

Hindalco Industries | BUY

Margins impacted by tariffs; mitigation strategy to cushion impact

Novelis reported 1Q EBITDA of USD416mn, marginally below JMfe driven by elevated scrap prices, unfavourable product mix and negative impact of tariffs. Adjusted EBITDA/t came in at USD432/t - down from recent highs of USD494/t in 4Q - mitigation actions to begin offsetting tariff impacts in 2HFY26. Key takeaways from the call are – 1) company witnessed a net negative tariff impact of ~USD28mn in 1QFY26 – expects this to go up to ~USD60mn (without mitigation strategy) per quarter going ahead 2) company believes tariff impact of USD60mn can be mitigated through a) more US (local) production, b) customer pass throughs and c) cost-takeout programs 3) FY26 capex guidance maintained at USD1.9-2.2bn 4) company expects cost savings of USD100+ million by the end of FY26 compared to USD75mn estimated earlier. Net debt increased marginally QoQ to USD5.5bn – net debt to EBITDA at 3.2x compared to 2.9x as at end of 4Q. Hindalco, given ~70%+ steady/strong EBITDA being non-LME linked, remains our preferred play in the metal space. We await Hindalco consolidated numbers - to be published shortly. Reiterate BUY.

- **Top-line driven by higher realizations:** Company reported revenue at USD4.7bn (+13%YoY) primarily driven by higher realisations (+11% YoY). The total rolled product shipments increased marginally YoY to 963ktons in 1Q primarily driven by strong demand in beverage packaging sector offset by weak demand in automotive sector. Tariff uncertainty led to muted demand in the automotive sector – leading to lower automotive shipments during the quarter.
- **Margins impacted by tariffs; mitigation strategy to cushion impact:** Adj. EBITDA came in at USD416mn, marginally below JMfe driven by elevated scrap prices, unfavourable product mix and negative impact of tariffs. Adjusted EBITDA/t came in at USD432/t - down from recent highs of USD494/t in 4Q - mitigation actions to begin offsetting tariff impacts in 2HFY26. Novelis witnessed a net negative tariff impact to the tune of ~USD28mn in 1QFY26. Company expects this to go up to ~USD60mn/qtr (without mitigation strategy) going ahead. Novelis believes the tariff impact of USD60mn can be mitigated through a) more US (local) production, b) customer pass throughs and c) cost-takeout programs. Company expects the tariff impact to be cushioned in 3Q with these strategies and plans to offset the entire impact of USD60mn in 4Q. The cost reduction program is expected to lower the cost base and improve margins. The company expects cost savings of USD100+ million for FY26 compared to USD75mn expected earlier.
- **Capex guidance for FY26 maintained at USD1.9-2.2bn; projects on track:** Company incurred capex to the tune of USD386mn in 1QFY26 – guidance for FY26 maintained at USD1.9bn-2.2bn. Guthrie (US) and Ulsan (South Korea) projects remain on track while hot mill expansion in Logan (US) to debottleneck 80kt capacity began commissioning in 1QFY26. Bay Minette project remains on track and is expected to be commissioned in 2HCY26 – full capacity ramp-up to take another 18-20 months. In near-term, company believes demand from Beverage packaging, aerospace and specialty remain stable while demand from automotive sector remains uncertain.

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,159,620	2,384,960	2,321,777	2,469,479	2,535,223
Sales Growth (%)	-3.2	10.4	-2.6	6.4	2.7
EBITDA	242,570	328,240	324,412	344,842	359,272
EBITDA Margin (%)	11.2	13.8	14.0	14.0	14.2
Adjusted Net Profit	105,190	179,000	145,337	159,654	167,809
Diluted EPS (INR)	47.3	80.5	65.4	71.8	75.5
Diluted EPS Growth (%)	2.4	70.2	-18.8	9.9	5.1
ROIC (%)	9.5	12.9	10.4	10.2	10.0
ROE (%)	10.5	15.6	11.1	10.9	10.3
P/E (x)	14.2	8.4	10.3	9.4	8.9
P/B (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA (x)	7.8	5.9	6.0	5.5	5.2
Dividend Yield (%)	0.6	0.6	0.3	0.3	0.3

