

BSE SENSEX
61,355

S&P CNX
18,148


Stock Info

Bloomberg	NACL IN
Equity Shares (m)	1837
M.Cap.(INRb)/(USDb)	152.6 / 1.9
52-Week Range (INR)	107 / 67
1, 6, 12 Rel. Per (%)	1/15/-28
12M Avg Val (INR M)	1151
Free float (%)	48.7

Financials Snapshot (INR b)

Y/E MARCH	FY23E	FY24E	FY25E
Sales	137	130	143
EBITDA	21	29	40
Adj. PAT	12	19	28
EBITDA Margin (%)	15	22	28
Cons. Adj. EPS (INR)	6.7	10.5	15.0
EPS Gr. (%)	-58	56	43
BV/Sh. (INR)	71	78	88

Ratios

Net D:E	-0.3	-0.2	-0.3
RoE (%)	10	14	18
RoCE (%)	12	17	22
Payout (%)	55	36	30

Valuations

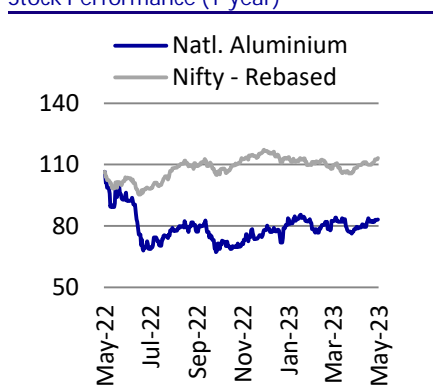
P/E (x)	12.4	7.9	5.5
P/BV (x)	1.2	1.1	0.9
EV/EBITDA(x)	5.6	4.1	2.7
Div. Yield (%)	4.2	4.6	5.4
FCF Yield (%)	0.6	4.5	11.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	51.3	51.3	51.3
DII	13.3	12.5	8.8
FII	16.0	15.1	18.0
Others	19.5	21.2	21.9

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR83

TP: INR80 (-4%)

Neutral

Increase in alumina refinery capacity and robust domestic demand to drive performance

- NACL has one of the largest integrated bauxite-alumina-aluminum power complexes in India. It has a mining complex at Panchpatmali (Koraput, Odisha) with proven reserves of ~310mt, a 2.2mt alumina refinery at Damanjodi (Odisha) and a 460kt 960-pots aluminum smelter at Angul (Odisha). NACL also has a 50,000tpa downstream rolling facility, a 1,200mw thermal CPP and 198.4mw wind power plants.
- NACL offers a wide gamut of products across calcined alumina, alumina hydrate, specialty hydrates, ingots, sow ingots, wire rods, FRP, etc.
- NACL exports ~30% of its metal to markets such as China, Far East Asia, MENA, UK, etc.
- NACL is setting up a 1mt alumina refinery, which will take the total installed capacity to over 3.1mt. NACL has roped in renowned global companies such as Rio Tinto and ThyssenKrupp. The project is expected to commence operations by 3QFY24.
- NACL is currently operating at 100% capacity and the next leg of growth will commence after the expansion. NACL also plans to set up a 0.5mt aluminum smelting facility, which will further augment growth.
- NACL is expected to clock 460kt of metal production and 455kt of metal sales in FY23.
- NACL follows a prudent investor-friendly dividend payout policy, in line with the **DIPAM's guidelines**.
- We believe the next leg of growth will commence after setting up new facilities; NACL is well placed and stock trades at 4.1x FY24E EV/EBITDA and appears to be fully priced in. We reiterate our Neutral rating on the stock with a TP of INR80.
- Key downside risks: NACL relies on FSA and e-auction route for its coal requirements and any constraint in availability or increase in prices could adversely affect margins. Additionally, any adverse movements in LME prices could also hurt margins.

