

HIGHER ALUMINIUM prices also expected to boost cos' earnings from this quarter, but analysts warn muted demand from China could weigh

Aluminium Cos Gain as Fall in Coal Price Seen to Boost Profit

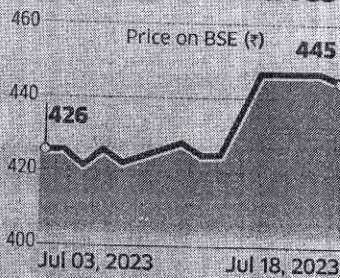
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Mumbai: Shares of aluminum producers have seen sharp gains in the past few sessions as the benefits of a decline in coal costs and an uptick in aluminum prices are seen aiding earnings from the current quarter onwards. National Aluminium Co (Nalco) shares have gained more than 14% in July alone to test its 52-week high earlier this week, while shares of Hindalco have risen more than 8% and are at their highest level in more than six months. Both the shares, though, ended lower on Tuesday. National Aluminium fell 0.3% and Hindalco by 0.5% on Tuesday.

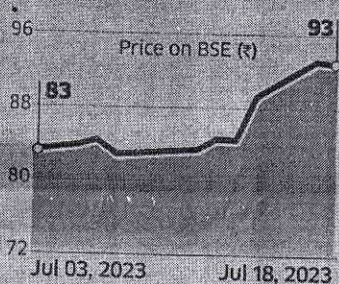
Power costs are about 25-30% of the total expenses for aluminum companies, and the recent reduction in coal prices is expected to boost operating profit. From an all-time high of more than \$450 per tonne last year after Russia's invasion of Ukraine and higher usage by Europe, thermal coal prices are now at their lowest level in more than two years.

"With coal prices where they are now, aluminum companies should do well for a couple of quarters now," said Tushar Chaudhari, research analyst at Prabhudas Lilladher

Hindalco Industries



National Aluminium



Aluminum companies typically maintain about 45-60 days of inventory for coal, which means that most of their high-cost inventory would be used before the end of the quarter, with some benefits from lower-priced inventory coming in towards the

end of the quarter.

"With fears of recession in developed economies and weak Chinese demand, prices declined below \$100 a tonne. Expectation is that both prices and demand will remain muted in near to medium term due to sluggish China and rising share of renewables across the globe," Chaudhari said.

The prices of aluminum on the London Metal Exchange, which is used as a benchmark, have seen a spike last week, but analysts said that gains were unlikely to sustain given the weak demand outlook, particularly from China.

Experts, though, said that the current valuations of aluminum companies are attractive, and that one can consider accumulating shares at current levels. They prefer Hindalco over Nalco given that Hindalco has a higher presence of value-added products through its subsidiaries and is less prone to volatilities linked to LME prices.

These companies are yet to announce earnings for the June quarter, and ICICI Securities sees a thermal coal inventory impacting Hindalco, while Nalco is seen benefitting from the commencement of operations at Utkal-D coal block.