ADD Hindalco

Earnings hold firm; Oswego drag and leverage to recede

Metals & Mining ▸ Company Update ▸ August 05, 2026

CMP (Rs): 1,039 | TP (Rs): 1,150

Novelis delivered a strong 1Q, with adjusted EBITDA of $516mn, 5.7% above our estimate (+12.4% qoq), and EBITDA/t of $563. Even adjusting for the $18mn net Oswego benefit, underlying EBITDA/t remained healthy at $525. With Oswego operations normalizing, the earnings drag should recede, while insurance proceeds and normalization of elevated inventories should support cash conversion. We would, however, temper near-term earnings extrapolation, given unusually favorable scrap spreads, with the management retaining its medium-term normalized EBITDA/t guidance of ~$600. As Bay Minette capex also winds down, Novelis expects to turn FCF-positive by 4QFY27, supporting leverage reduction from 4.5x to below 4x by FY27-end. We maintain ADD and TP of Rs1,150.

Core earnings remain robust as Oswego headwinds recede

Novelis reported a strong 1Q performance, with adj EBIDTA of $516 in 4Q (+12.4% qoq, 24.0% yoy), 5.7% ahead of our estimate of $487. The beat was led by higher average aluminum prices (up 11.6% qoq) and lower shipment loss of 33kt from Oswego (already known) vs 4Q loss of 72kt; it was further supported by an estimated $18mn net positive impact from the Oswego fires, inclusive of $47mn business interruption insurance proceeds. Adj EBITDA/t stood at $563 vs $544 in 4Q. However, even on excluding the net positive impact of the Oswego fire incident, underlying business continues to perform well, with EBITDA/t of $525. Operationally, shipments rose 8.5% qoq but declined 4.9% yoy to 916kt. Novelis reported net profit of $164mn vs our estimate of $181mn.

Oswego drag fading; working-capital unwind to aid cash flows

With Oswego largely back online and majority of incremental fire-related costs already absorbed, insurance receipts should exceed residual costs from 2Q onward, providing a meaningful cash-flow offset as the operational impact recedes; this would offer a meaningful tailwind to profitability over the next few quarters. However, we would not extrapolate the strong 1Q profitability, as favorable scrap spreads provided a meaningful tailwind during the quarter and are unlikely to sustain at current levels. Accordingly, the management continues to anchor medium-term normalized EBITDA/t at ~$600. Working capital was elevated, as Novelis carried higher-than-normal inventories to mitigate supply-chain disruptions and longer transit times following the Oswego outage; this should unwind as operations normalize, aiding cash conversion.

FCF recovery to pave the way for deleveraging

Novelis reported net debt of $7.9bn in Jun-26, with net debt-to-EBITDA rising to 4.5x vs 4.1x in Mar-26. We draw comfort from insurance recoveries expected to more than offset residual Oswego costs going forward, while working-capital normalization and tapering Bay Minette capex should support return to a positive FCF by 4QFY27, which is expected to bring down leverage below 4x by FY27-end. We maintain ADD and TP of Rs1,150.

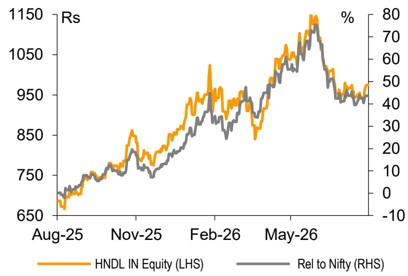
Target Price – 12M	Jun-27
Change in TP (%)	-
Current Reco.	ADD
Previous Reco.	ADD
Upside/(Downside) (%)	10.7

Stock Data	HNDL IN
52-week High (Rs)	1,179
52-week Low (Rs)	657
Shares outstanding (mn)	2,247.2
Market-cap (Rs bn)	2,335
Market-cap (USD mn)	24,544
Net-debt, FY27E (Rs mn)	965,543.2
ADTV-3M (mn shares)	6.4
ADTV-3M (Rs mn)	6,224.4
ADTV-3M (USD mn)	65.4
Free float (%)	64.9
Nifty-50	24,624.7
INR/USD	95.1
Shareholding,Jun-26	
Promoters (%)	34.7
FPIs/MFs (%)	31.4/24.1

Price Performance

(%)	1M	3M	12M
Absolute	9.0	(1.5)	51.2
Rel. to Nifty	7.4	(3.9)	51.4

1-Year share price trend (Rs)



