9 November 2023

2QFY24 Results Update | Sector: Metals

Nalco

Estimate changes	↓
TP change	⟷
Rating change	⟷

Bloomberg	NACL IN
Equity Shares (m)	1837
M.Cap.(INRb)/(USDb)	166 / 2
52-Week Range (INR)	106 / 70
1, 6, 12 Rel. Per (%)	-3/3/15
12M Avg Val (INR M)	913

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	142	134	142
EBITDA	24	22	27
Adj. PAT	14	12	16
EBITDA Margin (%)	17	16	19
Cons. Adj. EPS (INR)	7.8	6.3	8.6
EPS Gr. (%)	-51	-19	35
BV/Sh. (INR)	71	75	80
Ratios			
Net D:E	-0.2	-0.2	-0.3
RoE (%)	11	9	11
RoCE (%)	14	12	15
Payout (%)	58	59	46
Valuations			
P/E (x)	11.6	14.3	10.6
P/BV (x)	1.3	1.2	1.1
EV/EBITDA(x)	5.8	6.1	4.7
Div. Yield (%)	5.0	4.1	4.4
FCF Yield (%)	-2.3	8.6	8.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	51.3	51.3	51.3
DII	17.5	15.4	12.6
FII	13.7	15.0	14.7
Others	17.6	18.4	21.5

FII Includes depository receipts

CMP: INR90 **TP: INR90** **Neutral**

Revenue in line; higher costs drag EBITDA

- Nalco (NACL)'s revenue declined 13% YoY to INR30.4b, in line with our estimate of INR31.6b in 2QFY24.
- EBITDA increased 19% YoY to INR4b, which was below our estimate of INR5.4b. The miss was due to lower aluminum production volumes, higher input cost, higher power expense, and higher employee cost, which was partially offset by lower 'other expenses'.
- APAT increased 49% YoY to INR1.9b, which was a 39% miss to our estimate of INR3.1b. APAT was adversely impacted by weak operating performance and higher depreciation, which was partially offset by lower tax and higher 'other income'.
- NACL declared an interim dividend of INR1 (Record date 22 Nov'23).
- Net cash as on 1HFY24 increased INR519m to INR24.8b (v/s INR24.3b in Mar'23).

Segmental Performance – Chemical business

- Production volume of the chemical vertical stood flat YoY at 484kt, which was an 8% miss to our estimate of 525kt.
- In 2QFY24, the Chemical business experienced a decline in revenue, impacting the overall performance. The revenue for the quarter stood at INR12.4b (down 17% YoY). Average realizations from the chemical vertical saw a sharp decline of 21% YoY to ~USD311/t.

Segmental Performance – Aluminum business

- Production volume was broadly in line with our estimate of 115kt (down 2% YoY) and stood at 112kt.
- Revenue from the aluminum business improved 1% YoY and stood at INR23.4b. Average realizations from the aluminum vertical witnessed an improvement of 1% YoY (improvement of USD19/t YoY) to ~USD2,533/t, which was better than our estimate of USD2,365/t.
- EBIT/t improved 13% YoY to USD218/t, which was in line with our estimate of USD221/t.

Valuation and view

- We expect NACL to operate at full capacity, leaving little room for volume growth over the next two years and the next phase of growth is expected to commence once the fifth stream of its alumina refinery comes on stream by May'25.
- NACL is also expected to operationalize Utkal D coal block by the end of CY23, addressing ~25-28% of the coal needs for the Angul smelter. This development would significantly enhance raw material security, thereby boosting margins until the expanded capacity comes online.
- In line with its recent 2QFY24 performance, we have cut our FY24E EBITDA/APAT by 7%/16% and FY25E EBITDA/APAT by 4%/9%.
- NACL trades at 4.7x FY25E EV/EBITDA and 1.1x FY25E P/B and appears to be fully priced in. **We reiterate our Neutral rating on the stock with an unchanged TP of INR90.**

