

Estimate change

TP change

Rating change

CMP: INR34
TP: INR41 (+20%)
Buy

LME recovery and lower costs to improve profitability

Higher volumes lead to better-than-expected EBITDA

- Nalco's (NACL) 2QFY21 higher-than-expected EBITDA at INR2.8b (v/s est. INR2.2b) and volumes were a surprise once again. EBITDA continues to strengthen due to LME recovery and lower input commodity costs.
- We raise our FY21/FY22E EBITDA estimates by 36%/28% to factor in the recovery in LME prices. Maintain **Buy**.

EBITDA rises significantly on lower costs

- Revenue was flattish YoY (+72% QoQ) to INR23.8b as lower LME was offset by the INR depreciation. Sequentially, LME prices at USD1,702/t (+14% QoQ) led the recovery.
- EBITDA at INR2.8b (+114% QoQ) was above our estimate of INR2.2b due to higher-than-expected volumes. EBITDA was significantly higher compared to INR0.3b reported in 2QFY20 on lower input commodity costs (down 13% YoY).
- The company reported PAT of INR1.1b (v/s est. INR852m).
- Aluminum:** EBIT at INR732m (v/s INR1.2b loss in 2QFY20); revenue increased to INR17.5b (15% YoY) on higher volumes. Aluminum production stood at 106kt (-5% YoY; +7% QoQ). We estimate NACL's aluminum sales to rise 12% YoY to 123kt due to higher exports of 58.6kt (v/s 16.3kt in 2QFY20). Derived realization declined 3% YoY (+13% QoQ) to USD1,915/t.
- Alumina:** Revenue (incl. inter-segment) stood at INR9.8b (-14% YoY; +27% QoQ) and EBIT at INR1.2b (+1% YoY; +186 QoQ). Alumina production increased 2% YoY to 487kt whereas sales declined 26% YoY to 285kt.

Valuation and view

- While aluminum prices have recovered ~30% from lows, higher aluminum inventory is a cause for concern due to sustainability of prices. We factor in average LME of USD1,725/t for FY21E and USD1,750/t for FY22E. Alumina prices are also hovering near pre-COVID levels. With integrated operations, NACL is best placed to benefit from the recovery in prices.
- NACL has planned for alumina refinery expansion by 1.0mtpa with announced capex of ~INR64b (earlier projected at INR55b) and expects completion of the project in FY23E.
- We expect NACL to benefit from improved LME and lower input commodity costs. We maintain our positive stance on NACL considering its integrated business model.
- We value the stock at 5.5x FY22E EV/EBITDA to arrive at TP of INR41. Maintain **Buy**.

Bloomberg	NACL IN
Equity Shares (m)	1,933
M.Cap.(INRb)/(USDb)	64 / 0.8
52-Week Range (INR)	49 / 24
1, 6, 12 Rel. Per (%)	2/-16/-34
12M Avg Val (INR M)	446
Free float (%)	48.5

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	84.7	84.7	93.9
EBITDA	4.9	12.3	14.3
Adj. PAT	1.4	5.4	6.4
EBITDA Margin (%)	5.8	14.6	15.2
Cons. Adj. EPS (INR)	0.7	2.8	3.3
EPS Gr. (%)	-92.2	288.9	19.9
BV/Sh. (INR)	51.7	52.0	51.8
Ratios			
Net D:E	-0.2	-0.2	-0.0
RoE (%)	1.4	5.4	6.4
RoCE (%)	2.0	7.4	9.0
Payout (%)	457.6	89.9	104.9
Valuations			
P/E (x)	48.0	12.3	10.3
P/BV (x)	0.7	0.7	0.7
EV/EBITDA(x)	8.8	3.6	4.4
Div. Yield (%)	8.0	7.3	7.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	51.5	51.5	52.0
DII	10.0	13.8	16.9
FII	7.2	9.0	10.8
Others	31.4	25.6	20.3

FII Includes depository receipts

Quarterly performance

(INR m)

