

Robust Q4; Beneficiary of Higher LME & Lower Power Costs
Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA – **BEAT**; PAT – **MISS**
Change in Estimates YoY for NALCO post Q4FY24 results:
FY25E/FY26E: Revenue 8%/8%; EBITDA: 38%/31%; PAT: 47%/40%.

Recommendation Rationale

- **Strong Q4FY24:** Nalco's consolidated EBITDA grew by 44%/43% YoY/QoQ to Rs 1,108 Cr, beating the consensus and our estimates by 13%/6%, led by decline in RM, Power & Fuel, and other expenses, partially offset by higher employee costs.
- **Chemicals (Alumina) business'** EBIT grew by a robust 121%/143% YoY/QoQ to Rs 529 Cr, with EBIT margins jumping to 33% from 15% in Q4FY23 and 15.4% in Q3FY24. Revenue from the Chemicals segment stood flat YoY and increased by 12% QoQ, (7% miss vs our estimate).
- **Aluminium segment's** revenue declined by 3% YoY but increased by 5% QoQ, beating our estimate by 2%. EBIT declined by 9%/2% YoY/QoQ to Rs 468 Cr. LME Aluminium prices were down 8% YoY and flat QoQ. Metal production is almost at the rated capacity of 100% utilisation at 114kt (down 2% YoY/QoQ each).
- **Aluminium and Alumina price outlook:** LME Aluminium prices surged by 14% since 1st Apr'24 to the spot price of \$2,616/t led by Bauxite supply issues from Guinea, production cuts at Yunnan in China, sanctions on Russian metal at LME and demand push from US and other geographies. Spot Alumina prices have surged and are trading at \$414/t, led by production curtailment at Rio alumina refinery at Australia.

Sector Outlook: Neutral.

Company Outlook & Guidance: In Jan'24, NALCO's JV Khanij Bidesh India Limited (KABIL) & Argentina's CAMYEN SE signed an agreement for exploration and mining of 5 Lithium brine blocks in Argentina, at an initial cost of Rs 200 Cr. The stock's valuation has re-rated since the news and it is currently trading at 9.3x 12MF consensus EV/EBITDA (A significant premium to the LT average of 4.8x). We continue to value NALCO at 7.0x its FY26E EBITDA. **Capex overrun towards the 5th stream of the Alumina refinery remains the key risk for the core business.**

Current Valuation: 7.0x EV/EBITDA on FY26E EBITDA (Unchanged).

Current TP: Rs 215/share (Earlier TP: Rs 160/share)

Recommendation: We maintain **BUY**.

Financial Performance: NALCO reported a strong set of numbers with EBITDA beating ours and consensus estimates. Revenue stood at Rs 3,579 Cr, down 3% YoY and up 7% QoQ (4% miss), led by LME Aluminium prices which averaged at \$2,202/t, down 8% YoY and flat QoQ. EBITDA stood at Rs 1,108 Cr (up 44%/43% YoY/QoQ) a 6% and 13% beat against our's and consensus led by lower RM (down 26%/1% YoY/QoQ), power & fuel (down 16%/13% YoY/QoQ) and other expenses (down 14%/9% YoY/QoQ). The company has declared a total interim dividend to Rs 3/share for FY24 so far.

Outlook: NALCO is consistently operating at its peak refining and smelting capacity (460 ktpa), and the recent softness in thermal coal prices has led to lower Power costs. We revise our LME Aluminium and Alumina prices upwards post the sharp rally in the last one months. Our earnings changes reflect an EBITDA increase over previous estimates led by these higher prices. **Post the rally in stock price, the valuation appears near peak limiting material upside from CMP.**

Valuation & Recommendation: We value the company at 7.0x FY26E EBITDA (unchanged) and 0.5x book value of CWIP (unchanged). The TP at Rs 210/share implies an upside of 11% from the CMP. We maintain our **BUY** rating on the stock.