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Quarterly performance

INR m

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	**37,833**	**34,896**	**32,900**	**36,709**	**31,784**	**30,434**	**34,712**	**37,342**	**1,42,337**	**1,34,271**	**31,625**	**-3.8**
Change (YoY %)	52.9	-2.9	-12.8	-15.4	-16.0	-12.8	5.5	1.7	0.4	-5.7		
Change (QoQ %)	-12.8	-7.8	-5.7	11.6	-13.4	-4.2	14.1	7.6				
EBITDA	**8,687**	**3,344**	**4,598**	**7,665**	**5,943**	**3,965**	**5,701**	**6,352**	**24,293**	**21,962**	**5,397**	**-26.5**
Change (YoY %)	49.6	-70.3	-61.4	-52.6	-31.6	18.6	24.0	-17.1	-46.2	-9.6		
Change (QoQ %)	-46.3	-61.5	37.5	66.7	-22.5	-33.3	43.8	11.4				
Interest	39	41	42	7	23	40	46	47	129	155		
Depreciation	1,497	1,537	1,571	2,554	1,697	1,862	1,832	1,938	7,158	7,329		
Other Income	629	693	663	559	485	686	554	490	2,544	2,215		
PBT (before SA)	**7,781**	**2,459**	**3,648**	**5,663**	**4,709**	**2,750**	**4,377**	**4,858**	**19,550**	**16,694**		
Sh. of Asso.	-207	-447	-175	-269	-156	-189	-243	-271	-1,098	-860		
PBT (after SA)	**7,573**	**2,012**	**3,473**	**5,394**	**4,553**	**2,561**	**4,134**	**4,586**	**18,452**	**15,834**		
Total Tax	1,994	758	910	444	1,215	687	1,100	1,220	4,105	4,222		
% Tax	26.3	37.7	26.2	8.2	26.7	26.8	26.6	26.6	22.2	26.7		
Reported PAT	**5,579**	**1,254**	**2,563**	**4,950**	**3,338**	**1,874**	**3,034**	**3,366**	**14,347**	**11,611**		
Adjusted PAT	**5,579**	**1,254**	**2,563**	**4,950**	**3,338**	**1,874**	**3,034**	**3,366**	**14,347**	**11,611**	**3,091**	**-39.4**
Change (YoY %)	60.4	-83.2	-69.2	-51.7	-40.2	49.4	18.4	-32.0	-51.4	-19.1		
Change (QoQ %)	-45.6	-77.5	104.4	93.1	-32.6	-43.9	62.0	10.9				

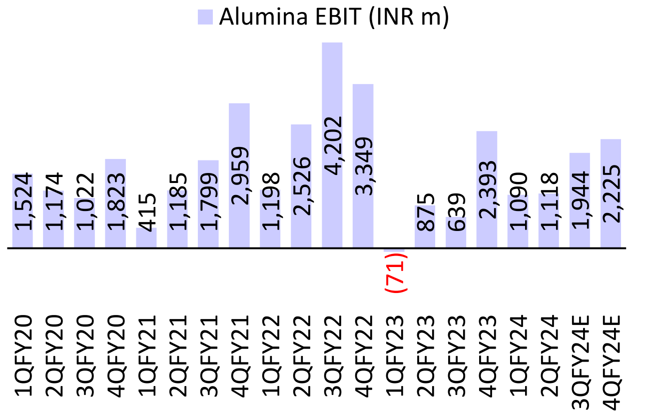
Source: MOFSL, Company

Exhibit 1: Segmental quarterly performance (INR m)

	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Chemicals revenue	11,993	15,074	12,647	16,073	11,690	12,446	14,769	16,625	55,788	55,529	15,689	-20.7
Aluminum revenue	29,801	23,079	24,155	25,408	24,668	23,401	26,090	27,033	1,02,443	1,01,190	22,465	4.2
Inter-segment Revenue	-3,961	-3,258	-3,902	-4,773	-4,574	-5,412	-6,147	-6,316	-15,894	-22,448	-6,530	-17.1
Net Sales	37,833	34,896	32,900	36,709	31,784	30,434	34,712	37,342	1,42,337	1,34,271	31,625	-3.8
Chemicals EBIT	-71	875	639	2,393	1,090	1,118	1,944	2,225	3,836	6,376	2,598	-57.0
Chemicals EBIT margin %	-1	6	5	15	9	9	13	13	7	11		
Aluminum EBIT	8,043	1,774	2,835	5,136	3,782	2,016	2,949	3,254	17,787	12,001	2,102	-4.1
Aluminum EBIT margin %	27	8	12	20	15	9	11	12	17	12		

