

Estimate change



TP change



Rating change



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Bloomberg	NACL IN
Equity Shares (m)	1,837
M.Cap.(INRb)/(USD\$b)	147 / 2
52-Week Range (INR)	82 / 29
1, 6, 12 Rel. Per (%)	8/77/89
12M Avg Val (INR M)	1314
Free float (%)	48.7

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	89.6	115.1	112.1
EBITDA	17.8	31.1	28.0
Adj. PAT	9.9	19.5	16.6
EBITDA Margin (%)	19.9	27.0	25.0
Cons. Adj. EPS (INR)	5.4	10.6	9.0
EPS Gr. (%)	629.4	96.5	-14.8
BV/Sh. (INR)	58.2	63.5	68.0

Ratios

Net D:E	-0.2	-0.2	-0.1
RoE (%)	9.7	17.5	13.8
RoCE (%)	11.7	21.7	16.3
Payout (%)	35.3	49.9	49.8

Valuations

P/E (x)	14.8	7.5	8.8
P/BV (x)	1.4	1.3	1.2
EV/EBITDA(x)	7.0	4.1	5.0
Div. Yield (%)	3.1	6.6	5.6

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	51.3	51.5	51.5
DII	9.6	9.8	14.2
FII	8.4	7.2	11.3
Others	30.7	31.5	23.0

FII Includes depository receipts

CMP: INR80
TP: INR93 (+16%)
Buy

Beneficiary of higher aluminum prices

Retain Buy on strong earnings outlook

- Nalco (NACL)'s 4QFY21 result was strong, led by higher LME prices and lower costs. It reported EBITDA of INR9.4b (+118% QoQ) and PAT of INR6.3b (+162% QoQ).
- We raise our FY22E/FY23E EBITDA estimate by 43%/27%, factoring in higher aluminum prices, which should support strong cash flows and a good dividend payout. Maintain **Buy**.

Higher LME and lower costs boost EBITDA by 118% QoQ

- Revenue / EBITDA / Adj. PAT was up 19%/118%/162% QoQ to INR28.2b/INR9.4b/INR6.3b (+3%/49%/63% v/s our estimate).
- The beat on EBITDA was led by better-than-expected costs, partly owing to the reversal of renewals purchase obligations – as per the notification issued by Odisha Electricity Regulatory Commission – booked under other expenses. Employee cost was down 11% QoQ to INR4.31b and other expense 31% QoQ to INR2.8b.
- The company has opted for the new tax regime, thus reversing its deferred tax liabilities by INR4.23b – leading to net tax credit of INR0.97b during the quarter. Adjusted PAT, thus, stood at INR6.3b (+162% QoQ; +63% v/s est).
- FY21 rev / EBITDA / adj. PAT stood at INR89.5b/INR17.8b/INR9.9b (+6%/+2.6x/+6.0x YoY). OCF/FCF stood at INR22.0b/INR9.8b (v/s – INR3.5b/–INR12.0b).
- Aluminum:** It reported EBIT at INR5.9b (up 273% QoQ). Revenue rose 19% QoQ to INR19.4b on higher LME (USD2,093/t; +9% QoQ) and higher volumes. Aluminum production was up 10% QoQ to 112kt.
- Alumina:** Revenue (including inter-segment) stood at INR12.1b (+23% QoQ). EBIT came in at INR2.96b (+65% QoQ). Alumina external sales rose 10% QoQ to 378kt.

Valuation and view

- With spot LME aluminum hovering at ~USD2,450/t+ (up ~10% YTD FY22), the near-term profitability outlook is strong. Alumina prices have not yet reacted to the strength in aluminum and could surprise positively in FY22. With integrated mining operations, NALCO is the best play on higher LME prices.
- Given the tight demand-supply scenario, we expect aluminum prices to remain strong. Although, prevailing higher inventory could limit a further upside. We factor in LME prices of USD2,300/USD2,150 per tonne for FY22E/FY23E.
- The management has announced a 1mtpa alumina refinery expansion at capex of ~INR64b and expects to complete the project in FY23. Given the slow execution, however, we expect commissioning by FY24.
- We value the stock on an SoTP basis at 5x FY23E EV/EBITDA and a 0.75x book value for growth CWIP to arrive at TP of INR93. At CMP, it provides an attractive dividend yield of ~6%. Maintain Buy.

