



India

REDUCE (previously HOLD)

Consensus ratings*: Buy 4 Hold 4 Sell 3

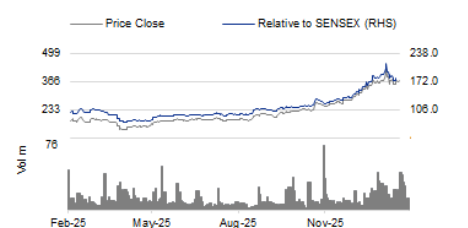
Current price: Rs348
 Target price: ▲ Rs302
 Previous target: Rs176
 Up/downside: -13.2%
 InCred Research / Consensus: -18.6%

Reuters: NALU.NS
 Bloomberg: NACL IN
 Market cap: US\$7,059m
 Rs639,883m
 Average daily turnover: US\$44.4m
 Rs4022.8m
 Current shares o/s: 1,865.0m
 Free float: 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).



Source: Bloomberg

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

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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 4× 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 7.5× FY28F EV/EBITDA to arrive at a new target price of Rs302 (Rs176 earlier). **Upside risk:** Sustained firmness in aluminium prices.

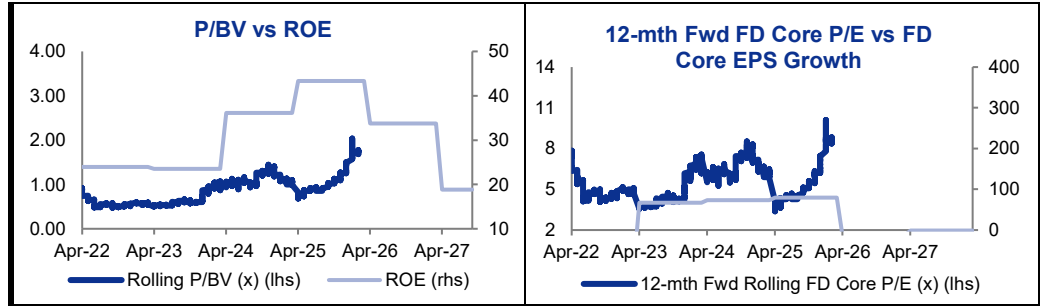
Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	131,492	153,903	178,574	174,272	183,190
Operating EBITDA (Rsm)	28,729	43,882	72,605	62,371	61,749
Net Profit (Rsm)	20,600	28,897	50,207	42,369	41,681
Core EPS (Rs)	9.4	15.5	26.9	22.7	22.3
Core EPS Growth	12.9%	65.7%	73.7%	(15.6%)	(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-EI)	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 Invt. & 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

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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.