

India

ADD (previously **REDUCE**)

Consensus ratings*: Buy 22 Hold 1 Sell 1

Current price:	Rs345
Target price:	Rs429
Previous target:	Rs352
Up/downside:	24.3%
InCred Research / Consensus:	-19.0%

Reuters:	
Bloomberg:	HNDL IN
Market cap:	US\$10,684m
	Rs775,836m
Average daily turnover:	US\$84.5m
	Rs6132.4m
Current shares o/s:	2,220.0m
Free float:	65.4%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(15.1)	(41.2)	(11.4)
Relative (%)	(11.1)	(34.0)	(11.8)

Major shareholders	% held
Promoter & Promoter Group	34.6
ICICI Prudential MF	4.7
SBI Mutual Fund	3.1

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Hindalco Industries Ltd

Capex to lead to better profitability, growth

- We expect Hindalco to grow steadily in the future backed by market recovery, positive macros, improved operational efficiency and global demand growth.
- We have increased our FY23F & FY24F estimates and introduced FY25F numbers to factor in this growth.
- We have valued the stock at 6.5x FY24F EV/EBITDA and upgraded its rating to Add from Reduce earlier, with a higher target price of Rs429 (Rs352 earlier).

Coal cost inflation to hit margins in near term but long-term secured

Hindalco Industries (Hindalco) witnessed total cost inflation in 4QFY22 of 9.5% qoq. As power demand is high, the government is diverting coal to power plants, and for non-regulated sectors like aluminium the domestic coal supply is tight, and the e-auction premium is up. Currently, the company has 10 days of coal inventory (against the 20-day norm) and it is transporting coal by road. Hindalco has given guidance of 15% cost inflation for 1QFY23F vs. 4QFY22, mainly due to higher coal cost. It started importing some coal in 1Q, and the linkage coal percentage is at 52-55% (against 60% normal rate). The company won the Meenakshi captive coal mine having ~12mtpa capacity. The Chakala coal mine will start operations by Dec 2023F and the Meenakshi coal mine by Dec 2024F. These two mines, along with one mine of Essel, will help reduce non-captive coal usage to 5%.

New capex plan to aid future growth

Recently, the company has chalked out a capex allocation plan of US\$2.5-3bn on a consolidated basis over the next five years. In case of Novelis, the announced capex will be incurred mainly in auto-finishing line expansions in the US and China, and the rolling and recycling capacity expansions in Brazil. In India, the company will implement organic growth projects entailing a capital outlay of over US\$1bn toward Utkal alumina expansion, various aluminium as well as copper downstream expansion projects, and specialty alumina projects. We believe these plans will help in driving the next leg of growth.

We value Hindalco at 6.5x FY24F EV/EBITDA; upgrade to Add

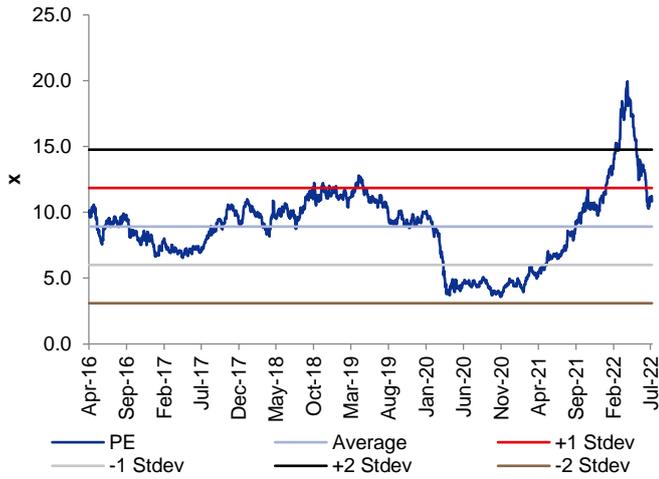
We have increased our FY23F and FY24F estimates and introduced FY25F numbers. We have upgraded the stock to Add (from Reduce) and valued it at 6.5x FY24F EV/EBITDA to arrive at our new target price of Rs429 (Rs352 earlier). Downside risk: Delay in capex plan.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	1,319,850	1,950,590	1,419,893	1,459,464	1,491,739
Operating EBITDA (Rsm)	175,360	283,470	196,946	194,976	185,924
Net Profit (Rsm)	51,820	142,010	69,846	63,638	50,072
Core EPS (Rs)	24.8	62.1	31.5	28.7	22.6
Core EPS Growth	39.6%	150.5%	(49.3%)	(8.9%)	(21.3%)
FD Core P/E (x)	14.80	5.40	10.97	12.04	15.31
DPS (Rs)	4.0	4.0	4.0	4.0	4.0
Dividend Yield	0.00%	1.16%	1.16%	1.16%	1.16%
EV/EBITDA (x)	7.00	3.87	5.05	5.58	6.12
P/FCFE (x)	(8.18)	11.09	6.99	(15.41)	(98.68)
Net Gearing	70.3%	53.2%	37.4%	45.5%	48.8%
P/BV (x)	1.15	0.98	0.91	0.85	0.82
ROE	8.8%	19.0%	8.6%	7.3%	5.5%
% Change In Core EPS Estimates			114.03%	229.49%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Hindalco stock currently trades at a P/E of 10.84x



