

Estimate changes

TP change

Rating change



Bloomberg	NACL IN
Equity Shares (m)	1,837
M.Cap.(INRb)/(USD\$b)	136 / 1.7
52-Week Range (INR)	133 / 67
1, 6, 12 Rel. Per (%)	-3/-35/-28
12M Avg Val (INR M)	2124

Financials & Valuations (INR b)

Y/E MARCH	2,022	2023E	2024E
Sales	142	138	126
EBITDA	45	20	28
Adj. PAT	30	12	18
EBITDA Margin (%)	32	15	23
Cons. Adj. EPS (INR)	16.1	6.3	9.6
EPS Gr. (%)	197	-61	51
BV/Sh. (INR)	68	71	76

Ratios

Net D:E	-0.3	-0.2	-0.2
RoE (%)	25	9	13
RoCE (%)	32	12	16
Payout (%)	19	53	50

Valuations

P/E (x)	4.6	11.7	7.7
P/BV (x)	1.1	1.0	1.0
EV/EBITDA(x)	2.1	5.3	3.9
Div. Yield (%)	4.1	4.3	6.5
FCF Yield (%)	19.7	-3.7	3.6

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	51.3	51.3	51.3
DII	12.6	10.1	10.3
FII	14.7	16.7	15.2
Others	21.5	21.9	23.2

FII Includes depository receipts

CMP: INR76

TP: INR70 (-6%)

Downgrade to Neutral

EBTIDA and PAT disappoint despite higher volumes

Higher input cost drastically impacts profitability

- Consolidated sales fell 3% YoY and 8% QoQ to INR34.9b in 2QFY23. Sales were 16% ahead of our estimate, led by higher than expected Alumina sales volume.
- Alumina sales volume rose 26% YoY and 79% QoQ to ~400kt, while aluminum sales fell 13% YoY and 11% QoQ to 109kt. We believe NACL has been carrying excess alumina inventory, which has been liquidated in 2QFY23.
- Alumina ASP fell 9% YoY and 20% QoQ to USD371/t in 2QFY23 on falling LME alumina prices. Aluminum ASP fell 6% YoY and 15% QoQ to USD2,660/t. Both alumina and aluminum ASP were in line with our estimates.
- Consolidated EBITDA fell 70% YoY and 62% QoQ to INR3.3b, 37% lower than our estimate of INR5.3b. Higher power and fuel costs and other manufacturing expenses impacted margin, which collapsed to 9.6% v/s 23% in 1QFY23. We do not expect any meaningful recovery in margin in the near term.
- We note that the poor performance of the company is despite reporting a 23% QoQ lower employee expense for which there is no explanation in the results. We believe there is a possibility of a one off in the employee expense which could have led to ~INR1b savings in employee costs. We await clarity from the management on the same.
- APAT fell 80% YoY and 73% QoQ to INR1.5b, 51% lower than our estimate of INR3.1b, driven by an EBITDA miss, despite employee cost savings of ~INR1b. It recorded a loss of INR 0.45b in its JV for which no details are available in the result press release. We expect a clarification from the management on the same.
- Aluminum prices on the LME fell 11% YoY and 18% QoQ to USD2,354/t in 2QFY23.
- Sales/EBITDA/APAT stood at INR73b/INR12b/INR7b in 1HFY23. While sales grew 20% YoY in 1HFY23, EBITDA/APAT fell 30%/34% led by higher coal costs. Average prices on the LME were flattish YoY in 1HFY23.

See more headwinds for alumina than aluminum ahead

- NACL is one of the lowest cost producers of alumina globally. With more and more aluminum smelters being shut due to the ongoing energy crisis, the merchant alumina market is likely to swing into surplus as the energy crisis deepens.
- At the same time, rising coal costs will continue to impact profitability.
- With no volume growth in sight over the next few years, and with rising capex and no returns, dividends will dip as profitability erodes.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- NACL trades at 5x/4.5x FY23E/FY24E EV/EBITDA. On a P/B basis, the stock trades at 1x/1x FY23E/FY24E BV.
- While we raise our FY23 revenue estimate by 5% to factor in a strong revenue beat in 2Q, we cut our EBITDA/APAT estimate by 30%/35% to factor in higher coal costs. We also reduce our FY24 sales/EBTIDA/APAT estimate by 3%/41%/45% to reflect our lower LME aluminum/alumina price assumption of 8%/2%, with an elevated cost structure.
- We note that the current valuations are reasonably pricing a slowdown in earnings while leaving open the possibility of an upside that may arise out of China's economic stimulus or imposition of an aluminum trading ban by the LME on RUSAL. We accordingly downgrade the stock to **Neutral** with a revised TP of INR70 (from INR86 earlier), valuing the stock at 5x FY23E EV/EBITDA.

