

November 10, 2023

Q2FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	100		97	
Sales (Rs.b)	130	136	130	136
% Chng.	-	-	-	-
EBITDA (Rs.b)	25	30	27	31
% Chng.	(8.4)	(3.1)	-	-
EPS (Rs.)	8.4	10.0	8.9	10.3
% Chng.	(6.2)	(3.0)	-	-

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	142	130	136	153
EBITDA (Rs. bn)	24	25	30	36
Margin (%)	17.1	19.0	22.3	23.3
PAT (Rs. bn)	16	15	18	22
EPS (Rs.)	8.5	8.4	10.0	11.9
Gr. (%)	(47.2)	(1.3)	19.1	19.0
DPS (Rs.)	5.0	3.9	4.2	4.7
Yield (%)	5.5	4.2	4.6	5.1
RoE (%)	12.1	11.3	12.6	13.8
RoCE (%)	15.3	14.4	16.7	18.4
EV/Sales (x)	1.0	1.2	1.1	1.0
EV/EBITDA (x)	6.0	6.1	5.0	4.3
PE (x)	10.8	10.9	9.2	7.7
P/BV (x)	1.3	1.2	1.1	1.0

Key Data

NALU.BO | NACL IN

52-W High / Low	Rs.106 / Rs.70
Sensex / Nifty	64,905 / 19,425
Market Cap	Rs.168bn / \$ 2,012m
Shares Outstanding	1,837m
3M Avg. Daily Value	Rs.897.28m

Shareholding Pattern (%)

Promoter's	51.28
Foreign	13.68
Domestic Institution	17.47
Public & Others	17.57
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.9)	10.1	26.0
Relative	(4.2)	5.1	17.7

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Weak operating performance

Quick Pointers:

- Sluggish operating performance on lower coal production in a seasonally weak quarter and high cost inventory of prior period.
- Revenue impacted by weak LME pricing and reduced premium over LME in domestic markets.

National Aluminium (NACL) reported weak operating performance in 2Q on account of higher power and fuel expenses. Revenue was 4% below our estimates led by weak realization and sequentially reduced premium over LME in domestic markets. Power & fuel costs increased 14% QoQ (instead of expectation of a decline), which is mostly due to lower production from captive mine, higher initial opening cost of mine and high cost inventory of prior period. Going forward as mgmt. ramps up captive coal production, we expect coal costs to come down in 2H and expect improved performance with better alumina sales volumes.

We believe NACL is pure play on alumina and aluminium prices given a) its 460ktpa smelting unit running at full capacity utilization, b) incremental alumina volumes expected to flow only in FY26E due to slow execution and c) overall progress on announced capex remains slow. However, ramping up of captive coal mines would reduce cost of production in the near term and development of strategic minerals would benefit in the long run. We cut our FY24E/FY25E EBITDA estimates by 8%/3% on weak 1H performance and introduce FY26 numbers. We expect Revenue/EBITDA/PAT growth of 2%/14%/12% over FY23-26E. At CMP, stock is trading at 5x/4.3x EV of FY25E/FY26E EBITDA. Retain 'Accumulate' rating with revised TP of Rs100 (earlier Rs97) valuing at 5xEV of Sept 2025E EBITDA, as we roll forward.

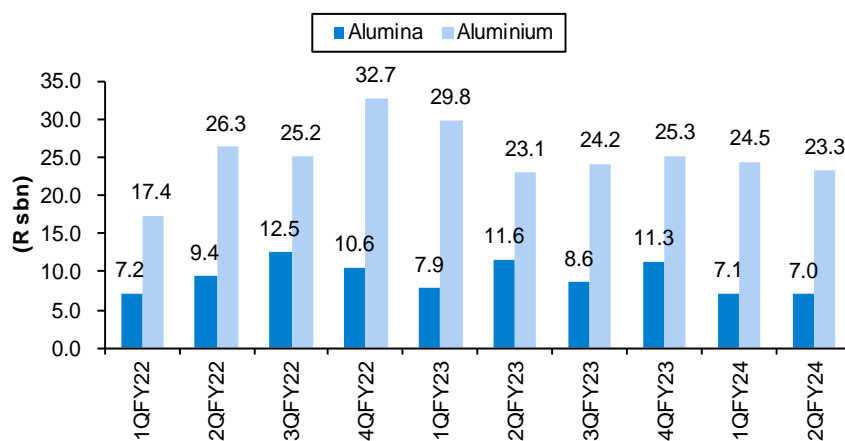
Weak alumina volumes and higher P&F costs: Revenue declined 13% YoY to Rs 30.4bn (-4% QoQ; PLe of Rs 31.8bn) on lower alumina sales volumes and weak LME pricing. Segmental metal revenue grew 1% YoY to Rs 23.3bn (-5% QoQ; PLe Rs 23.6bn) while segmental alumina revenue declined 17% YoY to Rs 12.5bn (+6% QoQ; PLe Rs 14.9bn). Segmental EBIT of metal division grew 14% YoY to Rs 2bn (PLe Rs 3.2bn), while alumina EBIT grew 28% YoY to Rs 1.12bn (+3% QoQ; PLe Rs1.11bn).

