

### Market Snapshot

Global Indices	Closing	% Chg	% YTD
Dow Jones	16,375	0.1	(8.1)
NASDAQ	4,733	(0.3)	(0.1)
FTSE	6,194	1.8	(5.7)
CAC	4,654	2.2	8.9
DAX	10,318	2.7	5.2
Russia	805	2.0	1.8
Bovespa	47,366	1.9	(5.3)
Nikkei	18,182	0.5	3.3
Hang Seng	20,935	(1.2)	(11.3)
Shanghai Composite	3,160	(0.2)	(2.3)

Indian Indices	Closing	% Chg	% YTD
Sensex	25,765	1.2	(6.3)
Nifty	7,823	1.4	(5.6)
MSCI India	458	1.0	(7.7)
CNX Midcap	12,877	1.1	2.3
BSE Smallcap	10,874	1.2	(2.5)

Flows (USDm)	Prev. Day	MTD
FII	(231)	(333)

Provisional flows	(USDm)
FII	(60)
Locals	127

Volumes	USDbn	% Chg
Cash (NSE + BSE)	2.6	(16.0)

FII F&O	Stock Fut	Index Fut
Net (\$ mn)	48	69
Open Int (%)	0.7	2.6

ADR/GDR Gainers	Last	% Chg
Tata Motors	25.1	2.7
Wipro	12.0	2.4
Reliance	25.8	0.8
SBI	35.2	0.7
Infosys	17.6	0.6

ADR/GDR Losers	Last	% Chg
Dr Reddy	63.6	(1.4)
ICICI Bank	8.5	(0.7)

#### FROM THE RESEARCH DESK

#### INITIATING COVERAGE

**MEP Infrastructure Developers Limited**  
**Let's ride the OMT wave!**

#### COMPANY UPDATE

**National Aluminium Company Limited**  
**Alumina remains the key profit driver**

### Global News

- A Wall Street rally ran out of steam, limping to the close of Thursday's session as oil futures relinquish early gains ahead of highly anticipated Friday employment report. The jobs report is widely viewed as the last piece of U.S. data puzzle before the Federal Reserve makes its interest-rate policy decision at its two-day meeting beginning Sept. 16. The Dow Jones Industrial Average DJIA, +0.14% relinquished its 200-point pop to finish 23.38 points, or 0.1%, higher at 16,374.76.
- Japan markets are shut.

### Sector & Corporate News

- The country's largest fast moving consumer goods company **Hindustan Unilever (HUL)**, has cut shampoo prices in response to rival Procter & Gamble's recent moves. P&G effected a 17-32 per cent price cut last month in the portfolio as low input costs gave it the leeway to do so.
- In a fresh setback for Indian mining giant **Adani** in Australia, one of its key customers Korean major LG said that it will not purchase coal from its controversial 16 billion dollar project while reports emerged that a leading bank may not fund the venture.
- ONGC** is planning to join hands with British Gas to conduct a study to reestablish exploration in Cauvery Basin Offshore. Besides, the company also said that its Mission 2018 is to produce first gas in eastern offshore Block KG-DWN-98/2.
- Suzuki Motor Corp.** chairman Osamu Suzuki on Wednesday asked Indian auto part makers to re-invest their profits into their pedigree business instead of diversifying into other sectors. "I request you to re-invest your profits into same business and do not invest your profits into making hotels, leisure, etc," Suzuki said while addressing the 55th annual session of lobby group Auto Component Manufacturers Association of India (ACMA).

## Sectoral indices

	Closing	% Chg	% MTD	% YTD
BSE Auto	17,383	1.3	(2.7)	(6.7)
BSE Bank	18,940	1.9	(3.5)	(11.7)
BSE Cap Goods	15,749	2.0	(2.5)	2.0
BSE Cons dur	10,727	0.6	(2.9)	10.9
BSE FMCG	7,707	0.4	(1.0)	0.0
BSE IT	11,233	0.4	0.6	5.9
BSE Health	17,561	0.1	(2.2)	19.8
BSE Metal	7,281	2.4	(2.2)	(32.3)
BSE Oil	8,662	0.9	(2.4)	(12.5)
BSE Power	1,784	1.8	(2.7)	(14.7)
BSE PSU	6,647	1.2	(3.9)	(19.2)
BSE Realty	1,285	4.5	1.9	(17.4)
BSE TECK	6,105	0.5	0.1	4.5

## Nifty Outperformers

	Price	% Chg	% MTD	% YTD
Cairn India Ltd	149	5.9	0.2	(37.9)
Tata Steel Ltd	230	4.7	1.9	(42.5)
Vedanta Ltd	98	4.4	(0.4)	(54.2)
Housing Development Finance	1,172	4.4	(1.2)	3.2
Axis Bank Ltd	487	4.4	(4.1)	(3.1)
Ultratech Cement Ltd	3,004	4.1	3.9	12.3
Ambuja Cements Ltd	218	4.1	5.4	(4.5)

## Nifty Underperformers

	Price	% Chg	% MTD	% YTD
Idea Cellular Ltd	149	(3.3)	(4.1)	(2.9)
Bharat Petroleum Corp Ltd	838	(1.3)	(5.1)	29.7
Bosch Ltd	22,158	(1.2)	(4.5)	13.9
Lupin Ltd	1,862	(1.0)	(3.8)	30.4
Hero Motocorp Ltd	2,322	(0.7)	(3.1)	(25.2)
Sun Pharmaceutical Indus	885	(0.6)	(1.6)	7.1
Itc Ltd	320	(0.0)	(1.6)	(13.2)

## Bulk Deals

Date	Security Name	Client Name	Buy/Sell	Qty	Price
3/9/2015	AmtekAuto-Roll Sett	Pace Stock Broking Services Private Limited	BUY	1,582,255	34.19
3/9/2015	AmtekAuto-Roll Sett	Barclays Capital Mauritius Ltd	SELL	1,216,000	36.50
3/9/2015	AmtekAuto-Roll Sett	Pace Stock Broking Services Private Limited	SELL	1,562,907	34.09
3/9/2015	AmtekAuto-Roll Sett	Swiss Finance Corporation (Mauritius) Limited	SELL	2,738,833	35.88

## Delivery Spike

Company	Volume	Spike (%)	Chg (%)
Mahindra & Mahindra Financial Services Ltd	5,728,777	1165%	2.06%
JSW Steel Ltd	887,313	240%	4.37%
GMR Infrastructure Ltd	6,391,079	162%	0.00%
Tata Motors Ltd	2,312,444	135%	6.65%
Cummins India Ltd	198,557	134%	0.38%
DLF Ltd	3,451,129	134%	9.94%
Tata Global Beverages Ltd	2,600,633	132%	4.46%
Housing Development & Infrastructure Ltd	3,022,039	109%	5.38%
Colgate-Palmolive India Ltd	231,859	102%	-0.73%
IDBI Bank Ltd	1,325,015	88%	3.54%

## Derivatives Update

## Long Build Up

Company	Last	% Chg	% Chg OI	OI (in 000)
DLF	121	9.9	5.3	35,006
IBREALEST	65	6.9	7.9	25,076
JSWSTEEL	935	4.4	6.1	10,652
SKSMICRO	459	3.5	4.7	4,360

## Short Build Up

Company	Last	% Chg	% Chg OI	OI (in 000)
IDEA	150	(2.9)	3.1	26,012
BOSCHLTD	22,189	(1.6)	4.5	194
GLENMARK	1,070	(1.3)	7.3	2,761
HEROMOTOCO	2,330	(0.7)	7.2	1,116

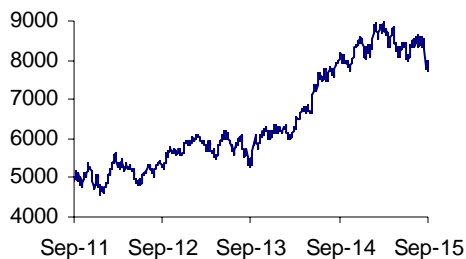
## Short Covering

Company	Last	% Chg	% Chg OI	OI (in 000)
SAIL	49	5.1	(3.5)	38,091
IDBI	59	3.1	(4.4)	22,928
INDUSINDBK	843	2.8	(3.3)	4,665
KOTAKBANK	625	2.7	(4.2)	10,087

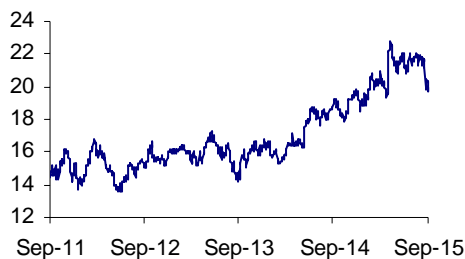
## Profit Booking

Company	Last	% Chg	% Chg OI	OI (in 000)
APOLLOTYRE	172	(0.9)	(0.7)	8,444

**Nifty**



**Nifty P/E**

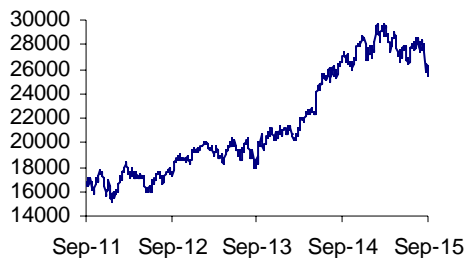


**Nifty P/B**

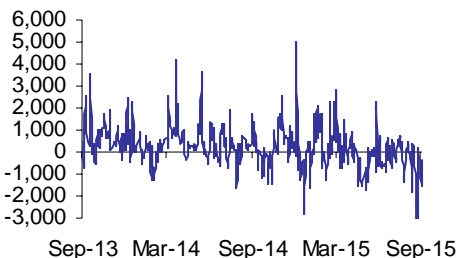


Source: Bloomberg

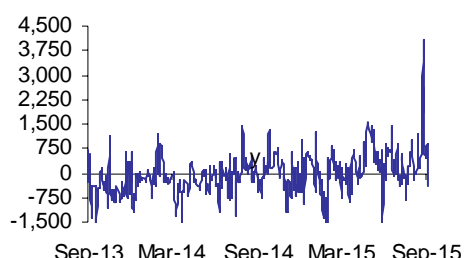
**Sensex**



**FII Provisional Flows (INRcr)**



**DII Provisional Flows (INRcr)**



Source: Bloomberg

**Economy, Money & Banking**

Forex Rate	Last	% Chg	% MTD	% YTD
INR~USD	66.2	(0.1)	0.4	(4.8)
INR~EUR	74.4	0.3	0.2	3.0
INR~GBP	101.2	(0.0)	1.2	(2.9)

