National Aluminium Company Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Maintains a robust structural moat as a low-cost, vertically integrated producer with captive bauxite and 100% energy self-sufficiency via captive power.**	Positive
2	Revenue remained stagnant at □14,257 Cr as 14% domestic volume growth was offset by global commodity price volatility and flat realizations.	Neutral
3	***Operating margins halved from 32% to 16% following a 67.85% spike in coal costs, which now consume 32.9% of total revenue.***	Negative
4	***Net Profit plummeted 51% to 1,435 Cr, further pressured by a 100.31 Cr impairment on non-core wind assets due to regulatory deadlocks.***	Negative
5	**Balance sheet remains exceptionally resilient with a near-zero Debt/Equity of 0.01x and an interest coverage ratio of 211x.**	Positive
6	***Cash flow from operations (CFO) fell to 908 Cr, failing to cover the combined 2,452 Cr outflow for capex and dividends, leading to a 42% drop in cash reserves.***	Negative
7	***Capital efficiency is under pressure with 666.84 Cr of Capital Work-in-Progress (CWIP) aged over 3 years, indicating execution delays in key projects.***	Negative
8	***Earnings quality deteriorated as CFO/PAT dropped to 0.63, with profits supported by non-cash provision reversals while inventory grew 11.8% despite flat sales.***	Negative
9	**Governance remains a core strength with a 9/10 rating, featuring an unqualified audit, 53% board independence, and zero promoter pledging.**	Positive
10	***Contingent liabilities of 2,362.31 Cr represent a massive 164% of FY23 PAT, posing a significant long-term litigation risk to the bottom line.***	Negative
11	**Growth outlook is tied to the 5th Stream Alumina Refinery (57% complete) and the operationalization of Utkal-D coal blocks to restore margins.**	Positive
12	Investment View: Watch; stance is neutral until the "Coal Pivot" reduces energy costs below 25% of revenue and FCF turns positive.	Neutral

1. Business overview

- **Integrated Operations:** NALCO is a high-margin, integrated player in the aluminium value chain, leveraging low-cost captive bauxite mining and power generation to buffer against LME volatility.
- **Revenue Segments:** The business is driven by **Aluminium** (71.98% of revenue), Alumina/Chemicals (27.58%), and minor contributions from Wind Power/Other (0.44%).
- **Cost Drivers:** Competitive moat is built on raw material securitization from the Panchpatmali Mines (lease valid until 2032). Energy is the primary cost risk, requiring ~6.8 million MT of coal annually.
- **Industry Position:** India’s second-largest primary aluminium producer. While global demand contracted in FY23, Indian domestic consumption grew by 14%.

- **Expansion Plans:** Currently in a heavy CAPEX cycle, centered on the **5th Stream Alumina Refinery Expansion** (1.0 MTPY), which was 57.83% complete as of July 2023.
- **Backward Integration:** Operationalized the **Utkal-D coal block** in FY23 to secure energy costs and reduce exposure to expensive spot auction pricing.
- **Geographical Presence:** Strong domestic presence with a pivot toward "green" aluminium to mitigate the impact of the EU's Carbon Border Adjustment Mechanism (CBAM) on exports.
- **Strategic Diversification:** Participating in **KABIL** (Khanij Bidesh India Ltd), a JV to source strategic minerals like Lithium and Cobalt for the EV battery supply chain.

