

BSE SENSEX
32,833

S&P CNX
10,122

CMP: INR129 TP: INR187 (+46%)

Buy



Stock Info

Bloomberg	NMDC IN
Equity Shares (m)	3,164
52-Week Range (INR)	153 / 103
1, 6, 12 Rel. Per (%)	1/9/-14
M.Cap. (INR b)	401.8
M.Cap. (USD b)	6.2
Avg Val, INRm	446
Free float (%)	25.1

Financials Snapshot (INR b)

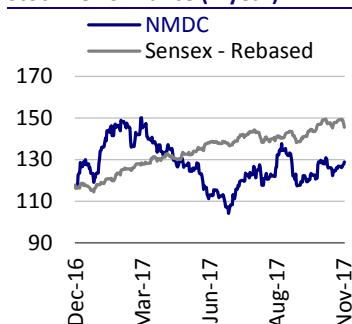
Y/E Mar	2017	2018E	2019E
Net Sales	88.3	107.9	107.6
EBITDA	44.9	60.3	59.7
PAT	31.5	41.9	40.2
EPS (INR)	10.0	13.2	12.7
Gr. (%)	11.7	33.0	-4.2
BV/Sh (INR)	71.2	77.2	82.7
RoE (%)	12.8	15.6	16.2
RoCE (%)	12.2	15.2	15.8
P/E (x)	12.9	9.7	10.1
P/BV (x)	1.8	1.7	1.5

Shareholding pattern (%)

As On	Sep-17	Jun-17	Sep-16
Promoter	74.9	74.9	80.0
DII	17.3	17.0	14.0
FII	3.7	4.3	3.4
Others	4.0	3.8	2.7

FII Includes depository receipts

Stock Performance (1-year)



Iron ore pricing improving

Highly profitable steel project, albeit delayed, is available for free

Pricing power returning – mines take price hike in December

Indian iron ore miners are gaining pricing power again, as some of the mines in Odisha are shut, international iron ore prices have moved up, and demand is increasing (as Indian steel mills are trying to boost production in a seasonally strong part of the year). We expect Indian iron ore supply to get tight over the next 2-3 years, with leases of a number of private mines expiring by end-FY20 and increasing domestic steel production. NMDC has increased prices by 10-13% (Exhibit 4) with effect from 1st December 2017, but it remains competitive with respect to imports for its key customers (Exhibit 7/8).

Capacity utilization to improve as demand is rising sharply

NMDC has iron ore mining capacity of 46mtpa, but utilization is only ~80%. We expect utilization to improve gradually to 100% over the next 2-3 years, as its key customers (JSW steel, Essar Steel and RINL) are all ramping up production. There will be additional demand of 15-20mtpa. NMDC is well placed to serve them due to its high quality of ore and access to rail infrastructure. NMDC is also investing in doubling of the KK line to improve evacuation from the Chhattisgarh complex.

Steel plants, albeit delayed, will be highly profitable

NMDC is setting up a 3mtpa steel plant at Nagarnagar, Chhattisgarh, which is 290km away from the Vizag port. The steel project is running behind schedule and likely to start production in FY20. However, the steel plant is likely to be highly profitable because (1) equipment and technology are supplied by high-quality European players, (2) the economy of scale will be high at 3mtpa single 4,500 cubic meter blast furnace, (3) it is in proximity to mines and ports and (4) it has captive iron ore mines. Iron ore will be supplied from Deposit 13. The mine has 325mt R&R and 10mtpa EC, and lease for 50 years starting January 2017.

Expect annual total stock return of 20% over next 3-4 years

We expect iron ore volumes CAGR of 5-6% over the next 4-5 years from the existing mines (Exhibit 6). Steel plant is likely to produce about 1mt in FY21 and full 3mt in FY22. Margins in the steel business are likely to be 10,000/t, as it has many advantages. Despite factoring in 10% lower iron ore margins w.r.t. FY18, we expect EBITDA CAGR of 17% to INR97b over FY17-22. We expect equity value CAGR of 15% to INR223 in four years, while the dividend yield will be ~5% at CMP. Thus, we expect a 20% annual total stock return over the next 3-4 years.

The stock is trading at attractive valuations of EV/EBITDA of 6.1x, P/E of 9.7x and P/BV of 1.7x FY18E. Return ratios are attractive at 15-16% RoE/RoCE, despite the drag of large CWIP on balance sheet. Valuations are ignoring value of the steel plant. Reiterating **Buy**.