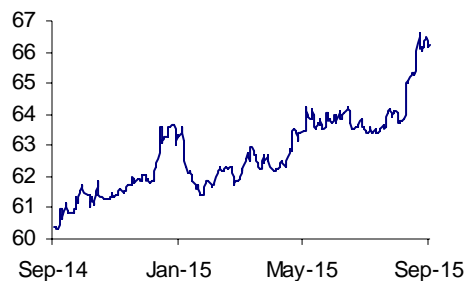
  

Bond Market	Last	Chg (bps)	MTD (bps)	YTD (bps)
10 Year Bond	7.7	-	(4)	(11)
Interbank call	6.3	(20)	(95)	(245)

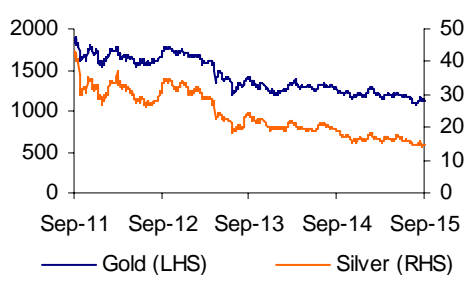
**Commodities Update**

Commodities	Last	% Chg	% MTD	% YTD
Gold (\$/Ounce)	1,124	(0.1)	(0.9)	(5.1)
Crude Oil (\$/Bbl)	47	(0.4)	(5.4)	(19.9)
Aluminium (\$/t)	1,610	1.9	1.4	(11.8)
Copper (\$/t)	5,264	2.5	2.3	(17.3)
Zinc (\$/t)	1,804	(0.4)	(0.2)	(16.8)
Lead (\$/t)	1,706	0.3	(1.1)	(7.4)
Nickel (\$/t)	9,976	1.4	(0.6)	(33.8)

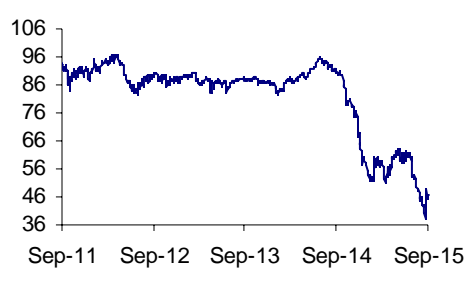
**INR/USD**



**Gold and silver prices**

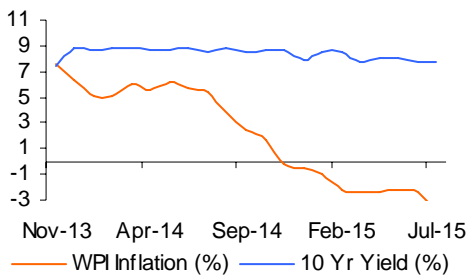


**Crude prices**

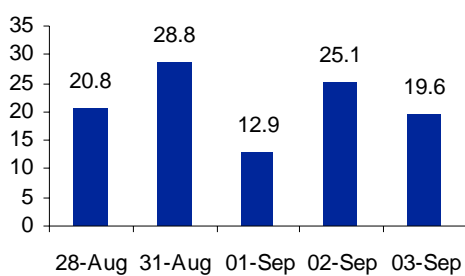


Source: Bloomberg

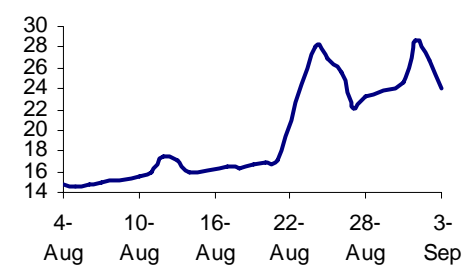
**Inflation vs 10 year yield**



**Nifty premium/discount**



**NSE volatility index (%)**



Source: Bloomberg

Reco	: BUY
CMP	: INR51
Target Price	: INR70
Potential Return	: 37%

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**Market data**

Sensex	:	25,765
Sector	:	Infrastructure
Market Cap (INRbn)	:	8.3
Market Cap (USDbn)	:	0.126
O/S Shares (m)	:	162.6
52-wk HI/LO (INR)	:	67/41
Avg Daily Vol ('000)	:	1,169
Bloomberg	:	MIDLIN

Source: Bloomberg

**Valuation**

	FY16e	FY17e	FY18e
EPS (INR)	2.6	4.9	6.0
P/E (x)	19.7	10.4	8.6
P/BV (x)	7.0	4.1	2.8
EV/EBITDA (x)	5.0	4.9	4.7
Dividend yield (%)	0.0	0.0	0.0

Source: Bloomberg

**Returns (%)**

	1m	3m	6m	12m
Absolute	(11)	(8)	-	-
Relative	(3)	(4)	-	-

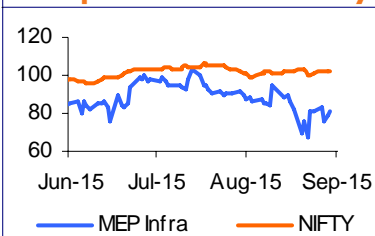
Source: Bloomberg

**Shareholding pattern**

Promoters	:	67%
FII	:	8%
DII	:	9%
Others	:	16%

Source: Bloomberg

**Price performance vs Nifty**



Source: Bloomberg

Indexed to 100

**INITIATING COVERAGE**

# MEP Infrastructure Developers Limited

## Let's ride the OMT wave!

**Huge opportunities in the sector; Being the largest OMT player will be an advantage**

The National Highways Authority of India (NHAI) has initiated awarding of tolling projects from FY10-end and has bid out ~6,800km of national highways for tolling till FY14. We expect it to increase 1.3x to ~9,000km by FY18. As majority of the projects are now being awarded under the engineering, procurement and construction (EPC) route, which will inturn later be awarded for tolling, the scope for winning additional projects remains high. In operations, maintenance and tolling (OMT) segment, ~2,760km has been awarded till FY15, which is expected to increase by ~2,200-2,400km by FY18. Over and above the NHAI opportunities, various state highway projects are also expected to emerge for bidding in the toll collection and OMT space.

MEP Infrastructure Developers (MEPIDL) being the largest player in both the road tolling and OMT segments will be a major beneficiary. In the OMT space, we expect 47-48 new projects to come up for awarding between the states and Centre by FY18. At present, the company has a share of ~14% in total OMT projects operated by private developers. Even if we were to assume a reduction in market share to ~10% owing to increase in competition, MEPIDL should be able to bag at least five new long-term OMT projects over the next two-to-three years. At present, we have not built any new OMT wins in our numbers. New long-term OMT project wins would further skew the revenue mix in favour of long-term projects.

**Short-term project awards to continue; Mumbai Entry Point the key growth driver**

With an experience of 13 years in operating tolling projects, the company has completed 82 projects with an aggregate of 141 toll plazas across 12 states of India. At present, MEPIDL operates 16 tolling projects and five OMT projects. We expect short-term toll collection contracts to contribute ~40% of total revenue in FY16. Assuming the company would continue to bag short-term toll collection contracts, we have built-in ~9% revenue growth from a Wholesale Price Index (WPI) inflation based increase in toll rates of ~5% and traffic growth of ~4% from FY17. Of the remaining ~60% from long-term projects, the Mumbai Entry Point is expected to contribute ~32% (assuming traffic growth of ~5% and a toll rate hike ~18% every third year). Improving topline for the Mumbai Entry Point in conjunction with a reduction in interest costs is expected to lead to an improvement in the consolidated profit performance for the company, which is expected to grow ~48% CAGR over FY16-18e.

**Value upside, uptick in project awarding and relatively lower capital intensity; Buy**

As projects mature and traffic picks-up, its profitability is expected to improve further due to relatively low capital intensive nature of the business. We expect the company to report a ~48% profit CAGR during FY16-18e. We initiate coverage on MEPIDL with a Buy rating and a target price of INR70 per share. At the current market price, the stock is trading at 8.6x FY18e P/E with a 33% RoE.