Source: Company data, JM Financial. Note: Valuations as of 11/Aug/2025



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	800
Upside/(Downside)	18.9%
Previous Price Target	800
Change	0.0%

Key Data – HNDL IN

Current Market Price	INR673
Market cap (bn)	INR1,512.1/US\$17.2
Free Float	65%
Shares in issue (mn)	2,223.9
Diluted share (mn)	2,223.9
3-mon avg daily val (mn)	INR3,260.5/US\$37.2
52-week range	773/546
Sensex/Nifty	80,604/24,585
INR/US\$	87.7

Price Performance

%	1M	6M	12M
Absolute	0.3	12.9	8.0
Relative*	2.6	6.7	6.7

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Key Concall takeaways:

- **Tariff impact:** Novelis witnessed a net negative tariff impact to the tune of ~USD28mn in 1QFY26. Company expects this to go up to ~USD60mn per quarter (without mitigation strategy) going ahead.
- **Mitigation strategy:** Novelis believes the tariff impact of USD60mn can be mitigated through a) more US (local) production, b) customer pass throughs and c) cost-takeout programs. Company expects the tariff impact to be dampened in 3Q with these strategies and plans to offset the entire impact of USD60mn in 4Q.
- Margins remained weak during the quarter given an unfavourable product mix with higher volumes from packaging and lower volumes from automotive and specialty – expects this mix to improve going ahead.
- Despite market challenges from higher scrap prices impacting financial performance, the company is advancing its cost reduction program to lower costs and improve margins. It has implemented organizational redesign, footprint rationalization, and process improvements, targeting over USD100mn in annual cost savings by end of FY26, surpassing the prior USD75mn estimate.
- Capex incurred during 1QFY26 stood at USD386mn – guidance for FY26 stands at USD1.9-2.2bn.
- Scrap prices are trending sequentially stable to slightly lower – to aid margins going ahead.
- Company plans to change scrap mix to reduce dependence on UBC so that market pressure does not impact margins significantly.
- Bay Minette to be commissioned in 2HCY26 – full capacity ramp-up to take another 18-20 months.

Exhibit 1. Novelis quarterly performance (INR mn)

Y/E March	1QFY26	1QFY26E	% Var	1QFY25	YoY %	4QFY25	QoQ %
Net sales	4,717	4,416	6.8	4,187	12.7	4,587	2.8
Shipments ('000 tons)	963	970	(0.7)	951	1.3	957	0.6
Realisations (USD/ton)	4,898	4,553	7.6	4,403	11.3	4,793	2.2
LME (USD/t)	2,453	2,453	-	2,567	(4.4)	2,630	(6.7)
Premium (USD/t)	2,445	2,100	16.4	1,836	33.2	2,163	13.0
Total cost							
COGS (USD mn)	4,076	3,767	8.2	3,481	17.1	3,862	5.5
COGS as % of sales	86.4	85.3		83.1		84.2	
Adjusted EBITDA	416	433	(4.0)	500	(16.8)	473	(12.1)
EBITDA margins (%)	8.8	9.8		11.9		10.3	
EBITDA/ton (USD/ton)	432	447	(3.3)	526	(17.8)	494	(12.6)
Other income	69	20		(7)		55	
Depreciation	148	140		140	5.7	152	(2.6)
Interest	62	67		64	(3.1)	60	3.3
EO income/(expense)	(129)	-		(79)		(13)	
PBT	146	246		210		303	
Tax	50	74		60	NA	9	455.6
Reported PAT	96	176	(45.5)	151		294	
Adjusted PAT	225	176	27.6	230	(2.2)	307	(26.7)
Key monitorables							
Net Debt (USD bn)	5.5	-		4.6		5.1	
Capex	386	-		348		514	
FCF (from continuing ops.)	(295)	-		(280)		178	

