

NMDC

October fest: Raising a toast to volume uptick

India Equity Research | Metals and Mining

NMDC's October sales volume surpassed 3.0mt for the first time in FY19, buoyed by the Chhattisgarh segment. Key highlights: 1) sales volume jumped 44% YoY to 3.2mt; 2) production volume rose 27% YoY (38% QoQ) to 3.3mt after a sluggish monsoon; and 3) exports grew 4x MoM and are expected to pick up in ensuing months. Going ahead, we expect FY19 sales volume to be impacted to the extent of ~5mt if production is not resumed at Donimalai mine in rest of the year. Maintain 'BUY' with TP of INR151, implying exit multiple of 6.0x FY20E EBITDA.

Volume perks up finally in October

After lacklustre volumes in H1FY19, NMDC's October dispatches jumped 44% YoY (34% QoQ) to 3.2mt led by the Chhattisgarh segment—volume growth of 32% YoY (48% QoQ) to 2.1mt. The company supplied 355 rakes of iron ore in October from Chhattisgarh compared to 241 in September. Its total exports were at 39 rakes in October compared to mere 10 in September. We expect exports volume to pick up further in ensuing months. In the Karnataka segment, YDTFY19 sales volume at Donimalai and Kumaraswamy are estimated at 2.82mt and 2.01mt, respectively. We expect volume growth to be constrained hereon due to the production halt at Donimalai mine over the issue of additional rental demanded by the Karnataka government as a pre-condition for extending the mining lease.

Donimalai overhang to constrain stock performance

We perceive production halt at Donimalai as a major overhang. While the company is trying to sort the issue via mutual consultation, we believe the process is likely to take time. We estimate sales volume to be impacted by ~5mt if the production does not resume for rest of FY19.

Outlook and valuations: Donimalai issue persists; maintain 'BUY'

While we are upbeat on visible volume uptick at NMDC, we remain cautious on the Donimalai issue as it is likely to keep stock performance muted. We await more clarity on the matter. We maintain 'BUY/SO' with TP of INR151. The stock is currently trading at an inexpensive 3.5x FY20E EBITDA.

Financials

(INR mn)

Year to March	FY17	FY18E	FY19E	FY20E
Net revenue	88,281	116,149	111,249	148,842
EBITDA	35,982	58,088	55,018	67,250
Adjusted Profit	25,858	36,620	33,641	37,104
Diluted equity shares (mn)	3,164	3,164	3,164	3,164
Adjusted diluted EPS (INR)	8.2	11.6	10.6	11.7
EPS Growth (%)	14.6	41.6	(8.1)	10.3
EV/EBITDA (x)	6.8	4.3	4.1	3.5
ROAE (%)	10.0	15.6	13.9	15.0

EDELWEISS 4D RATINGS

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

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

CMP	: INR 95
Target Price	: INR 151
52-week range (INR)	: 163 / 94
Share in issue (mn)	: 3,163.9
M cap (INR bn/USD mn)	: 300 / 4,236
Avg. Daily Vol.BSE/NSE('000)	: 3,995.1

SHARE HOLDING PATTERN (%)

	Current	Q1FY19	Q4FY18
Promoters *	72.4	72.4	72.4
MF's, FI's & BK's	19.4	19.1	18.8
FII's	3.7	4.0	4.2
Others	4.5	4.5	4.6
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Metals & Mining Index
1 month	(10.8)	6.5	1.7
3 months	(11.9)	(8.6)	(5.2)
12 months	(24.9)	2.8	(5.0)

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Table 1: NMDC's production perks up in October

	Oct-18	Oct-17	% chg	Sep-18	% chg	YTD FY19	YTD FY18	% chg	FY19E	FY18	% chg
Chattisgarh	2.1	1.6	36.3	1.3	60.9	9.6	11.3	(14.8)	25.5	23.5	8.5
Karnataka	1.1	1.0	10.9	1.0	8.7	5.8	6.9	(15.8)	7.2	12.0	(39.9)
Total	3.3	2.6	26.4	2.4	38.1	15.5	18.2	(15.1)	32.7	35.5	(7.9)

Source: Company data, Edelweiss research

Table 2: NMDC's monthly offtake surpassed 3.0mt for the first time in FY19

	Oct-18	Oct-17	% chg	Sep-18	% chg	YTD FY19	YTD FY18	% chg	FY19E	FY18	% chg
Chattisgarh	2.1	1.6	31.7	1.4	48.3	11.7	12.5	(6.5)	23.5	23.2	1.4
Karnataka	1.0	0.6	77.6	0.9	10.8	4.8	7.3	(33.5)	9.2	12.9	(28.7)
Total	3.2	2.2	43.8	2.4	33.5	16.6	19.8	(16.4)	32.7	36.1	(9.3)

Source: Company data, Edelweiss research

Company Description

NMDC is the largest iron ore producer in India by volume, and produced 36mt of iron ore from four fully mechanised mining complexes in FY17.

