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FIRST LIGHT

18 October 2024

RESEARCH

KEI INDUSTRIES | TARGET: Rs 5,200 | +19% | BUY

Sustaining growth with stability

BOB ECONOMICS RESEARCH | TRADE

India's Foreign Trade: H1FY25

NESTLE INDIA | TARGET: Rs 2,543 | +7% | HOLD

Margins remain a priority; HOLD

INFOSYS | NOT RATED

Broadly inline quarter: Revenue guidance and TCV underwhelm

HAVELLS INDIA | TARGET: Rs 1,900 | +5% | HOLD

Q2 margins miss; growth on the way

LTIMINDTREE | NOT RATED

Softer revenue and TCV. Efficiency pivot should help

MPHASIS | NOT RATED

In line quarter. Steady improvement indicated.

METALS & MINING

Positive market environment for alumina and aluminium: Alcoa

SUMMARY

KEI INDUSTRIES

- KEII reported a 17% YoY rise in Q2 revenue, but margins declined due to raw material price volatility and lower share of EHV sales and exports
- KEII is planning a QIP of Rs 20bn for capital expenditure and will fund future working capital through internal cash flows
- We pare our FY25/FY26/FY27 EPS by 4%/2%/3% and value the stock at 45x with new TP at Rs 5,200; upgrade to BUY

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INDIA ECONOMICS: TRADE

India's merchandise trade deficit narrowed down in Sep'24 on a sequential basis, led by a downward correction in gold imports. Non-oil non gold imports also exhibited some bit of moderation amidst patchy domestic demand conditions and higher inflation. H1 picture however reflect a widening trade deficit (US$ bn) compared to same period of last year (US$ bn). Going ahead, some upside risk to trade deficit will continue to reign in from faster pace of growth in imports.

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NESTLE INDIA

- Sales came in 4% below consensus while EBITDA was 10% lower due to margin being 152bps below expectations
- Rising competition-driven higher A&P spend contracted EBITDA margin by 40bps on a YoY basis
- Gross margins remain a priority. We see risk of permanent loss of shelf space as volume growth continues to be negative. Retain HOLD

Click here **for the full report.**

INFOSYS

- Broad-based growth with European auto the only weak spot. Discretionary spending still restricted to US financial services.
- Large deal TCV down 68% YoY and 41% QoQ. Smaller deals (sub-US$50mn in Infosys context) pipeline picked up QoQ in double digits up.
- Expect consensus FY25 EPS to not materially change post 2QFY25. Will be initiating coverage soon.

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HAVELLS INDIA

- Q2 grew ~17% on improvement in consumer demand trends. High A&P spends and high staff cost hurt margins
- Lloyd shines with 19% YoY growth in a non-seasonal quarter, but cash burns casts a shadow
- We cut our FY25E-FY27E EPS by 5-7% post Q2 results. We roll forward our valuations to Sep'26 but maintain TP at Rs 1,900 and HOLD rating

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LTIMINDTREE

- Softer than expected but broad-based growth. TCV numbers have been in a narrow range for many quarters now.
- LTIM says it now has right balance of capabilities to address transformation and efficiency work, That should bode well for TCV
- Better client mining happening - original goal of merger. Expect consensus EPS to stay put post 2Q. Initiating coverage soon.

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MPHASIS

- Revenue and EBIT margin broadly in line. TCV a tad soft – deals getting pushed back on greater scrutiny on spending by clients on AI projects.
- Mortgage business comeback is dependent on rates in the US which are currently volatile.
- Short cycle deals are returning. AI/Gen AI deals now form 35% of pipeline. Initiating coverage on the stock and sector soon.

