

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	NALU.BO
Bloomberg code	NACL IN
Market cap. (US\$ mn)	5,226
6M avg. daily turnover (US\$ mn)	1.2
Issued shares (mn)	2,577
Target price (Rs)	112

Performance (%) 1M 3M 12M

Absolute	(1)	(15)	(11)
Relative	3	(14)	(18)

Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	7.1	7.6
+/- (%)	71.0	6.7
PER (x)	12.9	12.1
PBV (x)	2.0	1.9
Dividend/Yield (%)	5.7	5.7
EV/Sales (x)	2.4	2.5
EV/EBITDA (x)	7.1	6.9

Major shareholders (%)

Promoters	87
FII's	4
BFSI's	5
Public & Others	4

Financial highlights

(Rs mn)	4QFY10	3QFY11	4QFY11	QoQ (%)	YoY (%)	FY11	FY12E	YoY (%)	FY13E	YoY (%)
Net sales	16,260	14,431	18,254	26.5	12.3	59,590	80,101	34.4	83,849	4.7
EBITDA	5,410	3,896	4,537	16.5	(16.2)	15,847	27,021	70.5	29,581	9.5
EBITDA margin (%)	33.3	27.0	24.9	-	-	26.6	33.7	-	35.3	-
Other income	658	894	973	8.8	47.9	3,617	3,867	6.9	3,867	-
Interest	1	1	-	-	-	1	15	-	15	-
Depreciation	878	1,030	1,319	28.1	50.2	4,217	4,744	12.5	5,544	16.9
PBT	5,189	3,759	4,190	11.5	(19.3)	15,247	26,129	71.4	27,889	6.7
Tax	1,275	1,199	1,138	(5.1)	(10.8)	4,554	7,839	72.1	8,367	6.7
PAT	3,915	2,560	3,053	19.3	(22.0)	10,693	18,290	71.0	19,522	6.7
NPM (%)	24.1	17.7	16.7	-	-	17.9	22.8	-	23.3	-
EPS (Rs)	1.5	1.0	1.2	19.3	(22.0)	4.1	7.1	71.0	7.6	6.7

Nalco

Maintain Outperformer

Price: Rs 91

BSE Index: 18,232

30 May 2011

4QFY11 Result – Alumina to drive FY12 earnings...

Nalco posted 4Q numbers exactly in line with our estimates at the PAT level. The company posted net sales higher than our expectations which could be due to better than expected volumes. The employee cost this quarter was up by 46% sequentially, primarily due to some additional provisioning done by Nalco. This cost is expected to normalise in the coming quarters. As expected, the company paid a tax of ~30% for FY11.

Highlights

Cost Incidences

(%)	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11
Raw Material Consumed	12.0	12.8	11.3	14.3	12.2
Power & Fuel	24.7	28.2	33.5	30.7	25.7
Repairs & Maintenance	8.2	11.9	8.5	11.8	7.9
Other Manufacturing Expenses	6.1	5.8	5.4	6.1	4.6
Employee Rem & Benefits	11.6	16.6	13.7	16.0	18.5

- The alumina expansion is expected to commission by end 1QFY12. Thus, additional sales of alumina is expected in FY12.
- The company is targeting to commission its Utkal coal block from FY13. Nalco requires ~6 mn tpa of coal. It can extract ~2 mn tpa from its captive mine. This would help the company in improving its profitability.
- The work at the 1.5 mn tpa aluminium smelter at Indonesia is expected to commence in the near term (by end FY12). This project is in a JV where Nalco has the majority stake. The company will also be setting up a CPP. Alumina required for this smelter will be exported from the Damanjodi plant. The total project cost is ~Rs 160 bn.

- The company is also venturing into 1,400 MW nuclear power project in a JV with Nuclear Power Corporation. A part of land for the project has already been acquired in Gujarat.

Outlook and valuation

Nalco's aluminium expansion is completed. Aluminium will see a volume growth of ~5% in FY12. Surplus Alumina volume sales will be driving the profits for Nalco in FY12. We expect FY12 prices at ~US\$ 2,600/tonne. Every US\$ 100/tonne change in the aluminium price will change our FY12 EPS by 14%. Maintain Outperformer with a target price of Rs 112 (9.0x FY12E EV/EBITDA).

