

National Aluminium

Performance highlights

Particulars (Rs cr)	1QFY2011	1QFY2010	% chg (yoy)	4QFY2010	% chg (qoq)
Net sales	1,292	922	40.2	1,604	(19.5)
EBITDA	394	167	135.4	541	(27.2)
% margin	30.5	18.2	1,233bp	33.7	(325bp)
Net profit	284	126	124.8	391	(27.4)

Source: Company, Angel Research

National Aluminium's (Nalco) 1QFY2011 net revenue came in at Rs1,292cr, below our estimates of Rs1,459cr. However, net profit at Rs284cr was in line with our estimates of Rs279cr.

1QFY2011 results no different: Nalco's net revenue increased by 40.2% yoy to Rs1,292cr, mainly driven by higher realizations and increased sales volumes. During the quarter, while aluminium production increased by 6.6% yoy to 111,663 tonnes, sales volume was higher by 16.7% yoy to 108,620 tonnes (93,104 tonnes in 1QFY2010). During the quarter, the aluminium segment reported revenue growth of 49.1% yoy to Rs1,121cr and the chemical segment reported revenue growth of 15.3% yoy to Rs403cr. However, the company's energy segment reported a 25.1% yoy decline in revenue to Rs360cr despite power generation increasing to 1,659mn units (1,600mn units). EBITDA margin expanded by 1,233bp yoy to 30.5%. This was mainly due to decline in a) raw-material cost (as a % of net sales), from 13.6% in 1QFY2010 to 7.3% in 1QFY2011; b) power cost (as a % of net sales) from 30.9% in 1QFY2010 to 28.6% in 1QFY2011; and c) staff cost (as a % of net sales) 18.3% in 1QFY2010 to 16.9% in 1QFY2011. Consequently, EBITDA grew by 135.4% yoy to Rs394cr. The effective tax rate for the quarter declined to 27.5% (as compared to 34.1% in 1QFY2010). As a result, net profit increased by 124.8% yoy to Rs284cr.

Outlook and valuation: Nalco continues to trade at rich valuations of 15.5x FY2011E and 12.1x FY2012E EV/EBITDA, as compared to its peers Hindalco and Sterlite, which are trading in a band of 4–6x FY2011E and FY2012E EV/EBITDA. **We maintain a Sell rating on Nalco with a Target Price of Rs316.**

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
Net Profit	1,258	833	1,019	1,204
% chg	(24.0)	(33.8)	22.4	18.2
EPS (Rs)	19.5	12.9	15.8	18.7
EBITDA margin (%)	33.2	22.7	28.4	31.3
P/E (x)	21.7	32.8	26.8	22.7
P/BV (x)	2.8	2.7	2.5	2.3
RoE (%)	13.6	8.3	9.7	10.7
RoCE (%)	14.3	7.8	10.7	12.5
EV/Sales (x)	4.8	4.9	4.4	3.8
EV/EBITDA (x)	14.4	21.6	15.5	12.1

Source: Company, Angel Research

SELL

CMP	Rs424
Target Price	Rs316

Investment Period	12 months
-------------------	-----------

Stock Info

Sector	Base Metals
Market Cap (Rs cr)	27,341
Beta	0.8
52 Week High / Low	526/300
Avg. Daily Volume	78952
Face Value (Rs)	10
BSE Sensex	18,051
Nifty	5,418
Reuters Code	NALU.BO
Bloomberg Code	NACL@IN

Shareholding Pattern (%)

Promoters	87.2
MF / Banks / Indian FIs	5.4
FII / NRIs / OCBs	4.4
Indian Public / Others	3.1