**Key financials**

Year-ended March	FY13	FY14	FY15e	FY16e	FY17e
Revenue (INRm)	11,979	19,843	22,330	21,903	22,607
EBITDA (INRm)	3,105	4,190	5,925	5,975	6,326
PAT (INRm)	(1,292)	(1,153)	423	805	976
EPS (INR per share)	(13)	(10)	3	5	6
P/E (x)	-	-	20	10	9
P/B (x)	-	-	7	4	3
EV / EBITDA (x)	9	7	5	5	5
RoE (%)	147	51	35	40	33

Source: Company, Antique

## Valuation

We have valued MEPIDL and project special purpose vehicles (SPVs) using the DCF method to arrive at a target price of INR70 per share. Over 50% value accrues from the Mumbai Entry Points project, which also happens to be the largest contributor to the revenue for the company. We have valued the Mumbai Entry Points project at INR48 per share. MEPIDL emerges second in value terms with an estimated value of INR18 per share. The remaining value in our target price is contributed by other smaller projects. We have not considered repayment of debt given to Ideal toll (Inturn given to its group power company: Ideal Energy).

### Upsides to our estimates

- New project wins on higher internal rate of return (IRR).
- Given the relatively low capital intensity for OMT and toll collection projects, and the company's experience in handling multiple projects in the past, execution of projects is not at risk.
- A higher than estimated traffic growth could lead to value upside from existing projects. We have estimated a conservative ~3-5% traffic growth for a major part of the life of a project.
- We have not assumed any repayment of ~INR3.7bn debt given to Ideal Energy.

### SoTP valuation

Particulars	INRm	Value per share (INR)
MEPIDL standalone	2,969	18
MEP Infrastructure Pvt (MIPL)	7,717	48
Hyderabad-Bengaluru	(284)	(2)
Madurai-Kanyakumari	(226)	(1)
Chennai Bypass	-	-
Raima Ventures Pvt (RVPL)	59	0
Rajiv Gandhi Sea Link (RGSL)	180	1
Rideema Toll Bridge Pvt (HRBC)	147	1
MEP Highway Solutions Pvt	366	2
Kini Tasawade	224	1
MEP IRDP Solapur Toll Road Pvt	20	0
Baramati Tollways Pvt (BTPL)	249	2
<b>Total</b>	<b>12,342</b>	<b>70</b>

Source: Antique

We have assumed a discounting factor of 14% in our model. Given below is a sensitivity analysis to our target price, based on variations in traffic growth and discounting factor.

### Sensitivity to traffic growth

WACC Rate (%)	Traffic (%)					
	Target price	(2)	(1)	Base	1	2
2	2	51	64	77	89	99
(1)	(1)	49	61	74	85	94
<b>Base</b>	<b>Base</b>	47	58	<b>70</b>	80	89
1	1	45	55	67	76	86
2	2	43	53	64	74	81

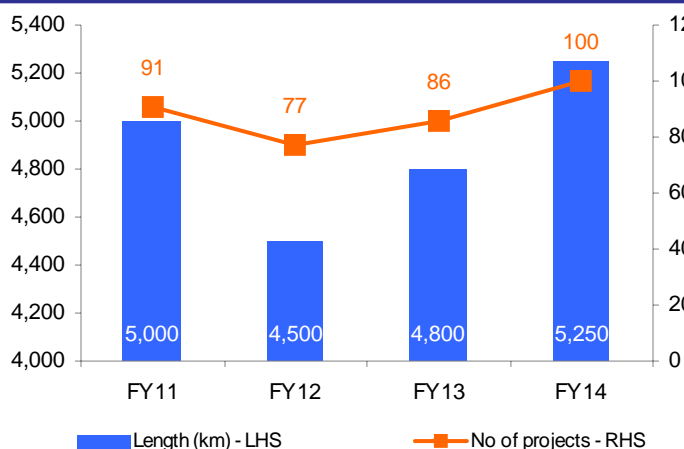
Source: Antique

## Investment thesis

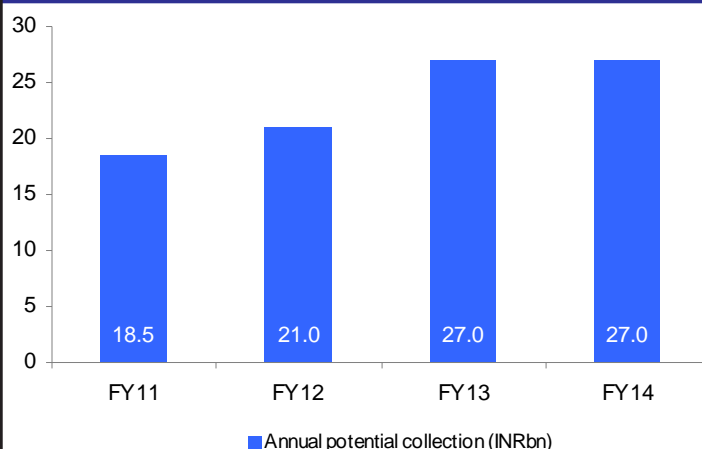
### Huge opportunities in the sector given Centre's thrust on infrastructure development

NHAI initiated toll collection by private players from FY09 increased considerably since then. In FY14, it invited bids for ~98-102 projects, which has seen an uptrend from ~84-88 projects bid out in the previous year. As against this, various state authorities bid out a total of ~50-55 projects in FY13.

Number of tolling projects awarded on upmove



Increase in annual collection potential ~INR27bn

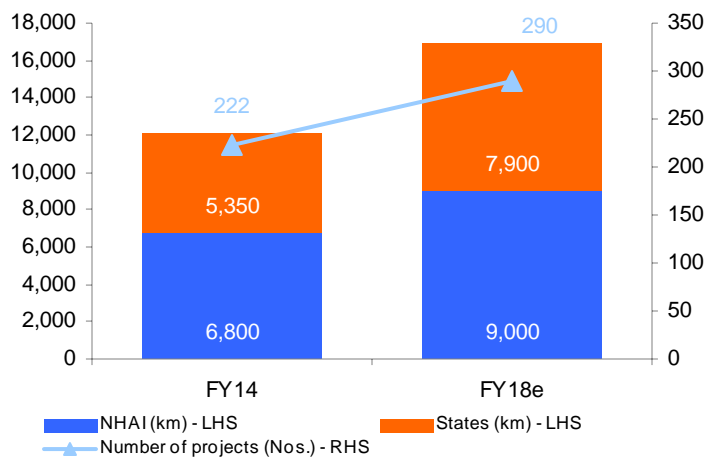


Source: NHAI, Antique

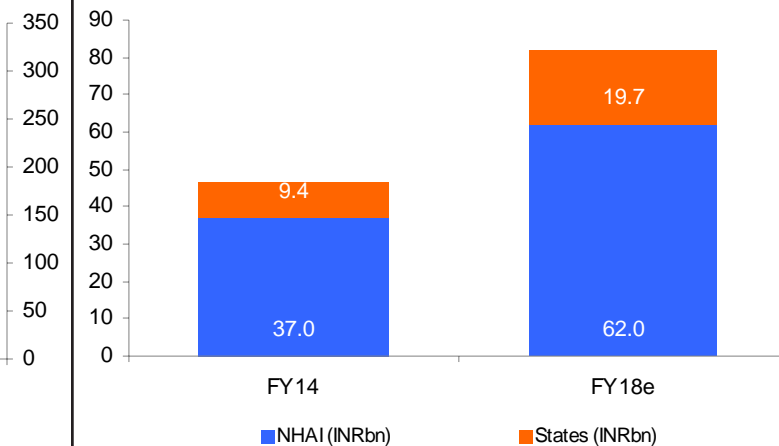
As of FY14, NHAI announced ~6,800km of road projects for toll collection to private players. We expect this to increase by 30% to ~9,000km by FY18. The total number of toll collection projects is expected to rise to ~145-150 from ~120 at present. Given the low appetite among players for projects awarded on a build, operate and transfer (BOT) toll model, NHAI has shifted its awarding to the EPC route. Also, ~17 projects are expected to be bid out under the newly formed hybrid annuity model in FY16. Post construction, we expect these projects to be bid out for toll collection/OMT model.

The growth in opportunity due to improvement in NHAI awarding has been further aided by increased spending by states on infrastructure projects. As of Mar-13, states like Maharashtra, Haryana, Rajasthan and Odisha had awarded ~4,500km (84-86 projects), with a potential annual collection of ~INR5.4bn under the toll collection model. This increased to ~5,350km (102 projects), with a potential annual collection of ~INR9.4bn, by FY14-end. Incremental projects by states have been under the toll collection model. The number of state projects bid out under the toll collection model is expected to increase by 50% to ~7,900km by FY18 from ~5,350km in FY14 (total projects to be bid out are expected to increase to ~140-145 by FY18 from currently ~102). We expect the tolling market from state highways to grow to ~INR19.7bn by FY18 from ~INR9.4bn in FY14.