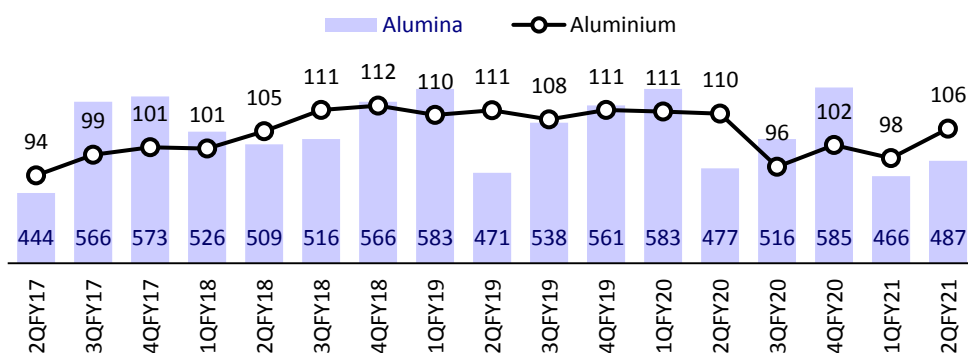
Y/E March	FY20				FY21E				FY20	FY21E	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	20,841	23,636	20,884	19,359	13,806	23,749	22,322	24,775	84,718	84,652	19,510	22
Change (YoY %)	-29.9	-22.3	-23.2	-30.0	-33.8	0.5	6.9	28.0	-26.3	-0.1	-17.5	
EBITDA	2,144	322	343	2,084	1,291	2,759	3,997	4,288	4,892	12,334	2,224	24
Alumina-EBITDA (USD/t)	106	57	51	72	36	68	82	84	68	71	61	
Aluminum - EBITDA (USD/t)	62	-157	-148	-10	118	143	272	242	-66	195	151	
As % of Net Sales	10.3	1.4	1.6	10.8	9.3	11.6	17.9	17.3	5.8	14.6	11.4	
Interest	16	16	17	8	18	18	18	18	57	73	13	
Depreciation	1,264	1,343	1,341	1,351	1,359	1,432	1,395	1,414	5,298	5,600	1,355	6
Other Income	614	566	482	1,064	333	242	386	532	2,726	1,492	452	-47
PBT (before EO Item)	1,477	-472	-532	1,789	247	1,550	2,969	3,388	2,262	8,154	1,309	18
Extra-ordinary Income	0	0	0	0	0	0	0	0			0	
PBT (after EO Item)	1,477	-472	-532	1,789	247	1,550	2,969	3,388	2,262	8,154	1,309	18
Total Tax	499	-188	-193	762	80	476	1,038	1,184	880	2,777	457	4
% Tax	33.8	39.9	36.2	42.6	32.6	30.7	34.9	34.9	38.9	34.1	34.9	
Reported PAT	978	-284	-340	1,028	166	1,075	1,932	2,204	1,382	5,376	852	26
Adjusted PAT	978	-284	-340	1,028	166	1,075	1,932	2,204	1,382	5,376	852	26

Quarterly performance

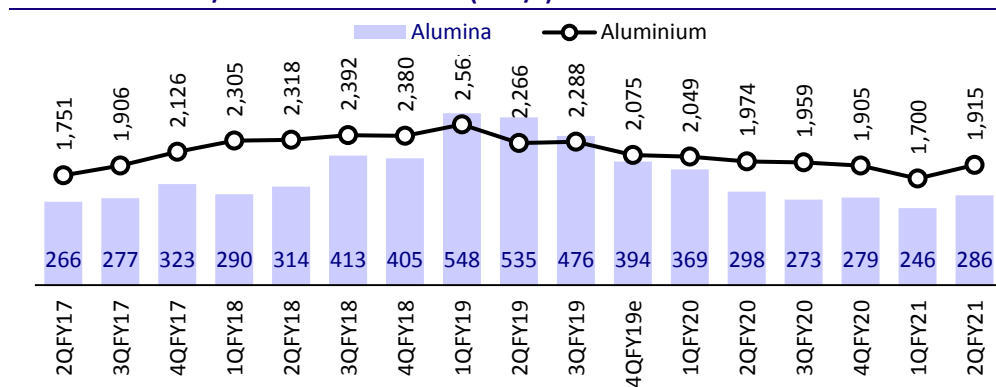
(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Alumina Prod. (kt)	583	477	516	585	466	487	516	585	2,161	2,054	429	13
CoP (USD/t)	263	241	222	208	209	222	211	219	230	215	209	
Aluminum Prod. (kt)	111	110	96	102	98	106	100	106	418	409	105	0
CoP (USD/t)	2,017	2,164	2,145	1,864	1,613	1,780	1,793	1,823	2,053	1,766	1,762	
Aluminum Sales (kt)	103	110	96	82	73	123	100	106	391	401	105	18
Alumina Sales (kt)	231	386	374	412	235	285	327	384	1,403	1,231	231	24
Avg LME Aluminum (USD/ton)	1,792	1,762	1,752	1,694	1,493	1,703	1,850	1,850	1,750	1,724	1,703	0
NSR premiums (USD/ton)	257	212	207	211	207	212	215	215	222	212	210	1
Alumina NSR (USD/ton)	369	298	273	279	246	286	293	303	305	282	273	5