Next leg of capex to drive growth

- NACL achieved 100% capacity utilization in FY22, with little room to expand production with existing capacity.
- NACL is setting up the fifth stream alumina refinery, which will add 1mt to its existing installed capacity of 2.2mt (total capacity post expansion 3.2mt).
- NACL has tied up with renowned global companies to undertake expansion, such as Rio Tinto for digestion technology and ThyssenKrupp as EPCM consultants. The refinery is expected to commence production in 3QFY24.
- In order to feed the new alumina refinery, NACL is also setting up Pottangi bauxite mine (reserves of ~75mt). The mine has already completed Gram Sabha (public hearing) and EC/FC is in progress. The mine is expected to be operational by 3QFY25.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- NACL is also setting up Utkal D and E coal blocks with an annual capacity of ~4mt (175mt proven reserves). Once operational (Utkal D block expected to be operational by 4QFY24), these mines would cater to ~50% of coal requirement of NACL.
- NACL is also exploring a plan to set up a 0.5mt brownfield aluminum smelter, which will further augment the capacity.

Strong backward integration

- NACL is one of the largest integrated aluminum manufacturers in India with strong bauxite and caustic soda linkages.
- NACL has access to Panchpatmali bauxite mines, which are in close proximity to alumina refinery and the company is also setting up Pottangi bauxite mine and Utkal coal blocks, which will ensure uninterrupted supply of raw materials.
- NACL has entered into a JV with Gujarat Alkalies and Chemicals Ltd. (GACL) to set up a caustic soda plant, which will ensure 100,000tpa raw material securitization (total caustic soda requirement post expansion 300,000tpa).
- NACL has also entered into an overseas JV with Hindustan Copper Ltd. and Mineral Exploration Corporation Ltd. to undertake mine development in international markets. Further progress on the same is awaited.

Global and domestic demand scenario

- Total aluminum demand in India is around 4.5mt (NACL domestic market share ~8%) and is expected to reach 9mt by FY33.
- The long-term demand fundamentals remain quite robust on the back of increased consumption from sectors such as construction, FMCG, automobiles, consumer goods, packaging, machinery, aerospace, and transportation.
- The per capita consumption in India is only ~2.6kg compared with South Korea (46.7kg), Germany (29.9kg), USA (18kg), China (24kg), Russia (8.4kg) and world average (11kg). As the per capita demand improves, it should aid the sector further.
- The highest growth in aluminum will be driven by decarbonization policies and a shift toward electric vehicles (EVs) in the auto/transportation sector.
- Global aluminum consumption in the transportation sector is expected to reach 31.7mt (CAGR of over 6%), driven by a notable increase in EV launches and a move toward greener alternatives in transportation. The world is moving toward lighter and more durable vehicles to improve vehicle performance and curb emissions. With the shift to EVs, aluminum consumption per car is expected to increase to around 550kg from 411kg. India is expected to be the third largest automobile aluminum market by FY30 with applications across engine castings, cylinder blocks, alloy wheels, steering wheels, etc.
- The increase in demand from developing economies such as China and India, higher usage in EVs and near-record-low inventories should support LME prices in the near term.

Coal linkages and shift to renewable energy (RE)

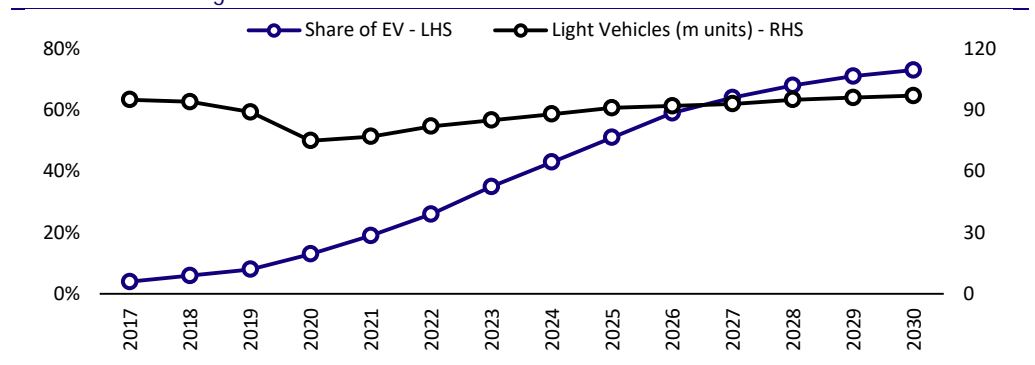
- Aluminum is one of the most power intensive industries with an average power requirement of ~14,000kwh/t.
- NACL requires over 8mt of coal to produce 460kt of aluminum and the company currently has coal linkages with Coal India (COAL).

