

September 8, 2014

National Aluminium Company LTD.

BSE Code: 53234 NSE Code: NATIONALUM Reuters Code: NALU.NS Bloomberg Code: NACL:IN

National Aluminium Company LTD. (NALCO), incorporated in 1981, as a public sector enterprise of the Government of India. NALCO is Asia's largest integrated aluminium complex, encompassing bauxite mining, alumina refining, aluminium smelting and casting, power generation, rail and port operations. Nalco has emerged to be a star performer in production, export of alumina and aluminium, and more significantly, in propelling a self-sustained growth. Its aluminium smelter (460ktpa) sources alumina and power from its captive refinery in Damanjodi and captive power plant (CPP) located in Angul respectively. Coal for power generation is sourced from the state - owned Coal India; hence, the cost of power generated is low. The alumina refinery, which has a capacity of 2.1mtpa, is located in Damanjodi (Orissa), is close to captive bauxite mines at Panchpatmali.

Investor's Rationale

Higher aluminum prices boosted topline by 7.5% – NALCO registered 7.5% YoY growth in its topline to ₹16,512.9 mn in Q1FY15 on the back of higher availability of linkage coal and higher aluminum prices during the quarter, despite lower production. Global aluminium prices have crossed \$2,000 per tonne from a low of \$1,693 in February 2014. The revenue from 'Chemical' Segment grew by 12.65% at ₹8,713.3 mn. Whereas, the revenue from the 'Aluminium' segment remain flat at ₹10,726.2.

Net profit grew strongly by 69.7% YoY on better operational performance – NALCO's net profit grew by 69.7% YoY to ₹2,709.9 mn in Q1FY15 as against ₹1,724.5 mn in Q1FY14 on the back of better operational performance. Further, the rise in other income to ₹1,903.6 mn against ₹1,353.9 mn also assisted the bottomline growth. While, taxation charges by increased by 111.0% at ₹1,003.5 mn pressurised the topline. Consequently, NPM expanded 531 bps YoY to 14.5% from 9.2%.

EBITDA margin expanded 665bps on lower power cost – The company has reported a sharp 81% YoY growth in its EBITDA to ₹2,764.9 mn against ₹1,530.3 mn, as the company managed to reduce power cost by the improvement in supply of linkage coal from Coal India. Power costs have also been under control on the company's strategy of curtailing aluminium production. NALCO has restrained from consuming expensive imported and e-auction coal. As a result 'power' cost was lower by 12% to ₹4,455.5 mn, material cost (as % to sales net of stocks) was lower by 8.90% to ₹2,492.4 mn. But the employee costs were up by 7.59% to ₹3,458.8 mn and other expenses were higher by 7.27% to ₹3,876.6 mn. Accordingly, OPM expanded 665 bps YoY to 16.5% from 9.8%.

Market Data

Rating		BUY
CMP (₹)		63
Target Price		73
Stop Loss		58
Duration		Medium-term
52-week High-Low (₹)		64.9/29.3
Rise from 52WL (%)		115.0
Correction from 52WH (%)		2.9
Beta		1.9
1 year Average Volume (mn)		1.76
Stock Return (%)	3M-	14.8
	6M-	91.1
	1Y-	92.6
Market Cap (₹bn)		162.4
Book Value (₹)		48.79

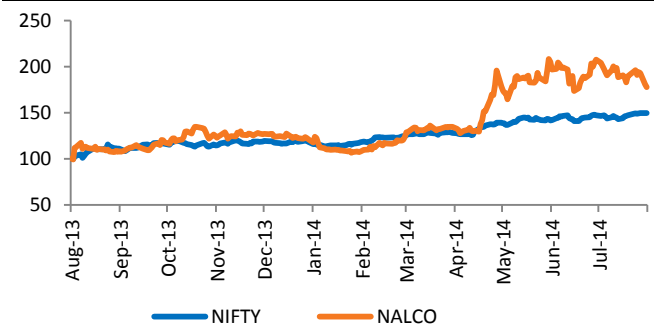
Shareholding Pattern

	Jun'14	Mar'14	Chg
Promoters (%)	80.93	81.06	(0.13)
FII (%)	3.31	3.81	(0.50)
DII (%)	9.47	10.21	(0.74)
Public & Others (%)	6.29	4.92	1.37

Quarterly Performance

(₹mn)	Q1 FY'15	Q1 FY'14	Q4 FY'14	YoY Change(%)	QoQ Change (%)
Sales	16,512.9	15,365.4	17,812.1	7.5	(7.3)
Op. exp	14,035.5	14,075.2	15,289.7	(0.3)	(8.2)
EBITDA	2,764.9	1,530.3	3,092.3	81	(11)
OPM (%)	16.5	9.8	16.8	665bps	(36bps)
Net profit	2,709.9	1,597.0	1,724.5	69.7	57.1
NPM (%)	14.5	9.2	8.7	531bps	575bps
EPS (₹)	1.1	0.6	0.7	69.4	56.7

One Year Price Chart





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