

BSE SENSEX	S&P CNX
36,546	10,944
Bloomberg	NACL IN
Equity Shares (m)	1,933
M.Cap.(INRb)/(USDb)	110.5 / 1.5
52-Week Range (INR)	90 / 57
1, 6, 12 Rel. Per (%)	-7/-12/-24
12M Avg Val (INR M)	696
Free float (%)	43.2

CMP: INR59 TP: INR69 (+16%) Buy

Disappointment in the form of higher cost of production

Cutting estimates due to lower alumina prices/higher CoP; Maintain Buy

NALCO's (NACL) EBITDA declined 40% QoQ (+10% YoY) to INR5.1b (our estimate: INR6.2b) in 3QFY19 owing to lower volumes/realizations and higher cost of production (CoP). The miss versus our estimate can primarily be ascribed to higher CoP. Adj. PAT declined 41% QoQ (+9% YoY) to INR3b (our estimate: INR3.8b).

- **Alumina:** Production increased 12% QoQ to 532kt, but sales were down 10% QoQ to 293kt. Realization declined 15% QoQ to USD485kt (est. USD450/t). CoP increased USD3 QoQ to USD323/t, despite the currency tailwinds.
- **Aluminum:** Production was down 8% QoQ to 105kt, while sales were down 10% QoQ to 104kt (our estimate: 112kt). Realization increased 3% QoQ to USD2,241/t, even as LME was lower, due to higher product premiums. CoP increased USD172 QoQ to USD2,109/t, accentuated by reduced volumes leading to lower absorption of fixed cost.

Cutting estimates due to lower alumina and higher CoP; Maintain Buy

- NACL's performance was impacted by alumina prices coming off their recent highs and fixed cost absorption being lower due to reduced volumes. We expect volumes to improve, which should drive down CoP, but the alumina benchmark prices have fallen further as Chinese supply is rising.
- We cut our alumina price estimate from USD400/t to USD350/t for FY20-21. Spot alumina is at ~USD365/t. We have also marginally cut aluminum product premiums and increased CoP. EBITDA estimate is cut by ~27-29% to ~INR16b and PAT by ~30% to ~INR10b for FY20-21.
- We believe alumina/aluminum LME are close to bottom as, at the current prices, ~20-30% of global smelters/refiners (particularly Chinese) would be in cash losses. NACL is best placed to benefit from higher prices. We value the stock at 6x (earlier 5.5x) FY20E EV/EBITDA at INR69/share. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	114.2	106.1	108.2
EBITDA	27.9	16.7	16.8
PAT	16.8	9.9	10.0
EPS (INR)	8.7	5.1	5.2
Gr. (%)	70.8	-41.1	0.9
BV/Sh (INR)	53.6	51.6	49.6
RoE (%)	16.1	9.7	10.2
RoCE (%)	22.4	12.9	13.5
P/E (x)	6.8	11.6	11.5
P/BV (x)	1.1	1.1	1.2

Estimate change



TP change



Rating change



Quarterly Performance (Standalone) – INR m

Y/E March	FY18				FY19				FY18	FY19E	FY19 vs Est 3QE (%)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Aluminium Sales ('000 tons)	89	113	110	112	105	115	104	112	424	436	112	-7
Alumina Sales ('000 tons)	259	380	256	440	320	324	293	353	1,335	1,290	303	-3
Avg LME Aluminium (USD/ton)	1,910	2,011	2,097	2,162	2,250	2,050	1,973	1,950	2,045	2,056	1,973	0
NSR premiums (USD/ton)	323	239	269	190	239	115	268	180	256	201	190	41
Alumina NSR (USD/ton)	314	334	422	413	570	568	485	365	371	497	450	8
Net Sales	18,027	24,548	23,888	28,632	29,733	30,409	27,189	26,826	95,094	114,157	27,455	-1
Change (YoY %)	16.4	33.0	20.2	12.3	64.9	23.9	13.8	-6.3	19.9	20.0	15	
EBITDA	2,270	3,549	4,668	6,297	10,111	8,509	5,130	4,128	16,783	27,878	6,166	-17
Interest	4	4	5	6	6	6	6	0	20		0	
Depreciation	1,170	1,123	1,243	1,268	1,217	1,160	1,181	1,219	4,804	4,777	1,224	-4
Other Income	859	810	766	573	621	903	758	704	3,008	2,985	704	8
PBT (before EO Item)	1,954	3,231	4,186	5,597	9,509	8,246	4,701	3,612	14,968	26,086	5,646	-17
Extra-ordinary Income	6	-32	6,784	-1,336	910	0	0	0	5,421		0	
PBT (after EO Item)	1,960	3,199	10,969	4,261	10,419	8,246	4,701	3,612	20,388	26,086	5,646	-17
Total Tax	670	853	3,752	1,690	3,549	3,146	1,683	1,179	6,964	9,557	1,843	-9
% Tax	34.2	26.7	34.2	39.7	34.1	38.2	35.8	32.6	34.2	36.6	33	
Reported PAT	1,289	2,346	7,218	2,571	6,871	5,100	3,018	2,433	13,424	16,529	3,803	-21
Adjusted PAT	1,287	2,127	2,756	3,685	6,270	5,100	3,018	2,433	9,855	16,529	3,803	-21