- Compared to competitors, NACL has an advantage when it procures from COAL and does not import, as COAL has not changed its FSA prices since 2018 and the prices are well below international thermal coal prices.
- However, currently ~75% of coal requirement is met via FSA and the rest is procured from open market/e-auction routes. Therefore, any price increase will impact margins.
- To tackle the situation, NACL has undertaken a two-pronged approach by setting up Utkal coal blocks, which will fulfill ~50% of the coal requirement, and expanding the wind power portfolio (from 198.4mw to 223.9mw), which will ensure cheaper availability of power.

Valuations

- NACL has already reached its full capacity and the next leg of growth will commence once additional capacities come on stream, which will take a couple of years.
- NACL is a cash-rich company that follows a prudent dividend payout policy as per the DIPAM's guidelines (minimum 5% of net worth or 30% of profits whichever is higher).
- We believe the next leg of growth will commence post setting up of new facilities; NACL is well placed and the stock trades at 4.1x FY24E EV/EBITDA and appears to be fully priced in. We reiterate our Neutral rating on the stock with a target price of INR80.
- Key downside risks: NACL relies on FSA and e-auction routes for its coal requirements, and any constraint in availability or increase in prices could adversely affect margins. Additionally any adverse movements in LME prices will also hurt margins.

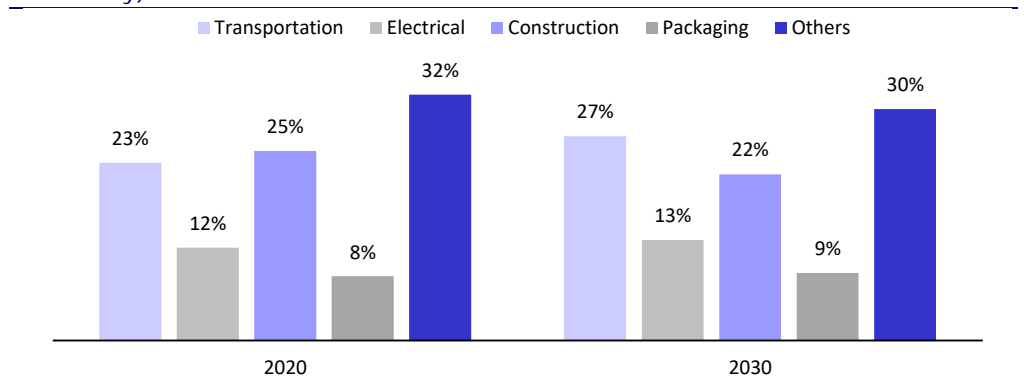
Exhibit 1: Global light vehicle and EV share



