

National Aluminium

Performance Highlights

National Aluminium (Nalco) net revenue increased by 47.3% yoy and 15.7% qoq to Rs1,604cr, higher than ours and consensus estimates. The growth in the top-line was mainly driven by higher realisations and an increase in electricity sales. EBITDA margins expanded by 2,496bp yoy and 1,239bp qoq, due to a substantial reduction in raw material costs, power and staff costs. Consequently, the net profit increased by 371.5% and 152.3% qoq to Rs392cr, ahead of ours and consensus estimates. We believe that Nalco is trading at rich valuations, as compared to its peers like Hindalco and Sterlite. **We maintain a Sell on the stock.**

Lower raw material costs, power and staff costs lead to margin expansion:

Nalco's net revenue increased by 47.3% yoy and 15.7% qoq to Rs1,604cr. The growth in the top-line was mainly driven by higher realisations and an increase in electricity sales. During the quarter, alumina prices and LME aluminium prices were higher by 72% yoy and 58.7% yoy, respectively. Revenue from electricity sales grew by 47.5% to Rs462cr. EBITDA margins increased by 2,496bp yoy to 33.7% (as compared to 8.8% in the corresponding period last year). This was mainly due to: 1) Raw material cost (as a % of net sales) declined substantially, from 26.4% in 4QFY2009 and 18.7% in 3QFY2010 to 16.1%, 2) Power costs (as a % of net sales) declined from 25.5% in 4QFY2009 and 31.7% in 3QFY2010 to 25.1%, and c) staff costs (as a % of net sales) declined from 25.5% in 4QFY2009 and 14.9% in 3QFY2010 to 11.9%. Depreciation expenses rose by 23.2% yoy to Rs88cr. Other income declined by 39% yoy to Rs65.8cr. The effective tax rate for the quarter declined to 24.6% (as compared to 35.7% in 4QFY2009). Consequently, the net profit increased by 371.5% yoy and 152.3% qoq to Rs392cr.

Outlook and Valuation: Nalco is trading at rich valuations of 15.3x and 11.6x FY2011E and FY2012E EV/EBITDA, respectively, as compared to its peers like Hindalco and Sterlite, which are trading in a band of 5-8x FY2011E and FY2012E EV/EBITDA. We maintain a Sell on the stock, with a revised target price of Rs316 (Rs260 earlier), valuing the stock at 9x FY2012E EV/EBITDA.

SELL

CMP	Rs408
Target Price	Rs316

Investment Period	12 Months
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Stock Info

Sector	Base Metals
Market Cap (Rs cr)	26,314
Beta	0.8
52 WK High / Low	526/246
Avg. Daily Volume	103147
Face Value (Rs)	10
BSE Sensex	16,995
Nifty	5,094
Reuters Code	NALU.BO
Bloomberg Code	NACL@IN

Shareholding Pattern (%)

Promoters	87.2
MF/Banks/Indian FIs	8.0
FII/NRIs/OCBs	4.2
Indian Public	0.6

Abs. (%)	3m	1yr	3yr
Sensex	5.2	43.1	21.7
Nalco	11.6	55.2	60.1

Key Financials

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	5,095	5,055	5,655	6,376
% chg	2.1	(0.8)	11.9	12.8
Adj. Profit	1,258	833	995	1,221
% chg	(24.0)	(33.8)	19.6	22.7
EPS (Rs)	19.5	12.9	15.4	19.0
OPM (%)	33.2	22.7	28.4	32.4
P/E (x)	20.9	31.6	26.4	21.5
P/BV (x)	2.7	2.6	2.4	2.3
RoE (%)	13.6	8.3	9.4	10.8
RoCE (%)	14.3	7.8	10.7	13.1
EV/Sales (x)	4.6	4.8	4.3	3.7
EV/EBITDA (x)	13.8	21.1	15.3	11.6

Source: Company, Angel Research

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Exhibit 1: 4QFY2010 Performance

