

Robust Q2; Alumina Long Position to Drive Growth

Est. Vs. Actual for Q2FY25: Revenue – **BEAT**; EBITDA – **BEAT**; PAT – **BEAT**

Change in Estimates YoY for NALCO post Q2FY25 results:

FY25E/FY26E: Revenue 7%/4%; EBITDA: 24%/16%; PAT: 26%/17%.

Recommendation Rationale

- Overall beat:** NALCO's consolidated EBITDA grew by 291%/66% YoY/QoQ to Rs 1,549 Cr, a 36% beat vs. consensus, led by strong performance at both the Alumina and Aluminium divisions.
- Chemicals (Alumina) business'** EBIT jumped up by 5x/19x YoY/QoQ to Rs 595 Cr (35% EBIT margin vs. 9%/4% in Q2FY24/Q1FY25) led by a surge in Alumina prices (up 51%/18% YoY/QoQ). The growth could have also led to higher Alumina sales in the quarter. Q1FY25 Alumina sales was impacted by logistical issues.
- The Aluminium segment's** EBIT grew by 4x YoY as LME Aluminium prices grew 10% YoY, along with the positive impact of captive coal from the Utkal-D block and lower purchased coal prices. EBIT also grew by 6% QoQ, despite LME Aluminium prices falling 6% QoQ. This might be due to higher metal sales and premiums along with lower coal costs in the quarter.
- Alumina refinery expansion:** The 5th stream Alumina refinery of 1 mtpa is 65% complete and is expected to be commissioned by Sep'25 (Q2FY26). The company executed a lease deed for Pottangi Bauxite Mine (75 MT reserves) with the Odisha government in Jun'24 for 50 years. The Pottangi mine of 3.5 mtpa capacity will secure the bauxite supply for the alumina refinery expansion. Utkal coal blocks D & E of 2 mtpa each will be operated as a single block for cost optimisation. Utkal D has already ramped up to 2 mtpa capacity by the end of FY24.

Sector Outlook: Neutral.

Company Outlook & Guidance: NALCO is currently trading at an elevated 12MF consensus EV/EBITDA of 9.0x (Hindalco at 6.2x), a significant premium to its LT average of 4.8x. The stock has re-rated since Jan'24 on account of i) Higher Alumina prices (spot at \$693/t), ii) expectation of Alumina Refinery expansion by Sep'25, iii) Start of Utkal D Coal block and lower e-auction coal prices and lastly iv) It's JV KABIL & Argentina's CAMYEN SE's agreement in Jan'24 for exploration of Lithium brine blocks. We value NALCO now at 7.0x citing Alumina tightness and NALCO being Alumina long (1.16MT external sales in FY24). We introduce FY27 EBITDA with 18% YoY growth, as we factor in additional Alumina volumes from the 5th stream of refinery in FY27. However, we keep some buffer and model 0.5 MT (50% utilisation) from it. **Delay in its expansion and capex over-run along with a fall in Alumina prices is the key Risk.**

Current Valuation: 7.0x EV/EBITDA on Sep'26E EBITDA (from 6.0x FY26E EBITDA).

Current TP: Rs 250/share (Earlier TP: Rs 180/share)

Recommendation: We upgrade from HOLD to BUY.

Financial Performance: NALCO's Revenue/EBITDA/PAT beat ours and consensus estimates on account of strong performance by both the Alumina and Aluminium divisions. Consolidated revenue at Rs 4,001 Cr (up 31%/40% YoY/QoQ), stood ahead of consensus estimate by ~3%. EBITDA at Rs 1,549 Cr (up 291%/66% YoY/QoQ), beat the consensus estimates by 36% led by a higher topline while RM and employee costs remained under control. PAT stood at Rs 1,046 Cr (up 458%/78% YoY/QoQ), 40%+ miss vs. consensus estimate, led by an EBITDA miss. The company has declared an interim dividend of Rs 4/share for FY25. (Rs 5/share for the full year of FY24)

Key Financials (Consolidated)

Rs Cr	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	4,001	40%	31%	3,456	16%
EBITDA	1,549	66%	291%	1,031	50%
EBITDA %	39%			30%	
PAT (excl Exceptional)	1,046	78%	458%	687	52%