Source: IHS Feb 2023, Alternative Propulsion Production Forecast, MOFSL

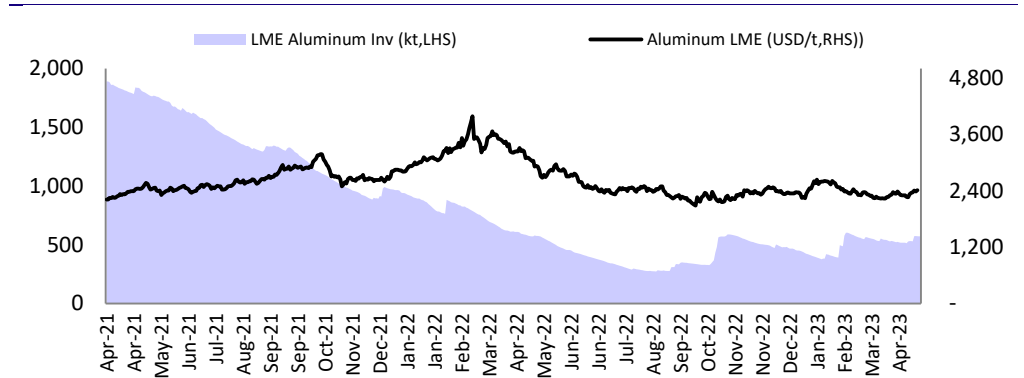
- Aluminum, which is a light metal compared to steel, improves vehicle efficiency, and thus curtails the emission. Electrification is expected to increase the aluminum content in light vehicles to over 550kg per vehicle by 2030.

Exhibit 2: Transportation sector to lead growth in aluminum consumption (primary + secondary)



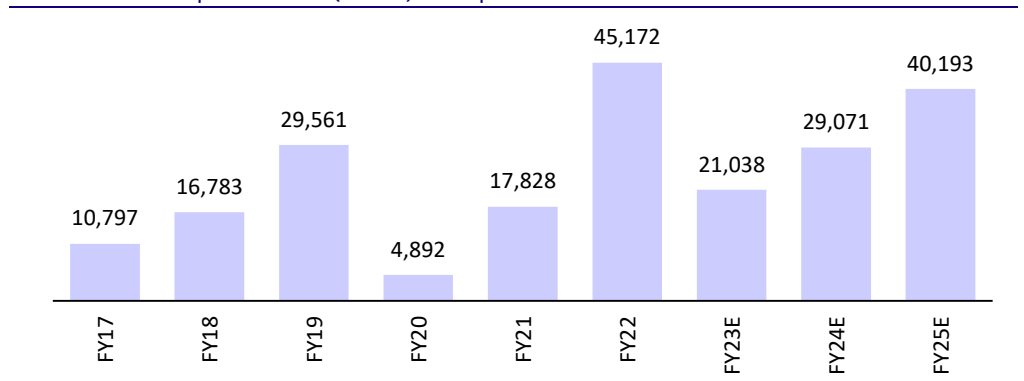
Source: Company, MOFSL

Exhibit 3: LME aluminum prices have improved recently; total aluminum inventory on date is 570kt (down from 1,900kt in %OE) [iii]



Source: Bloomberg, MOFSL

Exhibit 4: We expect EBITDA (INR m) to improve in FY24E



Source: Company, MOFSL

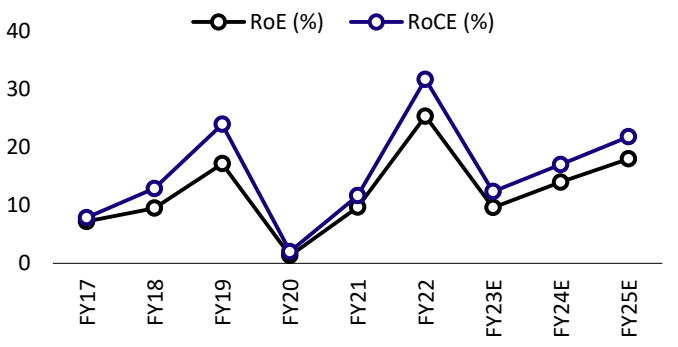
- EBITDA is expected to bottom out in FY23 and improve going forward. Improvement in EBITDA will also come from new capacities coming on stream.