Exhibit 1: Alumina/Aluminum production volumes (kt)



Source: MOFSL, Company

Exhibit 2: Alumina/Aluminum realization (USD/t)

Source: MOFSL, Company

Valuation and view

- While aluminum prices have recovered ~30% from lows, higher aluminum inventory is a cause for concern with regard to the sustainability of prices. We factor in average LME of USD1,725/t in FY21E and USD1,750/t in FY22E. Alumina prices are also hovering near pre-COVID levels. With integrated operations, NACL is best placed to benefit from recovery in prices.
- NACL has planned its alumina refinery expansion by 1.0mtpa for announced capex of ~INR64b (earlier projected at INR55b) and expects to complete the project in FY23E.
- We expect NALCO to benefit from improved LME and lower input commodity costs such as furnace oil, etc. We maintain our positive stance on NACL considering its integrated business model.
- We value the stock at 5.5x FY22E EV/EBITDA to arrive at TP of INR41. Maintain **Buy**.

Exhibit 3: Target price calculation

	FY19	FY20	FY21E	FY22E
EBITDA	29,561	4,892	12,334	14,270
EV/EBITDA (x)				5.5
Target EV				78,488
add: cash surplus	35,772	20,355	19,492	1,563
Equity Value				80,050
Target Price				41
Key Assumption				
USD/INR rate	69.9	70.9	74.4	75.0
LME (USD/t)	2,033	1,750	1,725	1,750

Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	
Net Sales	68,170	75,430	95,094	1,14,993	84,718	84,652	93,944	
Change (%)		10.7	26.1	20.9	-26.3	-0.1	11.0	
Total Expenses	58,575	64,634	78,311	85,432	79,826	72,318	79,674	
EBITDA	9,595	10,797	16,783	29,561	4,892	12,334	14,270	
% of Net Sales	14.1	14.3	17.6	25.7	5.8	14.6	15.2	
Deprn. & Amortization	4,261	4,804	4,804	4,761	5,298	5,600	5,629	
EBIT	5,333	5,993	11,979	24,800	-406	6,734	8,642	
Net Interest	33	27	20	24	57	73	73	
Other income	6,052	4,075	3,008	3,259	2,726	1,492	1,343	
PBT before EO	11,353	10,041	14,968	28,035	2,262	8,154	9,912	
EO income	-535	402	5,421	-636	0	0	0	
PBT after EO	10,818	10,442	20,388	27,399	2,262	8,154	9,912	
Tax	4,015	2,962	6,964	10,075	880	2,777	3,464	
Rate (%)	37.1	28.4	34.2	36.8	38.9	34.1	34.9	
Reported PAT	6,803	7,480	13,424	17,324	1,382	5,376	6,448	
Adjusted PAT	7,139	7,193	9,855	17,726	1,382	5,376	6,448	
Change (%)	2.6	0.8	37.0	79.9	-92.2	288.9	19.9	

Balance Sheet							(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	
Share Capital	12,886	9,665	9,665	9,328	9,328	9,328	9,328	
Reserves	1,19,063	92,387	95,384	95,517	90,553	91,097	90,780	
Net Worth	1,31,949	1,02,052	1,05,048	1,04,845	99,881	1,00,425	1,00,108	
Total Loans	0	511	450	668	123	123	123	
Deferred Tax Liability	11,641	12,456	11,515	11,307	10,606	10,606	10,606	
Capital Employed	1,43,590	1,15,018	1,17,013	1,16,820	1,10,610	1,11,154	1,10,837	
Gross Block	70,210	80,489	85,022	91,155	98,443	1,04,443	1,10,443	
Less: Accum. Deprn.	4,253	9,044	13,627	18,297	23,595	29,195	34,824	
Net Fixed Assets	65,957	71,444	71,395	72,858	74,848	75,248	75,619	
Capital WIP	6,877	5,660	9,152	8,827	14,267	18,267	37,267	
Investments	9,445	389	1,176	1,758	2,773	2,773	2,773	
Curr. Assets	84,825	67,517	64,415	68,027	53,609	49,682	30,860	
Inventories	10,550	11,559	11,941	12,100	16,969	13,915	12,869	
Account Receivables	2,352	1,843	2,581	2,405	1,401	1,392	1,544	
Cash and Bank Balance	51,692	35,084	33,619	35,772	20,355	19,492	1,563	
Others	20,231	19,031	16,274	17,750	14,884	14,884	14,884	
Curr. Liability & Prov.	23,513	29,992	29,126	34,650	34,886	34,816	35,681	
Account Payables	6,559	8,641	9,774	13,069	7,956	7,885	8,751	
Provisions & Others	16,955	21,351	19,352	21,581	26,930	26,930	26,930	
Net Curr. Assets	61,311	37,525	35,290	33,377	18,723	14,867	-4,822	
Appl. of Funds	1,43,590	1,15,018	1,17,013	1,16,820	1,10,610	1,11,154	1,10,837	