(Rs cr)	4QFY10	4QFY09	% yoy	FY2010	FY2009	% yoy
Net Sales	1,604	1,088	47.3	5,055	5,095	(0.8)
Raw Material	259	287	(9.9)	814	585	39.1
% of Net sales	16.1	26.4		16.1	11.5	
Power and Fuel	402	278	44.8	1,612	1,312	22.9
% of Net sales	25.1	25.5		31.9	25.7	
Staff Cost	190	277	(31.5)	745	771	(3.3)
% of Net sales	11.9	25.5		14.7	15.1	
Other Expenses	234	188	24.4	841	733	14.7
% of Net sales	14.6	17.3		16.6	14.4	
Total Expenditure	1,085	1,030	5.3	4,012	3,401	18.0
% of Net sales	67.7	94.6		79.4	66.8	
Operating Income	22	37	(39.9)	103	0	-
EBITDA	541	96	466.2	1,146	1,694	(32.3)
% of Net sales	33.7	8.8		22.7	33.2	
Interest	0	3	(97.6)	2	4	(45.7)
Depreciation	88	71	23.2	319	272	17.0
Other Income	66	108	(39.0)	369	496	(25.6)
Exceptional Items	0	0	-	0	14	-
Profit before Tax	519	129	301.7	1,194	1,927	(38.0)
% of Net sales	32.4	11.9		23.6	37.8	
Provision for tax	127	46	-	362	655	(44.8)
% of PBT	24.6	35.7		30.3	34.0	
Reported PAT	391	83	371.5	833	1,272	(34.6)
% of Net sales	24.4	7.6		16.5	25.0	
Diluted EPS (Rs)	6.1	1.3	371.5	12.9	19.5	(33.8)

Source: Company, Angel Research

Exhibit 2: Segmental performance

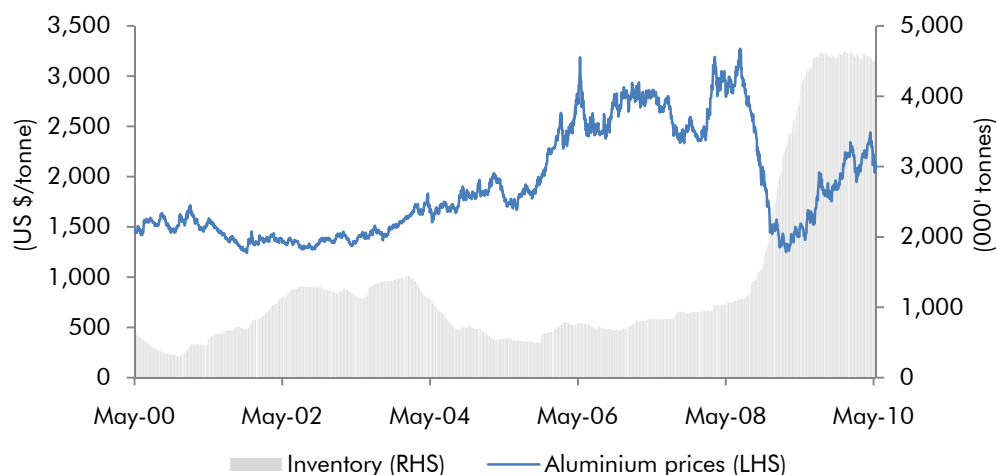
(Rs Cr)	4QFY2010	4QFY2009	% yoy	3QFY2010	% qoq
Revenue					
Chemicals	695	492	41.1	509	36.6
Aluminium	1,253	804	55.9	1,141	9.8
Electricity	462	313	47.5	350	32.1
Total Revenue	2,410	1,609	49.8	2,000	20.5
Less: intersegment	806	521	54.8	613	31.5
Net Revenue	1,604	1,088	47.3	1,386	15.7
EBIT					
Chemicals	416	149	179.3	128	225.9
Aluminium	(331)	(140)	136.9	62	(632.1)
Electricity	400	58	589.8	70	473.9
Total	485	67	621.9	259	86.9
Unallocated income	34	65	(47.3)	20	75.5
Interest Expense	(0)	(3)	(97.6)	(0)	(50.0)
PBT	519	129	301.7	279	86.2
EBIT margin (%)					
Chemicals	59.8	30.2		25.1	
Aluminium	(26.4)	(17.4)		5.4	
Electricity	86.6	18.5		19.9	