2. Management commentary & outlook

- Management is pursuing a strategy of "defensive expansion," shifting focus from volume growth to securing the "input flank" through captive coal and bauxite.
- The operationalization of the Utkal-D coal block and commencement of dispatch in April 2023 is expected to structurally de-risk margins in low-LME environments.
- Management is conservative regarding the near-term global outlook, projecting LME prices to decline by approximately 12% in FY24 due to global demand contraction and rising Chinese production.
- Domestic demand remains a bright spot, supported by the "China+1" tailwind and the Indian government's infrastructure push, which has kept domestic premiums resilient.
- The 5th Stream Refinery expansion is on track for completion by May 2025, though non-core projects like the 25.5 MW Wind Power Project face delays due to NCLT proceedings of the executing agency.
- Management is launching niche "Value Added Products" (12 new products in FY23) to escape the commoditized LME pricing trap.
- Strategic weight is being placed on the KABIL JV for long-term entry into the critical mineral and EV battery supply chain.
- The company maintains a high dividend payout policy (59.48% of PAT), prioritizing shareholder returns alongside heavy capital commitments.
- Management Tone: **Pragmatic and Operationally Focused.** Leadership is transparent about bearish global macros and is focusing on controllable variables: captive raw material costs and CAPEX execution. The tone is "steady hands on the wheel," prioritizing stability and cost excellence over aggressive market-share capture.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	14,257	14,181
Sales Growth %	0.54	58.34
Expenses	11,917	9,665
Material Cost %	22.13	13.08
Raw material cost	3,172	1,971
Change in inventory	-17	-117
Manufacturing Cost %	42.67	32.91
Employee Cost %	12.92	16.61
Other Cost %	5.87	5.56
Operating Profit	2,340	4,516
OPM %	16	32
Other Income	234	298
Exceptional items	3	0
Other income normal	231	297
Interest	13	23
Depreciation	716	837
Profit before tax	1,845	3,954
Tax %	22	25
Net Profit	1,435	2,951
Exceptional items AT	2	0
Profit excl Excep	1,433	2,951
Profit for PE	1,433	2,951
Profit for EPS	1,435	2,951
Profit Growth %	-51	127
EPS (□)	7.81	16.07
Dividend Payout %	58	40

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	918	918
Reserves	12,208	11,634
Borrowings	105	77
Short term Borrowings	48	21
Lease Liabilities	57	56
Other Liabilities	4,396	4,646
Trade Payables	1,263	1,457
Advance from Customers	0	0
Other liability items	3,132	3,188
Total Liabilities	17,627	17,276
Fixed Assets	7,303	7,343
Land	425	283
Building	863	842
Plant Machinery	9,570	9,210
Equipments	86	68
Furniture n fittings	28	26
Railway sidings	85	69
Vehicles	46	39
Intangible Assets	92	92
Other fixed assets	496	420
Gross Block	11,692	11,049
Accumulated Depreciation	4,389	3,705
CWIP	3,269	2,235
Investments	359	375
Other Assets	6,696	7,322
Inventories	1,840	1,646
Trade receivables	91	75
Receivables over 6m	51	50
Receivables under 6m	54	46
Prov for Doubtful	-14	-20
Cash Equivalents	2,118	3,706
Loans n Advances	732	609
Other asset items	1,915	1,286
Total Assets	17,627	17,276

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	908	3,958
Profit from operations	2,537	4,648
Receivables	11	72
Inventory	-205	-180
Payables	-223	502
Loans Advances	109	0
Other WC items	-575	-328
Working capital changes	-883	66
Direct taxes	-747	-756
Cash from Investing Activity	-334	-2,619
Fixed assets purchased	-1,534	-1,283
Fixed assets sold	9	9
Investments purchased	-81	-53
Investments sold	1	238
Interest received	54	210
Dividends received	17	14
Acquisition of companies	-12	-1
Other investing items	1,211	-1,754
Cash from Financing Activity	-924	-1,140
Proceeds from borrowings	0	0
Repayment of borrowings	0	-25
Interest paid fin	-2	-8
Dividends paid	-918	-1,102
Financial liabilities	-4	-4
Other financing items	0	0
Net Cash Flow	-350	199
Free Cash Flow	-617	2,685
CFO/OP	71	104

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	2	2
Inventory Days	213	324
Days Payable	146	287
Cash Conversion Cycle	69	39
Working Capital Days	4	-10
ROCE %	14	34