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	3.7	3.7	5.1	9.2	0.7	2.8	3.3
Cash EPS	5.7	6.4	9.4	11.4	3.5	5.7	6.2
BV/Share	68.3	52.8	54.3	54.2	51.7	52.0	51.8
DPS	2.0	2.8	4.7	5.8	2.8	2.5	2.5
Payout (%)	79.8	110.4	81.5	103.5	457.6	89.9	104.9
Valuation (x)							
P/E				3.7	48.0	12.3	10.3
Cash P/E				3.0	9.9	6.0	5.5
P/BV				0.6	0.7	0.7	0.7
EV/Sales				0.3	0.5	0.5	0.7
EV/EBITDA				1.0	8.8	3.6	4.4
Dividend Yield (%)				13.1	8.0	7.3	7.3
Return Ratios (%)							
EBITDA Margins (%)	14.1	14.3	17.6	25.7	5.8	14.6	15.2
Net Profit Margins (%)	10.5	9.5	10.4	15.4	1.6	6.4	6.9
RoE	6.2	7.2	9.5	16.9	1.4	5.4	6.4
RoCE (pre-tax)	8.0	7.9	12.9	24.0	2.0	7.4	9.0
RoIC (pre-tax)	7.1	8.0	16.3	34.6	-0.6	9.4	12.4
Working Capital Ratios							
Fixed Asset Turnover (x)	1.0	0.9	1.1	1.3	0.9	0.8	0.9
Asset Turnover (x)	0.5	0.7	0.8	1.0	0.8	0.8	0.8
Debtor (Days)	13	9	10	8	6	6	6
Inventory (Days)	56	56	46	38	73	60	50
Payable (Days)	35	42	38	41	34	34	34
Leverage Ratio (x)							
Current Ratio	3.6	2.3	2.2	2.0	1.5	1.4	0.9

Cash Flow Statement

(INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Pre-tax profit	11,887	9,639	20,388	27,399	2,262	8,154	9,912
Depreciation	4,261	4,804	4,804	4,761	5,298	5,600	5,629
(Inc)/Dec in Wkg. Cap.	-11	1,217	-178	3,274	-9,071	2,992	1,759
Tax paid	-3,598	-2,184	-4,825	-10,209	-1,005	-2,777	-3,464
Others	-3,732	884	-5,524	-447	-971	73	73
CF from Op. Activity	8,808	14,359	14,666	24,779	-3,486	14,041	13,909
(Inc)/Dec in FA + CWIP	-5,986	-7,781	-8,374	-7,680	-8,578	-10,000	-25,000
Free Cash Flow to firm	2,822	6,578	6,292	17,099	-12,064	4,041	-11,091
(Pur)/Sale of Investments	-8,555	10,178	1,718	1,272	2,068	0	0
Interest & div	4,769	2,795	1,522	1,089	1,353		
CF from Inv. Activity	-9,772	5,191	-5,134	-5,319	-5,158	-10,000	-25,000
Equity raised/(repaid)	0	-28,407	0	-5,074	0	0	0
Int. Paid	-12	-4	-1	0	-9	-73	-73
Debt raised/(repaid)	0	511	-61	218	-579	0	0
Dividend (incl. tax)	-5,428	-8,259	-10,934	-12,451	-6,185	-4,832	-6,765
Other financing activities							
CF from Fin. Activity	-5,440	-36,159	-10,997	-17,308	-6,773	-4,905	-6,838
(Inc)/Dec in Cash	-6,404	-16,608	-1,465	2,153	-15,416	-864	-17,929
Add: opening Balance	58,095	51,692	35,084	33,619	35,772	20,355	19,492
Closing Balance	51,692	35,084	33,619	35,772	20,355	19,492	1,563

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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