Abs. (%)	3m	1yr	3yr
Sensex	6.2	17.1	25.7
Nalco	3.9	34.0	67.9

Paresh Jain

Tel: 022-40403800 Ext: 348
 pareshn.jain@angeltrade.com

Pooja Jain

Tel: 022-40403800 Ext: 311
 pooja.j@angeltrade.com

Exhibit 1: 1QFY2011 performance

(Rs cr)	1QFY11	1QFY10	yoy %	FY2010	FY2009	yoy %
Net Sales	1,292	922	40.2	5,055	5,095	(0.8)
Raw Material	95	125	(24.6)	814	585	39.1
% of Net sales	7.3	13.6		16.1	11.5	
Power and Fuel	369	285	29.4	1,612	1,312	22.9
% of Net sales	28.6	30.9		31.9	25.7	
Staff Cost	218	169	29.5	745	771	(3.3)
% of Net sales	16.9	18.3		14.7	15.1	
Other Expenses	232	189	23.1	841	733	14.7
% of Net sales	18.0	20.5		16.6	14.4	
Total Expenditure	914	768	19.1	4,012	3,401	18.0
% of Net sales	70.8	83.3		79.4	66.8	
Operating Income	16	14	19.4	103	0	-
EBITDA	394	167	135.4	1,146	1,694	(32.3)
% of Net sales	30.5	18.2		22.7	33.2	
Interest	(0)	1	-	2	4	(45.7)
Depreciation	92	76	21.1	319	272	17.0
Other Income	90	101	(11.3)	369	496	(25.6)
Exceptional Items	0	0		0	0	
Profit before Tax	392	192	104.4	1,194	1,913	(37.6)
% of Net sales	30.3	20.8		23.6	37.6	
Provision for tax	108	65	-	362	655	(44.8)
% of PBT	27.5	34.1		30.3	34.2	
Profit after tax	284	126	124.8	833	1,272	(34.6)
% of Net sales	22.0	13.7		16.5	25.0	
Diluted EPS (Rs)	4.4	2.0	124.8	12.9	19.5	(33.8)

Source: Company, Angel Research

Exhibit 2: 1QFY2011 - Actual v/s Angel estimates

(Rs cr)	Actual	Estimate	Variation (%)
Net sales	1,292	1,459	(11.4)
EBITDA	394	428	(8.1)
EBITDA margin (%)	30.5	29.4	112bp
PBT	392	398	(1.6)
PAT	284	279	1.8

Source: Company, Angel Research

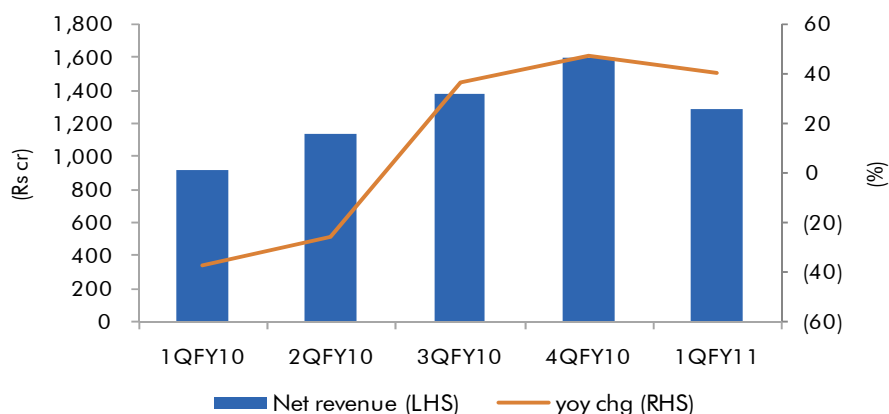
Result highlights

Nalco's net revenue increased by 40.2% yoy to Rs1,292cr in 1QFY2011. Growth was mainly driven by higher realisations and increased sales volumes.

The company's aluminium production increased by 6.6% yoy to 111,663 tonnes. Sales volume was higher by 16.7% yoy to 108,620 tonnes (93,104 tonnes in 1QFY2010) during the quarter.