Quarterly performance

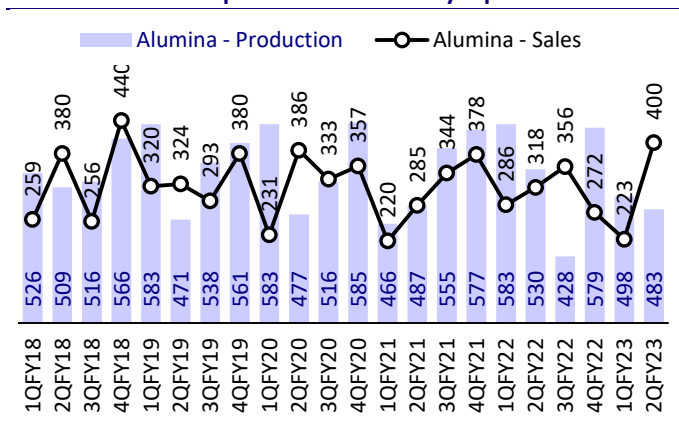
Y/E March									INR m			
	FY22				FY23E				FY22	FY23E	FY23	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		2QE		(%)
Alumina Prodn. (kt)	583	530	428	579	498	483	437	582	2,120	1,999	477	1.3
CoP (USD/t)	280	285	302	335	457	330	280	253	297	294	409	
Aluminum Prodn. (kt)	112	114	117	117	116	115	114	114	460	458	117	-1.9
CoP (USD/t)	1,940	1,916	2,120	2,195	2,237	2,426	2,440	2,436	2,037	2,451	1,914	26.7
Aluminum Sales (kt)	91	126	114	126	123	109	112	112	457	456	113	-3.3
Alumina Sales (kt)	286	318	356	272	223	400	221	366	1,232	1,210	254	57.4
Avg LME Aluminum (USD/t)	2,395	2,648	2,765	3,258	2,882	2,354	2,350	2,300	2,766	2,472	2,356	
Aluminum NSR premium (USD/t)	195	170	217	247	252	306	220	220	207	250	250	
Alumina NSR (USD/t)	349	406	478	532	466	371	373	385	441	393	373	
Net Sales	24,746	35,922	37,733	43,408	37,833	34,896	30,326	34,750	1,41,808	1,37,805	30,037	16.2
Change (YoY %)	79.2	51.3	58.6	53.8	52.9	-2.9	-19.6	-19.9	58.3	-2.8	-16.4	
Change (QoQ %)	-12.3	45.2	5.0	15.0	-12.8	-7.8	-13.1	14.6			-20.6	
Total Expenditure	18,938	24,649	25,827	27,222	29,147	31,552	27,213	29,815	96,637	1,17,726	24,718	
EBITDA	5,808	11,273	11,905	16,186	8,687	3,344	3,113	4,935	45,172	20,078	5,319	-37.1
Change (YoY %)	350.0	308.6	174.4	71.5	49.6	-70.3	-73.9	-69.5	153.4	-55.6	-53	
Change (QoQ %)	-38.5	94.1	5.6	36.0	-46.3	-61.5	-6.9	58.5			-39	
Alumina-EBITDA (USD/t)	69	120	176	197	9	41	93	132	141	73	-36	-213.4
Aluminum - EBITDA (USD/t)	650	902	862	1,310	897	234	159	109	947	357	692	-66.2
As % of Net Sales	23.5	31.4	31.6	37.3	23.0	9.6	10.3	14.2	31.9	14.6	17.7	
Interest	18	18	19	176	39	41	40	40	231	160	107	-61.8
Depreciation	1,491	1,518	1,515	3,842	1,497	1,537	1,545	1,545	8,366	6,123	1,495	2.8
Other Income	317	424	720	1,513	629	693	450	450	2,974	2,222	450	53.9
PBT (before EO Item)	4,616	10,161	11,091	13,681	7,781	2,459	1,978	3,800	39,549	16,017	4,167	-41.0
Extra-ordinary Income	0	1	0	0	-207	-447	0	0	1	-654	0	
PBT (after EO Item)	4,616	10,162	11,091	13,681	7,573	2,012	1,978	3,800	39,550	15,363	4,167	-51.7
Total Tax	1,139	2,684	2,783	3,424	1,994	758	507	974	10,029	4,232	1,068	-29.0
% Tax	24.7	26.4	25.1	25.0	26.3	37.7	25.6	25.6	25.4	27.5	25.6	
Reported PAT	3,477	7,478	8,309	10,257	5,579	1,254	1,471	2,826	29,521	11,131	3,099	-59.5
Adjusted PAT	3,477	7,477	8,309	10,257	5,732	1,533	1,471	2,826	29,520	11,605	3,099	-50.5
Change (YoY %)	1,991.0	595.9	246.5	63.2	64.8	-79.5	-82.3	-72.4	197.4	-60.7	-59	
Change (QoQ %)	-44.7	115.0	11.1	23.4	-44.1	-73.3	-4.0	92.1			-46	