**Tolling market size (in km) to increase over 1.3x**



**Annual tolling collection to rise over 1.5x**



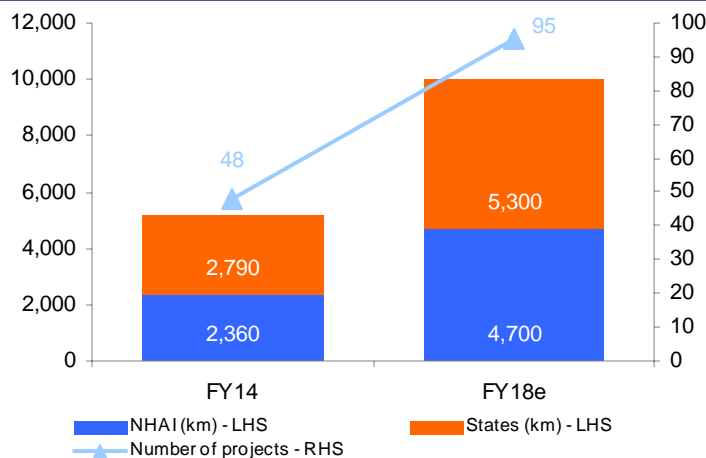
Source: NHAJ, Antique

**We expect a large number of opportunities to accrue under the toll collection model from NHAJ and states**

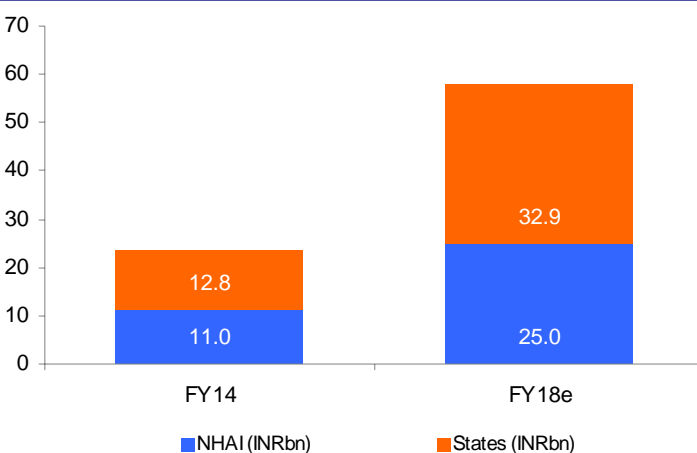
We expect a pick-up under the toll collection model leading to a rise in OMT project awards. As of FY15, NHAJ had awarded ~2,760km (~15 projects) with a size of ~INR13bn, which is expected to increase to ~4,700km (~30-32 projects) by FY18, implying ~INR25bn by FY18.

For state projects, OMT model based awards are expected to almost double to ~5,300km in FY18 from ~2,790km in FY14. The total number of projects is expected to increase to ~55-60 by FY18 from ~34 in FY14.

**Expect number of OMT projects to double**



**Market size to more than double by FY18e**



Source: NHAJ, Antique

**Even in the OMT space, the number of projects is expected to double over the next two-three years, aided by project awards from NHAJ and states. Given the size and scale of MEPIDL, it could emerge as the key beneficiary of an improvement in project awarding both in the tolling and OMT space.**

**The large variance between MEPIDL and the second largest player clearly shows that the former has a much larger appetite as compared to its competitors**

**Largest play in the OMT and toll collection space**

MEPIDL is the largest company in the pure OMT and toll collection segment. Of the 241 NHAJ tolling projects awarded between FY11 and FY13, it bid for ~50-55% of projects. Eagle Infra India, second to MEP, bid for ~20-25% of projects.

### In terms of bidding for toll collection projects, MEPIDL has been way above its competitors

	MEPIDL	Eagle Infra	Konark	Shankar Global	Skylark	Shiva Corporation	Sangam India	S M S Infra
Total projects	50-55	20-25	15-20	20	15	5-10	5	0-5
Total projects over 200m	55-60	25-30	25-30	15-20	5-10	5-10	0-5	5

Source: Company, Antique

In the OMT space, MEPIDL is one of the leading players, considering various factors such as estimated cost, number of projects, length, number of lane km etc. The other key players in the OMT space are Dineshchandra R Agrawal Infracon Pvt (DRAIPL), PATH and SMS Infrastructure. We believe, the company will continue to dominate both these segments.

### Even in the OMT segment, MEPIDL remains one of the leading players

Company	Number of projects awarded	Length (km)	Lane (km)	Estimated project cost (INRm)
MEPIDL	3	527	2,174	3,403
PATH	3	400	1,603	930
DRAIPL	2	550	2,187	2,590
BVSR	2	55	217	430
SMS	2	395	1,580	3,017
Others	10	1,556	6,222	9,463
<b>Total</b>	<b>22</b>	<b>3,483</b>	<b>13,983</b>	<b>19,833</b>

Source: Company, Antique

**The experience and expertise gained by MEPIDL over the years bestows it with a natural advantage when bidding for new projects**

### Vast experience in toll collection contracts

Besides being the largest player in the toll collection segment, it is also one of the oldest players with an experience of over 13 years as a toll operator. As of Jun-15, the company has completed 82 projects with an aggregate of 141 toll plazas. The company undertook its first toll collection project - the Mumbai Entry Points - in FY02, which ended in Nov-10. On rebidding for OMT, the project was again bagged by MEPIDL. The company has also been re-awarded projects for collection of toll at Chirle and Karanjade in Maharashtra and for the Ahmedabad-Vadodara expressway in Gujarat. It has also been awarded the RGSL project on an OMT basis, after having earlier undertaken toll collection for the same. Hence, we believe that MEPIDL would continue to remain one of the leading players in projects awarded by NHAI and states. The company has experience as a toll operator across 12 states of India, which gives us confidence regarding the management's ability to manage projects across different geographies. At present, it has a portfolio of 15 ongoing toll collection projects, with an aggregate of 95 toll plazas, five OMT projects and one BOT project.

### Low capital intensity

The company follows an asset light business model by focusing on pure toll collection and OMT projects on operational roads constructed by others. This substantially reduces the capital intensity and risk of construction. The lower capital intensity helps it bag larger number of projects with limited capital as compared to a BOT player. Venturing into diversified geographies is easier due to lower construction risk in its business model.

**Thus, the asset light nature of the business enables the company to bid for additional projects and expand the business without risks associated with road construction.** At present, its operations span 12 states: Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Uttar Pradesh, Telangana, West Bengal, Delhi and Jammu & Kashmir (J&K).



### Current project portfolio spread across 12 states

Location	OMT	Long-term toll	Short-term toll	BOT	Total
Maharashtra	2	3	-	1	6
Tamil Nadu	2	1	1	-	4
Telangana	-	-	1	-	1
Karnataka	-	-	1	-	1
Rajasthan	-	1	1	-	2
Gujarat	-	-	1	-	1
Uttar Pradesh	-	-	2	-	2
West Bengal	-	1	1	-	2
Odisha	-	-	0	-	0
Andhra Pradesh	1	-	-	-	1
Delhi	0	1	-	-	1
Jammu	0	-	-	-	0
<b>Total</b>	<b>5</b>	<b>7</b>	<b>8</b>	<b>1</b>	<b>21</b>

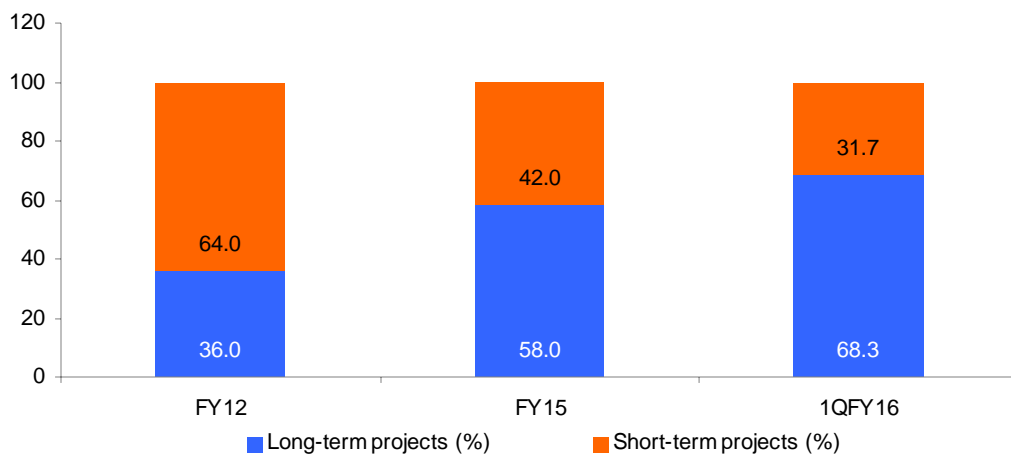
Source: Company, Antique

**Long-term projects would provide the company with a steady and predictable revenue stream. A greater proportion of long-term projects would in-turn help it fetch a better valuation multiple**

### Focus on long-term contracts

As of Jun-15, the company had a portfolio of eight short-term projects awarded by NHAI. The management intends to reduce its dependence on short-term contracts in the future and focus on long-term projects. The management is taking the necessary steps to implement this strategy. In FY14, MEPIDL commenced operating: a) Three OMT projects awarded by NHAI, b) One OMT and one long-term toll collection contract by Maharashtra State Road Development Corporation (MSRDC), c) A long-term toll collection project by Hooghly River Bridge Commissioners (HRBC), and d) One long-term toll collection project by IT Expressway (ITEL). In 1QFY16, the company has also started toll collection on the Delhi Entry Points project, which has a concession period of three years. The ratio of contribution from short-term to long-term projects, which was ~64:36, has improved to ~32:68 as on Jun-15.