Aluminium metal demand remains muted: YTDCY23 global aluminium demand remains muted at 52.2mt as higher interest rates and inflation is keeping demand weak in developed nations, while in China demand (up 4.3% YoY to ~31.5mt) seems to be improving gradually. India demand remains strong in 2Q at ~1.3mt with ~10% YoY growth. Aluminium prices are expected to remain in a range of USD 2100-2300 in the near term, unless demand improves substantially. NACL being pure play on aluminium prices, its performance is heavily dependent on gradual recovery in global metal demand and effectively on pricing.

Exhibit 1: Q2FY24 Result Overview - Standalone (Rs bn)

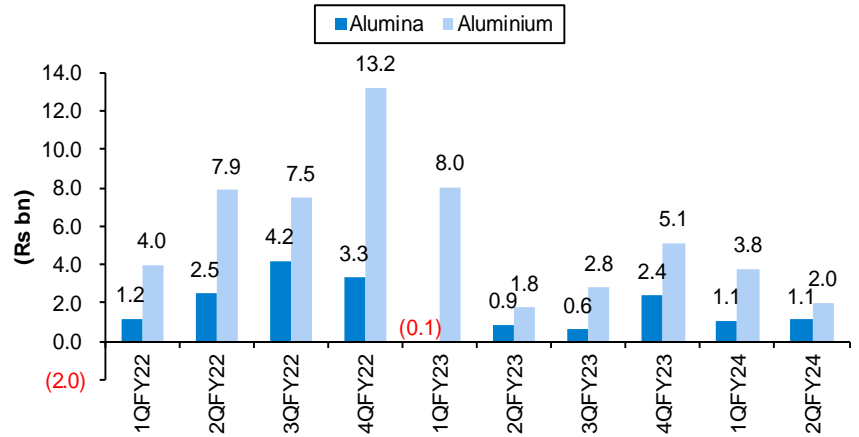
Y/e March	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
Net Sales	30.4	34.9	-12.8	31.8	-4.2	62.2	72.7	-14.5
Raw material	6.5	8.7	-25.8	5.9	9.3	12.4	14.5	-14.8
<i>% of Net Sales</i>	<i>21.2</i>	<i>24.9</i>		<i>18.6</i>		<i>19.9</i>	<i>20.0</i>	
Staff Cost	4.5	3.9	15.9	6.3	-28.0	10.8	9.0	20.7
<i>% of Net Sales</i>	<i>14.9</i>	<i>11.2</i>		<i>19.8</i>		<i>17.4</i>	<i>12.3</i>	
Power & fuel	10.5	13.8	-24.0	9.2	14.1	19.7	27.2	-27.6
<i>% of Net Sales</i>	<i>34.4</i>	<i>39.5</i>		<i>28.9</i>		<i>31.6</i>	<i>37.3</i>	
Other expenses	5.0	5.2	-3.1	4.4	12.3	9.4	10.0	-5.9
<i>% of Net Sales</i>	<i>16.4</i>	<i>14.8</i>		<i>14.0</i>		<i>15.2</i>	<i>13.8</i>	
Total expenditure	26.5	31.6	-16.1	25.8	2.4	52.3	60.7	-13.8
EBITDA	4.0	3.3	18.6	5.9	-33.3	9.9	12.0	-17.6
<i>Margin (%)</i>	<i>13.0</i>	<i>9.6</i>		<i>18.7</i>		<i>15.9</i>	<i>16.5</i>	
Depreciation	1.9	1.5	21.2	1.7	9.7	3.6	3.0	17.3
EBIT	2.1	1.8	16.4	4.2	-50.5	6.4	9.0	-29.4
Other income	0.7	0.7	-1.0	0.5	41.4	1.2	1.3	-11.4
Interest	0.0	0.0	-2.7	0.0	76.5	0.1	0.1	-21.6
PBT	2.7	2.5	11.8	4.7	-41.6	7.5	10.2	-27.2
Extraordinary income/(expense)	0.0	0.0		0.0		0.0	0.0	
PBT (after EO)	2.7	2.5	11.8	4.7	-41.6	7.5	10.2	-27.2
Tax	0.7	0.8		1.2		1.9	2.8	
Reported PAT	2.1	1.7	21.2	3.5	-41.0	5.6	7.5	-25.8
Adjusted PAT	2.1	1.7	21.2	3.5	-41.0	5.6	7.5	-25.8