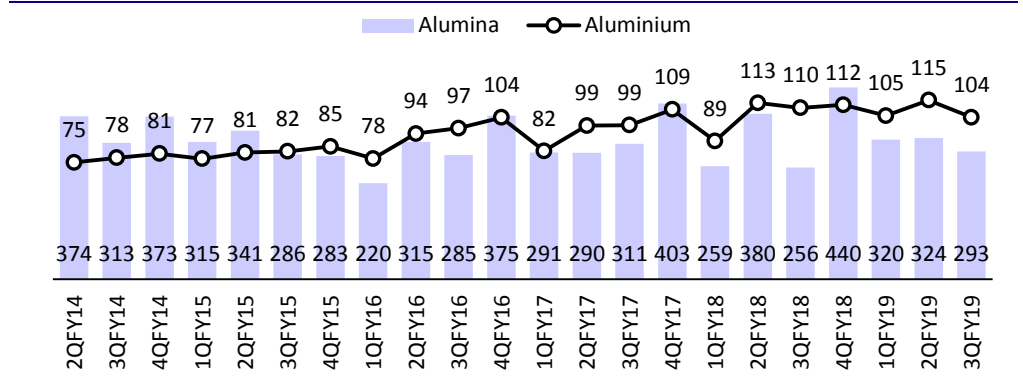
Sanjay Jain – Research analyst (SanjayJain@MotilalOswal.com); +91 22 6129 1523

Dhruv Muchhal – Research analyst (Dhruv.Muchhal@MotilalOswal.com); +91 22 6129 1549

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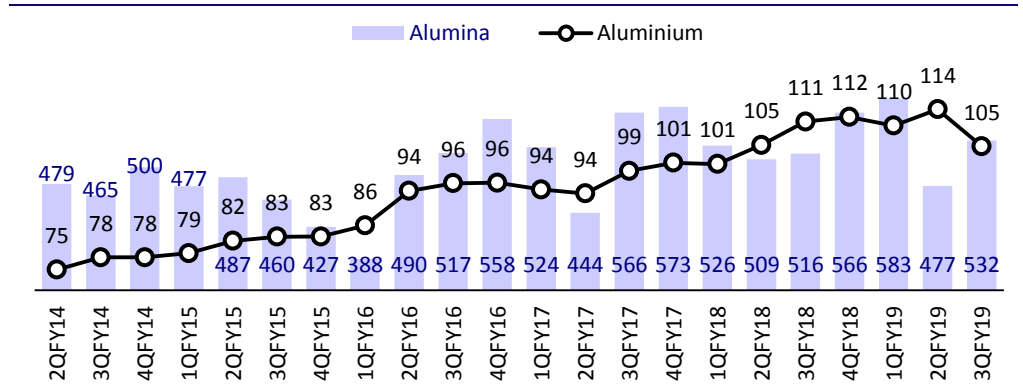
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Exhibit 1: Alumina and aluminum sales volumes – kt



