

Estimate change



TP change



Rating change



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Bloomberg	NACL IN
Equity Shares (m)	1,933
M.Cap.(INRb)/(USD\$)	62.5 / 0.8
52-Week Range (INR)	52 / 24
1, 6, 12 Rel. Per (%)	6/-8/-22
12M Avg Val (INR M)	402
Free float (%)	48.5

Financials & Valuations (INR b)

Y/E MARCH	2020	2021E	2022E
Sales	84.7	81.4	92.5
EBITDA	4.9	4.8	10.9
Adj. PAT	1.4	0.9	4.8
EBITDA Margin (%)	5.8	5.9	11.8
Cons. Adj. EPS (INR)	0.7	0.5	2.5
EPS Gr. (%)	-92.2	-33.2	418.0
BV/Sh. (INR)	51.7	49.2	48.6
Ratios			
Net D:E	-0.2	-0.2	-0.2
RoE (%)	1.4	0.9	5.1
RoCE (%)	2.0	1.4	7.0
Payout (%)	457.6	627.6	121.1
Valuations			
P/E (x)	46.8	70.1	13.5
P/BV (x)	0.6	0.7	0.7
EV/EBITDA(x)	8.5	9.2	4.3
Div. Yield (%)	8.2	9.0	9.0

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.5	51.5	52.0
DII	14.2	15.6	19.7
FII	11.3	11.8	11.9
Others	23.0	21.1	16.4

FII Includes depository receipts

CMP: INR34
TP: INR40 (+19%)
Buy

Lower input costs to support profitability

Cost to decline further

- NACL reported an improved 4QFY20 result, as expected, driven by lower cost of production. Realization, however, remained weak due to lower LME.
- We raise our FY21 EBITDA estimate to factor lower input costs in FY21. Maintain **Buy**.

Beat led by lower-than-expected costs

- Revenue declined 30% YoY (-7% QoQ) to INR19.4b on a lower LME aluminum price of USD1,694/t (-9% YoY, -3% QoQ).
- EBITDA at INR2.1b (+507% QoQ) came in above our estimate of INR1.2b, led by lower-than-expected production costs. While power and other input costs declined, reported production cost was also likely lower due to the one-off write-back of RPO provisions made earlier. Reported EBITDA still declined 60% YoY due to lower alumina and aluminum prices.
- The company reported PAT of INR1.0b (our estimate: profit of INR0.2b).
- Aluminum:** EBIT loss was at INR0.2b (v/s INR1.9b profit last year); revenue declined to INR11.3b (-34% YoY, -15% QoQ) on lower LME prices/volumes due to the impact of COVID-19. Aluminum production was at 102kt, (-8% YoY, +6% QoQ). We estimate NALCO's aluminum sales at 82kt, impacted by the COVID-19 crisis in Mar'20. Realization declined 8% YoY (and 3% QoQ) to USD1,905/t on account of lower LME and premiums. Implied CoP was down 13% QoQ to USD1,861/t (+1% YoY).
- Alumina:** Revenue was at INR11.7b (-15% YoY, +16% QoQ) and EBIT at INR1.8b (-38% YoY, +78% QoQ).
- FY20 rev/EBITDA/PAT stood at INR84.7b/INR4.9b/INR1.4b, down 26%/83%/92% YoY.
- Net-Cash at FY20 end stood at INR20.4b (INR11/sh).
- Working Capital in FY20 increased by INR9.1b due to lower sales in Mar-end due to lock-down. As a result, Operating Cashflows (OCF) were negative at INR3.5b. Capex spend for FY20 stood at INR8.6b. As a result, free cashflow (FCF) too was negative at INR12.0b.
- Company paid dividend of INR2.75/sh in FY20 implying dividend yield of ~8%. As a result, dividend outgo (incl. div tax) for FY20 stood at INR6.2b. Company didn't declare any final dividend for FY20.

Valuation and view

- Alumina/Aluminum LME prices have recovered ~10% from lows witnessed in this year. With estimated gradual recovery in aluminum demand, we expect prices to rise further. We have factored in aluminum prices of USD1,575/t in FY21 and USD1,700/t in FY22. With integrated operations, NACL is best placed to benefit from recovery in prices.
- Improved coal availability, lower input costs, and currency depreciation are likely to offset lower alumina and aluminum prices in FY21. We maintain our positive stance on NALCO considering its integrated business model, high cash levels, and attractive dividend yield.
- We value the stock at 5x FY22E EV/EBITDA to arrive at TP of INR40. **Buy**.