Source: Company, JM Financial

Exhibit 2. Novelis quarterly segmental performance

Y/E March	1QFY26	1QFY25	YoY %	4QFY25	QoQ %
North America					
Total Shipments ('000 tons)	389	388	0.3	375	3.7
EBITDA (USD)	133	183	-27.3	150	-11.3
EBITDA/ton (USD/ton)	342	472	-27.5	400	-14.5
Europe					
Total Shipments ('000 tons)	262	261	0.4	265	-1.1
EBITDA (USD)	70	90	-22.2	104	-32.7
EBITDA/ton (USD/ton)	267	345	-22.5	392	-31.9
Asia					
Total Shipments ('000 tons)	164	159	3.1	201	-18.4
EBITDA (USD)	93	92	1.1	89	4.5
EBITDA/ton (USD/ton)	567	579	-2.0	443	28.1
South America					
Total Shipments ('000 tons)	148	143	3.5	164	-9.8
EBITDA (USD)	119	132	-9.8	129	-7.8
EBITDA/ton (USD/ton)	804	923	-12.9	787	2.2

Source: Company, JM Financial

Exhibit 3. Hindalco - SOTP valuation

	FY27 EBITDA (INR bn)	Multiple	Value (INR bn)
India Aluminium	148.43	6.0	890.60
India Copper	34.72	5.5	191.0
Novelis	161.26	6.0	970.08
Total EV			2,051.68
Net Debt			404.28
Implied Mcap			1,647.40
No. of shares (bn)			2,220
Value (INR/share)			742
Investments			54
Target price			800

Source: JM Financial

Exhibit 4. Change in estimates

	Unit	OLD			NEW			% Change		
		FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Net Sales	INR mn	23,55,821	24,52,421	25,16,556	23,21,777	24,69,479	25,35,223	-1.4%	0.7%	0.7%
EBITDA	INR mn	3,26,885	3,42,379	3,54,071	3,24,412	3,44,842	3,59,272	-0.8%	0.7%	1.5%
PAT	INR mn	1,47,997	1,58,177	1,65,016	1,45,337	1,59,654	1,67,809	-1.8%	0.9%	1.7%
EPS		66.5	71.1	74.2	65.5	71.9	75.6	-1.6%	1.1%	1.9%
Target Price	INR	800			800			0.0%		
Rating		BUY			BUY					

