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India | Equity Research | Q1FY24 result review

National Aluminium Company

Metals

Cost efficiencies from Utkal D block are likely to aid earnings

NALCO's Q1FY24 EBITDA at INR 5.9bn missed our estimate by 9%. Key points: 1) Aluminium (Al) volume was down 7% YoY, flat QoQ at 117.1kt; 2) EBIT of both chemicals and aluminium divisions was down owing to lower realisation; 3) power & fuel cost rose 4% YoY despite commencement of captive mining at Utkal D block; and 4) Board recommended final dividend of INR1/share for FY23. Going ahead, we see LME Al price remaining constrained between USD 2,100-2,300/t; however, cost efficiencies from Utkal D block are likely to aid earnings. Taking cognisance of potential cost efficiencies from Utkal D block, we raise EV/EBITDA multiple to 5x (earlier 4.5x), resulting in a revised TP of INR 94 (earlier INR 86). That said, at CMP, the stock looks fairly valued. We downgrade NALCO to **HOLD** (earlier **ADD**).

Misses estimates; alumina EBIT disappoints

NALCO's Q1FY24 EBITDA at INR 5.9bn (down 31.6% YoY, 22.5% QoQ) missed our estimates. Key points: 1) Third-party alumina revenue was down 37% QoQ (down 9.5% YoY) possibly due to lower volume as realisation was down just 2.1% QoQ (5.7% YoY); 2) Al EBIT/t at USD 394 was down 49.4% YoY owing to lower realisation; 3) alumina EBIT was down 54.5% QoQ at INR 1.09bn; 4) despite commencement of captive mining at Utkal D block, power & fuel cost was up 4% QoQ; 5) depreciation is higher by INR 106.6mn owing to capitalisation of INR 3.05bn on provisional basis towards R&R obligations for Utkal D and Utkal E blocks; and 6) Board has recommended final dividend of INR 1/share for FY23, taking the total dividend for the prior year to INR 4.5/share. Going ahead, we expect external alumina sales to pick up and cost efficiencies from captive coal mining to aid margins.

Higher power & fuel cost comes as a negative surprise

Despite commencement of mining operations through MDO route at Utkal D block, Al production remaining slightly lower QoQ and linkage supply by Coal India being higher in Q1FY24 for all the non-regulated sector customers, it is surprising that power & fuel cost was up 4% QoQ. We believe this might be due to the initial bottlenecks in mining; we expect production to pick up in ensuing quarters, thus, keeping the power & fuel cost in check.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,41,808	1,42,549	1,42,562	1,39,625
EBITDA	45,172	24,481	30,245	30,609
EBITDA Margin (%)	31.9	17.2	21.2	21.9
Net Profit	29,520	14,592	17,077	16,874
EPS (Rs)	16.1	7.9	9.3	9.2
EPS % Chg YoY	127.2	(50.6)	17.0	(1.2)
P/E (x)	5.9	11.9	10.1	10.3
EV/EBITDA (x)	2.7	5.5	4.4	4.3
RoCE (%)	24.7	10.6	11.6	10.9
RoE (%)	26.7	12.0	13.0	12.2

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Market Data

Market Cap (INR)	173bn
Market Cap (USD)	2,093mn
Bloomberg Code	NACL IN
Reuters Code	NALU.BO
52-week Range (INR)	98 /67
Free Float (%)	49.0
ADTV-3M (mn) (USD)	9.5

Price Performance (%)	3m	6m	12m
Absolute	13.7	26.8	26.7
Relative to Sensex	6.5	8.7	11.6

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

25-05-2023: [Q4FY23 results review](#)

12-02-2023: [Q3FY23 results review](#)

Outlook: Upside looks capped

In our view, the recent stock performance was due to street expectations around captive coal mining to aid cost. However, performance was lower than estimates and power & fuel cost was also higher despite favourable tailwinds. Taking cognisance of the benefit from captive coal mining at Utkal D block, we raise our EV/EBITDA multiple to 5x (earlier 4.5x), resulting in a revised TP of INR 94 (earlier INR 86). We downgrade NALCO stock to **HOLD** (earlier **ADD**).

