

National Aluminium Company

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Shareholding (%)

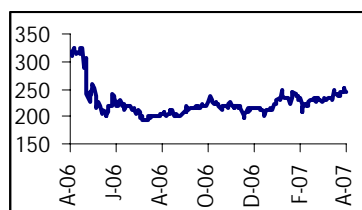
Promoters	87.1
FII's	1.8
MFs/FI's/Banks	1.3
Insurance Co.	5.6
Others	4.2

Share price performance

52-week high/low (Rs) 338/180			
	-1m	-3m	-12m
Abs (%)	5.4	4.0	-21.2
Rel* (%)	-3.2	5.0	-37.6

*to Nifty

Stock chart



Concerns over falling alumina prices remain

During Q4FY07, National Aluminium Company Ltd. (NALCO) registered 1.9% YoY growth due to stagnant volume growth, as the plant has been working at peak capacity. Aluminium realisations have increased 15.3% YoY; however, this was offset with alumina realisations being lower 45.9% YoY. Alumina prices had declined sharply during the year, touching a low of US\$250 per tonne. Although alumina prices have since recovered; performance of the chemical division has been lower, as the company had entered into contracts to supply alumina at lower levels. Lower realisations in alumina division and higher sales of aluminium (lower margin business) have caused the company's operating profit margin to decline by 220bps QoQ and 690bps YoY to 56.2%.

At the current price, the stock is trading at a P/E of 8.3x FY08E. We believe that aluminium prices are not sustainable at current levels and should decline going forward. Moreover, with volumes set to remain flat and with the company working at peak utilisation levels, we do not expect a sizeable volume growth. Consequently, NALCO's profitability would be impacted negatively during FY08E. This has led us to be cautious on the company; hence, we maintain 'Reduce' rating on the stock.

▲ **Flat topline growth due to lower volumes:** During Q4FY07, NALCO posted a revenue growth of 1.2% YoY. The company's aluminium realisations were higher by 15.3% YoY and volumes were marginally lower by 1% YoY. However, a 45.9% decline in alumina realisations has negated the company's performance.

Table 1. Production performance

(tonnes)	Q4FY07	Q4FY06	Growth (%)
Alumina Hydrate	395,700	403,400	(1.9)
Aluminium Metal	88,820	89,873	(1.2)
Electricity (mn units)	1,537	1,548	(0.7)

Source: IISL research, company

▲ **Aluminium division - strong growth in operating margin:** In line with strong prices of aluminium on the LME, coupled with lower alumina prices, NALCO's aluminium division posted strong EBIT margin of 39.9%, an improvement of 2,350bps YoY and 890bps QoQ. Strong global demand has kept prices of aluminium firm during the quarter. However, we believe prices are not sustainable at these levels, and are likely to correct over the next few quarters. This leads us to believe that the division's margin could correct going forward.

REDUCE

Rs243

April 30, 2007

Market cap

Rs bn 157

US\$ mn 3,819

Avg 3m daily volume

323,901

Avg 3m daily value

US\$ mn 2

Shares outstanding (mn)

644

Reuters

NALU.BO

Bloomberg

NACL IN

Sensex

13,909

Nifty

4,084

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- Alumina division impacted by lower realisations:** During Q4FY07, alumina prices recovered after touching a low of US\$250 per tonne. However, NALCO was unable to take advantage of this; as a part of sales was based on long-term contracts signed at lower levels. The division's topline has declined 47% YoY and 7.1% QoQ. Average realisations have declined by 45.9% YoY. Lower realisations have caused EBIT margin of the division to decline to 47.2%, a decline of 2,950bps YoY and 1,540bps QoQ. With long-term contracts in place for a part of its volumes, we do not expect profitability of the division to improve significantly going forward.