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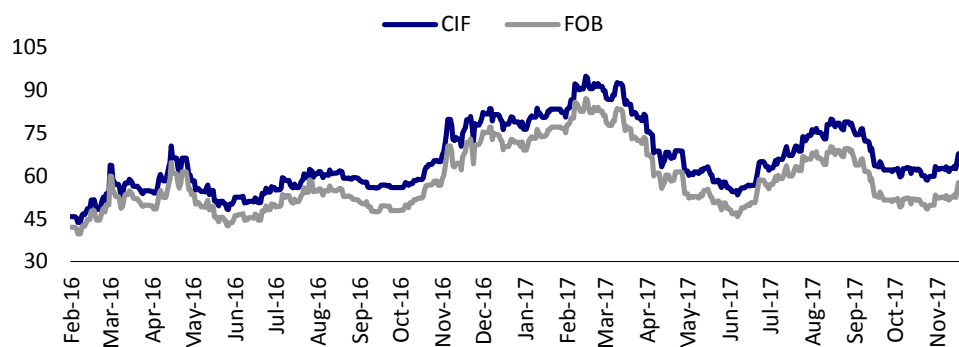
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Global iron ore prices are recovering led by steady demand in China and improving sea-borne demand-supply fundamentals

Exhibit 1: Iron ore (China cfr) – USD/t



Source: MOSL, Bloomberg

Exhibit 2: Iron ore lumps: Landed cost to Indian steel mills (NMDC v/s imports)

	Unit	Dolvi	Essar	RINL
(a) Landed cost from NMDC	USD/wmt	74	74	64
(b) Landed cost of imports	USD/wmt	85	85	85
NMDC pricing at premium/(discount) to imports	USD/wmt	-11	-11	-21
(a) calculations for landed cost from NMDC				
Ex-Mine Price	INR/wmt	2,600	2,600	2,600
add: royalty@15% & DMF@30%	INR/wmt	507	507	507
add: transportation/port handling	INR/wmt	1,750	1,750	1,050
Landed cost at plant	INR/wmt	4,857	4,857	4,157
Landed cost at plant	USD/wmt	74	74	64
(b) calculations for landed cost of imports				
Iron ore lumps cfr	USD/dmt	81	81	81
less: moisture (8%)	USD/wmt	2	2	2
add: import duty (2.5%)	USD/wmt	7	7	7
Landed cost on port	USD/wmt	85	85	85
add: Domestic transportation cost	USD/wmt	0	0	0
Landed cost at plant	USD/wmt	85	85	85

USD/INR exchange rate = 65.2 IODEX68USD/T, CFR China basis

Source: MOSL

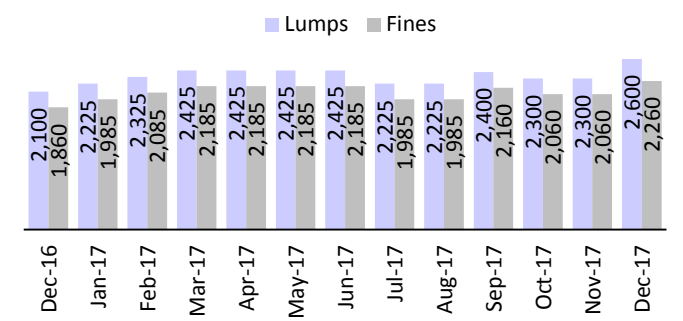
Exhibit 3: Iron ore fines: Landed cost to Indian steel mills (NMDC v/s imports)

	Unit	Dolvi	Essar	RINL
(a) Landed cost from NMDC	USD/wmt	68	56	58
(b) Landed cost of imports	USD/wmt	69	69	69
NMDC premium/(discount) to imported	USD/wmt	-1	-13	-12
(a) calculations for landed cost from NMDC				
Ex-Mine Price	INR/wmt	2,260	2,260	2,260
add: royalty@15% & DMF@30%	INR/wmt	441	441	441
add: transportation/port handling	INR/wmt	1,750	950	1,050
Landed cost at plant	INR/wmt	4,451	3,651	3,751
Landed cost at plant	USD/wmt	68	56	58
(b) calculations for landed cost of imports				
Iron ore fines cfr	USD/dmt	68	68	68
less: moisture (8%)	USD/wmt	5	5	5
add: import duty (2.5%)	USD/wmt	7	7	7
Landed cost on port	USD/wmt	69	69	69
add: Domestic transportation cost	USD/wmt	0	0	0
Landed cost at plant	USD/wmt	69	69	69