Exhibit 5NACL follows dividend payout in line with DIP guidelines



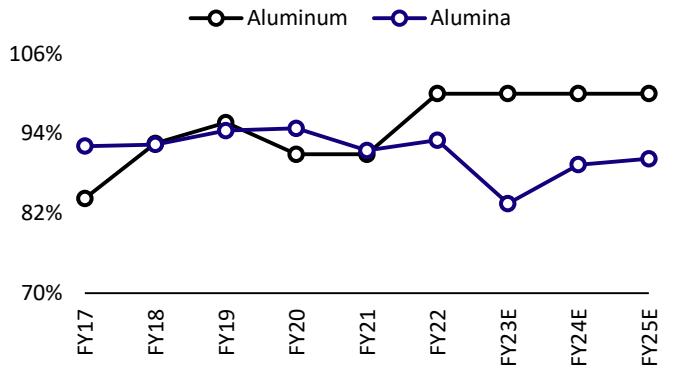
Source: Company, MOFSL

Exhibit 6ROE and ROCE to bottom out in FY23



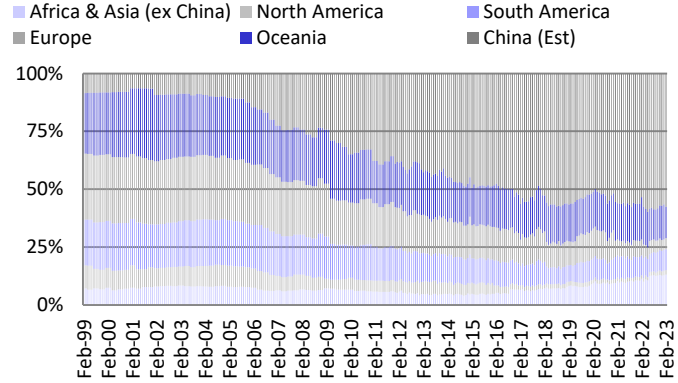
Source: Company, MOFSL

Exhibit 7Aluminum smelter to be operational at full capacity



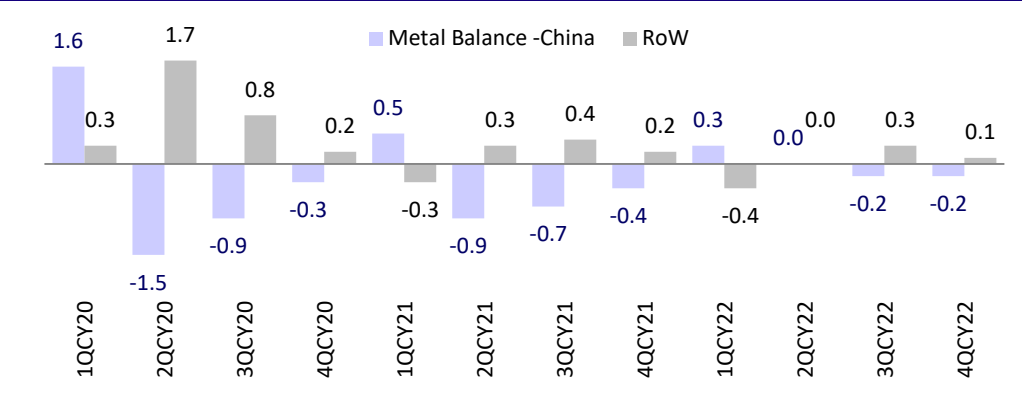
Source: Company, MOFSL

Exhibit 8World alumina production; global share from Africa and Asia (ex China) is increasing since 2011



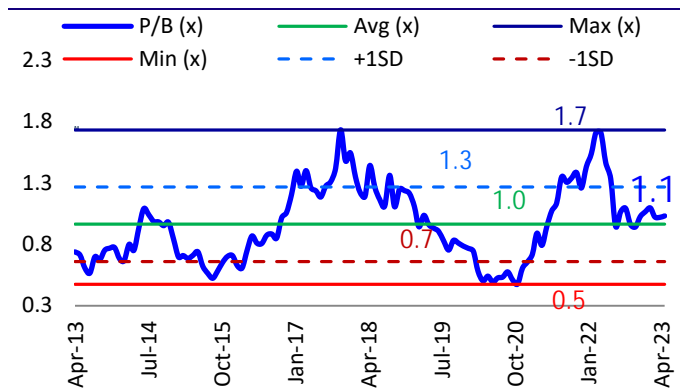
Source: International Aluminum Organization, MOFSL

