

# NMDC

## A steady quarter

India Equity Research | Metals and Mining

NMDC reported Q1FY20 EBITDA of INR18.7bn, ahead of consensus forecast. Key highlights: 1) Shipments shot up 27% YoY to 8.7mt despite the Donimalai shutdown. 2) Cost per tonne spiked 10% YoY owing to higher exports. 3) Blended realisation rose 6% YoY mainly due to exports, though domestic realisation remained flat. Going ahead, we expect steady performance from the company as: 1) the full impact of higher export prices is yet to be reflected; and 2) Donimalai resumption would add 0.5–0.6mt per month in production. We are keeping estimates unchanged. Maintain 'BUY/SO' at TP of INR135 (exit 5.3x FY21E EBITDA).

### Q1FY20 performance beats consensus

Q1FY20 EBITDA at INR18.7bn is ahead of consensus. Key highlights: 1) Shipments grew 27% YoY to 8.7mt despite continued outage at Donimalai. 2) EBITDA/t grew 3% YoY to INR2,153 aided by higher export realisation. Going ahead, we see steady performance led by: 1) higher spot international prices (April–June) showing up in export sales in ensuing quarters; 2) limited impact on volumes as impressive ramp-up at Kumaraswamy makes up for the shortfall on account of outage at Donimalai.

### Resumption at Donimalai awaited

We believe that production resumption at Donimalai is likely to lift volumes further. The Karnataka high court has struck down the levy of 85% premium as demanded by the Karnataka state government as a prerequisite for lease renewal. We understand that the company is in the process of obtaining the requisite approvals for resuming production. According to management, Donimalai will add 0.5–0.6mt per month to the company's production upon resumption.

### Outlook and valuation: More in store; maintain 'BUY'

After a steady performance despite production outage at Donimalai, we see earnings getting a boost from: 1) higher export realisation; and 2) production resumption at Donimalai. On the flip side, we still find uncertainty with respect to commissioning of the steel plant, but believe that the steel plant would be a significant value enabler once it gets operational. The stock is trading at an undemanding 3.9x FY21E EBITDA. Maintain 'BUY/SO' with a target price of INR135/share.

### Financials

(INR mn)

Year to March	Q1FY20	Q1FY19	% Chg	Q4FY19	% Chg	FY19	FY20E	FY21E
Net revenues	32,637	24,220	34.8	36,433	(10.4)	121,527	127,709	142,024
EBITDA	18,668	14,239	31.1	20,923	(10.8)	69,244	72,459	70,519
Adjusted Profit	11,794	9,753	20.9	14,539	(18.9)	46,375	47,589	39,841
Adjusted Diluted EPS	3.7	3.1	20.9	4.6	(18.9)	15.1	15.5	13.0
Diluted P/E (x)						6.9	6.7	8.0
EV/EBITDA (x)						4.0	3.9	3.9
ROAE (%)						18.4	17.4	13.4

### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

### MARKET DATA (R: NMDC.BO, B: NMDC IN)

CMP	: INR 105
Target Price	: INR 135
52-week range (INR)	: 124 / 86
Share in issue (mn)	: 3,061.8
M cap (INR bn/USD mn)	: 320 / 4,486
Avg. Daily Vol.BSE/NSE('000)	: 4,365.5

### SHARE HOLDING PATTERN (%)

	Current	Q4FY19	Q3FY19
Promoters *	72.3	72.3	72.4
MF's, FI's & BK's	18.1	18.9	19.0
FII's	4.8	3.9	3.9
Others	4.8	4.8	4.7
* Promoters pledged shares (% of share in issue)	:		NIL

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals and Mining Index
1 month	(8.7)	(8.1)	1.7
3 months	4.5	(5.6)	(5.2)
12 months	(11.7)	(4.7)	(5.0)