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Quarterly performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Net Sales	20,841	23,636	20,884	19,359	13,806	23,749	23,788	28,215	84,718	89,558	27,386	3
Change (YoY %)	-29.9	-22.3	-23.2	-30.0	-33.8	0.5	13.9	45.7	-26.3	5.7	41.5	
EBITDA	2,144	322	343	2,084	1,291	2,759	4,339	9,440	4,892	17,828	6,317	49
As % of Net Sales	10.3	1.4	1.6	10.8	9.3	11.6	18.2	33.5	5.8	19.9	23.1	
Interest	16	16	17	8	18	18	17	17	57	71	18	
Depreciation	1,264	1,343	1,341	1,351	1,359	1,432	1,697	1,571	5,298	6,058	1,496	5
Other Income	614	566	482	1,064	333	242	362	530	2,726	1,466	372	42
PBT (before EO Item)	1,477	-472	-532	1,789	247	1,550	2,986	8,382	2,262	13,165	5,176	62
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	2,986	8,382	2,262	13,165	5,176	62
Total Tax	499	-188	-193	762	80	476	588	-974	880	170	1,326	-173
% Tax	33.8	39.9	36.2	42.6	32.6	30.7	19.7	-11.6	38.9	1.3	25.6	
Reported PAT	978	-284	-340	1,028	166	1,075	2,398	9,356	1,382	12,995	3,850	143
Adjusted PAT	978	-284	-340	1,028	166	1,075	2,398	6,287	1,382	9,926	3,850	63

Segmental quarterly performance – Financials

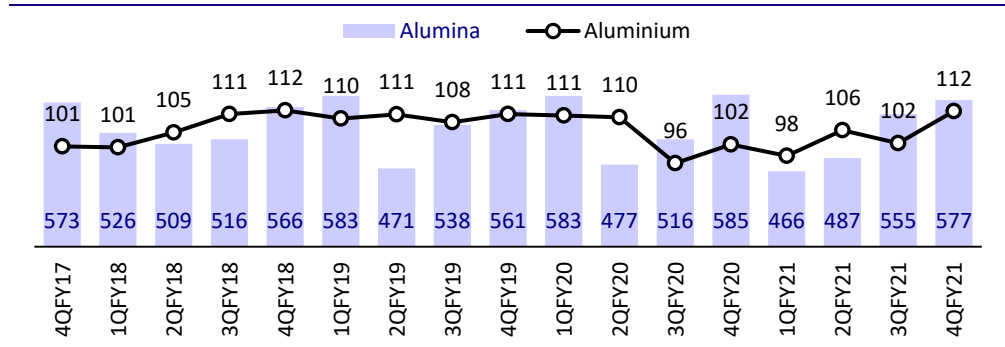
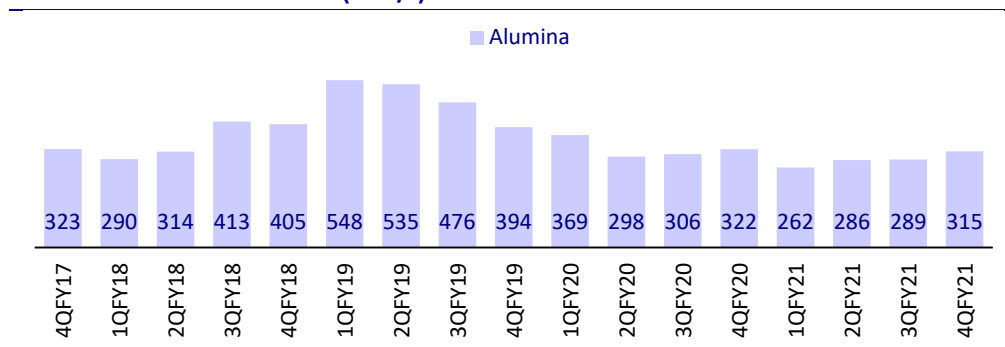
(INR m)

	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Alumina revenue	9,213	11,422	10,138	11,711	7,685	9,767	9,875	12,177	42,483	39,505
Aluminium revenue	14,701	15,278	13,362	11,323	9,306	17,527	16,364	19,438	54,664	62,635
Alumina EBIT	1,524	1,174	1,022	1,823	415	1,185	1,799	2,959	5,543	6,358
Aluminium EBIT	-3	-1,210	-1,414	-193	470	732	1,582	5,892	-2,820	8,677
Alumina EBIT margin %	17	10	10	16	5	12	18	24	13	16
Aluminium EBIT margin %	-0	-8	-11	-2	5	4	10	30	-5	14

Segmental quarterly performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21	4Q	v/s our
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Alumina production (kt)	583	477	516	585	466	487	555	577	2,161	2,085	585	-1
CoP (USD/t)	264	241	251	241	224	217	203	195	248	207	213	
Aluminium production (kt)	111	110	96	102	98	106	102	112	418	418	108	4
CoP (USD/t)	2,016	2,165	2,140	1,757	1,611	1,791	1,879	1,626	2,026	1,734	1,872	
Alumina sales (kt)	231	386	333	357	220	285	344	378	1,307	1,227	380	0
Average LME Aluminum (USD/t)	1,792	1,762	1,752	1,694	1,493	1,703	1,925	2,093	1,750	1,804	2,093	0
Alumina NSR (USD/t)	369	298	306	322	262	286	289	315	324	288	309	2