Source: Company, Axis Research

(CMP as of 13th November 2024)

CMP (Rs)	220
Upside /Downside (%)	14%
High/Low (Rs)	248/90
Market cap (Cr)	40,369
Avg. daily vol. (6m) Shrs.	1,99,17,165
No. of shares (Cr)	184

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	51.28	51.28	51.28
FII	8.99	10.43	12.08
Mutual Funds / UTI	13.69	13.31	13.03
Financial Institutions	0.00	0.00	0.00
Others	26.04	24.98	23.61

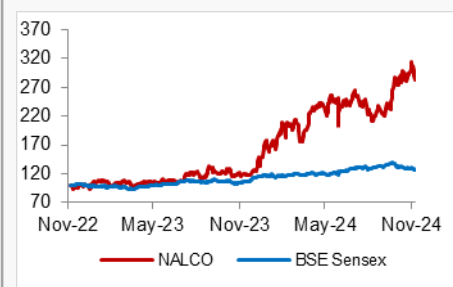
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	14,854	15,415	17,339
EBITDA	5,431	5,229	6,179
Net Profit	3,572	3,414	4,067
EPS (Rs.)	19.5	18.6	22.2
PER (x)	11.3	11.8	9.9
P/BV (x)	2.4	2.1	1.8
EV/EBITDA (x)	6.8	7.0	5.6
ROE (%)	22.8%	18.9%	19.6%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	7%	4%
EBITDA	24%	16%
PAT	26%	17%

Relative Performance



Source: ACE Equity, Axis Securities

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Outlook

We factor in higher Alumina and Aluminium prices and raise our FY25/26E EBITDA estimates. We introduce FY27 EBITDA with incremental volumes from the 5th stream of the Alumina refinery. NALCO will be the beneficiary of its long Alumina position, amidst the strong Alumina prices, which are likely to sustain at least for the medium term until new refineries from India and Indonesia come online in CY25. Contrary to our analysis, if the Alumina prices normalise, it will pose a key risk to our TP.

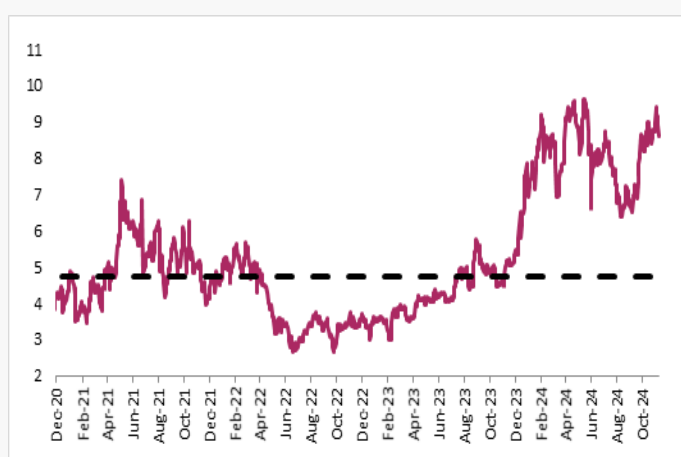
Valuation & Recommendation

We value the company at 7.0x Sep'26E EBITDA (from 6.0x and Mar'26E) and 0.5x book value of CWIP (unchanged). The TP at Rs 250/share (From 180/share) implies an upside of 14% from the CMP. **We upgrade from a HOLD to a BUY rating on the stock.**

