

# Nalco

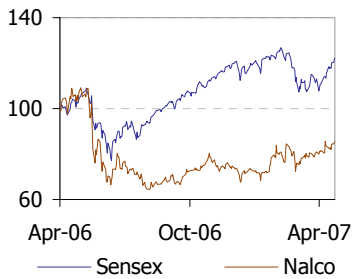
Relative to sector: **Neutral**

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 644mn  
Market cap : Rs 161bn  
52 week high/low : Rs 335/ Rs 185  
Avg. daily vol. (6mth) : 306,300 shares  
Bloomberg code : NAEL IN  
Reuters code : NALU.BO

## Shareholding (%) Mar-07 QoQ chg

Category	Mar-07 (%)	QoQ chg
Promoters	87.2	0.0
FII's	2.2	0.4
MFs / UTI	0.3	(0.1)
Banks / FIs	6.5	0.1
Others	3.8	(0.3)

## Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	49,820	15,325	-	23.8	29	12.3	28.9	45.3	6.3	5.0
2007	59,425	23,807	-	36.9	55	6.3	34.4	52	3.1	5.0
2008E	55,098	18,937	26.0	29.4	(20)	8.5	21.8	33	4.2	6.0
2009E	56,347	19,092	24.2	29.6	1	8.5	18.7	28	4.4	7.0

Source: \*Consensus broker estimates, Company, ENAM estimates

## STEADY PERFORMANCE!

National Aluminum Company (Nalco) reported marginally higher YoY revenue growth of 1.9%. The EBITDA for Q4FY07 increased 4% QoQ but declined 9.3% YoY due to a sharp fall in alumina prices (~47% on a YoY basis). Strong performance in the power business (QoQ growth of 39% in revenues and 92% higher EBIT) partially offset the drop in performance of the alumina segment. PAT declined 3% YoY to Rs 5,908mn but increased 3.2% QoQ.

## Q4FY07 Highlights:

- Alumina sales increased 108% QoQ to ~302,000 tonnes. Nalco liquidated alumina inventory carried forward from the previous quarter in line with improving prices.
- Aluminium production declined 1% YoY to ~88,820 tonnes. Avg. aluminum realizations increased ~3% QoQ to ~\$2,800/ tonne.
- Power segment revenues increased 39% QoQ on the back of higher unit sales and higher average realizations. The higher PLF contributed to higher generation during the quarter and the average realizations improved on the back of increased sales to SEB. The operating profit per unit improved with the replacement of imported coal with domestic coal on YoY basis.

Going forward the company plans to sell a major portion of alumina on contracted prices. We expect blended alumina realizations to be around \$280/ tonne in FY08 and \$295/ tonne in FY09. We have assumed aluminum prices at \$2,340/tonne and \$2,488/ tonne for FY08 and FY09 respectively, which are much below the current spot price of ~\$2,830/ tonne. However we expect aluminium prices to remain strong in the medium term. We plan to revisit our earnings and exchange rate assumptions (USD:INR FY08E Rs44.1 & FY09E Rs 42.4), in near future. To factor in the higher alumina realizations, we revise our FY08 EPS to Rs 29.4 from Rs 27.1. We believe, at CMP (Rs 251), the stock trading at 8.5x FY08E earnings is fairly valued but does not capture the potential upside of the aluminum prices. We upgrade our rating on the stock to sector **Neutral** with slightly higher target price of Rs 296. (8x FY08E EPS + FY07E cash/share of ~Rs61).

## Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
<b>Net Sales</b>	<b>15,668</b>	<b>15,380</b>	<b>1.9</b>	<b>14,486</b>	<b>8.2</b>	<b>55,098</b>	<b>59,425</b>	<b>(7.3)</b>
<b>EBIDTA</b>	<b>8,798</b>	<b>9,705</b>	<b>(9.3)</b>	<b>8,449</b>	<b>4.1</b>	<b>27,738</b>	<b>35,342</b>	<b>(21.5)</b>
Other income	1,199	851	40.8	978	22.5	4,035	4,025	0.2
PBIDT	9,997	10,556	(5.3)	9,428	6.0	31,773	39,367	(19.3)
Depreciation	819	894	(8.4)	744	10.0	3,260	3,121	4.5
Interest	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>9,178</b>	<b>9,663</b>	<b>(5.0)</b>	<b>8,684</b>	<b>5.7</b>	<b>28,513</b>	<b>36,247</b>	<b>(21.3)</b>
Tax	3,270	3,582	(8.7)	2,958	10.6	9,576	12,440	(23.0)
<b>PAT</b>	<b>5,908</b>	<b>6,080</b>	<b>(2.8)</b>	<b>5,726</b>	<b>3.2</b>	<b>18,937</b>	<b>23,807</b>	<b>(20.5)</b>
No. of shares (mn)	644	644	-	644	-	644	644	-
EBIDTA margins (%)	56.2	63.1	-	58.3	-	50.3	59.5	-
PBIDT margins (%)	63.8	68.6	-	65.1	-	57.7	66.2	-
<b>EPS - annualized (Rs.)</b>	<b>36.7</b>	<b>37.7</b>	<b>(2.8)</b>	<b>35.5</b>	<b>3.2</b>	<b>29.4</b>	<b>36.9</b>	<b>(20.5)</b>

Source: Company, ENAM Research

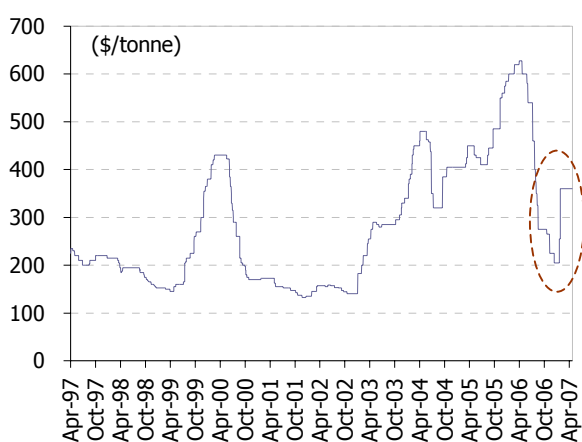
## Segment-wise break-up

(Rs. mn)	Quarter ended				
	Mar-07	Mar-06	% Chg	Dec-06	% Chg
<b>Revenues*</b>					
Alumina	5,366	9,871	(45.6)	5,774	(7.1)
Aluminium & Power	14,231	10,116	40.7	13,815	3.0
<b>EBIT</b>					
Alumina	2,535	7,760	(67.3)	3,615	(29.9)
Aluminium & Power	6,064	1,617	275.1	4,438	36.6

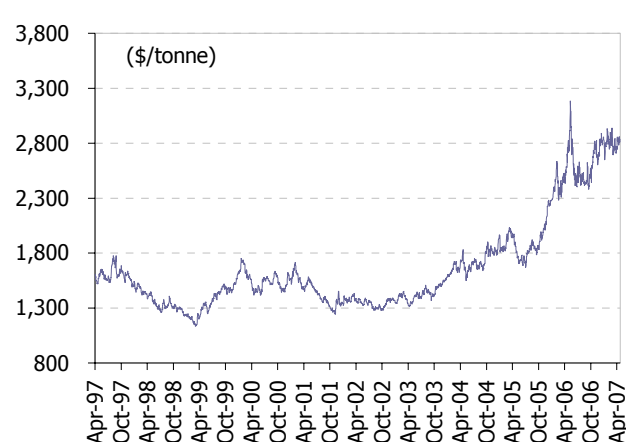
Source: Company, \*Note – Revenues including intersegment revenues.

## Alumina and Aluminium Price Trend

### Alumina: Spot price trend



### Aluminium: Spot price trend



Source: Bloomberg, ENAM Research

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