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METALS & MINING

- Alcoa's result confirms significant upside from higher prices and modest impact of lower metal prices for Indian players in Q2FY25
- Alcoa's commentary has turned positive on demand recovery, implying possible tightening of market balance over CY25
- Alumina market tightness likely to continue near term and could return to balance over CY25 with new supplies and resolution of disruptions

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BOBCAPS
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BUY
TP: Rs 5,200 | ⮝ 19%

KEI INDUSTRIES | Consumer Durables | 17 October 2024

Sustaining growth with stability

- **KEII reported a 17% YoY rise in Q2 revenue, but margins declined due to raw material price volatility and lower share of EHV sales and exports**
- **KEII is planning a QIP of Rs 20bn for capital expenditure and will fund future working capital through internal cash flows**
- **We pare our FY25/FY26/FY27 EPS by 4%/2%/3% and value the stock at 45x with new TP at Rs 5,200; upgrade to BUY**

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Robust growth amid EHV and export challenges: KEII demonstrated resilience in Q2FY25, achieving a topline of Rs 22.7bn and marking strong YoY growth of ~17%. While the EBITDA margin dipped 80bps to 9.7% vs the previous year, gross margin contracted to 24.1% due to volatile raw material prices. Despite facing challenges in the EHV segment – hit by issues and delays in RoW – and setbacks in exports from postponed dispatches, KEII's 2Q performance was buoyed by strong results in the low tension (LT), high tension (HT) and house wires (HW) segments. KEII adeptly repurposed idle EHV capacity to boost HT cable production.

Segmental performance overview: The Cables segment showcased robust 20.5% YoY growth, generating Rs 21.4bn in revenue. This growth was bolstered by a 14% increase in volume during H1FY25, with cables contributing ~94% of KEII's total revenue. In contrast, the Engineering, Procurement and Construction (EPC) segment declined significantly, contracting by 58% YoY and currently accounting for just 6% of the topline. Management remains committed to reducing the EPC contribution to 5% by the end of FY25. The Stainless Steel segment grew a modest 1.3%, with revenue at Rs 598mn. Despite these mixed results, KEII maintains a strong export order book, valued at Rs 38bn.

Guidance affirmed; strategic fund-raising initiatives on anvil: Management reaffirmed its revenue growth guidance of 16%-17% for FY25 and FY26, alongside projected EBITDA margin of 11% for FY25. It also maintained its capex guidance of Rs 9bn to Rs 10bn for FY25, with Rs 3.12bn already incurred in H1FY25. KEI has approved a QIP of Rs 20bn to finance its capex needs – a somewhat unexpected move given prior expectations of relying solely on internal accruals for funding.

Upgrade to BUY: Following KEII's Q2 results, while H1 volume growth has softened due to election-related impacts and raw material price volatility, we remain optimistic about the company's future. We have adjusted our FY25/FY26/FY27 EPS estimates downward by 4%/2%/3%, respectively, but we now value it at 45x (vs 35x), a 25% premium to its 5Y average. Factoring in the strong OCF and robust ROIC, we upgrade the stock to BUY with a revised TP of Rs 5,200.

Key changes

Target	Rating
▲	▲

Ticker/Price	KEII IN/Rs 4,385
Market cap	US$ 4.7bn
Free float	61%
3M ADV	US$ 15.1mn
52wk high/low	Rs 5,040/Rs 2,321
Promoter/FPI/DII	37%/27%/20%

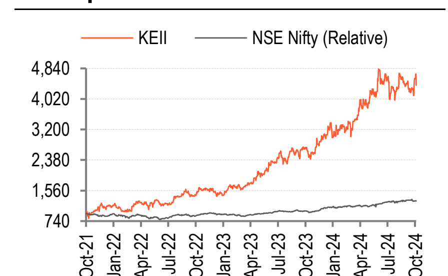
Source: NSE | Price as of 16 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	81,041	95,200	113,390
EBITDA (Rs mn)	8,375	10,945	13,723
Adj. net profit (Rs mn)	5,809	7,629	9,557
Adj. EPS (Rs)	64.4	84.6	106.0
Consensus EPS (Rs)	64.4	84.0	105.0
Adj. ROAE (%)	20.3	21.7	22.0
Adj. P/E (x)	68.1	51.8	41.4
EV/EBITDA (x)	47.7	36.6	29.2
Adj. EPS growth (%)	21.7	31.3	25.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

TRADE

17 October 2024

India's Foreign Trade: H1FY25

Dipanwita Mazumdar
Economist

India's merchandise trade deficit narrowed down in Sep'24 on a sequential basis, led by a downward correction in gold imports. Non-oil non gold imports also exhibited some bit of moderation amidst patchy domestic demand conditions and higher inflation. H1 picture however reflect a widening trade deficit (US$ bn) compared to same period of last year (US$ bn). Going ahead, some upside risk to trade deficit will continue to reign in from faster pace of growth in imports.

