



India

REDUCE (previously HOLD)

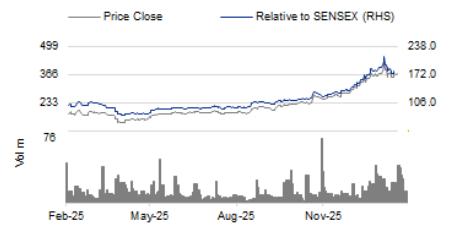
Consensus ratings*: Buy 4 Hold 4 Sell 3

Current price:	Rs348
Target price:	Rs302
Previous target:	Rs176
Up/downside:	-13.2%
InCred Research / Consensus:	-18.6%
Reuters:	NALU.NS
Bloomberg:	NACL IN
Market cap:	US\$7,059m
Average daily turnover:	Rs639,883m
	US\$44.4m
Current shares o/s:	Rs4022.8m
Free float:	1,865.0m
	48.7%

*Source: Bloomberg

Key changes in this note

- Stock's rating downgraded to REDUCE (from HOLD earlier).
- Target price raised to Rs302 (from Rs176 earlier).



Price performance	1M	3M	12M
Absolute (%)	(3.7)	32.7	91.8
Relative (%)	(3.3)	35.4	75.0

Major shareholders	% held
Promoter & Promoter Group	51.3
SBI PSU	3.6
LIC India	3.5

Research Analyst(s)



Satis KUMAR

T (91) 22 4161 1562

E satish.kumar@incredresearch.com

National Aluminium Co Ltd

Downgrade to REDUCE

- Aluminium risk is rising:** Scrap-driven supply growth could push aluminium prices lower, hurting producers like National Aluminium Company (NALCO).
- Alumina outlook weak:** NALCO's expansion comes in as alumina prices soften and linkage to aluminium weakens.
- Downgrade due to earnings risk:** EBITDA may decline; stock downgraded to REDUCE rating with a new TP of Rs302. Aluminium prices are a key risk.

Peak aluminium prices don't bode well for its Indian operations

Aluminium's rally appears largely macro-driven particularly by expectations of a weaker US dollar rather than tight fundamentals. Current prices keep most primary smelters globally viable, limiting supply discipline. Meanwhile, higher prices are boosting scrap collection, with the primary-over-scrap spread at +2SD above long-term average, typically triggering a strong recycling response. The global used-aluminium pool is 1.4bnt (billion tonne), as per data from the International Aluminium Institute (IAI), and scrappage rates can rise from the historical 1.4-1.5% to 1.7% during high-incentive periods. As macroeconomic support fades and scrap supply improves, we expect aluminium prices to decline by 20% over the next one year, which would negatively impact NALCO, given the company's sensitivity to London Metal Exchange (LME) prices.

Alumina expansion coming in at a time when prices are falling

National Aluminium Company, or NALCO's alumina expansion project is getting commissioned at a time when its prices are falling and as the incremental metal supply is most likely to come from scrap sources, the future demand trajectory for alumina will remain under question. Historically, alumina has traded around 16-17% of aluminium prices; however, in the recent past it has fallen to as low as 10%, indicating that alumina prices have somewhat delinked from aluminium prices.

EBITDA to decline to Rs61.7bn in FY28F from Rs72.6bn in FY26F

The dip in aluminium prices will hit NALCO hard; however, a part of the impact can be offset by rising alumina volume. Having said that, in a world where the primary source of incremental pure metal is scrap rather than smelted metal, the question is how long aluminium can sustain at a price of US\$325/t. We have built in US\$325/t alumina price, which is 13% of the pure metal price in FY27F (our aluminium price for FY27F is US\$2,500/t). Hence, we are assuming alumina, which is often sold as a percentage of pure metal, will rise from 10% in FY26F to 13% in FY27F. In that sense, our assumption is aggressive.

