

BSE SENSEX 36,958
 S&P CNX 10,926

CMP: INR43 TP: INR50 (+17%)

Buy

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Bloomberg	NAACL IN
Equity Shares (m)	1,933
M.Cap.(INRb)/(USD\$b)	80 / 1.1
52-Week Range (INR)	79 / 43
1, 6, 12 Rel. Per (%)	-5/-14/-38
12M Avg Val (INR M)	609
Free float (%)	48.0

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	115.0	90.8	98.0
EBITDA	29.6	10.8	14.5
PAT	17.7	5.9	8.9
EPS (INR)	9.2	3.1	4.6
Gr. (%)	79.9	-66.5	49.3
BV/Sh (INR)	54.2	55.5	57.3
RoE (%)	16.9	5.6	8.1
RoCE (%)	24.0	7.5	10.9
P/E (x)	4.7	14.0	9.4
P/BV (x)	0.8	0.8	0.7

Estimate change



TP change



Rating change



Higher cost and lower realization impact performance

Cutting estimates to factor in alumina/LME price decline

EBITDA of INR2.1b (-59% QoQ) came in below our estimate of INR4.3b owing to higher aluminum cost of production, lower-than-expected aluminum volumes and likely lower alumina volumes. The sequential decline in EBITDA can be attributed to lower alumina/LME prices and higher cost. Adj. PAT was down 69% QoQ at ~INR1b (our estimate: INR2.6b).

- **Aluminum:** Production was steady QoQ at 111kt, while sales were down 12% QoQ at 103kt. Realizations declined 1% QoQ to USD2,049/t on account of lower LME prices, partly offset by better premiums. Implied CoP increased 10% QoQ to USD2,017/t due to higher fuel costs and lower scale benefits.
- **Alumina:** Assuming alumina realizations of ~USD369 (avg. 1Q prices), the sales decline stands at 39% QoQ to 231kt.

Cutting estimates to factor in lower alumina/LME prices; Maintain Buy

- Alumina prices have come under pressure recently due to the restart of Hydro's Alunorte refinery, weak aluminum LME prices and muted demand. Prices have fallen below their margin cost of production of ~USD350/t, and thus, we believe that there is scope for prices to recover.
- We cut our FY20 estimate for alumina price from USD355/t to USD340/t and for average LME price from ~USD1,861/t to ~USD1,804/t. Our FY20/21 EBITDA estimate is lowered by 32%/12% to INR10.8/INR14.5b.
- We believe alumina/aluminum LME prices are close to bottom as, at the current levels, ~10% of global smelters/refiners (particularly Chinese) would be in cash losses. NALCO is best placed to benefit from higher prices. We value the stock at 5x FY20E EV/EBITDA. Our TP stands at INR50/share. Maintain **Buy**.

Quarterly Performance (Standalone) – INR m

Y/E March	FY19				FY20				FY19	FY20E	FY20	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Alumina Prodn. (kt)	583	471	538	561	583	477	516	561	2,153	2,137	583	0
CoP (USD/t)	249	273	284	273	263	211	216	221	270	225	262	
Aluminum Prodn. (kt)	110	111	108	111	111	112	110	112	440	444	111	0
CoP (USD/t)	2,030	1,949	2,059	1,842	2,017	1,928	1,991	1,983	1,966	1,979	1,835	
Aluminum Sales (kt)	105	115	104	117	103	112	110	112	441	437	111	-7
Avg LME Aluminum (USD/ton)	2,250	2,050	1,973	1,859	1,792	1,775	1,800	1,850	2,033	1,804	1,792	0
NSR premiums (USD/ton)	308	216	315	216	257	290	290	290	263	282	240	7
Net Sales	29,733	30,409	27,189	27,662	20,841	21,778	22,987	25,153	114,993	90,760	25,209	-17
Change (YoY %)	64.9	23.9	13.8	-3.4	-29.9	-28.4	-15.5	-9.1	20.9	-21.1	-15	
EBITDA	10,111	8,509	5,766	5,176	2,144	2,296	2,580	3,745	29,561	10,765	4,288	-50
Aluminum - EBITDA (USD/t)	527	316	229	233	62	137	99	157	321	115	197	
Interest	6	6	6	6	16	0	0	0		16	0	
Depreciation	1,217	1,160	1,181	1,203	1,264	1,205	1,213	1,221	4,761	4,904	1,207	5
Other Income	621	903	758	977	614	626	873	873	3,259	2,985	855	-28
PBT (before EO Item)	9,509	8,246	5,337	4,943	1,477	1,718	2,239	3,396	28,059	8,830	3,936	-62
Extra-ordinary Income	910	0	-636	-910	0	0	0	0		0	0	
PBT (after EO Item)	10,419	8,246	4,701	4,033	1,477	1,718	2,239	3,396	28,059	8,830	3,936	-62
Total Tax	3,549	3,146	1,683	1,697	499	561	731	1,108	10,075	2,899	1,285	-61
% Tax	34.1	38.2	35.8	42.1	33.8	32.6	32.6	32.6	35.9	32.8	33	
Reported PAT	6,871	5,100	3,018	2,336	978	1,157	1,508	2,288	17,984	5,931	2,651	-63
Adjusted PAT	6,095	5,285	3,420	3,168	978	1,157	1,508	2,288	17,984	5,931	2,651	-63