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	50,557	59,590	80,101	83,849
<i>Growth (%)</i>	<i>(0.8)</i>	<i>17.9</i>	<i>34.4</i>	<i>4.7</i>
Operating expenses	(40,405)	(44,710)	(53,080)	(54,268)
Operating profit	10,151	14,880	27,021	29,581
Other operating income	242	968	0	0
EBITDA	10,393	15,847	27,021	29,581
<i>Growth (%)</i>	<i>(38.7)</i>	<i>52.5</i>	<i>70.5</i>	<i>9.5</i>
Depreciation	(3,194)	(4,217)	(4,744)	(5,544)
Other income	4,688	3,617	3,867	3,867
EBIT	11,887	15,248	26,144	27,904
Interest paid	(23)	(1)	(15)	(15)
Pre-tax profit (before non-recurring)	11,864	15,247	26,129	27,889
Non-recurring items	117	0	0	0
Pre-tax profit (after non-recurring)	11,981	15,247	26,129	27,889
Tax (current + deferred)	(3,406)	(4,554)	(7,839)	(8,367)
Net profit (before Minority Interest, Pref. Dividend, etc.)	8,575	10,693	18,290	19,522
Reported PAT	8,575	10,693	18,290	19,522
Adjusted net profit	8,458	10,693	18,290	19,522
<i>Growth (%)</i>	<i>(32.8)</i>	<i>26.4</i>	<i>71.0</i>	<i>6.7</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11P	FY12E	FY13E
Cash & marketable securities	41,391	51,269	42,910	32,273
Other current assets	20,573	22,499	27,082	27,914
Net fixed assets	70,797	72,371	93,675	113,131
Total assets	132,761	146,139	163,667	173,318
Current liabilities	22,199	27,410	33,107	34,483
Total debt	0	149	0	0
Other non-current liabilities	6,606	6,935	6,935	6,935
Total liabilities	28,805	34,493	40,041	41,417
Share capital	6,443	12,886	12,886	12,886
Reserves & surplus	97,513	98,760	110,739	119,015
Shareholders' funds	103,956	111,646	123,625	131,901
Total equity & liabilities	132,761	146,139	163,667	173,318
Capital employed	110,562	118,730	130,559	138,835

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11P	FY12E	FY13E
Pre-tax profit	11,981	15,247	26,129	27,889
Depreciation	3,194	4,217	4,744	5,544
Change in working capital	(765)	4,365	33	544
Total tax paid	(2,981)	(4,553)	(7,511)	(8,367)
Cash flow from oper. (a)	11,430	19,276	23,395	25,611
Capital expenditure	(4,944)	(14,757)	(16,809)	(25,000)
Others	(50)	8,966	(9,239)	(0)
Cash flow from inv. (b)	(4,994)	(5,791)	(26,049)	(25,000)
Free cash flow (a+b)	6,435	13,486	(2,653)	611
Equity raised/(repaid)	0	6,443	(0)	0
Debt raised/(repaid)	0	149	(149)	0
Dividend (incl. tax)	(2,262)	(8,292)	(9,800)	(11,247)
Cash flow from fin. (c)	(2,262)	(1,700)	(9,949)	(11,247)
Net chg in cash (a+b+c)	4,174	11,786	(12,602)	(10,636)

Key Ratios

Yr end 31 Mar (%)	FY10	FY11P	FY12E	FY13E
Adjusted EPS (Rs)	3.3	4.1	7.1	7.6
Growth	(32.8)	26.4	71.0	6.7
Book NAV/share (Rs)	40.3	43.3	48.0	51.2
Dividend/share (Rs)	0.6	2.5	3.5	3.7
Dividend payout ratio	22.3	70.5	57.7	57.6
Tax	28.4	29.9	30.0	30.0
EBITDA margin	20.5	26.2	33.7	35.3
EBIT margin	23.4	25.2	32.6	33.3
RoCE	11.1	13.3	21.0	20.7
Net debt/Equity	(39.8)	(45.8)	(34.7)	(24.5)

Valuations

Yr end 31 Mar (x)	FY10	FY11P	FY12E	FY13E
PER	27.9	22.0	12.9	12.1
PCE	20.2	15.8	10.2	9.4
Price/Book	2.3	2.1	1.9	1.8
Yield (%)	0.7	2.7	3.8	4.1
EV/Net sales	3.9	3.2	2.4	2.4
EV/EBITDA	18.9	11.9	7.0	6.7

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY10	FY11P	FY12E	FY13E
Net margin (%)	16.7	17.9	22.8	23.3
Asset turnover	0.4	0.4	0.5	0.5
Leverage factor	1.3	1.3	1.3	1.3
Return on equity (%)	8.4	9.9	15.5	15.3

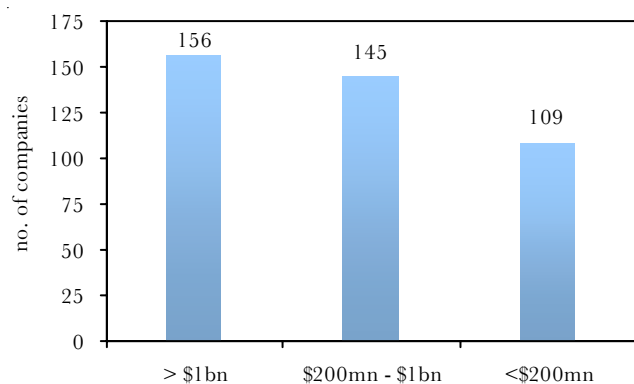
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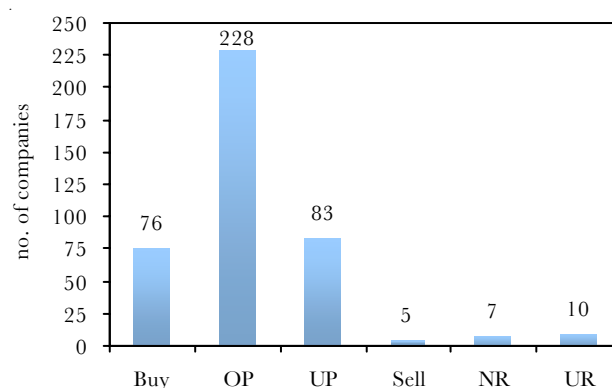
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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