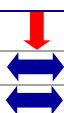


Estimate changes

TP change

Rating change



CMP: INR94

TP: INR85 (-10%)

Neutral

Revenue in line; higher costs drag EBITDA

- Nalco (NACL)'s revenue declined 16% YoY to INR31.8b, in line with our estimate of INR31.3b in 1QFY24.
- EBITDA declined 32% YoY to INR5.9b, vs. our estimate of INR6.9b. The miss was due to higher power expense, higher employee costs and other manufacturing expenses, which were partially offset by lower input costs.
- APAT declined 40% YoY to INR3.5b, vs. our estimate of INR4.2b; the aluminum business dragged NACL's profitability during the quarter.
- Revenue for the chemicals business stood at INR11.7b (down 3% YoY) and revenue for the aluminum vertical came in at INR24.7b (down 17% YoY), which was in line with our estimate of INR24.0b.

Next leg of capex to drive growth

- NACL has achieved over 100% capacity utilization, with little room to expand production with its existing capacity.
- It is setting up the fifth stream alumina refinery that will add 1mt to its existing installed capacity of 2.2mt (total capacity post-expansion will be 3.2mt).
- NACL has tied up with renowned global companies to undertake the expansion, such as Rio Tinto for digestion technology and ThyssenKrupp as EPCM consultants. The refinery is likely to start production in 3QFY24.
- To feed the new alumina refinery, NACL is also setting up Pottangi bauxite mine (reserves of ~75mt) and Utkal D and E coal blocks with an annual capacity of ~4mt (175mt proven reserves).
- Once operational, these mines would ensure raw material security, and thereby, reduce external risks and drive long-term value creation for the stakeholders.

Valuation and view

- Demand from India is expected to remain robust, aided by higher demand from infrastructure, construction, packaging, automobile, power, RE, specialty, aerospace, etc.
- In line with its recent performance, we have cut our FY24E EBITDA/APAT by 7%/8% and FY25E EBITDA/APAT by 5% each.
- NACL trades at 4x FY25E EV/EBITDA and 1.1x FY24E P/B. **We reiterate our Neutral rating on the stock with a revised TP of INR85.**



Bloomberg	NACL IN
Equity Shares (m)	1837
M.Cap.(INRb)/(USD\$)	173.1 / 2.1
52-Week Range (INR)	98 / 67
1, 6, 12 Rel. Per (%)	13/14/9
12M Avg Val (INR M)	951

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	142	135	141
EBITDA	24	28	32
Adj. PAT	15	17	20
EBITDA Margin (%)	17	20	22
Cons. Adj. EPS (INR)	8.3	9.1	10.9
EPS Gr. (%)	-48	9	20
BV/Sh. (INR)	71	78	86

Ratios

Net D:E	-0.2	-0.3	-0.3
RoE (%)	12	12	13
RoCE (%)	14	15	16
Payout (%)	60	30	30

Valuations

P/E (x)	11.3	10.3	8.6
P/BV (x)	1.3	1.2	1.1
EV/EBITDA(x)	6.1	4.9	4.0
Div. Yield (%)	5.3	2.9	3.5
FCF Yield (%)	-2.2	10.7	9.4

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	51.3	51.3	51.3
DII	15.4	13.3	10.1
FII	15.0	16.0	16.7
Others	18.4	19.5	21.9

