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India | Equity Research | Q4FY24 results review

National Aluminium Company

Metals

Good performance; but the best seems to be priced in

National Aluminium Company's (NALCO) Q4FY24 EBITDA was 6%/20% ahead of our/Street's estimates. Key points: 1) Aluminium (Al)/Chemicals divisions' volumes were up 3%/1% YoY. 2) Al division's EBIT dipped while Chemicals' increased on a QoQ-basis. 3) Power and fuel costs declined further, mainly due to logistical efficiencies at Utkal D mine. Going ahead, we believe that CMP more than adequately reflects the favourable impact of cost efficiencies. Taking cognizance of prevailing LME prices, we raise our FY25E/FY26E EBITDA by 23%/19%, resulting in a revised TP of INR 160 (earlier INR 133) on 5.5x FY26E EBITDA. We DOWNGRADE the stock to **SELL** (earlier Reduce).

Surpasses estimates on sustained cost efficiencies

NALCO's Q4FY24 performance surpassed our/Street's estimates. Key points: 1) Implied EBIT/t of its Chemicals division rose 115% YoY to USD 181/t, mainly on lower cost. 2) EBIT/t of Al division declined 12% YoY to USD 469/t. 3) Al sales volume rose 3% YoY to 121.6kt while Chemicals division's external sales volume (implied) was up 1% YoY at 351kt. 4) Power and fuel costs continued to slip (down 16% YoY/13% QoQ) for the third-consecutive quarter as increasingly higher coal is being evacuated from Utkal C mine through rakes. 5) Exceptional income of INR 4.3bn pertains to the non-recognition of additional royalty expense, following a clarification from the Mines & Steel Department, Govt. of Odisha. An additional royalty of INR 3.6bn has already been paid by NALCO till Nov'22, which would be adjusted against the royalty payment in FY25. 6) Board has recommended final dividend of INR 1/share, taking the total dividend for FY24 to INR 4/share.

Earnings growth majorly dependent on LME prices

Unlike its peers in the non-ferrous space that are pursuing capacity increase, we do not find any such endeavour from NALCO. While lower power and fuel costs, pursuant to the commencement of mining operations at Utkal C mine and improved rail mix in logistics has aided earnings, we believe that the incremental impact would be marginal. In the absence of growth projects, we believe that NALCO's earnings is likely to be dependent on LME Al price and Alumina price movement.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,42,549	1,31,492	1,53,081	1,56,991
EBITDA	24,481	28,729	45,968	47,921
EBITDA Margin (%)	17.2	21.8	30.0	30.5
Net Profit	14,347	19,885	30,082	31,515
EPS (INR)	7.8	10.8	16.4	17.2
EPS % Chg YoY	(47.7)	5.7	84.2	4.8
P/E (x)	23.1	21.9	11.9	11.3
EV/EBITDA (x)	13.0	11.1	6.8	6.4
RoCE (%)	11.3	11.0	19.4	18.3
RoE (%)	11.8	14.9	20.8	19.9

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Market Data

Market Cap (INR)	357bn
Market Cap (USD)	4,297mn
Bloomberg Code	NACL IN
Reuters Code	NALU.BO
52-week Range (INR)	204 /81
Free Float (%)	49.0
ADTV-3M (mn) (USD)	48.0

Price Performance (%)	3m	6m	12m
Absolute	25.1	113.5	129.7
Relative to Sensex	21.9	99.2	109.1

Earnings Revisions (%)	FY25E	FY26E
Revenue	4.6	4.7
EBITDA	22.8	18.7
EPS	28.6	24.5

Previous Reports

14-02-2024: [Q3FY24 results review](#)

10-11-2023: [Q2FY24 results review](#)

Outlook: Upside capped

While NALCO has delivered good performance in Q4FY24 owing to relatively robust underlying prices and continued cost efficiencies, we believe that the lack of growth projects at this stage is the key impediment to the stock's performance. In our view, the earnings are significantly determined by underlying commodity prices and the sharp stock movement has left the upside capped. Taking cognizance of prevailing LME Al and Alumina price and favourable outlook, we raise our FY25E/FY26E EBITDA by 23%/19% resulting in a revised TP of INR 160 on an unchanged 5.5x FY26E EBITDA. On CMP, the stock is trading at 7.2x FY26E EBITDA, significantly higher than peers. We downgrade the stock to **SELL** (from Reduce).