Other Highlights from Annual Report FY24

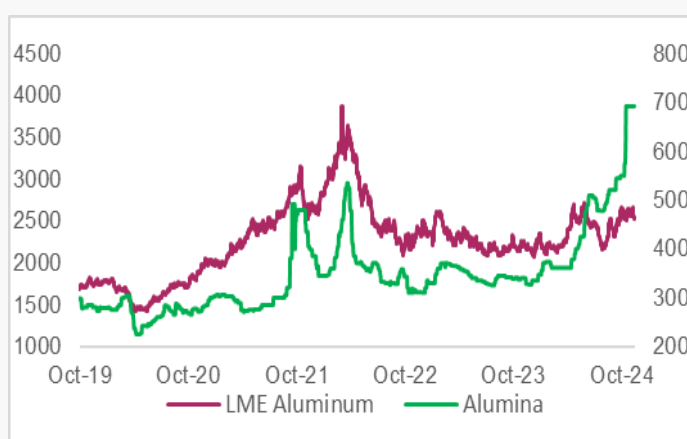
- **NALCO is currently undertaking brownfield expansion of its 5th stream of Alumina Refinery**, which will increase its capacity by 1MT from the existing 2.1 MTPA to 3.1 MTPA. The company expects to commission the new refinery by Q2FY26 (Sep'25).
- **Nalco is targeting to operationalize the Pottangi Bauxite mines synchronising with the Alumina Refinery expansion.** Steps have been taken to obtain clearances such as forest land handover, surface right transfer, obtaining mining opening permission etc., as required for the development and operationalisation of the mine. The company is in the process of obtaining all the requisite permissions/clearances within 3-4 months to operationalise the Pottangi mines synchronising with Refinery expansion.
- **Brownfield smelter expansion project of 0.5MTPA:** To enhance the company's Aluminium production capacity, it is setting up a brownfield Smelter expansion project of 0.5MTPA capacity at Angul. A detailed Project Report for the project has been prepared. Investment approval for the project with a CAPEX of ~Rs 17,000 Cr has been obtained. All pre-project activities have been initiated. Acquisition of requisite land through the Govt. of Odisha is underway. Environmental Clearance for the project has been initiated. The company is finalizing the sourcing of power for the Smelter expansion project.
- **For raw material security**, the Company has already started operation of Utkal-D Coal Mines and is in the process of opening Pottangi Bauxite Mines and Utkal-E Coal Mines. The company has operationalized a Caustic Soda plant (2.7 lakh TPA) at Dahej, Gujarat in JV with GACL, which is securing the requirement of the critical raw material.

Exhibit 1: NALCO 12MF consensus EV/EBITDA – the stock has rerated from Jan'24



Source: Refinitiv Workspaces

Exhibit 2: Alumina prices surged due to supply disruptions. Strong Alumina prices supporting LME Aluminum prices



Key Risks to Our Estimates and TP

- Capex overrun at the 5th Stream Alumina Refinery expansion can put pressure on the cash flows. Nalco is in the process of setting up of 5th stream in its existing Alumina Refinery which will add 1.0 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. In the Annual report FY24, the capex estimate for the 5th stream refinery and the pottangi Bauxite mine is at Rs 8,254 Cr
- 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		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	14,854	15,415	17,339	13,849	14,764	NA	7%	4%	NA
EBITDA	5,431	5,229	6,179	4,368	4,526	NA	24%	16%	NA
PAT	3,572	3,414	4,067	2,824	2,927	NA	26%	17%	NA
LME Aluminum (\$/t)	2,513	2,563	2,609	2,395	2,409	NA	5%	6%	NA
Alumina (\$/t)	565	538	474	440	393	NA	28%	37%	NA

Source: Company, Axis Securities

NALCO Results Review

Consolidated	Q2FY24	Q1FY25	Q2FY25	Q2FY25	Q2FY25	YoY	QoQ	vs Axis	vs Consensus
	Actual	Actual	Axis Est	Consensus	Actual	%	%	%	%
Total Alumina Sales (Kt)	301	178	299			NA	NA	NA	
Total Metal Sales (Kt)	116	117	117			NA	NA	NA	
LME Aluminum	2,160	2,525	2,385		2,385	10%	-6%	0%	
Revenues	3,043	2,856	3,456	3,882	4,001	31%	40%	16%	3%
Consumption of Raw Materials	722	487	565		491	-32%	1%	-13%	
Changes in inventories	-75	-293	-		154	NA	NA	NA	
Power & Fuel	1,048	686	812		810	-23%	18%	0%	
Employees Cost	453	467	498		476	5%	2%	-4%	
Other Expenses	499	575	549		521	4%	-10%	-5%	
Total Expenditure	2,647	1,922	2,425		2,452	-7%	28%	1%	
EBITDA	397	934	1,031	1,138	1,549	291%	66%	50%	36%
EBITDA margin (%)	13%	33%	30%	29%	39%				
Depreciation	186	174	180		180	-3%	3%	0%	
Other Income	69	61	69		72	5%	19%	5%	
Interest Expense	4	3	3		4	11%	30%	30%	
Share Of P/L Of Associates	-18.9	-12.8	-		-16	NA	NA	NA	
Exceptional loss/(gain)					-				
PBT (excl Exceptional items)	256	804	916		1,420	455%	77%	55%	
PBT	256	804	916		1,420	455%	77%	55%	
Tax	69	216	229		374	445%	73%	63%	
Tax Rate (%)	27%	27%	25%		26%				
PAT (excl Exceptional items)	187	588	687	741	1,046	458%	78%	52%	41%
PAT	187	588	687		1,046	458%	78%	52%	
EPS (Rs)	1.02	3.21	3.75		5.71	458%	78%	52%	