### Amit A Dixit

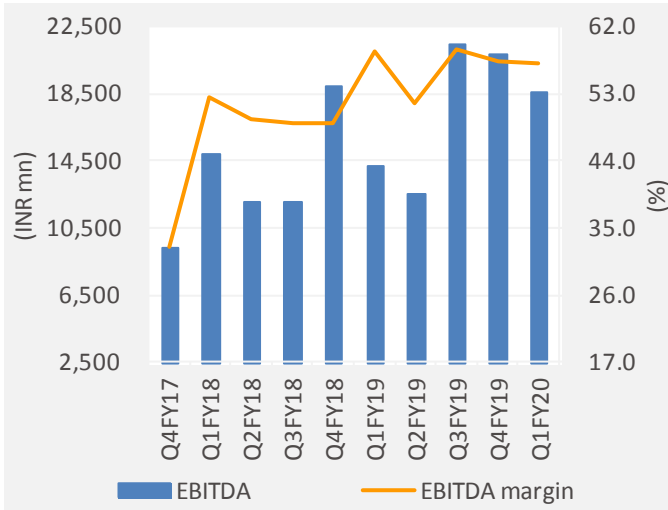
+91 22 6620 3160  
amita.dixit@edelweissfin.com

### Meera Midha

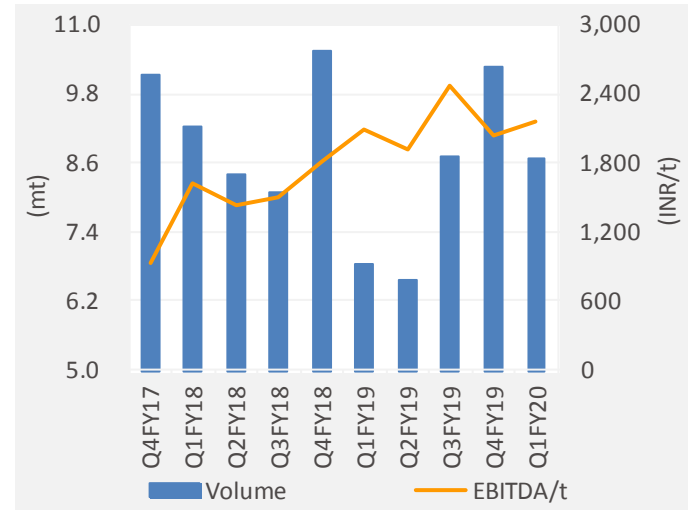
+91 22 4088 5804  
meera.midha@edelweissfin.com