Exhibit 1: Earnings revisions

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	1,53,081	1,46,331	4.6	1,56,991	1,49,919	4.7
EBITDA	45,968	37,440	22.8	47,921	40,366	18.7
PAT	30,082	23,396	28.6	31,515	25,305	24.5

Source: I-Sec research

Key risks

- Higher captive coal volume than expected/higher linkage availability
- Higher than expected LME aluminium/alumina prices
- Commencement of lithium mining operations in Argentina

Exhibit 2: NALCO Q4FY24 performance review

(INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net Sales	35,791	36,709	(2.5)	33,469	6.9	1,31,492	1,42,549	(7.8)
Raw Material Consumed	6,808	8,639	(21.2)	6,493	4.8	27,919	31,721	(12.0)
Stock Adjustment	184	835	(78.0)	595	(69.1)	(1,461)	(167)	776.7
Gross Margin	28,800	27,234	5.7	26,381	9.2	1,05,033	1,10,994	(5.4)
Gross Margin (%)	80.5	74.2		78.8		79.9	77.9	
Employee Expenses	5,125	4,656	10.1	4,391	16.7	20,341	18,321	11.0
Power, Oil & Fuel	7,349	8,794	(16.4)	8,464	(13.2)	35,477	46,937	(24.4)
Other Expenses	5,251	6,119	(14.2)	5,795	(9.4)	20,486	21,256	(3.6)
Total Expenditure	24,715	29,043	(14.9)	25,738	(4.0)	1,02,762	1,18,068	(13.0)
EBITDA	11,075	7,665	44.5	7,731	43.3	28,729	24,481	17.4
Margin (%)	30.9	20.9		23.1		21.8	17.2	
Other Income	840	559	50.3	510	64.9	2,507	2,356	6.4
Interest	89	7	1,130.6	21	321.9	172	129	33.2
PBDT	11,827	8,217	43.9	8,220	43.9	31,064	26,708	16.3
Depreciation	2,400	2,554	(6.0)	1,538	56.1	7,497	7,158	4.7
Exceptional items	0	0		0		0	0	
PBT	13,504	5,394	150.4	6,504	107.6	23,568	19,550	20.6
Tax	3,537	444	696.9	1,797	96.8	7,236	4,105	76.3
Reported PAT	9,967	4,950	101.4	4,706	111.8	19,885	14,347	5.7
Adjusted PAT	7,236	5,130	41.0	4,826	49.9	16,331	15,445	5.7

Source: Company data, I-Sec research

Exhibit 3: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	51.3	51.3	51.3
Institutional investors	31.2	30.4	27.8
MFs and others	11.6	13.4	13.7
FIs/Banks	0.0	0.0	0.0
Insurance	5.9	5.4	5.1
FII	13.7	11.6	9.0
Others	17.6	18.4	20.9

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	1,42,549	1,31,492	1,53,081	1,56,991
Operating Expenses	1,18,068	1,02,762	1,07,113	1,09,070
EBITDA	24,481	28,729	45,968	47,921
EBITDA Margin (%)	17.2	21.8	30.0	30.5
Depreciation & Amortization	7,158	7,497	8,073	8,650
EBIT	17,323	21,233	37,894	39,271
Interest expenditure	129	172	172	172
Other Non-operating Income	2,356	2,507	2,926	3,487
Recurring PBT	19,550	23,568	40,649	42,585
Profit / (Loss) from Associates	1,098	715	-	-
Less: Taxes	4,105	7,236	10,567	11,071
PAT	15,445	16,331	30,082	31,515
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	(4,268)	-	-
Net Income (Reported)	14,347	19,885	30,082	31,515
Net Income (Adjusted)	14,347	19,885	30,082	31,515