### Proportion of long-term projects on a rise



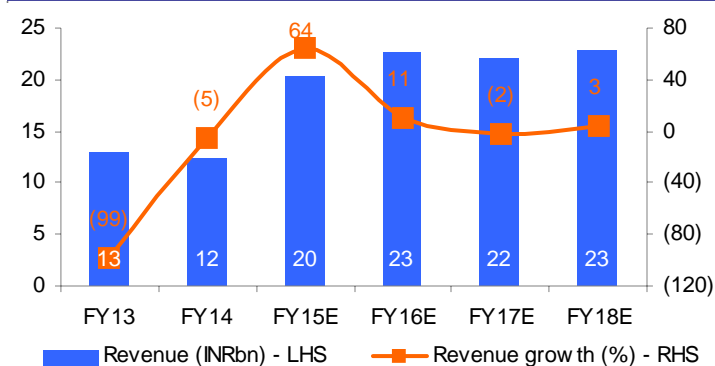
Source: Company, Antique

### Financial performance set to improve

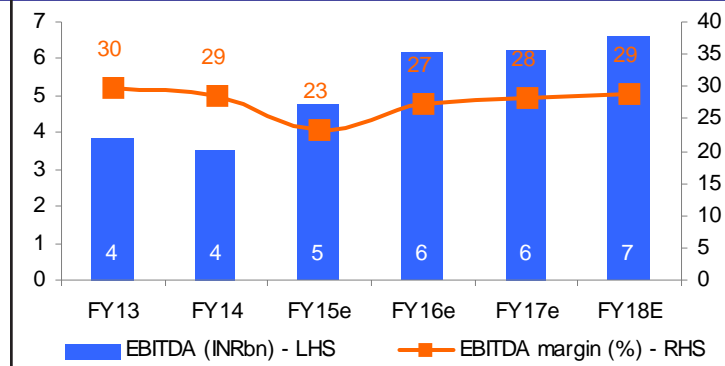
MEPIDL's profitability remained under pressure due to losses in the Chennai bypass and the Mumbai Entry Points' project. Loss of revenues due to evasion of toll by passangers was the major reason for losses faced by the Chennai project. The company had filled a claim with NHAI for this revenue loss. Subsequently, it was allowed to adjust the loss in revenues against the outstanding concession fee payable. This is expected to lead to a substantial improvement in its FY16 performance. Going forward, for other projects too, improvement in traffic and toll rate increases would help improve the financial performance across projects. We expect earnings to increase at a CAGR of ~48% over FY16-18e.

### Improving financial performance

#### Revenue growth to be aided by new projects



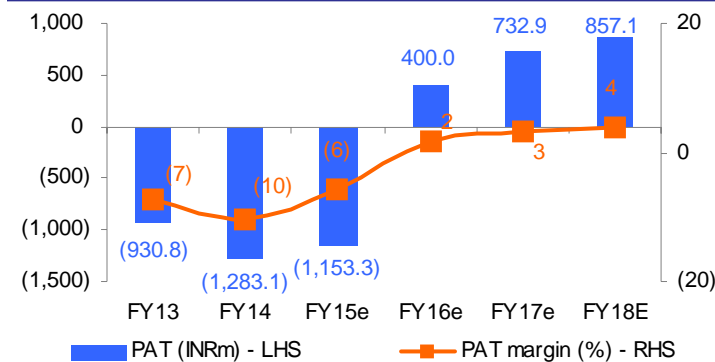
#### Stable margin along with new projects to help increase absolute EBITDA



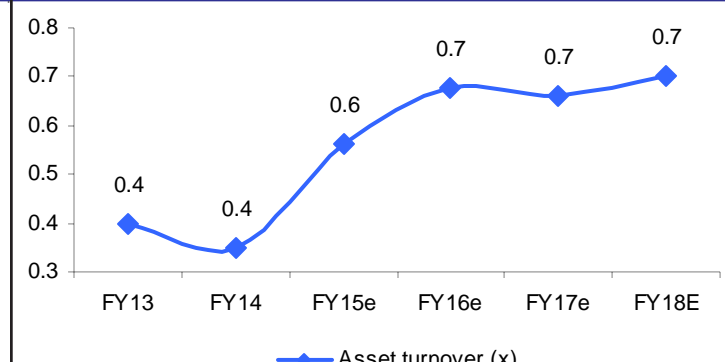
Source: Company, Antique

Note: We have not built in any new project wins in our estimates

#### Profit performance to improve

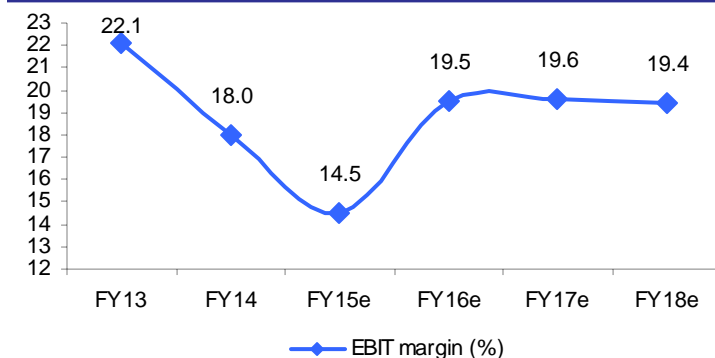


#### Asset turnover to improve

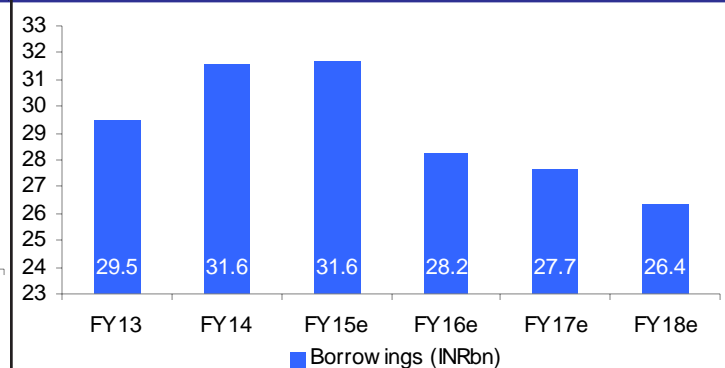


Source: Company, Antique

#### EBIT margin to remain stable



#### Improving cash flows to help reduce debt



Source: Company, Antique

## Financials

### Profit and loss account (INRm)

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
<b>Revenues</b>		<b>11,979</b>	<b>19,843</b>	<b>22,330</b>	<b>21,903</b>	<b>22,607</b>
Expenses		(8,874)	(15,652)	(16,405)	(15,928)	(16,281)
<b>EBITDA</b>		<b>3,105</b>	<b>4,190</b>	<b>5,925</b>	<b>5,975</b>	<b>6,326</b>
Depreciation & amortisation		(1,303)	(1,799)	(1,780)	(1,903)	(2,192)
<b>EBIT</b>		<b>1,802</b>	<b>2,391</b>	<b>4,146</b>	<b>4,071</b>	<b>4,134</b>
Interest expense		(3,797)	(4,036)	(3,410)	(3,243)	(3,145)
Other income		433	570	257	275	313
<b>Profit before tax</b>		<b>(1,562)</b>	<b>(1,075)</b>	<b>993</b>	<b>1,103</b>	<b>1,301</b>
Taxes incl def. taxation		236	(79)	(593)	(370)	(444)
<b>Profit after tax</b>		<b>(1,326)</b>	<b>(1,153)</b>	<b>400</b>	<b>733</b>	<b>857</b>
<b>Adjusted profit after tax</b>		<b>(1,292)</b>	<b>(1,153)</b>	<b>423</b>	<b>805</b>	<b>976</b>
<b>Recurring EPS (INR)</b>		<b>(12.9)</b>	<b>(10.3)</b>	<b>2.6</b>	<b>4.9</b>	<b>6.0</b>

### Balance sheet (INRm)

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
Share Capital		1,000	1,115.0	1,629.9	1,629.9	1,629.9
Reserves & Surplus		(1,878)	(3,379)	(432)	388	1,364
<b>Networth</b>		<b>(878)</b>	<b>(2,264)</b>	<b>1,198</b>	<b>2,018</b>	<b>2,994</b>
Debt		30,049	31,628	28,198	27,664	26,357
Other long Term liab & Prov.		1,581	1,067	1,058	537	15
<b>Capital Employed</b>		<b>30,752</b>	<b>30,431</b>	<b>30,455</b>	<b>30,219</b>	<b>29,367</b>
<b>Net Assets</b>		<b>23,695</b>	<b>21,722</b>	<b>20,485</b>	<b>20,126</b>	<b>18,899</b>
Long term Investments		6	322	13	13	13
Long term Loans and advances		7,519	8,934	5,902	5,891	5,873
Other non current assets		219	387	20	10	30
<b>Current Assets, Loans &amp; Advances</b>						
Debtors		287	258	1,104	967	1,046
Cash & Bank balance		1,623	1,348	3,175	4,024	4,496
Loans & adv. and others		1,238	2,442	1,745	1,515	1,294
<b>Current Liabilities &amp; Provisions</b>						
Creditors		1,454	2,409	2,711	2,659	2,745
Other liabilities & provisions		3,128	3,506	266	728	718
<b>Net Current Assets</b>		<b>(1,435)</b>	<b>(1,867)</b>	<b>3,048</b>	<b>3,119</b>	<b>3,373</b>
Def. tax assets/ (liabilities)		756	942	974	975	975
Minority interest		(9)	(9)	14	86	205
<b>Application of Funds</b>		<b>30,752</b>	<b>30,431</b>	<b>30,455</b>	<b>30,219</b>	<b>29,367</b>

### Per share data

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
No. of shares (m)		100	112	163	163	163
BVPS (INR)		(9)	(20)	7	12	18
CEPS (INR)		0	6	14	17	19

### Margins (%)

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
EBITDA (%)		26	21	27	27	28
EBIT (%)		15	12	19	19	18
PAT (%)		-11	-6	2	4	4

