

**BSE SENSEX**  
 36,958

**S&P CNX**  
 10,926

**CMP: INR43 TP: INR50 (+17%)**
**Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2019 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	NAACL IN
Equity Shares (m)	1,933
M.Cap.(INRb)/(USD\$b)	80 / 1.1
52-Week Range (INR)	79 / 43
1, 6, 12 Rel. Per (%)	-5/-14/-38
12M Avg Val (INR M)	609
Free float (%)	48.0

**Financials & Valuations (INR b)**

Y/E Mar	2019	2020E	2021E
Net Sales	115.0	90.8	98.0
EBITDA	29.6	10.8	14.5
PAT	17.7	5.9	8.9
EPS (INR)	9.2	3.1	4.6
Gr. (%)	79.9	-66.5	49.3
BV/Sh (INR)	54.2	55.5	57.3
RoE (%)	16.9	5.6	8.1
RoCE (%)	24.0	7.5	10.9
P/E (x)	4.7	14.0	9.4
P/BV (x)	0.8	0.8	0.7

**Estimate change**

**TP change**

**Rating change**

**Higher cost and lower realization impact performance**
**Cutting estimates to factor in alumina/LME price decline**

EBITDA of INR2.1b (-59% QoQ) came in below our estimate of INR4.3b owing to higher aluminum cost of production, lower-than-expected aluminum volumes and likely lower alumina volumes. The sequential decline in EBITDA can be attributed to lower alumina/LME prices and higher cost. Adj. PAT was down 69% QoQ at ~INR1b (our estimate: INR2.6b).

- **Aluminum:** Production was steady QoQ at 111kt, while sales were down 12% QoQ at 103kt. Realizations declined 1% QoQ to USD2,049/t on account of lower LME prices, partly offset by better premiums. Implied CoP increased 10% QoQ to USD2,017/t due to higher fuel costs and lower scale benefits.
- **Alumina:** Assuming alumina realizations of ~USD369 (avg. 1Q prices), the sales decline stands at 39% QoQ to 231kt.

**Cutting estimates to factor in lower alumina/LME prices; Maintain Buy**

- Alumina prices have come under pressure recently due to the restart of Hydro's Alunorte refinery, weak aluminum LME prices and muted demand. Prices have fallen below their margin cost of production of ~USD350/t, and thus, we believe that there is scope for prices to recover.
- We cut our FY20 estimate for alumina price from USD355/t to USD340/t and for average LME price from ~USD1,861/t to ~USD1,804/t. Our FY20/21 EBITDA estimate is lowered by 32%/12% to INR10.8/INR14.5b.
- We believe alumina/aluminum LME prices are close to bottom as, at the current levels, ~10% of global smelters/refiners (particularly Chinese) would be in cash losses. NAACL is best placed to benefit from higher prices. We value the stock at 5x FY20E EV/EBITDA. Our TP stands at INR50/share. Maintain **Buy**.