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	52,955	61,283	66,551	75,079
of which cash & cash eqv.	21,175	25,752	31,983	40,315
Total Current Liabilities & Provisions	28,857	31,451	29,605	29,725
Net Current Assets	24,099	29,832	36,946	45,354
Investments	17,593	11,509	11,509	11,509
Net Fixed Assets	78,268	79,943	81,870	83,220
ROU Assets	-	-	-	-
Capital Work-in-Progress	27,450	39,615	44,615	49,615
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	1,47,410	1,60,900	1,74,941	1,89,698
Liabilities				
Borrowings	478	392	392	392
Deferred Tax Liability	9,578	8,741	8,414	8,414
provisions	6,091	7,887	7,887	7,887
other Liabilities	-	-	-	-
Equity Share Capital	9,183	9,183	9,183	9,183
Reserves & Surplus	1,22,081	1,34,698	1,49,065	1,63,822
Total Net Worth	1,31,264	1,43,881	1,58,248	1,73,005
Minority Interest	-	-	-	-
Total Liabilities	1,47,410	1,60,900	1,74,940	1,89,698

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	31,784	30,434	33,469	35,791
% growth (YoY)	(16.0)	(12.8)	1.5	(2.5)
EBITDA	5,943	3,965	7,731	11,075
Margin %	18.7	13.0	23.1	30.9
Other Income	485	686	510	840
Extraordinaries	-	-	-	-
Adjusted Net Profit	3,338	1,874	4,706	9,967

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,342	21,122	37,445	40,261
Working Capital Changes	(8,825)	(84)	(883)	(76)
Capital Commitments	(13,864)	(15,885)	(16,000)	(16,000)
Free Cashflow	(8,522)	5,237	21,445	24,261
Other investing cashflow	10,521	(4,119)	-	-
Cashflow from Investing Activities	(3,343)	(20,005)	(16,000)	(16,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(9,183)	(7,347)	(15,041)	(15,757)
Others	(52)	(40)	(172)	(172)
Cash flow from Financing Activities	(9,235)	(7,387)	(15,213)	(15,930)
Chg. in Cash & Bank balance	(7,236)	(6,269)	6,232	8,332
Closing cash & balance	29,825	14,906	31,983	40,315

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	8.4	8.9	16.4	17.2
Adjusted EPS (Diluted)	7.8	10.8	16.4	17.2
Cash EPS	11.7	14.9	20.8	21.9
Dividend per share (DPS)	5.0	4.0	8.2	8.6
Book Value per share (BV)	71.5	78.3	86.2	94.2
Dividend Payout (%)	59.5	45.0	50.0	50.0
Growth (%)				
Net Sales	0.5	(7.8)	16.4	2.6
EBITDA	(45.8)	17.4	60.0	4.2
EPS (INR)	(47.7)	5.7	84.2	4.8
Valuation Ratios (x)				
P/E	23.1	21.9	11.9	11.3
P/CEPS	16.6	13.0	9.4	8.9
P/BV	2.7	2.5	2.3	2.1
EV / EBITDA	13.0	11.1	6.8	6.4
Dividend Yield (%)	2.6	2.1	4.2	4.4
Operating Ratios				
Gross Profit Margins (%)	77.9	79.9	82.7	82.9
EBITDA Margins (%)	17.2	21.8	30.0	30.5
Effective Tax Rate (%)	21.0	30.7	26.0	26.0
Net Profit Margins (%)	10.8	12.4	19.7	20.1
Net Debt / Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(1.6)	(1.3)	(0.9)	(1.1)
Fixed Asset Turnover (x)	1.3	1.1	1.2	1.1
Inventory Turnover Days	54	48	45	44
Receivables Days	3	4	4	4
Payables Days	80	78	71	69
Profitability Ratios				
RoCE (%)	11.3	11.0	19.4	18.3
RoE (%)	11.8	14.9	20.8	19.9
RoIC (%)	16.6	16.0	26.7	25.4

Source Company data, I-Sec research

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