FII Includes depository receipts

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Quarterly performance

Y/E March	FY23				FY24E				INR m			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY23	FY24E	FY24E 1QE	vs Est (%)
Net Sales	37,833	34,896	32,900	36,709	31,784	32,899	35,065	35,708	1,42,337	1,35,455	31,353	1.4
Change (YoY %)	52.9	-2.9	-12.8	-15.4	-16.0	-5.7	6.6	-2.7	0.4	-4.8		
Change (QoQ %)	-12.8	-7.8	-5.7	11.6	-13.4	3.5	6.6	1.8				
EBITDA	8,687	3,344	4,598	7,665	5,943	6,299	7,533	7,780	24,293	27,556	6,917	-14.1
Change (YoY %)	49.6	-70.3	-61.4	-52.6	-31.6	88.4	63.8	1.5	-46.2	13.4		
Change (QoQ %)	-46.3	-61.5	37.5	66.7	-22.5	6.0	19.6	3.3				
Interest	39	41	42	7	23	23	23	23	129	90		
Depreciation	1,497	1,537	1,571	2,554	1,697	1,697	1,697	1,697	7,158	6,788		
Other Income	629	693	663	559	485	425	425	425	2,544	1,760		
PBT (before EO Item)	7,781	2,459	3,648	5,663	4,709	5,005	6,239	6,485	19,550	22,438		
Extra-ordinary Income	-207	-447	-175	-269	-156	0	0	0	-1,098	-156		
PBT (after EO Item)	7,573	2,012	3,473	5,394	4,553	5,005	6,239	6,485	18,452	22,282		
Total Tax	1,994	758	910	444	1,215	1,257	1,567	1,629	4,105	5,669		
% Tax	26.3	37.7	26.2	8.2	26.7	25.1	25.1	25.1	22.2	25.4		
Reported PAT	5,579	1,254	2,563	4,950	3,338	3,748	4,672	4,856	14,347	16,613		
Adjusted PAT	5,732	1,533	2,693	5,345	3,452	3,748	4,672	4,856	15,302	16,730	4,169	-17.2
Change (YoY %)	64.8	-79.5	-67.6	-47.9	-39.8	144.5	73.5	-9.1	-48.2	9.3		
Change (QoQ %)	-44.1	-73.3	75.7	98.5	-35.4	8.6	24.7	4.0				

Note: Consequent to revised policy for recognition of revenue from scrap on its disposal, profitability had an impact of INR148m which is adjusted in 4QFY23 APAT.

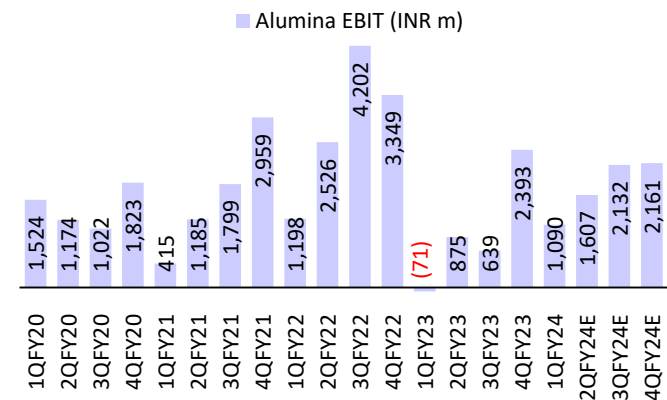
Source: Company, MOFSL

Exhibit 1: Segmental quarterly performance (INR m)

	FY23				FY24E				FY23	FY24E	FY24E 1QE	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Chemicals revenue	11,993	15,074	12,647	16,073	11,690	13,928	15,172	15,597	55,788	56,386	13,048	-10.4
Aluminum revenue	29,801	23,079	24,155	25,408	24,668	24,880	26,090	26,307	1,02,443	1,01,945	24,008	2.7
Inter-segment Revenue	-3,961	-3,258	-3,902	-4,773	-4,574	-5,909	-6,196	-6,196	-15,894	-22,875		
Net Sales	37,833	34,896	32,900	36,709	31,784	32,899	35,065	35,708	1,42,337	1,35,455	31,353	1.4
Chemicals EBIT	-71	875	639	2,393	1,090	1,607	2,132	2,161	3,836	6,991	1,126	-3.3
Chemicals EBIT margin %	-1	6	5	15	9	12	14	14	7	12		
Aluminum EBIT	8,043	1,774	2,835	5,136	3,782	3,995	5,204	5,422	17,787	18,403	5,041	-25.0
Aluminum EBIT margin %	27	8	12	20	15	16	20	21	17	18		