August 16, 2019

**Chart 1: Steady operating performance...**

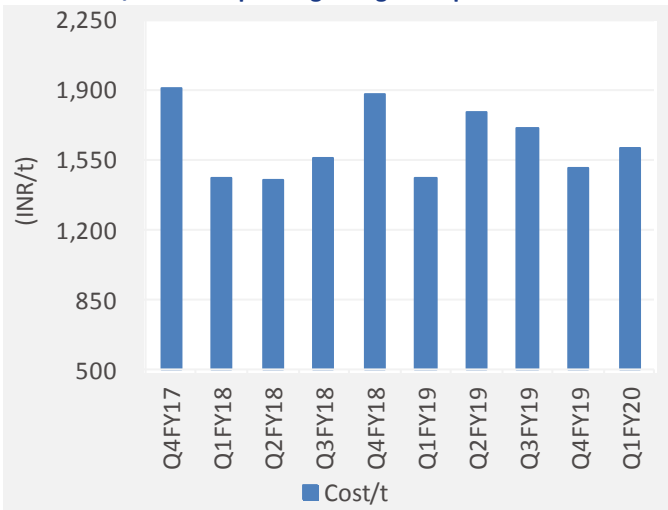


**Chart 2: ... owing to higher shipments YoY**

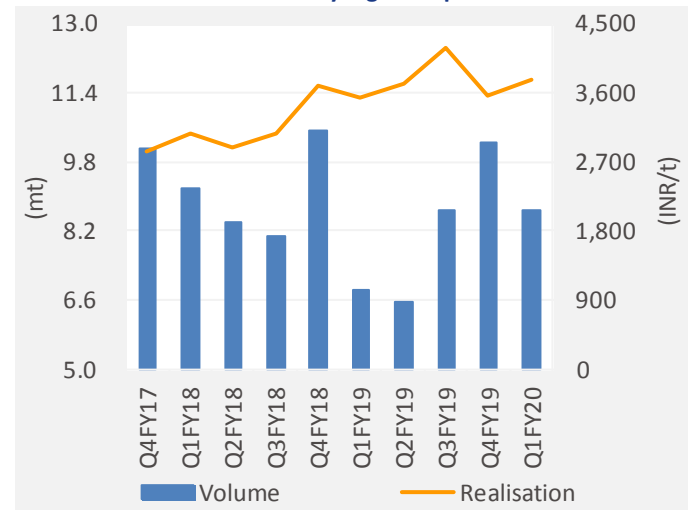


Source: Company data, Edelweiss research

**Chart 3: Cost/t inched up owing to higher exports**



**Chart 4: Realisation boosted by higher exports**



Source: Company data, Edelweiss research

## Q1FY20 Conference Call – Key highlights

### Focal areas

- FY20E shipments expected at more than 30mt without Donimalai resumption.
- Donimalai production resumption is expected to buttress the production by 0.5–0.6mt per month.
- Capex of INR30bn is expected in FY20E.
- Receivable of INR19bn on account of Expected Credit Loss (ECL) is due pursuant to the favourable judgment by the Supreme Court. This might result in a windfall.
- Uncertainty with respect to steel plant commissioning still lingers.
- Export realisations are expected to pick up as higher prices in April–June are reflected in contracts.

**Operational update**

- Production and sales during Q1FY20 are 8.4mt and 8.7mt, up 23% YoY and 27% YoY, respectively, due to higher production at Kumaraswamy of 2.1mt versus 0.6mt in Q1FY19.
- EBITDA for Q1FY20 was INR2153/t, up 3% YoY, due to better realisation.
- NMDC booked export sales of 0.6mt in Q1FY20 and realised INR3.7bn from the same. This was higher owing to renegotiated basis of pricing with Japan and Korea, where prices are indexed to 65% index versus 62% earlier.
- While the premium of 85% has been struck down by the Supreme Court, the letter of renewal is still pending for Donimalai. Management is in the process of obtaining fresh environmental and forest clearances. Once production is resumed, the operating rate is expected to be 0.5–0.6mt per month.
- Management has invested in three railway sidings to improve evacuation infrastructure that is critical to increase sales capacity to 67mt by 2025:
  - INR12bn for 3 x 40km line from Kirandul, out of which the first phase has been commissioned. The second and third phases are under construction with progress of 30–35% and 15–20%, respectively. The line will increase evacuation capacity of the Chhattisgarh segment from 28mt to 40mt. NMDC has spent INR6.5bn.
  - INR2bn for the 140km line from Jagdalpur to Ambagaon, which has been commissioned.
  - Investment of INR1.5bn in BRPL JV for the 140km line to Raipur, which provides NMDC access to markets in Raipur.
- On receivables pertaining to ECL, the company is guided by a Supreme Court judgment in compliance of which 10% of sales value for the ore mined in Karnataka is being retained by a Monitoring Committee since 2014. The cumulative receivables as on date is INR1.9bn. In a recent judgment, the Supreme Court allowed other merchant miners to recover the amount deducted by ECL (post adjustments). Hence, management expects to recover this amount as well.
- NMDC plans to double production over the next three years as most customers ramp up steel production in the ensuing years.
- While ongoing floods have not impacted operations, monsoons have had an effect. Q2FY20 volumes are likely to be seasonally weak in Karnataka. However, the impact in Chhattisgarh is not expected to be as severe as last year.
- Q1FY20 export realisations are INR117/t higher for lumps and INR287/t lower for fines than domestic ones.
- Leases in Chattisgarh are expiring in FY21, for which management has already applied for renewal, and has obtained the renewal for Deposit 11 up to 2037.

