



SELL

Price	Rs309
Target Price	Rs258
Investment Period	12 Months

Stock Info

Sector	Aluminium
Market Cap (Rs cr)	19,877
Beta	0.9
52 WK High / Low	445/108
Avg Daily Volume	143617
Face Value (Rs)	10
BSE Sensex	15,670
Nifty	4,636
BSE Code	532234
NSE Code	NATIONALUM
Reuters Code	NALU.BO
Bloomberg Code	NACL@IN

Shareholding Pattern (%)

Promoters	87.2
MF/Banks/Indian FIs	7.8
FII/ NRIs/ OCBs	4.2
Indian Public	0.8

Abs.	3m	1yr	3yr
Sensex (%)	37.4	9.2	45.9
Nalco (%)	45.8	(27.3)	52.8

Pawan Burde

Tel: 022 – 4040 3800 Ext: 348
e-mail: pawan.burde@angeltrade.com

Laxmikant Waghmare

Tel: 022 – 4040 3800 Ext: 313
E-mail: laxmikant.w@angeltrade.com

Performance Highlights

- Revenues de-grew on lower LME Prices:** For 1QFY2010, Nalco posted a de-growth of almost 36% yoy in Top-line to Rs935cr (Rs1,467cr), which came in below our estimates of Rs982cr. Top-line de-grew mainly owing to lower Realisations recorded by both the Aluminium and Alumina businesses on account of the sharp correction in LME Prices. Notably, LME Aluminium prices were lower by 49.4% yoy to US \$1,493/tonne, while Alumina prices fell 49.2% yoy to US \$209/tonne. However, Rupee depreciation of around 17% helped support Realisations and Revenues. Nalco's Alumina business Revenues de-grew 45.2% yoy to Rs350cr (Rs638cr). The Aluminium business Revenue also de-grew by 11.4% yoy to Rs804cr (Rs907cr) on account of lower Aluminium Realisations. However, the Power Segment Revenues increased 121% yoy to Rs481cr (Rs218cr) due to higher sale of surplus power.
- Operating Margins crashed:** Nalco reported a significant decline in Operating Margins by 3,230bp to 17.9% (50.2%), which came in below our estimates of 28%. Margins dropped mainly due to the steep fall in the LME prices and increase in costs. Nalco's Aluminium Business dragged down overall Margins by reporting losses at the EBIT level at Rs185cr (profit of Rs352cr).
- Bottom-line declines by 76%:** Led by revenue de-growth and substantial fall in EBIDTA Margins, Nalco's Net Profit registered a significant 76% yoy decline to Rs127cr (Rs525cr), which came in much below our estimate of Rs177cr. Interest and Depreciation costs increased by 177.5% and 11.4% yoy respectively, also impacted Bottom-line.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	4,989	5,108	4,718	5,627
% chg	(16.0)	2.4	(7.6)	19.3
Net Profit	1,632	1,272	899	1,345
% chg	(31.5)	(22.0)	(29.3)	49.6
EPS (Rs)	25.3	19.7	14.0	20.9
OPM (%)	43.4	32.9	28.1	34.5
P/E (x)	12.2	15.6	22.1	14.8
P/BV (x)	2.2	2.0	1.9	1.8
RoE (%)	17.5	12.7	8.3	11.4
RoCE (%)	27.7	19.4	12.8	17.9
EV/Sales (x)	3.3	3.4	3.7	3.0
EV/EBITDA (x)	7.6	10.4	13.2	8.7

Source: Company, Angel Research

Phase II Expansion well on track

Nalco is in the process of completing its Phase II expansions during FY2010. Under these expansions, Nalco plans to increase capacity of its bauxite mines to 6.825mn tonnes from the current 4.8mn tonnes, Alumina refining capacity to 2.275mn tonnes from the current 1.575mn tonnes, Aluminium metal capacity to 4.6mn tonnes from the current 0.345mn tonnes and the captive power plant (CPP) capacity to 1,200MW from the current 960MW. The company would be incurring capex of estimated Rs5,500cr towards its expansion programme in FY2010. The expansion will be funded mainly through internal accruals as Nalco is almost a zero-debt company and has huge cash reserves.

Outlook and Valuation

LME Aluminium prices have recovered by around 49% from the bottom, and are currently hovering in the range of US \$1,867/tonne. However, we believe that the Aluminium prices will remain weak due to unfavourable fundamentals and a huge inventory of around 4.4mn tonnes at the LME due to higher supply and sluggish demand due to the global economic slowdown. We expect LME Aluminium prices to average at US \$1,600/tonne in FY2010E and US \$1,800/tonne in FY2011E (from US \$2,267/tonne in FY2009).

We are downgrading our EPS estimate for FY2010E by 10.2% to Rs14.0 to factor in the higher-than-expected Power costs, Employee costs and Manufacturing expenses. At the CMP of Rs309, the stock is trading at a P/E of 14.8x, EV/EBIDTA of 8.7x and P/BV of 1.8x on our FY2011 estimates, which is expensive considering the weak Aluminium outlook. **Hence, we maintain a Sell on Nalco with a Target Price of Rs258, at which level it would trade at an EV/EBIDTA of 7x on FY2011E EBIDTA.**

Exhibit 1: 1QFY2010 Performance

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	935	1,467	(36.3)	5,108	4,989	2.4
Cons Raw Material	125.5	119.0	5.4	611.4	552.5	10.7
(% of Net Sales)	13.4	8.1		12.0	11.1	
Power& Fuel	285.2	272.5	4.6	1,312	994.7	31.9
(% of Net Sales)	30.5	18.6		25.7	19.9	
Staff Costs	168.5	153.0	10.1	771.1	570.4	35.2
(% of Net Sales)	18.0	10.4		15.1	11.4	
Other expenses	188.8	186.1	1.4	732.8	704.5	4.0
(% of Net Sales)	20.2	12.7		14.3	14.1	
Total Expenditure	768	731	5.1	3,427	2,822	21.4
Operating Profit	167.4	736.8	(77.3)	1,681	2,167	(22.4)
OPM (%)	17.9	50.2		32.9	43.4	
Interest	1.1	0.4	177.5	4.0	1.5	-
Depreciation	75.6	67.9	11.4	273.0	285.4	(4.4)
Other Income	101.2	126.2	(19.8)	522.9	586.9	(10.9)
Profit before Tax	192	795	(75.9)	1,927	2,467	(21.9)
(% of Net Sales)	20.5	54.2		37.7	49.4	
Current Tax	65.4	269.4	(75.7)	654.9	835.1	(21.6)
(% of PBT)	34.1	33.9		34.0	33.9	
Profit after Tax	126.5	525.3	(75.9)	1,272	1,632	(22.0)
(% of Net Sales)	13.5	35.8		24.9	32.7	
EPS (Rs)	2.0	8.2	(75.9)	19.7	25.3	(22.0)

Source: Company, Angel Research


Research Team: Tel: 4040 3800
E-mail: research@angeltrade.com
Website: www.angeltrade.com

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