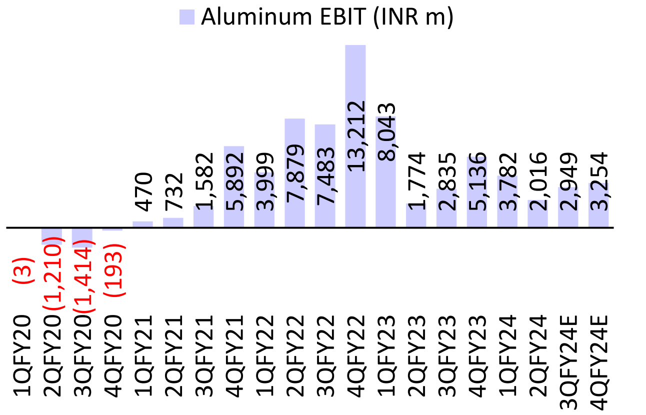
Source: MOFSL, Company

Exhibit 2: Alumina EBIT (INR m) is expected to rise in 3QFY24



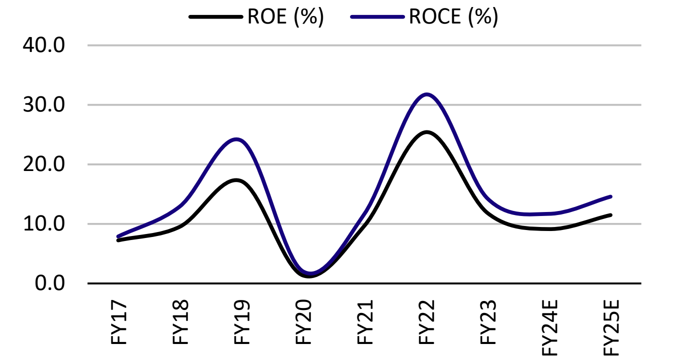
Source: MOFSL, Company

Exhibit 3: Aluminum EBIT (INR m) is also expected to increase in 2HFY24



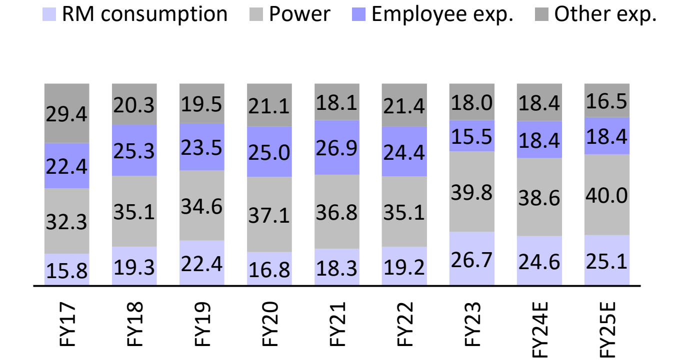
Source: MOFSL, Company

Exhibit 4: ROE and ROCE are expected to pick up from FY25E onwards



Source: MOFSL, Company

Exhibit 5: Power as a % of total expenses is expected to remain at elevated levels



Source: MOFSL, Company

Exhibit 6: Valuation and target price

TP calculations	UoM	2025E
NACL EBITDA	**INR m**	**27,030**
EV/EBITDA (x)	x	4.5
Target EV	INR m	1,21,635
add: cash surplus	INR m	38,092
Equity Value	INR m	1,59,727
No of Shares o/s	m	1,837
Target Price	**INR/sh**	**90**