Source: Company, Axis Securities, Bloomberg Consensus.

NALCO Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Total Operating income	13,148	14,854	15,415	17,339
Consumption of Raw Materials	2,792	2,088	2,174	2,582
Increase/Decrease in Stocks	(146)	(139)	-	-
Power & fuel	3,548	3,195	3,463	3,678
Employees Cost	2,034	1,942	2,039	2,141
Other Expenses	2,049	2,337	2,509	2,760
Total Expenditure	10,276	9,423	10,185	11,161
EBITDA	2,871	5,431	5,229	6,179
Depreciation and Amortization	750	830	902	1,006
EBIT	2,122	4,601	4,328	5,172
Other Income	252	293	308	347
Share Of P/L Of Associates (Net of Tax)	(71)	(29)	-	-
Less: Interest & Fin Chg.	17	19	19	19
Less: Exceptional Items	427	-	-	-
Profit before tax	1,858	4,845	4,617	5,500
Provision for Tax	724	1,273	1,203	1,433
Reported PAT	1,135	3,572	3,414	4,067
EPS (Rs/sh)	10.8	19.5	18.6	22.2
DPS (Rs/sh)	3.0	5.8	5.6	6.6

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Block	7,020	7,190	7,789	7,782
CWIP	3,961	4,961	6,461	7,461
Intangible assets	974	974	974	974
Investments	342	342	342	342
Inventories	1,830	2,067	2,145	2,413
Trade Receivables	154	326	211	238
Cash / Bank balance	2,575	3,628	4,017	5,787
Misc. Assets	2,379	2,379	2,379	2,379
Total assets	19,235	21,867	24,318	27,376
Equity capital	918	918	918	918
Reserves	13,470	15,970	18,360	21,207
Borrowings	39	39	39	39
Def Tax Liabilities	841	841	841	841
Other Liabilities	2,126	2,126	2,126	2,126
Provisions	344	344	344	344
Trade Payables	1,496	1,628	1,689	1,900
Capital employed	19,235	21,867	24,318	27,376

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Profit after tax	1,988	3,572	3,414	4,067
Depreciation	750	830	902	1,006
Interest Expenses	17	19	19	19
Non-operating / EO item	(28)	-	-	-
Change in W/C	(8)	(278)	98	(83)
Operating Cash Flow	2,719	4,144	4,432	5,009
Capital Expenditure	(1,561)	(2,000)	(3,000)	(2,000)
Free cash Flow	1,159	2,144	1,432	3,009
Other Investments	(440)	-	-	-
Investing Cash Flow	(2,000)	(2,000)	(3,000)	(2,000)
Proceeds / (Repayment) of Borrowings	(4)	-	-	-
Payments for buy-back of equity shares	-	-	-	-
Finance cost paid	(0)	(19)	(19)	(19)
Dividend paid	(735)	(1,072)	(1,024)	(1,220)
Financing Cash Flow	(739)	(1,091)	(1,043)	(1,239)
Change in Cash	(20)	1,053	389	1,770
Opening Cash	63	2,575	3,628	4,017
Closing Cash	43	3,628	4,017	5,787