**Quarterly Performance (Standalone) – INR m**

Y/E March	FY19				FY20				FY19	FY20E	FY20	vs Est (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Alumina Prodn. (kt)</b>	<b>583</b>	<b>471</b>	<b>538</b>	<b>561</b>	<b>583</b>	<b>477</b>	<b>516</b>	<b>561</b>	<b>2,153</b>	<b>2,137</b>	<b>583</b>	<b>0</b>
CoP (USD/t)	249	273	284	273	263	211	216	221	270	225	262	
<b>Aluminum Prodn. (kt)</b>	<b>110</b>	<b>111</b>	<b>108</b>	<b>111</b>	<b>111</b>	<b>112</b>	<b>110</b>	<b>112</b>	<b>440</b>	<b>444</b>	<b>111</b>	<b>0</b>
CoP (USD/t)	2,030	1,949	2,059	1,842	2,017	1,928	1,991	1,983	1,966	1,979	1,835	
Aluminum Sales (kt)	105	115	104	117	103	112	110	112	441	437	111	-7
Avg LME Aluminum (USD/ton)	2,250	2,050	1,973	1,859	1,792	1,775	1,800	1,850	2,033	1,804	1,792	0
NSR premiums (USD/ton)	308	216	315	216	257	290	290	290	263	282	240	7
<b>Net Sales</b>	<b>29,733</b>	<b>30,409</b>	<b>27,189</b>	<b>27,662</b>	<b>20,841</b>	<b>21,778</b>	<b>22,987</b>	<b>25,153</b>	<b>114,993</b>	<b>90,760</b>	<b>25,209</b>	<b>-17</b>
Change (YoY %)	64.9	23.9	13.8	-3.4	-29.9	-28.4	-15.5	-9.1	20.9	-21.1	-15	
<b>EBITDA</b>	<b>10,111</b>	<b>8,509</b>	<b>5,766</b>	<b>5,176</b>	<b>2,144</b>	<b>2,296</b>	<b>2,580</b>	<b>3,745</b>	<b>29,561</b>	<b>10,765</b>	<b>4,288</b>	<b>-50</b>
Aluminum - EBITDA (USD/t)	527	316	229	233	62	137	99	157	321	115	197	
Interest	6	6	6	6	16	0	0	0		16	0	
Depreciation	1,217	1,160	1,181	1,203	1,264	1,205	1,213	1,221	4,761	4,904	1,207	5
Other Income	621	903	758	977	614	626	873	873	3,259	2,985	855	-28
<b>PBT (before EO Item)</b>	<b>9,509</b>	<b>8,246</b>	<b>5,337</b>	<b>4,943</b>	<b>1,477</b>	<b>1,718</b>	<b>2,239</b>	<b>3,396</b>	<b>28,059</b>	<b>8,830</b>	<b>3,936</b>	<b>-62</b>
Extra-ordinary Income	910	0	-636	-910	0	0	0	0		0	0	
<b>PBT (after EO Item)</b>	<b>10,419</b>	<b>8,246</b>	<b>4,701</b>	<b>4,033</b>	<b>1,477</b>	<b>1,718</b>	<b>2,239</b>	<b>3,396</b>	<b>28,059</b>	<b>8,830</b>	<b>3,936</b>	<b>-62</b>
Total Tax	3,549	3,146	1,683	1,697	499	561	731	1,108	10,075	2,899	1,285	-61
% Tax	34.1	38.2	35.8	42.1	33.8	32.6	32.6	32.6	35.9	32.8	33	
<b>Reported PAT</b>	<b>6,871</b>	<b>5,100</b>	<b>3,018</b>	<b>2,336</b>	<b>978</b>	<b>1,157</b>	<b>1,508</b>	<b>2,288</b>	<b>17,984</b>	<b>5,931</b>	<b>2,651</b>	<b>-63</b>
<b>Adjusted PAT</b>	<b>6,095</b>	<b>5,285</b>	<b>3,420</b>	<b>3,168</b>	<b>978</b>	<b>1,157</b>	<b>1,508</b>	<b>2,288</b>	<b>17,984</b>	<b>5,931</b>	<b>2,651</b>	<b>-63</b>

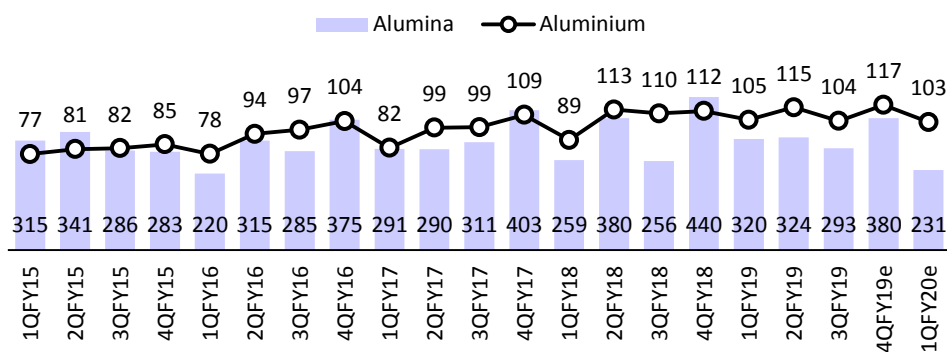
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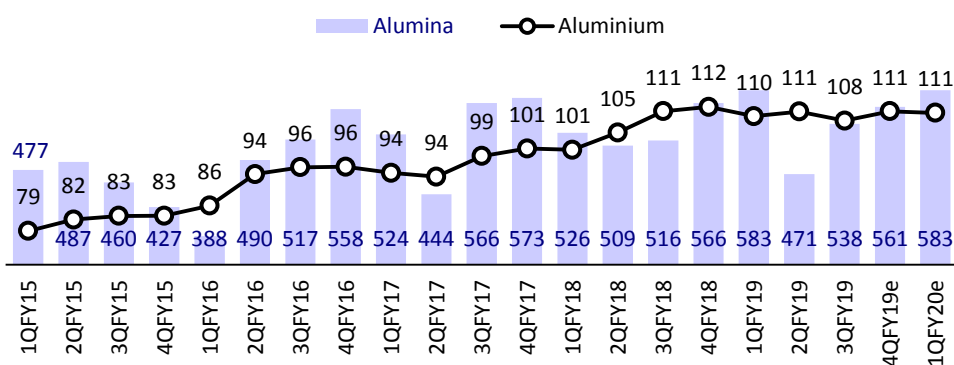
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**Exhibit 1: Alumina and aluminum sales volumes – kt**



