

National Aluminium Co

Refer to important disclosures at the end of this report

Strong quarter but outlook remains weak; maintain Sell

- While the topline was in line with our estimates of Rs24bn, EBITDA beat of 13% was driven by a 2% beat on total expenses, highlighting the subdued operating environment for Nalco. The premium over LME stood at a 15-quarter low of USD51/t.
- Nalco's EBITDA rose 57% qoq vs. 24% for Hindalco's standalone EBITDA. We believe Hindalco has more efficient operations than Nalco, and Nalco's outperformance could be due to one-off items. Nalco's RM cost was down 26% qoq, which is a surprise.
- We believe that Nalco is likely to embark on a large capex program spread over several years and its returns will be largely back-ended. The company has so far not updated its revised capex plan in terms of time and cost overrun, which is a concern.
- Though Q3 was a surprise and strong LME has resulted in an 18% upgrade of our FY22E EBITDA, we reiterate Sell as we expect alumina surplus to persist. We are raising the TP to Rs37 from Rs33.

- Capex all set to increase, with returns substantially back-ended:** Nalco has already embarked upon a capex program of Rs300bn for the next 6-7 years. The plan includes expansion of alumina refinery by 1mt, aluminum smelter by 0.5mt, operationalizing Panchpatmali bauxite mines, Utkal C & D coal blocks, Caustic Soda plant in JV and wire rod mill of 0.6mt. Several of these projects have been in the planning stage since FY16. However, no major project has since been commissioned. We also note that no substantial capex was incurred on growth projects in past, in our view. We expect the multiples to de-rate going forward as the company enters the capex phase.
- Global Alumina balance - no more surprises in store:** With the Paragominas mines of Norsk back in production two weeks before schedule, we believe that merchant alumina supplies will continue to ramp up. Further, Vedanta has been increasing domestic sourcing of bauxite from Odisha State PSU - OMC and will likely to ramp up captive alumina production, pushing down demand for merchant alumina further.
- Outlook and valuation:** The stock is trading at 5.3x our FY22E EV/EBITDA. We believe that a strong back-ended capex line-up and aluminum market remaining in surplus, there is a risk of further project delays the aluminum/alumina prices correct from current levels. Maintain Sell with a revised TP of Rs37 (Rs33 earlier). Key risk is any disruption in bauxite/merchant alumina supplies, which can lead to shortage in the merchant alumina market.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Metals & Mining \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	114,993	84,718	88,069	101,020	100,771
EBITDA	28,925	4,892	12,268	16,452	17,565
EBITDA Margin (%)	25.2	5.8	13.9	16.3	17.4
APAT	17,337	1,362	5,069	7,428	8,130
EPS (Rs)	9.3	0.7	2.7	4.0	4.4
EPS (% chg)	246.7	(92.1)	272.1	48.6	9.4
ROE (%)	16.5	1.3	5.2	7.6	7.9
P/E (x)	5.3	67.0	18.0	12.1	11.1
EV/EBITDA (x)	2.0	14.6	7.2	5.3	4.7
P/BV (x)	0.9	0.9	0.9	0.9	0.9

Source: Company, Emkay Research

CMP Rs 49 as of (February 14, 2021)	Target Price Rs 37 (▲) 12 months
Rating SELL (■)	Upside (24.3) %

Change in Estimates

EPS Chg FY21E/FY22E (%)	472 / 30
Target Price change (%)	12.1
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	2.7	4.0
Consensus	2.2	5.4
Mean Consensus TP (12M)	Rs 47	

Stock Details

Bloomberg Code	NACL IN
Face Value (Rs)	5
Shares outstanding (mn)	1,866
52 Week H/L	52 / 24
M Cap (Rs bn/USD bn)	91 / 1.25
Daily Avg Volume (nos.)	26,479,530
Daily Avg Turnover (US\$ mn)	16.2

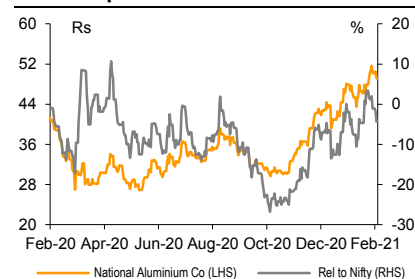
Shareholding Pattern Dec '20

Promoters	51.5%
FII's	7.2%
DII's	9.8%
Public and Others	31.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	44	40	21
Rel. to Nifty (2)		20	5	(2)