Key Financials (Consolidated)

Rs Cr	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	3,579	7%	-3%	3,717	-4%
EBITDA	1,108	43%	44%	1,041	6%
EBITDA %	31%			28%	
PAT (exl. Exceptional)	570	21%	15%	622	-8%

Source: Company, Axis Research

 (CMP as of 27th May 2024)

CMP (Rs)	194
Upside /Downside (%)	11%
High/Low (Rs)	204/79
Market cap (Cr)	35,676
Avg. daily vol. (6m) Shrs.	3,19,35,957
No. of shares (Cr)	184

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	51.28	51.28	51.28
FII	13.68	11.56	8.99
Mutual Funds / UTI	11.56	13.42	13.69
Financial Institutions	0.00	0.00	0.00
Others	23.48	23.74	26.04

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	13,148	15,224	15,473
EBITDA	2,871	4,824	4,751
Net Profit	1,135	3,212	3,109
EPS (Rs.)	10.8	17.5	17.0
PER (x)	17.9	11.1	11.4
P/BV (x)	2.5	2.1	1.9
EV/EBITDA (x)	11.5	6.6	6.4
ROE (%)	14.5%	20.6%	17.2%

Change in Estimates (%)

Y/E Mar	FY24	FY25E	FY26E
Sales	1%	8%	8%
EBITDA	10%	38%	31%
PAT	-22%	47%	40%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	50.6

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures, The Sector average is for NSE500 companies

Relative performance


Source: ACE Equity, Axis Securities

Aditya Welekar

Sr. Research Analyst

Email: aditya.welekar@axissecurities.in

Key Highlights

- In FY24 Aluminium production stood at 463.4kt, up 1% YoY (operating at 100% utilisation level of 460 ktpa smelting capacity). Alumina metal sales stood at 470.1kt, up 1% YoY.
- Company took an exceptional gain of Rs 427 Cr in Q4FY24, towards adjustment of royalty payments on Bauxite excavated from both South and Central & North Block of Panchpatmali mines.

Key Risks to our Estimates and TP

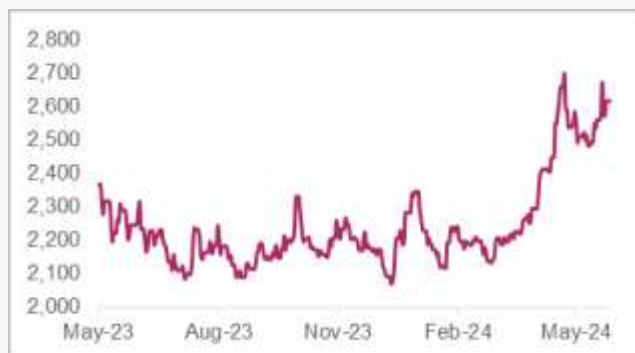
- Capex overrun at the 5th Stream Alumina Refinery expansion can put pressure on the cash flows if the power and RM costs increase in future quarters. Nalco is in the process of setting up of 5th stream in its existing Alumina Refinery which will add 1.0 Million Tonnes (MT) to its existing installed capacity of 2.1 MT. The projected Capex for the expansion has been revised to Rs 6,435 Cr in FY23 from the earlier estimate of Rs 5,540 Cr in FY20. The project cost is likely to be further revised upwards to the Mar'23 price level from the Dec'18 price level. As per the company's annual report 2023, the target for commissioning of the project is also pushed forward to May'25 from Dec'24.
- Lower/Higher Aluminium/Alumina prices than our assumption could post a downside/upside risk to our TP.
- Lower/higher-than-expected power costs could pose an upside/downside risk to our TP.
- The Lithium exploration is at the nascent stage and any adverse results from the project will lead to risk to our TP/rating.

Change in Estimates

	New			Old			% Change		
	FY24	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	13,148	15,224	15,473	13,048	14,047	14,383	1%	8%	8%
EBITDA	2,871	4,824	4,751	2,604	3,503	3,614	10%	38%	31%
PAT	1,135	3,212	3,109	1,460	2,184	2,219	-22%	47%	40%
LME Aluminum (\$/t)	2,207	2,462	2,450	2,208	2,245	2,293	0%	10%	7%
Alumina (\$/t)	341	380	380	342	360	360	0%	6%	6%

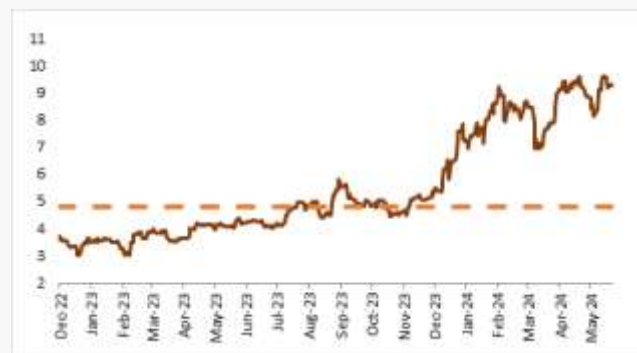
Source: Company, Axis Securities

Exhibit 1: LME Aluminum Prices have surged in last one month



Source: LSEG Workspace

Exhibit 2: NALCO's 12MF consensus EV/EBITDA surged to ~9.0x (LT avg 4.7x). Consensus EBITDA upgrades are due.