### Steel plant

- Management faced contractual problems in 2–3 packages at the steel plant, which are under renegotiation. The packages, raw material handling system and by products plant, are integral to the operations of the steel plant, as a result of which management is reassessing the date of commissioning, which is likely to be the end of Q1FY21E.
- Project cost for the steel plant has been reassessed at INR231.4bn (including forex fluctuations and price escalations), out of which INR157.3bn has been spent to date. 10% of overall project cost will be spent at various stages of testing and management has guided for commissioning expenditure of INR35–40bn to be spent over the next two years.
- Iron ore to be utilised by the steel plant would be sourced from a joint venture, but the corresponding mine has not been earmarked as captive.

### Capex

- Cash balance at end of Q1FY20 was at INR45bn.
- Management plans to incur capex of INR30bn in FY20. Out of this, INR22bn is earmarked for the steel plant in FY20 while the balance is for other capacity building projects like slurry pipeline for transporting iron ore, screening plant, etc. NMDC has spent INR3.4bn in Q1FY20.

### Guidance

- Management has guided for production and sales of more than 30mt in FY20, with hopes of getting to 32mt, ex of Donimalai. Donimalai, upon resumption, will contribute 0.5–0.6mt per month.
- Export volumes are capped at 3mt, out of which NMDC exported 0.6mt in Q1FY20, at export concessional duty of 10%.

**Financial snapshot**

(INR mn)

Year to March	Q1FY20	Q1FY19	% change	Q4FY19	% change	FY19	FY20E	FY21E
Net revenues	32,637	24,220	34.8	36,433	(10.4)	121,527	127,709	142,024
Dec/(inc) in stock	(121)	(192)	NA	(258)	NA	(792)		
Raw material	80	66	21.0	161	(50.5)	520	45	6,766
Stores & Spares	506	521	(2.8)	932	(45.7)	2,650	2,623	2,623
Staff costs	2,531	2,369	6.9	2,820	(10.2)	10,394	10,498	10,603
Selling expenses	1,901	318	498.6	1,329	43.1	3,682	4,806	4,806
Other expenses	3,255	2,444	33.2	5,507	(40.9)	15,791	16,281	26,787
Royalty and cess	5,817	4,456	30.5	5,019	15.9	20,038	20,996	19,919
Total expenditure	13,969	9,981	40.0	15,510	(9.9)	52,283	55,250	71,504
EBITDA	18,668	14,239	31.1	20,923	(10.8)	69,244	72,459	70,519
Depreciation	648	616	5.2	804	(19.4)	2,790	3,359	13,435
EBIT	18,021	13,623	32.3	20,119	(10.4)	66,454	69,100	57,084
Interest	117	108	8.5	102	14.6	403	160	160
Other income	1,228	1,251	(1.9)	1,961	(37.4)	5,890	4,884	4,881
Add: Exceptional items								
Profit before tax	19,132	14,767	29.6	21,978	(12.9)	71,940	73,824	61,805
Provision for taxes	7,337	5,013	46.4	7,438	(1.4)	25,565	26,235	21,964
Reported net profit	11,794	9,753	20.9	14,539	(18.9)	46,375	47,589	39,841
Adjusted Profit	11,794	9,753	20.9	14,539	(18.9)	46,375	47,589	39,841
Diluted shares (mn)	3,164	3,164		3,164		3,062	3,062	3,062
Adjusted Diluted EPS	3.7	3.1	20.9	4.6	(18.9)	15.1	15.5	13.0
Diluted P/E (x)	-	-		-		6.9	6.7	8.0
EV/EBITDA (x)	-	-		-		4.0	3.9	3.9
ROAE (%)	-	-		-		18.4	17.4	13.4
<b>As % of net revenues</b>	-	-		-				
Raw material	(0.1)	(0.5)		(0.3)		(0.2)	-	4.8
Employee cost	7.8	9.8		7.7		8.6	8.2	7.5
Stores & spares	1.6	2.1		2.6		2.2	2.1	1.8
Mining royalty	17.8	18.4		13.8		16.5	16.4	14.0
SG&A	5.8	1.3		3.6		3.0	3.8	3.4
EBITDA	57.2	58.8		57.4		57.0	56.7	49.7
Reported net profit	36.1	40.3		39.9		38.2	37.3	28.1
Tax rate	38.4	33.9		33.8		35.5	35.5	35.5