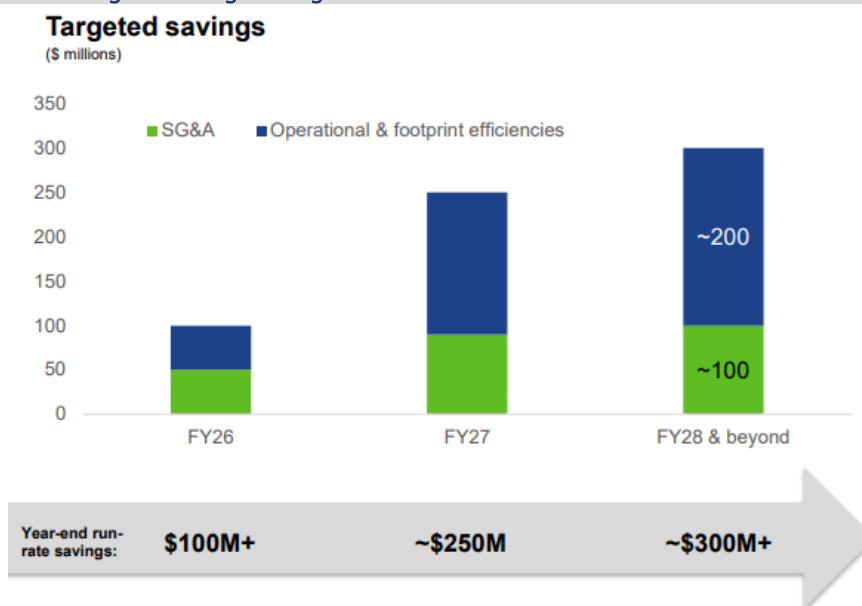
Source: JM Financial

Exhibit 5. Long-term and near-term demand outlook

	Long-term growth rates & trends ⁽¹⁾	Near-term market demand trends
BEVERAGE PACKAGING (60% of FY25 Shipments)	<ul style="list-style-type: none"> 2024-2030 CAGR ~4% (excluding China) Sustainability preferences driving package mix shift favoring aluminum 	<ul style="list-style-type: none"> Global beverage packaging demand remains strong across regions
AUTOMOTIVE (19% of FY25 Shipments)	<ul style="list-style-type: none"> FY2025-2030 CAGR ~6% Lightweighting needs for vehicle performance Innovation and sustainability 	<ul style="list-style-type: none"> Slower growth in China & Europe due to a softer macro-economic environment Slowing build rates resulting from tariffs, but favorable vehicle mix in N America (trucks, SUVs) that use higher share of aluminum
AEROSPACE (3% of FY25 Shipments)	<ul style="list-style-type: none"> 2024-2030 CAGR ~4% Multi-year OEM order backlogs Sustainability growing in importance 	<ul style="list-style-type: none"> Persistent demand for new aircraft Impacts on global aerospace parts supply chain due to tariffs and high level of inventories
SPECIALTY (18% of FY25 Shipments)	<ul style="list-style-type: none"> Long-term market growth at GDP+ rates Undersupplied US housing market Lightweighting & sustainability trends 	<ul style="list-style-type: none"> Stable but suppressed Building & Construction demand Economic & tariff uncertainty and slower EV roll-out muting demand in some segments including batteries, truck/trailer and light gauge markets