Relative price chart



Source: Bloomberg

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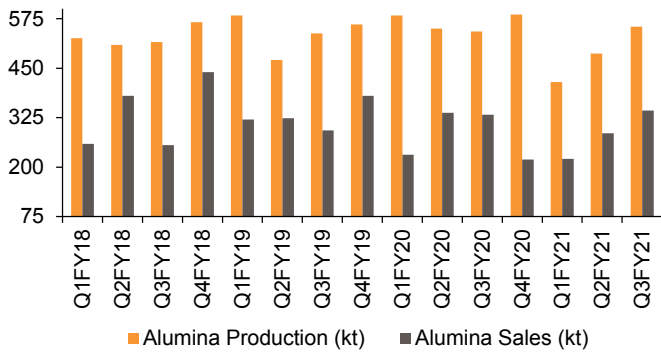
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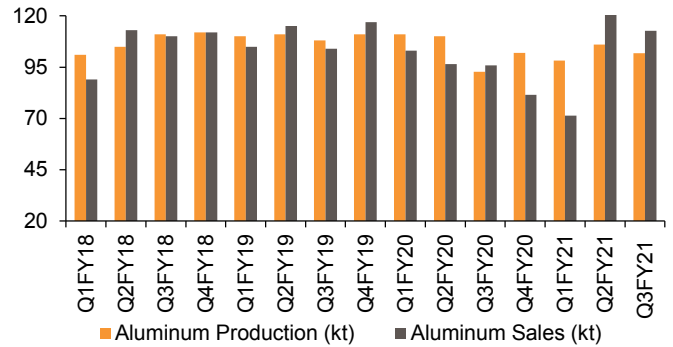
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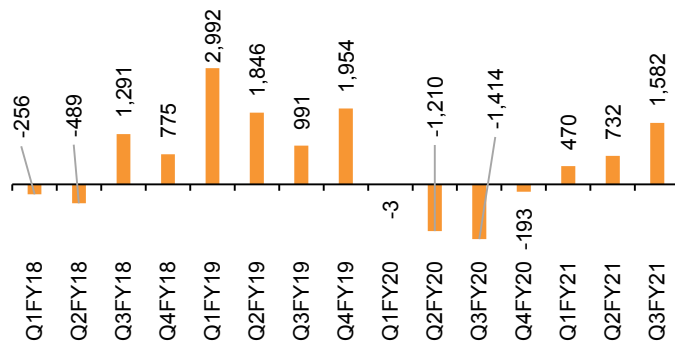
Story in Charts