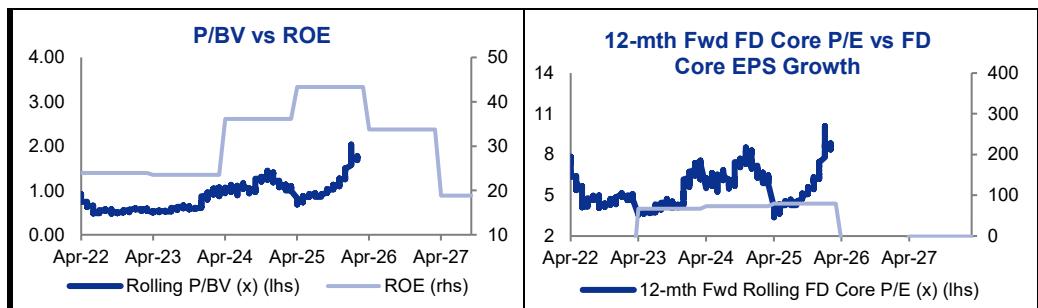
Downgrade NALCO to REDUCE with a new target price of Rs302

NALCO is trading at a significant premium valuation of 4x P/BV; however, given the upcycle, on an EV/EBITDA basis, the stock is still near its historical average. We continue to believe that P/BV is the right metric to evaluate the company; however, to account for the upcoming expansion, we value it at 7.5x FY28F EV/EBITDA to arrive at a new target price of Rs302 (Rs176 earlier). **Upside risk:** Sustained firmness in aluminium prices.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	131,492	153,903	178,574	174,272	183,190
Operating EBITDA (Rsm)	28,729	43,882	72,605	62,371	61,749
Net Profit (Rsm)	20,600	28,897	50,207	42,369	41,681
Core EPS (Rs)	9.4	15.5	26.9	22.7	22.3
Core EPS Growth	12.9%	65.7%	73.7%	(15.6%)	(1.6%)
FD Core P/E (x)	31.54	22.49	12.94	15.34	15.59
DPS (Rs)	4.5	4.5	4.5	4.5	4.5
Dividend Yield	1.29%	1.29%	1.29%	1.29%	1.29%
EV/EBITDA (x)	21.67	13.95	7.83	8.83	8.92
P/FCFE (x)	90.86	34.24	14.10	24.76	24.76
Net Gearing	(18.6%)	(22.7%)	(39.1%)	(41.0%)	(41.0%)
P/BV (x)	4.46	3.91	3.12	2.68	2.68
ROE	12.5%	18.5%	26.8%	18.8%	18.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	131,492	153,903	178,574	174,272	183,190
Gross Profit	105,033	129,104	155,038	148,141	155,459
Operating EBITDA	28,729	43,882	72,605	62,371	61,749
Depreciation And Amortisation	(7,497)	(7,871)	(8,265)	(8,678)	(9,155)
Operating EBIT	21,233	36,011	64,340	53,693	52,593
Financial Income/(Expense)	(172)	(35)	(35)	(35)	(35)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,507	2,658	2,817	2,986	3,165
Profit Before Tax (pre-El)	23,568	38,633	67,121	56,643	55,723
Exceptional Items	4,268				
Pre-tax Profit	27,836	38,633	67,121	56,643	55,723
Taxation	(7,236)	(9,736)	(16,915)	(14,274)	(14,042)
Exceptional Income - post-tax					
Profit After Tax	20,600	28,897	50,207	42,369	41,681
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	20,600	28,897	50,207	42,369	41,681
Recurring Net Profit	17,441	28,897	50,207	42,369	41,681
Fully Diluted Recurring Net Profit	17,441	28,897	50,207	42,369	41,681

Cash Flow					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	28,729	43,882	72,605	62,371	61,749
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(84)	(830)	(914)	159	(330)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	7,384				
Other Operating Cashflow	(2,316)	1,319	950	(1,069)	(1,069)
Net Interest (Paid)/Received	(172)	(35)	(35)	(35)	(35)
Tax Paid	(6,348)	(9,736)	(16,915)	(14,274)	(14,042)
Cashflow From Operations	27,193	34,600	55,691	47,152	47,152
Capex	(15,605)	(17,000)	(11,500)	(25,000)	(35,000)
Disposals Of FAs/subsidiaries	185				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(4,584)	1,374	1,902	4,090	4,090
Cash Flow From Investing	(20,005)	(15,626)	(9,598)	(20,910)	(20,910)
Debt Raised/(repaid)	(37)				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(7,347)	(8,393)	(8,393)	(8,393)	(8,393)
Preferred Dividends					
Other Financing Cashflow	(3)	(35)	(35)	(35)	(35)
Cash Flow From Financing	(7,387)	(8,428)	(8,428)	(8,428)	(8,428)
Total Cash Generated	(198)	10,546	37,666	17,814	17,814
Free Cashflow To Equity	7,151	18,974	46,093	26,242	26,242
Free Cashflow To Firm	7,361	19,009	46,129	26,277	26,277