### Company Description

NMDC Limited is an India-based company engaged in mining of iron ore. The Company's segments include Iron Ore, and Other minerals & services. It is also engaged in the production and sale of diamond, sponge iron and wind power. Its projects under construction include Bailadila Deposit-11/B, Kumaraswamy Iron Ore Project, 1.2 million tons per annum (MTPA) Pellet Plant at Donimalai, 3.0 million tons per annum (MTPA) Integrated Steel Plant in Chhattisgarh, Panthal Magnesite Project, Screening Plant III at Kirandul Complex, Screening Plant II at Donimalai Complex, doubling of Railway Line between Kirandul and Jagdalpur, Steel Plant at Bellary and Rail Link between Dalli-Rajhara-Rowghat-Jagdalpur Railway Line Project. It proposes to diversify into other commodities, such as steel making raw materials (coking coal, manganese ore nickel); fertilizer raw materials (rock phosphate potash), and thermal coal. It also proposes to invest in raw materials, such as tungsten and rare earth minerals.

### Investment Theme

We see NMDC getting benefitted by potential production disruption in Odisha ahead of bidding process of merchant mines. We believe that sales volumes (ex Donimalai) are likely to be maintained at FY19 levels. The stock is trading at discount to global peers and its own past seven year historic trading range. We see resumption of Donimalai operations and commissioning of steel plant as additional triggers for the stock.

### Key Risks

Deflation in global prices

Competition in domestic market from Odisha based miners

Continued production outage at Donimalai

Further delay in steel plant commissioning

Continued loss at pellet plant.

## Financial Statements

### Key Assumptions

Year to March	FY18	FY19	FY20E	FY21E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.8	6.8	7.1
Inflation (Avg)	3.6	3.4	4.0	4.5
Repo rate (exit rate)	6.0	6.3	5.3	5.0
USD/INR (Avg)	64.5	70.0	72.0	72.0
<b>Sector</b>				
62Fe CFR spot (USD/t)	67	68	65	62
Export duty on fines (%)	10.0	10.0	10.0	10.0
Iron ore prod-India (mt)	167	183	202	222
Iron ore demand-India(mt)	180	198	218	239
<b>Company</b>				
Production volumes (mt)	36	32	32	32
Sales volumes (MT)	36	32	32	32
Domestic sales (mt)	33	31	29	29
Export sales (mt)	3	1	3	3
Fines proportion (%)	64	64	64	64
Lumps proportion (%)	36	36	36	36
Domestic fines-w/o duty	2,279	2,810	2,700	2,600
Domestic lumps-w/o duty	2,552	3,100	2,950	2,850
Blended dom.-with duties	3,113	3,680	3,715	3,605
Blended export-with duty	4,120	3,915	5,760	4,680
Blended price-with duty	3,220	3,757	3,982	4,450
Employee exp. growth (%)	15	1	1	1
Freight/t of export(INR)	1,400	1,400	1,400	1,400
Royalty/t (INR)	250	490	490	490
Total operating cost/t	1,609	1,616	1,812	2,328
EBITDA / t (INR)	1,610	2,140	2,169	2,121
<b>Other Assumptions</b>				
Depreciation rate (%)	4.8	1.5	1.4	5.0
Tax rate (%)	38.4	35.5	35.5	35.5
Dividend payout (%)	48.7	36.6	46.5	46.5
Capex (INR mn)	28,000	33,000	22,000	20,000
Net borrowings (INR mn)	(49,609)	(42,552)	(37,728)	(42,679)
Debtor days	40	44	44	44
Inventory days	17	19	19	19
Payable days	227	209	217	228
Cash conversion cycle	(170)	(147)	(155)	(166)

### Income statement

(INR mn)