Source: MOFSL

Exhibit 7: Summary of key changes to our estimates

		FY24E			FY25E		
	UoM	New	Old	% change	New	Old	% change
Production							
Alumina	kt	2,100	2,100	0.0%	2,121	2,121	0.0%
Aluminium	kt	460	460	0.0%	460	460	0.0%
Revenue	INR b	134	134	0.4%	142	141	0.6%
EBITDA	"	22	24	-7.2%	27	28	-3.6%
PAT	"	12	14	-16.3%	16	17	-9.0%

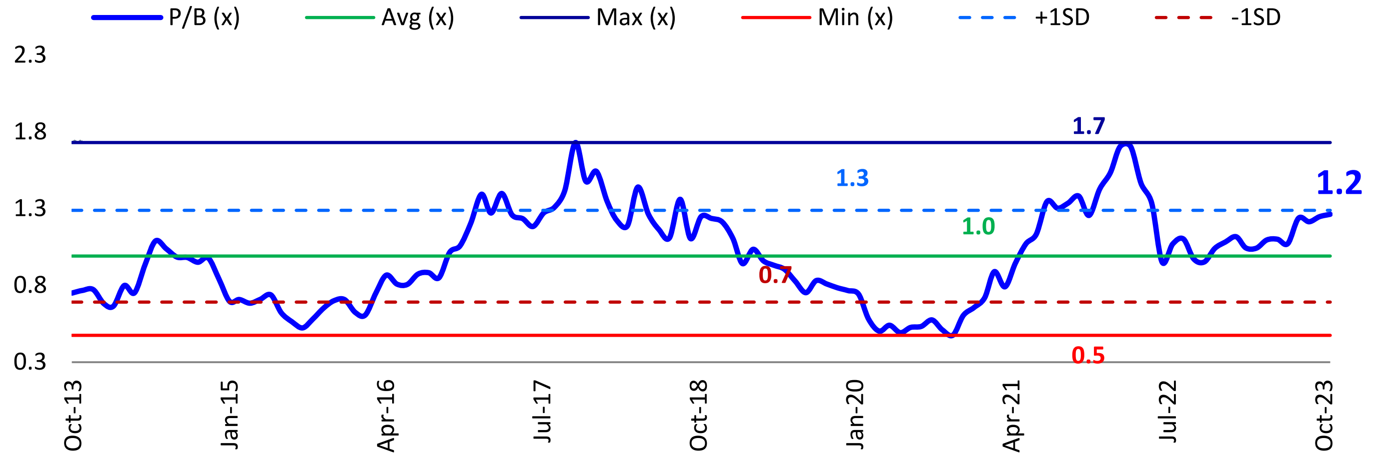
Source: MOFSL, Company

Exhibit 8: Global comparable valuation

	M-Cap	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
Company	USD mn	CY22/FY23	CY23/FY24	CY22/FY23	CY23/FY24	CY22/FY23	CY23/FY24	CY22/FY23	CY23/FY24
Hindalco*	13,077	10.7	10.0	6.4	5.8	1.6	1.4	16.3	14.5
Nalco*	**1,993**	**11.6**	**14.3**	**5.8**	**6.1**	**1.3**	**1.2**	**11.2**	**8.7**
Alcoa	4,556	NA	23.7	12.7	5.8	1.0	1.0	-9.1	2.2
Norsk Hydro	11,408	13.6	10.5	6.0	5.1	1.2	1.2	8.6	11.2
CHALCO	12,463	9.8	8.6	6.1	5.0	1.0	0.9	11.2	11.7
RUSAL	5,447	3.9	2.8	6.6	4.7	0.4	0.4	10.6	14.1
Alumina	1,383	NA	19.1	NA	14.1	0.9	0.9	-3.2	4.3

