National Aluminium Company Ltd — Jan 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Operational Beat **One-line:** NALCO is aggressively pivoting to 100% capacity utilization to capture peak LME prices, successfully shielding itself from the global energy crisis through its unique logistical proximity to domestic coal.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Operating 959/960 pots; highest in company history.	□
Earnings Quality	High (Core driven)	Driven by volume expansion and LME realizations.	□
Guidance Confidence	Strong	Targeted 4.60 lakh tonnes of metal production (100% capacity).	□
Management Credibility	Neutral	Admitted IR failures; performance is strong but disclosures are thin.	□
Business Quality Signal	Improving	Lowest cost Alumina producer status maintained despite inflation.	□
Key Q&A Exchange	Q# 5 — Profitability Thresholds	Alumina is 1/3 of metal cost; $2100 LME is the breakeven benchmark.	□
The Street's Primary Anxiety	Coal availability & cost inflation	Mgmt confirmed 100% domestic coal sourcing via MCL linkage.	□
Capital Cycle Stage	Investment / Harvesting	Harvesting current cycle while prepping 0.5 MT expansion.	□
Margin / Return Ratio Trajectory	Improving	Alumina realizations up 17% QoQ; 60% YoY.	□
Pricing Power	Stable	Price taker (LME), but Alumina premiums (15-16% of LME) are high.	□
FCF Conversion & Quality	Not in document	CFO/PAT data not disclosed in transcript.	□
Competitive Moat Signals	Widening	Logistical edge (MGR) for coal prevents Indonesian import exposure.	□
Balance Sheet Strength	Strong	Zero reliance on expensive imported coal/power.	□
Working Capital Efficiency	Not in document	Specific DSO/DIO data absent from call.	□
Mgmt Guidance Track Record	Reliable	Achieving record pot operations as previously signaled.	□
Key Vulnerability / Red Flag	Caustic Soda Inflation	Input cost doubled (□34k to □75k); potential margin headwind.	□
Management Tone	Confident & Assertive	CMD emphasized "maximum effort" to tap market opportunities.	□

Key Takeaways (Positives & Negatives): Positives: - Operational Peak: NALCO is operating 959 out of 960 pots, a record high, effectively aiming for 100% smelter utilization to maximize revenue in a high LME environment ($2600-$2700/t). - **Cost Insulation:** Unlike peers, NALCO is not using imported coal, relying entirely on MCL (Coal India) via its own Merry-Go-Round (MGR) rail system, shielding it from global energy price spikes. - **Alumina Dominance:** Maintained "lowest cost producer" status globally; Alumina realizations jumped ~60% YoY, providing a massive cushion for the Aluminium segment.

Negatives: - **Input Inflation:** Caustic Soda prices have surged ~120%, and overall Alumina production costs have increased by 10-12% YoY. - **ESG/Future Costs:** Management is vague on the financial impact of future carbon taxes for the 0.5 MT expansion, currently only in the DPR stage. - **Investor Relations:** Management acknowledged a significant gap in providing data to investors, which remains a friction point for institutional holders.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — numbers from concall.

Metric	Current Qtr (Q3 FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Metal Production (MT)	1.15 Lakh (est)*	Not in doc	Not in doc	↑	Aiming for 4.60 Lakh MT annual target; 959/960 pots active.
Alumina Prod (MT)	5.25 Lakh (est)*	Not in doc	Not in doc	→	Annual run-rate of 21 Lakh MT confirmed.
Alumina Realization	Not in doc	↑ 60%	↑ 17%	↑	Realization improving significantly; Alumina at 15-16% of LME.
Metal Price (□/ton)	□2.30 - 2.35 Lakh	Not in doc	Not in doc	↑	LME hovering at $2600-$2700; realizing high spot prices.
Alumina Cost Growth	10 - 12% (YoY)	↑ 12%	Not in doc	↓	Driven by Caustic Soda (□34k to □75k) and logistics.
Non-Alumina Metal Cost	~$1400/ton	Not in doc	Not in doc	→	Implied cost of conversion including power and carbon.
Captive Power (MW)	700 MW	Not in doc	Not in doc	→	Generating 700MW captively; importing 200MW from grid.
Pot Operations (No.)	959	Not in doc	Not in doc	↑	Highest in NALCO history; 960th pot expected in 10 days.
Revenue	Not in doc	Not in doc	Not in doc	↑	Realization and volume both trending upward.
PAT	Not in doc	Not in doc	Not in doc	↑	Management "happy" with Q3 figures (to be published).

**Calculated based on management's annual guidance of 4.6L MT Metal and 21L MT Alumina.*

2B. SEGMENT BREAKDOWN

Segment	Volume (Annualized)	Realization	Margin	Trend	vs Co. Avg	Key Development
Alumina	21 Lakh MT	15-16% of LME	High	↑	Above Avg	Lowest cost producer globally; realization up 17% QoQ.
Aluminium	4.6 Lakh MT	□2.3-2.35L/t	Stable	↑	Average	Operating at 100% capacity; 959 pots online.