Exhibit 1: Alumina sales continue to recover in Q3FY21


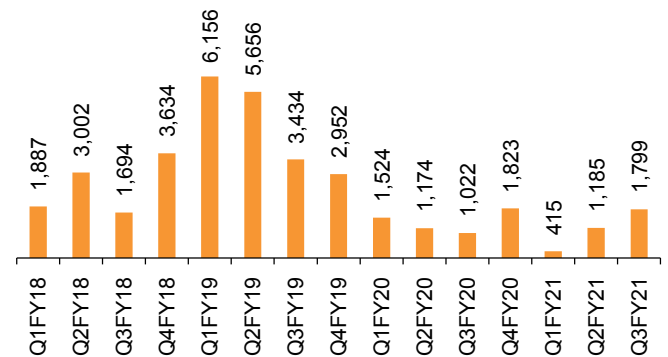
Source: Company, Emkay Research

Exhibit 2: Aluminum sales remain static in Q3FY21


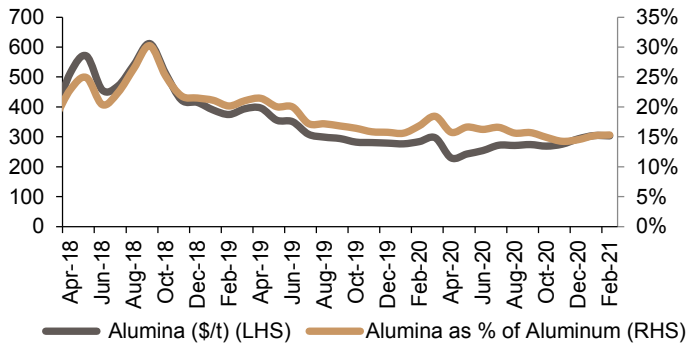
Source: Company, Emkay Research

Exhibit 3: Aluminum EBIT (Rs mn) up qoq


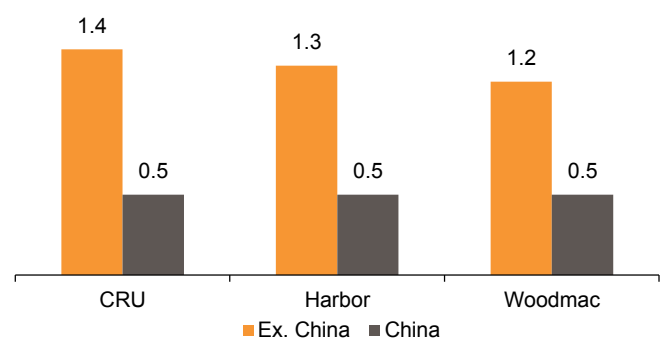
Source: Company, Emkay Research

Exhibit 4: Alumina EBIT (Rs mn) above Rs1,700mn


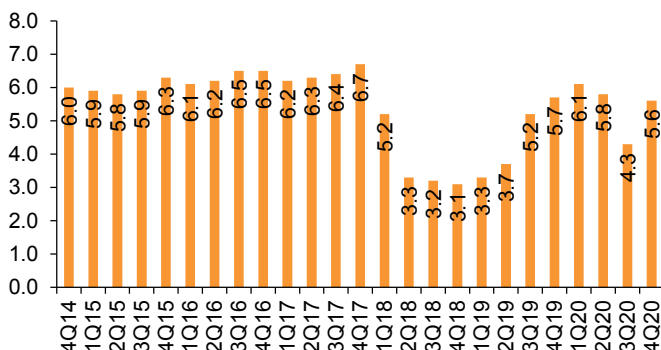
Source: Company, Emkay Research

Exhibit 5: Alumina LME correlation with Aluminum LME


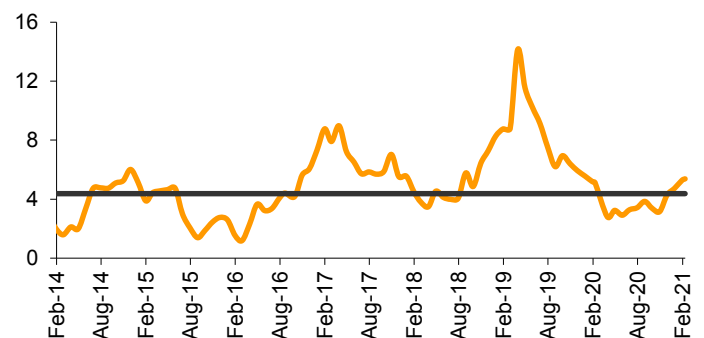
Source: Bloomberg, Emkay Research

Exhibit 6: Global aluminum balances (mt) estimates for 2021


Source: Nork Hydro, Emkay Research

Exhibit 7: Alumina production (mt) at Alunorte


Source: Nork Hydro, Emkay Research Nork follows Calendar Year

Exhibit 8: NALCO 1-year forward EV/EBITDA


Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs. Estimates (Q3FY21)

(Rs mn)	Actual	Estimates		% variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Revenue	23,788	23,769	22,698	0%	5%	In line
EBITDA	4,339	3,851	3,322	13%	31%	Beat due to lower expenses
EBITDA Margin (%)	18%	16%	15%	204 bps	361 bps	
PAT	2,397	1,891	1,454	27%	65%	EBITDA beat leading to PAT beat

Source: Company, Bloomberg, Emkay Research

Exhibit 10: Quarterly Financials (Rs mn)