Source: Company, Antique

### Key assumptions

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
<b>Traffic growth assumption on key projects (%)</b>						
MIPL		-	4.0	5.0	5.0	5.0
MEPIDL		-	4.0	4.0	4.0	4.0
Jammu		-	-	5.0	5.0	5.0
Hyderabad - Bangalore		-	0.3	6.0	6.0	6.0
<b>Other key assumptions</b>						
Discount Factor (%)		-	14.0	14.0	14.0	14.0
WPI based rate revision (%)		-	-	-	5.0	5.0

### Cash flow statement (INRm)

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
<b>EBIT</b>		<b>1,802</b>	<b>2,391</b>	<b>4,146</b>	<b>4,071</b>	<b>4,134</b>
Depreciation & amortisation		1,303	1,799	1,780	1,903	2,192
Interest expense		(3,797)	(4,036)	(3,410)	(3,243)	(3,145)
(Inc)/Dec in working capital		1,927	432	(4,915)	(72)	(254)
Tax paid		236	(79)	(593)	(370)	(444)
Others		433	570	257	275	313
<b>CF from operating activities</b>		<b>1,904</b>	<b>1,078</b>	<b>(2,735)</b>	<b>2,565</b>	<b>2,795</b>
Capital expenditure		(3,497)	(634)	3,777	(680)	(494)
Inc/(Dec) in investments		24	(316)	309	-	-
Others		(448)	(1,583)	3,399	21	(2)
<b>CF from investing activities</b>		<b>(3,920)</b>	<b>(2,532)</b>	<b>7,486</b>	<b>(659)</b>	<b>(496)</b>
Inc/(Dec) in share capital		-	115	515	-	-
Inc/(Dec) in debt		533	1,579	(3,430)	(534)	(1,306)
Others		1,568	(514)	(9)	(522)	(522)
<b>CF from financing activities</b>		<b>2,101</b>	<b>1,180</b>	<b>(2,924)</b>	<b>(1,056)</b>	<b>(1,828)</b>
<b>Net cash flow</b>		<b>84</b>	<b>(274)</b>	<b>1,827</b>	<b>849</b>	<b>471</b>
Opening balance		1,539	1,622	1,348	3,175	4,025
<b>Closing balance</b>		<b>1,622</b>	<b>1,348</b>	<b>3,175</b>	<b>4,025</b>	<b>4,496</b>

### Growth indicators (%)

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
Revenue		(6)	66	13	(2)	3
EBITDA		(15)	35	41	1	6
PAT		39	(11)	(137)	90	21
EPS		39	(20)	(125)	90	21

### Valuation (x)

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
PE		(4.0)	(4.9)	19.7	10.4	8.6
P/BV		(5.8)	(2.5)	7.0	4.1	2.8
EV/EBITDA		9.5	7.0	5.0	4.9	4.7
EV/Sales		2.5	1.5	1.3	1.3	1.3
Dividend Yield (%)		0.0	0.0	0.0	0.0	0.0

### Financial ratios

Year-ended	March 31	FY14	FY15e	FY16e	FY17e	FY18e
RoE (%)		147.1	50.9	35.3	39.9	32.6
RoCE (%)		5.9	7.9	13.6	13.5	14.1
Debt/Equity (x)		-	-	23.5	13.7	8.8
EBIT/Interest (x)		0.5	0.6	1.2	1.3	1.3

Source: Company Antique

<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR33
<b>Target Price</b>	: INR48
<b>Potential Return</b>	: 44%

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**Market data**

Sensex	:	25,765
Sector	:	Metals
Market Cap (INRbn)	:	86.0
Market Cap (USDbn)	:	1.298
O/S Shares (m)	:	2,577.2
52-wk HI/LO (INR)	:	69/28
Avg Daily Vol ('000)	:	2,470
Bloomberg	:	NACLIN

Source: Bloomberg

**Valuation**

	<b>FY15</b>	<b>FY16e</b>	<b>FY17e</b>
EPS (INR)	4.6	3.5	3.5
P/E (x)	7.3	9.6	9.4
P/BV (x)	0.7	0.7	0.6
EV/EBITDA (x)	2.0	1.9	1.5
Dividend yield (%)	5.3	5.3	5.3

Source: Bloomberg

**Returns (%)**

	<b>1m</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
Absolute	(5)	(27)	(31)	(42)
Relative	4	(24)	(21)	(39)

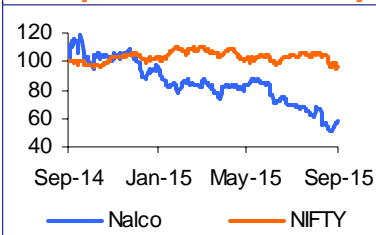
Source: Bloomberg

**Shareholding pattern**

Promoters	:	81%
FII	:	2%
DII	:	11%
Others	:	6%

Source: Bloomberg

**Price performance vs Nifty**



Source: Bloomberg Indexed to 100

COMPANY UPDATE

# National Aluminium Company Limited

## Alumina remains the key profit driver

**Nalco remains among the lowest cost alumina producers globally with captive bauxite mines. The company is more leveraged to alumina prices as compared to aluminium prices with FY15 external sales volumes of 1.2MT while aluminium volumes were at 0.3MT. Weaker INR would benefit the company with prices linked to import parity. Aluminium production has been curtailed to align with the availability of domestic linkage coal reducing the consumption of costlier imported coal. Cash and cash equivalents at FY17-end is estimated at INR69bn, which is ~81% of its current market capitalisation. Dividend yield continues to remain attractive ~5.3% levels leading to a high margin of safety. Nalco, currently trading at 1.5x FY17e EV/EBITDA, is among the most attractive metal/mining stocks globally.**

### Aluminium production levels curtained in line with availability of linkage coal

In FY15, aluminium production stood at 0.33MT as compared to 0.32MT in FY14 (0.44MT in FY11) with the company consciously curtailing production aligning it with availability of domestic linkage coal. This has led to an 11% reduction in FY15 power & fuel costs at INR 18bn as compared to FY14. Reduction in power & fuel cost was also aided by lower fuel oil costs and an increase in efficiency of coal and fuel oil consumption at the captive power plants.

### Aluminium prices have recovered from recent lows to USD 1,580 per tonne

Spot aluminium prices on the London Metal Exchange (LME) have recovered from the recent low of USD 1,496 per tonne to levels of USD 1,579 per tonne. Recovery in aluminium prices would aid an improvement in alumina prices as well.

### Alumina prices have been relatively more stable as compared to aluminium prices

Nalco is more leveraged to alumina prices as compared to aluminium prices with FY15 external sales volumes of 1.2MT while aluminium volumes were at 0.3MT. Alumina prices have been much more stable as compared to aluminium prices over the past one year. While aluminium prices have declined by 24.4% over the past year, alumina prices have declined by 7.9%.

### Attractive valuations with high cash levels and attractive dividend yield

Cash and cash equivalents at FY17-end is estimated at INR69bn, which is ~81% of its current market capitalisation. Dividend yield continues to remain attractive ~5.3% levels leading to a high margin of safety. Nalco, currently trading at 1.5x FY17e EV/EBITDA, is among the most attractive metal/mining stocks globally.

## Valuation and outlook

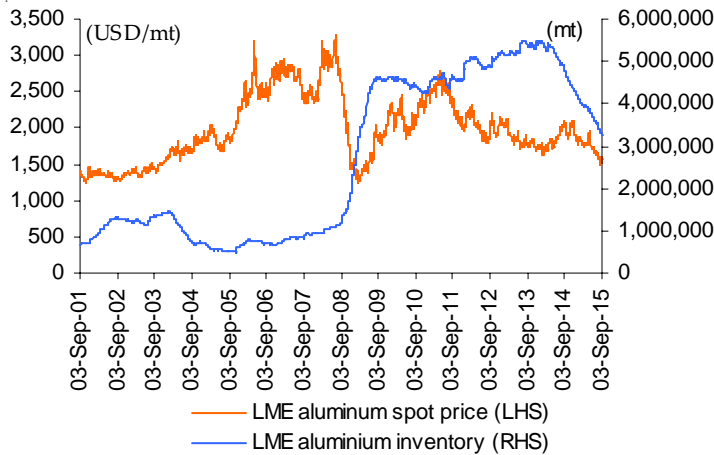
We remain positive on Nalco, given its long alumina position, with alumina pricing outlook relatively stable as compared to aluminium. Alumina prices, as a percentage of LME spot aluminium prices, have remained steady ~18-19%. INR depreciation and recent recovery in LME aluminium prices would aid the company's profitability. We maintain our target multiple of 5x FY17e EV/EBITDA to arrive at our target price of INR48 per share. We maintain our Buy rating on the stock.

