

Industry : Metals

CMP : Rs.221.15

Price Target : Rs.240

Accumulate

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Current

 Recommendation ACCU
 CMP (INR) 221.15
 Target Price (INR) 240.00

Key Data

 Bloomberg NACL@IN
 Reuters Code NALU.BO
 BSE Code 532234
 NSE Code NATIONALUM
 Face Value 10.00
 Market Cap. (INR bn) 142.49
 52 Week High (INR) 334.95
 52 Week Low (INR) 185.00

Scrip Scan

 Equity Rs.bn 6.40
 FY07E EPS 32.06
 FY08E EPS 30.05

Shareholding (31.12.06) (%)

 Promoters 87.15
 FIIs 1.82
 FIs 6.90
 Public 4.13
 Grand Total 100.00

Highlights for the quarter

- Alumina production at 382200MT was better than expectations and rose by 12.7% q-o-q. Alumina realizations were down 34% q-o-q and increased by 0.03% y-o-y. EBIT margins stood at 62.6% compared to 59.2% in the previous year.
- Aluminium metal production declined by 1.3% y-o-y and realizations rose by 9.1% q-o-q and 23.9% y-o-y. EBIT margins improved to 31% from 26.5% last year on the back of strong realizations.
- Total revenues for the quarter registered a growth of 10.1% y-o-y at Rs.15880.7mn. EBIDTA margins were 53.2% as against 46.1% last year. Net profit at Rs.5726mn grew by 45.7% y-o-y.
- The second phase of aluminium expansion is moving as per schedule and is likely to increase refining capacity from 1.58mn tonnes to 2.1mn tonnes and smelting capacity from 0.34mn tonnes to 0.46mn tonnes.

Valuation:

Nalco performance was mainly driven by higher average aluminium realizations. The strong outlook of aluminium prices for Q4FY07 and the improvement in alumina prices is likely to maintain the growth momentum for the company. At the CMP of Rs.221.15, the stock is trading at 6.9x FY07E and 7.4x FY08E. **We recommend "ACCUMULATE" and maintain a one-year target price of Rs.240.**

Quarterly Performance
(Rs.mn)

| | Q3FY07 | Q3FY06 | Q2FY07 | 9mFY07 | 9mFY06 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 15,880.7 | 14,425.9 | 15,826.5 | 32,034.7 | 22,216.8 |
| % Change (yoy) | 10.1 | | | 44.2 | |
| Operating Expenses | 7,431.5 | 7,780.9 | 7,075.5 | 13,940.2 | 12,732.6 |
| EBIDTA | 8,449.2 | 6,645.0 | 8,751.0 | 18,094.5 | 9,484.2 |
| % Change (yoy) | 27.2 | | | 90.8 | |
| EBIDTA Margin (%) | 53.2 | 46.1 | 55.3 | 56.5 | 42.7 |
| Interest | - | - | - | - | - |
| Depreciation | 744.0 | 918.6 | 771.2 | 1,558.0 | 1,974.7 |
| Other Income | 978.3 | 544.5 | 1,014.3 | 1,848.2 | 879.9 |
| PBT | 8,683.5 | 6,270.9 | 8,994.1 | 18,384.7 | 8,389.4 |
| Tax | 2,957.5 | 2,340.6 | 3,044.1 | 6,211.7 | 2,753.4 |
| PAT | 5,726.0 | 3,930.3 | 5,950.0 | 12,173.0 | 5,636.0 |
| % Change (yoy) | 45.7 | | | 116.0 | |
| Net Profit Margin (%) | 36.1 | 27.2 | 37.6 | 38.0 | 25.4 |
| Equity | 6,443.1 | 6,443.1 | 6,443.1 | 6,443.1 | 6,443.1 |
| EPS | 8.9 | 6.1 | 9.2 | 18.9 | 8.7 |