Exhibit 9In 4QCY22, there was a global deficit of 0.1mt



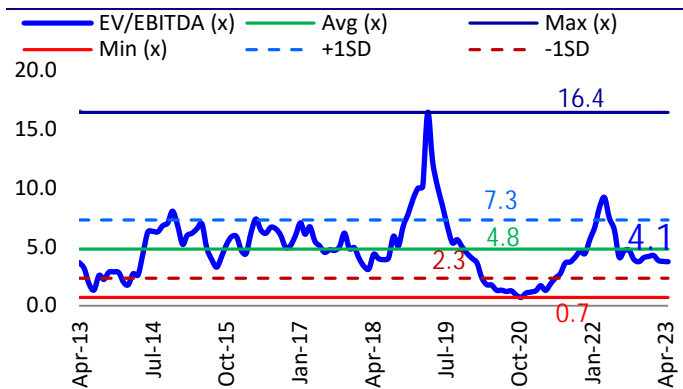
Source: Industry, MOFSL

Exhibit 10: Near LTA of 1x



Source: Company Data, MOFSL

Exhibit 11: While EV/EBITDA is below LTA



Source: Company Data, MOFSL

Exhibit 12: TP calculation

Target Price Calculations		UoM	2024E
Aluminum			
Shipments		kt	446
EBITDA		INR/t	38,222
EBITDA		USD/t	453
EBITDA		INR m	17,033
Alumina			
Shipments		kt	1,139
EBITDA		INR/t	10,567
EBITDA		INR m	12,038
Total EBITDA		INR m	29,071
EV/EBITDA (x)		x	4.0
Target EV		INR m	1,16,282
add: cash surplus		INR m	31,513
Equity Value		INR m	1,47,796
No of Shares o/s		m	1,837
Target Price		INR/sh	80

Source: MOFSL

Exhibit 13: Global comparative valuations

Company	M-Cap USD mn	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
Hindalco*	11,984	7.1	9.7	8.4	4.8	5.7	4.7	1.8	1.5	1.3	28.0	17.0	16.9
Nalco*	1,862	5.2	12.3	7.9	2.5	5.6	4.0	1.2	1.2	1.1	25.4	9.6	14.0
Alcoa	6,469	9.7	59.1	7.4	3.6	6.9	3.4	1.2	1.3	1.2	14.1	2.9	10.3
Norsk Hydro	14,849	6.7	11.5	9.9	4.0	5.7	5.1	1.4	1.5	1.4	26.4	13.2	14.4
CHALCO	14,538	12.2	14.7	10.8	8.2	6.9	5.5	1.1	1.1	1.0	9.1	9.0	11.3
RUSAL	6,910	2.8	2.8	3.8	3.3	NA	NA	0.5	0.5	0.4	25.3	17.5	11.5
Alumina	2,907	26.4	52.7	14.1	20.8	32.3	10.2	1.8	1.8	1.7	7.9	4.3	12.7