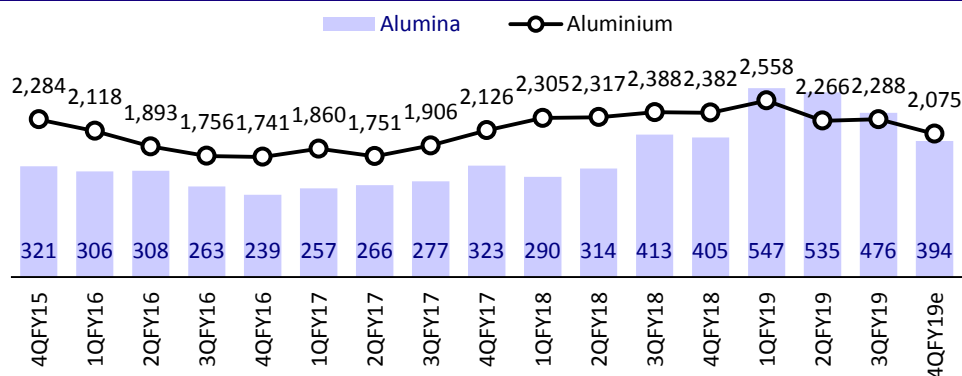
Source: MOFSL, Company

**Exhibit 2: Alumina and aluminum production volumes – kt**



Source: MOFSL, Company

**Exhibit 3: Alumina and aluminum realization – USD/t**



Source: MOFSL, Company

**Exhibit 4: Target price calculation**

	FY17	FY18	FY19	FY20E
<b>EBITDA</b>	<b>10,797</b>	<b>16,783</b>	<b>29,561</b>	<b>10,765</b>
EV/EBITDA (x)			5.0	5.0
Target EV			147,807	53,824
add: CWIP	5,660	9,152	8,827	13,827
add: cash surplus	35,084	33,619	35,772	28,043
Equity Value				95,693
<b>Target Price</b>				<b>50</b>
<b>Key Assumption</b>				
USD/INR rate	67.1	64.5	69.9	69.5
LME (USD/t)	1,687	2,045	2,033	1,804

Source: MOFSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>73,828</b>	<b>68,160</b>	<b>68,170</b>	<b>75,430</b>	<b>95,094</b>	<b>114,993</b>	<b>90,760</b>	<b>98,035</b>
Change (%)	8.9	-7.7		10.7	26.1	20.9	-21.1	8.0
Total Expenses	56,768	58,780	58,575	64,634	78,311	85,432	79,995	83,542
<b>EBITDA</b>	<b>17,060</b>	<b>9,380</b>	<b>9,595</b>	<b>10,797</b>	<b>16,783</b>	<b>29,561</b>	<b>10,765</b>	<b>14,492</b>
% of Net Sales	23.1	13.8	14.1	14.3	17.6	25.7	11.9	14.8
Depn. & Amortization	4,137	4,241	4,261	4,804	4,804	4,761	4,904	4,835
<b>EBIT</b>	<b>12,924</b>	<b>5,139</b>	<b>5,333</b>	<b>5,993</b>	<b>11,979</b>	<b>24,800</b>	<b>5,861</b>	<b>9,657</b>
Net Interest	0	12	33	27	20	24	16	0
Other income	6,726	5,366	6,052	4,075	3,008	3,259	2,985	3,490
<b>PBT before EO</b>	<b>19,650</b>	<b>10,493</b>	<b>11,353</b>	<b>10,041</b>	<b>14,968</b>	<b>28,035</b>	<b>8,830</b>	<b>13,147</b>
EO income	1,484	535	-535	402	5,421	-636	0	0
<b>PBT after EO</b>	<b>21,134</b>	<b>11,028</b>	<b>10,818</b>	<b>10,442</b>	<b>20,388</b>	<b>27,399</b>	<b>8,830</b>	<b>13,147</b>
Tax	7,916	3,718	4,015	2,962	6,964	10,075	2,899	4,291
Rate (%)	37.5	33.7	37.1	28.4	34.2	36.8	32.8	32.6
<b>Reported PAT</b>	<b>13,219</b>	<b>7,310</b>	<b>6,803</b>	<b>7,480</b>	<b>13,424</b>	<b>17,324</b>	<b>5,931</b>	<b>8,856</b>
<b>Adjusted PAT</b>	<b>12,290</b>	<b>6,956</b>	<b>7,139</b>	<b>7,193</b>	<b>9,855</b>	<b>17,726</b>	<b>5,931</b>	<b>8,856</b>
Change (%)	81.6	-43.4	2.6	0.8	37.0	79.9	-66.5	49.3