USD/INR exchange rate = 65.2 IODEX68USD/T, CFR China basis

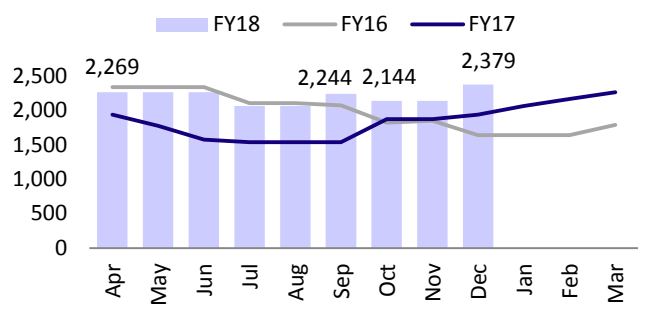
Source: MOSL

Exhibit 4: NMDC's prices – INR/t (ex-royalty, DMF etc)



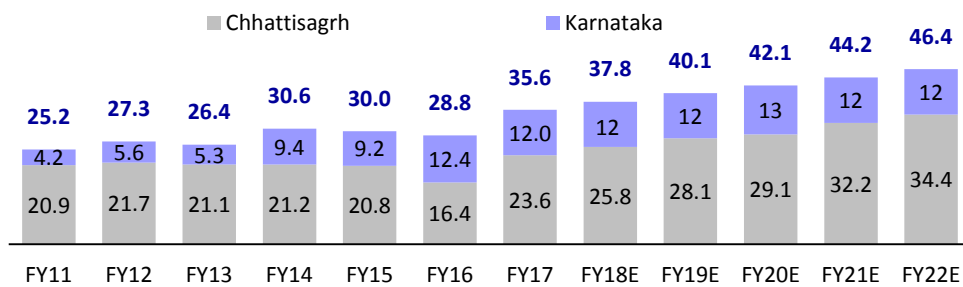
Source: MOSL, Company

Exhibit 5: NMDC's avg. prices – INR/t (ex-royalty, DMF etc)



Source: MOSL, Company

Exhibit 6: Iron ore sales – mt



Source: MOSL, Company

Exhibit 7: Target price calculation

Y/E March	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
INR million										
Iron ore										
EBITDA per ton (INR)	2,963	2,676	2,666	1,214	1,262	1,594	1,489	1,493	1,469	1,444
Volumes (m tons)	26.3	30.5	30.5	28.8	35.6	37.8	40.1	42.1	44.2	46.4
Steel										
EBITDA per ton (INR)									5,000	10,000
Volumes (m tons)									1.0	3.0
EBITDA	77,838	81,604	81,369	34,998	44,944	60,259	59,663	62,801	69,889	97,006
Target EV/EBITDA(x)					6.5	6.5	6.5	6.5	6.5	6.5
Target EV					292,133	391,685	387,813	408,205	454,276	630,540
Less: Net Debt	-210,258	-186,572	-184,431	-132,666	-52,893	-35,506	-31,616	-28,839	-30,646	-54,370
Add: CWIP	16,180	52,769	77,100	97,229	118,314	152,208	172,208	192,208	107,208	22,208
Equity Value					463,339	579,398	591,636	629,252	592,130	707,118
Target price (INR/share)					146	183	187	199	187	223