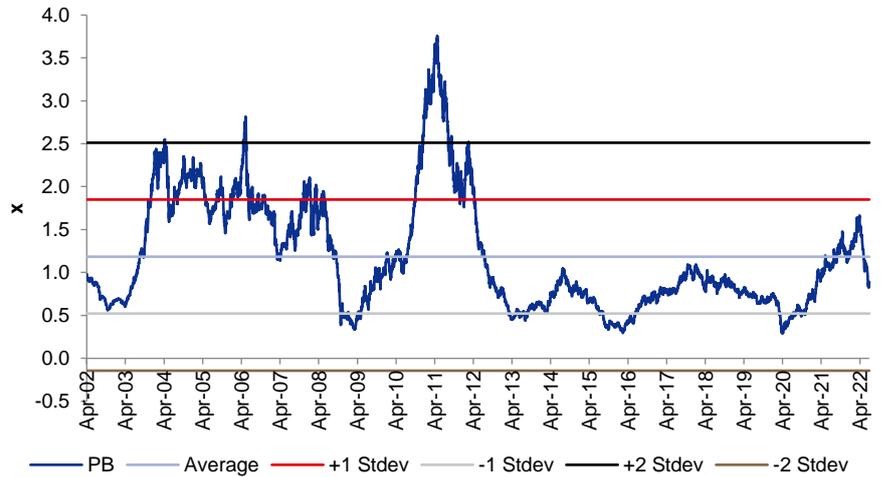
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Hindalco stock currently trades below -1SD, at 4.57x



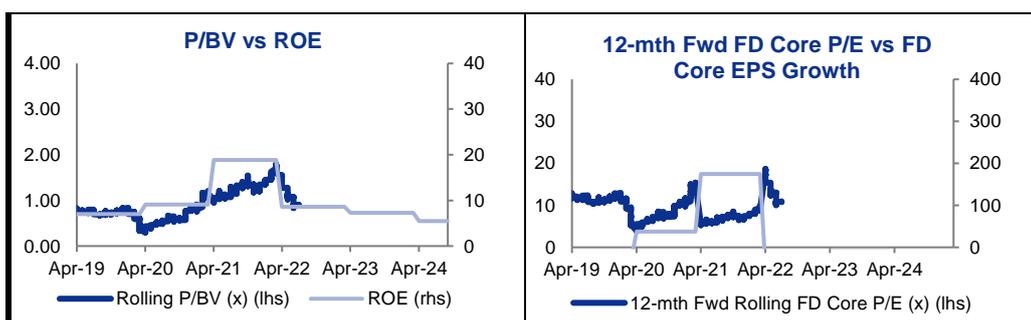
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Hindalco stock currently trades below its average, at 0.9x P/BV



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	1,319,850	1,950,590	1,419,893	1,459,464	1,491,739
Gross Profit	554,030	775,190	693,634	698,105	693,571
Operating EBITDA	175,360	283,470	196,946	194,976	185,924
Depreciation And Amortisation	(66,280)	(67,290)	(66,168)	(69,346)	(72,525)
Operating EBIT	109,080	216,180	130,779	125,630	113,400
Financial Income/(Expense)	(37,380)	(37,680)	(36,185)	(34,729)	(33,273)
Pretax Income/(Loss) from Assoc.	50	60			
Non-Operating Income/(Expense)	12,220	11,360	6,907	6,907	6,907
Profit Before Tax (pre-EI)	83,970	189,920	101,501	97,808	87,034
Exceptional Items	(4,920)	5,820			
Pre-tax Profit	79,050	195,740	101,501	97,808	87,034
Taxation	(27,230)	(53,730)	(31,655)	(34,171)	(36,963)
Exceptional Income - post-tax					
Profit After Tax	51,820	142,010	69,846	63,638	50,072
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	51,820	142,010	69,846	63,638	50,072
Recurring Net Profit	55,045	137,788	69,846	63,638	50,072
Fully Diluted Recurring Net Profit	55,045	137,788	69,846	63,638	50,072