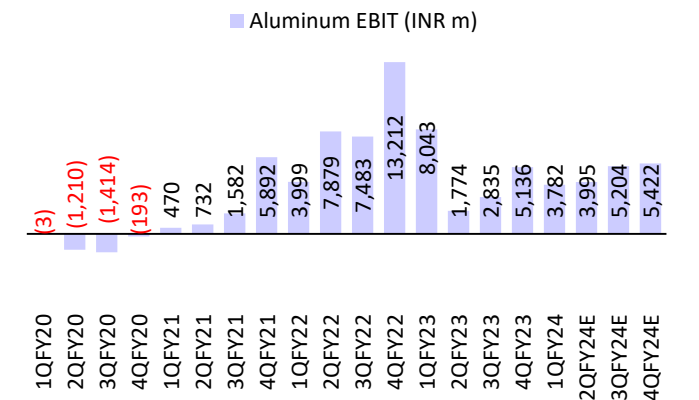
Source: Company, MOFSL

Exhibit 2: Alumina EBIT (INR m) is expected to rise from 2QFY24 onwards



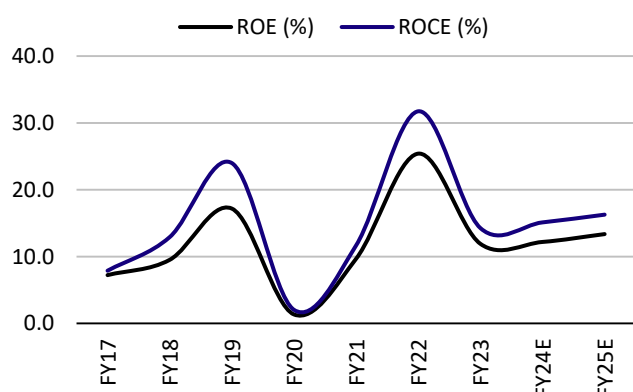
Source: Company, MOFSL

Exhibit 3: Aluminum EBIT (INR m) is expected to increase in 2HFY24



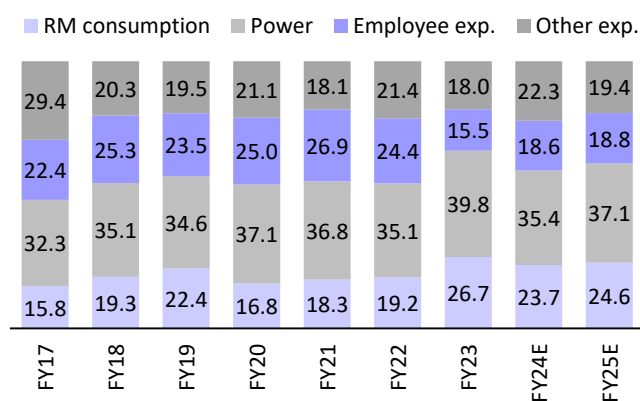
Source: Company, MOFSL

Exhibit 4: ROE and ROCE are expected to pick up from FY24



Source: Company, MOFSL

Exhibit 5: Power as a % of total expenses had been at elevated levels



Source: Company, MOFSL

Exhibit 6: Valuation and target price

TP calculations		UoM	2025E
Aluminum			
Shipments		kt	465
EBITDA		INR/t	49,880
EBITDA		USD/t	599
EBITDA		INR m	23,194
Alumina			
Shipments		kt	1,247
EBITDA		INR/t	6,766
EBITDA		INR m	8,437
Total EBITDA		INR m	31,632
EV/EBITDA (x)		x	3.5
Target EV		INR m	1,10,711
add: cash surplus		INR m	45,840
Equity Value		INR m	1,56,551
No of Shares o/s		m	1,837
Target Price		INR/sh	85

Source: MOFSL

Exhibit 7: Summary of assumptions and key changes to our estimates

	UoM	FY24E			FY25E		
		New	Old	% change	New	Old	% change
Revenue	INR b	135	134	1.0%	141	140	0.1%
EBITDA	"	28	30	-6.8%	32	33	-5.1%
PAT	"	17	18	-7.5%	20	21	-5.3%

Source: MOFSL, Company

Exhibit 8: Global comparable valuation

Aluminum Company		M-Cap USD m	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
			CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24
Hindalco Industries Ltd	Hindalco*	12,728	10.4	11.0	6.2	5.9	1.5	1.3	16.3	12.9
National Aluminium Co Ltd	Nalco*	2,108	11.3	10.3	6.1	4.9	1.3	1.2	11.9	12.2
Alcoa Corp	Alcoa	5,867	NA	11.6	11.7	4.9	1.3	1.2	-5.1	4.9
Norsk Hydro ASA	Norsk Hydro	12,769	11.1	9.6	5.2	4.9	1.2	1.1	11.1	12.1
Aluminum Corp of China Ltd	CHALCO	13,214	10.0	9.1	6.7	5.9	1.0	0.9	9.6	10.6
United Co RUSAL International PJSC RUSAL		5,812	4.2	2.9	NA	NA	0.4	0.4	10.6	14.1
Alumina Ltd	Alumina	2,644	113.9	17.9	75.5	14.7	1.7	1.6	1.2	9.2

Source: MOFSL, Company, Bloomberg. (*) denotes MOFSL coverage

Exhibit 9: P/B near +1SD...

