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India | Equity Research | Q1FY25 results review

National Aluminium Company

Metals

Low Alumina sales restricts performance

National Aluminium Company's (NALCO) EBITDA was significantly lower than our/consensus estimates. Key points: 1) We estimate Alumina sales to be down 56% YoY while Aluminium sales to be down 11% YoY. 2) Subdued premium of Alumina sales over benchmark suggests that exports volume was impacted. 3) Power and fuel cost continues to stay benign as in-house captive coal from Utkal D coal block continues to contribute to profitability. In our view, owing to lower volumes, NALCO was unable to gain from the high LME prices, unlike its peers. Taking cognizance of NALCO's Q1FY25's performance, current LME Al prices and the company's volume targets, we lower our FY25E/FY26E EBITDA by 11% each, resulting in a revised TP of INR 145 (earlier INR 160) based on 5.5x FY26E EBITDA. Maintain **SELL**.

Performance impacted by lower volume

NALCO's Q1FY25 performance was impacted mainly by lower (possibly export) volumes in the Alumina division. Key points: 1) EBITDA was up 57% YoY (down 16% QoQ) to INR 9.3bn, missing our/Street's estimates by 25-27%; 2) We estimate inventory build-up of 64kt at Alumina division. 3) Our sales volume estimate of Alumina and Aluminium is at 99kte (down 56% YoY) and 104kte (down 11% YoY), respectively; 4) In our view, EXIM-related trade disruptions resulted in NALCO unable to conduct export sales adequately, impacting mainly Alumina. 5) EBIT for Alumina division fell 71% YoY to INR 311mn (lowest since Q1FY23) due to adverse operating leverage. 6) EBIT for Al division rose 113% YoY at INR 8.06bn, mainly due to favourable LME Al price movement and lower power and fuel cost. 7) Board has recommended final dividend of INR 2/share. We expect exports to revive as trade situation has started to improve. However, we believe that in a quarter when underlying commodity prices stayed robust, NALCO was unable to take full advantage owing to subdued volumes.

Utkal D block advantage likely baked into estimates

We see limited triggers ahead for the NALCO stock, as LME Al and Alumina prices have come off their peaks. Besides, the cost advantage from captive mining at Utkal D block has started reflecting in its performance since Q3FY24. We believe that there could be further advantage on the logistics front, as the share of rail increases. Unlike its other non-ferrous peers, the company does not have any capacity growth coming in future which makes earnings susceptible only to LME prices.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	1,42,549	1,31,492	1,44,741	1,50,067
EBITDA	24,481	28,729	41,111	42,624
EBITDA Margin (%)	17.2	21.8	28.4	28.4
Net Profit	15,445	12,063	26,405	27,405
EPS (INR)	8.4	6.6	14.4	14.9
EPS % Chg YoY	(47.7)	5.7	61.7	3.8
P/E (x)	20.2	19.1	11.8	11.4
EV/EBITDA (x)	11.2	9.6	7.3	6.9
RoCE (%)	11.3	11.0	16.9	16.0
RoE (%)	12.7	9.0	18.4	17.5

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Market Data

Market Cap (INR)	312bn
Market Cap (USD)	3,718mn
Bloomberg Code	NACL IN
Reuters Code	NALU.BO
52-week Range (INR)	210 /86
Free Float (%)	49.0
ADTV-3M (mn) (USD)	42.8

Price Performance (%)	3m	6m	12m
Absolute	(4.0)	19.7	80.1
Relative to Sensex	(12.5)	9.3	59.3

Earnings Revisions (%)	FY25E	FY26E
Revenue	(5.4)	(4.4)
EBITDA	(10.6)	(11.1)
EPS	(12.2)	(13.0)

Previous Reports

28-05-2024: [Q4FY24 results review](#)

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

Outlook: Unfavourable risk-reward

Despite our estimates of revival in volumes, we do not see incremental upside in NALCO stock. While NALCO has delivered good performance since Q3FY24, owing to its 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. Taking cognizance of the company's Q1FY25 performance, we lower our FY25E/FY26E EBITDA by 11% each, resulting in a revised TP of INR 145 (earlier INR 160) on an unchanged 5.5x FY26E EBITDA. On CMP, the stock is trading at 6.3x FY26E EBITDA, significantly higher than peers. We maintain our **SELL** rating on the stock.

Exhibit 1: Earnings revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	1,44,741	1,53,081	(5.4)	1,50,067	1,56,991	(4.4)
EBITDA	41,111	45,968	(10.6)	42,624	47,921	(11.1)
PAT	26,405	30,082	(12.2)	27,405	31,515	(13.0)