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	27,481	38,043	81,809	99,623	99,623
Total Debtors	1,535	1,797	2,085	2,034	2,139
Inventories	18,297	21,416	24,849	24,250	25,491
Total Other Current Assets	14,002	13,986	13,986	13,986	13,986
Total Current Assets	61,315	75,242	122,728	139,894	139,894
Fixed Assets	119,558	128,687	125,821	142,143	167,988
Total Investments	3,523	3,523	3,523	3,523	3,523
Intangible Assets					
Total Other Non-Current Assets	9,791	9,791	9,791	9,791	9,791
Total Non-current Assets	132,871	142,000	139,134	155,456	181,301
Short-term Debt	392	392	392	392	392
Current Portion of Long-Term Debt					
Total Creditors	14,963	17,513	20,320	19,830	20,845
Other Current Liabilities	16,423	16,423	16,423	16,423	16,423
Total Current Liabilities	31,777	34,327	37,134	36,645	37,660
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	6,573	6,573	6,573	6,573	6,573
Total Non-current Liabilities	6,573	6,573	6,573	6,573	6,573
Total Provisions	10,120	10,120	10,120	10,120	10,120
Total Liabilities	48,469	51,020	53,827	53,337	54,352
Shareholders Equity	145,717	166,222	208,036	242,013	242,013
Minority Interests					
Total Equity	145,717	166,222	208,036	242,013	242,013

Key Ratios					
	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	(7.8%)	17.0%	16.0%	(2.4%)	5.1%
Operating EBITDA Growth	17.4%	52.7%	65.5%	(14.1%)	(1.0%)
Operating EBITDA Margin	21.8%	28.5%	40.7%	35.8%	33.7%
Net Cash Per Share (Rs)	14.52	20.19	43.66	53.21	53.21
BVPS (Rs)	78.13	89.13	111.55	129.77	129.77
Gross Interest Cover	123.37	1,021.75	1,825.55	1,523.45	1,492.26
Effective Tax Rate	26.0%	25.2%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	51.4%	29.0%	16.7%	19.8%	20.1%
Accounts Receivables Days	3.40	3.95	3.97	4.31	4.16
Inventory Days	253.14	292.26	358.75	342.92	327.36
Accounts Payables Days	190.35	239.00	293.36	280.42	267.70
ROIC (%)	12.8%	20.4%	34.0%	28.7%	28.7%
ROCE (%)	14.3%	21.9%	32.8%	23.0%	23.0%
Return On Average Assets	8.9%	14.1%	21.0%	15.2%	15.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. While every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which is believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made (information barriers and other arrangements may be established, where necessary, to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short-term views, etc.) that are inconsistent with and reach a different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

Research Analyst or his/her relative(s) or InCred Research Services Private Limited or our associate may have any financial interest in the subject company.

Research Analyst or his/her relatives or InCred Research Services Limited or our associates may have actual or beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report.

Research Analyst or his/her relative or InCred Research Services Private Limited or our associate entities may have any other material conflict of interest at the time of publication of the Research Report.

In the past 12 months, IRSPL or any of its associates may have:

- a) Received any compensation/other benefits from the subject company,
- b) Managed or co-managed public offering of securities for the subject company,
- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
- d) Received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company

We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Research Analyst may have served as director, officer, or employee in the subject company.

We or our research analyst may engage in market-making activity of the subject company.

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based on any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.

Registration granted by SEBI, membership of a SEBI recognized supervisory body (if any) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

InCred Research Services Private Limited**Research Analyst SEBI Registration Number: INH000011024**

Registered Office: Unit No 1203, 12th Floor, B Wing, The Capital, C-70, G Block, BKC, Bandra (E), Mumbai – 400051

Phone: +91-22-6844-6100

Corporate Office: 05th floor, Laxmi Towers, Plot No. C-25, G Block, Bandra – Kurla Complex, Bandra (East), Mumbai – 400051

Phone: +91-22-4161-1500

Name of the Compliance Officer: Mr. Mayuresh Kadam

Email ID: compliance@incredrerearch.com, Phone No: +91-22-41611539

For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Rajarshi Maitra

Phone no. +91-022-41611546

Email ID: rajarshi.maitra@incredrerearch.com

CIN: U74999MH2016PTC287535

Recommendation Framework**Stock Ratings**

Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.

Neutral A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.

Underweight An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.