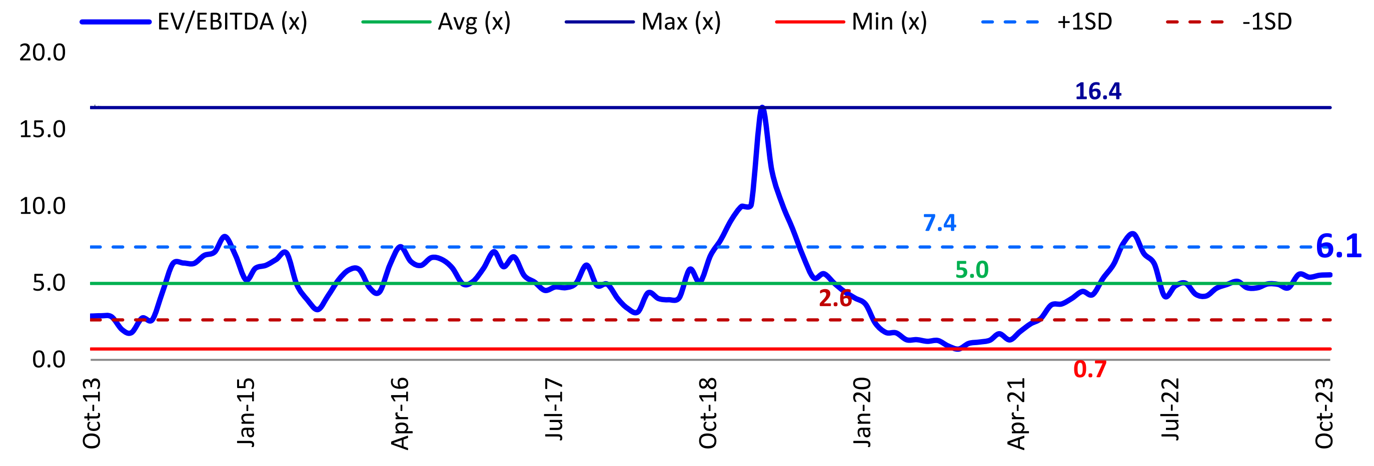
Source: MOFSL, Company, Bloomberg. (*) denotes MOFSL coverage

Exhibit 9: P/B near +1SD



Source: Company data

Exhibit 10: ...while EV/EBITDA remains between LTA and +1SD



Source: Company data

Financials and valuations

Income Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Net Sales	**75,430**	**95,094**	**1,14,993**	**84,718**	**89,558**	**1,41,808**	**1,42,337**	**1,34,271**	**1,42,009**
Change (%)	10.7	26.1	20.9	-26.3	5.7	58.3	0.4	-5.7	5.8
Total Expenses	64,634	78,311	85,432	79,826	71,730	96,637	1,18,044	1,12,309	1,14,978
EBITDA	**10,797**	**16,783**	**29,561**	**4,892**	**17,828**	**45,172**	**24,293**	**21,962**	**27,030**
% of Net Sales	14.3	17.6	25.7	5.8	19.9	31.9	17.1	16.4	19.0
Depn. & Amortization	4,804	4,804	4,761	5,298	6,058	8,366	7,158	7,329	7,744
EBIT	**5,993**	**11,979**	**24,800**	**-406**	**11,770**	**36,806**	**17,135**	**14,633**	**19,286**
Net Interest	27	20	24	57	71	231	129	155	143
Other income	4,075	3,008	3,259	2,726	1,466	2,974	2,544	2,215	2,795
PBT before SA	**10,041**	**14,968**	**28,035**	**2,262**	**13,165**	**39,549**	**19,550**	**16,694**	**21,938**
SA (incl. other adj.)	402	5,421	-636	0	0	1	-1,098	-860	-704
PBT after SA	**10,442**	**20,388**	**27,399**	**2,262**	**13,165**	**39,550**	**18,452**	**15,834**	**21,234**
Current tax	2,195	6,964	10,075	880	170	10,029	4,105	4,222	5,511
Deffered tax	767	0	0	0	0	0	0	0	0
Tax	2,962	6,964	10,075	880	170	10,029	4,105	4,222	5,511
Rate (%)	28.4	34.2	36.8	38.9	1.3	25.4	22.2	26.7	26.0
Reported PAT	**7,480**	**13,424**	**17,324**	**1,382**	**12,995**	**29,521**	**14,347**	**11,611**	**15,723**
Adjusted PAT	**7,193**	**9,855**	**17,324**	**1,382**	**12,995**	**29,521**	**14,347**	**11,611**	**15,723**
Change (%)	0.8	37.0	75.8	-92.0	840.1	127.2	-51.4	-19.1	35.4