Exhibit 1: NALCO Q1FY24 result review

(INR mn)	Q1FY24	Q1FY23	% Chg YoY	Q4FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Net Sales	31,784	37,833	(16.0)	36,709	(13.4)	1,42,549	1,41,808	0.5
Raw Material Consumed	7,403	7,250	2.1	8,639	(14.3)	31,721	19,711	60.9
Stock Adjustment	(1,487)	(1,419)	4.8	835	(278.0)	(167)	(1,168)	(85.7)
Gross Margin	25,868	32,003	(19.2)	27,234	(5.0)	1,10,994	1,23,265	(10.0)
Gross Margin (%)	81.4	84.6		74.2		77.9	86.9	
Employee Expenses	6,295	5,062	24.4	4,656	35.2	18,321	23,558	(22.2)
Power, Oil & Fuel	9,183	13,374	(31.3)	8,794	4.4	46,937	33,885	38.5
Other Expenses	4,446	4,880	(8.9)	6,119	(27.3)	21,256	20,651	2.9
Total Expenditure	25,840	29,147	(11.3)	29,043	(11.0)	1,18,068	96,637	22.2
EBITDA	5,943	8,687	(31.6)	7,665	(22.5)	24,481	45,172	(45.8)
Margin (%)	18.7	23.0		20.9		17.2	31.9	
Other Income	485	629	(22.9)	559	(13.2)	2,356	2,974	(20.8)
Interest	23	39	(41.6)	7	213.9	129	231	(44.1)
PBDT	6,406	9,277	(30.9)	8,217	(22.0)	26,708	47,915	(44.3)
Depreciation	1,697	1,497	13.4	2,554	(33.6)	7,158	8,366	(14.4)
Exceptional items	0	0		0		0	0	
PBT	4,553	7,573	(39.9)	5,394	(15.6)	19,550	39,549	(50.6)
Tax	1,215	1,994	(39.1)	444	173.8	4,105	10,029	(59.1)
Reported PAT	3,338	5,579	(40.2)	4,950	(32.6)	15,445	29,520	(47.7)
Adjusted PAT	3,442	5,718	(39.8)	5,130	(32.9)	15,445	29,520	(47.7)

Source: I-Sec research, Company data

Key risks

Key upside risks: i) Cycle continues to stay strong, ii) higher than expected aluminium and alumina prices, iii) higher-than-expected volumes and captive coal mines are leading to better than expected cost savings.

Key downside risks: i) Correction in aluminium and alumina prices and ii) higher-than-expected capex – delay in current projects leads to time and cost overrun.

Exhibit 2: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	51.3	51.3	51.3
Institutional investors	27.6	29.3	30.4
MFs and others	9.9	8.5	9.5
FIs/Banks	-	-	-
Insurance	2.6	4.8	5.8
FIIIs	15.2	16.1	15.0
Others	21.2	19.5	18.4

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,41,808	1,42,549	1,42,562	1,39,625
Operating Expenses	96,637	1,18,068	1,12,317	1,09,016
EBITDA	45,172	24,481	30,245	30,609
EBITDA Margin (%)	31.9	17.2	21.2	21.9
Depreciation & Amortization	8,366	7,158	9,670	10,437
EBIT	36,806	17,323	20,575	20,173
Interest expenditure	231	129	129	129
Other Non-operating Income	2,974	2,356	2,433	2,564
Recurring PBT	39,549	19,550	22,879	22,607
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	10,029	4,958	5,802	5,733
PAT	29,520	14,592	17,077	16,874
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	29,520	14,592	17,077	16,874
Net Income (Adjusted)	29,520	14,592	17,077	16,874