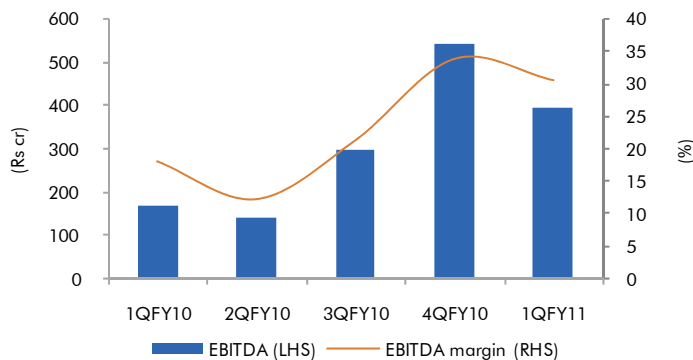
During the quarter, the aluminium segment reported revenue growth of 49.1% yoy to Rs1,121cr and the chemical segment reported revenue growth of 15.3% yoy to Rs403cr. However, the company's energy segment reported a 25.1% yoy decline in revenue to Rs360cr despite power generation increasing to 1,659mn units (1,600mn units) due to change in transfer pricing mechanism.

Exhibit 3: Quarterly revenue trend

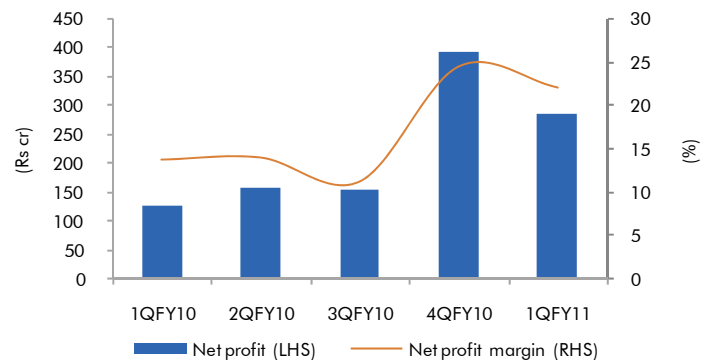


Source: Company, Angel Research

During the quarter, Nalco's EBITDA margin expanded by 1,233bp yoy to 30.5%. This was mainly due to decline in a) raw-material cost (as a % of net sales), from 13.6% in 1QFY2010 to 7.3% in 1QFY2011; b) power cost (as a % of net sales) from 30.9% in 1QFY2010 to 28.6% in 1QFY2011; and c) staff cost (as a % of net sales) 18.3% in 1QFY2010 to 16.9% in 1QFY2011. Consequently, EBITDA grew by 135.4% yoy to Rs394cr. The effective tax rate for the quarter declined to 27.5% (as compared to 34.1% in 1QFY2010). As a result, net profit increased by 124.8% yoy to Rs284cr.

Exhibit 4: Quarterly EBITDA trend


Source: Company, Angel Research

Exhibit 5: Quarterly net profit trend


Source: Company, Angel Research

Exhibit 6: Segmental performance

(Rs cr)	1QFY11	1QFY10	% chg (yoy)	4QFY10	% chg (qoq)
Revenue					
Chemical	403	350	15.3	695	(42.0)
Aluminium	1,121	752	49.1	1,253	(10.5)
Electricity	360	481	(25.1)	462	(22.0)
Total revenue	1,884	1,583	19.1	2,410	(21.8)
Less inter-segment	593	661	(10.4)	806	(26.5)
Net revenue	1,292	922	40.2	1,604	(19.5)
EBIT					
Chemical	80	47	69.0	416	(80.7)
Aluminium	198	(158)	-	(331)	-
Electricity	65	266	(75.5)	400	(83.7)
Total	343	155	121.8	485	(29.3)
Unallocated income	49	65	(25.0)	34	43.0
Interest	0	(1)	-	(0)	-
PBT	392	219	79.1	519	(24.5)
EBIT margin (%)					
Chemicals	19.9	13.6		59.8	
Aluminium	17.6	-		-	
Electricity	18.1	55.2		86.6	

Source: Company, Angel Research

Investment rationale

Coal supply issues likely to continue

Nalco has been facing coal supply issues, which have disrupted its operations in the past. The company sources its annual coal requirement from Mahanadi Coalfields Ltd., but the supply is not evenly distributed. In our view, any disturbance in coal supply would increase the company's dependence on imported or external coal, thereby negatively affecting margins.