NALCO Results Review

Consolidated	Q4FY23	Q3FY24	Q4FY24	Q4FY24	Q4FY24	YoY	QoQ	vs Axis	vs Consensus
	Actual	Actual	Axis Est	Consensus	Actual	%	%	%	%
LME Aluminum	2,399	2,198	2,202		2,202	-8%	0%	0%	
Revenues	3,671	3,347	3,717	3,779	3,579	-3%	7%	-4%	-5%
Consumption of Raw Materials	864	649	718		681	-21%	5%	-5%	
Changes in inventories	84	59	-		18	-78%	-69%	NA	
Power & Fuel	879	846	864		735	-16%	-13%	-15%	
Employees Cost	466	439	470		512	10%	17%	9%	
Other Expenses	612	580	624		525	-14%	-9%	-16%	
Total Expenditure	2,904	2,574	2,676		2,472	-15%	-4%	-8%	
EBITDA	767	773	1,041	983	1,108	44%	43%	6%	13%
EBITDA margin (%)	21%	23%	28%	26%	31%				
Depreciation	255	154	266		240	-6%	56%	-10%	
Other Income	56	51	57		84	50%	65%	48%	
Interest Expense	1	2	2		9	1131%	322%	271%	
Share Of P/L Of Associates	-26.9	-17.9	-		-19	NA	NA	NA	
Exceptional loss/(gain)					-427				
PBT (exl Exceptional items)	539	650	829		924	71%	42%	11%	
PBT	539	650	829		1,350	150%	108%	63%	
Tax	44	180	207		354	697%	97%	71%	
Tax Rate (%)	8%	28%	25%		38%				
PAT (exl Exceptional items)	495	471	622	638	570	15%	21%	-8%	-11%
PAT	495	471	622		997	101%	112%	60%	
EPS (Rs)	2.70	2.57	3.40		5.43	101%	111%	60%	
Segmental Results									
Chemicals	1,607	1,414	1,711		1,588	-1%	12%	-7%	
Aluminum	2,526	2,326	2,410		2,450	-3%	5%	2%	
Unallocated Common	15	-8	21		-10	NA	NA	NA	
Less: Inter segment revenue	-477	-385	-424		-448	NA	NA	NA	
Total Revenue from Operations	3,671	3,347	3,717		3,579	-3%	7%	-4%	
Chemicals	239	217			529	121%	143%	NA	
Aluminum	514	479			468	-9%	-2%	NA	
Segmental EBIT	753	696			997	32%	43%	NA	
EBIT Margin %									
Chemicals	14.9%	15.4%			33.3%				

Source: Company, Axis Securities, LSEG Workspace Consensus.

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Total Operating income	14,234	13,148	15,224	15,473
Consumption of Raw Materials	3,172	2,792	2,767	2,777
Increase/Decrease in Stocks	(17)	(146)	-	-
Power & fuel	4,694	3,548	3,381	3,567
Employees Cost	1,832	2,034	2,149	2,217
Other Expenses	2,123	2,049	2,104	2,161
Total Expenditure	11,804	10,276	10,400	10,723
EBITDA	2,429	2,871	4,824	4,751
Depreciation and Amortization	716	750	836	906
EBIT	1,714	2,122	3,988	3,845
Other Income	254	252	305	309
Share Of P/L Of Associates (Net of Tax)	(110)	(71)	-	-
Less: Interest & Fin Chg.	13	17	10	10
Less: Exceptional Items	-	427	-	-
Profit before tax	1,845	1,858	4,283	4,145
Provision for Tax	411	724	1,071	1,036
Reported PAT	1,435	1,135	3,212	3,109
EPS (Rs/sh)	7.8	10.8	17.5	17.0
DPS (Rs/sh)	4.5	3.0	4.0	4.0

