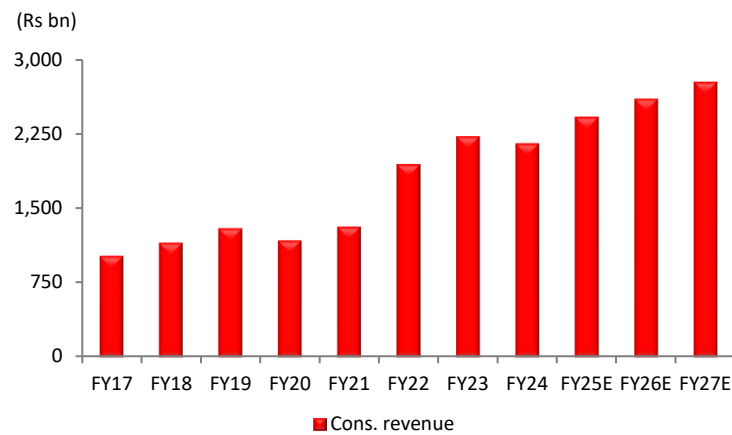
Source: Company, Systematix Institutional Research

Exhibit 20: Recycled content rose to 63% in FY24 and is expected to further rise to 65% in FY27E

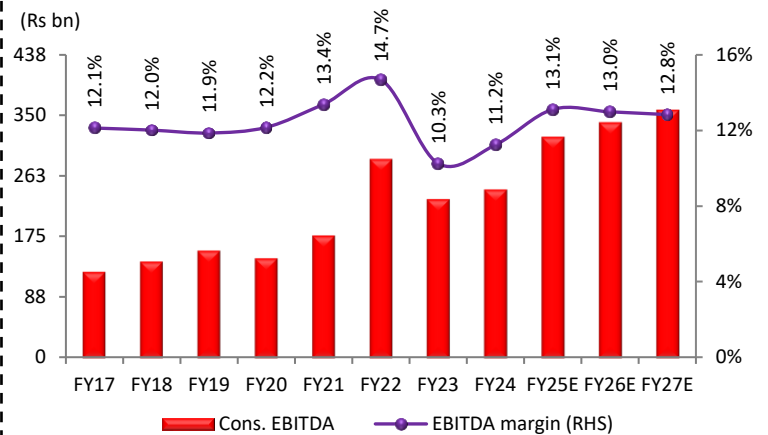
Source: Company, Systematix Institutional Research

Exhibit 21: EBITDA/t across segments

Source: Company, Systematix Institutional Research

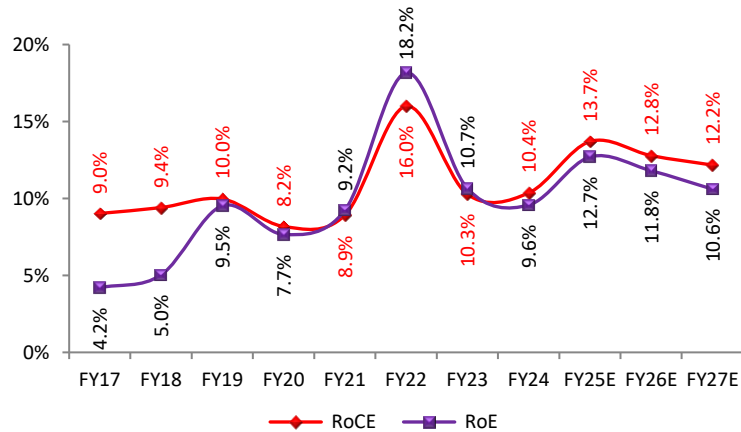
Exhibit 22: Revenue to increase gradually

Source: Company, Systematix Institutional Research

Exhibit 23: Gradual margin expansion ahead

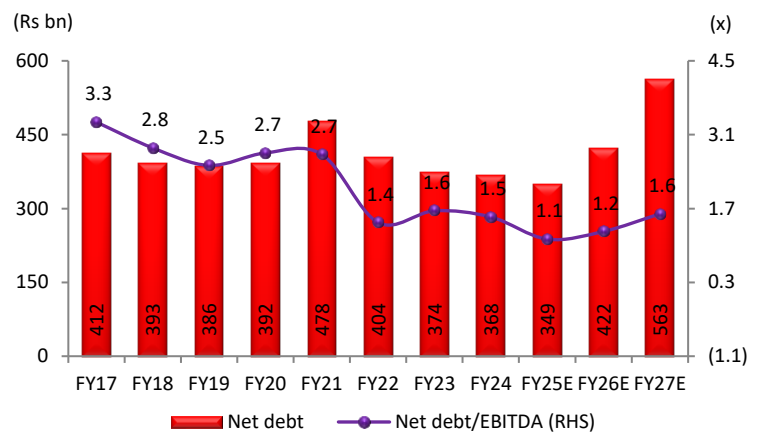
Source: Company, Systematix Institutional Research