Higher commodity prices especially prices of industrial inputs, metals are witnessing some momentum (IMF primary commodity prices data), which will feed into imported inflation in turn inflating the import bill. Export cycle will continue to witness staggered recovery amidst geopolitical risks, elections driven uncertainty in the US and modest monetary policy response of major global central banks.

Trade performance in Sep'24: India's trade deficit narrowed down to US$ 20.8bn in Sep'24 compared to US$ 29.7bn deficit seen in Aug'24. This is attributable to faster pace of decline in imports. It fell to US$ 55.4bn in Sep'24 from US$ 64.4bn in Aug'24. Correction in gold imports post a sharp spike in Aug'24 has led to the same. Gold imports fell to US$ 4.4bn from US$ 10.1bn. Even non-oil non-gold imports moderated to US$ 36.5bn from US$ 43.3bn. Exports on the other hand, was broadly stable at US$ 34.6bn from US$ 34.7bn, attributable to seasonal fluctuations. On a seasonally adjusted MoM basis, exports growth rose at a higher pace of 4% while imports growth declined at a less sharp pace by 8%, thus supporting the trade deficit.

Trade performance in H1FY25: Exports growth improved marginally by 1% to US$ 213.2bn in H1FY25 compared with a decline of 8.9% in same period of previous year. In terms of commodity wise exports, Drugs and Pharma, engineering goods and chemicals gained pace. Higher inflationary pressure in cereals, pulses, edible oils has kept a lid on exports of agriculture and allied products. Textile exports also picked pace amid global shifts.

Table 1: Exports by major commodities

Items	Share in exports	H1FY24, US$ bn	H1FY25, US$ bn	H1FY25, % YoY
Engineering goods	26.4	53.4	56.2	5.3
Oil	17.1	41.7	36.5	(12.5)
Agriculture and allied products	8.3	17.8	17.8	0.0
Textiles	7.9	16.0	16.8	4.8
Gems and jewellery	6.5	15.6	13.9	(10.9)
Drugs and pharmaceuticals	6.8	13.4	14.4	8.0
Chemicals	6.6	13.5	14.1	4.6

Source: CEIC, Bank of Baroda Research

RESULT REVIEW

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HOLD
TP: Rs 2,543 | ⮝ 7%

NESTLE INDIA | Consumer Staples | 17 October 2024

Margins remain a priority; HOLD

- **Sales came in 4% below consensus while EBITDA was 10% lower due to margin being 152bps below expectations**
- **Rising competition-driven higher A&P spend contracted EBITDA margin by 40bps on a YoY basis**
- **Gross margins remain a priority. We see risk of permanent loss of shelf space as volume growth continues to be negative. Retain HOLD**

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Sales and EBITDA miss: Sales came in 4% below consensus while EBITDA was 10% lower due to margin being 152bps below expectations. On a YoY basis, Standalone sales were +1.3% with domestic +1.2%. The 180bps contraction in EBITDA margin was due to higher A&P and other expenses as gross margins were relatively flat YoY.

Intensifying competition across businesses: Nestle noted rising competition across its businesses. Confectionary remains competitive due to varying levels of price increases based on underlying input composition. We expect the noodles category is also promotional partly due to recent M&A (Tata Consumer and Capital Foods). While high margins have always been an attraction, the recent rise in quick commerce is now enabling new players to do nationwide launches in tier 1/2 cities.

FY25 forecasts: We forecast 3% sales growth as pricing growth gets largely offset by volume losses. Our EBITDA growth forecast is +2% as we assume 10bps margin contraction to 24.0% despite 150bps higher gross margins. Nestle expects more pricing to come through in FY25E and we expect an accelerated level of A&P to manage volume losses.

Our view and valuation: Nestle continues to keep its focus on margins. We view this as a negative given India is still in a growth phase and far from maturity. We value Nestle based on P/E relative to the NIFTY 50 index. Given its pricing-driven, slower-than-average sales growth profile over the next 12 months, we do not apply any premium on Nestle India's relative P/E. We use 67x 12M to Sep'26 P/E to derive the TP of Rs 2,543 (previously Rs 2,820). Retain HOLD.