Source: MOSL, Company

Exhibit 8: Valuations: Indian Companies

	Rating	Price (INR)	MCAP (USD M)	EPS			P/E (x)		EV/EBITDA (x)		P/B(x)	
				FY17E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Steel												
Tata Steel	Neutral	695	10,460	37.9	59.4	65.2	11.7	10.7	7.0	6.8	1.9	1.7
JSW Steel	Buy	255	9,529	14.8	20.3	24.9	12.5	10.2	8.1	7.3	2.3	1.9
JSPL	Buy	172	2,438	-20.9	-15.8	2.0	-10.9	85.5	10.3	7.1	0.6	0.5
SAIL	Sell	77	4,917	-6.4	-4.3	3.1	-18.0	24.5	28.2	11.3	0.9	0.9
Non-Ferrous												
Hindalco	Buy	240	7,689	8.6	18.8	26.4	12.8	9.1	6.6	5.6	1.6	1.4
Nalco	Neutral	82	3,280	3.7	4.7	5.8	17.6	14.3	8.2	6.4	1.5	1.4
Vedanta	Buy	296	13,586	15.1	25.5	44.4	11.6	6.7	7.3	4.5	1.7	1.5
Rain Ind.*	Buy	355	1,847	9.6	25.5	38.9	13.9	9.1	7.8	5.9	3.1	2.4
Mining												
Coal India	Buy	276	27,024	14.9	17.5	20.7	15.8	13.4	8.2	7.1	6.7	6.4
Hindustan Zinc	Neutral	300	19,612	19.7	22.7	33.5	13.2	8.9	8.2	5.2	4.4	3.3
NMDC	Buy	128	7,849	10.0	13.2	12.7	9.7	10.1	6.1	6.2	1.7	1.5

*CY reporting

Source: Company, MOSL

Financials and Valuations

Income Statement (Consolidated)							(INR Million)	
Y/E March	2014	2015	2016	2017	2018E	2019E	2020E	
Net sales	120,582	123,564	64,556	88,294	107,947	107,563	112,903	
Change (%)	12.6	2.5	-47.8	36.8	22.3	-0.4	5.0	
Total Expenses	38,978	42,195	29,559	43,350	47,688	47,899	50,103	
EBITDA	81,604	81,369	34,998	44,944	60,259	59,663	62,801	
% of Net Sales	67.7	65.9	54.2	50.9	55.8	55.5	55.6	
Deprn. & Amortization	1,504	1,622	2,078	1,962	2,334	2,687	2,966	
EBIT	80,100	79,747	32,920	42,982	57,926	56,977	59,835	
Net Interest								
Other income	20,945	23,200	17,744	9,088	4,040	2,069	1,590	
PBT before EO	101,045	102,946	50,664	52,070	61,965	59,046	61,425	
EO income	455		-1,848	-8,933				
PBT after EO	101,500	102,946	48,816	43,137	61,965	59,046	61,425	
Tax	33,391	33,460	14,769	17,038	20,072	18,895	19,656	
Rate (%)	32.9	32.5	30.3	39.5	32.4	32.0	32.0	
Reported PAT	68,110	69,487	34,047	26,099	41,893	40,151	41,769	
Adjusted PAT	67,804	69,487	35,335	31,504	41,893	40,151	41,769	
Change (%)	2.3	2.5	-49.1	-10.8	33.0	-4.2	4.0	

Balance Sheet							(INR Million)	
Y/E March	2014	2015	2016	2017	2018E	2019E	2020E	
Share Capital	3,965	3,965	3,965	3,164	3,164	3,164	3,164	
Reserves	295,918	319,353	297,146	222,026	241,138	258,510	277,499	
Share holders funds	299,883	323,317	301,110	225,189	244,302	261,673	280,663	
Loans			14,970					
Defferred tax liability (net)	1,073	984	1,222	6,112	6,112	6,112	6,112	
Capital Employed	300,956	324,301	317,302	231,301	250,414	267,785	286,775	
Gross Block	28,506	29,446	37,304	39,724	43,724	47,724	51,724	
Less: Accum. Deprn.	14,883	16,109	18,234	20,196	22,530	25,216	28,182	
Net Fixed Assets	13,623	13,337	19,070	19,528	21,195	22,508	23,542	
Capital WIP	52,769	77,100	97,229	118,314	152,208	172,208	192,208	
Investments	2,504	5,619	6,954	7,270	7,270	7,270	7,270	
Curr. Assets	245,874	248,642	210,203	111,909	99,389	95,426	93,673	
Inventories	6,812	6,919	6,370	5,400	5,915	5,894	6,186	
Sundry Debtors	14,484	17,523	18,961	10,435	14,787	14,735	15,466	
Cash and Bank	186,572	184,431	147,636	52,893	35,506	31,616	28,839	
Loans and Advances	38,005	39,768	37,237	43,181	43,181	43,181	43,181	
Curr. Liability & Prov.	13,814	20,397	16,154	25,719	29,646	29,625	29,918	
Sundry Creditors	11,092	2,263	3,244	1,988	5,915	5,894	6,186	
Other Liabilities & prov.	2,722	18,134	12,909	23,731	23,731	23,731	23,731	
Net Current Assets	232,060	228,245	194,050	86,190	69,742	65,800	63,755	
Application of Funds	300,956	324,301	317,302	231,301	250,414	267,785	286,775	