### Key financials (INRM)

<b>Year-ended March 31</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16e</b>	<b>FY17e</b>
Revenues	69,165	67,809	73,828	69,271	72,407
EBITDA	9,069	9,342	17,060	10,704	10,787
Adjusted PAT	5,928	6,917	11,734	8,892	9,071
EPS (INR)	2.3	2.7	4.6	3.5	3.5
P/E (x)	14.4	12.4	7.3	9.6	9.4
P/BV (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x)	4.8	4.0	2.0	1.9	1.5

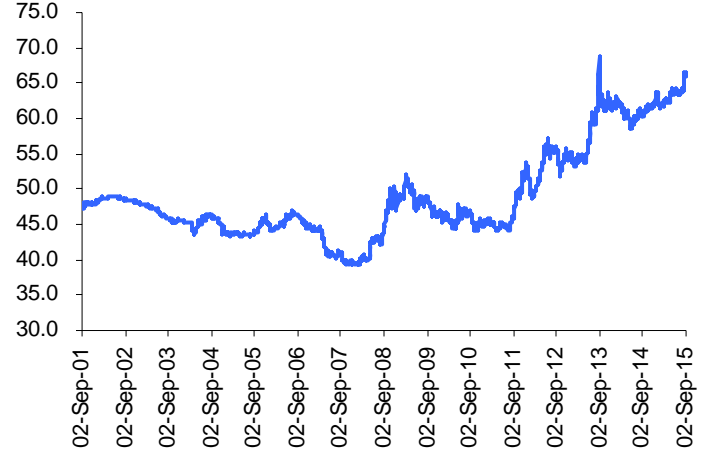
Source: Company, Antique

**Aluminium prices weak offlate**



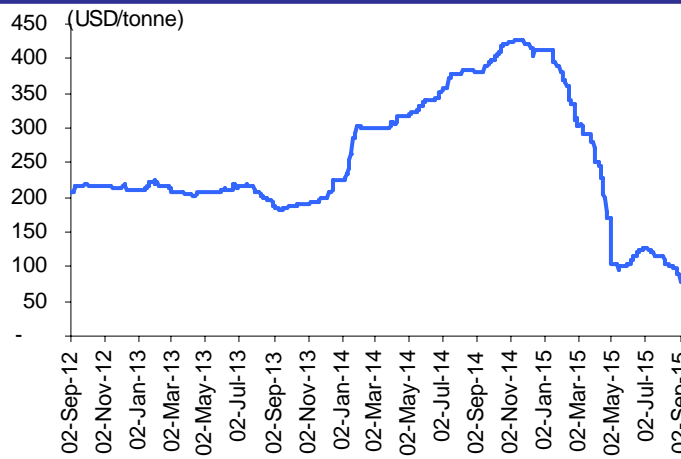
Source: Bloomberg, Antique

**INR depreciates vs USD**



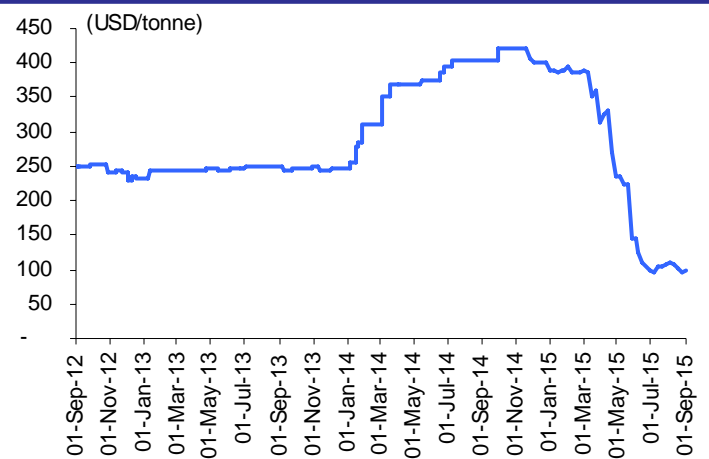
Source: Bloomberg, Antique

**Rotterdam aluminium premiums remain weak**



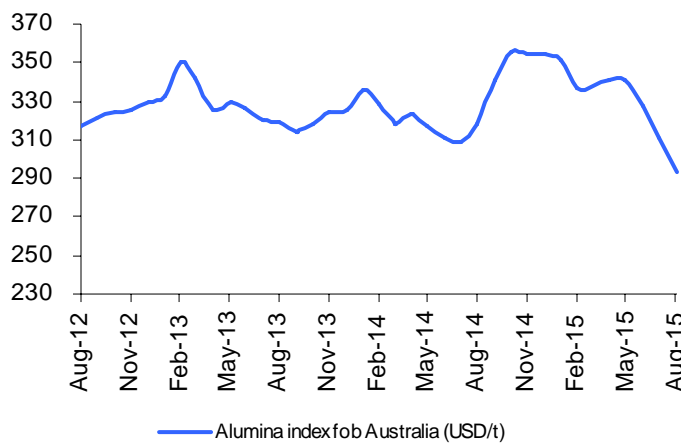
Source: Bloomberg, Antique

**Japanese aluminium premiums still declining**



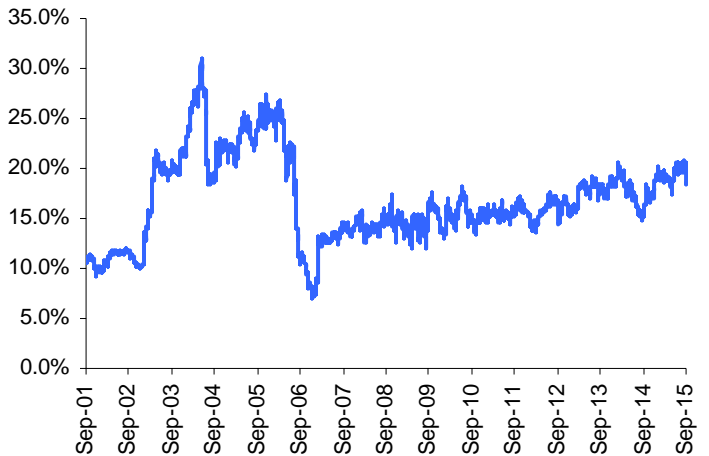
Source: Bloomberg, Antique

**Alumina prices affected by weak aluminium prices**



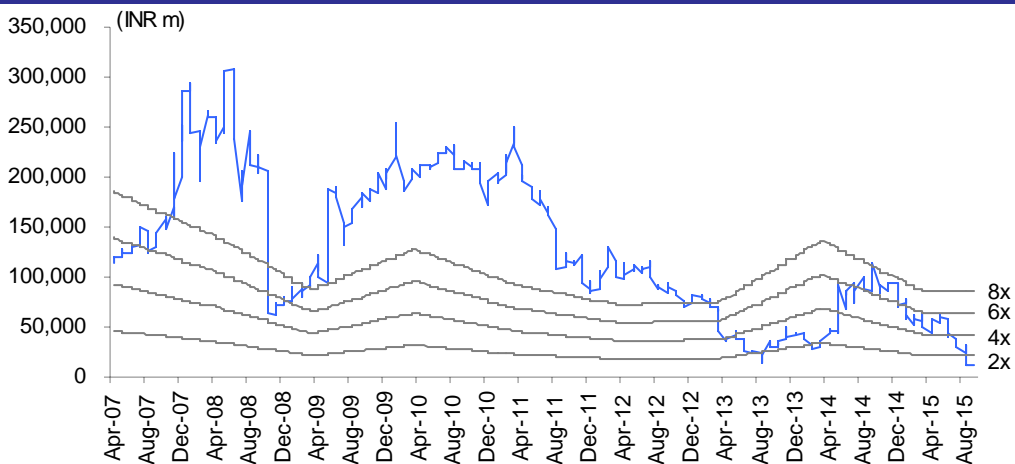
Source: Bloomberg, Antique

**Alumina prices as a percentage of spot aluminium stable**



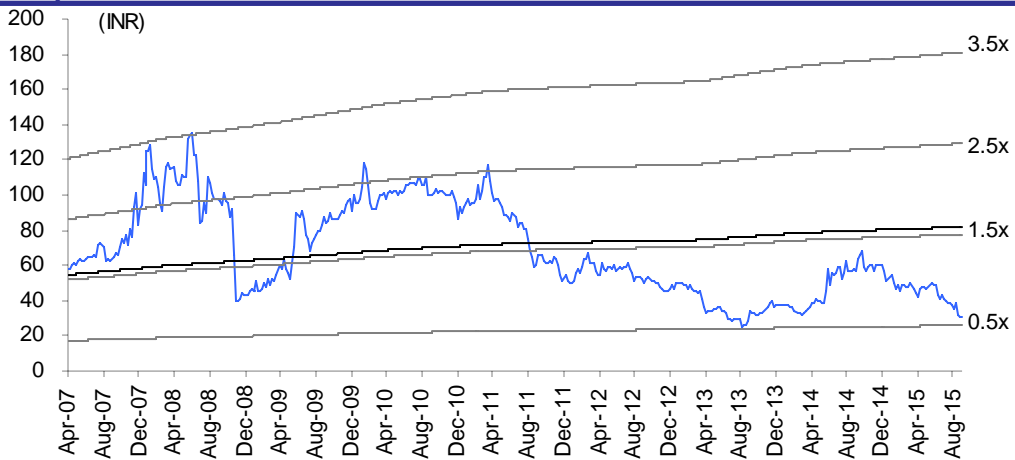
Source: Bloomberg, Antique

### One-year forward EV/EBITDA



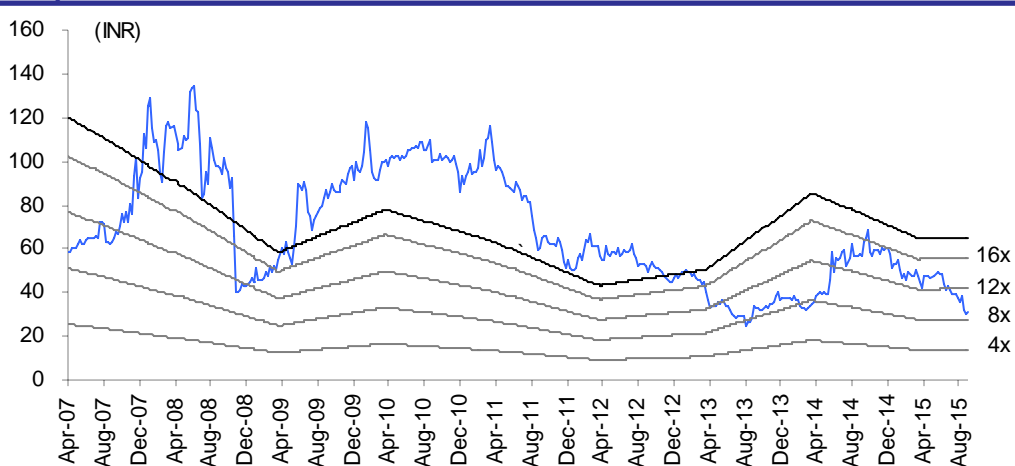
Source: Bloomberg, Antique

### One-year forward P/BV band



Source: Bloomberg, Antique

### One-year forward P/E band



Source: Bloomberg, Antique

**SoTP valuation**

	<b>INRm</b>
FY17e EBITDA - INRm	10,787
EV/EBITDA multiple	5.0
<b>Target EV - INRm</b>	<b>53,933</b>
Add:	
Net cash at FY17e INRm	69,326
Target market capitalisation INRm	123,259
<b>Target price INR per share</b>	<b>48</b>

Source: Company, Antique

**Global steel relative forward valuations**

<b>Company</b>	<b>EV/EBITDA (x)</b>		<b>P/E (x)</b>		<b>RoE (%)</b>		<b>P/B (x)</b>	
	<b>One-year</b>	<b>Two-year</b>	<b>One-year</b>	<b>Two-year</b>	<b>One-year</b>	<b>Two-year</b>	<b>One-year</b>	<b>Two-year</b>
Nalco	1.9	1.5	9.6	9.4	6.9	6.8	0.7	0.6
Hindalco	6.9	5.5	6.9	4.2	5.9	9.1	0.4	0.4
Alcoa	6.0	5.1	10.7	7.7	7.3	9.4	0.9	0.8
Chalco	13.0	11.6	91.3	16.3	(0.7)	3.6	0.9	0.9
Rusal	8.7	9.1	4.9	4.0	25.8	27.0	1.3	1.0
Norsk Hydro	4.7	4.1	10.8	9.0	7.2	8.0	0.7	0.7
Century Aluminium	10.0	2.1	-	3.9	(7.1)	11.6	0.5	0.4
Constellium	5.7	4.9	6.6	4.1	39.5	176.5	25.5	3.3
Alumina	24.3	35.0	10.3	8.6	10.2	11.1	1.0	0.9

Source: Bloomberg, Antique

## Financials

### Profit and loss account (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
<b>Revenues</b>	<b>69,165</b>	<b>67,809</b>	<b>73,828</b>	<b>69,271</b>	<b>72,407</b>
Expenses	60,096	58,466	56,768	58,567	61,620
<b>EBITDA</b>	<b>9,069</b>	<b>9,342</b>	<b>17,060</b>	<b>10,704</b>	<b>10,787</b>
Depreciation & amortisation	5,054	5,247	4,137	4,769	5,033
<b>EBIT</b>	<b>4,014</b>	<b>4,095</b>	<b>12,924</b>	<b>5,934</b>	<b>5,754</b>
Other income	5,111	5,577	6,726	6,502	6,933
Interest expense	75	1	-	-	-
<b>Profit before tax</b>	<b>9,050</b>	<b>9,672</b>	<b>19,650</b>	<b>12,437</b>	<b>12,687</b>
Extraordinaries	-	(494)	1,484	-	-
Tax	3,122	2,755	7,916	3,544	3,616
<b>Profit after tax</b>	<b>5,928</b>	<b>6,423</b>	<b>13,219</b>	<b>8,892</b>	<b>9,071</b>
<b>Adjusted PAT</b>	<b>5,928</b>	<b>6,917</b>	<b>11,734</b>	<b>8,892</b>	<b>9,071</b>
<b>EPS (INR)</b>	<b>2.3</b>	<b>2.7</b>	<b>4.6</b>	<b>3.5</b>	<b>3.5</b>

### Balance sheet (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Share Capital	12,886	12,886	12,886	12,886	12,886
Reserves & Surplus	106,438	108,338	115,087	118,657	122,406
Networth	119,325	121,225	127,973	131,543	135,292