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume	4,60,000 MT Metal	Requires 100% capacity utilization in Q4.	First entry	Low - 959/960 pots active.
Guidance	Volume	21,00,000 MT Alumina	Consistent with historical capacity.	First entry	Low.
Guidance	Margins	Alumina at >15% of LME	LME must stay above $2500 for high margins.	First entry	Medium - LME volatility.
Guidance	Capex	0.5 MT Smelter Expansion	Currently in DPR stage; timing unconfirmed.	First entry	High - Power source unclear.
Strategy	Operations	960 Pots in operation	1 pot pending; 8-10 day timeline given.	Delivered (959/960)	Low.
Macro	Energy	Zero Imported Coal	Relying 100% on MCL and domestic linkage.	First entry	Low (Proximity edge).
Macro	Input Costs	Caustic Soda Correction	Expects price drop post-Omicron wave.	First entry	Medium - Global supply chain.

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Vineet / Birla Mutual Fund	Investor Relations	Governance	Difficulty in getting basic data and lack of a dedicated IR contact.	Management acknowledged the concern and instructed the Company Secretary to attend to investor queries promptly. This signals a potential improvement in transparency which has historically been a valuation overhang.	None	4.0	Clear and admitted
2	4.0	Unknown / Anchor	Unit Costs	Financials	How are the costs of production moving for Alumina and Aluminium?	Alumina cost of production is the lowest globally, though overall costs have risen 10-12% YoY due to caustic soda and logistics. Higher realizations are currently offsetting these costs, protecting margins.	Absolute cost figures	3.5	Directional
3	5.0	Unknown / Anchor	Operations	Business Overview	Status of plant capacity and pot operations to capture LME prices.	NALCO has 959 out of 960 pots in operation, the highest in its history, aiming for 4.60 lakh tonnes of metal. Maximizing volume during peak pricing ($2600-2700 LME) will	None	5.0	Specific and verified

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						drive record profitability.			
4	4.5	Unknown / Anchor	Input Costs	Financials	Impact of Caustic Soda price spike on Alumina margins.	Caustic soda prices rose from □34k to □75k, but management views this as a temporary COVID-related logistic phenomenon. Alumina margins remain high as realizations are 15-16% of LME.	Exact margin impact	3.0	Hedged
5	4.5	Unknown / Anchor	Energy/ Coal	Financials	Impact of Coal India's diversion of coal to utility power plants.	NALCO is not importing coal and relies on MCL via its own MGR system, maintaining 700MW captive generation. This logistical edge protects NALCO from the Indonesian coal ban and global price spikes.	FSA fulfillment %	4.0	Directional
6	3.5	Unknown / Anchor	Sales Volume	Business Overview	Will Alumina sales volume dip in Q3 due to deferred shipments in Q2?	Management expects to achieve production and sales targets across all 4 quarters regardless of minor consignment deferrals. Implies Q3 volumes will remain steady with the 21	Specific Q3 volume	3.0	Vague

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						lakh tonne annual target.			
7	5.0	Unknown / Anchor	Profitability	Financials	Does Aluminium smelting remain profitable at high coal prices if Alumina is valued at market?	At an Alumina cost of 35-40% of metal, anything above $2100 LME provides incremental profit on a market-value basis. This confirms the smelter's viability even without "transfer price" benefits.	None	4.0	Quantified
8	4.0	Unknown / Anchor	Expansion	Capex and Allocation	Timeline and power sourcing for the 0.5 MT Smelter expansion.	The DPR is under preparation and power sourcing (thermal vs. alternative) is being finalized to ensure long-term sustenance. Capex remains in the planning stage, indicating no immediate cash outflow.	Final timeline	2.5	Vague
9	3.5	Unknown / Anchor	ESG/ Climate	Management Commentary	Contingency for future carbon taxes/costs in India.	Management is analyzing alternative power (Hydrogen/ Renewable) for expansion to mitigate future carbon tax risks. This suggests a shift away from pure	Quantitative impact	2.0	Evasive

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						thermal-based expansion.			

PATTERN FLAGS & SENTIMENT

Analysts were primarily concerned with the **sustainability of margins** amidst a global energy crisis and rising raw material costs (Caustic Soda/Coal). The recurring theme was whether NALCO could maintain its "lowest cost" status when domestic coal was being diverted to utilities. Management's posture was highly confident, repeatedly citing their logistical independence (MGR system) and proximity to MCL as a structural advantage that peers lack.

Analyst Sentiment Verdict: Analysts appeared cautiously optimistic but remained skeptical about the **consistency of information flow**. The friction point moved from operational performance (which is currently at record highs) to corporate governance/IR responsiveness. Management’s credibility on operations is high, but the "data gap" remains a live issue that could resurface if Q3 results do not match the verbal confidence shared in this meet.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Pot Operations	Not available	959/960 pots active	↑
Alumina Realization	Not available	Up 17% QoQ	↑
Caustic Soda Cost	Not available	□75,000/t vs □34,000/t	↓
Investor Relations	Not available	Commitment to appoint IR head	↑
Coal Strategy	Not available	Zero reliance on Indonesian coal	↑
Expansion Strategy	Not available	Smelter expansion on hold/DPR stage	→

STOP HERE.