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2014	2015	2016	2017	2018E	2019E	2020E
Basic (INR)							
EPS	17.1	17.5	8.9	10.0	13.2	12.7	13.2
Cash EPS	17.5	17.9	9.4	10.6	14.0	13.5	14.1
BV/Share	75.6	81.5	75.9	71.2	77.2	82.7	88.7
DPS	8.5	8.6	11.0	5.2	6.0	6.0	6.0
Payout (%)	57.9	42.2	172.4	74.9	54.4	56.7	54.5
Valuation (x) CMP@127							
P/E	7.4	7.2	14.2	12.8	9.6	10.0	9.6
Cash P/E	7.3	7.1	13.5	12.0	9.1	9.4	9.0
P/BV	1.7	1.6	1.7	1.8	1.6	1.5	1.4
EV/EBITDA	3.9	3.9	10.6	7.8	6.1	6.2	5.9
Dividend Yield (%)	6.7	6.7	8.7	4.1	4.7	4.7	4.7
EV/ton	4	4	4	4	4	4	4
Return Ratios (%)							
RoE	23.3	22.0	16.8	12.8	15.6	16.2	15.1
RoCE	23.2	22.0	16.4	12.2	15.2	15.8	14.8
RoIC	116.5	92.5	62.6	41.4	60.2	69.5	69.0
Working Capital Ratios							
Fixed Asset Turnover (x)	4.2	4.2	1.7	2.2	2.5	2.3	2.2
Asset Turnover (x)	0.4	0.4	0.2	0.4	0.4	0.4	0.4
Debtor (Days)	44	52	50	43	50	50	50
Inventory (Days)	21	20	20	22	20	20	20
Creditors (Days)	34	7	20	8	20	20	20
Growth (%)							
Sales	12.6	2.5	-47.8	36.8	22.3	-0.4	5.0
EBITDA	4.8	-0.3	-57.0	28.4	34.1	-1.0	5.3
PAT	2.3	2.5	-49.1	-10.8	33.0	-4.2	4.0
Leverage Ratio (x)							
Current Ratio	17.8	12.2	13.0	4.4	3.4	3.2	3.1
Debt/Equity	-0.6	-0.6	-0.4	-0.2	-0.1	-0.1	-0.1

Cash Flow Statement

(INR Million)

Y/E March	2014	2015	2016	2017	2018E	2019E	2020E
Pre-tax profit	101,500	102,946	48,816	43,137	61,965	59,046	61,425
Depreciation	1,504	1,622	2,078	1,962	2,334	2,687	2,966
(Inc)/Dec in Wkg. Cap.	-27,095	-11,975	93	13,117	-939	53	-732
Tax paid	-33,391	-30,314	-17,373	-17,038	-20,072	-18,895	-19,656
Other operating activities	-3,880	-7,655	-4,455	-1,499			
CF from Op. Activity	38,639	54,624	29,159	39,679	43,287	42,891	44,003
(Inc)/Dec in FA + CWIP	-22,888	-24,331	-20,242	-23,505	-37,894	-24,000	-24,000
(Pur)/Sale of Investments	-7	-3,116	-1,335	-316			
CF from Inv. Activity	-22,895	-27,447	-21,576	-23,821	-37,894	-24,000	-24,000
Equity raised/(repaid)				-76,078			
Debt raised/(repaid)			14,970	-14,970			
Dividend (incl. tax)	-39,429	-29,318	-58,694	-19,553	-22,780	-22,780	-22,780
Other financing activities							
CF from Fin. Activity	-39,429	-29,318	-44,379	-110,601	-22,780	-22,780	-22,780
(Inc)/Dec in Cash	-23,685	-2,141	-36,796	-94,743	-17,387	-3,889	-2,777
Add: opening Balance	210,258	186,572	184,431	147,636	52,893	35,506	31,616
Closing Balance	186,572	184,431	147,636	52,893	35,506	31,616	28,839

E: MOSL Estimates

Disclosures:

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Analyst ownership of the stock

NMDC

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