Source: Company, JM Financial

Exhibit 6. Targeted savings through cost efficiencies



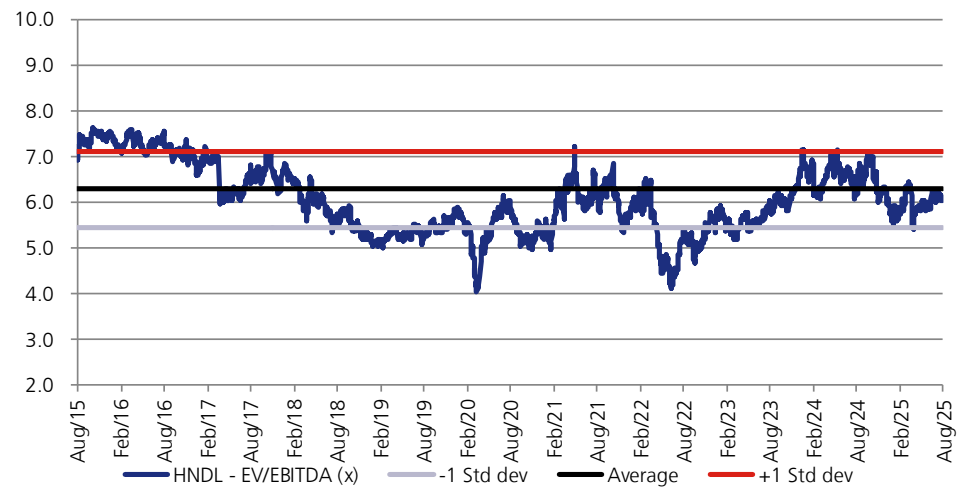
Source: Company, JM Financial

Exhibit 7. HNDL: 1yr forward P/E valuation



Source: Bloomberg, JM Financial

Exhibit 8. HNDL: 1yr forward EV/EBITDA valuation



Source: Bloomberg, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	2,159,620	2,384,960	2,321,777	2,469,479	2,535,223
Sales Growth	-3.2%	10.4%	-2.6%	6.4%	2.7%
Other Operating Income	0	0	0	0	0
Total Revenue	2,159,620	2,384,960	2,321,777	2,469,479	2,535,223
Cost of Goods Sold/Op. Exp	1,338,550	1,449,490	1,341,955	1,442,755	1,483,004
Personnel Cost	147,780	154,060	79,831	82,714	85,886
Other Expenses	430,720	453,170	575,578	599,168	607,061
EBITDA	242,570	328,240	324,412	344,842	359,272
EBITDA Margin	11.2%	13.8%	14.0%	14.0%	14.2%
EBITDA Growth	6.0%	35.3%	-1.2%	6.3%	4.2%
Depn. & Amort.	75,210	78,810	93,240	96,740	98,468
EBIT	167,360	249,430	231,172	248,102	260,804
Other Income	14,960	27,080	11,338	14,472	15,033
Finance Cost	38,580	34,190	40,827	40,982	42,715
PBT before Excep. & Forex	143,740	242,320	201,682	221,592	233,122
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	143,740	242,320	201,682	221,592	233,122
Taxes	38,570	63,350	56,345	61,938	65,313
Extraordinary Inc./Loss(-)	-3,640	-18,980	0	0	0
Assoc. Profit/Min. Int.(-)	20	30	0	0	0
Reported Net Profit	101,550	160,020	145,337	159,654	167,809
Adjusted Net Profit	105,190	179,000	145,337	159,654	167,809
Net Margin	4.9%	7.5%	6.3%	6.5%	6.6%
Diluted Share Cap. (mn)	2,223.9	2,223.9	2,223.9	2,223.9	2,223.9
Diluted EPS (INR)	47.3	80.5	65.4	71.8	75.5
Diluted EPS Growth	2.4%	70.2%	-18.8%	9.9%	5.1%
Total Dividend + Tax	10,402	10,402	5,201	5,201	5,201
Dividend Per Share (INR)	4.0	4.0	2.0	2.0	2.0

Source: Company, JM Financial

Cash Flow Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	143,760	242,350	201,682	221,592	233,122
Depn. & Amort.	75,210	78,810	93,240	96,740	98,468
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	6,490	-38,650	-24,139	18,451	14,893
Others	3,280	-7,740	0	0	0
Taxes Paid	-38,570	-63,350	-56,345	-61,938	-65,313
Operating Cash Flow	190,170	211,420	214,439	274,846	281,170
Capex	-157,280	-245,490	-227,437	-241,037	-244,637
Free Cash Flow	32,890	-34,070	-12,998	33,809	36,533
Inc (-) / Dec in Investments	-13,280	-87,140	44,580	0	0
Others	19,310	18,440	4,440	4,440	4,440
Investing Cash Flow	-151,250	-314,190	-178,417	-236,597	-240,197
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-8,880	-8,880	-4,440	-4,440	-4,440
Inc / Dec (-) in Loans	-39,350	75,730	33,658	34,458	35,258
Others	0	10	404	11	11
Financing Cash Flow	-48,230	66,860	29,622	30,029	30,829
Inc / Dec (-) in Cash	-9,310	-35,910	65,643	68,278	71,802
Opening Cash Balance	153,680	144,370	108,460	174,103	242,381
Closing Cash Balance	144,370	108,460	174,103	242,381	314,183