(Rs mn)	Q3CY23	Q2FY25	YoY (%)	2QFY25 Actual (%) vs BoB est.	vs Cons est.
Sales	50,368	51,040	1	(3)	(4)
EBITDA	12,249	11,677	(5)	(9)	(10)
EBITDA Margin (%)	24.3	22.9	(144bps)	(145bps)	(152bps)

Source: Company, Bloomberg consensus as on 17 Oct'24, BOBCAPS Research

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	NEST IN/Rs 2,379
Market cap	US$ 27.3bn
Free float	37%
3M ADV	US$ 31.4mn
52wk high/low	Rs 2,778/Rs 2,310
Promoter/FPI/DII	63%/12%/25%

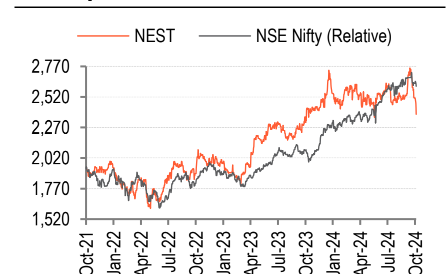
Source: NSE | Price as of 17 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	243,939	201,138	218,861
EBITDA (Rs mn)	58,198	48,168	52,678
Adj. net profit (Rs mn)	39,236	29,997	34,025
Adj. EPS (Rs)	40.7	31.1	35.3
Consensus EPS (Rs)	40.7	37.7	42.2
Adj. ROAE (%)	117.4	83.2	78.2
Adj. P/E (x)	58.5	76.5	67.4
EV/EBITDA (x)	39.4	47.6	43.5
Adj. EPS growth (%)	(83.6)	(23.5)	13.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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NOT RATED

INFOSYS | IT Services | 18 October 2024

Broadly inline quarter: Revenue guidance and TCV underwhelm

Girish Pai
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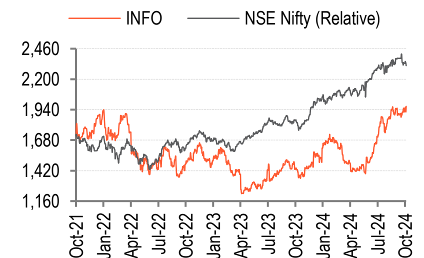
- **Broad-based growth with European auto the only weak spot. Discretionary spending still restricted to US financial services.**
- **Large deal TCV down 68% YoY and 41% QoQ. Smaller deals (sub-US$50mn in Infosys context) pipeline picked up QoQ in double digits**
- **Expect consensus FY25 EPS to not materially change post 2QFY25. Will be initiating coverage soon.**

Ticker/Price	INFO IN/Rs 1,968
Market cap	US$ 97.0bn
Free float	87%
3M ADV	US$ 145.0mn
52wk high/low	Rs 1,991/Rs 1,352
Promoter/FPI/DII	14%/33%/38%

Source: NSE | Price as of 17 Oct 2024

Stock performance



Source: NSE

Broadly in line quarter: QoQ revenue growth in CC of 3.1% versus our estimate of 3.4%. Organic growth was 2.4% as 80bps came from the in-tech acquisition. EBIT margin was flat QoQ at 21.1% with project maximus and currency contributing 80bps and 10bps respectively. However, those were offset by 60bps from higher variable compensation and 30bps from higher M&A amortization. On a QoQ basis it was broad-based growth with European auto the only under performer. The non BFSI verticals were stable.

Revenue guidance and TCV fall short: The street was anticipating at least a 100bps increase in FY25 CC YoY revenue growth guidance (it was raised by 75bps to 3.75%-4.75%). At mid-point it implies a flattish CQGR in the next 2 quarters. It talked about a softer 2H compared to 1H including normal furloughs in 3Q. Also, we were expecting US$3-5bn in TCV for large deals. However, the number came in at US$2.4bn (41% net new). This has pulled down both the TTM TCV number and the TTM Net New TCV number significantly (see Figures 6 and 7).

Small sized deals seem to be higher in number. Infosys stated that sub-US$50mn deals in the pipeline had grown in double digits QoQ. However, it did not say that TCV was getting converted into revenue faster or discretionary spending had become broad based. It stated that this was just one data point and needed to see if this situation sustained.