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	abs Yoy	YoY%	abs Qoq	QoQ%	9MFY20	9MFY21	% yoy
Total Income	20,884	19,359	13,806	23,749	23,788	2,904	14%	39	0%	65,360	61,343	-6%
Expenditure												
Raw Material	4,174	3,754	3,311	2,882	3,202	-972	-23%	320	11%	13,271	9,395	-29%
Chg. In stocks	-398	-1,823	-4,479	2,538	806	1,204	NA	-1,732	-68%	-1,829	-1,136	-38%
Power	7,214	6,924	6,345	6,602	6,594	-620	-9%	-8	0%	22,722	19,540	-14%
Staff Exp	5,046	5,085	5,162	5,001	4,827	-219	-4%	-174	-3%	14,856	14,990	1%
Other exp	4,504	3,334	2,177	3,968	4,020	-483	-11%	52	1%	13,533	10,166	-25%
Total Exp	20,540	17,275	12,516	20,990	19,449	-1,091	-5%	-1,541	-7%	62,551	52,955	-15%
EBITDA	343	2,084	1,291	2,759	4,339	3,995	1163%	1,580	57%	2,809	8,388	199%
Dep	1,341	1,351	1,359	1,432	1,697	355	26%	265	18%	3,948	4,488	14%
EBIT	-998	733	-68	1,327	2,642	3,640	NA	1,315	99%	-1,139	3,901	NA
Other Inc.	482	1,064	333	242	362	-121	-25%	120	50%	1,662	936	-44%
Interest	17	8	18	18	17	1	5%	-1	-5%	49	54	9%
PBT Excep.	-532	1,789	247	1,550	2,986	3,519	NA	1,436	93%	473	4,783	911%
Exceptional	1	-23	1	-2	-1	-2	NA	1	NA	2	-2	NA
PBT	-532	1,767	247	1,548	2,985	3,517	NA	1,437	93%	475	4,781	907%
Tax	-193	762	80	476	588	781	NA	113	24%	119	1,144	865%
ETR	36%	43%	33%	31%	20%	0	-46%	0	-36%	25%	24%	-4%
PAT	-339	1,005	167	1,073	2,397	2,736	NA	1,324	123%	356	3,637	921%

Source: Company, Emkay Research

Exhibit 11: Margins Consolidated

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	yoy	qoq	9MFY20	9MFY21	bps yoy
EBITDA margin	2%	11%	9%	12%	18%	1,659 bps	662 bps	4%	14%	938 bps
EBIT Margin	-5%	4%	0%	6%	11%	NA	552 bps	-2%	6%	NA
PBT margin	-3%	9%	2%	7%	13%	NA	603 bps	1%	8%	707 bps
PAT margin	-2%	5%	1%	5%	10%	NA	556 bps	1%	6%	538 bps

Source: Company, Emkay Research

Exhibit 12: Segment results (Rs mn)

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	% yoy	% qoq	9MFY20	9MFY21	% yoy
Segment Revenue										
Alumina	10,138	11,711	7,685	9,767	9,875	-3%	1%	30,772	27,328	-11%
Aluminium	13,362	11,323	9,306	17,527	16,364	22%	-7%	43,341	43,197	0%
Unallocated common	263	-305	171	147	100	-62%	-32%	731	417	-43%
Less: Inter segment Revenue	-2,879	-3,370	-3,355	-3,693	-2,551	-11%	-31%	-9,485	-9,598	1%
Income from Operations	20,884	19,359	13,806	23,749	23,788	14%	0%	65,360	61,343	-6%
Segment EBIT										
Alumina	1,022	1,823	415	1,185	1,799	76%	52%	3,720	3,398	-9%
Aluminium	-1,414	-193	470	732	1,582	NA	116%	-2,627	2,784	NA
Total EBIT	-392	1,630	885	1,917	3,381	NA	76%	1,093	6,183	466%
Exceptional items	-	-	-	-	-	-	-	-	-	-
Finance cost	17	8	18	18	17	5%	-5%	49	54	9%
Finance Income	373	-	237	197	236	-37%	20%	1,344	670	-50%
Other unallocated income (Loss)	-496	168	-857	-546	-613	23%	12%	-1,915	-2,016	5%
Share of profit or loss from JV	0	-23	1	-2	-1	NA	-44%	-	-2	-
Profit before Tax	-532	1,767	247	1,548	2,985	NA	93%	473	4,781	910%