Exhibit 1: Segmental quarterly performance (INR m)

	FY22				FY23E				FY22	FY23E	FY23	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Chemicals revenue	10,680	12,760	15,651	14,683	11,993	15,074	13,210	18,267	53,775	58,544	13,749	9.6
Aluminum revenue	17,379	26,349	25,153	32,692	29,801	23,079	23,642	23,253	1,01,573	99,775	22,711	1.6
Inter-segment Revenue	-3,314	-3,187	-3,071	-3,967	-3,961	-3,258	-6,525	-6,770	-13,540	-20,514	-6,423	-49.3
Net Sales	24,746	35,922	37,733	43,408	37,833	34,896	30,326	34,750	1,41,808	1,37,805	30,037	16.2
Chemicals EBIT	1,198	2,526	4,202	3,349	-71	875	1,397	3,608	11,274	5,809	-986	-188.8
Chemicals EBIT margin %	11	20	27	23	-1	6	11	20	21	10	-7	-180.9
Aluminum EBIT	3,999	7,879	7,483	13,212	8,043	1,774	2,844	2,455	32,572	15,117	5,460	-67.5
Aluminum EBIT margin %	23	30	30	40	27	8	12	11	32	15	24	-68.0

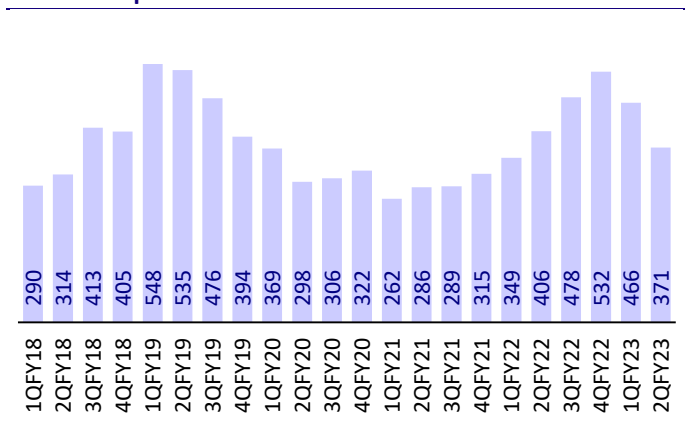
Source: Company, MOFSL

Exhibit 2: Alumina Production and Sale (kt); highest sale volume in over 18 quarters on inventory liquidation