Exhibit 24: Return ratios to suppress with increased capex



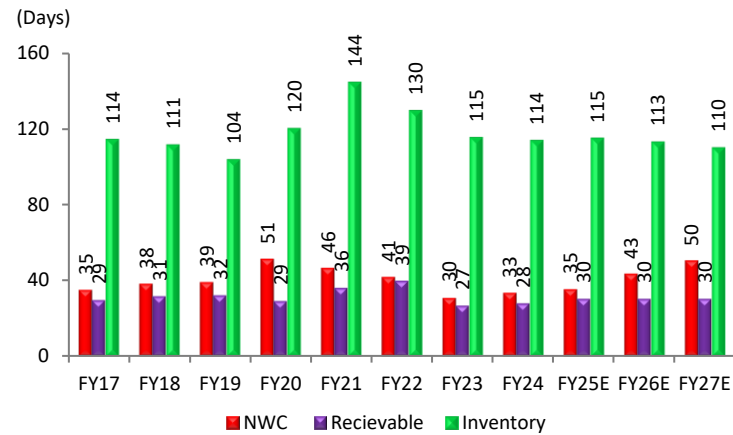
Source: Company, Systematix Institutional Research

Exhibit 25: Net debt trend



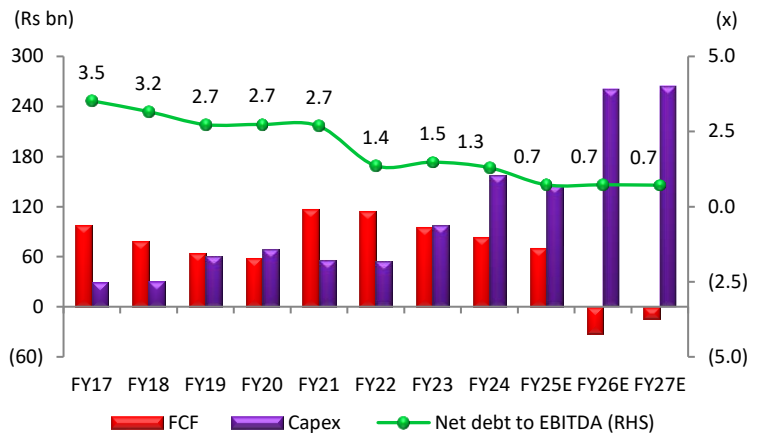
Source: Company, Systematix Institutional Research

Exhibit 26: Net working capital cycle



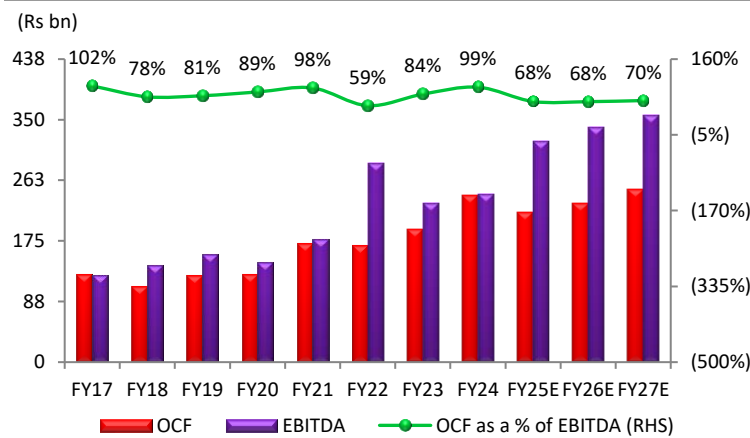
Source: Company, Systematix Institutional Research