Salary hike got pushed back, net addition of employees: Unlike in FY24 when the salary hike was effected in November 2023, in FY25 the junior employees will get their hike starting 1 January 2025 and the rest will get it on 1 April 2025. It did not indicate the quantum of the hikes and the likely impact on margins. Infosys added employees for the first time in 2QFY25 after six quarters.

Expects modest discretionary spend in BFS to continue: In most other sectors Infosys indicated that it remains constrained and at similar levels as that seen in previous quarters.

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HOLD
TP: Rs 1,900 | ∧ 5%

HAVELLS INDIA | Consumer Durables | 18 October 2024

Q2 margins miss; growth on the way

- **Q2 grew ~17% on improvement in consumer demand trends. High A&P spends and high staff cost hurt margins**
- **Lloyd shines with 19% YoY growth in a non-seasonal quarter, but cash burns casts a shadow**
- **We cut our FY25E-FY27E EPS by 5-7% post Q2 results. We roll forward our valuations to Sep'26 but maintain TP at Rs 1,900 and HOLD rating**

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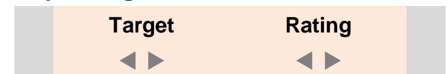
Decent quarter: HAVL achieved commendable topline growth of 17% YoY, reaching Rs 45bn, which is broadly in line with our estimate of Rs 44.6bn. This growth was primarily driven by an improvement in consumer demand trends. Gross margin increased by 40bps YoY to 33.7%. However, rising promotional expenditures during the festive season led to a contraction in EBITDA margin, which decreased by 120bps to 8.3%. Advertising expenses surged by 54% YoY to Rs 1.3bn, accounting for 2.9% of sales – an increase of 70bps compared to the previous year. The shift of the festive season to Q2FY25 contributed to higher advertising spends across all segments. APAT stood at Rs 2.7bn.

Cables and wires lead growth: The cables and wires business experienced robust growth of 23%, driven primarily by strong volume increases in wires, bolstered by spillover effects from Q1FY25 destocking. This segment continues to be HAVL's best-performing division. However, the company trails peers like POLYCAB, which reported topline growth of 30%. In the Electrical Consumer Durables category, revenue grew by 17% YoY to Rs 8.6bn, led by broad-based growth in fans, SDA, and water heaters during the festive season. However, EBIT margin declined by 390bps YoY to 7.5%, primarily due to increased investments in alternative and emerging channels.

Losses at Llyod continue: Lloyd recorded an EBIT loss of Rs 243mn in Q2, despite achieving healthy topline growth of 19% during a non-seasonal quarter. HAVL anticipates that the upcoming quarters will show improved performance with the arrival of the festive season, which it expects to drive sales.

Maintain HOLD: We remain optimistic about HAVL's medium-term performance, given its strong presence in the consumer durables space, the establishment of new manufacturing units, and improving industry dynamics. Incorporating weaker-than-expected margins, we have lowered our EPS estimates by 7% for FY25, by 7% for FY26 and by 5% for FY27. After rolling forward our valuations to Sep'26, our TP remains at Rs 1,900, based on an unchanged P/E ratio of 53x, in line with its five-year average. Maintain HOLD.

Key changes



Ticker/Price	HAVL IN/Rs 1,806
Market cap	US$ 13.5bn
Free float	41%
3M ADV	US$ 22.0mn
52wk high/low	Rs 2,106/Rs 1,233
Promoter/FPI/DII	60%/23%/10%

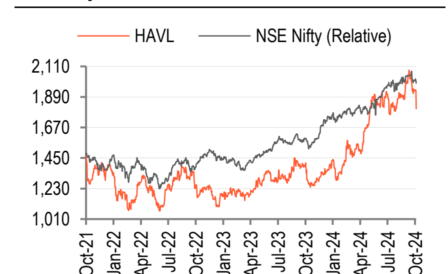
Source: NSE | Price as of 17 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	185,900	211,581	245,916
EBITDA (Rs mn)	18,426	22,124	28,006
Adj. net profit (Rs mn)	12,708	16,060	20,173
Adj. EPS (Rs)	20.3	25.6	32.2
Consensus EPS (Rs)	20.3	26.0	33.0
Adj. ROAE (%)	18.1	20.1	21.8
Adj. P/E (x)	89.0	70.4	56.1
EV/EBITDA (x)	61.4	51.1	40.4
Adj. EPS growth (%)	18.6	26.4	25.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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NOT RATED