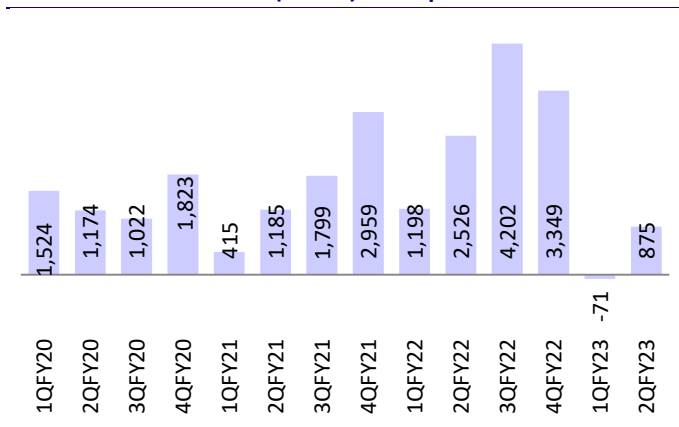
Source: MOFSL, Company

Exhibit 3: Alumina Realization (USD/t); subdued on back of lower LME prices



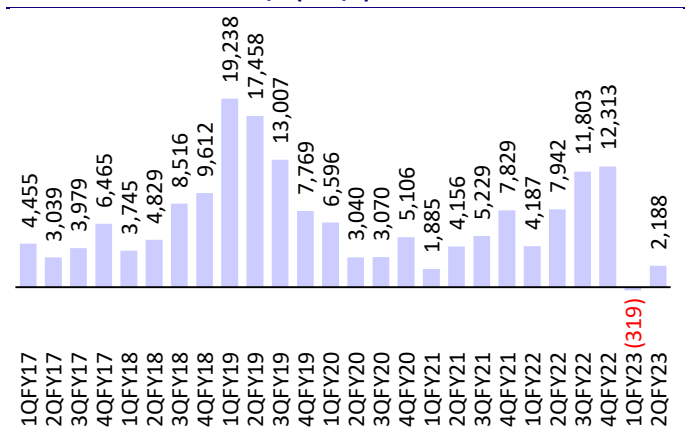
Source: MOFSL, Company

Exhibit 4: Alumina EBIT (INR m) turns profitable



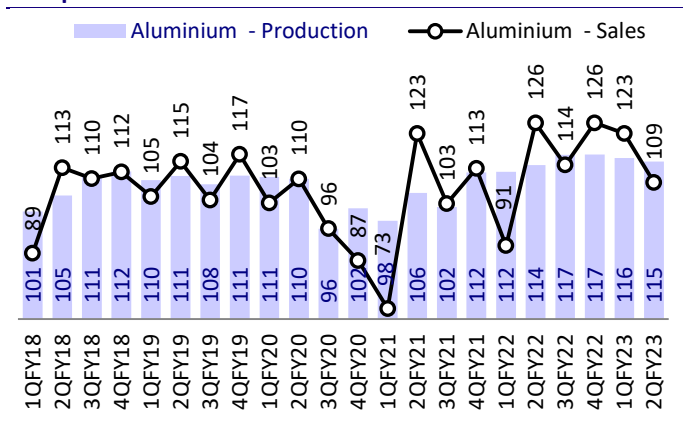
Source: MOFSL, Company

Exhibit 5: Alumina EBIT/t (INR/t) turns black...



