

Estimate change



TP change



Rating change



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Bloomberg	NACL IN
Equity Shares (m)	1,837
M.Cap.(INRb)/(USD\$)	172 / 2.3
52-Week Range (INR)	97 / 29
1, 6, 12 Rel. Per (%)	14/80/126
12M Avg Val (INR M)	1753
Free float (%)	48.7

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	89.6	111.8	117.2
EBITDA	17.8	27.9	32.8
Adj. PAT	9.9	17.3	20.4
EBITDA Margin (%)	19.9	24.9	28.0
Cons. Adj. EPS (INR)	5.4	9.4	11.1
EPS Gr. (%)	629.4	74.4	17.7
BV/Sh. (INR)	58.2	62.9	68.5

Ratios

Net D:E	-0.2	-0.2	-0.1
RoE (%)	9.7	15.6	16.9
RoCE (%)	11.7	19.3	20.0
Payout (%)	35.3	49.9	49.6

Valuations

P/E (x)	14.8	8.5	7.2
P/BV (x)	1.4	1.3	1.2
EV/EBITDA(x)	7.0	4.6	4.2
Div. Yield (%)	3.1	5.9	6.9

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	51.3	51.3	51.5
DII	11.5	9.6	13.8
FII	8.6	8.4	9.0
Others	28.6	30.7	25.6

FII Includes depository receipts

CMP: INR93
TP: INR107 (+15%)
Buy

Higher costs lead to EBITDA miss

Strong aluminum prices to support earnings

- NALCO's 1QFY22 result was below our expectations due to higher than expected costs and miss on volumes/realization. EBITDA/adjusted PAT declined by 38%/45% QoQ to INR8.9b/INR3.5b and missed our estimate by 34%/38%.
- We lower our FY22E EBITDA estimate by 10% to factor in higher costs. However, we raise our FY23E EBITDA estimate by 15% as we revise upwards our FY23E LME aluminum assumption by 7% to USD2,300/t. We maintain our **Buy** rating.

EBITDA declines by 38% QoQ on higher costs

- Revenue/EBITDA/adjusted PAT fell 12%/38%/45% QoQ to INR24.7b/INR5.8b/INR3.5b and was 15%/34%/38% below our estimate. Sequentially, the decline was led by lower volumes and higher costs (on a lower base due to one-offs), partly offset by higher LME prices.
- The miss on EBITDA was led by lower than expected aluminum volumes (91kt, 9% lower than our estimate), lower than expected realizations, and higher than expected costs. Employee cost stood at INR5.8b v/s INR4.3b in 4QFY21 (INR5.2b in 1QFY21).
- Derived aluminum realization came in at USD2,589/t and was 4% lower than our estimate of USD2,691/t. Alumina NSR came in lower at USD274/t and was 10% below our estimate.
- Aluminum:** It reported an EBIT of INR4b (-32% QoQ). Revenue declined by 11% QoQ to INR17.4b, despite higher LME (USD2,393/t; +14% QoQ), due to lower volumes (91kt). Aluminum production was flat QoQ at 112kt.
- Alumina:** Revenue (excluding inter-segment) stood at INR6.4b (-27% QoQ). EBIT came in at INR1.2b (-60% QoQ). Alumina external sales declined by 16% QoQ to 316kt.

Valuation and view

- With spot LME aluminum hovering over USD2,550/t (up ~15% in FY22 YTD), the near term profitability outlook is strong. Alumina prices have not yet reacted to the strength in aluminum and could surprise positively in 2HFY22.
- We expect higher aluminum prices to absorb the cost shock and lead to improved margin in subsequent quarters. 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. We factor in LME prices of USD2,375/USD2,300 per tonne for FY22E/FY23E.
- The management has announced a 1mtpa alumina refinery expansion at a capex of ~INR64b, and expects to complete the project in FY23. Given its slow execution, we expect commissioning by FY24E.
- We value the stock on a SoTP basis at 5x FY23E EV/EBITDA and at 0.75x book value for growth CWIP to arrive at our TP of INR107. At the CMP, it provides an attractive dividend yield of ~5%. We maintain our Buy rating.