Hindalco: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	2,384,960	2,749,440	3,390,416	3,460,784	4,052,521
EBITDA	354,960	380,970	466,592	495,603	582,192
Adj. PAT	168,810	203,540	225,047	233,994	286,528
Adj. EPS (Rs)	75.9	91.5	101.1	105.2	128.8
EBITDA margin (%)	14.9	13.9	13.8	14.3	14.4
EBITDA growth (%)	38.0	7.3	22.5	6.2	17.5
Adj. EPS growth (%)	66.5	20.6	10.6	4.0	22.5
RoE (%)	14.7	15.6	15.3	13.9	14.9
RoIC (%)	14.3	15.1	14.5	13.3	14.6
P/E (x)	14.4	17.2	11.0	7.9	8.1
EV/EBITDA (x)	7.2	6.7	5.5	5.2	4.4
P/B (x)	1.9	1.7	1.5	1.3	1.1
FCFF yield (%)	1.5	(7.8)	(2.8)	2.6	4.2

Source: Company, Emkay Research

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Key takeaways from the conference call

Balance sheet

- Net leverage currently at 4.5x, with liquidity solid at $2.1bn—$1.1bn in cash and $1.0bn available under committed credit facilities.
- The company entered into a new $500mn unsecured term loan in Jul-26 at 'pretty attractive rates' for additional flexibility during the peak investment phase.
- Leverage expected to increase 'very slightly' before beginning the deleveraging journey; the management is confident of leverage dropping below 4.0x by FY27-end.
- No additional borrowing planned after the Jul-26 term loan; focus firmly on deleveraging as Bay Minette Capex winds down.

Cash flow guidance

- Working capital is currently elevated due to long supply chains (sourcing from multiple global plants to support North America) and inability to process returned/generated scrap; expected to normalize by end of calendar year as Oswego reaches full production, releasing cash quarter by quarter.
- The company expects to return to an FCF-positive position by the end of 4QFY27.
- Full-year capex guidance: $2.1-2.4bn, including ~$350mn for maintenance capital.

Oswego fire – recovery update

- Insurance recoveries received through the end of 1Q at $300mn; additional ~$200mn expected in 2Q.
- Ultimate net cash to be absorbed by Novelis estimated at ~$600mn; ~$800mn gap to be recovered via future insurance over 12+ months.
- Insurance process is expected to extend into next FY; insurers cooperating closely.
- The management maintains guidance on total shipment loss (150-200kt), EBITDA impact ($101-150mn), and pre-recovery cash flow impact ($1.7bn).
- Restart was used as an opportunity to strengthen global operating standards based on world-class manufacturing principles.

Bay Minette plant

- Bay Minette commissioning process is underway; transition from construction to production is expected through approximately Nov-26.
- Customer qualification is expected to take roughly two months; commercial coils to be shipped in early-CY27. Commercial shipments are expected to commence in 1QFY28.
- Initial focus will be on beverage packaging to maximize throughput, while simultaneously qualifying other products.
- Ramp-up to full 600kt capacity is expected over 18-24 months; the management is 'very confident' that all produced volume can be sold commercially.
- Approximately 180kt of capacity is still available to be contracted; the management is confident of filling full capacity across beverage packaging, automotive, and high-value products over ramp-up.
- Positive EBITDA is expected to be generated in FY28; EBITDA/t expected above $1,000.
- Startup costs of up to $150mn are expected during the ramp-up period (below EBITDA line, in line with US GAAP).
- Total capital cost remains in the order of $5bn; $3.8bn spent through the end of 1Q.

Scrap spread

- Favorable scrap and aluminum prices have driven EBITDA improvements through cost savings, improved scrap prices, and cost efficiency initiatives.
- Metal benefit is a key tailwind, but will pull back as prices normalize; the management acknowledged this as the key 'watch factor' in sustaining EBITDA improvement.
- Cost savings (targeting $350-400mn by FY28-end) will grow to partially offset any metal benefit pullback over time.
- South America benefiting from favorable metal spreads, higher premiums, and easier scrap availability; the management suggests $900-1,000/t as a more normal range for sustainable EBITDA in the region.

Tariff impact

- Net tariff headwind of ~$70mn driven by higher inter-regional imports (subject to Section 232 tariffs) used to substitute for lost Oswego production.
- Tariff impact should normalize toward zero as Novelis has sufficient onshore capacity; it expects normalization as Oswego ramp-up reduces import dependence.

Beverage packaging pricing, and contracting

- Long-term contracts for Bay Minette capacity extend through the end of the decade; the company had step-up pricing in prior years.
- North American contracts in CY26 are seeing typical inflationary-rate price increases (rather than further step-ups).

Structural cost reduction program

- The company achieved over $225mn in run-rate savings to date.
- Ultimate target: $350-400mn in total savings by FY28-end; sourced from leaner organization structure, technology-enabled process improvements, labor productivity, energy and variable cost optimization, procurement savings, and improved asset effectiveness.

Outlook

- Normalized EBITDA anchor: $600/t at normalized metal prices; management 'confidently heading towards that', aided by cost efficiency programs.
- All three major parallel catalysts converging: Oswego returning to full capacity, Bay Minette ramping up, working capital releasing, and continued insurance recoveries.

