

| BSE Sensex 19,608 | S&P CNX 5,933 |
|------------------------|------------------|
| Bloomberg | NMDC IN |
| Equity Shares (m) | 3,964.7 |
| M.Cap. (INR b)/(USD b) | 583.2/10.8 |
| 52-Week Range (INR) | 206/142 |
| 1,6,12 Rel. Perf. (%) | -8/-32/-32 |

Financials & Valuation (INR b)

| Y/E March | 2013E | 2014E | 2015E |
|-------------------|-------|-------|-------|
| Sales | 101.6 | 118.2 | 142.1 |
| EBITDA | 75.0 | 87.1 | 107.2 |
| Adj. PAT | 65.5 | 75.4 | 90.8 |
| Adj. EPS (INR) | 16.5 | 19.0 | 22.9 |
| EPS Gr(%) | -10.5 | 15.1 | 20.4 |
| BV/Sh. (INR) | 71.6 | 83.0 | 97.2 |
| RoE (%) | 26.3 | 23.0 | 23.3 |
| RoCE (%) | 26.2 | 22.9 | 23.2 |
| Payout (%) | 39.0 | 40.0 | 38.3 |
| Valuations | | | |
| P/E (x) | 8.9 | 7.7 | 6.4 |
| P/BV | 2.1 | 1.8 | 1.5 |
| EV/EBITDA (x) | 4.8 | 4.0 | 3.0 |
| Div. Yield (%) | 3.7 | 4.4 | 5.1 |

CMP: INR147
TP: INR213
Buy

- Adjusted PAT declined 23% QoQ to INR13b (v/s est of INR13.6b) due to 17% lower volumes and 12% lower realization.
- Net sales declined 22% QoQ to INR20.5b. Iron ore volumes declined 17% QoQ to 5.3m tons due to volatility in prices, lower offtake by customers and evacuation bottlenecks due to prolonged monsoon. Since NMDC's prices of iron ore lumps were not agile enough with the changing spot market, domestic lumps sales volumes declined 26% QoQ. Whereas, volumes of iron ore fines declined only 4% QoQ.
- Average realization declined 13.7% QoQ to INR3,834/ton (USD71/ton) despite an average price correction of only ~10%. Adverse mix of lumps affected the average iron ore realization. Share of lumps in the mix was only 26% in 3QFY13 v/s 32% in 2QFY13 and 36% in FY12.
- EBITDA declined 28% QoQ to INR13.9b. EBITDA per ton was USD48 (-19% QoQ).
- Other income at INR5.6b fell 8% short of our estimates. Total cash and equivalents now stand at INR220b v/s INR202b as on March 31, 2012.
- We expect average iron ore realization to inch up in subsequent quarters due to recovery in dispatches of iron ore lumps. Total volumes too are expected to move up sharply to 6.5m tons (or better) in 4QFY13 due to (1) easing of bottlenecks in transportation of iron ore from Bailadila region on commissioning of uniflow loading system and (2) rationalization of lumps prices in January.
- Stock has been underperforming, despite strong fundamentals, as concern over capital allocation heightened after the recent amendment in PSE guidelines which allow PSEs to utilize cash to buy stocks of other PSEs. This remains a risk as management will be unable to block any such investor unfavorable government directive.
- Stock is trading at compelling FY15E EV/EBITDA of 3x. Dividend yield is attractive at 5.1%.

Quarterly Performance (Consolidated)

| Y/E March | (INR Million) | | | | | | | | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|-----------|
| | FY12 | | | | FY13 | | | | FY12 | FY13E | FY13 | vs Est |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | 3QE | (%) |
| Sales (m tons) | 6.9 | 7.6 | 6.4 | 6.5 | 6.9 | 5.9 | 5.3 | 6.5 | 27.3 | 24.6 | 5.5 | -3.6 |
| Avg Iron ore realisation (USD/t) | 90 | 88 | 86 | 79 | 75 | 81 | 71 | 76 | 86 | 76 | 72 | -2 |
| Net Sales | 27,826 | 30,623 | 28,220 | 25,946 | 28,404 | 26,120 | 20,477 | 26,649 | 112,615 | 101,649 | 21,548 | -5 |
| Change (YoY %) | 10.5 | 24.5 | 7.7 | -31.2 | 2.1 | -14.7 | -27.4 | 2.7 | -0.9 | -9.7 | -23.6 | |
| EBITDA | 22,547 | 24,354 | 22,607 | 19,774 | 23,020 | 19,349 | 13,913 | 18,717 | 89,281 | 74,999 | 14,361 | -3 |
| As % of Net Sales | 81.0 | 79.5 | 80.1 | 76.2 | 81.0 | 74.1 | 67.9 | 70.2 | 79.3 | 73.8 | 66.6 | |
| EBITDA per ton (USD) | 73 | 70 | 69 | 61 | 62 | 60 | 48 | 53 | 68 | 56 | 48 | 1 |
| Interest | 0 | 0 | 0 | 15 | 0 | 0 | 0 | 0 | 15 | 0 | 0 | |
| Depreciation | 338 | 324 | 345 | 321 | 328 | 332 | 339 | 347 | 1,328 | 1,346 | 340 | 0 |
| Other Income | 4,418 | 5,029 | 5,254 | 5,468 | 5,521 | 5,831 | 5,563 | 6,208 | 20,169 | 23,123 | 6,034 | -8 |
| PBT (after EO Item) | 26,627 | 29,059 | 27,516 | 24,392 | 28,214 | 24,848 | 19,137 | 24,578 | 107,595 | 96,776 | 20,055 | -5 |
| Total Tax | 8,615 | 9,428 | 8,928 | 7,970 | 9,154 | 8,062 | 6,209 | 7,865 | 34,941 | 31,289 | 6,418 | -3 |
| % Tax | 32.4 | 32.4 | 32.4 | 32.7 | 32.4 | 32.4 | 32.4 | 32.0 | 32.5 | 32.3 | 32.0 | |
| Reported PAT | 18,012 | 19,632 | 18,588 | 16,423 | 19,060 | 16,786 | 12,928 | 16,713 | 72,654 | 65,487 | 13,638 | -5 |
| Adjusted PAT | 18,012 | 19,632 | 18,588 | 16,768 | 19,060 | 16,786 | 12,928 | 16,713 | 73,000 | 65,487 | 13,638 | -5 |

