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Hindalco déjà vu: Novelis hurts

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Hindalco Industries Ltd's shares rose nearly 5% on Wednesday, following its June quarter results, in which its consolidated earnings before interest, taxes, depreciation, and amortization (Ebitda) rose 6% year-on-year to ₹8,075 crore. The trend seen in recent quarters persisted: India's business stole the show, but wholly-owned US subsidiary Novelis Inc. remained under pressure.

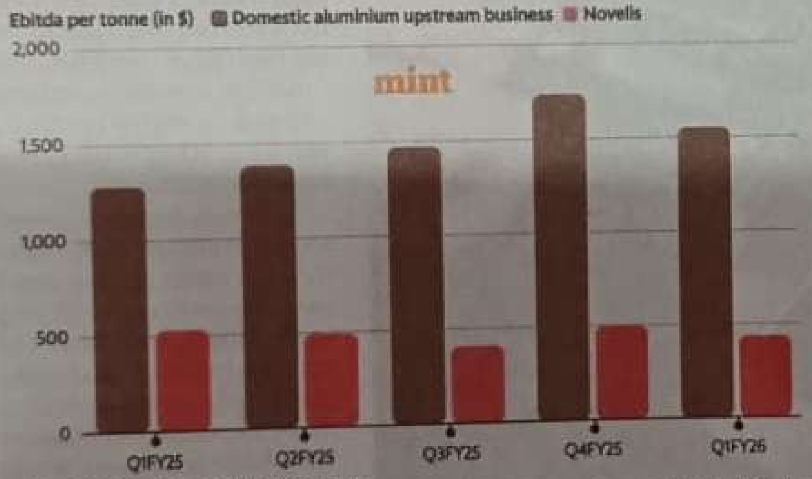
India operations' Ebitda rose a solid 29% y-o-y to ₹4,750 crore. Domestic business comprises aluminium upstream, aluminium downstream, and copper.

However, Novelis' Ebitda fell 17% to $416 million, weighed down by higher aluminium scrap prices and the hit of US import tariffs. Ebitda per tonne fell 18% to $432, and the pain may prolong as the tariff impact has not played out fully.

The management expects a cost hit of $60 million per quarter, assuming the existing 50% tariff on aluminium import to the US stays. Note that sales of some of its key segments, such as automotives and speciality shipments, were hit as buyers await tariff stability. Nuvama Institutional Equities has cut its FY26 estimated Ebitda by 3% due to lower profit at Novelis, partly offset by higher profits at Indian operations.

Mixed fortune

Hindalco's India business continued to outperform in Q1FY26, but Novelis suffered from higher costs and tariffs.



Note: Ebitda is earnings before interest, taxes, depreciation and amortization

Source: Company, Nuvama Institutional Equities

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Hindalco sees Novelis's profitability improving in H2, aided by projected cost savings of $100 million annually by FY26-end, up from $75 million projected earlier. A higher contract price for beverage cans, which form almost 60% of volumes, should also aid profitability. In the medium term, ongoing capacity expansion at Bay Minette, expected to get commissioned in latter half of 2026, would help lower US imports and mitigate the tariff hit.

In Q1, higher realizations helped Hindalco post 13% growth in consolidated revenue to ₹64,200 crore. Volumes grew just 1%. Global aluminium prices were firm, with China seeing some deficit in supplies versus a balance in Q4FY25. Aluminium upstream Ebitda grew 17%, contributing over 80% to Q1 domestic Ebitda, aided by higher realizations and lower cost of production (CoP), the lowest in 15 quarters. However, CoP is seen up in Q2 on coal cost rise.

The aluminium downstream business is seeing a structural shift with Hindalco moving up the value chain, and more than doubling Ebitda in Q1. Copper business Ebitda fell 16% due to lower processing spreads but the commissioning of the facility for higher value-added products may lift earnings. This scrap and e-waste based project may start by December 2026, and will bring Ebitda margin of 2-3x of the conventional process.

Medium-term expansion plans for India and abroad are on track, funded by domestic cash flow. Consolidated net debt-to-Ebitda fell to 1.02x, from 1.06x in Q4, despite rise in Novelis' net debt. Yet, with significant capex plan for two years, leverage is worth tracking. Nuvama sees Hindalco net debt up at ₹45,300 crore by FY27-end, taking net debt-to-Ebitda to 1.3x.

Hindalco's stock is up about 12% so far in 2025, backed by a strong domestic show. It trades at an enterprise value of 6.2xFY26 estimated Ebitda, shows *Bloomberg*. Improving Novelis' performance is key for a re-rating, but that unlikely soon, given the uncertainties on tariffs. Kotak Institutional Equities says the stock lacks major triggers now, with volume growth to kick in largely from FY28.

ROOM TO GROW

HINDALCO expects Novelis's H2 profit to improve aided by $100 mn cost savings target by FY26-end

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