Source: Company, Angel Research

Outlook and Valuation

In our view, the recent fall in aluminium prices on LME led to some inventory liquidation which currently stands at 4.5mn tonnes, down 3.2% ytd. Aluminium inventory levels have increased by 98.8% in CY2009, whereas aluminium prices have risen by 45.7% during the same period. We believe that the aluminium inventory levels are still at the higher end as compared to its 10-year historical average of 1.3mn tonnes which can limit the upside in aluminium prices.

Exhibit 3: Aluminium LME prices and inventory levels

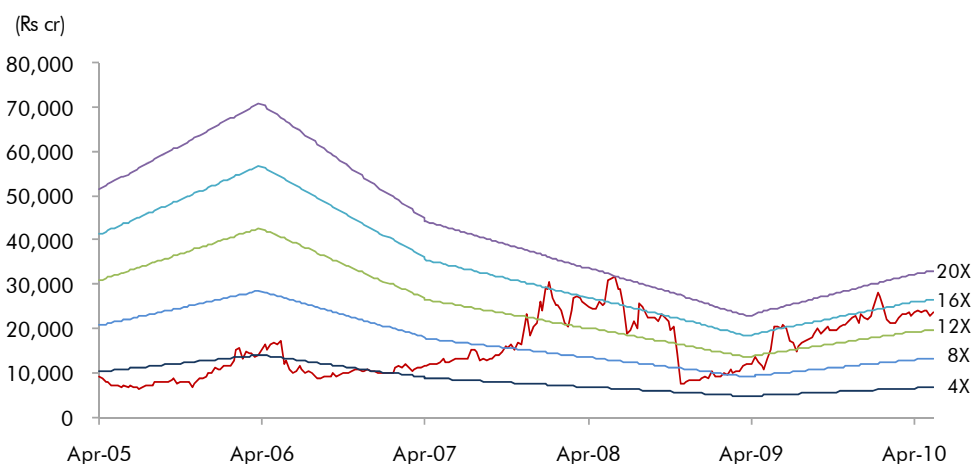


Source: Bloomberg, Angel Research

At the CMP of Rs408, Nalco is trading at rich valuations of 15.3x and 11.6x FY2011E and FY2012E EV/EBITDA, respectively, as compared to its peers like Hindalco and Sterlite, which are trading in a band of 5-8x FY2011E and FY2012E EV/EBITDA. We maintain a Sell on the stock, with a revised target price of Rs316 (Rs260 earlier), valuing the stock at 9x FY2012E EV/EBITDA.

Key risks to our call: 1) Higher metal prices, and 2) favorable exchange rate movement.