Hindalco: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Revenue	**2,384,960**	**2,749,440**	**3,390,416**	**3,460,784**	**4,052,521**
Revenue growth (%)	10.4	15.3	23.3	2.1	17.1
EBITDA	**354,960**	**380,970**	**466,592**	**495,603**	**582,192**
EBITDA growth (%)	38.0	7.3	22.5	6.2	17.5
Depreciation & Amortization	88,640	91,540	107,718	118,761	129,657
EBIT	**266,320**	**289,430**	**358,874**	**376,842**	**452,535**
EBIT growth (%)	49.2	8.7	24.0	5.0	20.1
Other operating income	-	-	-	-	-
Other income	27,080	28,890	29,757	31,245	32,807
Financial expense	34,190	34,800	46,309	51,851	54,580
PBT	**232,130**	**254,630**	**312,565**	**324,991**	**397,955**
Extraordinary items	(8,790)	(69,630)	(14,536)	57,656	0
Taxes	63,350	51,050	87,518	90,998	111,427
Minority interest	0	0	0	0	0
Income from JV/Associates	30	(40)	0	0	0
Reported PAT	**160,020**	**133,910**	**210,511**	**291,649**	**286,528**
PAT growth (%)	57.6	(16.3)	57.2	38.5	(1.8)
Adjusted PAT	**168,810**	**203,540**	**225,047**	**233,994**	**286,528**
Diluted EPS (Rs)	**75.9**	**91.5**	**101.1**	**105.2**	**128.8**
Diluted EPS growth (%)	66.5	20.6	10.6	4.0	22.5
DPS (Rs)	**3.5**	**5.0**	**7.1**	**7.4**	**9.0**
Dividend payout (%)	**4.9**	**8.3**	**7.5**	**5.6**	**7.0**
EBITDA margin (%)	14.9	13.9	13.8	14.3	14.4
EBIT margin (%)	11.2	10.5	10.6	10.9	11.2
Effective tax rate (%)	27.3	20.0	28.0	28.0	28.0
NOPLAT (pre-IndAS)	**193,639**	**231,403**	**258,389**	**271,326**	**325,825**
Shares outstanding (mn)	2,225	2,225	2,225	2,225	2,225