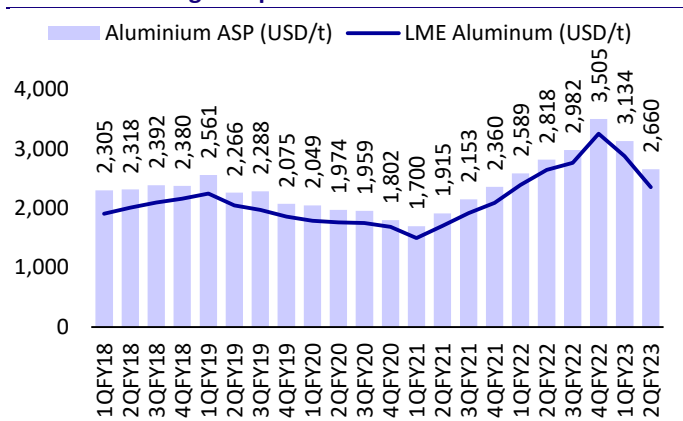
Source: MOFSL, Company

Exhibit 6: Aluminum production and sales (kt) drags during the quarter



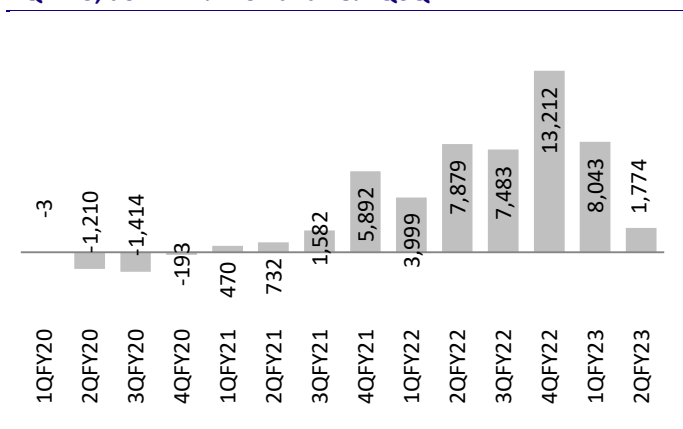
Source: MOFSL, Company

Exhibit 7: Aluminum ASP and Aluminum LME (USD/t) were also down during the quarter



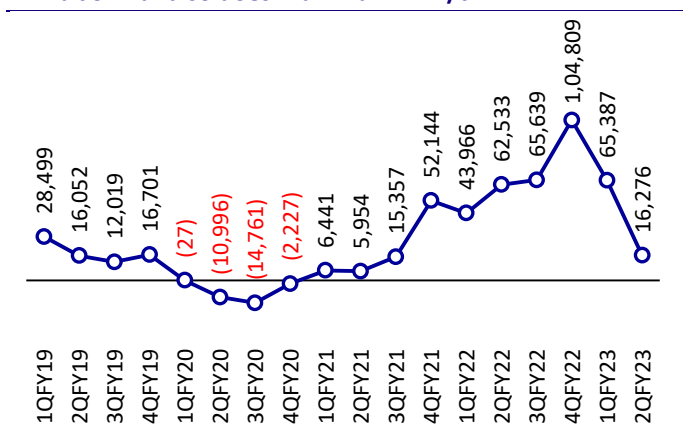
Source: MOFSL, Company

Exhibit 8: Aluminum EBIT (INR m) corrects sharply in 2QFY23; down 77% YoY and 78% QoQ



Source: MOFSL, Company

Exhibit 9: ...and so does Aluminum EBIT/t



Source: MOFSL, Company

Exhibit 10: Valuation and target price

Target Price Calculations		UoM	2023E
Aluminum			
Shipments		kt	453
EBITDA		INR/t	28,715
EBITDA		USD/t	359
EBITDA		INR m	13,000
Alumina			
Shipments		kt	1,129
EBITDA		INR/t	6,268
EBITDA		INR m	7,078
Total EBITDA		INR m	20,078
EV/EBITDA (x)		x	5.0
Target EV		INR m	1,00,392
add: cash surplus		INR m	26,461
Equity Value		INR m	1,26,854
No of Shares o/s		m	1,837
Target Price		INR/sh	70

Source: MOFSL

Exhibit 11: Summary of assumptions and key changes to our estimates

UoM	FY23E			FY24E			
	New	Old	% change	New	Old	% change	
USD/INR	79.9	79.9	0%	80.4	80.4	0%	
Production							
Alumina	kt	1,999	1,993	0%	2,029	2,023	0%
Aluminium	kt	458	460	0%	462	462	0%
Sales							
Alumina	kt	1,210	1,064	14%	1,146	1,146	0%
Aluminium	kt	456	460	-1%	439	439	0%
Assumption							
LME Aluminium	USD/t	2,472	2,451	1%	2,214	2,400	-8%
Alumina	USD/t	393	390	1%	427	437	-2%
Revenue	INR b	138	131	5%	126	130	-3%
EBITDA	"	20	28	-30%	28	48	-41%
PAT	"	12	18	-35%	18	32	-45%