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Quarterly performance

(INR m)

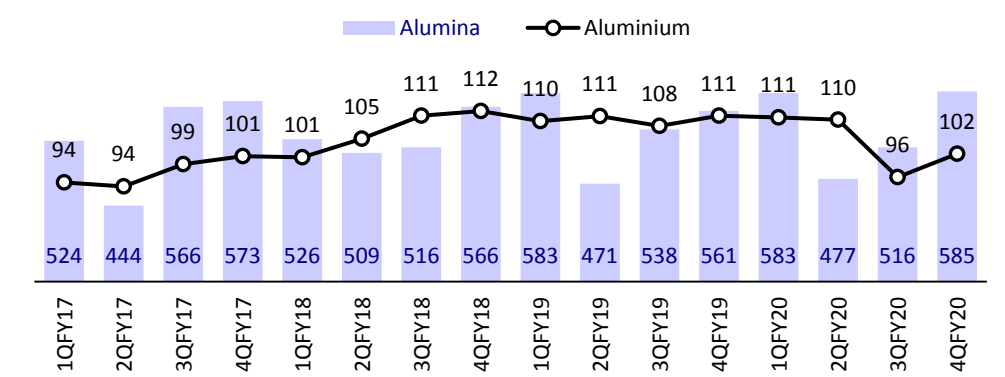
Y/E March	FY19				FY20				FY19	FY20	FY20	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	29,733	30,409	27,189	27,662	20,841	23,636	20,884	19,359	114,993	84,718	21,741	-11
Change (YoY %)	64.9	23.9	13.8	-3.4	-29.9	-22.3	-23.2	-30.0	20.9	-26.3	-21.4	
EBITDA	10,111	8,509	5,766	5,176	2,144	322	343	2,084	29,561	4,892	1,157	80
Alumina-EBITDA (USD/t)	299	263	192	122	106	57	51	72	214	68	57	
Aluminum - EBITDA (USD/t)	528	316	229	233	62	-157	-148	-10	321	-66	-64	
As % of Net Sales	34.0	28.0	21.2	18.7	10.3	1.4	1.6	10.8	25.7	5.8	5.3	
Interest	6	6	6	6	16	16	17	8		57	16	
Depreciation	1,217	1,160	1,181	1,203	1,264	1,343	1,341	1,351	4,761	5,298	1,342	1
Other Income	621	903	758	977	614	566	482	1,064	3,259	2,726	524	103
PBT (before EO Item)	9,509	8,246	5,337	4,943	1,477	-472	-532	1,789	28,059	2,262	322	455
Extra-ordinary Income	910	0	-636	-910	0	0	0	0			0	
PBT (after EO Item)	10,419	8,246	4,701	4,033	1,477	-472	-532	1,789	28,059	2,262	322	455
Total Tax	3,549	3,146	1,683	1,697	499	-188	-193	762	10,075	880	106	616
% Tax	34.1	38.2	35.8	42.1	33.8	39.9	36.2	42.6	35.9	38.9	33.0	
Reported PAT	6,871	5,100	3,018	2,336	978	-284	-340	1,028	17,984	1,382	216	376
Adjusted PAT	6,095	5,285	3,420	3,168	978	-284	-340	1,028	17,984	1,382	216	376

Quarterly performance

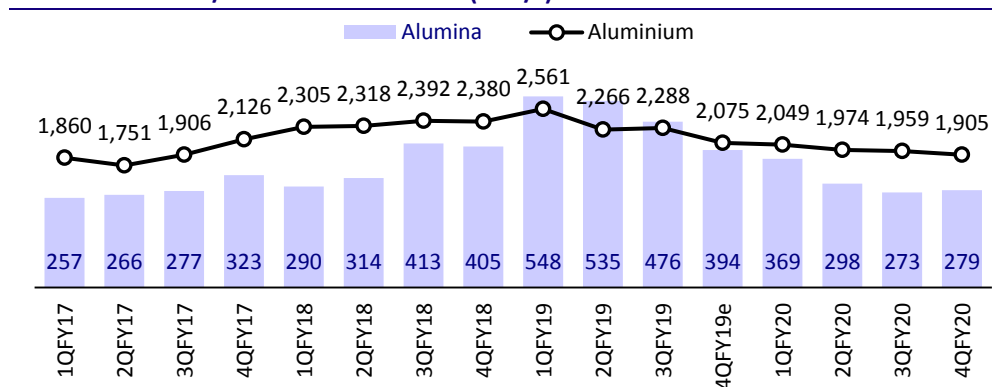
(INR m)