Source: Company, PL

Exhibit 2: Segmental revenue break up


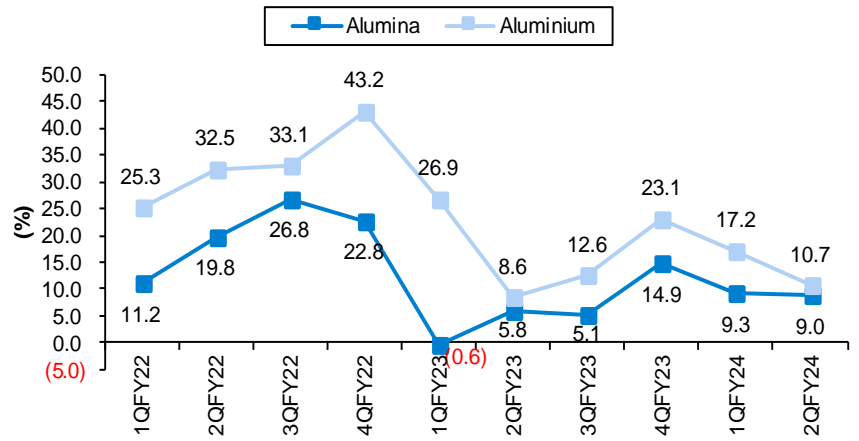
Source: Company, PL

Exhibit 3: Segmental EBIT break up



Source: Company, PL

Exhibit 4: Segmental margin quarterly trend



Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	142	130	136	153
YoY gr. (%)	0.4	(8.7)	4.8	12.4
Cost of Goods Sold	32	28	27	32
Gross Profit	111	102	109	121
Margin (%)	77.8	78.6	80.1	79.3
Employee Cost	18	20	21	23
Other Expenses	68	58	57	63
EBITDA	24	25	30	36
YoY gr. (%)	(46.2)	1.5	23.0	17.6
Margin (%)	17.1	19.0	22.3	23.3
Depreciation and Amortization	7	7	8	8
EBIT	17	18	23	27
Margin (%)	12.0	13.5	16.5	17.8
Net Interest	-	-	-	-
Other Income	3	2	2	2
Profit Before Tax	20	20	24	29
Margin (%)	13.8	15.2	17.9	19.0
Total Tax	4	4	6	7
Effective tax rate (%)	20.9	22.0	25.0	25.0
Profit after tax	16	15	18	22
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	16	15	18	22
YoY gr. (%)	(47.2)	(1.3)	19.1	19.0
Margin (%)	10.9	11.8	13.4	14.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16	15	18	22
YoY gr. (%)	(47.2)	(1.3)	19.1	19.0
Margin (%)	10.9	11.8	13.4	14.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16	15	18	22
Equity Shares O/s (bn)	2	2	2	2
EPS (Rs)	8.5	8.4	10.0	11.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	122	142	162	172
Tangibles	122	142	162	172
Intangibles	-	-	-	-
Acc: Dep / Amortization	44	51	59	68
Tangibles	44	51	59	68
Intangibles	-	-	-	-
Net fixed assets	78	91	103	105
Tangibles	78	91	103	105
Intangibles	-	-	-	-
Capital Work In Progress	27	27	27	37
Goodwill	-	-	-	-
Non-Current Investments	5	5	5	5
Net Deferred tax assets	(10)	(10)	(10)	(10)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	18	14	15	21
Trade receivables	1	2	2	2
Cash & Bank Balance	21	16	15	14
Other Current Assets	26	26	26	26
Total Assets	177	182	194	211
Equity				
Equity Share Capital	9	9	9	9
Other Equity	123	132	142	155
Total Networkth	132	141	151	164
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	33	29	31	34
Other current liabilities	2	2	2	2
Total Equity & Liabilities	177	182	194	211