Limited growth visibility

Apart from the ongoing expansion plan, there is little clarity on the other proposed expansion plans as they are in various stages of financial closure and significant progress is yet to be made.

Outlook and valuation

At the CMP of Rs424, Nalco is trading at rich valuations of 15.5x FY2011E and 12.1x FY2012E EV/EBITDA, as compared to its peers Hindalco and Sterlite, which are trading in a band of 4–6x FY2011E and FY2012E EV/EBITDA. Moreover, the government holds an 87.2% stake and plans to divest up to 10% as per media reports. We believe the disinvestment is unlikely to happen at the current price level on account of expensive valuations and the stock may potentially correct down as seen in the recent FPOs. **We maintain a Sell rating on the stock with a Target Price of Rs316.**

Exhibit 7: Key assumptions

	FY2011E	FY2012E
Sales volume (tonnes)		
Aluminium	401,400	423,680
Alumina	694,500	806,000
LME prices (US \$/tonne)		
Aluminium	2,100	2,200
Alumina	315	330

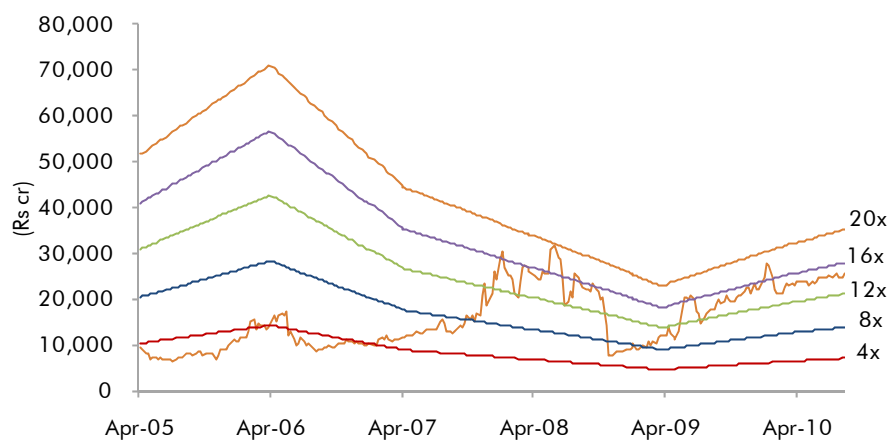
Source: Angel Research

Exhibit 8: EPS - Angel forecast v/s consensus

Year	Angel forecast (%)	Bloomberg consensus (%)	Variation (%)
FY2011E	15.8	13.5	16.9
FY2012E	18.7	22.4	(16.7)