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Net Block	6,916	7,020	7,185	7,279
CWIP	2,745	3,961	4,961	5,961
Intangible assets	910	974	974	974
Investments	359	342	342	342
Inventories	1,840	1,830	2,119	2,153
Trade Receivables	91	154	178	181
Cash / Bank balance	2,118	2,575	3,811	5,082
Misc. Assets	2,647	2,379	2,379	2,379
Total assets	17,627	19,235	21,949	24,351
Equity capital	918	918	918	918
Reserves	12,208	13,470	15,947	18,321
Borrowings	48	39	39	39
Def tax Liabilities	958	841	841	841
Other Liabilities	1,984	2,126	2,126	2,126
Provisions	248	344	344	344
Trade Payables	1,263	1,496	1,733	1,761
Capital employed	17,627	19,235	21,949	24,351

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Profit after tax	1,435	1,988	3,212	3,109
Depreciation	716	750	836	906
Interest Expenses	13	17	10	10
Non-operating / EO item	(373)	(28)	-	-
Change in W/C	(883)	(8)	(77)	(9)
Operating Cash Flow	908	2,719	3,981	4,015
Capital Expenditure	(1,305)	(1,561)	(2,000)	(2,000)
Free cash Flow	(397)	1,159	1,981	2,015
Other Investments	971	(440)	-	-
Investing Cash Flow	(334)	(2,000)	(2,000)	(2,000)
Proceeds / (Repayment) of Borrowings	(4)	(4)	-	-
Payments for buy-back of equity shares	-	-	-	-
Finance cost paid	(2)	(0)	(10)	(10)
Dividend paid	(918)	(735)	(735)	(735)
Financing Cash Flow	(924)	(739)	(744)	(744)
Change in Cash	(350)	(20)	1,236	1,270
Opening Cash	413	63	2,575	3,811
Closing Cash	63	43	3,811	5,082

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY 23A	FY 24A	FY 25E	FY 26E
Operational Ratios				
Sales growth (% YoY)	0%	-8%	16%	2%
EBITDA growth (% YoY)	-46%	18%	68%	-2%
Op. profit growth (% YoY)	-53%	24%	88%	-4%
Net Profit growth (% YoY)	-51%	39%	62%	-3%
EBITDA Margin %	17%	22%	32%	31%
Net profit Margin %	10%	15%	21%	20%
Tax Rate %	21%	26%	25%	25%
Efficiency Ratios				
Total Asset turnover (x)	0.8	0.7	0.7	0.7
Sales/Gross block (x)	1.3	1.1	1.2	1.1
Sales/Net block(x)	2.1	1.9	2.1	2.1
Working capital/Sales (x)	0.05	0.04	0.04	0.04
Valuation Ratios				
PER (x)	24.8	17.9	11.1	11.4
P/BV (x)	2.7	2.5	2.1	1.9
EV/Ebitda (x)	13.8	11.5	6.6	6.4
EV/Sales (x)	2.4	2.5	2.1	2.0
Dividend Yield (%)	2.3%	1.5%	2.1%	2.1%
Return Ratios				
ROE	11.2%	14.5%	20.6%	17.2%
ROCE	10.8%	12.6%	21.1%	17.9%
ROIC	8.9%	9.3%	14.5%	11.9%

Source: Company, Axis Securities

NALCO Price Chart and Recommendation History



Date	Reco	TP	Research
22-Feb-22	BUY	150	Initiating Coverage
03-Mar-22	BUY	150	Top Picks
04-Apr-22	BUY	150	Top Picks
02-May-22	BUY	150	Top Picks
26-May-22	BUY	107	Result Update
10-Aug-22	HOLD	85	Result Update
14-Nov-22	HOLD	70	Result Update
13-Feb-23	HOLD	83	Result Update
24-May-23	HOLD	90	Result Update
11-Aug-23	HOLD	95	Result Update
10-Nov-23	HOLD	83	Result Update
14-Feb-24	BUY	160	Result Update
28-May-24	BUY	215	Result Update

Source: Axis Securities

About the Analyst



Analyst: Aditya Welekar

Email: aditya.welekar@axissecurities.in

Sector: Automobiles

Analyst Bio: Aditya Welekar is a PGDBM in Finance with 12 years of experience in Equity Market/Research.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We Aditya Welekar, (PGDBM), author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have: Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or; Managed or co-managed public offering of the securities from the subject company of this research report and / or; Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report; ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- Axis Securities Ltd, Unit No.1001, 10th Floor, Level-6, Q2 Building, Aurum, Q Parc, Plot No. 4/1, TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai. – 400 710., Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Jatin Sanghani, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706