Table 2. Segmental results

(Rs mn)	Q4FY07	Q4FY06	YoY %	Q3FY07	QoQ %
Chemicals					
Sales	5,366.1	10,115.8	(47.0)	5,774.1	(7.1)
EBIT	2,534.6	7,759.8	(67.3)	3,614.5	(29.9)
EBIT margin (%)	47.2	76.7		62.6	
Aluminium					
Sales	11,248.4	9,870.9	14.0	11,667.9	(3.6)
EBIT	4,487.1	1,616.6	177.6	3,618.3	24.0
EBIT margin (%)	39.9	16.4		31.0	

Source: IISL research, company

- Operating margin comes under pressure:** NALCO's overall operating margin has been declining since the beginning of the current financial year. However, the decline has been limited, as the aluminium division partially compensated for poor performance of the alumina division. The company's operating margins declined by 220bps QoQ and 690bps YoY to 56.2%. We believe aluminium prices are not sustainable at current levels; with a price decline, we could see operating margin decline going forward.
- Valuation:** At the current price, the stock is trading at a P/E of 8.3x FY08E. We believe that aluminium prices are not sustainable at current levels and should decline going forward. Moreover, with volumes set to remain flat and with the company working at peak utilisation levels, we do not expect a sizeable volume growth. Consequently, NALCO's profitability would be impacted negatively during FY08E. This has led us to be cautious on the company; hence, we maintain 'Reduce' rating on the stock.

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Table 3. Quarterly result table

Rs mn	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Net Sales	15,667.5	15,380.4	1.9	14,485.7	8.2
Total Expenses	6,869.3	5,675.4	21.0	6,036.5	13.8
Inc / Dec in stock	331.2	5.1		(97.0)	
Raw material consumed	1,487.5	1,221.0	21.8	1,585.8	(6.2)
Power and fuel	2,146.9	2,274.9	(5.6)	2,080.8	3.2
Staff cost	1,218.0	879.7	38.5	858.3	41.9
Other expendifure	1,685.7	1,294.7	30.2	1,608.6	4.8
EBIDTA	8,798.2	9,705.0	(9.3)	8,449.2	4.1
Other Income	1,198.8	851.4	40.8	978.3	22.5
PBIDT	9,997.0	10,556.4	(5.3)	9,427.5	6.0
Interest	0.0	0.0		0.0	
Depreciation	818.5	893.8	(8.4)	744.0	10.0
PBT	9,178.5	9,662.6	(5.0)	8,683.5	5.7
Tax	3,270.4	3,592.2	(9.0)	3,025.2	8.1
PAT	5,908.1	6,080.2	(2.8)	5,726.0	3.2
Equity	6,443.1	6,443.1		6,443.1	
EPS	9.2	9.4	(2.8)	8.9	3.2
Key Ratios (%)					
EBIDTA Margin	56.2	63.1		58.3	
Interest / Sales	0.0	0.0		0.0	
Tax / PBT	35.6	37.1		34.1	
NPM	37.7	39.5		39.5	