Source: Company, Emkay Research

Exhibit 13: Changes in key assumptions and estimates

	UoM	FY21E			FY22E			FY23E		
		Old	New	% change	Old	New	% change	Old	New	% change
Key Assumptions										
LME - Alumina	\$/t	363	371	2%	379	387	2%	390	381	-2%
LME - Aluminium	\$/t	1,688	1,768	5%	1,763	1,844	5%	1,813	1,813	0%
USD/INR	Rs/USD	73	73	0%	72	72	1%	71	71	0%
Alumina Production	kt	2,000	2,000	0%	2,096	2,096	0%	2,185	2,140	-2%
Aluminum Production	kt	418	418	0%	427	427	0%	445	436	-2%
Change in Estimates										
Net Sales	Rs mn	91,794	88,069	-4%	97,366	101,020	4%	103,306	100,771	-2%
EBITDA	Rs mn	6,055	12,268	103%	13,941	16,452	18%	17,628	17,565	0%
PAT	Rs mn	886	5,069	472%	5,779	7,428	29%	8,306	8,130	-2%
EPS	Rs	0.47	2.72	472%	3.10	4.04	30%	4.45	4.42	-1%

Source: Emkay Research

Exhibit 14: Valuation

Particulars	UoM	Mar-22
EBITDA	Rs mn	16,452
Multiple	x	4
Enterprise Value	Rs mn	65,808
Less: Net debt/(Net Cash)	Rs mn	-3,465
Implied Equity Value	Rs mn	69,273
Number of Shares o/s	mn	1,866
Fair value	Rs/share	37

Source: Emkay Research

Exhibit 15: Peer comparison

	M.Cap USD bn	PE (x)			EV/EBITDA (x)			PB (x)			ROE (x)		
		CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23
Hindalco *	6.16	9.6	5.9	5.3	6.3	4.8	4.3	0.7	0.6	0.6	7.8	11.6	11.5
NALCO*	0.86	18.0	12.1	11.1	7.2	5.3	4.7	0.9	0.9	0.9	5.2	7.6	7.9
Alcoa	2.97	NA	NA	30.1	5.1	4.2	3.9	0.9	0.9	0.9	-7.5	-0.9	1.7
Norsk Hydro	7.15	32.8	14.7	12.0	6.3	5.4	4.8	0.8	0.8	0.8	-0.3	5.6	6.8
Chalco	7.65	56.3	25.7	13.9	11.5	10.4	10.1	0.6	0.5	0.5	1.1	2.2	3.1
RUSAL	6.21	8.0	4.2	3.9	18.3	11.5	8.9	0.9	0.7	0.6	10.4	18.3	15.4
Alumina	3.35	19.3	18.6	14.3	NA	NA	NA	2.0	2.0	1.9	10.7	9.6	11.1

Source: Bloomberg, Emkay Research Note: (*) denotes Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	114,993	84,718	88,069	101,020	100,771
Expenditure	86,068	79,826	75,801	84,568	83,206
EBITDA	28,925	4,892	12,268	16,452	17,565
Depreciation	4,761	5,298	6,338	6,160	6,489
EBIT	24,164	(406)	5,930	10,292	11,076
Other Income	3,259	2,726	1,136	330	548
Interest expenses	24	57	79	0	0
PBT	27,399	2,262	6,988	10,622	11,624
Tax	10,075	880	1,915	3,184	3,484
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	13	(20)	(3)	(10)	(10)
Reported Net Income	17,337	1,362	5,069	7,428	8,130
Adjusted PAT	17,337	1,362	5,069	7,428	8,130

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	9,328	9,328	9,328	9,198	9,198
Reserves & surplus	95,521	90,537	87,182	90,931	95,382
Net worth	104,849	99,865	96,510	100,129	104,580
Minority Interest	0	0	0	0	0
Loan Funds	668	123	0	0	0
Net deferred tax liability	11,307	10,606	10,606	10,606	10,606
Total Liabilities	116,824	110,594	107,116	110,735	115,186
Net block	73,246	77,343	72,535	67,905	66,696
Investment	13,782	10,788	12,788	13,788	14,788
Current Assets	56,007	45,578	32,240	34,891	35,342
Cash & bank balance	34,964	19,805	3,134	3,465	7,495
Other Current Assets	6,026	6,941	9,136	10,625	11,006
Current liabilities & Provision	34,650	34,886	29,218	32,620	34,412
Net current assets	21,357	10,692	3,022	2,271	931
Misc. exp	0	0	0	0	0
Total Assets	116,824	110,594	107,116	110,735	115,186