3.2 Financial analysis summary

- **Revenue** remained stagnant at ₹14,257 Cr (0.54% growth) as the 71.56% contribution from the Aluminium segment and 27.42% from Chemicals failed to offset the lack of volume growth, while Trade Receivables increased to ₹91 Cr despite high revenue quality where most sales are against advances or LC.
- **Operating Profit** collapsed by 48% to ₹2,340 Cr, dragging OPM % down from 32% to 16% due to severe cost inflation in Power and Fuel (up 38.52% to ₹4,693.69 Cr) and Raw Material costs (up 60.9% to ₹3,172 Cr), specifically driven by a 67.85% surge in coal costs and a rise in Caustic Soda prices to ₹1,463.37 Cr.
- **Net Profit** fell 51% to ₹1,435 Cr, further impacted by a ₹100.31 Cr Impairment Loss on wind power assets in Rajasthan and Maharashtra due to expired PPAs and low tariff offers, signaling poor returns on non-core capital.
- **Employee Cost %** improved to 12.92% (₹1,832.06 Cr) from 16.61%, but this was largely due to a ₹548.71 Cr reduction in salaries and wages, potentially involving provision reversals which artificially supported the PAT.
- **Working Capital** consumed ₹883 Cr of cash, a sharp reversal from the ₹66 Cr inflow in the prior year, primarily because Inventory grew 11.83% to ₹1,840 Cr (outpacing sales) due to a strategic doubling of raw material stock to ₹306.67 Cr to hedge supply risks.
- **Cash from Operating Activity** plummeted to ₹908 Cr from ₹3,958 Cr, resulting in a poor CFO/PAT ratio of 0.63, as the business struggled with higher input costs and a Cash Conversion Cycle that deteriorated from 39 to 69 days.
- **Capex** intensity increased with Fixed Assets purchases of ₹1,534 Cr, primarily directed toward the 5th Stream Alumina Refinery, causing CWIP to swell to ₹3,269 Cr; however, ₹666.84 Cr of CWIP is aged over 3 years, indicating potential execution delays.
- **Free Cash Flow** turned negative at -₹617 Cr, yet the company maintained a high Dividend Payout % of 58% (₹918 Cr), which was funded by depleting Cash Equivalents, which fell 42.86% to ₹2,118 Cr.
- **Total Debt** remains negligible at ₹105 Cr with a Debt/Equity of 0.01 and a robust Interest Coverage Ratio of 211.54, although the company faces significant Provisions and Contingent Liabilities of ₹2,362.31 Cr (164% of PAT), mainly from PSU claims and tax disputes.
- **ROCE %** and ROE % both saw sharp dilutions to 14% and 10.93% respectively, as the expanding Total Assets base (₹17,627 Cr) failed to generate incremental Revenue or maintain margins amidst commodity price volatility.
- **Other Assets** were impacted by Advances to Suppliers rising to ₹813.18 Cr and Capital Advances of ₹180 Cr for coal block R&R which remain uncapitalized, while Other Liabilities include a ₹230.50 Cr Clean Energy Cess liability and ₹212.78 Cr in Stamp Duty dues, reflecting persistent regulatory and statutory overhangs.
- The dominant financial theme of the year was a severe margin squeeze from energy and raw material inflation, where stagnant **Revenue** and high Capex commitments led to negative Free Cash Flow and a significant depletion of cash reserves to maintain high dividend payouts.