LTIMINDTREE | IT Services | 18 October 2024

Softer revenue and TCV. Efficiency pivot should help

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- **LTIM says it now has right balance of capabilities to address transformation and efficiency work, That should bode well for TCV**
- **Better client mining happening - original goal of merger. Expect consensus EPS to stay put post 2Q. Initiating coverage soon.**

Girish Pai
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Softer than expected revenue though margins were better: 2.3% QoQ revenue growth in CC terms was softer than our estimate of 3%. EBIT margins were, however, better (see figure 1) due to the absence of visa costs. The growth was broad-based across vertical and geos. LTIM indicated some of the large deals won in recent quarters will ramp in 3Q and offset part of the furlough pressure. Pyramid will offset part of the wage hike pressure (200bps) expected in 3Q.

TCV stuck in a range: TCV at US$1.3bn has been in a narrow range for 8 quarters now. Needs a big jump to satisfy consensus revenue growth expectations in FY26 and beyond. The large deal pipeline was indicated to be >US$5bn.

LTIM bagged the largest deal in its history in the quarter: US$200mn for 5 years won in the US manufacturing space was a vendor consolidation deal. It used the AI-first operations framework to enhance efficiency, foster innovation and speed up transformation to get this deal.

Discretionary is still under pressure except in BFS: In most other verticals the situation has not changed much. It also indicated decent traction in governance, regulatory and compliance related work.

Getting back to the aspirational 17-18% EBIT margin: LTIM indicated that part of this is dependent on revenue growing in double digits on a consistent basis.

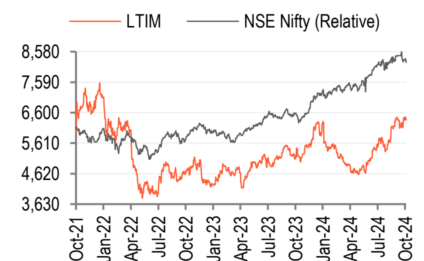
Built capabilities in both transformation and cost take out: LTIM indicated that over the last several quarters it has built capabilities to address the cost takeout demand – which is the predominant type of work now – which it was not adequately prepared for. May be this could help solve the narrow ranged TCV situation.

Says client mining is gaining traction: One of the key objectives post-merger of LTI and Mindtree was that it had a larger menu of services to sell to a high quality set of customers (it already had roughly 95-100 Global 500 customers). We believe that the process has probably gained traction in recent quarters.

Ticker/Price	LTIM IN/Rs 6,394
Market cap	US$ 22.5bn
Free float	31%
3M ADV	US$ 43.0mn
52wk high/low	Rs 6,575/Rs 4,514
Promoter/FPI/DII	69%/7%/15%

Source: NSE | Price as of 17 Oct 2024

Stock performance



Source: NSE

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MPHASIS | IT Services | 17 October 2024

In line quarter. Steady improvement indicated.

- **Revenue and EBIT margin broadly in line. TCV a tad soft – deals getting pushed back on greater scrutiny on spending by clients on AI projects.**
- **Mortgage business comeback is dependent on rates in the US which are currently volatile.**
- **Short cycle deals are returning. AI/Gen AI deals now form 35% of pipeline. Initiating coverage on the stock and sector soon.**

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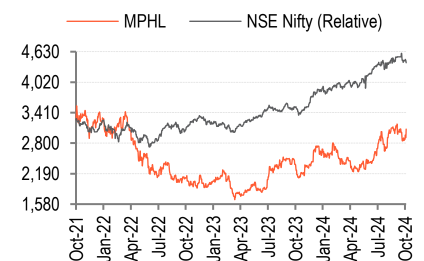
Ticker/Price	MPHL IN/Rs 3,080
Market cap	US$ 6.9bn
Free float	60%
3M ADV	US$ 31.8mn
52wk high/low	Rs 3,188/Rs 2,069
Promoter/FPI/DII	40%/18%/37%

Source: NSE | Price as of 17 Oct 2024

Stock performance



Source: NSE

Broadly inline quarter: Revenue reached US$421mn, growth of 2.4% QoQ in CC terms and 5.4% YoY. The EBIT margin expanded QoQ 40 bps to 15.4%. See Figure 1. While the top 10 clients grew 2% QoQ, next 20 clients grew by 11%.