Income Statement

| | (Rs.Mn) | | | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
| | FY05 | FY06 | FY07E | FY08E |
| Revenues | 44,399.9 | 52,958.8 | 59,303.2 | 56,815.8 |
| % Ch. YoY | 33.0 | 19.3 | 12.0 | (4.2) |
| Total Expenditure | 22,832.5 | 27,111.8 | 27,576.0 | 26,078.4 |
| % Ch. YoY | 17.8 | 18.7 | 1.7 | (5.4) |
| % of total sales | 51.4 | 51.2 | 46.5 | 45.9 |
| Raw Materials | 4,029.0 | 4,671.5 | 4,151.2 | 3,863.5 |
| Excise Duty | 3,160.3 | 4,354.6 | 5,337.3 | 5,113.4 |
| Power & Fuel | 7,583.4 | 9,378.4 | 8,302.5 | 7,386.1 |
| Other Manufacturing Expenses | 2,768.2 | 3,318.9 | 3,676.8 | 3,693.0 |
| Employee Cost | 2,899.9 | 3,314.5 | 3,439.6 | 3,408.9 |
| Selling and Admn Exp | 2,374.1 | 2,366.1 | 2,668.6 | 2,613.5 |
| Miscellaneous Exp | 17.6 | (292.2) | - | - |
| Operating Profit / PBDIT | 21,567.4 | 25,847.0 | 31,727.2 | 30,737.3 |
| % Ch. YoY | 54.0 | 19.8 | 22.8 | (3.1) |
| % of total sales | 48.6 | 48.8 | 53.5 | 54.1 |
| Interest | 606.1 | - | - | - |
| % Ch. YoY | (48.7) | | | |
| PBDT | 20,961.3 | 25,847.0 | 31,727.2 | 30,737.3 |
| Depreciation | 4,610.8 | 3,772.4 | 3,230.0 | 3,400.0 |
| % Ch. YoY | 5.0 | (18.2) | (14.4) | 5.3 |
| PBT before Other Income | 16,350.5 | 22,074.6 | 28,497.2 | 27,337.3 |
| Other Income | 2,352.2 | 2,221.8 | 2,800.0 | 2,000.0 |
| % Ch. YoY | 20.3 | (5.5) | 26.0 | (28.6) |
| PBT after Other Income | 18,702.7 | 24,296.4 | 31,297.2 | 29,337.3 |
| Tax | 6,354.3 | 8,674.4 | 10,641.1 | 9,974.7 |
| % Ch. YoY | 101.5 | 36.5 | 22.7 | (6.3) |
| % of PBT | 34.0 | 35.7 | 34.0 | 34.0 |
| APAT | 12,348.4 | 15,622.0 | 20,656.2 | 19,362.6 |
| % Ch. YoY | 70.6 | 26.5 | 32.2 | (6.3) |
| % of total sales | 27.8 | 29.5 | 34.8 | 34.1 |

Balance Sheet

| | (Rs.Mn) | | | |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | FY05 | FY06 | FY07E | FY08E |
| SOURCES OF FUNDS | | | | |
| Equity share capital | 6,443.1 | 6,443.1 | 6,443.1 | 6,443.1 |
| Reserves & Surplus | 40,535.0 | 52,483.6 | 67,793.3 | 84,514.4 |
| Equity share holders funds | 46,978.1 | 58,926.7 | 74,236.4 | 90,957.5 |
| Deferred Tax Liability | 6,524.5 | 6,417.3 | 7,230.0 | 7,450.0 |
| Capital Employed | 53,502.6 | 65,344.0 | 81,466.4 | 98,407.5 |
| APPLICATION OF FUNDS | | | | |
| Gross Block | 87,845.5 | 89,612.2 | 99,612.2 | 111,612.2 |
| Less: Depreciation | 46,455.5 | 50,167.1 | 53,397.1 | 56,797.1 |
| Net Block | 41,390.0 | 39,445.1 | 46,215.1 | 54,815.1 |
| Capital WIP | 2,066.1 | 2,321.6 | 12,000.0 | 16,000.0 |
| Investments | - | - | - | - |
| Inventories | 5,290.6 | 5,915.8 | 5,930.3 | 5,681.6 |
| Sundry Debtors | 928.1 | 294.2 | 1,156.4 | 1,136.3 |
| Cash & Bank Bal | 7,552.1 | 21,937.1 | 23,324.9 | 26,952.4 |
| Loans & Advances | 4,339.6 | 4,831.7 | 1,940.0 | 1,940.0 |
| Curr Assets, Loans & Adv | 18,110.4 | 32,978.8 | 32,351.6 | 35,710.3 |
| Curr Liabilities | 6,162.5 | 6,073.3 | 5,811.7 | 4,829.3 |
| Provision | 1,901.4 | 3,328.2 | 3,288.6 | 3,288.6 |
| Curr Liab & Prov | 8,063.9 | 9,401.5 | 9,100.3 | 8,118.0 |
| Net Current Assets | 10,046.5 | 23,577.3 | 23,251.3 | 27,592.3 |
| Miscellaneous Exp | - | - | - | - |
| Total Assets | 53,502.6 | 65,344.0 | 81,466.4 | 98,407.4 |