Year to March	FY18	FY19	FY20E	FY21E
Net revenue	116,149	121,527	127,709	142,024
Materials costs	173	520	45	6,766
Stores and Spares	2,703	2,650	2,623	2,623
Royalty and cess	21,197	20,038	20,996	19,919
Accretion to stock	(385)	(792)	-	-
Power, fuel and repairs	2,441	2,686	2,985	3,491
Employee costs	10,492	10,394	10,498	10,603
Selling & admin. exp	6,397	3,682	4,806	4,806
Other Expenses	15,103	13,105	13,296	23,296
Total operating expenses	58,121	52,283	55,250	71,504
EBITDA	58,028	69,244	72,459	70,519
Depreciation	2,566	2,790	3,359	13,435
EBIT	55,462	66,454	69,100	57,084
Less: Interest Expense	371	403	160	160
Add: Other income	5,232.2	5,889.6	4,884.34	4,880.83
Profit Before Tax	58,880	71,940	73,824	61,805
Less: Provision for Tax	23,733	25,565	26,235	21,964
Add: Exceptional items	(1,443)	-	-	-
Reported Profit	35,146	46,375	47,589	39,841
Exceptional Items	(1,443)	-	-	-
Adjusted Profit	36,589	46,375	47,589	39,841
Shares o/s (mn)	3,164	3,062	3,062	3,062
Adjusted Basic EPS	11.6	15.1	15.5	13.0
Diluted shares o/s (mn)	3,164	3,062	3,062	3,062
Adjusted Diluted EPS	11.6	15.1	15.5	13.0
Adjusted Cash EPS	12.6	15.4	16.6	17.4
Dividend per share (DPS)	5.9	5.5	7.2	6.1
Dividend Payout Ratio(%)	62.9	46.0	46.5	46.5

### Common size metrics

Year to March	FY18	FY19	FY20E	FY21E
Operating expenses	50.0	43.0	43.3	50.3
Depreciation	2.2	2.3	2.6	9.5
Interest Expense	0.3	0.3	0.1	0.1
EBITDA margins	50.0	57.0	56.7	49.7
Net Profit margins	31.5	38.2	37.3	28.1

### Growth ratios (%)

Year to March	FY18	FY19	FY20E	FY21E
Revenues	2.4	(2.0)	(1.0)	-
EBITDA	59.7	19.3	4.6	(2.7)
PBT	36.2	22.2	2.6	(16.3)
Adjusted Profit	39.6	26.7	2.6	(16.3)
EPS	39.6	31.0	2.6	(16.3)

## Metals and Mining

Balance sheet		(INR mn)			
As on 31st March	FY18	FY19	FY20E	FY21E	
Share capital	3,164	3,062	3,062	3,062	
Reserves & Surplus	241,010	257,378	282,820	304,120	
Shareholders' funds	244,174	260,440	285,882	307,182	
Short term borrowings	5,001	3,642	3,642	3,642	
Total Borrowings	5,001	3,642	3,642	3,642	
Long Term Liabilities	7,141	7,685	7,685	7,685	
Def. Tax Liability (net)	(3,857)	(5,827)	(5,827)	(5,827)	
<b>Sources of funds</b>	<b>252,459</b>	<b>265,939</b>	<b>291,382</b>	<b>312,681</b>	
Gross Block	36,766	39,238	47,238	227,427	
Net Block	31,496	31,985	36,626	218,379	
Capital work in progress	125,451	138,189	160,189	-	
Intangible Assets	3,076	3,139	3,139	3,139	
Total Fixed Assets	160,023	173,313	199,954	221,518	
Non current investments	34,390	39,999	39,999	39,999	
Cash and Equivalents	54,610	46,194	41,929	46,130	
Inventories	5,717	6,662	6,347	8,120	
Sundry Debtors	14,727	14,245	16,201	17,658	
Other Current Assets	13,589	12,672	12,672	12,672	
Current Assets (ex cash)	34,033	33,579	35,220	38,450	
Trade payable	1,596	2,028	603	8,299	
Other Current Liab	28,852	24,979	24,979	24,979	
Total Current Liab	30,448	27,007	25,581	33,277	
Net Curr Assets-ex cash	3,585	6,572	9,639	5,173	
<b>Uses of funds</b>	<b>252,459</b>	<b>265,939</b>	<b>291,382</b>	<b>312,681</b>	
BVPS (INR)	77.2	85.1	93.4	100.3	