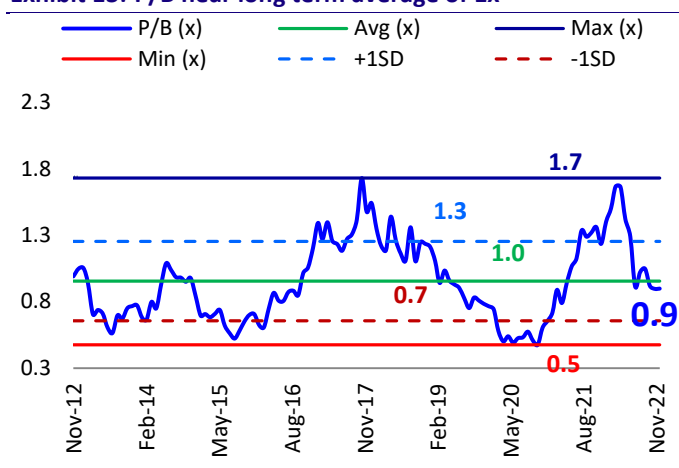
Source: MOFSL, Company

Exhibit 12: Global comparable valuation

Company	M-Cap USD mn	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
Hindalco*	12,009	7.1	9.8	8.7	4.9	5.6	5.2	1.8	1.6	1.4	28.0	17.1	16.8
Nalco*	1,703	4.7	9.3	5.3	2.3	4.7	3.0	1.1	1.0	1.0	25.4	11.6	19.0
Alcoa	7,502	9.4	9.7	7.3	4.1	4.3	3.1	1.5	1.3	1.1	17.9	11.4	13.7
Norsk Hydro	14,159	6.1	9.7	8.9	3.7	5.0	4.5	1.4	1.4	1.3	25.5	13.0	14.4
CHALCO	9,052	7.2	6.5	4.5	5.7	5.4	4.3	0.7	0.6	0.5	9.4	9.5	11.3
RUSAL	7,084	2.9	2.9	3.9	3.3	3.4	NA	0.5	0.5	0.4	25.3	20.3	11.5
Alumina	2,737	21.9	24.2	14.1	19.9	18.6	10.9	1.7	1.6	1.6	8.2	6.4	10.3

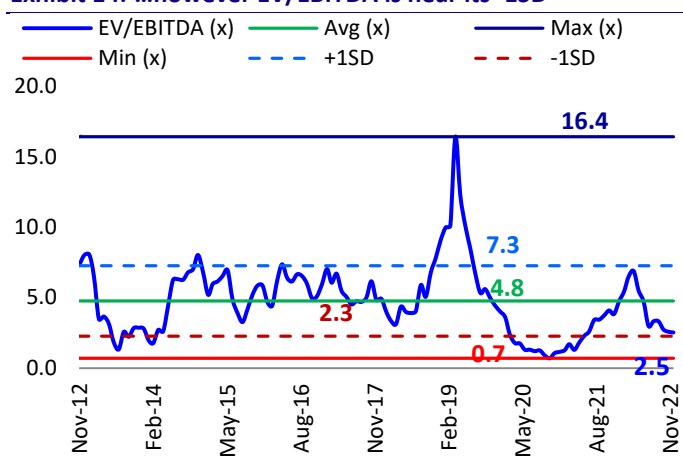
Source: MOFSL, Company, Bloomberg. (*) denotes MOFSL coverage