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	1,061,460	1,237,090	1,382,427	1,542,082	1,709,891
Share Capital	2,220	2,220	2,220	2,220	2,220
Reserves & Surplus	1,059,240	1,234,870	1,380,207	1,539,862	1,707,671
Preference Share Capital	0	0	0	0	0
Minority Interest	110	120	524	535	546
Total Loans	563,560	639,290	672,948	707,406	742,664
Def. Tax Liab. / Assets (-)	93,440	104,710	104,710	104,710	104,710
Total - Equity & Liab.	1,718,570	1,981,210	2,160,609	2,354,732	2,557,810
Net Fixed Assets	1,266,770	1,439,530	1,573,727	1,718,023	1,864,193
Gross Fixed Assets	1,630,725	1,750,915	2,131,647	2,372,563	2,617,079
Intangible Assets	260,750	266,830	266,830	266,830	266,830
Less: Depn. & Amort.	773,375	852,185	945,425	1,042,166	1,140,633
Capital WIP	148,670	273,970	120,675	120,796	120,917
Investments	154,440	241,580	197,000	197,000	197,000
Current Assets	897,860	978,800	1,051,926	1,155,750	1,251,868
Inventories	408,120	488,010	508,883	507,427	520,936
Sundry Debtors	164,040	198,340	165,387	189,440	194,483
Cash & Bank Balances	144,370	108,460	174,103	242,381	314,183
Loans & Advances	181,330	183,990	203,553	216,502	222,266
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	600,500	678,700	662,043	716,041	755,251
Current Liabilities	574,110	651,890	636,103	690,101	729,311
Provisions & Others	26,390	26,810	25,940	25,940	25,940
Net Current Assets	297,360	300,100	389,882	439,709	496,618
Total - Assets	1,718,570	1,981,210	2,160,609	2,354,732	2,557,810

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	4.9%	7.5%	6.3%	6.5%	6.6%
Asset Turnover (x)	1.3	1.3	1.1	1.1	1.0
Leverage Factor (x)	1.7	1.6	1.6	1.5	1.5
RoE	10.5%	15.6%	11.1%	10.9%	10.3%

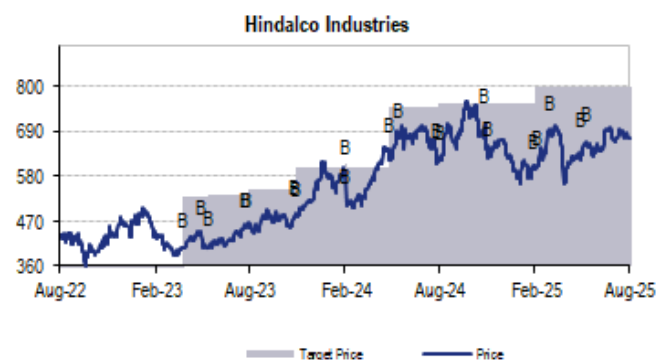
Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	477.3	556.3	621.6	693.4	768.9
ROIC	9.5%	12.9%	10.4%	10.2%	10.0%
ROE	10.5%	15.6%	11.1%	10.9%	10.3%
Net Debt/Equity (x)	0.4	0.3	0.3	0.3	0.2
P/E (x)	14.2	8.4	10.3	9.4	8.9
P/B (x)	1.4	1.2	1.1	1.0	0.9
EV/EBITDA (x)	7.8	5.9	6.0	5.5	5.2
EV/Sales (x)	0.9	0.8	0.8	0.8	0.7
Debtor days	28	30	26	28	28
Inventory days	69	75	80	75	75
Creditor days	109	116	116	119	122

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
4-Apr-23	Buy	530	
10-May-23	Buy	530	0.0
24-May-23	Buy	535	0.9
3-Aug-23	Buy	540	0.9
8-Aug-23	Buy	550	1.9
7-Nov-23	Buy	600	9.1
10-Nov-23	Buy	600	0.0
12-Feb-24	Buy	610	1.7
13-Feb-24	Buy	600	-1.6
6-May-24	Buy	750	25.0
24-May-24	Buy	750	0.0
7-Aug-24	Buy	760	1.3
13-Aug-24	Buy	760	0.0
6-Nov-24	Buy	760	0.0
13-Nov-24	Buy	760	0.0
10-Feb-25	Buy	800	5.2
14-Feb-25	Buy	800	0.0
12-Mar-25	Buy	800	0.0
12-May-25	Buy	800	0.0
20-May-25	Buy	800	-0.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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