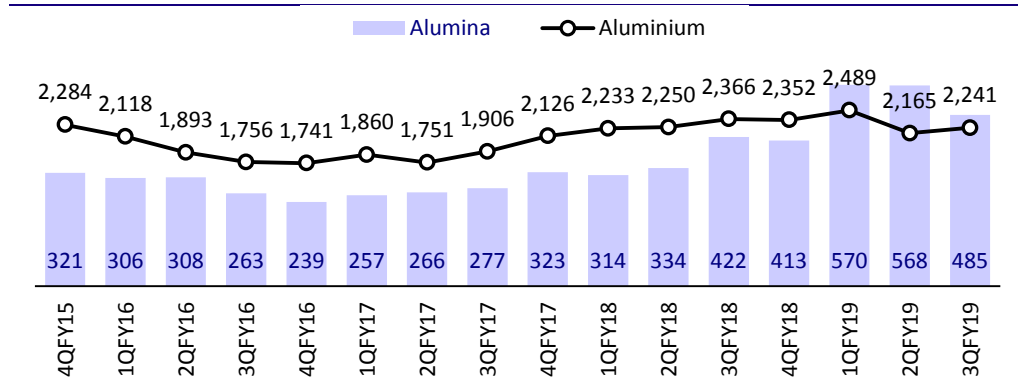
Source: MOSL, Company

Exhibit 2: Alumina and aluminum production volumes – kt



Source: MOSL, Company

Exhibit 3: Alumina and aluminum realization – USD/t



Source: MOSL, Company

Exhibit 4: Target price calculation

	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
EBITDA	9,342	17,060	9,595	10,797	16,783	27,878	16,723
EV/EBITDA (x)						6.0	6.0
Target EV						167,266	100,337
add: CWIP	7,687	5,497	6,877	5,660	9,152	14,152	19,152
add: cash surplus	40,483	55,780	51,692	35,084	33,619	23,836	14,255
Equity Value							133,744
Target Price							69
TP (12m rolling)							
Key Assumption							
USD/INR rate	60.5	61.1		67.1	64.5	70.7	73.4
LME (USD/t)	1,773	1,889		1,687	2,045	2,056	2,000

Source: MOSL, Company

Financials and Valuations

Income Statement								(INR Million)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net Sales	67,809	73,828	68,170	75,430	95,094	114,157	106,105	108,178
Change (%)	-2.0	8.9		10.7	26.1	20.0	-7.1	2.0
Total Expenses	58,466	56,768	58,575	64,634	78,311	86,279	89,382	91,329
EBITDA	9,342	17,060	9,595	10,797	16,783	27,878	16,723	16,850
% of Net Sales	13.8	23.1	14.1	14.3	17.6	24.4	15.8	15.6
Depn. & Amortization	5,247	4,137	4,261	4,804	4,804	4,777	4,824	4,825
EBIT	4,095	12,924	5,333	5,993	11,979	23,100	11,899	12,025
Net Interest	0	0	33	27	20	18	0	0
Other income	5,577	6,726	6,052	4,075	3,008	2,985	2,814	2,814
PBT before EO	9,672	19,650	11,353	10,041	14,968	26,068	14,713	14,839
EO income	-494	1,484	-535	402	5,421	910	0	0
PBT after EO	9,178	21,134	10,818	10,442	20,388	26,978	14,713	14,839
Tax	2,755	7,916	4,015	2,962	6,964	9,557	4,802	4,844
Rate (%)	30.0	37.5	37.1	28.4	34.2	35.4	32.6	32.6
Reported PAT	6,424	13,219	6,803	7,480	13,424	17,421	9,911	9,996
Adjusted PAT	6,769	12,290	7,139	7,193	9,855	16,834	9,911	9,996
Change (%)	14.2	81.6	2.6	0.8	37.0	70.8	-41.1	0.9

E: MOSL Estimates

Balance Sheet								(INR Million)
Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Share Capital	12,886	12,886	12,886	9,665	9,665	9,328	9,328	9,328
Reserves	108,338	115,087	119,063	92,387	95,384	94,292	90,402	86,596
Net Worth	121,225	127,973	131,949	102,052	105,048	103,620	99,730	95,924
Total Loans	0	0	0	511	450	450	450	450
Deferred Tax Liability	9,101	11,053	11,641	12,456	11,515	11,515	11,515	11,515
Capital Employed	130,326	139,026	143,590	115,018	117,013	115,584	111,694	107,889
Gross Block	148,581	152,847	70,210	80,489	85,022	91,022	97,022	103,022
Less: Accum. Deprn.	80,662	86,393	4,253	9,044	13,627	18,404	23,229	28,054
Net Fixed Assets	67,919	66,454	65,957	71,444	71,395	72,617	73,793	74,968
Capital WIP	7,687	5,497	6,877	5,660	9,152	14,152	19,152	24,152
Investments	12,450	10	9,445	389	1,176	1,176	1,176	1,176
Curr. Assets	77,428	89,815	84,825	67,517	64,415	58,875	47,971	38,206
Inventories	11,737	11,656	10,550	11,559	11,941	15,638	14,535	14,819
Account Receivables	2,436	1,208	2,352	1,843	2,581	3,128	2,907	2,964
Cash and Bank Balance	40,483	55,780	51,692	35,084	33,619	23,836	14,255	4,150
Others	22,773	21,171	20,231	19,031	16,274	16,274	16,274	16,274
Curr. Liability & Prov.	35,159	22,751	23,513	29,992	29,126	31,237	30,398	30,614
Account Payables	31,505	18,461	6,559	8,641	9,774	11,885	11,046	11,262
Provisions & Others	3,655	4,290	16,955	21,351	19,352	19,352	19,352	19,352
Net Curr. Assets	42,269	67,064	61,311	37,525	35,290	27,639	17,573	7,592
Appl. of Funds	130,326	139,026	143,590	115,018	117,013	115,584	111,694	107,889