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	17,337	1,362	6,985	10,612	11,614
Other Non-Cash items	0	0	0	0	0
Chg in working cap	3,935	(7,917)	(9,001)	1,081	5,371
Operating Cashflow	24,089	(3,486)	2,405	14,670	19,990
Capital expenditure	(8,686)	(8,466)	(8,530)	(9,530)	(11,280)
Free Cash Flow	15,402	(11,951)	(6,124)	5,140	8,710
Investments	5,130	272	14,500	1,000	(1,000)
Other Investing Cash Flow	(3,858)	15,681	0	0	0
Investing Cashflow	(5,319)	8,727	5,970	(8,530)	(12,280)
Equity Capital Raised	(5,074)	0	0	(130)	0
Loans Taken / (Repaid)	218	(545)	(123)	0	0
Dividend paid (incl tax)	(12,451)	(6,185)	(8,424)	(3,679)	(3,679)
Other Financing Cash Flow	0	0	0	0	0
Financing Cashflow	(17,308)	(6,773)	(8,547)	(3,809)	(3,679)
Net chg in cash	1,463	(1,531)	(171)	2,330	4,030
Opening cash position	253	1,716	185	14	2,344
Closing cash position	1,716	185	14	2,344	6,375

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	25.2	5.8	13.9	16.3	17.4
EBIT Margin	21.0	(0.5)	6.7	10.2	11.0
Effective Tax Rate	36.8	38.9	27.4	30.0	30.0
Net Margin	15.1	1.6	5.8	7.4	8.1
ROCE	23.5	2.0	6.5	9.8	10.3
ROE	16.5	1.3	5.2	7.6	7.9
RoIC	37.1	(0.6)	8.4	14.8	17.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	9.3	0.7	2.7	4.0	4.4
CEPS	11.8	3.6	6.1	7.4	7.9
BVPS	56.2	53.5	51.7	54.4	56.9
DPS	5.8	2.7	0.5	2.0	2.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	5.3	67.0	18.0	12.1	11.1
P/CEPS	4.1	13.7	8.0	6.6	6.2
P/BV	0.9	0.9	0.9	0.9	0.9
EV / Sales	0.5	0.8	1.0	0.9	0.8
EV / EBITDA	2.0	14.6	7.2	5.3	4.7
Dividend Yield (%)	11.8	5.6	1.0	4.1	4.1

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.3)	(0.2)	0.0	0.0	(0.1)
Net Debt/EBIDTA	(1.2)	(4.0)	(0.3)	(0.2)	(0.4)
Working Cap Cycle (days)	(43.2)	(39.3)	(0.5)	(4.3)	(23.8)

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	20.9	(26.3)	4.0	14.7	(0.2)
EBITDA	107.0	(83.1)	150.8	34.1	6.8
EBIT	163.5	(101.7)	0.0	73.5	7.6
PAT	29.2	(92.1)	272.1	46.5	9.4

Quarterly (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Revenue	20,884	19,359	13,806	23,749	23,788
EBITDA	343	2,084	1,291	2,759	4,339
EBITDA Margin (%)	1.6	10.8	9.3	11.6	18.2
PAT	(339)	1,005	167	1,073	2,397
EPS (Rs)	(0.2)	0.5	0.1	0.6	1.3

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	51.5	51.5	51.5	51.5	51.5
FII's	11.8	11.3	9.0	7.2	7.2
DII's	15.6	14.2	13.8	10.0	9.8
Public and Others	21.1	23.0	25.6	31.4	31.5