Y/E March	FY19				FY20				FY19	FY20	FY20	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Alumina Prod. (kt)	583	471	538	561	583	477	516	585	2,153	2,161	585	0
CoP (USD/t)	249	273	284	273	263	241	222	208	270	230	215	
Aluminum Prod. (kt)	110	111	108	111	111	110	96	102	440	418	102	0
CoP (USD/t)	2,033	1,949	2,059	1,842	2,017	2,164	2,145	1,864	1,967	2,053	1,965	
Aluminum Sales (kt)	105	115	104	117	103	110	96	82	441	391	102	-19
Alumina Sales (kt)	320	324	293	380	231	386	374	412	1,317	1,403	392	5
Avg LME Aluminum (USD/ton)	2,250	2,050	1,973	1,859	1,792	1,762	1,752	1,694	2,033	1,750	1,694	0
NSR premiums (USD/ton)	311	216	315	216	257	212	207	211	264	222	207	2
Alumina NSR (USD/ton)	548	535	476	394	369	298	273	279	488	305	273	2

Exhibit 1: Alumina/Aluminum production volumes (kt)



Source: MOFSL, Company

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

Source: MOFSL, Company

Valuation and view

- Alumina/Aluminum LME prices have recovered ~10% from lows witnessed in this year. With estimated gradual recovery in aluminum demand, we expect prices to rise further. We have factored aluminum prices of USD1,575/t in FY21 and USD1,700/t in FY22. With integrated operations, NACL is best placed to benefit from recovery in prices.
- Improved coal availability, lower input costs, and currency depreciation are likely to offset lower alumina and aluminum prices in FY21. We maintain our positive stance on NALCO considering its integrated business model, high cash levels, and attractive dividend yield.
- We value the stock at 5x FY22E EV/EBITDA to arrive at TP of INR40. **Buy.**

Exhibit 3: Target price calculation

	FY19	FY20	FY21E	FY22E
EBITDA	29,561	4,892	4,801	10,943
EV/EBITDA (x)				5.0
Target EV				54,716
add: CWIP	4,414	7,134	6,134	6,634
add: cash surplus	35,772	20,355	18,148	15,084
Equity Value				76,433
Target Price				40
Key Assumption				
USD/INR rate	69.9	70.9	75.0	76.0
LME (USD/t)	2,033	1,750	1,575	1,700

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	81,387	92,522
Change (%)		10.7	26.1	20.9	-26.3	-3.9	13.7
Total Expenses	58,575	64,634	78,311	85,432	79,826	76,586	81,579
EBITDA	9,595	10,797	16,783	29,561	4,892	4,801	10,943
% of Net Sales	14.1	14.3	17.6	25.7	5.8	5.9	11.8
Depn. & Amortization	4,261	4,804	4,804	4,761	5,298	5,389	5,390
EBIT	5,333	5,993	11,979	24,800	-406	-588	5,553
Net Interest	33	27	20	24	57	45	44
Other income	6,052	4,075	3,008	3,259	2,726	2,053	1,848
PBT before EO	11,353	10,041	14,968	28,035	2,262	1,420	7,357
EO income	-535	402	5,421	-636	0	0	0
PBT after EO	10,818	10,442	20,388	27,399	2,262	1,420	7,357
Tax	4,015	2,962	6,964	10,075	880	496	2,571
Rate (%)	37.1	28.4	34.2	36.8	38.9	34.9	34.9
Reported PAT	6,803	7,480	13,424	17,324	1,382	924	4,786
Adjusted PAT	7,139	7,193	9,855	17,726	1,382	924	4,786
Change (%)	2.6	0.8	37.0	79.9	-92.2	-33.2	418.0