Source: MOFSL, Company. (*) denotes MOFSL estimates

Financials and Valuations

Income Statement								INR m	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Net Sales	75,430	95,094	1,14,993	84,718	89,558	1,41,808	1,36,691	1,29,672	1,42,573
Change (%)	10.7	26.1	20.9	-26.3	5.7	58.3	-3.6	-5.1	9.9
Total Expenses	64,634	78,311	85,432	79,826	71,730	96,637	1,15,653	1,00,602	1,02,380
EBITDA	10,797	16,783	29,561	4,892	17,828	45,172	21,038	29,071	40,193
Depn. & Amortization	4,804	4,804	4,761	5,298	6,058	8,366	6,253	5,002	5,052
EBIT	5,993	11,979	24,800	-406	11,770	36,806	14,785	24,068	35,141
Net Interest	27	20	24	57	71	231	164	168	168
Other income	4,075	3,008	3,259	2,726	1,466	2,974	2,435	1,700	1,700
PBT before EO	10,041	14,968	28,035	2,262	13,165	39,549	17,056	25,601	36,674
EO income	402	5,421	-636	0	0	1	-830	0	0
PBT after EO	10,442	20,388	27,399	2,262	13,165	39,550	16,227	25,601	36,674
Tax	2,962	6,964	10,075	880	170	10,029	4,451	6,375	9,132
Reported PAT	7,480	13,424	17,324	1,382	12,995	29,521	11,775	19,226	27,542
Adjusted PAT	7,193	9,855	17,726	1,382	9,926	29,520	12,336	19,226	27,542
Change (%)	0.8	37.0	79.9	-92.2	618.0	197.4	-58.2	55.9	43.3

Balance Sheet								INR m	
Y/E March	2017	2018	2019	2020	2021	2022	2023E	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	1,21,688	1,33,935	1,53,212
Net Worth	1,02,052	1,05,048	1,04,845	99,881	1,06,807	1,25,524	1,30,871	1,43,118	1,62,395
Total Loans	511	450	668	123	461	207	3,707	7,207	7,207
Deferred Tax Liability	12,456	11,515	11,307	10,606	8,937	8,682	8,682	8,682	8,682
Capital Employed	1,15,018	1,17,013	1,16,820	1,10,610	1,16,205	1,34,412	1,43,260	1,59,007	1,78,283
Gross Block	80,489	85,022	91,154	98,160	1,05,504	1,10,486	1,16,486	1,22,486	1,28,486
Less: Accum. Deprn.	9,044	13,627	18,297	23,312	28,900	37,054	43,307	48,309	53,361
Net Fixed Assets	71,444	71,395	72,857	74,848	76,605	73,432	73,179	74,177	75,125
Capital WIP	5,660	9,152	8,827	14,267	15,755	22,348	26,348	38,348	47,348
Investments	389	1,176	1,758	2,773	3,133	3,110	3,110	3,110	3,110
Curr. Assets	67,517	64,415	68,028	53,609	51,614	73,865	79,138	81,118	91,861
Inventories	11,559	11,941	12,100	16,969	14,763	16,462	22,470	21,316	23,437
Account Receivables	1,843	2,581	2,406	1,401	1,474	753	2,247	2,132	2,344
Cash and Bank Balance	35,084	33,619	35,772	20,355	19,982	37,701	35,471	38,720	47,130
Others	19,031	16,274	17,750	14,884	15,396	18,950	18,950	18,950	18,950
Curr. Liability & Prov.	29,992	29,126	34,650	34,886	30,900	38,343	38,516	37,747	39,160
Account Payables	8,641	9,774	13,069	7,956	9,772	14,807	14,980	14,211	15,624
Provisions & Others	21,351	19,352	21,581	26,930	21,128	23,536	23,536	23,536	23,536
Net Curr. Assets	37,525	35,290	33,378	18,723	20,714	35,522	40,622	43,371	52,700
Appl. of Funds	1,15,018	1,17,013	1,16,820	1,10,610	1,16,205	1,34,412	1,43,260	1,59,007	1,78,283