Exhibit 27: Rising trend in capex



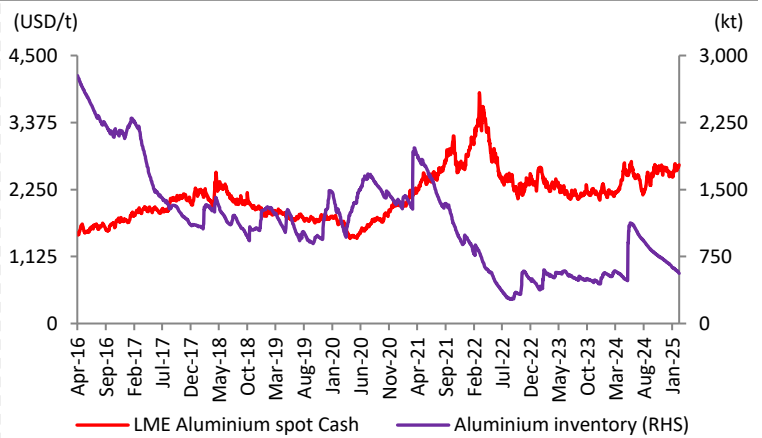
Source: Company, Systematix Institutional Research

Exhibit 28: EBITDA to OCF conversion ratio



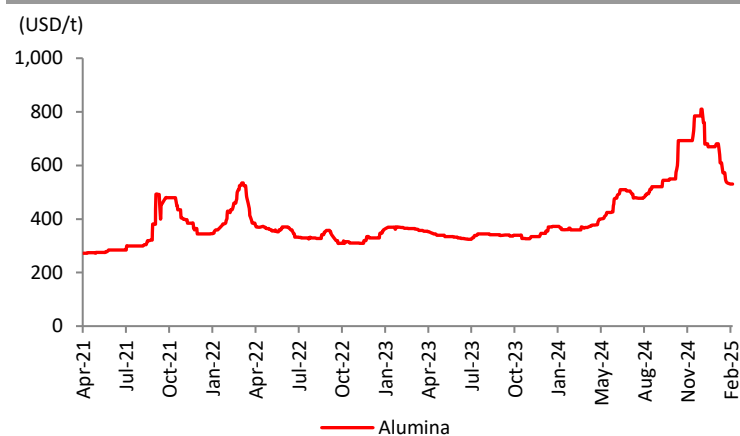
Source: Company, Systematix Institutional Research

Exhibit 29: LME aluminium price



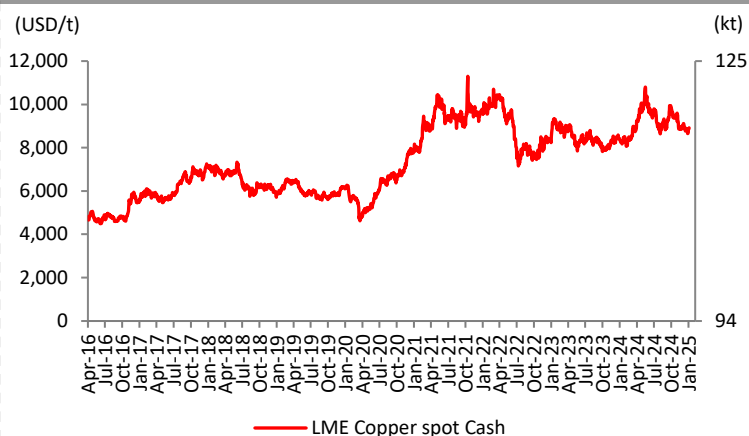
Source: Bloomberg, Systematix Institutional Research

Exhibit 30: Alumina price trend



Source: Bloomberg, Systematix Institutional Research

Exhibit 31: LME copper price



Source: Bloomberg, Systematix Institutional Research

Exhibit 32: HNDL valuation (FY27E)

	EBITDA (Rs bn)	Multiple (x)	Enterprise Value (Rs bn)	Per Share (Rs)
EBITDA				
Novelis	174	5.5	960	427
Aluminium Upstream	130	5.5	714	318
Aluminium Downstream	25	6.0	151	67
Copper	28	6.0	165	73
			1,990	885
Less: Net debt / (cash) (FY27 estimate)	563	1.0	563	250
Add: CWIP (1H FY25)	223	1.0	223	99
Target price per share			735	

Source: Company, Systematix Institutional Research

Exhibit 33: Key assumptions

	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales Volume							
Novelis	3.6	3.9	3.8	3.7	3.8	3.9	4.1
India - aluminium	1.3	1.3	1.3	1.7	1.7	1.7	1.8
Aluminium LME	1,805.0	2,774.0	2,481.0	2,200.0	2,500.0	2,600.0	2,600.0
Copper LME	6,897.0	9,689.0	8,530.0	8,353.0	9,550.0	9,600.0	9,600.0
EBITDA/t - Novelis	446.5	524.2	477.8	509.9	447.3	481.1	492.0