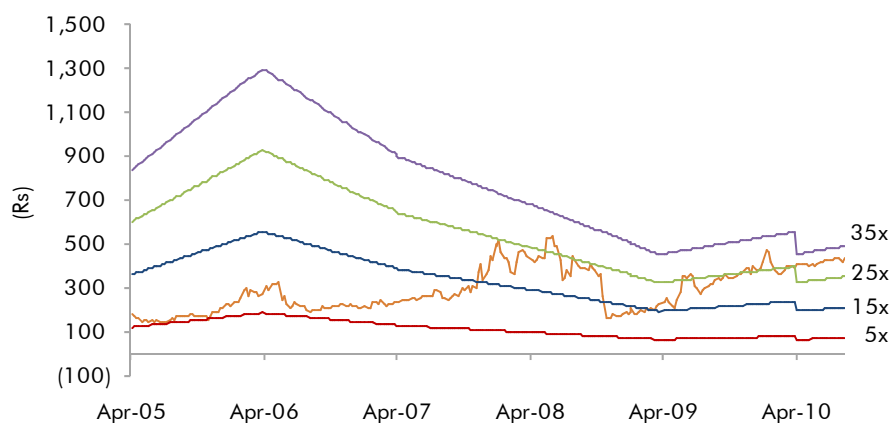
Source: Bloomberg, Angel Research

Exhibit 9: EV/EBITDA band



Source: Bloomberg, Angel Research

Exhibit 10: P/E band



Source: Bloomberg, Angel Research

Exhibit 11: Recommendation summary

Companies	CMP	Target price	Reco.	Mcap	Upside	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(Rs)	(Rs)				FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
SAIL	190	-	Neutral	78,622	-	12.6	11.1	2.1	1.8	8.2	7.2	17.9	17.6	16.3	16.9
Tata Steel	518	702	Buy	45,904	35.6	7.1	6.4	1.4	1.2	5.8	5.2	21.2	19.7	13.2	14.1
JSW Steel	1,107	1,344	Buy	28,294	21.4	14.5	11.1	1.4	1.3	6.9	5.4	13.9	12.4	12.5	12.6
Sesa Goa	323	-	Neutral	26,804	-	12.7	12.6	2.8	2.3	7.9	6.4	26.0	21.6	22.0	21.4
NMDC	256	-	Neutral	101,596	-	15.3	12.0	5.2	3.9	9.4	6.9	39.3	37.1	52.2	49.2
Hindalco	164	204	Buy	31,470	24.0	8.7	8.1	1.2	1.1	6.1	5.8	15.1	14.2	10.3	10.0
Nalco	424	316	Sell	27,341	(25.5)	26.8	22.7	2.5	2.3	15.5	12.1	9.7	10.7	10.7	12.5
Sterlite	161	228	Buy	53,962	42.0	11.2	8.1	1.2	1.1	5.9	4.0	11.6	14.2	11.1	14.1
Hindustan Zinc	1,089	1,227	Accumulate	46,005	12.7	11.3	8.7	2.1	1.7	6.5	4.2	20.4	21.6	20.7	22.3

Source: Company, Angel Research

Profit & Loss Statement

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010	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	4,483
Net raw materials	530	521	585	814	886	947
Other mfg costs	1,234	1,390	1,737	2,123	2,160	2,369
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	1,993
% chg	38.6	(37.3)	(23.7)	(32.3)	40.1	24.1
(% of Net sales)	59.6	44.5	33.2	22.7	28.4	31.3
Depreciation	317	281	272	319	408	507
EBIT	3,225	1,939	1,421	827	1,198	1,486
% chg	48.1	(39.9)	(26.7)	(41.8)	44.8	24.1
(% of Net sales)	54.3	38.9	27.9	16.4	21.2	23.3
Interest charges	-	2	4	2	2	2
Other income	402	555	496	369	325	313
(% of PBT)	11.1	22.3	25.9	30.9	21.4	17.4
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	3,626	2,492	1,913	1,194	1,521	1,797
% chg	51.1	(31.3)	(23.2)	(37.6)	27.3	18.2
Extra. Inc/(Expense)	(6)	(25)	14	-	-	-
PBT (reported)	3,620	2,467	1,927	1,194	1,521	1,797
Tax	1,239	835	655	362	502	593
(% of PBT)	34.2	33.9	34.0	30.3	33.0	33.0
PAT (reported)	2,381	1,632	1,272	833	1,019	1,204
Add: Earnings of asso.	-	-	-	-	-	-
Less: Minority interest	-	-	-	-	-	-
Extra. Expense/(Inc.)	-	-	-	-	-	-
PAT after MI (reported)	2,381	1,632	1,272	833	1,019	1,204
ADJ. PAT	2,387	1,657	1,258	833	1,019	1,204
% chg	55.8	(30.6)	(24.0)	(33.8)	22.4	18.2
(% of Net sales)	40.2	33.2	24.7	16.5	18.0	18.9
Basic EPS (Rs)	37.1	25.7	19.5	12.9	15.8	18.7
Fully Diluted EPS (Rs)	37.1	25.7	19.5	12.9	15.8	18.7
% chg	55.8	(30.6)	(24.0)	(33.8)	22.4	18.2