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	175,360	283,470	196,946	194,976	185,924
Cash Flow from Invt. & Assoc.					
Change In Working Capital	14,040	(91,150)	84,429	(52,284)	(3,887)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(11,870)	(3,450)	10,653	(5,431)	
Other Operating Cashflow	44,730	54,920	43,092	41,636	40,180
Net Interest (Paid)/Received	(37,380)	(37,680)	(36,185)	(34,729)	(33,273)
Tax Paid	(12,560)	(37,730)	(31,655)	(34,171)	(36,963)
Cashflow From Operations	172,320	168,380	267,280	109,997	151,982
Capex	(55,650)	(54,260)	(121,120)	(159,748)	(159,748)
Disposals Of FAs/subsidiaries	480	710			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(201,200)	(17,190)			
Cash Flow From Investing	(256,370)	(70,740)	(121,120)	(159,748)	(159,748)
Debt Raised/(repaid)	(9,680)	(28,510)	(36,500)		
Proceeds From Issue Of Shares	50	60			
Shares Repurchased					
Dividends Paid	(2,220)	(6,670)	(8,880)	(8,880)	(8,880)
Preferred Dividends					
Other Financing Cashflow	(36,940)	(32,500)	(36,185)	(34,729)	(33,273)
Cash Flow From Financing	(48,790)	(67,620)	(81,565)	(43,609)	(42,153)
Total Cash Generated	(132,840)	30,020	64,596	(93,360)	(49,919)
Free Cashflow To Equity	(93,730)	69,130	109,661	(49,751)	(7,767)
Free Cashflow To Firm	(46,670)	135,320	182,345	(15,023)	25,506

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	182,260	228,440	293,036	199,676	149,757
Total Debtors	129,590	210,760	108,813	112,514	115,258
Inventories	306,680	444,830	280,019	287,515	294,242
Total Other Current Assets	129,870	101,400	101,400	101,400	101,400
Total Current Assets	748,400	985,430	783,268	701,105	660,656
Fixed Assets	871,540	878,540	933,492	1,023,894	1,111,118
Total Investments	8,130	86,670	86,670	86,670	86,670
Intangible Assets	233,170	239,650	239,650	239,650	239,650
Total Other Non-Current Assets	35,750	40,330	37,313	37,313	37,313
Total Non-current Assets	1,148,590	1,245,190	1,297,125	1,387,527	1,474,751
Short-term Debt	60,290	118,790	112,066	112,066	112,066
Current Portion of Long-Term Debt					
Total Creditors	282,800	413,820	240,043	246,867	252,381
Other Current Liabilities	141,840	240,120	231,568	183,658	183,727
Total Current Liabilities	484,930	772,730	583,677	542,591	548,174
Total Long-term Debt	589,850	526,070	496,294	496,294	496,294
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	30,390	25,010	32,646	30,206	30,206
Total Non-current Liabilities	620,240	551,080	528,939	526,499	526,499
Total Provisions	126,390	124,790	124,790	121,799	121,799
Total Liabilities	1,231,560	1,448,600	1,237,407	1,190,889	1,196,472
Shareholders Equity	665,330	781,910	842,876	897,633	938,825
Minority Interests	100	110	110	110	110
Total Equity	665,430	782,020	842,986	897,743	938,935

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	11.7%	47.8%	(27.2%)	2.8%	2.2%
Operating EBITDA Growth	21.7%	61.7%	(30.5%)	(1.0%)	(4.6%)
Operating EBITDA Margin	13.3%	14.5%	13.9%	13.4%	12.5%
Net Cash Per Share (Rs)	(210.76)	(187.58)	(142.04)	(184.09)	(206.58)
BVPS (Rs)	299.70	352.21	379.67	404.34	422.89
Gross Interest Cover	2.92	5.74	3.61	3.62	3.41
Effective Tax Rate	34.4%	27.4%	31.2%	34.9%	42.5%
Net Dividend Payout Ratio		6.5%	12.7%	14.0%	17.7%
Accounts Receivables Days	30.92	31.84	41.07	27.68	27.87
Inventory Days	126.43	116.68	182.15	136.04	133.02
Accounts Payables Days	111.00	108.16	164.31	116.71	114.15
ROIC (%)	6.5%	12.2%	7.1%	6.7%	4.8%
ROCE (%)	8.2%	15.2%	8.7%	8.2%	7.2%
Return On Average Assets	4.5%	7.9%	4.4%	4.1%	3.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.