Ratios

| | FY05 | FY06 | FY07E | FY08E |
|-------------------------------|-----------|-----------|-----------|-----------|
| Valuation | | | | |
| EPS (Rs.) | 19.2 | 24.2 | 32.1 | 30.1 |
| CEPS (Rs.) | 26.3 | 30.1 | 37.1 | 35.3 |
| BVPS (Rs) | 72.9 | 91.5 | 115.2 | 141.2 |
| PER (x) | 11.5 | 9.1 | 6.9 | 7.4 |
| PEG (x) | 0.2 | 0.3 | 0.2 | (1.1) |
| P/CEPS (x) | 8.4 | 7.3 | 6.0 | 6.3 |
| P/BV (x) | 3.0 | 2.4 | 1.9 | 1.6 |
| EV/EBITDA (x) | 6.6 | 5.5 | 4.5 | 4.6 |
| EV/Net Sales (x) | 3.2 | 2.7 | 2.4 | 2.5 |
| Growth (%) | | | | |
| Net Sales | 33.0 | 19.3 | 12.0 | (4.2) |
| Adjusted Net Profit | 70.6 | 26.5 | 32.2 | (6.3) |
| EBITDA | 54.0 | 19.8 | 22.8 | (3.1) |
| EPS | 70.6 | 26.5 | 32.2 | (6.3) |
| CEPS | 45.8 | 14.4 | 23.2 | (4.7) |
| Gross Fixed Assets | 8.5 | 2.0 | 11.2 | 12.0 |
| Capital Employed | 6.6 | 22.1 | 24.7 | 20.8 |
| Profitability | | | | |
| ROCE (%) | 40.3 | 39.6 | 38.9 | 31.2 |
| ROE (%) | 26.3 | 26.5 | 27.8 | 21.3 |
| EBIDTA Margin (%) | 48.6 | 48.8 | 53.5 | 54.1 |
| EBDTA Margin (%) | 47.2 | 48.8 | 53.5 | 54.1 |
| Net Profit Margin (%) | 27.8 | 29.5 | 34.8 | 34.1 |
| Tax/PBT (%) | 34.0 | 35.7 | 34.0 | 34.0 |
| Turnover | | | | |
| Avg. Collection Period (Days) | 8 | 2 | 7 | 7 |
| Avg. Payment Period (Days) | 731 | 735 | 800 | 767 |
| Net Fixed Assets (x) | 1.1 | 1.3 | 1.3 | 1.0 |
| Total Assets (x) | 0.8 | 0.8 | 0.7 | 0.6 |
| Basic Data | | | | |
| Sh. Price | 221.2 | 221.2 | 221.2 | 221.2 |
| Market Capitalisation (Rs.mn) | 142,489.2 | 142,489.2 | 142,489.2 | 142,489.2 |
| Enterprise Value (Rs.mn) | 142,489.2 | 142,489.2 | 142,489.2 | 142,489.2 |

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