Source: Company, Systematix Institutional Research

Exhibit 34: Revised estimates

(Rs bn)	Previous			New			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	2,462	2,585	2,719	2,428	2,611	2,780	-1%	1%	2%
EBITDA	311	336	350	319	339	357	2%	1%	2%
PAT	155	163	165	150	153	149	-3%	-6%	-10%

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenues	2,232	2,160	2,428	2,611	2,780
Expenditure	2,003	1,917	2,110	2,271	2,423
EBIDTA	229	243	319	339	357
Depreciation	71	75	79	92	107
Other Income	13	15	15	10	6
EBIT	171	182	255	257	256
Interest cost	36	39	39	43	47
Exceptionals	0	0	0	0	0
PBT	132	140	214	212	207
Taxes	31	39	64	59	58
Adjusted PAT	101	102	150	153	149
No of Shares (bn)	2	2	2	2	2
Adj. EPS (Rs/share)	45	45	67	68	66

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	2	2	2	2	2
Reserves & Surplus	946	1,059	1,179	1,294	1,406
Networth	948	1,061	1,181	1,296	1,408
Total Debt	583	545	569	652	699
Non Current liabilities	695	664	666	699	684
Current liabilities	605	594	663	692	735
Total Sources	2,248	2,319	2,511	2,687	2,827
Net Block	758	772	838	1007	1164
CWIP	73	146	146	146	146
Non current investments	82	121	121	121	121
Non current assets	1,355	1,496	1,563	1,731	1,888
Cash	151	144	185	165	119
Inventories	430	408	457	470	484
Receivables	162	164	200	215	228
Other Current Assets	56	47	47	47	47
Current Assets	893	823	948	956	938
Total Assets	2,248	2,319	2,511	2,687	2,827

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	101	102	150	153	149
Add: Depreciation	71	75	79	92	107
Add: Interest	36	39	39	43	47
Less: Taxes Paid	-27	-27	-64	-59	-58
Add: Other Adjustments	-15	-6	-15	-10	-6
Less: WC changes	-5	19	-36	-49	-48
Total OCF	192	241	216	229	250
OCF w/o WC changes	188	260	180	180	202
Capital Expenditure	-97	-157	-146	-261	-264
Changes in investments	11	8	0	0	0
Interest/ Dividends recd	5	6	15	10	6
Total ICF	-80	-143	-131	-251	-258
Free Cash Flow	95	83	71	-32	-14
Share Issuances	-1	-1	0	0	0
Change in Borrowings	-20	-16	24	83	47
Dividends	-9	-7	-30	-38	-37
Interest Payments	-40	-39	-39	-43	-47
Others	0	0	0	0	0
Total Financing CF	-105	-108	-45	2	-37
Net change in cash	7	-10	41	-20	-46
Opening Cash & CE	116	128	118	159	138
Closing Cash & CE	128	118	159	138	93

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
YoY growth in Revenue	14%	-3%	12%	8%	6%
YoY growth in EBITDA	-20%	6%	31%	6%	5%
YoY growth in NI	-29%	1%	48%	2%	-2%
RoCE	10%	10%	14%	13%	12%
RoE	11%	10%	13%	12%	11%
RoIC	8%	7%	11%	10%	9%
Per Share Numbers (Rs):					
Reported Earnings	45	45	67	68	66
Book Value	422	472	526	577	627
CPS	76	79	102	109	114
Valuations (x)					
P/E	13.5	13.4	9.1	8.9	9.1
EV/EBITDA	7.7	7.4	4.9	4.6	4.4
EV/Sales	0.8	0.8	0.6	0.6	0.6
P/BV	1.4	1.3	1.2	1.1	1.0

Source: Company, Systematix Institutional Research

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Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

Tel no. 022-66198000/40358000 Fax no. 022-66198029/40358029 Email id contactus@systematixgroup.in. Visit us at: www.systematixgroup.in

Details of Compliance officer: Ms Nipa Savla, Compliance officer Tel no. 022-66198092/4035808092 Email id compliance@systematixgroup.in

Details of Email id grievance redressal cell : grievance@systematixgroup.in

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