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)								
EPS	2.6	4.8	3.7	3.7	5.1	8.7	5.1	5.2
Cash EPS	4.5	6.7	5.7	6.4	9.4	11.5	7.6	7.7
BV/Share	47.0	49.7	68.3	52.8	54.3	53.6	51.6	49.6
DPS	1.5	1.5	2.0	2.8	4.7	6.0	6.0	6.0
Payout (%)	80.2	38.3	79.8	110.4	81.5	106.3	139.3	138.1
Valuation (x)								
P/E	22.6	12.4	16.1	15.9	11.6	6.8	11.6	11.5
Cash P/E	13.1	8.8	10.4	9.3	6.3	5.2	7.8	7.7
P/BV	1.3	1.2	0.9	1.1	1.1	1.1	1.1	1.2
EV/Sales	1.5	1.3	0.8	1.1	0.8	0.8	0.9	1.0
EV/EBITDA	10.7	5.7	5.6	7.4	4.8	3.2	6.0	6.5
Dividend Yield (%)	2.5	2.5	3.4	4.7	7.9	10.1	10.1	10.1
Return Ratios (%)								
EBITDA Margins (%)	13.8	23.1	14.1	14.3	17.6	24.4	15.8	15.6
Net Profit Margins (%)	10.0	16.6	10.5	9.5	10.4	14.7	9.3	9.2
RoE	5.6	9.9	6.2	7.2	9.5	16.1	9.7	10.2
RoCE (pre-tax)	7.5	14.6	8.0	7.9	12.9	22.4	12.9	13.5
RoIC (pre-tax)	5.9	17.5	7.1	8.0	16.3	30.9	15.5	15.5
Working Capital Ratios								
Fixed Asset Turnover (x)	0.5	0.5	1.0	0.9	1.1	1.3	1.1	1.1
Asset Turnover (x)	0.5	0.5	0.5	0.7	0.8	1.0	0.9	1.0
Debtor (Days)	13	6	13	9	10	10	10	10
Inventory (Days)	63	58	56	56	46	50	50	50
Payable (Days)	170	91	35	42	38	38	38	38
Leverage Ratio (x)								
Current Ratio	2.2	3.9	3.6	2.3	2.2	1.9	1.6	1.2

Cashflow Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018	2019E	2020E	2021E
Pre-tax profit	9,178	21,134	11,887	9,639	20,388	26,978	14,713	14,839
Depreciation	5,247	4,137	4,261	4,804	4,804	4,777	4,824	4,825
(Inc)/Dec in Wkg. Cap.	3,379	-9,925	-11	1,217	-178	-2,132	485	-125
Tax paid	-3,596	-4,915	-3,598	-2,184	-4,825	-9,557	-4,802	-4,844
Others	-4,395	-5,227	-3,732	884	-5,524	18	0	0
CF from Op. Activity	9,813	5,205	8,808	14,359	14,666	20,084	15,220	14,696
(Inc)/Dec in FA + CWIP	-6,187	-3,031	-5,986	-7,781	-8,374	-11,000	-11,000	-11,000
Free Cash Flow to firm	3,627	2,173	2,822	6,578	6,292	9,084	4,220	3,696
(Pur)/Sale of Investments	2,450	12,440	-8,555	10,178	1,718	0	0	0
Interest & div	4,517	5,749	4,769	2,795	1,522			
CF from Inv. Activity	781	15,157	-9,772	5,191	-5,134	-11,000	-11,000	-11,000
Equity raised/(repaid)			0	-28,407	0	-337	0	0
Int. Paid	0	0	-12	-4	-1	-18	0	0
Debt raised/(repaid)	0	0	0	511	-61	0	0	0
Dividend (incl. tax)	-5,155	-5,065	-5,428	-8,259	-10,934	-18,513	-13,801	-13,801
Other financing activities								
CF from Fin. Activity	-5,155	-5,065	-5,440	-36,159	-10,997	-18,867	-13,801	-13,801
(Inc)/Dec in Cash	5,439	15,297	-6,404	-16,608	-1,465	-9,783	-9,581	-10,105
Add: opening Balance	35,044	40,483	58,095	51,692	35,084	33,619	23,836	14,255
Closing Balance	40,483	55,780	51,692	35,084	33,619	23,836	14,255	4,150

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
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UNDER REVIEW	Rating may undergo a change
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022-3980 4263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 3080 1000. Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-38281085.

Registration details: MOSL: SEBI Registration: INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL: IN-DP-16-2015; NSDL: IN-DP-NSDL-152-2000; Research Analyst: INH000000412. AMFI: ARN 17397. Investment Adviser: INA000007100. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670) offers PMS and Mutual Funds products. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) offers wealth management solutions. *Motilal Oswal Securities Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance and IPO products. *Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. offers Real Estate products. * Motilal Oswal Private Equity Investment Advisors Pvt. Ltd. offers Private Equity products.

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