TCV soft: At US$207mn it was down ~19% YoY and down ~34% QoQ. While there were 3 large deals, MPHL indicated that decision making was delayed, and deals got pushed forward. It indicated a greater level of scrutiny by more stakeholders in customer enterprises on AI deals, being a reason for the delays in deal closure.

Reiteration of above industry growth and steady margins: Growth in the second half is expected to be broad-based, primarily driven by the BFS and TMT verticals. EBIT margins are expected to be in the 14.6-16% range for FY25. Growth is expected to come from consumption of booked deals and in-quarter small deals. Expects 3Q to reflect normal seasonality and growth to still be led by the BFS vertical

Spending improving steadily: Company emphasized that tech spending remains a strategic priority and indicated a gradual recovery across client segments and an uptick in client sentiment. It sees stability in all key verticals and geos, continuing trend of green shoots across the client portfolio. It indicated a strong pipeline reflecting consolidation opportunities and modernization deals driven by savings led transformation thesis. It saw a higher share of proactive deal wins, broad-based wins across verticals and client pyramid. It indicated better conversion of TCV to revenue.

Talk of cautious optimism on lower rates: A 50bps cut by the US Fed mid-September contributed to a belief that US economy may be heading towards a soft landing. However, heightened geopolitical tensions and upcoming US elections creates a cautious climate

Mortgage business slowly recovering: MPHL saw a slight uptick in mortgage business in 2Q, particularly in the diligence space, but recovery is expected to be gradual rather than rapid. It expects an increase in refinancing activity in the upcoming quarters. While improvements are expected, a full return to previous levels will depend on how quickly interest rates stabilize.

METALS & MINING

17 October 2024

Positive market environment for alumina and aluminium: Alcoa

Kirtan Mehta, CFA
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- **Alcoa's result confirms significant upside from higher prices and modest impact of lower metal prices for Indian players in Q2FY25**
- **Alcoa's commentary has turned positive on demand recovery, implying possible tightening of market balance over CY25**
- **Alumina market tightness likely to continue near term and could return to balance over CY25 with new supplies and resolution of disruptions**

Alcoa Q3CY24 beat: Q3CY24 EBITDA at US$ 455mn was 17% ahead of Bloomberg consensus on 30% beat in the aluminium segment partially offset by the 7% miss in alumina segment. Q3 EBITDA increased 30% sequentially primarily due to higher alumina prices, improved energy and raw material costs and lower other costs, only partially offset by lower metal prices.

Read-across for Indian alumina players for Q2FY25: Near doubling of EBITDA sequentially confirms good upside for players long in the alumina segment this quarter. Among Indian players, NALCO is likely to benefit the most with higher third-party sales and its preference sale on spot (rather than index-linked prices).

Read-across for Indian aluminium players for Q2FY25: Indian players will face higher impact of the US$ 150/t QoQ decline in LME prices than Alcoa due to lower benefit of regional premia. Also, Indian players (except Vedanta) will not face the impact of higher alumina prices being net long on alumina due to net long position.

Aluminum market could tighten over CY25: Alcoa's tone on demand commentary has turned positive from 'steady' outlook last quarter. Alcoa cites continuing recovery in packaging, steady transport despite slower growth in automotive, possibility of recovery in building and construction with onset of rate cuts in Europe and the US. With China approaching production capacity caps, and limited restarts as well as projects in pipeline, aluminium market balance could potentially tighten over CY25.

Alumina: Near-term tight, back in balance in CY25? Alumina price index (API) has tightened to US$ 700 with very low availability of spot alumina. Alumina market could return to balance over CY25 subject to resolution of curtailments and timely ramp-up of new capacities in Indonesia and India. While China alumina production has ramped up by 7.7mt this year recovering from bauxite shortage, Jamalco refinery (1.2mtpa) has largely recovered from the hurricane impact and Queensland refinery are likely to add 0.5mt additional production in CY25 recovering from gas shortage. However, Kwinana curtailment (2.2mt) is unlikely to recover before CY27.

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