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 Q1FY25 performance review

(INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net Sales	28,561	31,784	(10.1)	35,791	(20.2)	1,31,492	1,42,549	(7.8)
Raw Material Consumed	4,872	7,403	(34.2)	6,808	(28.4)	27,919	31,721	(12.0)
Stock Adjustment	(2,931)	(1,487)	97.1	184	(1,697.4)	(1,461)	(167)	776.7
Gross Margin	26,620	25,868	2.9	28,800	(7.6)	1,05,033	1,10,994	(5.4)
Gross Margin (%)	93.2	81.4		80.5		79.9	77.9	
Employee Expenses	4,667	6,295	(25.9)	5,125	(8.9)	20,341	18,321	11.0
Power, Oil & Fuel	6,858	9,183	(25.3)	7,349	(6.7)	35,477	46,937	(24.4)
Other Expenses	5,753	4,446	29.4	5,251	9.6	20,486	21,256	(3.6)
Total Expenditure	19,219	25,840	(25.6)	24,715	(22.2)	1,02,762	1,18,068	(13.0)
EBITDA	9,342	5,943	57.2	11,075	(15.6)	28,729	24,481	17.4
Margin (%)	32.7	18.7		30.9		21.8	17.2	
Other Income	605	485	24.7	840	(28.0)	2,507	2,356	6.4
Interest	34	23	50.9	89	(61.5)	172	129	33.2
PBDT	9,913	6,406	54.7	11,827	(16.2)	31,064	26,708	16.3
Depreciation	1,743	1,697	2.7	2,400	(27.4)	7,497	7,158	4.7
Exceptional items	0	0		0		0	0	
PBT	8,042	4,553	76.6	13,504	(40.4)	23,568	19,550	20.6
Tax	2,158	1,215	77.6	3,537	(39.0)	7,236	4,105	76.3
Reported PAT	5,884	3,338	76.3	9,967	(41.0)	16,331	15,445	5.7
Adjusted PAT	5,970	3,442	73.4	7,236	(17.5)	16,331	15,445	5.7

Source: Company data, I-Sec research

Exhibit 3: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	51.3	51.3	51.3
Institutional investors	30.4	27.8	29.5
MFs and others	13.4	13.7	13.3
FIs/Banks	0.0	0.0	0.0
Insurance	5.4	5.1	5.8
FIIIs	11.6	9.0	10.4
Others	18.4	20.9	19.2

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	1,44,741	1,50,067
Operating Expenses	1,18,068	1,02,762	1,03,630	1,07,443
EBITDA	24,481	28,729	41,111	42,624
EBITDA Margin (%)	17.2	21.8	28.4	28.4
Depreciation & Amortization	7,158	7,497	8,073	8,650
EBIT	17,323	21,233	33,038	33,974
Interest expenditure	129	172	172	172
Other Non-operating Income	2,356	2,507	2,815	3,230
Recurring PBT	19,550	23,568	35,681	37,032
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	4,105	7,236	9,276	9,627
PAT	15,445	16,331	26,405	27,405
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	(4,268)	-	-
Net Income (Reported)	15,445	12,063	26,405	27,405
Net Income (Adjusted)	15,445	12,063	26,405	27,405

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	64,392	71,167
of which cash & cash eqv.	21,175	25,752	30,328	36,492
Total Current Liabilities & Provisions	28,857	31,451	29,284	29,707
Net Current Assets	24,099	29,832	35,108	41,461
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	1,73,102	1,85,805
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	1,47,226	1,59,929
Total Net Worth	1,31,264	1,43,881	1,56,409	1,69,112
Minority Interest	-	-	-	-
Total Liabilities	1,47,410	1,60,900	1,73,102	1,85,805

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	30,434	33,469	35,791	28,561
% growth (YOY)	(12.8)	1.5	(2.5)	(10.1)
EBITDA	3,965	7,731	11,075	9,342
Margin %	13.0	23.1	30.9	32.7
Other Income	686	510	840	605
Extraordinaries	-	-	-	-
Adjusted Net Profit	1,874	4,706	9,967	5,884

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	33,951	36,038
Working Capital Changes	(8,825)	(84)	(699)	(189)
Capital Commitments	(13,864)	(15,885)	(16,000)	(16,000)
Free Cashflow	(8,522)	5,237	17,951	20,038
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)	(13,202)	(13,702)
Others	(52)	(40)	(172)	(172)
Cash flow from Financing Activities	(9,235)	(7,387)	(13,375)	(13,875)
Chg. in Cash & Bank balance	(7,236)	(6,269)	4,577	6,164
Closing cash & balance	29,825	14,906	30,328	36,492

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	14.4	14.9
Adjusted EPS (Diluted)	8.4	6.6	14.4	14.9
Cash EPS	12.3	10.6	18.8	19.6
Dividend per share (DPS)	5.0	4.0	7.2	7.5
Book Value per share (BV)	71.5	78.3	85.2	92.1
Dividend Payout (%)	59.5	45.0	50.0	50.0
Growth (%)				
Net Sales	0.5	(7.8)	10.1	3.7
EBITDA	(45.8)	17.4	43.1	3.7
EPS (INR)	(47.7)	5.7	61.7	3.8
Valuation Ratios (x)				
P/E	20.2	19.1	11.8	11.4
P/CEPS	13.8	16.0	9.0	8.7
P/BV	2.4	2.2	2.0	1.8
EV / EBITDA	11.2	9.6	7.3	6.9
Dividend Yield (%)	2.9	2.4	4.2	4.4
Operating Ratios				
Gross Profit Margins (%)	77.9	79.9	82.1	82.2
EBITDA Margins (%)	17.2	21.8	28.4	28.4
Effective Tax Rate (%)	21.0	30.7	26.0	26.0
Net Profit Margins (%)	10.8	12.4	18.2	18.3
Net Debt / Equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(1.6)	(1.3)	(1.0)	(1.1)
Fixed Asset Turnover (x)	1.3	1.1	1.1	1.1
Inventory Turnover Days	54	48	44	45
Receivables Days	3	4	4	4
Payables Days	80	78	72	72
Profitability Ratios				
RoCE (%)	11.3	11.0	16.9	16.0
RoE (%)	12.7	9.0	18.4	17.5
RoIC (%)	16.6	16.0	23.3	22.0

Source Company data, I-Sec research

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