Free cash flow		(INR mn)			
Year to March	FY18	FY19	FY20E	FY21E	
Reported Profit	35,146	46,375	47,589	39,841	
Add: Depreciation	2,566	2,790	3,359	13,435	
Interest (Net of Tax)	221	260	103	103	
Others	4,267	(381)	(4,987)	(4,984)	
Less: Changes in WC	8,438	8,078	3,066	(4,466)	
Operating cash flow	33,763	40,966	42,998	52,862	
Less: Capex	22,898	15,211	30,000	35,000	
<b>Free Cash Flow</b>	<b>10,865</b>	<b>25,756</b>	<b>12,998</b>	<b>17,862</b>	

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
NMDC	4,486	6.6	7.9	3.8	3.9	17.4	13.4
Cliffs Natural Resources Inc	-	4.5	5.2	5.0	5.6	92.4	52.0
Fortescue Metals Group Ltd	16,034	4.3	-	2.8	-	28.3	-
Mount Gibson Iron Ltd	559	4.4	-	1.5	-	24.2	-
Vale SA	-	-	-	3.9	4.1	16.2	17.1
Median	-	4.4	7.9	3.8	5.6	24.2	52.0
<b>AVERAGE</b>	-	<b>4.0</b>	<b>4.4</b>	<b>3.4</b>	<b>4.5</b>	<b>35.7</b>	<b>27.5</b>

Source: Edelweiss research

Cash flow metrics					
Year to March	FY18	FY19	FY20E	FY21E	
Operating cash flow	33,763	40,966	42,998	52,862	
Financing cash flow	(15,572)	(32,961)	(22,147)	(18,541)	
Investing cash flow	(18,649)	(7,892)	(25,116)	(30,119)	
Net cash Flow	(458)	113	(4,265)	4,201	
Capex	(22,898)	(15,211)	(30,000)	(35,000)	
Dividend paid	(23,923)	(21,321)	(22,147)	(18,541)	

### Profitability and efficiency ratios

Year to March	FY18	FY19	FY20E	FY21E
ROAE (%)	15.6	18.4	17.4	13.4
ROACE (%)	25.6	28.2	26.7	20.6
Inventory Days	17	19	19	19
Debtors Days	40	44	44	44
Payable Days	227	209	180	173
Cash Conversion Cycle	(170)	(147)	(118)	(111)
Current Ratio	2.9	3.0	3.0	2.5
Gross Debt/EBITDA	0.1	0.1	0.1	0.1
Gross Debt/Equity	-	-	-	-
Adjusted Debt/Equity	2.0	1.4	1.3	1.2
Net Debt/Equity	(20.3)	(16.3)	(13.4)	(13.8)
Interest Coverage Ratio	14,949.2	16,481.6	43,268.2	35,744.2

### Operating ratios

Year to March	FY18	FY19	FY20E	FY21E
Total Asset Turnover	4.2	3.5	3.4	1.1
Fixed Asset Turnover	0.5	0.5	0.5	0.5
Equity Turnover	0.5	0.5	0.5	0.5

### Valuation parameters

Year to March	FY18	FY19	FY20E	FY21E
Adj. Diluted EPS (INR)	11.6	15.1	15.5	13.0
Y-o-Y growth (%)	39.6	31.0	2.6	(16.3)
Adjusted Cash EPS (INR)	12.6	15.4	16.6	17.4
Diluted P/E (x)	8.9	6.8	6.6	7.9
P/B (x)	1.3	1.2	1.1	1.0
EV / Sales (x)	2.4	2.3	2.2	2.0
EV / EBITDA (x)	4.8	3.9	3.8	3.9
Dividend Yield (%)	5.7	5.4	7.0	5.9



## Additional Data

### Directors Data

Saraswati Prasad	Government Nominee Director	N K Nanda	Director (Technical)
Amitava Mukherjee	Director (Finance)	P.K. Satpathy	Director (Production)
Sandeep Tula	Director (Personnel)	Alok Kumar Mehta	Director (Commercial)
Rasika Chaube	Government Nominee Director	N Bajendra Kumar	Chairman cum Managing Director- Acting
Bhagwati Mahesh Baldewa	Independent Director	Pradip Bhargava	Independent Director
Dr. Syamal K. Sarkar	Independent Director	S.M. Nigam	Independent Director
Ashok K Angurana	Independent Director	CA Arun Kumar Srivastava	Independent Director