Balance Sheet

Y/E March (Rs cr)	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	10,224	11,051
Shareholders' funds	7,695	8,874	9,770	10,226	10,868	11,696
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	11,490	12,317
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	4,595	4,531	5,329
Cash	3,687	3,516	2,869	2,607	2,435	3,141
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	2,382	2,525	2,645
Net current assets	3,755	3,500	2,596	2,213	2,007	2,684
Mis. exp. not written off	-	-	-	-	-	-
Total assets	8,308	9,482	10,391	10,847	11,490	12,317

Cash flow statement

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Profit before tax	3,620	2,467	1,927	1,194	1,521	1,797
Depreciation	321	285	273	319	408	507
Change in working capital	42	30	361	120	35	28
Less: Other income	12	28	60	-	-	-
Direct taxes paid	1,273	908	682	362	502	593
Cash flow from operations	2,723	1,902	1,938	1,271	1,462	1,739
(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	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)	(262)	(172)	706
Opening cash bal.	2,194	3,687	3,516	2,869	2,607	2,435
Closing cash bal.	3,687	3,516	2,869	2,607	2,435	3,141

Key ratios

Y/E March	FY2007	FY2008	FY2009	FY2010E	FY2011E	FY2012E
Valuation ratio (x)						
P/E (on FDEPS)	11.5	16.5	21.7	32.8	26.8	22.7
P/CEPS	10.1	14.3	17.7	23.7	19.2	16.0
P/BV	3.6	3.1	2.8	2.7	2.5	2.3
Dividend yield (%)	1.8	1.4	1.2	1.2	1.2	1.2
EV/Sales	4.0	4.8	4.8	4.9	4.4	3.8
EV/EBITDA	6.7	10.7	14.4	21.6	15.5	12.1
EV/Total assets	2.8	2.5	2.4	2.3	2.2	2.0
Per share data (Rs)						
EPS (Basic)	37.1	25.7	19.5	12.9	15.8	18.7
EPS (fully diluted)	37.1	25.7	19.5	12.9	15.8	18.7
Cash EPS	41.9	29.7	24.0	17.9	22.1	26.6
DPS	7.5	6.0	5.0	5.0	5.0	5.0
Book value	119.4	137.7	151.6	158.7	168.7	181.5
DuPont analysis						
EBIT margin	54.3	38.9	27.9	16.4	21.2	23.3
Tax retention ratio (%)	65.8	66.1	66.0	69.7	67.0	67.0
Asset turnover (x)	1.5	1.3	1.2	1.0	0.9	0.8
RoIC (Post-tax)	53.8	34.6	22.7	11.2	12.1	12.3
Cost of debt (post tax)	-	-	-	-	-	-
Leverage (x)	-	-	-	-	-	-
Operating RoE	53.8	34.6	22.7	11.2	12.1	12.3
Returns (%)						
RoCE (Pre-tax)	43.5	21.8	14.3	7.8	10.7	12.5
Angel RoIC (pre-tax)	6.0	6.4	5.9	4.7	3.7	3.0
RoE	35.1	19.7	13.6	8.3	9.7	10.7
Turnover ratios (x)						
Asset turnover (gross block)	0.7	0.5	0.5	0.5	0.4	0.4
Inventory (days)	437	481	525	525	525	525
Receivables (days)	2	4	2	2	2	2
Payables (days)	250	419	717	717	717	717
WC cycle (days)	20	17	(5)	(25)	(27)	(26)
Solvency ratios (x)						
Net debt to equity	(0.5)	(0.4)	(0.3)	(0.3)	(0.2)	(0.3)
Net debt to EBITDA	(1.0)	(1.6)	(1.7)	(2.3)	(1.5)	(1.6)
Interest coverage	-	1,283.9	359.0	384.9	598.9	743.0

Research Team Tel: 022 - 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

Nalco

1. Analyst ownership of the stock
2. Angel and its Group companies ownership of the stock
3. Angel and its Group companies' Directors ownership of the stock
4. Broking relationship with company covered

No
No
No
No

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

Ratings (Returns) :

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)