Exhibit 1: Alumina/Aluminum production volumes (kt)**Exhibit 2: Alumina realization (USD/t)**

Source: MOFSL, Company

Valuation and view

- With spot LME aluminum hovering at ~USD2,450/t+ (up ~10% YTD FY22), the near-term profitability outlook is strong. Alumina prices have not yet reacted to the strength in aluminum and could surprise positively in FY22. With integrated mining operations, NALCO is the best play on higher LME prices.
- Given the tight demand-supply scenario, we expect aluminum prices to remain strong. Although, prevailing higher inventory could limit a further upside. We factor in LME prices of USD2,300/USD2,150 per tonne for FY22E/FY23E.
- The management has announced a 1mtpa alumina refinery expansion at capex of ~INR64b and expects to complete the project in FY23. Given the slow execution, however, we expect commissioning by FY24.
- We value the stock on an SoTP basis at 5x FY23E EV/EBITDA and a 0.75x book value for growth CWIP to arrive at TP of INR93. At CMP, it provides an attractive dividend yield of ~6%. Maintain **Buy**.

Exhibit 3: Target price calculation

	FY19	FY20	FY21	FY22E	FY23E
EBITDA	29,561	4,892	17,828	31,103	27,992
EV-to-EBITDA (x)					5.0
Target EV					1,39,962
Add: Growth CWIP at 75%					25,866
Add: Cash surplus	35,772	20,355	19,982	15,721	5,028
Equity value					1,70,856
Target price					93
Key assumption					
USD:INR rate	69.9	70.9	74.0	74.0	74.5
LME (USD/t)	2,033	1,750	1,804	2,300	2,150

Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	75,430	95,094	1,14,993	84,718	89,558	1,15,135	1,12,119
Change (%)	10.7	26.1	20.9	-26.3	5.7	28.6	-2.6
Total Expenses	64,634	78,311	85,432	79,826	71,730	84,032	84,126
EBITDA	10,797	16,783	29,561	4,892	17,828	31,103	27,992
% of Net Sales	14.3	17.6	25.7	5.8	19.9	27.0	25.0
Deprn. and Amortization	4,804	4,804	4,761	5,298	6,058	6,127	6,250
EBIT	5,993	11,979	24,800	-406	11,770	24,976	21,743
Net Interest	27	20	24	57	71	69	69
Other income	4,075	3,008	3,259	2,726	1,466	1,319	660
PBT before EO	10,041	14,968	28,035	2,262	13,165	26,226	22,334
EO income	402	5,421	-636	0	0	0	0
PBT after EO	10,442	20,388	27,399	2,262	13,165	26,226	22,334
Tax	2,962	6,964	10,075	880	170	6,721	5,723
Rate (%)	28.4	34.2	36.8	38.9	1.3	25.6	25.6
Reported PAT	7,480	13,424	17,324	1,382	12,995	19,506	16,610
Adjusted PAT	7,193	9,855	17,726	1,382	9,926	19,506	16,610
Change (%)	0.8	37.0	79.9	-92.2	618.0	96.5	-14.8

Balance Sheet							(INR m)
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Share Capital	9,665	9,665	9,328	9,328	9,183	9,183	9,183
Reserves	92,387	95,384	95,517	90,553	97,624	1,07,395	1,15,741
Net Worth	1,02,052	1,05,048	1,04,845	99,881	1,06,807	1,16,578	1,24,924
Total Loans	511	450	668	123	461	461	15,461
Deferred Tax Liability	12,456	11,515	11,307	10,606	8,937	8,937	8,937
Capital Employed	1,15,018	1,17,013	1,16,820	1,10,610	1,16,205	1,25,977	1,49,322
Gross Block	80,489	85,022	91,155	98,443	1,06,258	1,12,258	1,18,258
Less: Accum. Deprn.	9,044	13,627	18,297	23,595	29,654	35,781	42,031
Net Fixed Assets	71,444	71,395	72,858	74,848	76,605	76,477	76,227
Capital WIP	5,660	9,152	8,827	14,267	15,755	29,755	48,755
Investments	389	1,176	1,758	2,773	3,133	3,133	3,133
Curr. Assets	67,517	64,415	68,027	53,609	51,614	50,358	54,623
Inventories	11,559	11,941	12,100	16,969	14,763	17,349	16,895
Account Receivables	1,843	2,581	2,405	1,401	1,474	1,893	1,843
Cash and Bank Balance	35,084	33,619	35,772	20,355	19,982	15,721	20,489
Others	19,031	16,274	17,750	14,884	15,396	15,396	15,396
Curr. Liability and Prov.	29,992	29,126	34,650	34,886	30,900	33,745	33,415
Account Payables	8,641	9,774	13,069	7,956	9,772	12,617	12,287
Provisions and Others	21,351	19,352	21,581	26,930	21,128	21,128	21,128
Net Curr. Assets	37,525	35,290	33,377	18,723	20,714	16,613	21,208
Appl. of Funds	1,15,018	1,17,013	1,16,820	1,10,610	1,16,206	1,25,977	1,49,322