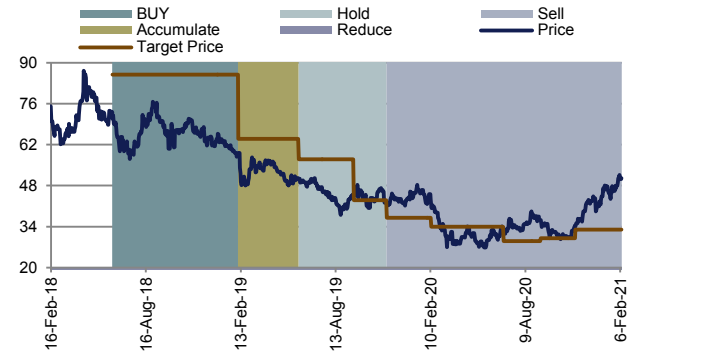
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
12-Nov-20	34	33	12m	Sell	Vishal Chandak
10-Oct-20	31	30	12m	Sell	Vishal Chandak
7-Sep-20	36	30	12m	Sell	Vishal Chandak
28-Jun-20	34	29	12m	Sell	Vishal Chandak
11-Feb-20	41	34	12m	Sell	Vishal Chandak
18-Nov-19	42	37	12m	Sell	Vishal Chandak
16-Sep-19	45	43	12m	Hold	Vishal Chandak
3-Jun-19	50	57	12m	Hold	Vishal Chandak
8-Feb-19	59	64	12m	Accumulate	Goutam Chakraborty
13-Jun-18	71	86	12m	Buy	Goutam Chakraborty

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Metals & Mining



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Sector

Metals and Mining

Analyst bio

Vishal Chandak is a CA and MBA (Finance). He brings in over 16 years of experience, including seven years in the corporate side, with balance being on both the buy side and sell side. Currently, his team tracks 12 stocks in the Metals and Mining space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Metals & Mining	2.67	2.67	0%	0	100.00
Coal India	0.34	0.34	0%	0	12.75
Hindalco	0.51	0.52	2%	1	19.64
Hindustan Zinc	0.09	0.08	-10%	-1	3.01
Jindal Stainless	0.00	0.00	NA	0	0.00
Jindal Stainless Hisar	0.00	0.00	NA	0	0.00
JSW Steel	0.48	0.46	-5%	-2	17.09
MOIL	0.00	0.00	NA	0	0.00
National Aluminium Co	0.00	0.00	NA	0	0.00
NMDC	0.12	0.13	5%	1	4.86
SAIL	0.11	0.12	5%	1	4.51
Tata Steel	0.60	0.60	0%	0	22.58
Vedanta	0.41	0.42	2%	1	15.57
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	13-Feb-20	13-Aug-20	12-Nov-20	12-Jan-21	11-Feb-21
EAP - Metals & Mining	100.0	82.0	73.8	78.7	107.5	108.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	82.3	72.2	77.1	105.1	106.4

*Performance measurement base date 1st April 2019

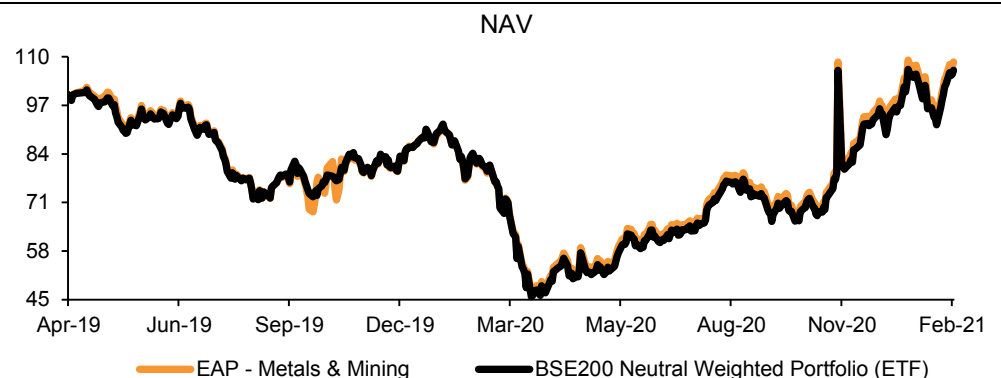
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Metals & Mining	1.0%	38.0%	47.2%	32.4%
BSE200 Neutral Weighted Portfolio (ETF)	1.2%	38.0%	47.4%	29.3%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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