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Quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	13,806	23,749	23,788	28,215	24,746	28,628	28,724	29,732	89,558	1,11,830	29,283	-15
Change (YoY %)	-33.8	0.5	13.9	45.7	79.2	20.5	20.8	5.4	5.7	24.9	112.1	
EBITDA	1,291	2,759	4,339	9,440	5,808	7,655	7,113	7,297	17,828	27,874	8,847	-34
Alumina-EBITDA (USD/t)	38	69	85	120	63	65	83	82	83	74	120	
Aluminum - EBITDA (USD/t)	120	141	287	744	646	766	600	561	336	640	838	
As a percentage of net sales	9.3	11.6	18.2	33.5	23.5	26.7	24.8	24.5	19.9	24.9	30.2	
Interest	18	18	17	17	18	17	18	17	71	70	17	
Depreciation	1,359	1,432	1,697	1,571	1,491	1,484	1,477	1,469	6,058	5,921	1,563	-5
Other Income	333	242	362	530	317	217	325	477	1,466	1,337	300	6
PBT (before EO Item)	247	1,550	2,986	8,382	4,616	6,371	5,945	6,288	13,165	23,220	7,567	-39
Extra-ordinary Income	0	0	0	0	0	0	0	0			0	
PBT (after EO Item)	247	1,550	2,986	8,382	4,616	6,371	5,945	6,288	13,165	23,220	7,567	-39
Total Tax	80	476	588	-974	1,139	1,633	1,523	1,611	170	5,906	1,939	-41
Tax (%)	32.6	30.7	19.7	-11.6	24.7	25.6	25.6	25.6	1.3	25.4	25.6	
Reported PAT	166	1,075	2,398	9,356	3,477	4,739	4,421	4,676	12,995	17,314	5,628	-38
Adjusted PAT	166	1,075	2,398	6,287	3,477	4,739	4,421	4,676	9,926	17,314	5,628	-38

Segmental quarterly performance – Financials

(INR m)

	FY21				FY22E				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Alumina revenue	7,685	9,767	9,875	12,177	10,680	10,497	11,706	13,271	39,505	46,156
Aluminum revenue	9,306	17,527	16,364	19,438	17,379	22,646	21,673	21,069	62,635	82,767
Alumina EBIT	415	1,185	1,799	2,959	1,198	1,225	1,612	1,981	6,358	6,015
Aluminum EBIT	470	732	1,582	5,892	3,999	5,509	4,536	4,255	8,677	18,298
Alumina EBIT margin (%)	5	12	18	24	11	12	14	15	16	13
Aluminum EBIT margin (%)	5	4	10	30	23	24	21	20	14	22

Segmental quarterly performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22E	FY22E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Alumina production (kt)	466	487	555	577	583	477	516	585	2,085	2,161	583	0
CoP (USD/t)	224	217	203	195	210	182	223	225	207	211	261	
Aluminum production (kt)	98	106	102	112	112	108	108	107	418	435	108	4
CoP (USD/t)	1,611	1,791	1,879	1,626	2,091	2,086	1,903	1,810	1,734	1,962	1,987	
Aluminum Sales (kt)	73	123	103	113	91	107	117	120	412	435	100	-9
Alumina Sales (kt)	220	285	344	378	316	326	311	382	1,227	1,335	300	5
Avg. LME Aluminum (USD/t)	1,493	1,703	1,925	2,093	2,393	2,450	2,350	2,300	1,804	2,373	2,393	0
NSR premiums (USD/t)	207	212	228	267	196	275	265	265	228	250	298	-34
Alumina NSR (USD/t)	262	286	289	315	274	297	307	307	288	296	302	-10

Valuation and view

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- We expect higher aluminum prices to absorb the cost shock and lead to improved margin in subsequent quarters. With integrated mining operations, NALCO is the best play on higher LME prices.
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- We value the stock on a SoTP basis at 5x FY23E EV/EBITDA and at 0.75x book value for growth CWIP to arrive at our TP of INR107. At the CMP, it provides an attractive dividend yield of ~5%. We maintain our Buy rating.

Exhibit 1: Target price calculation

(INR million)	FY19	FY20	FY21	FY22E	FY23E
EBITDA	29,561	4,892	17,828	27,874	32,833
EV-to-EBITDA (x)					5.0
Target EV					1,64,163
Add: Growth CWIP at 75%					25,866
Add: Cash surplus	35,772	20,355	19,982	16,146	6,761
Equity value					1,96,789
Target price (INR)					107
Key assumption					
USD:INR rate	69.9	70.9	74.0	74.0	75.0
LME (USD/t)	2,033	1,750	1,804	2,373	2,300

