

- Lowest TP on the Street at INR250.
- We project EPS decline of 33.1% for FY10 in comparison to consensus at 22.9% increase on account of declining aluminium price outlook.

Net Profit 10 INR11.2b
.....(From INR22.5b)

Diff from Consensus (55.6%)
Consensus (mean) INR25.2b
Consensus (momentum) ↑

Target Price INR250.00
.....(From INR325.00)

Diff from Consensus (35.8%)
Consensus (median) INR389.30
Consensus (momentum)..... ↓

Current Price INR370.85
Upside/(Downside)..... (32.6%)

REDUCE
(Unchanged)

Recs in the Market
Positive **2**
Neutral **6**
Negative **12**
Consensus (momentum)..... ↓

Sources: Thomson One Analytics; Bloomberg; BNP Paribas estimates

- Lowering aluminium price assumption to USD2,586/tonne for FY09 and USD2,200/tonne for FY10.
- Concerns on higher COP on account of higher coal costs and efficient use of cash reserves.
- Valued at EV to FY09 EBITDA multiple of 5.0x, at lower end of historical EV/EBITDA range of 3.0-8.0x.

Nalco to slide down with aluminium

Lowering aluminium and alumina price assumption on demand slowdown concerns

Aluminium and alumina prices are following a downtrend as demand growth forecasts for 2008 have been lowered from 9.5% to 3.2%, since the beginning of this year.

We believe that the weakening global demand will lead to a weak pricing environment in the short term. We have revised our price assumption downward for aluminium from USD3,000/tonne to USD2,586/tonne and USD2,875/tonne to USD2,200/tonne for FY09 and FY10, respectively, based on trends witnessed in previous market downturns. A USD100 change in aluminium prices affects Nalco's FY10 EBITDA and EPS by 9.9% and 11.9%, respectively.

Coal supply disruption will push up COP

Nalco has been facing a coal shortage in the last three months due to supply disruptions from its coal supplier MCL. To prevent a disruption in production, Nalco is now importing coal at substantially higher prices at INR7,000-8,000/tonne in comparison to INR600-800/tonne paid to MCL. This will push up the electricity generation costs by about 23% leading to higher cost of production (COP).

Management rules out stake acquisition in Tajik smelter
Nalco was recently in the news for acquiring a 51% stake in Tajik Aluminium Co (Talco), a 0.4m-tonne smelter based in Tajikistan. Our discussion with the management has confirmed that Nalco is no longer pursuing the deal. We continue to believe that Nalco is bound by government bureaucracy which will delay any plans that the company has for using the cash on its balance sheet for acquisitions.

Reducing TP; Maintain REDUCE

We have lowered our target price by 23.1% to INR250. We continue to value Nalco based on EV/EBITDA multiple of 5.0x FY09 EBITDA. We have lowered our FY09 and FY10 EBITDA by 25.9% and 44.5%, respectively, in accordance with our declining aluminium price outlook. At its current market price of INR370.85, we believe the stock is overvalued.

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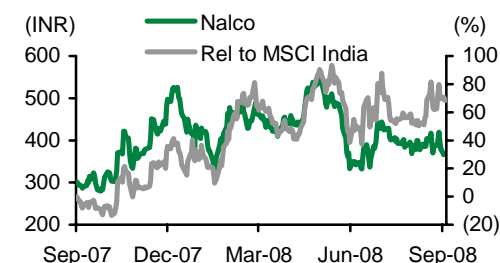
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Earnings Estimates And Valuation Ratios

YE Mar (INR m)	2008	2009E	2010E	2011E
Revenue	49,888	56,663	58,629	65,114
Reported net profit	16,315	16,818	11,247	15,115
Recurring net profit	16,654	16,818	11,247	15,115
Previous rec net profit	16,654	23,049	22,548	23,866
Chg from previous (%)	—	(27.0)	(50.1)	(36.7)
Recurring EPS (INR)	25.85	26.10	17.46	23.46
Prev rec EPS (INR)	25.85	35.77	35.00	37.04
Rec EPS growth (%)	(30.1)	1.0	(33.1)	34.4
Recurring P/E (x)	14.3	14.2	21.2	15.8
Dividend yield (%)	1.9	2.0	2.0	2.0
EV/EBITDA (x)	8.6	7.9	10.0	7.7
Price/book (x)	2.7	2.4	2.2	2.0
ROE (%)	20.1	17.8	10.8	13.5
Net debt/equity (%)	(39.6)	(29.9)	(36.2)	(45.4)

Sources: Sesa GOA; BNP Paribas estimates

Share Price Daily vs MSCI



Next results/event	October 2008
Market cap (USD m)	5,143
12m avg daily turnover (USD m)	5.0
Free float (%)	13
Major shareholder	Government of India (87%)
12m high/low (INR)	552.05/279.20
ADR (USD)	Nil
Avg daily turnover (USD m)	Nil
Discount/premium (%)	Nil
Disc/premium vs 52-wk avg (%)	Nil

Source: Datastream

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All share prices are as at market close on 30 September 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as $(\text{target price}^* - \text{current price}) / \text{current price}$. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

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