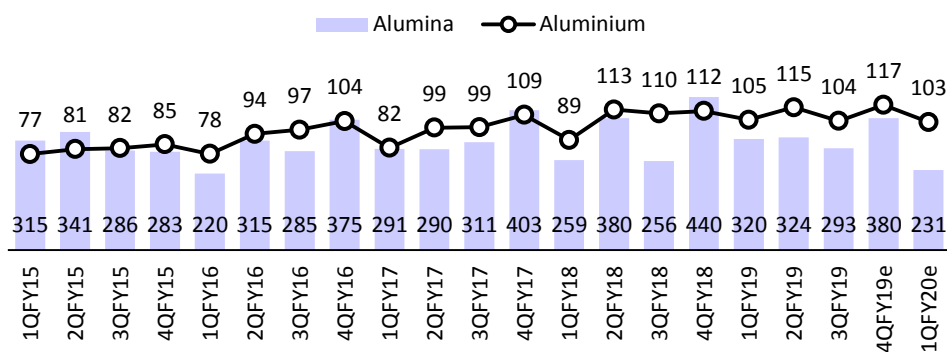
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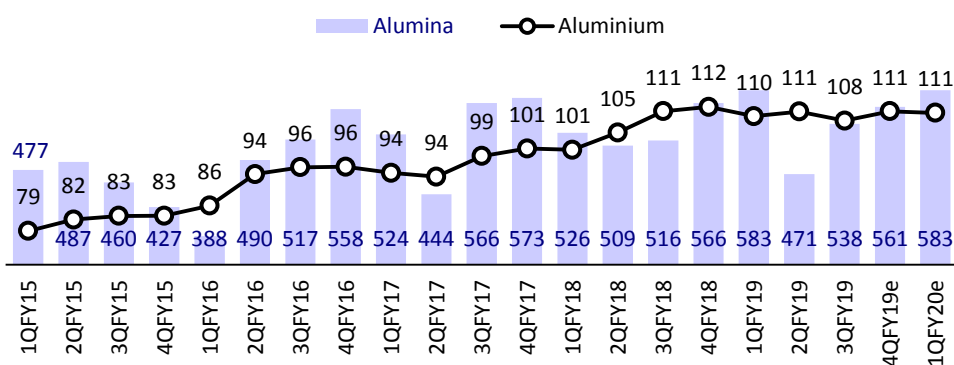
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Exhibit 1: Alumina and aluminum sales volumes – kt