3.3 Contingent liabilities & commitments

- **Total Contingent Liabilities:** □2,362.31 Cr (representing 164% of FY23 PAT).
- **Excise Duty Disputes:** □410.44 Cr pending.
- **Claims from PSUs:** □423.21 Cr, including a major dispute with Odisha Hydro Power Corporation (OHPC) regarding water drawal charges since 2005 (increased by □100.29 Cr in FY23).
- **Tax Disputes:** Central Sales Tax (□277.52 Cr) and Income Tax demands (□210.27 Cr).
- **Capital Commitments:** □3,690.17 Cr, primarily for the 5th Stream Alumina Refinery and coal block development.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	CFO/PAT ratio dropped significantly from 1.34x in FY22 to 0.63x in FY23 due to inventory build and payable reduction.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — inventory build risk	—	Inventory grew 11.8% YoY while sales grew only 0.54%, indicating potential overstocking or slowing demand.
3	Revenue timing	Revenue ↓ — slowing order book	—	Advances from customers decreased, suggesting faster execution or a slight reduction in the forward order book.
4	Revenue from related parties %	Neutral — low governance risk	—	Related party transactions are immaterial and restricted to standard operational/employee-related advances.
5	Inventory vs revenue growth	Profit ↓ — margin pressure	—	Raw material stock doubled (□306 Cr vs □161 Cr) as a hedge against supply chain inflation.
6	Inventory valuation method change	Profit ↓ — conservative shift	—	Policy changed to recognize scrap revenue only upon disposal rather than generation.
7	Exceptional items in operating profit	Profit ↑ — non-recurring gain	—	P&L shows a minor exceptional gain of □3 Cr, which is immaterial to the overall operating profit.
8	Depreciation rate vs useful life policy	Profit ↑ — aggressive smoothing	—	Longer useful life for power assets (25-30 years) reduces annual depreciation charge compared to peers.
9	Provision reversals boosting PAT	Profit ↑ — non-cash boost	—	Sharp decline in salaries/wages suggests profit was bolstered by lower provisioning rather than operational efficiency.
10	Tax rate consistency	Profit ↑ — lower tax drag	—	Cash tax paid (□747 Cr) is higher than P&L tax (□410 Cr), indicating timing differences.
11	CWIP age and stalling projects	Profit ↓ — capital inefficiency	—	Significant aging in CWIP and □1.55 Cr suspended due to strategy changes in coal handling.
12	Deferred tax asset recognition	Neutral — conservative stance	—	No aggressive recognition of DTAs for disputed items is noted.
13	RPT quantum and trend	Profit ↓ — JV losses	—	Carrying value reduced due to □276.81 Cr total loss in the GNAL JV.
14	Dividend paid vs FCF adequacy	Neutral — liquidity drain	—	Cash balances dropped 42% to fund high dividend payouts and □1,534 Cr capex.
15	Auditor KAM: Litigation Risk	Profit ↓ — potential future provision	—	Management avoids provisioning based on legal opinions; adverse rulings would hit PAT directly.
16	Materiality Threshold	Neutral — disclosure risk	—	High materiality threshold for restating errors could mask smaller accounting discrepancies.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM 1: Impairment of Wind Power Plants:** Auditor flagged risk for assets in Rajasthan and Maharashtra due to expired PPAs. Management recognized an impairment loss of □100.31 Cr. * **KAM 2: Litigation and Contingent Liabilities:** High judgment in assessing tax and environmental disputes. Management relies on legal opinions to avoid provisioning, posing a risk if court rulings are adverse. * **KAM 3: Inventory Valuation:** Focus on NRV of finished goods and technical estimation of non-moving spares due to LME price volatility. * **Auditor Details:** Joint statutory auditors M/s. GNS & Associates and M/s. A.K. Sabat & Co. CAG issued 'Nil' comments.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | GACL-NALCO Alkalies & Chemicals (GNAL) | Joint Venture | Investment/Equity | 161.83 Cr | ***Value erosion: Carrying value fell from 272.55 Cr due to 276.81 Cr JV loss.*** | | GACL-NALCO Alkalies & Chemicals (GNAL) | Joint Venture | Procurement | Not disclosed | Procurement of Caustic Soda Lye at arm's length. | | KMP (Directors) | Management | Loans/Advances | 0.14 Cr | Standard house building/motor vehicle advances. |

- **RPT Verdict:** Monitor. While standard RPTs are clean, the significant losses in the GNAL JV represent a material drain on consolidated reserves.

C. Shareholding | Shareholder | Mar 2023 (%) | Mar 2022 (%) | | :--- | ---: | ---: | | Promoters | 51.28 | 51.28 | | FIIs | 14.81 | 15.34 | | DIIs | 18.59 | 18.04 | | Public | 15.32 | 15.34 |

- **Pledged shares:** 0.00%.

D. Board Composition + KMP Compensation * **Total Directors:** 15 | **Independent %:** 53.33% | **Women Directors:** 2. * **KMP Compensation:** CMD Sridhar Patra (□0.76 Cr) and Director Finance R.C. Joshi (□0.74 Cr). * **Analysis:** Individual payouts are within PSU norms. However, EBITDA crashed 48.18% while median BoD remuneration remained stable at □0.76 Cr. No compensations within the same family were identified.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | :--- | ---: | ---: | ---: | :--- | | Dividends | 918.00 Cr | 1,102.00 Cr | 101.10% | — | | Capex | 1,534.00 Cr | 1,283.00 Cr | 168.94% | — | | Interest Payments | 2.00 Cr | 8.00 Cr | 0.22% | — | | Net Debt Change | 28.00 Cr | -25.00 Cr | 3.08% | — |

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** CFO/Capex ratio is 0.59. The funding gap was bridged by liquidating bank deposits.
  - **Nature of Capex:** Primarily growth capex for the **□6,435.90 Cr 5th Stream Alumina Refinery expansion** and coal block development.
  - **Deployment Efficiency:** Revenue is flat while Gross Block increased by □643 Cr, indicating a gestation lag.
  - **Key Takeaways:** The **□3,690.17 Cr capital commitment** will require significant future cash flow, as current CFO does not cover maintenance plus growth requirements.