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	64,850	52,955	54,455	56,640
of which cash & cash eqv.	37,061	21,175	22,659	24,828
Total Current Liabilities & Provisions	30,991	28,857	28,857	28,857
Net Current Assets	33,859	24,099	25,598	27,784
Investments	12,147	17,593	17,593	17,593
Net Fixed Assets	78,146	78,268	79,005	78,975
ROU Assets	-	-	-	-
Capital Work-in-Progress	17,634	27,450	32,043	36,636
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,41,786	1,47,410	1,54,239	1,60,988
Liabilities				
Borrowings	207	478	478	478
Deferred Tax Liability	8,682	9,578	9,578	9,578
provisions	7,352	6,091	6,091	6,091
other Liabilities	-	-	-	-
Equity Share Capital	9,183	9,183	9,183	9,183
Reserves & Surplus	1,16,363	1,22,081	1,28,910	1,35,659
Total Net Worth	1,25,546	1,31,264	1,38,094	1,44,842
Minority Interest	-	-	-	-
Total Liabilities	1,41,786	1,47,410	1,54,239	1,60,988

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	34,896	32,972	36,709	31,784
% growth (YOY)	(2.9)	(12.6)	(15.6)	(16.0)
EBITDA	3,344	4,656	7,665	5,943
Margin %	9.6	14.1	20.9	18.7
Other Income	693	605	559	485
Extraordinaries	-	-	-	-
Adjusted Net Profit	1,254	2,563	4,950	3,338

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	31,222	5,342	26,860	27,424
Working Capital Changes	661	(8,825)	(16)	(16)
Capital Commitments	(12,286)	(13,864)	(15,000)	(15,000)
Free Cashflow	18,936	(8,522)	11,860	12,424
Other investing cashflow	(13,906)	10,521	-	-
Cashflow from Investing Activities	(26,192)	(3,343)	(15,000)	(15,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(11,020)	(9,183)	(10,247)	(10,126)
Others	(379)	(52)	(129)	(129)
Cash flow from Financing Activities	(11,398)	(9,235)	(10,377)	(10,255)
Chg. in Cash & Bank balance	(6,368)	(7,236)	1,484	2,169
Closing cash & balance	11,129	29,825	22,659	24,828

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	16.1	7.9	9.3	9.2
Adjusted EPS (Diluted)	16.1	7.9	9.3	9.2
Cash EPS	20.6	11.8	14.6	14.9
Dividend per share (DPS)	6.5	5.0	5.6	5.5
Book Value per share (BV)	68.4	71.5	75.2	78.9
Dividend Payout (%)	40.4	62.9	60.0	60.0
Growth (%)				
Net Sales	58.3	0.5	0.0	(2.1)
EBITDA	153.4	(45.8)	23.5	1.2
EPS (INR)	127.2	(50.6)	17.0	(1.2)
Valuation Ratios (x)				
P/E	5.9	11.9	10.1	10.3
P/CEPS	4.6	8.0	6.5	6.3
P/BV	1.4	1.3	1.3	1.2
EV / EBITDA	2.7	5.5	4.4	4.3
Dividend Yield (%)	6.9	5.3	5.9	5.8
Operating Ratios				
Gross Profit Margins (%)	86.9	77.9	82.6	82.7
EBITDA Margins (%)	31.9	17.2	21.2	21.9
Effective Tax Rate (%)	25.4	25.4	25.4	25.4
Net Profit Margins (%)	20.8	10.2	12.0	12.1
Net Debt / Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)
Net Debt / EBITDA (x)	(1.1)	(1.6)	(1.3)	(1.4)
Fixed Asset Turnover (x)	1.3	1.3	1.2	1.1
Inventory Turnover Days	57	54	47	47
Receivables Days	3	3	2	2
Payables Days	103	80	70	71
Profitability Ratios				
RoCE (%)	24.7	10.6	11.6	10.9
RoE (%)	26.7	12.0	13.0	12.2
RoIC (%)	36.8	15.7	17.2	15.4

Source Company data, I-Sec research

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