Exhibit 13: P/B near long term average of 1x



Source: MOFSL

Exhibit 14: ...however EV/EBITDA is near its -1SD



Source: MOFSL

Financials and valuations

Income Statement								(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Net Sales	68,170	75,430	95,094	1,14,993	84,718	89,558	1,41,808	1,37,805	1,25,743
Change (%)		10.7	26.1	20.9	-26.3	5.7	58.3	-2.8	-8.8
Total Expenses	58,575	64,634	78,311	85,432	79,826	71,730	96,637	1,17,726	97,411
EBITDA	9,595	10,797	16,783	29,561	4,892	17,828	45,172	20,078	28,332
% of Net Sales	14.1	14.3	17.6	25.7	5.8	19.9	31.9	14.6	22.5
Depn. & Amortization	4,261	4,804	4,804	4,761	5,298	6,058	8,366	6,123	6,245
EBIT	5,333	5,993	11,979	24,800	-406	11,770	36,806	13,955	22,086
Net Interest	33	27	20	24	57	71	231	160	161
Other income	6,052	4,075	3,008	3,259	2,726	1,466	2,974	2,222	1,700
PBT before EO	11,353	10,041	14,968	28,035	2,262	13,165	39,549	16,017	23,625
EO income	-535	402	5,421	-636	0	0	1	-654	0
PBT after EO	10,818	10,442	20,388	27,399	2,262	13,165	39,550	15,363	23,625
Tax	4,015	2,962	6,964	10,075	880	170	10,029	4,232	6,054
Rate (%)	37.1	28.4	34.2	36.8	38.9	1.3	25.4	27.5	25.6
Reported PAT	6,803	7,480	13,424	17,324	1,382	12,995	29,521	11,131	17,571
Adjusted PAT	7,139	7,193	9,855	17,726	1,382	9,926	29,520	11,605	17,571
Change (%)	2.6	0.8	37.0	79.9	-92.2	618.0	197.4	-60.7	51.4

E: MOFSL Estimates

Balance Sheet								(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Share Capital	12,886	9,665	9,665	9,328	9,328	9,183	9,183	9,183	9,183
Reserves	1,19,063	92,387	95,384	95,517	90,553	97,624	1,16,341	1,21,594	1,30,349
Net Worth	1,31,949	1,02,052	1,05,048	1,04,845	99,881	1,06,807	1,25,524	1,30,777	1,39,532
Total Loans	0	511	450	668	123	461	207	2,207	4,707
Deferred Tax Liability	11,641	12,456	11,515	11,307	10,606	8,937	8,682	8,682	8,682
Capital Employed	1,43,590	1,15,018	1,17,013	1,16,820	1,10,610	1,16,205	1,34,412	1,41,666	1,52,921
Gross Block	70,210	80,489	85,022	91,155	98,443	1,06,258	1,11,452	1,17,452	1,23,452
Less: Accum. Deprn.	4,253	9,044	13,627	18,297	23,595	29,654	38,019	44,142	50,388
Net Fixed Assets	65,957	71,444	71,395	72,858	74,848	76,605	73,432	73,309	73,064
Capital WIP	6,877	5,660	9,152	8,827	14,267	15,755	22,348	31,348	45,348
Investments	9,445	389	1,176	1,758	2,773	3,133	3,110	3,110	3,110
Curr. Assets	84,825	67,517	64,415	68,027	53,609	51,614	73,865	72,536	68,715
Inventories	10,550	11,559	11,941	12,100	16,969	14,763	16,462	22,653	20,670
Account Receivables	2,352	1,843	2,581	2,405	1,401	1,474	753	2,265	2,067
Cash and Bank Balance	51,692	35,084	33,619	35,772	20,355	19,982	37,701	28,668	27,028
Others	20,231	19,031	16,274	17,750	14,884	15,396	18,950	18,950	18,950
Curr. Liability & Prov.	23,513	29,992	29,126	34,650	34,886	30,900	38,343	38,638	37,316
Account Payables	6,559	8,641	9,774	13,069	7,956	9,772	14,807	15,102	13,780
Provisions & Others	16,955	21,351	19,352	21,581	26,930	21,128	23,536	23,536	23,536
Net Curr. Assets	61,311	37,525	35,290	33,377	18,723	20,714	35,522	33,898	31,399
Appl. of Funds	1,43,590	1,15,018	1,17,013	1,16,820	1,10,610	1,16,206	1,34,412	1,41,666	1,52,921