Source: Company, Axis Securities

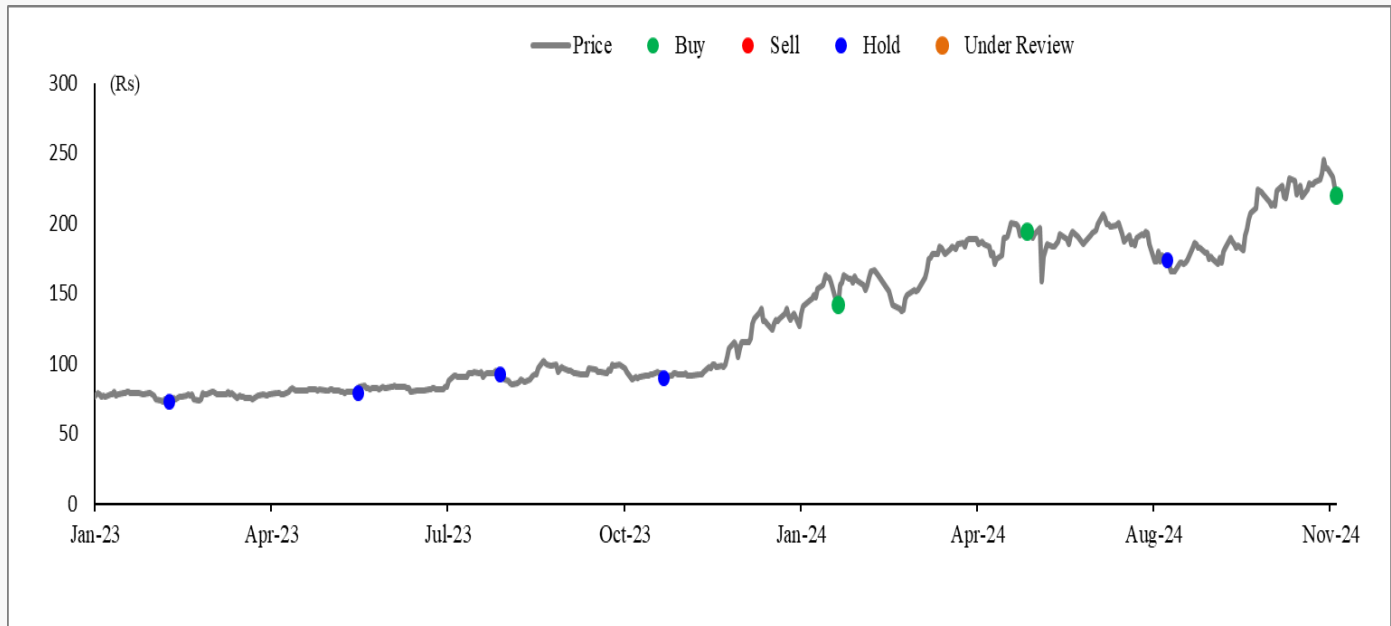
Ratio Analysis

(%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Operational Ratios				
Sales growth (% YoY)	-8%	13%	4%	12%
EBITDA growth (% YoY)	18%	89%	-4%	18%
Op. profit growth (% YoY)	24%	117%	-6%	20%
Net Profit growth (% YoY)	39%	80%	-4%	19%
EBITDA Margin %	22%	37%	34%	36%
Net profit Margin %	15%	24%	22%	23%
Tax Rate %	26%	26%	26%	26%
Efficiency Ratios				
Total Asset Turnover (x)	0.7	0.7	0.7	0.7
Sales/Gross block (x)	1.1	1.2	1.1	1.1
Sales/Net block(x)	1.9	2.1	2.0	2.2
Working capital/Sales (x)	0.04	0.05	0.04	0.04
Valuation Ratios				
PER (x)	20.3	11.3	11.8	9.9
P/BV (x)	2.8	2.4	2.1	1.8
EV/Ebitda (x)	13.2	6.8	7.0	5.6
EV/Sales (x)	2.9	2.5	2.4	2.0
Dividend Yield (%)	1.4%	2.7%	2.5%	3.0%
Return Ratios				
ROE	14.5%	22.8%	18.9%	19.6%
ROCE	12.6%	24.4%	20.2%	21.4%
ROIC	9.3%	16.6%	13.8%	13.7%

Source: Company, Axis Securities

NALCO Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
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
13-Aug-24	HOLD	180	Result Update
14-Nov-24	BUY	250	Result Update

Source: Axis Securities

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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

Note: Returns stated in the rating scale are our internal benchmark.