The company's principal operations include its four iron ore mining complexes at Kirandul and Bacheli in Chhattisgarh and Donimalai and Kumarswamy in Karnataka. NMDC also operates a diamond mine at Panna (Madhya Pradesh), the only mechanised diamond mine in the country and the largest diamond mine in Asia.

Investment Theme

We see NMDC at vantage point to reap the benefits of both prices and volume. With supply disruption of 20mt in Odisha in near term and another 67mt in the medium term looming large, NMDC can expand its volumes by 8% YoY for the next three years. We also see a better probability of sustenance of recent price hike taken by the company. Going ahead, Pellet Plant and Steel Plant are expected to further boost the earnings.

Key Risks

Sharp downturn in global iron ore prices

Disappointment in volume growth

Inability to adopt differential pricing in Karnataka

Increase in export duty on pellets

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.7	7.3	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.8	6.8
USD/INR (Avg)	67.1	64.5	70.0	72.0
Sector				
62Fe CFR spot (USD/t)	67	62	59	60
Export duty on fines (%)	10.0	10.0	10.0	10.0
Iron ore prod-India (mt)	151	167	183	202
Iron ore demand-India(mt)	163	180	198	218
Company				
Production volumes (mt)	36	37	32	34
Sales volumes (MT)	36	37	32	34
Domestic sales (mt)	33	34	29	30
Export sales (mt)	3	3	3	4
Fines proportion (%)	63	64	64	64
Lumps proportion (%)	37	36	36	36
Domestic fines-w/o duty	1,702	2,279	2,760	2,760
Domestic lumps-w/o duty	1,967	2,552	3,100	3,100
Blended dom.-with duties	2,373	3,101	3,465	3,566
Blended export-with duty	3,315	3,566	3,419	3,419
Blended price-with duty	2,452	3,173	3,602	4,567
Employee exp. growth (%)	1	15	1	2
Freight/t of export(INR)	1,400	1,400	1,400	1,400
Royalty/t (INR)	325	250	250	250
Total operating cost/t	1,398	1,586	1,801	2,481
EBITDA / t (INR)	1,054	1,587	1,801	2,087
Other Assumptions	-	1	2	3
Depreciation rate (%)	6.7	8.5	14.4	37.0
Tax rate (%)	38.0	33.0	40.0	40.0
Dividend payout (%)	52.5	48.7	50.0	50.0
Capex (INR mn)	36,000	28,000	33,000	30,000
Net borrowings (INR mn)	(53,205)	(49,609)	(55,864)	(51,456)
Debtor days	38	40	40	40
Inventory days	24	17	17	17
Payable days	355	227	281	242
Cash conversion cycle	(292)	(170)	(224)	(185)

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	88,281	116,149	117,614	155,207
Materials costs	54	173	1,344	12,220
Stores and Spares	2,641	2,703	2,415	2,518
Royalty and cess	15,247	21,195	19,502	20,851
Accretion to stock	989	(385)	-	-
Power, fuel and repairs	1,999	-	2,333	2,440
Employee costs	8,856	10,464	10,569	10,780
Selling & admin. exp	7,259	6,397	4,088	5,797
Other Expenses	15,255	17,513	18,398	29,493
Total operating expenses	52,299	58,061	58,649	84,100
EBITDA	35,982	58,088	58,965	71,107
Depreciation	1,967	2,560	4,351	11,197
EBIT	34,016	55,527	54,613	59,910
Less: Interest Expense	208	371	570	570
Add: Other income	9,088.1	5,197.3	5,947.02	6,444.43
Profit Before Tax	42,896	58,911	59,990	65,784
Less: Provision for Tax	17,038	23,733	23,996	26,314
Add: Exceptional items	-	(1,443)	-	-
Reported Profit	25,858	35,177	35,994	39,471
Exceptional Items	-	(1,443)	-	-
Adjusted Profit	25,858	36,620	35,994	39,471
Shares o /s (mn)	3,164	3,164	3,164	3,164
Adjusted Basic EPS	8.2	11.6	11.4	12.5
Diluted shares o/s (mn)	3,164	3,164	3,164	3,164
Adjusted Diluted EPS	8.2	11.6	11.4	12.5
Adjusted Cash EPS	8.8	12.6	12.8	16.0
Dividend per share (DPS)	5.2	5.9	5.7	6.2
Dividend Payout Ratio(%)	52.5	48.7	50.0	50.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	59.2	50.0	49.9	54.2
Depreciation	2.2	2.2	3.7	7.2
Interest Expense	0.2	0.3	0.5	0.4
EBITDA margins	40.8	50.0	50.1	45.8
Net Profit margins	29.3	31.5	30.6	25.4