INR m

Balance Sheet

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	9,665	9,665	9,328	9,328	9,183	9,183	9,183	9,183	9,183
Reserves	92,387	95,384	95,517	90,553	97,624	1,16,341	1,22,081	1,27,708	1,36,834
Net Worth	**1,02,052**	**1,05,048**	**1,04,845**	**99,881**	**1,06,807**	**1,25,524**	**1,31,264**	**1,36,891**	**1,46,017**
Total Loans	511	450	668	123	461	207	478	408	408
Deferred Tax Liability	12,456	11,515	11,307	10,606	8,937	8,682	9,578	9,578	9,578
Capital Employed	**1,15,018**	**1,17,013**	**1,16,820**	**1,10,610**	**1,16,205**	**1,34,412**	**1,41,319**	**1,46,876**	**1,56,002**
Gross Block	80,489	85,022	91,154	98,160	1,05,504	1,10,486	1,16,918	1,21,418	1,30,418
Less: Accum. Deprn.	9,044	13,627	18,297	23,312	28,900	37,054	43,889	51,218	58,962
Net Fixed Assets	**71,444**	**71,395**	**72,857**	**74,848**	**76,605**	**73,432**	**73,028**	**70,199**	**71,456**
Capital WIP	5,660	9,152	8,827	14,267	15,755	22,348	32,689	33,189	34,189
Investments	389	1,176	1,758	2,773	3,133	3,110	2,132	2,132	2,132
Curr. Assets	**67,517**	**64,415**	**68,028**	**53,609**	**51,614**	**73,865**	**68,417**	**77,052**	**84,700**
Inventories	11,559	11,941	12,100	16,969	14,763	16,462	18,402	19,567	20,694
Account Receivables	1,843	2,581	2,406	1,401	1,474	753	913	1,104	1,167
Cash and Bank Balance	35,084	33,619	35,772	20,355	19,982	37,701	22,631	29,911	36,368
Others	19,031	16,274	17,750	14,884	15,396	18,950	26,471	26,471	26,471
Curr. Liability & Prov.	**29,992**	**29,126**	**34,650**	**34,886**	**30,900**	**38,343**	**34,947**	**35,697**	**36,474**
Account Payables	8,641	9,774	13,069	7,956	9,772	14,807	12,743	13,493	14,270
Provisions & Others	21,351	19,352	21,581	26,930	21,128	23,536	22,204	22,204	22,204
Net Curr. Assets	**37,525**	**35,290**	**33,378**	**18,723**	**20,714**	**35,522**	**33,470**	**41,356**	**48,226**
Appl. of Funds	**1,15,018**	**1,17,013**	**1,16,820**	**1,10,610**	**1,16,206**	**1,34,412**	**1,41,319**	**1,46,876**	**1,56,002**