E: MOSL Estimates

Balance Sheet							(INR Million)	
Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
Share Capital	12,886	12,886	12,886	9,665	9,665	9,328	9,328	9,328
Reserves	115,087	116,191	119,063	92,387	95,384	95,517	97,919	101,506
<b>Net Worth</b>	<b>127,973</b>	<b>129,077</b>	<b>131,949</b>	<b>102,052</b>	<b>105,048</b>	<b>104,845</b>	<b>107,247</b>	<b>110,834</b>
Total Loans	0	0	0	511	450	668	668	668
Deferred Tax Liability	11,053	11,101	11,641	12,456	11,515	11,307	11,307	11,307
<b>Capital Employed</b>	<b>139,026</b>	<b>140,178</b>	<b>143,590</b>	<b>115,018</b>	<b>117,013</b>	<b>116,820</b>	<b>119,222</b>	<b>122,808</b>
Gross Block	152,847	155,035	70,210	80,489	85,022	91,246	97,246	103,246
Less: Accum. Deprn.	86,393	90,360	4,253	9,044	13,627	18,388	23,292	28,127
<b>Net Fixed Assets</b>	<b>66,454</b>	<b>64,675</b>	<b>65,957</b>	<b>71,444</b>	<b>71,395</b>	<b>72,858</b>	<b>73,954</b>	<b>75,119</b>
Capital WIP	5,497	6,614	6,877	5,660	9,152	8,827	13,827	18,827
Investments	10	11	9,445	389	1,176	1,758	1,758	1,758
<b>Curr. Assets</b>	<b>89,815</b>	<b>93,891</b>	<b>84,825</b>	<b>67,517</b>	<b>64,415</b>	<b>68,027</b>	<b>60,712</b>	<b>58,891</b>
Inventories	11,656	11,270	10,550	11,559	11,941	12,100	12,433	13,429
Account Receivables	1,208	2,352	2,352	1,843	2,581	2,405	2,487	2,686
Cash and Bank Balance	55,780	58,095	51,692	35,084	33,619	35,772	28,043	25,026
Others	21,171	22,173	20,231	19,031	16,274	17,750	17,750	17,750
<b>Curr. Liability &amp; Prov.</b>	<b>22,751</b>	<b>25,012</b>	<b>23,513</b>	<b>29,992</b>	<b>29,126</b>	<b>34,650</b>	<b>31,030</b>	<b>31,787</b>
Account Payables	18,461	20,001	6,559	8,641	9,774	13,069	9,449	10,206
Provisions & Others	4,290	5,011	16,955	21,351	19,352	21,581	21,581	21,581
<b>Net Curr. Assets</b>	<b>67,064</b>	<b>68,878</b>	<b>61,311</b>	<b>37,525</b>	<b>35,290</b>	<b>33,377</b>	<b>29,682</b>	<b>27,104</b>
<b>Appl. of Funds</b>	<b>139,026</b>	<b>140,178</b>	<b>143,590</b>	<b>115,018</b>	<b>117,013</b>	<b>116,820</b>	<b>119,222</b>	<b>122,808</b>

