

Company Overview

Incorporated in 1981, National Aluminium Company Ltd. (NALCO) is a scheduled 'A' Navratna CPSE having its registered office in Bhubaneswar. The company is one of the largest integrated primary producers of aluminium in Asia and has a presence across the entire value chain from bauxite mining, alumina refining, aluminium smelting, and power generation to downstream products. The company has extensive products across different categories. In the Alumina category, it offers products like Calcined Alumina, Alumina Hydrate, Speciality Hydrates, etc. In its Aluminium category, it offers a range of products such as Standard Ingots, Sow Ingots, T-Ingots, Wire Rods, Billets, and Flat Rolled Products (Coils, Sheets, and Chequered Sheets). NALCO has a vast operation capacity in Odisha for a Bauxite Mine consisting of 68.25 lakh TPA, an Alumina refinery consisting of 22.75 lakh TPA, and an Aluminium smelter consisting of 6.40 lakh TPA & 1,200 MW captive power plant capacity as on FY23. To reduce its input cost and as a part of the green initiative, the company has installed 198 MW Wind Power Plants at various locations in India and 850 kWp rooftop Solar Power Plants at its premises. Furthermore, as a part of backward integration, the company has established a caustic soda plant in JV with Gujarat Alkalies & Chemicals Limited (GACL) in Gujarat which was commissioned in May 2022. Additionally, the company has formed a JV Company named 'Angul Aluminium Park Private Ltd' (AAPPL) with Odisha Industrial Infrastructure Development Corporation (IDCO) to give a boost to ancillary, upstream, and downstream products related to the aluminium industry.

Investment Rationale

Integrated operations and strong credit metrics despite industry headwinds

NALCO operates captive high-quality bauxite mines, which meet 100% of its alumina requirement for manufacturing aluminium. It also operates 1,200 MW coal-based captive power plants, which are sufficient for its entire aluminium smelting capacity. For feeding coal, it has a fuel supply agreement with Mahanadi Coalfield Limited for around 85% of its requirement. This integration confers significant cost advantages, making NALCO one of the few low-cost producers of alumina across the world. Furthermore, NALCO's facilities are located close to raw material sources, leading to savings in freight costs. In the past, NALCO maintained a negative net debt position. Also, the interest coverage has remained fairly comfortable due to marginal interest obligations. This resulted in the company maintaining its net leverage position well below the industry average, considering the likely healthy EBITDA generation over the medium term.

Strong profitability expected from hereon

Due to lower aluminium production volumes and higher input costs in Q2FY24, NALCO's EBITDA margin declined. This can be primarily attributed to the rise in the power and fuel costs which significantly impacted the company's margin. Going forward, with the ramping up of captive coal production it is expected that the coal cost would come down. Further, the better production and realization of alumina sales volumes in the coming quarter will help the company to improve its profitability from Q3FY24 onwards. Additionally, the company's focus on backward integration and securitization of energy and bauxite has increased its business span for the next 30 years.

Valuation and Outlook

Indian aluminum demand has so far remained resilient to economic headwinds and performed well in 2023. India's economic indicators were positive while demand from end-users pointed to a mixed picture in 2023. The Government of India envisages faster adoption and promotion of EVs as a means to achieve these objectives. Aluminum is an essential material in the EV market, playing a vital role in battery technology, body construction, and infrastructure and driving sustainability. Going ahead, we see LME aluminium price remaining constrained between USD 2,100- 2,300 per tonne. The focus of the company on the early completion of the 5th stream refinery project and the development of the Pottangi Bauxite mines and the Utkal D & E coal blocks in Odisha would support earnings growth hereon. With Khanij Bidesh India Limited (KABIL), a joint venture between NALCO, Hindustan Copper, and Mineral Exploration, signing an agreement with Argentina's CAMYEN SE to explore and develop five lithium mines will enhance the company's lithium sourcing capabilities.

Taking cognizance of potential cost efficiencies and improvement in its topline, we give NALCO a "BUY" rating. We value the stock at an FY25E EV/EBITDA of 6.7x to arrive at a target price of Rs. 175 (15% upside from CMP).

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	153
Target Price (INR)	175
NSE Symbol	NATIONALUM
BSE Code	532234
Bloomberg	NACL IN
Reuters	NALU.BO

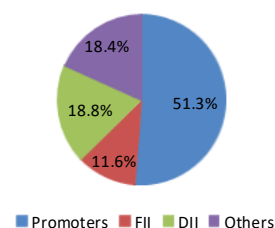
Key Data

Nifty	21,711
52WeekH/L(INR)	1,537 / 911
O/s Shares (Mn)	1,834
Market Cap (INR bn)	281
Face Value (INR)	5

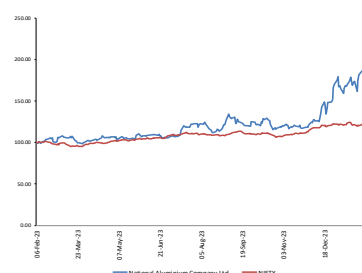
Average volume

3 months	2,80,34,200
6 months	1,90,68,530
1 year	1,46,10,450

Share Holding Pattern (%)



Relative Price Chart



National Aluminium Company Ltd.

Key Financials

YE March (Rs. millions)	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	84,718	89,558	1,42,146	1,42,549	1,73,909	2,12,169
<i>Revenue Growth (Y-o-Y)</i>	<i>(26.3%)</i>	<i>5.7%</i>	<i>58.7%</i>	<i>0.3%</i>	<i>22.0%</i>	<i>22.0%</i>
EBIDTA	4,879	15,183	45,486	24,392	36,521	44,556
<i>EBIDTA Growth (Y-o-Y)</i>	<i>(83.1%)</i>	<i>211.2%</i>	<i>199.6%</i>	<i>(46.4%)</i>	<i>49.7%</i>	<i>22.0%</i>
Net Profit	1,362	12,994	29,514	14,347	29,565	36,069
<i>Net Profit Growth (Y-o-Y)</i>	<i>(92.1%)</i>	<i>853.8%</i>	<i>127.1%</i>	<i>(51.4%)</i>	<i>106.1%</i>	<i>22.0%</i>
Diluted EPS	0.7	7.1	16.1	7.8	16.1	19.6
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>(92.1%)</i>	<i>853.8%</i>	<i>127.1%</i>	<i>(51.4%)</i>	<i>106.1%</i>	<i>22.0%</i>

Key Ratios

EBIDTA margin (%)	5.8%	17.0%	32.0%	17.1%	21.0%	21.0%
NPM (%)	1.6%	14.5%	20.8%	10.1%	17.0%	17.0%
RoE (%)	1.4%	12.2%	23.5%	10.9%	21.4%	24.8%
RoCE (%)	4.9%	14.2%	36.2%	18.5%	26.3%	30.5%

Valuation Ratios

P/E (x)	206.2x	21.6x	9.5x	19.6x	9.5x	7.8x
EV/EBITDA	53.5x	17.4x	5.4x	10.7x	7.1x	5.8x
P/BV (x)	2.8x	2.6x	2.2x	2.1x	2.0x	1.9x
Market Cap. / Sales (x)	3.3x	3.1x	2.0x	2.0x	1.6x	1.3x

Source: Company, BP Equities Research

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Disclaimer Appendix**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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