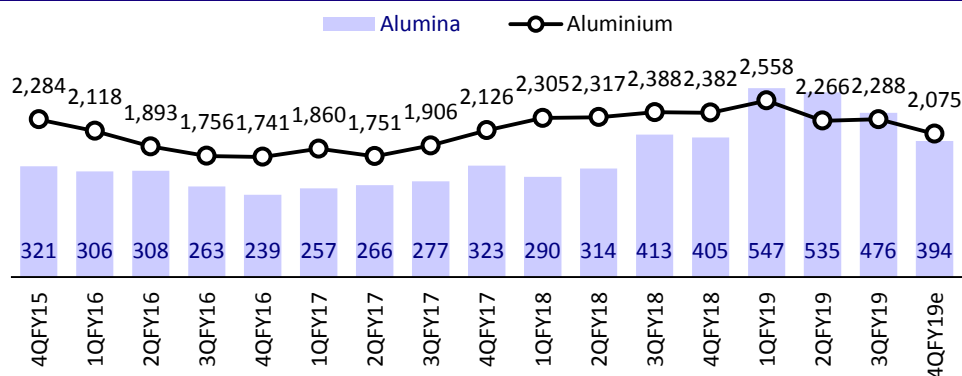
Source: MOFSL, Company

Exhibit 2: Alumina and aluminum production volumes – kt



Source: MOFSL, Company

Exhibit 3: Alumina and aluminum realization – USD/t



Source: MOFSL, Company

Exhibit 4: Target price calculation

	FY17	FY18	FY19	FY20E
EBITDA	10,797	16,783	29,561	10,765
EV/EBITDA (x)			5.0	5.0
Target EV			147,807	53,824
add: CWIP	5,660	9,152	8,827	13,827
add: cash surplus	35,084	33,619	35,772	28,043
Equity Value				95,693
Target Price				50
Key Assumption				
USD/INR rate	67.1	64.5	69.9	69.5
LME (USD/t)	1,687	2,045	2,033	1,804

Source: MOFSL, Company

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
Net Sales	73,828	68,160	68,170	75,430	95,094	114,993	90,760	98,035
Change (%)	8.9	-7.7		10.7	26.1	20.9	-21.1	8.0
Total Expenses	56,768	58,780	58,575	64,634	78,311	85,432	79,995	83,542
EBITDA	17,060	9,380	9,595	10,797	16,783	29,561	10,765	14,492
% of Net Sales	23.1	13.8	14.1	14.3	17.6	25.7	11.9	14.8
Depn. & Amortization	4,137	4,241	4,261	4,804	4,804	4,761	4,904	4,835
EBIT	12,924	5,139	5,333	5,993	11,979	24,800	5,861	9,657
Net Interest	0	12	33	27	20	24	16	0
Other income	6,726	5,366	6,052	4,075	3,008	3,259	2,985	3,490
PBT before EO	19,650	10,493	11,353	10,041	14,968	28,035	8,830	13,147
EO income	1,484	535	-535	402	5,421	-636	0	0
PBT after EO	21,134	11,028	10,818	10,442	20,388	27,399	8,830	13,147
Tax	7,916	3,718	4,015	2,962	6,964	10,075	2,899	4,291
Rate (%)	37.5	33.7	37.1	28.4	34.2	36.8	32.8	32.6
Reported PAT	13,219	7,310	6,803	7,480	13,424	17,324	5,931	8,856
Adjusted PAT	12,290	6,956	7,139	7,193	9,855	17,726	5,931	8,856
Change (%)	81.6	-43.4	2.6	0.8	37.0	79.9	-66.5	49.3

E: MOSL Estimates

Balance Sheet							(INR Million)	
Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
Share Capital	12,886	12,886	12,886	9,665	9,665	9,328	9,328	9,328
Reserves	115,087	116,191	119,063	92,387	95,384	95,517	97,919	101,506
Net Worth	127,973	129,077	131,949	102,052	105,048	104,845	107,247	110,834
Total Loans	0	0	0	511	450	668	668	668
Deferred Tax Liability	11,053	11,101	11,641	12,456	11,515	11,307	11,307	11,307
Capital Employed	139,026	140,178	143,590	115,018	117,013	116,820	119,222	122,808
Gross Block	152,847	155,035	70,210	80,489	85,022	91,246	97,246	103,246
Less: Accum. Deprn.	86,393	90,360	4,253	9,044	13,627	18,388	23,292	28,127
Net Fixed Assets	66,454	64,675	65,957	71,444	71,395	72,858	73,954	75,119
Capital WIP	5,497	6,614	6,877	5,660	9,152	8,827	13,827	18,827
Investments	10	11	9,445	389	1,176	1,758	1,758	1,758
Curr. Assets	89,815	93,891	84,825	67,517	64,415	68,027	60,712	58,891
Inventories	11,656	11,270	10,550	11,559	11,941	12,100	12,433	13,429
Account Receivables	1,208	2,352	2,352	1,843	2,581	2,405	2,487	2,686
Cash and Bank Balance	55,780	58,095	51,692	35,084	33,619	35,772	28,043	25,026
Others	21,171	22,173	20,231	19,031	16,274	17,750	17,750	17,750
Curr. Liability & Prov.	22,751	25,012	23,513	29,992	29,126	34,650	31,030	31,787
Account Payables	18,461	20,001	6,559	8,641	9,774	13,069	9,449	10,206
Provisions & Others	4,290	5,011	16,955	21,351	19,352	21,581	21,581	21,581
Net Curr. Assets	67,064	68,878	61,311	37,525	35,290	33,377	29,682	27,104
Appl. of Funds	139,026	140,178	143,590	115,018	117,013	116,820	119,222	122,808