E: MOFSL Estimates

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	85,678	84,665
Net Worth	1,31,949	1,02,052	1,05,048	1,04,845	99,881	95,006	93,994
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	1,05,735	1,04,723
Gross Block	70,210	80,489	85,022	91,155	98,443	1,06,443	1,14,443
Less: Accum. Deprn.	4,253	9,044	13,627	18,297	23,595	28,984	34,374
Net Fixed Assets	65,957	71,444	71,395	72,858	74,848	77,459	80,069
Capital WIP	6,877	5,660	9,152	8,827	14,267	12,267	13,267
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	47,748	44,163
Inventories	10,550	11,559	11,941	12,100	16,969	13,379	12,674
Account Receivables	2,352	1,843	2,581	2,405	1,401	1,338	1,521
Cash and Bank Balance	51,692	35,084	33,619	35,772	20,355	18,148	15,084
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	34,511	35,549
Account Payables	6,559	8,641	9,774	13,069	7,956	7,581	8,619
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	13,237	8,614
Appl. of Funds	1,43,590	1,15,018	1,17,013	1,16,820	1,10,610	1,05,735	1,04,723

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	0.5	2.5
Cash EPS	5.7	6.4	9.4	11.4	3.5	3.3	5.3
BV/Share	68.3	52.8	54.3	54.2	51.7	49.2	48.6
DPS	2.0	2.8	4.7	5.8	2.8	3.0	3.0
Payout (%)	79.8	110.4	81.5	103.5	457.6	627.6	121.1
Valuation (x)							
P/E	9.1	9.0	6.6	3.7	46.8	70.1	13.5
Cash P/E	5.9	5.3	3.6	2.9	9.7	10.3	6.4
P/BV	0.5	0.6	0.6	0.6	0.6	0.7	0.7
EV/Sales	0.1	0.4	0.3	0.2	0.5	0.5	0.5
EV/EBITDA	0.4	2.8	1.8	0.9	8.5	9.2	4.3
Dividend Yield (%)	6.0	8.4	14.0	17.2	8.2	9.0	9.0
Return Ratios (%)							
EBITDA Margins (%)	14.1	14.3	17.6	25.7	5.8	5.9	11.8
Net Profit Margins (%)	10.5	9.5	10.4	15.4	1.6	1.1	5.2
RoE	6.2	7.2	9.5	16.9	1.4	0.9	5.1
RoCE (pre-tax)	8.0	7.9	12.9	24.0	2.0	1.4	7.0
RoIC (pre-tax)	7.1	8.0	16.3	34.6	-0.6	-0.8	7.6
Working Capital Ratios							
Fixed Asset Turnover (x)	1.0	0.9	1.1	1.3	0.9	0.8	0.8
Asset Turnover (x)	0.5	0.7	0.8	1.0	0.8	0.8	0.9
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	1.2

Cashflow 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	1,420	7,357
Depreciation	4,261	4,804	4,804	4,761	5,298	5,389	5,390
(Inc)/Dec in Wkg. Cap.	-11	1,217	-178	3,274	-9,071	3,278	1,559
Tax paid	-3,598	-2,184	-4,825	-10,209	-1,005	-496	-2,571
Others	-3,732	884	-5,524	-447	-971	45	44
CF from Op. Activity	8,808	14,359	14,666	24,779	-3,486	9,636	11,779
(Inc)/Dec in FA + CWIP	-5,986	-7,781	-8,374	-7,680	-8,578	-6,000	-9,000
Free Cash Flow to firm	2,822	6,578	6,292	17,099	-12,064	3,636	2,779
(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	-6,000	-9,000
Equity raised/(repaid)	0	-28,407	0	-5,074	0	0	0
Int. Paid	-12	-4	-1	0	-9	-45	-44
Debt raised/(repaid)	0	511	-61	218	-579	0	0
Dividend (incl. tax)	-5,428	-8,259	-10,934	-12,451	-6,185	-5,799	-5,799
Other financing activities							
CF from Fin. Activity	-5,440	-36,159	-10,997	-17,308	-6,773	-5,843	-5,843
(Inc)/Dec in Cash	-6,404	-16,608	-1,465	2,153	-15,416	-2,208	-3,064
Add: opening Balance	58,095	51,692	35,084	33,619	35,772	20,355	18,148
Closing Balance	51,692	35,084	33,619	35,772	20,355	18,148	15,084

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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