INR m

Financials and valuations

Cashflow Statement									INR m
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Pre-tax profit	9,639	20,388	27,399	2,262	12,995	29,514	14,347	16,694	21,938
Depreciation	4,804	4,804	4,761	5,298	6,058	8,366	7,158	7,329	7,744
(Inc)/Dec in Wkg. Cap.	1,217	-178	3,274	-9,071	3,819	3,942	-4,169	-605	-414
Tax paid	-2,184	-4,825	-10,209	-1,005	-975	-7,555	-7,467	-4,222	-5,511
Others (incl Fin. Cost)	884	-5,524	-1,137	-971	93	5,316	-786	155	143
CF from Op. Activity	**14,359**	**14,666**	**24,089**	**-3,486**	**21,990**	**39,584**	**9,083**	**19,350**	**23,900**
(Inc)/Dec in FA + CWIP	-7,781	-8,374	-7,680	-8,578	-12,188	-12,829	-12,962	-5,000	-10,000
Free Cash Flow to firm	**6,578**	**6,292**	**16,409**	**-12,064**	**9,802**	**26,755**	**-3,880**	**14,350**	**13,900**
(Pur)/Sale of Investments	20,490	3,188	1,272	15,953	-2,511	-15,700	11,189		
Interest & div	2,795	1,522	1,089	1,353	662	2,336	-1,569		
CF from Inv. Activity	**15,503**	**-3,664**	**-5,319**	**8,727**	**-14,037**	**-26,192**	**-3,343**	**-5,000**	**-10,000**
Equity raised/(repaid)	-28,407	0	-5,074	0	-1,701	0	0	0	0
Int. Paid	-4	-1	0	-9	-33	-124	-15	-155	-143
Debt raised/(repaid)	511	-61	218	-579	338	-254	-37	-70	0
Dividend (incl. tax)	-8,259	-10,934	-12,451	-6,185	-4,606	-11,020	-9,183	-6,845	-7,301
Other financing activities									
CF from Fin. Activity	**-36,159**	**-10,997**	**-17,308**	**-6,773**	**-6,002**	**-11,398**	**-9,235**	**-7,069**	**-7,443**
(Inc)/Dec in Cash	**-6,296**	**5**	**1,463**	**-1,531**	**1,951**	**1,993**	**-3,495**	**7,281**	**6,457**
Add: opening Balance	6,544	248	254	1,716	185	2,135	4,128	633	7,914
Closing cash balance	248	254	1,716	185	2,135	4,128	633	7,914	14,370
Bank Balance	34,835	33,366	34,056	20,171	17,846	33,573	21,998	21,998	21,998
Closing Balance (incl. bank balance)	**35,084**	**33,619**	**35,772**	**20,355**	**19,982**	**37,701**	**22,631**	**29,911**	**36,368**

Ratios									
Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)									
EPS	**3.7**	**5.1**	**9.3**	**0.7**	**7.1**	**16.1**	**7.8**	**6.3**	**8.6**
Cash EPS	6.4	9.4	11.8	3.6	10.4	20.6	11.7	10.3	12.8
BV/Share	52.8	54.3	56.2	53.5	58.2	68.3	71.5	74.5	79.5
DPS	2.8	5.7	5.8	1.5	3.5	6.5	4.5	3.7	4.0
Payout (%)	75.2	111.8	61.9	202.4	49.5	40.4	57.6	58.9	46.4
Valuation (x)									
P/E	24.3	17.7	9.7	122.0	12.8	5.6	11.6	14.3	10.6
Cash P/E	14.2	9.6	7.6	25.2	8.7	4.4	7.7	8.8	7.1
P/BV	1.7	1.7	1.6	1.7	1.6	1.3	1.3	1.2	1.1
EV/Sales	1.9	1.5	1.1	1.7	1.6	0.9	1.0	1.0	0.9
EV/EBITDA	12.9	8.4	4.5	29.8	8.0	2.8	5.8	6.1	4.7
Dividend Yield (%)	3.1	6.3	6.4	1.7	3.9	7.2	5.0	4.1	4.4
Return Ratios (%)									
EBITDA Margins (%)	14.3	17.6	25.7	5.8	19.9	31.9	17.1	16.4	19.0
Net Profit Margins (%)	9.5	10.4	15.1	1.6	14.5	20.8	10.1	8.6	11.1
RoE (pre-tax)	7.2	9.5	16.8	1.4	12.7	25.4	11.2	8.7	11.1
RoCE (pre-tax)	7.9	12.9	24.0	2.0	11.7	31.7	14.3	11.7	14.6
RoIC (pre-tax)	8.0	16.3	34.6	-0.6	15.6	49.5	22.1	17.7	23.4
Working Capital Ratios									
Fixed Asset Turnover (x)	0.9	1.1	1.3	0.9	0.8	1.3	1.2	1.1	1.1
Asset Turnover (x)	0.7	0.8	1.0	0.8	0.8	1.1	1.0	0.9	0.9
Debtor (Days)	9	10	8	6	6	2	2	3	3
Inventory (Days)	56	46	38	73	60	42	47	53	53
Payable (Days)	42	38	41	34	40	38	33	37	37
Leverage Ratio (x)									
Current Ratio	2.3	2.2	2.0	1.5	1.7	1.9	2.0	2.2	2.3

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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