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	1,11,830	1,17,194
Change (%)	10.7	26.1	20.9	-26.3	5.7	24.9	4.8
Total Expenses	64,634	78,311	85,432	79,826	71,730	83,956	84,362
EBITDA	10,797	16,783	29,561	4,892	17,828	27,874	32,833
% of Net Sales	14.3	17.6	25.7	5.8	19.9	24.9	28.0
Depn. and Amortization	4,804	4,804	4,761	5,298	6,058	5,921	6,039
EBIT	5,993	11,979	24,800	-406	11,770	21,953	26,793
Net Interest	27	20	24	57	71	70	70
Other income	4,075	3,008	3,259	2,726	1,466	1,337	669
PBT before EO	10,041	14,968	28,035	2,262	13,165	23,220	27,392
EO income	402	5,421	-636	0	0	0	0
PBT after EO	10,442	20,388	27,399	2,262	13,165	23,220	27,392
Tax	2,962	6,964	10,075	880	170	5,906	7,019
Rate (%)	28.4	34.2	36.8	38.9	1.3	25.4	25.6
Reported PAT	7,480	13,424	17,324	1,382	12,995	17,314	20,372
Adjusted PAT	7,193	9,855	17,726	1,382	9,926	17,314	20,372
Change (%)	0.8	37.0	79.9	-92.2	618.0	74.4	17.7

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	1,06,305	1,16,576
Net Worth	1,02,052	1,05,048	1,04,845	99,881	1,06,807	1,15,488	1,25,759
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	1,24,887	1,50,157
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	35,575	41,614
Net Fixed Assets	71,444	71,395	72,858	74,848	76,605	76,684	76,644
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	48,699	55,598
Inventories	11,559	11,941	12,100	16,969	14,763	15,319	16,054
Account Receivables	1,843	2,581	2,405	1,401	1,474	1,838	1,926
Cash and Bank Balance	35,084	33,619	35,772	20,355	19,982	16,146	22,222
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	33,383	33,971
Account Payables	8,641	9,774	13,069	7,956	9,772	12,255	12,843
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	15,316	21,627
Appl. of Funds	1,15,018	1,17,013	1,16,820	1,10,610	1,16,206	1,24,887	1,50,158

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	9.4	11.1
Cash EPS	6.4	9.4	11.8	3.6	10.4	12.7	14.4
BV/Share	52.8	54.3	56.2	53.5	58.2	62.9	68.5
DPS	2.8	4.7	4.5	2.8	2.5	4.7	5.5
Payout (%)	110.4	81.5	84.9	441.7	35.3	49.9	49.6
Valuation (x)							
P/E	21.5	15.7	8.4	108.0	14.8	8.5	7.2
Cash P/E	12.6	8.5	6.8	22.3	7.7	6.3	5.6
P/BV	1.5	1.5	1.4	1.5	1.4	1.3	1.2
EV/Sales	1.6	1.3	1.0	1.5	1.4	1.1	1.2
EV/EBITDA	11.1	7.2	3.8	25.8	7.0	4.6	4.2
Dividend Yield (%)	3.5	5.9	5.6	3.4	3.1	5.9	6.9
Return Ratios (%)							
EBITDA Margin (%)	14.3	17.6	25.7	5.8	19.9	24.9	28.0
Net Profit Margin (%)	9.5	10.4	15.4	1.6	11.1	15.5	17.4
RoE	7.2	9.5	17.2	1.4	9.7	15.6	16.9
RoCE (pre-tax)	7.9	12.9	24.0	2.0	11.7	19.3	20.0
RoIC (pre-tax)	8.0	16.3	34.6	-0.6	15.6	28.7	35.3
Working Capital Ratios							
Fixed Asset Turnover (x)	0.9	1.1	1.3	0.9	0.8	1.0	1.0
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	50	50
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

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
						(INR m)	
Pre-tax profit	9,639	20,388	27,399	2,262	12,995	23,220	27,392
Depreciation	4,804	4,804	4,761	5,298	6,058	5,921	6,039
(Inc.)/Dec. in Working Cap.	1,217	-178	3,274	-9,071	3,819	1,562	-235
Tax paid	-2,184	-4,825	-10,209	-1,005	-975	-5,906	-7,019
Others	884	-5,524	-447	-971	93	70	70
CF from Op. Activity	14,359	14,666	24,779	-3,486	21,990	24,867	26,247
(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	4,867	1,247
(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	-70	-70
Debt raised/(repaid)	511	-61	218	-579	338	0	15,000
Dividend (incl. tax)	-8,259	-10,934	-12,451	-6,185	-4,606	-8,632	-10,102
Other financing activities							
CF from Fin. Activity	-36,159	-10,997	-17,308	-6,773	-6,002	-8,702	4,828
(Inc.)/Dec. in Cash	-16,608	-1,465	2,153	-15,416	-374	-3,835	6,075
Add: opening Balance	51,692	35,084	33,619	35,772	20,355	19,982	16,146
Closing Balance	35,084	33,619	35,772	20,355	19,982	16,146	22,222

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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