H. Risks * **Commodity Price (High):** 10% fall in LME prices directly compresses OPM, which halved to 16% in FY23. * **Energy Cost (High): Power and Fuel costs surged 38.52%**, driven by a 67.85% spike in coal costs. * **Litigation (High): Contingent liabilities of □2,362.31 Cr** represent 164% of FY23 PAT. * **Asset Impairment (Medium):** □100.31 Cr impairment in FY23; □62.03 Cr revenue at risk due to PPA deadlocks. * **Project Execution (Medium): □666.84 Cr CWIP is >3 years old**, indicating stalled capital efficiency.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	Integrated model; Captive Bauxite; 14% domestic demand growth.	Strong moat through backward integration despite commodity cyclicality.
Financial health	4	↓	D/E 0.01x; Interest Coverage 211x; Cash fell 42%.	Excellent solvency but liquidity is being depleted by capex and dividends.
Earnings quality	2	↓	CFO/PAT 0.63; Inventory > Sales growth; Provision reversals.	Earnings supported by non-cash items while cash flow lags significantly.
Management & governance	4	→	Unqualified audit; 53% Independent Board; 0% Pledge.	Transparent PSU governance with conservative accounting shifts.
Capital allocation & earnings visibility	3	↓	ROCE 14%; Negative FCF; □3.6k Cr commitments.	Heavy reinvestment phase with high gestation lag and dividend-led cash drain.

Business positives (for this company this year) * **Raw Material Security:** Operationalization of Utkal-D coal block and commencement of dispatch secures energy costs. * **Strong Solvency:** Maintained a near debt-free balance sheet with **Debt/Equity at 0.01x**. * **Domestic Resilience:** Capitalized on 14% Indian aluminium demand growth despite global contraction. * **Strategic Expansion:** 5th Stream Alumina Refinery (1.0 MTPY) is over 57% complete, providing future volume visibility. * **High Revenue Quality:** Most sales are secured against advances or Letters of Credit, keeping **Debtor Days at 2.0**.

Business negatives / concerns (for this company this year) * **Margin Compression: OPM halved from 32% to 16%** due to a 67.85% spike in coal costs. * **Cash Flow Divergence: CFO/PAT dropped to 0.63**, with CFO (□908 Cr) failing to cover Capex (□1,534 Cr) and Dividends (□918 Cr). * **Litigation Overhang: Contingent Liabilities of □2,362.31 Cr** represent a massive 164% of FY23 PAT. * **Capital Inefficiency: □666.84 Cr of CWIP is aged >3 years**, indicating execution delays in key projects. * **Non-Core Impairment:** Recognized a **□100.31 Cr impairment** on wind assets due to regulatory/PPA deadlocks.

Overall scorecard summary NALCO remains a fundamentally strong, low-cost producer with an enviable solvency profile and a clear path toward total raw material self-sufficiency. However, FY23 was a year of significant financial strain where a severe energy cost spike decoupled earnings from cash flow. While governance remains robust under PSU norms, the aggressive depletion of cash reserves to fund both heavy growth capex and high dividends creates a temporary liquidity squeeze. The business is currently in a **stable but transitionary** trajectory, awaiting the margin-relief of captive coal and the volume-boost of the 5th stream refinery.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 9/10 — Governance Rating: 4"

Part c: investor verdict

Thesis: NALCO is a low-cost, integrated aluminium play currently navigating a high-capex cycle and energy cost volatility, offering a high dividend yield backed by a debt-free balance sheet. **Overall stance:** Watch **Rationale:** Negative free cash flow and a sharp drop in earnings quality due to inventory builds and provision reversals require monitoring until captive coal benefits materialize. **Re-evaluate when:** OPM recovers to >22% OR the 5th Stream Refinery commences operations. **BULL CASE:** Full operationalization of Utkal-D & E coal blocks reduces power costs by 20%, leading to a □1,000 Cr+ EBITDA swing. **BEAR CASE:** LME prices drop below $2,000/MT while coal costs remain elevated, forcing a dividend cut or debt intake. **Key monitorable:** Power & Fuel cost as % of Revenue: 32.9% → watch for trend below 25%.