Auditors - Tej Raj & Pal

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	72.28	Life insurance corp	12.89
Aditya birla sun lif	1.34	Aditya birla sun lif	1.03
Vanguard group	0.86	Kotak mahindra asset	0.22
Pinebridge investmen	0.21	Seb	0.17
Lic pension fund ltd	0.16	State street corp	0.14

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Coal India	BUY	SP	M	GMDC	BUY	SO	H
Hindalco Industries	BUY	SO	M	Hindustan Zinc	HOLD	SU	L
Jindal Stainless Ltd	BUY	SO	H	Jindal Steel & Power	BUY	SO	M
JSW Steel	HOLD	SP	M	NMDC	BUY	SP	M
Steel Authority of India	REDUCE	SU	M	Tata Steel	HOLD	SP	M
Vedanta	HOLD	SP	M				

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



**Edelweiss Securities Limited**, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: [research@edelweissfin.com](mailto:research@edelweissfin.com)

Aditya Narain

Head of Research

[aditya.narain@edelweissfin.com](mailto:aditya.narain@edelweissfin.com)

**Coverage group(s) of stocks by primary analyst(s): Metals and Mining**

Coal India, GMDC, Hindalco Industries, Hindustan Zinc, Jindal Stainless Ltd, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

**Recent Research**

Date	Company	Title	Price (INR)	Recos
14-Aug-19	<b>Steel Authority of India</b>	Running in to troubled waters; <i>Result Update</i>	37	Reduce
14-Aug-19	<b>Metals &amp; Mining</b>	Less cheer and more fear ahead; <i>Sector Update</i>		
13-Aug-19	<b>Jindal Stainless</b>	In-line performance; better days in store; <i>Result Update</i>	30	Buy

**Distribution of Ratings / Market Cap**

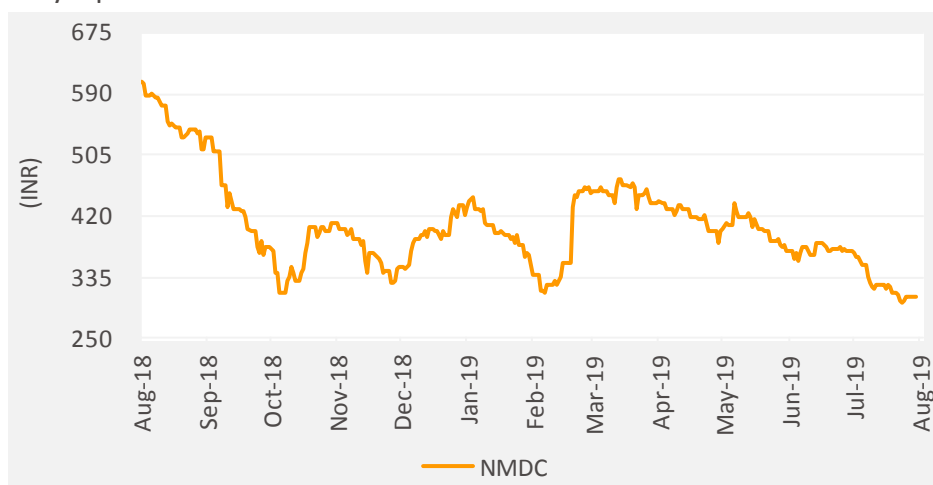
**Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

**One year price chart**



### DISCLAIMER

Edelweiss Securities Limited (“ESL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on [www.edelweissfin.com](http://www.edelweissfin.com)) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: ( i) exchange rates can be volatile and are subject to large fluctuations; ( ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at [www.nseindia.com](http://www.nseindia.com)

#### **Analyst Certification:**

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

#### **Additional Disclaimers**

##### **Disclaimer for U.S. Persons**

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

### Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

### Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

### Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved