


About the Company

Hindalco Industries is the metals flagship company of Aditya Birla Group. It is the largest primary producers of aluminium in Asia. Hindalco operates under three segments – low-cost vertically integrated Aluminum segment (1.3mt), World's largest rolling and recycling Novelis operations (4mt rolling and 2.5mt recycling facility) and custom copper smelting (0.42mt copper cathodes capacity).

Investment Rationale

A. Easing Upstream Aluminum CoP: In Q1FY24, the cost came down by 2% QoQ. The management is anticipating a further decrease of 3% in Q2FY24 QoQ, primarily attributed to the notable decline in international coal prices.

B. Aluminum downstream EBITDA/t improved by 45% QoQ to \$220/t in Q1FY24 and it is expected to stay above ~\$200/t in the upcoming quarters as the destocking in the key cookware segment is now largely over.

C. Copper business: In Q2FY24, the EBITDA margin is expected to improve QoQ as it will produce CC rods from its own concentrate. In Q1FY24, plant maintenance forced the company to use external cathodes to meet the CC rod demand, which led to margin dilution.

D. Novelis margins on the recovery path: The management expects that the margin trajectory will see a gradual recovery in the future quarters. In H2FY24, EBITDA/t to gradually improve to \$450-500/t and the long-term guidance of \$525/t stands intact. We model EBITDA/t at \$490/t and \$509/t for FY24/25E.

Outlook & Valuation: With the upstream smelters in the 1st quartile of the cost curve and Capex focus on the downstream assets at both India and Novelis, the capital allocation looks well-placed. The robust business model will accrue FCF generation post the near to mid-term pressure on FCF on account of higher Capex.

Recommendation: We recommend a BUY rating on the stock with a revised target price of Rs 545/share (upgrade from Rs 515/sh), implying an upside of 10% from the CMP. We now value the company using SoTP with Indian operations at 6.0x 12MF EV/EBITDA target multiple (5.5x earlier), Copper at 5.0x (unchanged) and Novelis at 5.5x (from 5.3x on account of easing can segment destocking and Fed rate hike cycle nearing its end).

Financial Summary (Consolidated)

Y/E Mar	Revenues	EBITDA	PBT	Net Profit	EPS	PE	Div. Payout	RoE	EV/EBITDA
(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs Cr)	(Rs)	(x)	(%)	(%)	(x)
FY22	1,95,059	28,657	18,992	13,730	61.7	7.4	6.48%	19.0	5.1
FY23	2,23,202	22,885	13,200	10,097	45.5	10.9	6.60%	11.7	6.7
FY24E	2,17,089	23,190	13,820	10,071	45.4	10.9	6.61%	10.1	6.6
FY25E	2,30,975	28,730	19,166	13,688	61.7	8.0	1.62%	12.4	5.3

 Source: Axis Securities; CMP as on 15th Sep, 2023

CMP (Rs)	Target (Rs)	Potential Upside (%)
495	545	10%

MARKET DATA

No. of Shares	224 Cr
Market Cap	Rs 1,11,855 Cr
52-week High / Low	509/359
BSE Code	500440
NSE Code	HINDALCO

Why Hindalco Industries Ltd.

- ✓ **Upstream Indian Aluminum at 1st quartile of cost curve**
- ✓ **Recovering EBITDA/t trajectory at Novelis**
- ✓ **Disciplined Capital Allocation**
- ✓ **Downstream Capex focus**

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Sr. No	Name	Designation	E-mail
1	Naveen Kulkarni	Chief Investment Officer	naveen.kulkarni@axissecurities.in
2	Neeraj Chadawar	Quantitative Head	neeraj.chadawar@axissecurities.in
3	Preeyam Tolia	Research Analyst	preeyam.tolia@axissecurities.in
4	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
5	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
6	Ankush Mahajan	Research Analyst	ankush.mahajan@axissecurities.in
7	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
8	Aditya Welekar	Research Analyst	aditya.welekar@axissecurities.in
9	Prathamesh Sawant	Research Analyst	prathamesh.sawant@axissecurities.in
10	Akshay Mokashe	Research Analyst	akshay.mokashe@axissecurities.in
11	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
12	Shikha Doshi	Research Associate	shikha.doshi@axissecurities.in
13	Shridhar Kallani	Research Associate	shridhar.kallani@axissecurities.in
14	Bhavya Shah	Research Associate	bhavya1.shah@axissecurities.in
15	Suhanee Shome	Research Associate	suhanee.shome@axissecurities.in
16	Shivani More	Research Associate	shivani.more@axissecurities.in

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