Source: IISL research, company

Financials

Profit & Loss					Balance Sheet				
In Rs million	FY05	FY06	FY07E	FY08E	In Rs million	FY05	FY06	FY07E	FY08E
Net sales	42,980.9	49,537.0	59,424.0	53,308.2	Equity capital	6,443.1	6,443.1	6,443.1	6,443.1
YoY (%)	32.0	15.3	20.0	(10.3)	Preference capital	0.0	0.0	0.0	0.0
Total expenses	19,818.8	23,031.7	24,081.5	25,323.4	Reserves	40,535.0	52,484.1	72,654.9	87,884.9
Inc/dec in stock	(259.1)	(539.0)	(133.8)	(149.1)	Net worth	46,978.1	58,927.2	79,098.0	94,328.0
Raw material cost	4,442.4	5,210.5	5,573.0	5,917.0	Total borrowings	0.0	0.0	0.0	0.0
Staff cost	2,899.9	3,314.5	3,840.2	3,993.8	Deferred tax	6,524.5	6,417.3	6,116.5	5,878.0
Power and fuel cost	7,583.4	9,378.4	8,522.3	8,805.8	Total liabilities	53,502.6	65,344.5	85,214.5	100,206.1
Other manufacturing expre	2,774.9	3,326.5	3,585.1	3,874.9	Gross block	87,845.5	89,612.2	94,111.1	108,107.7
Other expenses	2,377.3	2,340.8	2,694.7	2,880.9	Less: Acc. depreciation	46,455.5	50,167.1	53,288.0	56,770.0
EBIDTA	23,162.1	26,505.3	35,342.5	27,984.8	Net block	41,390.0	39,445.1	40,823.0	51,337.7
YoY (%)	53.5	14.4	33.3	(20.8)	CWIP	2,066.1	2,321.6	5,321.6	6,801.6
EBIDTA (%)	53.9	53.5	59.5	52.5	Investments	7,316.4	21,897.8	39,453.0	42,246.9
Other income	765.2	1,289.0	4,025.3	4,220.9	Current assets	10,794.0	11,081.0	10,625.4	10,992.2
PBITD	23,927.3	27,794.3	39,367.8	32,205.6	Inventories	5,290.6	5,915.8	6,322.9	6,726.1
Interest	606.1	0.0	0.0	0.0	Debtors	928.1	294.2	357.0	320.6
Gross profit	23,321.2	27,794.3	39,367.8	32,205.6	Cash	235.7	39.3	300.0	300.0
Depreciation	4,610.8	3,772.4	3,120.9	3,482.0	Loans and advances	4,339.6	4,831.7	3,645.5	3,645.5
PBT and extra ordinary	18,710.4	24,021.9	36,246.9	28,723.7	Current liabilities	6,162.5	6,073.3	6,250.7	6,414.4
Extra ordinary items	(7.7)	274.5	0.0	0.0	Provisions	1,901.4	3,327.7	4,757.9	4,757.9
PBT	18,702.7	24,296.4	36,246.9	28,723.7	Net current assets	2,730.1	1,680.0	(383.2)	(180.1)
(-) Tax	6,354.3	8,674.4	12,441.7	9,859.4	Miscellaneous expenses	0.0	0.0	0.0	0.0
Current Tax	6,075.5	8,450.7	12,742.6	10,097.8	Total assets	53,502.6	65,344.5	85,214.5	100,206.1
Deferred Tax	278.8	223.7	(300.8)	(238.4)					
Tax/ PBT	34.0	35.7	34.3	34.3					
PAT	12,348.4	15,622.0	23,805.1	18,864.3					
Adjusted net profit	12,348.4	15,622.0	23,805.1	18,864.3					
YoY (%)	67.5	26.5	52.4	(20.8)					

Key Ratios					Cash Flow				
	FY05	FY06	FY07E	FY08E	In Rs million	FY05	FY06	FY07E	FY08E
EPS (Rs)	19.2	24.2	36.9	29.3	Net profit	12,348.4	15,622.0	23,805.1	18,864.3
Adjusted EPS (Rs)	19.2	24.2	36.9	29.3	Depn and w/o	4,610.8	3,772.4	3,120.9	3,482.0
CEPS (Rs)	26.8	30.4	41.3	34.3	Deferred tax	278.8	223.7	(300.8)	(238.4)
Book value (Rs)	72.9	91.5	122.8	146.4	Change in working cap	(2,215.7)	853.7	2,323.9	(203.0)
Dividend per share (Rs)	4.6	5.7	5.6	5.6	Other income	765.2	1,289.0	4,025.3	4,220.9
Debt-equity (x)	0.0	0.0	0.0	0.0	Operating cash flow	14,257.1	19,182.8	24,923.8	17,683.9
ROCE	40.7	42.9	46.7	28.3	Other income	765.2	1,289.0	4,025.3	4,220.9
ROE	29.2	29.5	34.5	21.8	Capex	(1,118.7)	(2,083.0)	(7,498.9)	(15,476.6)
					Investments	(5,316.4)	(14,581.4)	(17,555.2)	(2,793.9)
Valuations					Investing cash flow	(5,669.9)	(15,375.4)	(21,028.8)	(14,049.6)
PE (x)	12.7	10.0	6.6	8.3	Dividend	(2,933.0)	(3,673.4)	(3,634.3)	(3,634.3)
Cash PE (x)	9.1	8.0	5.9	7.1	Equity	(4.0)	0.5	0.0	0.0
Price/book value (x)	3.3	2.7	2.0	1.7	Debt	(6,543.9)	0.0	0.0	0.0
Dividend yield	1.9	2.3	2.3	2.3	Financing cash flow	(9,480.9)	(3,672.9)	(3,634.3)	(3,634.3)
Market cap/sales	3.6	3.2	2.6	2.9	Others	145.9	(330.9)		
EV/sales (x)	3.6	3.2	2.6	2.9	Net change in cash	(747.9)	(196.4)	260.7	0.0
EV/EBDITA (x)	6.4	5.1	3.3	4.1	Opening cash	983.6	235.7	39.3	300.0
					Closing cash	235.7	39.3	300.0	300.0

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