Financials and Valuations

Ratios

Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
Basic (INR)								
EPS	4.8	2.7	3.7	3.7	5.1	9.2	3.1	4.6
Cash EPS	6.7	4.5	5.7	6.4	9.4	11.4	5.6	7.1
BV/Share	49.7	50.1	68.3	52.8	54.3	54.2	55.5	57.3
DPS	1.5	1.8	2.0	2.8	4.7	5.8	1.5	2.3
Payout (%)	38.3	74.2	79.8	110.4	81.5	103.5	59.5	59.5
Valuation (x)								
P/E	9.0	15.9	11.6	11.5	8.4	4.7	14.0	9.4
Cash P/E	6.4	9.6	7.5	6.8	4.5	3.8	7.7	6.1
P/BV	0.9	0.9	0.6	0.8	0.8	0.8	0.8	0.7
EV/Sales	0.7	0.8	0.3	0.6	0.5	0.4	0.6	0.6
EV/EBITDA	3.2	5.6	2.3	4.4	2.9	1.6	5.0	3.9
Dividend Yield (%)	3.5	4.1	4.7	6.5	11.0	13.4	3.6	5.3
Return Ratios (%)								
EBITDA Margins (%)	23.1	13.8	14.1	14.3	17.6	25.7	11.9	14.8
Net Profit Margins (%)	16.6	10.2	10.5	9.5	10.4	15.4	6.5	9.0
RoE	9.9	5.4	6.2	7.2	9.5	16.9	5.6	8.1
RoCE (pre-tax)	14.6	7.5	8.0	7.9	12.9	24.0	7.5	10.9
RoIC (pre-tax)	17.5	6.7	7.1	8.0	16.3	34.6	8.0	12.6
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.4	1.0	0.9	1.1	1.3	0.9	0.9
Asset Turnover (x)	0.5	0.5	0.5	0.7	0.8	1.0	0.8	0.8
Debtor (Days)	6	13	13	9	10	10	10	10
Inventory (Days)	58	60	56	56	46	50	50	50
Payable (Days)	91	107	35	42	38	38	38	38
Leverage Ratio (x)								
Current Ratio	3.9	3.8	3.6	2.3	2.2	2.0	2.0	1.9

Cash flow statement

(INR Million)

Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
Pre-tax profit	21,134	11,028	11,887	9,639	20,388	27,399	8,830	13,147
Depreciation	4,137	4,241	4,261	4,804	4,804	4,761	4,904	4,835
(Inc)/Dec in Wkg. Cap.	-9,925	796	-11	1,217	-178	4,065	-4,034	-438
Tax paid	-4,915	-3,614	-3,598	-2,184	-4,825	-10,075	-2,899	-4,291
Others	-5,227	-4,012	-3,732	884	-5,524	200	16	0
CF from Op. Activity	5,205	8,438	8,808	14,359	14,666	26,350	6,816	13,253
(Inc)/Dec in FA + CWIP	-3,031	-5,456	-5,986	-7,781	-8,374	-5,899	-11,000	-11,000
Free Cash Flow to firm	2,173	2,982	2,822	6,578	6,292	20,451	-4,184	2,253
(Pur)/Sale of Investments	12,440	-1	-8,555	10,178	1,718	0	0	0
Interest & div	5,749	4,773	4,769	2,795	1,522			
CF from Inv. Activity	15,157	-683	-9,772	5,191	-5,134	-5,899	-11,000	-11,000
Equity raised/(repaid)			0	-28,407	0	-337	0	0
Int. Paid	0	-12	-12	-4	-1	-24	-16	0
Debt raised/(repaid)	0	0	0	511	-61	0	0	0
Dividend (incl. tax)	-5,065	-5,427	-5,428	-8,259	-10,934	-17,938	-3,529	-5,269
CF from Fin. Activity	-5,065	-5,440	-5,440	-36,159	-10,997	-18,298	-3,545	-5,269
(Inc)/Dec in Cash	15,297	2,316	-6,404	-16,608	-1,465	2,153	-7,729	-3,017
Add: opening Balance	40,483	55,780	58,095	51,692	35,084	33,619	35,772	28,043
Closing Balance	55,780	58,095	51,692	35,084	33,619	35,772	28,043	25,026

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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