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)									
EPS	3.7	3.7	5.1	9.5	0.7	5.4	16.1	6.3	9.6
Cash EPS	5.7	6.4	9.4	11.8	3.6	10.4	20.6	9.4	13.0
BV/Share	68.3	52.8	54.3	56.2	53.5	58.2	68.3	71.2	76.0
DPS	2.0	2.8	4.7	4.5	2.8	2.5	3.0	3.2	4.8
Payout (%)	79.8	110.4	81.5	84.9	441.7	35.3	18.7	52.8	50.2
Valuation (x)									
P/E	20.1	19.9	14.5	7.8	99.9	13.7	4.6	11.7	7.7
Cash P/E	12.9	11.7	7.9	6.3	20.7	7.1	3.6	7.9	5.7
P/BV	1.1	1.4	1.4	1.3	1.4	1.3	1.1	1.0	1.0
EV/Sales	1.2	1.4	1.1	0.9	1.4	1.3	0.7	0.8	0.9
EV/EBITDA	8.5	10.0	6.5	3.4	23.5	6.4	2.1	5.3	3.9
Dividend Yield (%)	2.7	3.8	6.3	6.1	3.7	3.4	4.1	4.3	6.5
Return Ratios (%)									
EBITDA Margins (%)	14.1	14.3	17.6	25.7	5.8	19.9	31.9	14.6	22.5
Net Profit Margins (%)	10.5	9.5	10.4	15.4	1.6	11.1	20.8	8.4	14.0
RoE	6.2	7.2	9.5	17.2	1.4	9.7	25.4	9.1	13.0
RoCE (pre-tax)	8.0	7.9	12.9	24.0	2.0	11.7	31.7	11.7	16.1
RoIC (pre-tax)	7.1	8.0	16.3	34.6	-0.6	15.6	49.5	18.6	28.3
Working Capital Ratios									
Fixed Asset Turnover (x)	1.0	0.9	1.1	1.3	0.9	0.8	1.3	1.2	1.0
Asset Turnover (x)	0.5	0.7	0.8	1.0	0.8	0.8	1.1	1.0	0.8
Debtor (Days)	13	9	10	8	6	6	2	6	6
Inventory (Days)	56	56	46	38	73	60	42	60	60
Payable (Days)	35	42	38	41	34	40	38	40	40
Leverage Ratio (x)									
Current Ratio	3.6	2.3	2.2	2.0	1.5	1.7	1.9	1.9	1.8

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
(INR m)									
Pre-tax profit	11,887	9,639	20,388	27,399	2,262	12,995	29,514	15,363	23,625
Depreciation	4,261	4,804	4,804	4,761	5,298	6,058	8,366	6,123	6,245
(Inc)/Dec in Wkg. Cap.	-11	1,217	-178	3,274	-9,071	3,819	3,942	-7,409	859
Tax paid	-3,598	-2,184	-4,825	-10,209	-1,005	-975	-7,555	-4,232	-6,054
Others	-3,732	884	-5,524	-447	-971	93	5,316	160	161
CF from Op. Activity	8,808	14,359	14,666	24,779	-3,486	21,990	39,584	10,004	24,837
(Inc)/Dec in FA + CWIP	-5,986	-7,781	-8,374	-7,680	-8,578	-12,188	-12,829	-15,000	-20,000
Free Cash Flow to firm	2,822	6,578	6,292	17,099	-12,064	9,802	26,755	-4,996	4,837
(Pur)/Sale of Investments	-8,555	10,178	1,718	1,272	2,068	-4,835	26	0	0
Interest & div	4,769	2,795	1,522	1,089	1,353	662	2,336		
CF from Inv. Activity	-9,772	5,191	-5,134	-5,319	-5,158	-16,361	-10,466	-15,000	-20,000
Equity raised/(repaid)	0	-28,407	0	-5,074	0	-1,701	0	0	0
Int. Paid	-12	-4	-1	0	-9	-33	-124	-160	-161
Debt raised/(repaid)	0	511	-61	218	-579	338	-254	2,000	2,500
Dividend (incl. tax)	-5,428	-8,259	-10,934	-12,451	-6,185	-4,606	-11,020	-5,877	-8,816
Other financing activities									
CF from Fin. Activity	-5,440	-36,159	-10,997	-17,308	-6,773	-6,002	-11,398	-4,037	-6,477
(Inc)/Dec in Cash	-6,404	-16,608	-1,465	2,153	-15,416	-374	17,719	-9,033	-1,640
Add: opening Balance	58,095	51,692	35,084	33,619	35,772	20,355	19,982	37,701	28,668
Closing Balance	51,692	35,084	33,619	35,772	20,355	19,982	37,700	28,668	27,028

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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