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)							
EPS	3.7	5.1	9.5	0.7	5.4	10.6	9.0
Cash EPS	6.4	9.4	11.8	3.6	10.4	14.0	12.4
BV/Share	52.8	54.3	56.2	53.5	58.2	63.5	68.0
DPS	2.8	4.7	4.5	2.8	2.5	5.3	4.5
Payout (%)	110.4	81.5	84.9	441.7	35.3	49.9	49.8
Valuation (x)							
P/E	13.2	9.6	5.2	66.1	14.8	7.5	8.8
Cash P/E	7.7	5.2	4.1	13.7	7.7	5.7	6.4
P/BV	0.9	0.9	0.9	0.9	1.4	1.3	1.2
EV/Sales	0.8	0.6	0.5	0.8	1.4	1.1	1.2
EV/EBITDA	5.5	3.6	1.8	14.0	7.0	4.1	5.0
Dividend Yield (%)	5.7	9.6	9.2	5.6	3.1	6.6	5.6
Return Ratios (%)							
EBITDA Margin (%)	14.3	17.6	25.7	5.8	19.9	27.0	25.0
Net Profit Margin (%)	9.5	10.4	15.4	1.6	11.1	16.9	14.8
RoE	7.2	9.5	17.2	1.4	9.7	17.5	13.8
RoCE (pre-tax)	7.9	12.9	24.0	2.0	11.7	21.7	16.3
RoIC (pre-tax)	8.0	16.3	34.6	-0.6	15.6	32.3	28.2
Working Capital Ratios							
Fixed Asset Turnover (x)	0.9	1.1	1.3	0.9	0.8	1.0	0.9
Asset Turnover (x)	0.7	0.8	1.0	0.8	0.8	0.9	0.8
Debtor (Days)	9	10	8	6	6	6	6
Inventory (Days)	56	46	38	73	60	55	55
Payable (Days)	42	38	41	34	40	40	40
Leverage Ratio (x)							
Current Ratio	2.3	2.2	2.0	1.5	1.7	1.5	1.6

Cash Flow Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	9,639	20,388	27,399	2,262	12,995	26,226	22,334
Depreciation	4,804	4,804	4,761	5,298	6,058	6,127	6,250
(Inc.)/Dec. in Working Cap.	1,217	-178	3,274	-9,071	3,819	-160	174
Tax paid	-2,184	-4,825	-10,209	-1,005	-975	-6,721	-5,723
Others	884	-5,524	-447	-971	93	69	69
CF from Op. Activity	14,359	14,666	24,779	-3,486	21,990	25,542	23,103
(Inc.)/Dec. in FA + CWIP	-7,781	-8,374	-7,680	-8,578	-12,188	-20,000	-25,000
Free Cash Flow to firm	6,578	6,292	17,099	-12,064	9,802	5,542	-1,897
(Pur.)/Sale of Investments	10,178	1,718	1,272	2,068	-4,835	0	0
Interest and div.	2,795	1,522	1,089	1,353	662		
CF from Inv. Activity	5,191	-5,134	-5,319	-5,158	-16,361	-20,000	-25,000
Equity raised/(repaid)	-28,407	0	-5,074	0	-1,701	0	0
Int. Paid	-4	-1	0	-9	-33	-69	-69
Debt raised/(repaid)	511	-61	218	-579	338	0	15,000
Dividend (incl. tax)	-8,259	-10,934	-12,451	-6,185	-4,606	-9,734	-8,265
Other financing activities							
CF from Fin. Activity	-36,159	-10,997	-17,308	-6,773	-6,002	-9,803	6,666
(Inc.)/Dec. in Cash	-16,608	-1,465	2,153	-15,416	-374	-4,261	4,769
Add: opening Balance	51,692	35,084	33,619	35,772	20,355	19,982	15,721
Closing Balance	35,084	33,619	35,772	20,355	19,982	15,721	20,489

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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