Debt	6,288	4,475	3,620	-	-
Deferred tax/ other liabilities	9,031	9,101	11,053	11,053	11,053
<b>Capital Employed</b>	<b>134,644</b>	<b>134,801</b>	<b>142,646</b>	<b>142,596</b>	<b>146,345</b>
Gross Fixed Assets	141,750	148,581	152,847	153,847	154,847
Accumulated Depreciation	75,461	80,662	86,393	91,162	96,195
<b>Net Assets</b>	<b>66,289</b>	<b>67,919</b>	<b>66,454</b>	<b>62,685</b>	<b>58,652</b>
Capital work in progress	10,019	7,687	5,497	8,497	11,497
Investments	14,901	12,450	9,510	9,510	9,510
Liquid Investments	13,290	12,440	9,500	9,500	9,500
<b>Current Assets Loans &amp; Advances</b>					
Inventory	13,806	11,737	11,656	12,723	13,460
Debtors	1,430	2,436	1,208	1,518	1,587
Cash & Bank	35,044	40,483	46,280	55,524	59,826
Loans & advances and others	21,781	22,773	21,171	20,497	21,425
<b>Current Liabilities &amp; Provisions</b>					
Creditors	24,913	27,030	14,841	24,069	25,323
Provisions	3,713	3,655	4,290	4,290	4,290
<b>Net Current Assets</b>	<b>43,435</b>	<b>46,744</b>	<b>61,184</b>	<b>61,903</b>	<b>66,685</b>
<b>Application of Funds</b>	<b>134,644</b>	<b>134,801</b>	<b>142,646</b>	<b>142,596</b>	<b>146,345</b>

### Per share data

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
No. of shares (Mn)	2,577	2,577	2,577	2,577	2,577
BVPS (INR)	46.3	47.0	49.7	51.0	52.5
CEPS (INR)	4.3	4.7	6.2	5.3	5.5
DPS (INR)	1.2	1.5	1.8	1.8	1.8

Source: Company, Antique

### Cash flow statement (INRm)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
<b>PBT</b>	<b>9,050</b>	<b>9,672</b>	<b>19,650</b>	<b>12,437</b>	<b>12,687</b>
Depreciation	5,054	5,247	4,137	4,769	5,033
Interest	75	1	-	-	-
(Inc)/ Dec in working capital	(4,944)	2,131	(8,643)	8,525	(479)
Tax paid	(3,122)	(2,755)	(7,916)	(3,544)	(3,616)
<b>CF from operating activities</b>	<b>6,114</b>	<b>14,296</b>	<b>7,228</b>	<b>22,186</b>	<b>13,624</b>
Capex	(8,338)	(4,500)	(2,076)	(4,000)	(4,000)
(Inc)/ Dec in Investments	(7,358)	2,450	2,940	-	-
Income from investments	-	(494)	1,484	-	-
Others	484	23	-	(0.4)	0
<b>CF from investing activities</b>	<b>(15,213)</b>	<b>(2,520)</b>	<b>2,349</b>	<b>(4,000)</b>	<b>(4,000)</b>
Inc/(Dec) in debt	6,288	(1,813)	(855)	(3,620)	-
Dividends & Interest paid	(3,829)	(4,523)	(5,322)	(5,322)	(5,322)
Others	-	-	2,398	-	-
<b>CF from financing activities</b>	<b>2,460</b>	<b>(6,337)</b>	<b>(3,779)</b>	<b>(8,942)</b>	<b>(5,322)</b>
<b>Net cash flow</b>	<b>(6,640)</b>	<b>5,439</b>	<b>5,797</b>	<b>9,244</b>	<b>4,302</b>
Add: Opening balance	41,684	35,044	40,483	46,280	55,524
<b>Closing balance</b>	<b>35,044</b>	<b>40,483</b>	<b>46,280</b>	<b>55,524</b>	<b>59,826</b>

### Growth indicators (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
Revenue	4.6	(2.0)	8.9	(6.2)	4.5
EBITDA	(20.9)	3.0	82.6	(37.3)	0.8
PAT	(32.0)	16.7	69.6	(24.2)	2.0
EPS	(32.0)	16.7	69.6	(24.2)	2.0

### Valuation

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
PE (x)	14.4	12.4	7.3	9.6	9.4
P/BV (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x)	4.8	4.0	2.0	1.9	1.5
EV/Sales (x)	0.6	0.5	0.5	0.3	0.2
Dividend Yield (%)	3.8	4.5	5.3	5.3	5.3

### Financial ratios

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
RoE	5.0	5.8	9.4	6.9	6.8
RoCE	3.6	3.9	10.4	6.0	6.2
Debt/Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)
EBIT/Interest (x)	-	-	-	-	-

### Margins (%)

Year-ended March 31	FY13	FY14	FY15	FY16e	FY17e
EBITDA	13.1	13.8	23.1	15.5	14.9
EBIT	5.8	6.0	17.5	8.6	7.9
PAT	8.6	10.2	15.9	12.8	12.5

Source: Company Antique









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