Financials and Valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Basic (INR)									
EPS	3.7	5.1	9.5	0.7	5.4	16.1	6.7	10.5	15.0
Cash EPS	6.4	9.4	11.8	3.6	10.4	20.6	9.8	13.2	17.7
BV/Share	52.8	54.3	56.2	53.5	58.2	68.3	71.3	77.9	88.4
DPS	2.8	5.7	5.8	1.5	3.5	6.5	3.5	3.8	4.5
Valuation (x)									
P/E	22.3	16.3	8.7	112.1	15.4	5.2	12.4	7.9	5.5
Cash P/E	13.1	8.8	7.0	23.2	8.0	4.0	8.5	6.3	4.7
P/BV	1.6	1.5	1.5	1.6	1.4	1.2	1.2	1.1	0.9
EV/Sales	1.7	1.3	1.0	1.6	1.5	0.8	0.9	0.9	0.8
EV/EBITDA	11.6	7.5	4.0	27.0	7.3	2.5	5.6	4.1	2.7
Dividend Yield (%)	3.4	6.9	6.9	1.8	4.2	7.8	4.2	4.6	5.4
Return Ratios (%)									
EBITDA Margins (%)	14.3	17.6	25.7	5.8	19.9	31.9	15.4	22.4	28.2
Net Profit Margins (%)	9.5	10.4	15.4	1.6	11.1	20.8	9.0	14.8	19.3
RoE	7.2	9.5	17.2	1.4	9.7	25.4	9.6	14.0	18.0
RoCE (pre-tax)	7.9	12.9	24.0	2.0	11.7	31.7	12.4	17.1	21.8
RoIC (pre-tax)	8.0	16.3	34.6	-0.6	15.6	49.5	19.8	30.6	44.1
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	0.8	0.8
Debtor (Days)	9	10	8	6	6	2	6	6	6
Inventory (Days)	56	46	38	73	60	42	60	60	60
Payable (Days)	42	38	41	34	40	38	40	40	40
Leverage Ratio (x)									
Current Ratio	2.3	2.2	2.0	1.5	1.7	1.9	2.1	2.1	2.3

Cashflow Statement

Y/E March	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
INR m									
Pre-tax profit	9,639	20,388	27,399	2,262	12,995	29,514	16,227	25,601	36,674
Depreciation	4,804	4,804	4,761	5,298	6,058	8,366	6,253	5,002	5,052
(Inc)/Dec in Wkg. Cap.	1,217	-178	3,274	-9,071	3,819	3,942	-7,330	500	-919
Tax paid	-2,184	-4,825	-10,209	-1,005	-975	-7,555	-4,451	-6,375	-9,132
Others	884	-5,524	-447	-971	93	5,316	164	168	168
CF from Op. Activity	14,359	14,666	24,779	-3,486	21,990	39,584	10,862	24,896	31,843
(Inc)/Dec in FA + CWIP	-7,781	-8,374	-7,680	-8,578	-12,188	-12,829	-10,000	-18,000	-15,000
Free Cash Flow to firm	6,578	6,292	17,099	-12,064	9,802	26,755	862	6,896	16,843
(Pur)/Sale of Investments	10,178	1,718	1,272	2,068	-4,835	26			
Interest & div	2,795	1,522	1,089	1,353	662	2,336			
CF from Inv. Activity	5,191	-5,134	-5,319	-5,158	-16,361	-10,466	-10,000	-18,000	-15,000
Equity raised/(repaid)	-28,407	0	-5,074	0	-1,701	0	0	0	0
Int. Paid	-4	-1	0	-9	-33	-124	-164	-168	-168
Debt raised/(repaid)	511	-61	218	-579	338	-254	3,500	3,500	0
Dividend (incl. tax)	-8,259	-10,934	-12,451	-6,185	-4,606	-11,020	-6,428	-6,979	-8,265
Other financing activities									
CF from Fin. Activity	-36,159	-10,997	-17,308	-6,773	-6,002	-11,398	-3,092	-3,647	-8,432
(Inc)/Dec in Cash	-16,608	-1,465	2,153	-15,416	-374	17,719	-2,230	3,249	8,410
Add: opening Balance	51,692	35,084	33,619	35,772	20,355	19,982	37,701	35,471	38,720
Closing Balance	35,084	33,619	35,772	20,355	19,982	37,701	35,471	38,720	47,130

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

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