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	36.7	2.4	(10.7)	4.3
EBITDA	31.2	61.4	1.5	20.6
PBT	5.0	37.3	1.8	9.7
Adjusted Profit	(8.5)	41.6	(1.7)	9.7
EPS	14.6	41.6	(1.7)	9.7

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	3,164	3,164	3,164	3,164	
Reserves & Surplus	222,658	241,010	236,167	255,903	
Shareholders' funds	225,822	244,174	239,331	259,066	
Short term borrowings	-	5,001	13,001	13,001	
Total Borrowings	-	5,001	13,001	13,001	
Long Term Liabilities	6,113	7,141	7,141	7,141	
Def. Tax Liability (net)	-	(3,857)	(3,857)	(3,857)	
Sources of funds	231,935	252,459	255,616	275,351	
Gross Block	30,226	30,226	30,226	30,226	
Net Block	17,334	31,496	129,753	138,557	
Capital work in progress	118,555	125,451	33,000	43,000	
Intangible Assets	3,617	3,076	3,076	3,076	
Total Fixed Assets	139,506	160,023	165,829	184,633	
Non current investments	38,569	34,390	34,390	34,390	
Cash and Equivalents	53,205	54,610	68,758	64,928	
Inventories	5,400	5,717	5,541	9,315	
Sundry Debtors	10,435	14,727	10,752	22,872	
Other Current Assets	10,721	13,589	13,589	13,589	
Current Assets (ex cash)	26,557	34,033	29,882	45,776	
Trade payable	1,989	1,596	4,195	15,325	
Other Current Liab	23,758	28,852	38,902	38,902	
Total Current Liab	25,747	30,448	43,096	54,227	
Net Curr Assets-ex cash	809	3,585	(13,214)	(8,451)	
Uses of funds	231,935	252,459	255,616	275,351	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	25,858	35,177	35,994	39,471	
Add: Depreciation	1,967	2,560	4,351	11,197	
Interest (Net of Tax)	125	222	342	342	
Others	(1,659)	(2,533)	(6,289)	(6,787)	
Less: Changes in WC	5,205	2,776	(16,799)	4,763	
Operating cash flow	21,085	32,650	51,198	39,460	
Less: Capex	36,000	28,000	33,000	30,000	
Free Cash Flow	(14,915)	4,650	18,198	9,460	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		21,085	32,650	51,198	39,460
Financing cash flow		(72,493)	(12,427)	(9,997)	(19,735)
Investing cash flow		51,713	(20,487)	(27,053)	(23,554)
Net cash Flow		306	(263)	14,148	(3,829)
Capex		(36,000)	(28,000)	(33,000)	(30,000)
Dividend paid		(14,614)	(18,539)	(17,997)	(19,735)

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROAE (%)		10.0	15.6	14.9	15.8
ROACE (%)		16.2	25.6	24.2	25.3
Inventory Days		24	17	17	17
Debtors Days		38	40	40	40
Payable Days		355	227	281	242
Cash Conversion Cycle		(292)	(170)	(224)	(185)
Current Ratio		3.1	2.9	2.3	2.0
Gross Debt/EBITDA		-	0.1	0.2	0.2
Gross Debt/Equity		-	-	0.1	0.1
Adjusted Debt/Equity		-	2.0	5.4	5.0
Net Debt/Equity		(23.6)	(20.3)	(23.3)	(20.0)
Interest Coverage Ratio		16,369.5	14,966.9	9,578.5	10,507.5

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		4.3	4.2	1.4	1.1
Fixed Asset Turnover		0.3	0.5	0.5	0.6
Equity Turnover		0.3	0.5	0.5	0.6