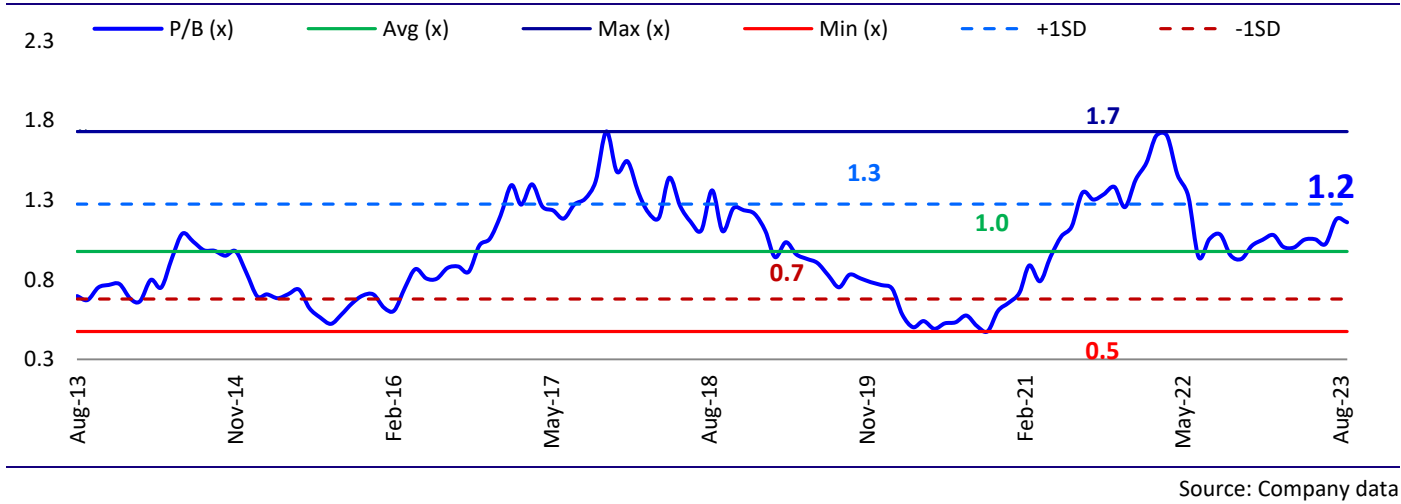
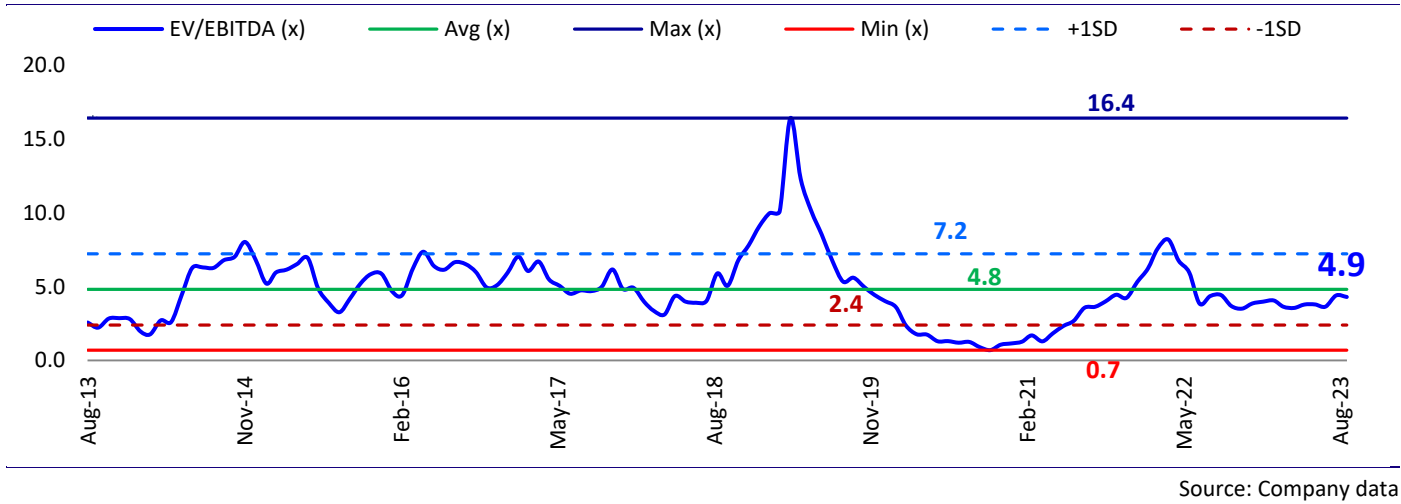