Exhibit 4: 1-year forward EV/EBITDA



Source: Bloomberg, Angel Research

Profit & Loss Statement							(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
Gross sales	6,515	5,474	5,518	5,310	6,015	6,783	
Less: Excise duty	574	486	423	256	361	407	
Net Sales	5,940	4,989	5,095	5,055	5,655	6,376	
Other operating income	-	-	-	103	100	100	
Total operating income	5,940	4,989	5,095	5,158	5,755	6,476	
% chg	22.4	(16.0)	2.1	1.2	11.6	12.5	
Total Expenditure	2,398	2,769	3,401	4,012	4,149	4,413	
Net Raw Materials	530	521	585	814	886	947	
Other Mfg costs	1,234	1,390	1,737	2,123	2,160	2,299	
Personnel	393	553	771	745	820	861	
Other	241	305	308	330	283	306	
EBITDA	3,542	2,220	1,694	1,146	1,606	2,063	
% chg	38.6	(37.3)	(23.7)	(32.3)	40.1	28.5	
(% of Net Sales)	59.6	44.5	33.2	22.7	28.4	32.4	
Depreciation	317	281	272	319	408	507	
EBIT	3,225	1,939	1,421	827	1,198	1,556	
% chg	48.1	(39.9)	(26.7)	(41.8)	44.8	29.9	
(% of Net Sales)	54.3	38.9	27.9	16.4	21.2	24.4	
Interest & other Charges	-	2	4	2	2	2	
Other Income	402	555	496	369	290	269	
(% of PBT)	11.1	22.3	25.9	30.9	19.5	14.7	
Share in profit of Associates	-	-	-	-	-	-	
Recurring PBT	3,626	2,492	1,913	1,194	1,486	1,823	
% chg	51.1	(31.3)	(23.2)	(37.6)	24.4	22.7	
Extraordinary Inc/(Expense)	(6)	(25)	14	-	-	-	
PBT (reported)	3,620	2,467	1,927	1,194	1,486	1,823	
Tax	1,239	835	655	362	490	602	
(% of PBT)	34.2	33.9	34.0	30.3	33.0	33.0	
PAT (reported)	2,381	1,632	1,272	833	995	1,221	
Share of associate profits	-	-	-	-	-	-	
Less: Minority interest (MI)	-	-	-	-	-	-	
Ext. Expense/(Inc.)	-	-	-	-	-	-	
PAT after MI (reported)	2,381	1,632	1,272	833	995	1,221	
ADJ. PAT	2,387	1,657	1,258	833	995	1,221	
% chg	55.8	(30.6)	(24.0)	(33.8)	19.6	22.7	
(% of Net Sales)	40.2	33.2	24.7	16.5	17.6	19.2	
Basic EPS (Rs)	37.1	25.7	19.5	12.9	15.4	19.0	
Fully Diluted EPS (Rs)	37.1	25.7	19.5	12.9	15.4	19.0	
% chg	55.8	(30.6)	(24.0)	(33.8)	19.6	22.7	

Balance Sheet							(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
SOURCES OF FUNDS							
Equity Share Capital	644	644	644	644	644	644	
Reserves & Surplus	7,051	8,230	9,126	9,582	10,200	11,045	
Shareholders Funds	7,695	8,874	9,770	10,226	10,845	11,690	
Share Warrants	-	-	-	-	-	-	
Minority Interest	-	-	-	-	-	-	
Total Loans	-	-	-	-	-	-	
Deferred Tax Liability	613	607	621	621	621	621	
Total Liabilities	8,308	9,482	10,391	10,847	11,466	12,311	
APPLICATION OF FUNDS							
Gross Block	9,034	9,137	9,900	11,557	13,714	15,471	
Less: Acc. Depreciation	5,323	5,606	5,868	6,187	6,595	7,102	
Net Block	3,711	3,531	4,032	5,370	7,119	8,369	
Capital Work-in-Progress	842	2,335	2,868	2,368	1,468	368	
Goodwill	-	-	-	-	-	-	
Investments	-	115	896	896	896	896	
Current Assets	4,974	5,041	4,529	4,097	3,904	4,672	
Cash	3,687	3,516	2,869	2,109	1,808	2,484	
Loans & Advances	406	541	616	616	616	616	
Other	881	984	1,044	1,372	1,480	1,572	
Current liabilities	1,219	1,541	1,933	1,884	1,921	1,994	
Net Current Assets	3,755	3,500	2,596	2,213	1,983	2,678	
Mis. Exp. not written off	-	-	-	-	-	-	
Total Assets	8,308	9,482	10,391	10,847	11,466	12,311	
Cash Flow							(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
Profit before tax	3,620	2,467	1,927	1,194	1,486	1,823	
Depreciation	321	285	273	319	408	507	
Change in Working Capital	42	30	361	(378)	(70)	(19)	
Less: Other income	12	28	60	-	-	-	
Direct taxes paid	1,273	908	682	362	490	602	
Cash Flow from Operations	2,723	1,902	1,938	773	1,333	1,709	
(Inc.)/ Dec. in Fixed Assets	(642)	(1,544)	(2,211)	(1,157)	(1,257)	(657)	
(Inc.)/ Dec. in Investments	-	-	-	-	-	-	
(Inc.)/ Dec. in loans and advances	-	-	-	-	-	-	
Other income	-	-	13	-	-	-	
Cash Flow from Investing	(642)	(1,544)	(2,198)	(1,157)	(1,257)	(657)	
Issue of Equity	-	-	-	-	-	-	
Inc./(Dec.) in loans	-	-	-	-	-	-	
Dividend Paid (Incl. Tax)	588	528	377	377	377	377	
Others	0	0	11	-	-	-	
Cash Flow from Financing	(588)	(528)	(388)	(377)	(377)	(377)	
Inc./(Dec.) in Cash	1,493	(170)	(647)	(760)	(301)	675	
Opening Cash balances	2,194	3,687	3,516	2,869	2,109	1,808	
Closing Cash balances	3,687	3,516	2,869	2,109	1,808	2,484	