Source: Company Data, PL Research

**Cash Flow (Rs bn)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	20	20	24	29
Add. Depreciation	7	7	8	8
Add. Interest	-	-	-	-
Less Financial Other Income	3	2	2	2
Add. Other	(1)	-	-	-
Op. profit before WC changes	25	27	32	37
Net Changes-WC	(9)	0	1	(2)
Direct tax	(7)	(4)	(6)	(7)
Net cash from Op. activities	9	22	27	28
Capital expenditures	(15)	(13)	(12)	(12)
Interest / Dividend Income	-	-	-	-
Others	12	-	-	-
Net Cash from Inv. activities	(3)	(13)	(12)	(12)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(9)	(7)	(8)	(9)
Interest paid	-	-	-	-
Others	0	-	-	-
Net cash from Fin. activities	(9)	(7)	(8)	(9)
Net change in cash	(3)	2	7	8
Free Cash Flow	(6)	9	15	16

Source: Company Data, PL Research

Key Financial Metrics

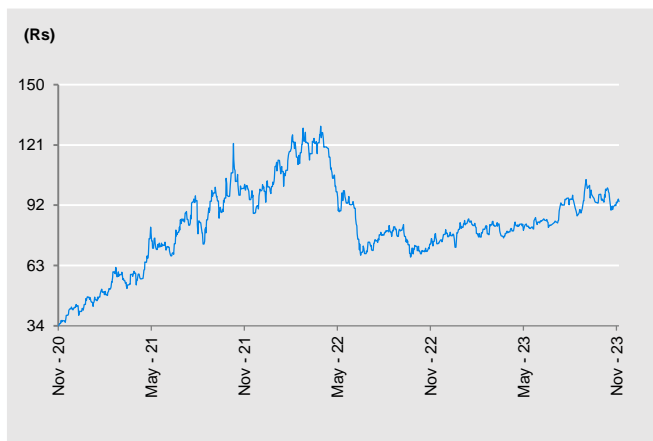
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	8.5	8.4	10.0	11.9
CEPS	12.4	12.3	14.2	16.4
BVPS	72.1	76.6	82.3	89.6
FCF	(3.4)	5.0	7.9	8.8
DPS	5.0	3.9	4.2	4.7
Return Ratio(%)				
RoCE	15.3	14.4	16.7	18.4
ROIC	12.6	11.4	12.9	14.3
RoE	12.1	11.3	12.6	13.8
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	(35)	(37)	(37)	(27)
Valuation(x)				
PER	10.8	10.9	9.2	7.7
P/B	1.3	1.2	1.1	1.0
P/CEPS	7.4	7.4	6.4	5.6
EV/EBITDA	6.0	6.1	5.0	4.3
EV/Sales	1.0	1.2	1.1	1.0
Dividend Yield (%)	5.5	4.2	4.6	5.1

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	33	37	32	30
YoY gr. (%)	-	-	-	-
Raw Material Expenses	8	9	6	6
Gross Profit	25	27	26	24
Margin (%)	77.1	74.2	81.4	78.8
EBITDA	5	8	6	4
YoY gr. (%)	-	-	-	-
Margin (%)	14.0	20.9	18.7	13.0
Depreciation / Depletion	2	3	2	2
EBIT	3	5	4	2
Margin (%)	9.2	13.9	13.4	6.9
Net Interest	-	-	-	-
Other Income	1	1	-	1
Profit before Tax	4	6	5	3
Margin (%)	11.1	15.4	14.8	9.0
Total Tax	1	-	1	1
Effective tax rate (%)	24.9	7.8	25.8	25.0
Profit after Tax	3	5	3	2
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3	5	3	2
YoY gr. (%)	(67.0)	(49.1)	(39.6)	21.2
Margin (%)	8.3	14.2	11.0	6.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3	5	3	2
YoY gr. (%)	-	-	-	-
Margin (%)	8.3	14.2	11.0	6.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3	5	3	2
Avg. Shares O/s (bn)	2	2	2	2
EPS (Rs)	1.5	2.8	1.9	1.1

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Accumulate	97	95
2	28-Aug-23	Accumulate	97	88

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	557	469
2	Jindal Stainless	BUY	543	469
3	Jindal Steel & Power	BUY	751	634
4	JSW Steel	BUY	903	769
5	National Aluminium Co.	Accumulate	97	95
6	NMDC	Accumulate	147	146
7	Steel Authority of India	Accumulate	95	89
8	Tata Steel	BUY	138	118

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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