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		8.2	11.6	11.4	12.5
Y-o-Y growth (%)		14.6	41.6	(1.7)	9.7
Adjusted Cash EPS (INR)		8.8	12.6	12.8	16.0
P/B (x)		1.3	1.2	1.3	1.2
EV / Sales (x)		2.8	2.2	2.1	1.6
EV / EBITDA (x)		6.8	4.3	4.1	3.5

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NMDC	4,236	8.3	7.6	4.1	3.5	13.9	15.0
Cliffs Natural Resources Inc	2,584	4.1	5.2	4.9	5.5	NM	NM
Fortescue Metals Group Ltd	8,671	9.3	10.4	4.2	4.2	9.0	8.9
Mount Gibson Iron Ltd	425	20.0	57.8	5.4	-	3.8	(4.9)
Vale SA	67,723	7.8	8.2	5.0	4.9	16.1	18.9
Median	-	8.8	9	4.6	4.2	9.0	8.9
AVERAGE	-	10.4	20.3	4.7	4.4	8.9	6.3

Source: Edelweiss research

Additional Data

Directors Data

Syedain Abbasi	Director (Govt.)	N K Nanda	Director (Technical)
Devinder Singh Ahluwalia	Director (Finance)	P.K. Satpathy	Director (Production)
Rabindra Singh	Director (Personnel)	Dr. T.R.K. Rao	Director (Commercial)
Noor Mohammad	Part Time Non Official Ind.Dir	Vinai Kumar Agarwal	Part Time Non Official Ind.Dir
Mahesh Shah	Part Time Non Official Ind.Dir	A.S. Pardha Saradhi	Company Secretary
Bharathi S. Sihag	Chairman cum Managing Director- Acting		

Auditors - Venugopal & Chenoy

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Government of india	72.43	Life insurance corp	14.34
Aditya birla sun lif	1.23	Vanguard group	0.83
Reliance capital tru	0.36	Uti asset management	0.33
Pinebridge investmen	0.2	Lic pension fund ltd	0.15
Robeco luxembourg s.	0.14	Wisdomtree investmen	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	Hindalco Industries	BUY	SO	M
Hindustan Zinc	BUY	SO	L	Jindal Stainless Ltd	BUY	SO	H
Jindal Steel & Power	BUY	SO	M	JSW Steel	BUY	SO	M
NMDC	BUY	SO	M	Steel Authority of India	BUY	SP	M
Tata Steel	BUY	SO	M	Vedanta	BUY	SO	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

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Coverage group(s) of stocks by primary analyst(s):

Coal India, 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
26-Nov-18	Metals and Mining	October non-ferrous volumes: On expected lines; <i>Sector Update</i>		
22-Nov-18	ThyssenKrupp	A forgettable quarter; better times ahead; <i>Global Pulse</i>		
20-Nov-18	Metals and Mining	Chinese conundrum in the brave new world of steel; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

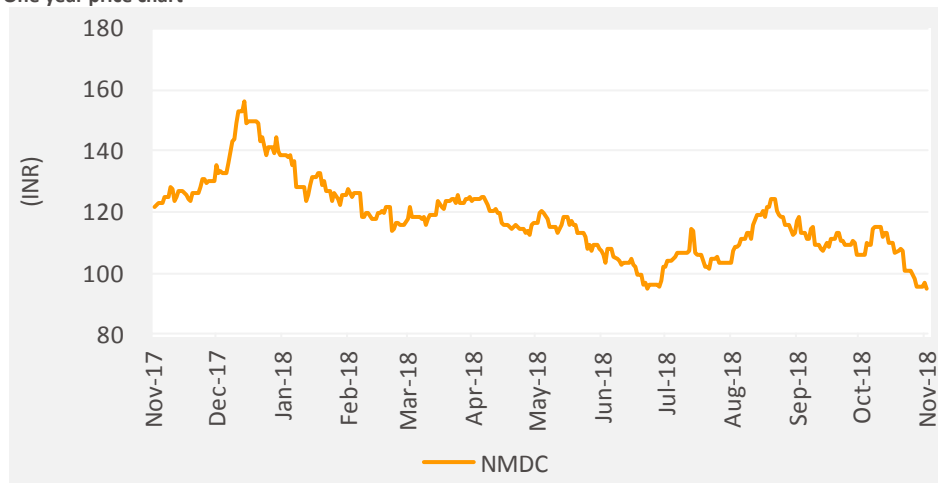
Edelweiss Research Coverage Universe

	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
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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