Exhibit 10: ...while EV/EBITDA near LTA



Financials and valuations

Income Statement

INR m

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Net Sales	75,430	95,094	1,14,993	84,718	89,558	1,41,808	1,42,337	1,35,455	1,40,608
Change (%)	10.7	26.1	20.9	-26.3	5.7	58.3	0.4	-4.8	3.8
Total Expenses	64,634	78,311	85,432	79,826	71,730	96,637	1,18,044	1,07,900	1,08,976
EBITDA	10,797	16,783	29,561	4,892	17,828	45,172	24,293	27,556	31,632
Depn. & Amortization	4,804	4,804	4,761	5,298	6,058	8,366	7,158	6,788	6,448
EBIT	5,993	11,979	24,800	-406	11,770	36,806	17,135	20,768	25,184
Net Interest	27	20	24	57	71	231	129	90	90
Other income	4,075	3,008	3,259	2,726	1,466	2,974	2,544	1,760	1,700
PBT before EO	10,041	14,968	28,035	2,262	13,165	39,549	19,550	22,438	26,793
EO income	402	5,421	-636	0	0	1	-1,098	-156	0
PBT after EO	10,442	20,388	27,399	2,262	13,165	39,550	18,452	22,282	26,793
Tax	2,962	6,964	10,075	880	170	10,029	4,105	5,669	6,730
Reported PAT	7,480	13,424	17,324	1,382	12,995	29,521	14,347	16,613	20,063
Adjusted PAT	7,193	9,855	17,726	1,382	9,926	29,520	15,302	16,730	20,063
Change (%)	0.8	37.0	79.9	-92.2	618.0	197.4	-48.2	9.3	19.9

Balance Sheet

INR m

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	9,665	9,665	9,328	9,328	9,183	9,183	9,183	9,183	9,183
Reserves	92,387	95,384	95,517	90,553	97,624	1,16,341	1,22,081	1,33,891	1,47,892
Net Worth	1,02,052	1,05,048	1,04,845	99,881	1,06,807	1,25,524	1,31,264	1,43,074	1,57,076
Total Loans	511	450	668	123	461	207	478	3,978	6,978
Deferred Tax Liability	12,456	11,515	11,307	10,606	8,937	8,682	9,578	9,578	9,578
Capital Employed	1,15,018	1,17,013	1,16,820	1,10,610	1,16,205	1,34,412	1,41,319	1,56,629	1,73,631
Gross Block	80,489	85,022	91,154	98,160	1,05,504	1,10,486	1,17,240	1,23,240	1,29,240
Less: Accum. Deprn.	9,044	13,627	18,297	23,312	28,900	37,054	44,212	51,000	57,448
Net Fixed Assets	71,444	71,395	72,857	74,848	76,605	73,432	73,028	72,241	71,792
Capital WIP	5,660	9,152	8,827	14,267	15,755	22,348	32,689	31,689	35,689
Investments	389	1,176	1,758	2,773	3,133	3,110	2,132	2,132	2,132
Curr. Assets	67,517	64,415	68,028	53,609	51,614	73,865	68,417	85,761	99,705
Inventories	11,559	11,941	12,100	16,969	14,763	16,462	18,402	18,556	19,261
Account Receivables	1,843	2,581	2,406	1,401	1,474	753	913	1,113	1,156
Cash and Bank Balance	35,084	33,619	35,772	20,355	19,982	37,701	22,631	39,621	52,817
Others	19,031	16,274	17,750	14,884	15,396	18,950	26,471	26,471	26,471
Curr. Liability & Prov.	29,992	29,126	34,650	34,886	30,900	38,343	34,947	35,193	35,687
Account Payables	8,641	9,774	13,069	7,956	9,772	14,807	12,743	12,989	13,483
Provisions & Others	21,351	19,352	21,581	26,930	21,128	23,536	22,204	22,204	22,204
Net Curr. Assets	37,525	35,290	33,378	18,723	20,714	35,522	33,470	50,568	64,018
Appl. of Funds	1,15,018	1,17,013	1,16,820	1,10,610	1,16,206	1,34,412	1,41,319	1,56,629	1,73,631

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Basic (INR)									
EPS	3.7	5.1	9.5	0.7	5.4	16.1	8.3	9.1	10.9
Cash EPS	6.4	9.4	11.8	3.6	10.4	20.6	11.7	12.7	14.4
BV/Share	52.8	54.3	56.2	53.5	58.2	68.3	71.5	77.9	85.5
DPS	2.8	5.7	5.8	1.5	3.5	6.5	5.0	2.7	3.3
Valuation (x)									
P/E	25.3	18.5	9.9	127.2	17.4	5.9	11.3	10.3	8.6
Cash P/E	14.8	10.0	8.0	26.3	9.1	4.6	8.0	7.4	6.5
P/BV	1.8	1.7	1.7	1.8	1.6	1.4	1.3	1.2	1.1
EV/Sales	2.0	1.6	1.2	1.8	1.7	0.9	1.0	1.0	0.9
EV/EBITDA	13.6	8.8	4.7	31.2	8.4	2.9	6.1	4.9	4.0
Dividend Yield (%)	3.0	6.0	6.1	1.6	3.7	6.9	5.3	2.9	3.5
Return Ratios (%)									
EBITDA Margins (%)	14.3	17.6	25.7	5.8	19.9	31.9	17.1	20.3	22.5
Net Profit Margins (%)	9.5	10.4	15.4	1.6	11.1	20.8	10.8	12.4	14.3
RoE	7.2	9.5	17.2	1.4	9.7	25.4	11.9	12.2	13.4
RoCE (pre-tax)	7.9	12.9	24.0	2.0	11.7	31.7	14.3	15.1	16.3
RoIC (pre-tax)	8.0	16.3	34.6	-0.6	15.6	49.5	22.1	24.9	30.3
Working Capital Ratios									
Fixed Asset Turnover (x)	0.9	1.1	1.3	0.9	0.8	1.3	1.2	1.1	1.1
Asset Turnover (x)	0.7	0.8	1.0	0.8	0.8	1.1	1.0	0.9	0.8
Debtor (Days)	9	10	8	6	6	2	2	3	3
Inventory (Days)	56	46	38	73	60	42	47	50	50
Payable (Days)	42	38	41	34	40	38	33	35	35
Leverage Ratio (x)									
Current Ratio	2.3	2.2	2.0	1.5	1.7	1.9	2.0	2.4	2.8

Cashflow Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
									INR m
Pre-tax profit	9,639	20,388	27,399	2,262	12,995	29,514	14,347	22,438	26,793
Depreciation	4,804	4,804	4,761	5,298	6,058	8,366	7,158	6,788	6,448
(Inc)/Dec in Wkg. Cap.	1,217	-178	3,274	-9,071	3,819	3,942	-4,169	-108	-254
Tax paid	-2,184	-4,825	-10,209	-1,005	-975	-7,555	-7,467	-5,669	-6,730
Others	884	-5,524	-447	-971	93	5,316	-786	90	90
CF from Op. Activity	14,359	14,666	24,779	-3,486	21,990	39,584	9,083	23,540	26,347
(Inc)/Dec in FA + CWIP	-7,781	-8,374	-7,680	-8,578	-12,188	-12,829	-12,962	-5,000	-10,000
Free Cash Flow to firm	6,578	6,292	17,099	-12,064	9,802	26,755	-3,880	18,540	16,347
(Pur)/Sale of Investments	10,178	1,718	1,272	2,068	-4,835	26	-386		
Interest & div	2,795	1,522	1,089	1,353	662	2,336	-1,569		
CF from Inv. Activity	5,191	-5,134	-5,319	-5,158	-16,361	-10,466	-14,917	-5,000	-10,000
Int. Paid	-4	-1	0	-9	-33	-124	-15	-90	-90
Debt raised/(repaid)	511	-61	218	-579	338	-254	-37	3,500	3,000
Dividend (incl. tax)	-8,259	-10,934	-12,451	-6,185	-4,606	-11,020	-9,183	-4,959	-6,061
Other financing activities									
CF from Fin. Activity	-36,159	-10,997	-17,308	-6,773	-6,002	-11,398	-9,235	-1,549	-3,151
(Inc)/Dec in Cash	-16,608	-1,465	2,153	-15,416	-374	17,719	-15,070	16,990	13,196
Add: opening Balance	51,692	35,084	33,619	35,772	20,355	19,982	37,701	22,631	39,621
Closing Balance	35,084	33,619	35,772	20,355	19,982	37,701	22,631	39,621	52,817

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

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