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
Share capital	2,220	2,220	2,220	2,220	2,220
Reserves & Surplus	1,234,870	1,363,610	1,572,903	1,790,517	2,056,988
Net worth	**1,237,090**	**1,365,830**	**1,575,123**	**1,792,737**	**2,059,208**
Minority interests	120	120	120	120	120
Non-current liab. & prov.	87,800	45,650	45,650	45,650	45,650
Total debt	**619,310**	**966,590**	**1,091,590**	**1,091,590**	**1,091,590**
Total liabilities & equity	**2,048,730**	**2,496,670**	**2,830,963**	**3,048,577**	**3,315,048**
Net tangible fixed assets	1,087,620	1,388,570	1,692,128	1,947,865	2,126,452
Net intangible assets	326,480	379,300	379,300	379,300	379,300
Net ROU assets	25,430	29,900	29,900	29,900	29,900
Capital WIP	270,230	475,690	475,690	475,690	475,690
Goodwill	-	-	-	-	-
Investments [JV/Associates]	183,880	238,740	238,740	238,740	238,740
Cash & equivalents	**108,460**	**148,080**	**126,047**	**182,679**	**216,056**
Current assets (ex-cash)	911,130	1,262,220	1,085,359	997,646	1,135,448
Current Liab. & Prov.	594,270	950,140	720,510	727,553	810,848
NWC (ex-cash)	**316,860**	**312,080**	**364,849**	**270,093**	**324,600**
Total assets	**2,048,730**	**2,496,670**	**2,830,963**	**3,048,577**	**3,315,048**
Net debt	510,850	818,510	965,543	908,911	875,534
Capital employed	2,048,730	2,496,670	2,830,963	3,048,577	3,315,048
Invested capital	**1,460,730**	**1,604,260**	**1,960,586**	**2,121,568**	**2,354,662**
BVPS (Rs)	555.9	613.8	707.8	805.6	925.4
Net Debt/Equity (x)	0.4	0.6	0.6	0.5	0.4
Net Debt/EBITDA (x)	1.4	2.1	2.1	1.8	1.5
Interest coverage (x)	7.8	8.3	7.7	7.3	8.3
RoCE (%)	**15.4**	**13.8**	**14.4**	**13.6**	**15.0**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY25	FY26	FY27E	FY28E	FY29E
PBT (ex-other income)	223,370	184,960	312,565	324,991	397,955
Others (non-cash items)	(4,680)	13,050	0	0	0
Taxes paid	(54,670)	(64,760)	(87,518)	(90,998)	(111,427)
Change in NWC	(23,210)	(142,370)	(38,233)	37,100	(54,507)
Operating cash flow	**244,100**	**102,500**	**340,841**	**441,706**	**416,258**
Capital expenditure	(206,490)	(300,960)	(411,276)	(374,499)	(308,245)
Acquisition of business	(120)	(1,370)	0	0	0
Interest & dividend income	8,570	12,010	0	0	0
Investing cash flow	**(247,390)**	**(265,830)**	**(425,812)**	**(316,843)**	**(308,245)**
Equity raised/(repaid)	(1,040)	(1,170)	0	0	0
Debt raised/(repaid)	62,370	281,930	125,000	0	0
Payment of lease liabilities	(3,970)	(3,580)	0	0	0
Interest paid	(40,440)	(47,910)	(46,309)	(51,851)	(54,580)
Dividend paid (incl tax)	(7,780)	(11,100)	(15,753)	(16,380)	(20,057)
Others	(27,300)	(17,300)	0	0	0
Financing cash flow	**(18,160)**	**200,870**	**62,938**	**(68,230)**	**(74,636)**
Net chg in Cash	(21,450)	37,540	(22,033)	56,632	33,377
OCF	244,100	102,500	340,841	441,706	416,258
Adj. OCF (w/o NWC chg.)	267,310	244,870	379,074	404,606	470,765
FCFF	37,610	(198,460)	(70,435)	67,207	108,013
FCFE	11,990	(221,250)	(116,744)	15,356	53,434
OCF/EBITDA (%)	68.8	26.9	73.0	89.1	71.5
FCFE/PAT (%)	7.5	(165.2)	(55.5)	5.3	18.6
FCFF/NOPLAT (%)	**19.4**	**(85.8)**	**(27.3)**	**24.8**	**33.2**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY25	FY26	FY27E	FY28E	FY29E
P/E (x)	14.4	17.2	11.0	7.9	8.1
EV/CE(x)	1.4	1.1	1.0	0.9	0.8
P/B (x)	1.9	1.7	1.5	1.3	1.1
EV/Sales (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	7.2	6.7	5.5	5.2	4.4
EV/EBIT(x)	9.6	8.8	7.1	6.8	5.6
EV/IC (x)	1.7	1.6	1.3	1.2	1.1
FCFF yield (%)	1.5	(7.8)	(2.8)	2.6	4.2
FCFE yield (%)	0.5	(9.5)	(5.0)	0.7	2.3
Dividend yield (%)	0.3	0.5	0.7	0.7	0.9
DuPont-RoE split					
Net profit margin (%)	7.1	7.4	6.6	6.8	7.1
Total asset turnover (x)	1.3	1.2	1.3	1.2	1.3
Assets/Equity (x)	1.6	1.7	1.8	1.7	1.6
RoE (%)	**14.7**	**15.6**	**15.3**	**13.9**	**14.9**
DuPont-RoIC					
NOPLAT margin (%)	8.1	8.4	7.6	7.8	8.0
IC turnover (x)	1.8	1.8	1.9	1.7	1.8
RoIC (%)	**14.3**	**15.1**	**14.5**	**13.3**	**14.6**
Operating metrics					
Core NWC days	48.5	41.4	39.3	28.5	29.2
Total NWC days	**48.5**	**41.4**	**39.3**	**28.5**	**29.2**
Fixed asset turnover	1.2	1.3	1.4	1.2	1.3
Opex-to-revenue (%)	85.1	86.1	86.2	85.7	85.6

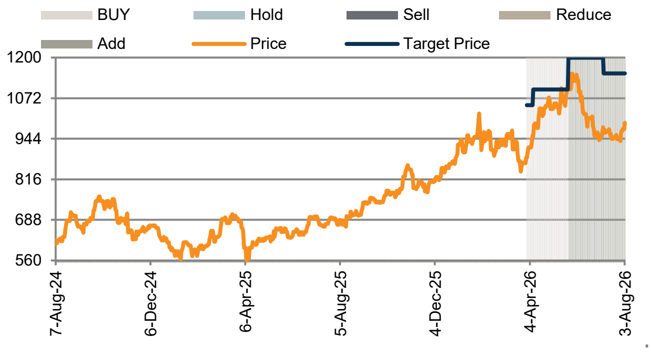
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
07-Jul-26	970	1,150	Add	Akhilesh Kumar
16-Jun-26	982	1,200	Add	Akhilesh Kumar
29-May-26	1,127	1,200	Add	Akhilesh Kumar
23-May-26	1,109	1,200	Add	Akhilesh Kumar
19-May-26	1,048	1,100	Buy	Akhilesh Kumar
08-Apr-26	952	1,100	Buy	Akhilesh Kumar
31-Mar-26	884	1,050	Buy	Akhilesh Kumar

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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