Key Ratios							(Rs cr)
Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E	
Valuation Ratios (x)							
P/E (on FDEPS)	11.0	15.9	20.9	31.6	26.4	21.5	
P/CEPS	9.8	13.8	17.0	22.9	18.8	15.2	
P/BV	3.4	3.0	2.7	2.6	2.4	2.3	
Dividend yield (%)	1.8	1.5	1.2	1.2	1.2	1.2	
EV/Sales	3.8	4.6	4.6	4.8	4.3	3.7	
EV/EBITDA	6.4	10.3	13.8	21.1	15.3	11.6	
EV/Total Assets	2.7	2.4	2.3	2.2	2.1	1.9	
Per Share Data (Rs)							
EPS (Basic)	37.1	25.7	19.5	12.9	15.4	19.0	
EPS (fully diluted)	37.1	25.7	19.5	12.9	15.4	19.0	
Cash EPS	41.9	29.7	24.0	17.9	21.8	26.8	
DPS	7.5	6.0	5.0	5.0	5.0	5.0	
Book Value	119.4	137.7	151.6	158.7	168.3	181.4	
DuPont Analysis							
EBIT margin	54.3	38.9	27.9	16.4	21.2	24.4	
Tax retention ratio (%)	65.8	66.1	66.0	69.7	67.0	67.0	
Asset turnover (x)	1.3	0.9	0.8	0.6	0.6	0.7	
ROIC (Post-tax)	47.3	24.2	13.9	7.2	8.9	10.9	
Cost of Debt (Post Tax)	-	-	-	-	-	-	
Leverage (x)	-	-	-	-	-	-	
Operating ROE	47.3	24.2	13.9	7.2	8.9	10.9	
Returns (%)							
ROCE (Pre-tax)	43.5	21.8	14.3	7.8	10.7	13.1	
Angel ROIC (Pre-tax)	81.8	52.3	34.3	15.0	16.5	17.6	
ROE	35.1	19.7	13.6	8.3	9.4	10.8	
Turnover ratios (x)							
Asset Turnover (Gross Block)	0.7	0.5	0.5	0.5	0.5	0.4	
Inventory / Sales (days)	437	481	525	525	525	525	
Receivables (days)	2	4	2	2	2	2	
Payables (days)	55	79	123	100	100	100	
WC cycle (ex-cash) (days)	20	17	(5)	(7)	9	10	
Solvency ratios (x)							
Net debt to equity	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.2)	
Net debt to EBITDA	(1.0)	(1.6)	(1.7)	(1.8)	(1.1)	(1.2)	
Interest Coverage (EBIT / Interest)	-	1,283.9	359.0	384.9	598.9	778.1	

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Disclosure of Interest Statement	Nalco
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel and its Group companies

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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