## Financials and Valuations

### Ratios

Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
EPS	4.8	2.7	3.7	3.7	5.1	9.2	3.1	4.6
Cash EPS	6.7	4.5	5.7	6.4	9.4	11.4	5.6	7.1
BV/Share	49.7	50.1	68.3	52.8	54.3	54.2	55.5	57.3
DPS	1.5	1.8	2.0	2.8	4.7	5.8	1.5	2.3
Payout (%)	38.3	74.2	79.8	110.4	81.5	103.5	59.5	59.5
<b>Valuation (x)</b>								
P/E	9.0	15.9	11.6	11.5	8.4	4.7	14.0	9.4
Cash P/E	6.4	9.6	7.5	6.8	4.5	3.8	7.7	6.1
P/BV	0.9	0.9	0.6	0.8	0.8	0.8	0.8	0.7
EV/Sales	0.7	0.8	0.3	0.6	0.5	0.4	0.6	0.6
EV/EBITDA	3.2	5.6	2.3	4.4	2.9	1.6	5.0	3.9
Dividend Yield (%)	3.5	4.1	4.7	6.5	11.0	13.4	3.6	5.3
<b>Return Ratios (%)</b>								
EBITDA Margins (%)	23.1	13.8	14.1	14.3	17.6	25.7	11.9	14.8
Net Profit Margins (%)	16.6	10.2	10.5	9.5	10.4	15.4	6.5	9.0
RoE	9.9	5.4	6.2	7.2	9.5	16.9	5.6	8.1
RoCE (pre-tax)	14.6	7.5	8.0	7.9	12.9	24.0	7.5	10.9
RoIC (pre-tax)	17.5	6.7	7.1	8.0	16.3	34.6	8.0	12.6
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	0.5	0.4	1.0	0.9	1.1	1.3	0.9	0.9
Asset Turnover (x)	0.5	0.5	0.5	0.7	0.8	1.0	0.8	0.8
Debtor (Days)	6	13	13	9	10	10	10	10
Inventory (Days)	58	60	56	56	46	50	50	50
Payable (Days)	91	107	35	42	38	38	38	38
<b>Leverage Ratio (x)</b>								
Current Ratio	3.9	3.8	3.6	2.3	2.2	2.0	2.0	1.9

### Cash flow statement

(INR Million)

Y/E March	2015	2016	2016	2017	2018	2019	2020E	2021E
Pre-tax profit	21,134	11,028	11,887	9,639	20,388	27,399	8,830	13,147
Depreciation	4,137	4,241	4,261	4,804	4,804	4,761	4,904	4,835
(Inc)/Dec in Wkg. Cap.	-9,925	796	-11	1,217	-178	4,065	-4,034	-438
Tax paid	-4,915	-3,614	-3,598	-2,184	-4,825	-10,075	-2,899	-4,291
Others	-5,227	-4,012	-3,732	884	-5,524	200	16	0
<b>CF from Op. Activity</b>	<b>5,205</b>	<b>8,438</b>	<b>8,808</b>	<b>14,359</b>	<b>14,666</b>	<b>26,350</b>	<b>6,816</b>	<b>13,253</b>
(Inc)/Dec in FA + CWIP	-3,031	-5,456	-5,986	-7,781	-8,374	-5,899	-11,000	-11,000
<b>Free Cash Flow to firm</b>	<b>2,173</b>	<b>2,982</b>	<b>2,822</b>	<b>6,578</b>	<b>6,292</b>	<b>20,451</b>	<b>-4,184</b>	<b>2,253</b>
(Pur)/Sale of Investments	12,440	-1	-8,555	10,178	1,718	0	0	0
Interest & div	5,749	4,773	4,769	2,795	1,522			
<b>CF from Inv. Activity</b>	<b>15,157</b>	<b>-683</b>	<b>-9,772</b>	<b>5,191</b>	<b>-5,134</b>	<b>-5,899</b>	<b>-11,000</b>	<b>-11,000</b>
Equity raised/(repaid)			0	-28,407	0	-337	0	0
Int. Paid	0	-12	-12	-4	-1	-24	-16	0
Debt raised/(repaid)	0	0	0	511	-61	0	0	0
Dividend (incl. tax)	-5,065	-5,427	-5,428	-8,259	-10,934	-17,938	-3,529	-5,269
<b>CF from Fin. Activity</b>	<b>-5,065</b>	<b>-5,440</b>	<b>-5,440</b>	<b>-36,159</b>	<b>-10,997</b>	<b>-18,298</b>	<b>-3,545</b>	<b>-5,269</b>
<b>(Inc)/Dec in Cash</b>	<b>15,297</b>	<b>2,316</b>	<b>-6,404</b>	<b>-16,608</b>	<b>-1,465</b>	<b>2,153</b>	<b>-7,729</b>	<b>-3,017</b>
Add: opening Balance	40,483	55,780	58,095	51,692	35,084	33,619	35,772	28,043
<b>Closing Balance</b>	<b>55,780</b>	<b>58,095</b>	<b>51,692</b>	<b>35,084</b>	<b>33,619</b>	<b>35,772</b>	<b>28,043</b>	<b>25,026</b>

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 within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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