E: MOSL Estimates

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Volumes and margins shrank; expect better margins and volumes in 4Q

- Adjusted PAT declined 23% QoQ to INR13b (vs est. of INR13.6b) due to 17% lower volumes and 12% lower realization.
- Net Sales declined 22% QoQ to INR20.5b. Iron ore volumes declined 17% QoQ to 5.3m tons due to volatility in prices, lower offtake by customers and evacuation bottlenecks due to prolonged monsoons. Since NMDC prices of iron ore lumps were not agile enough with changing spot market, the domestic lump's sales volumes declined 26% QoQ . Whereas, the volumes of iron ore fines declined only 4% QoQ.
- Average realization declined 13.7% QoQ to INR3834/ton (USD71/ton) despite an average price correction of only ~10%. Adverse mix of lumps affected the average iron ore realization. Share of lumps in the mix was only 26% in 3QFY13 vs 32% in 2QFY13 and 36% in FY12.
- EBITDA declined 28% QoQ to INR13.9b. EBITDA per ton was USD48 (-19% QoQ).
- Other income at INR5.6b fell 8% short of our estimates. Total cash and equivalents now stand at INR220b vs INR202b as on March 31, 2012.
- Board approved the second interim dividend of INR1/share for FY13. Total interim dividend for FY13 has been INR3/share (50% higher than FY12).

Valuations are attractive; Expect margins and volumes to improve in subsequent quarters

- We expect average iron ore realization to inch up in subsequent quarters due to recovery in the dispatches of iron ore lumps. Total volumes too are expected to move up sharply to 6.5m tons (or better) in 4QFY13 due to (1) easy of bottlenecks in transportation of iron ore from Bailadila region on commissioning of uniflow loading system and (2) rationalization of prices of lumps in January.
- We continue to believe that demand supply equation is turning favorable for NMDC, which will keep its average iron ore realization more resilient (if not higher). Indian iron ore supply is likely to remain constrained due to increased compliance requirements and stricter mining norms, while demand from steel sector will continue to rise albeit there is some temporary slowdown currently.
- Stock has been underperforming despite strong fundamentals because the concern over capital allocation has heightened after recent amendment in PSE guidelines which allow PSE to utilize cash in buying stocks of other PSE. This remains a risk because management will be unable to block such investor unfriendly government directive.
- Stock is trading at compelling FY15. EV/EBITDA of 3x. Dividend yield is attractive at 5.1%.

TP Calculations (INR m)

| Y/E March | 2015E |
|------------------------|------------|
| EBITDA | 107,214 |
| Target EBITDA (X) | 5.0 |
| Target EV | 536,070 |
| Less: Net Debt | -264,609 |
| Add: CWIP | 87,753 |
| Less: discount to CWIP | 50% |
| Residual M Cap | 844,555 |
| Target price | 213 |

Projects update

- **3mtpa Steel plant (Chhattisgarh):** Orders for major technological packages have already been placed. Auxiliary packages are in advanced stages of finalization. Total project cost is estimated to be INR155b.
- **Mining capacity expansion:** Mining capacity expansion through new mines Deposit 11b and Kumaraswamy is being executed at capex of INR15b
- **1.2mtpa Pellet plant (Karnataka):** Orders have been placed for 1.2mtpa pellet plant in Karnataka.

NMDC: an investment profile

Company description

NMDC is India's largest iron ore producer, with a capacity of 32mtpa. It produces ~27mtpa of iron ore from four mining complexes in Chhattisgarh and Karnataka. In addition to its iron ore operations, NMDC has a diamond mine at Panna (Madhya Pradesh) and owns a 10.5MW wind power plant in Karnataka. In July 2010, Sponge Iron India, which has a small sponge iron capacity of 60ktpa, was merged with NMDC. It is investing INR300b over the next five years to expand its iron ore production to 50mtpa and forward integrate by setting up a 3mpta steel plant in Chhattisgarh and 1.2mtpa pellet plant in Karnataka.

Key investment arguments

- While globally, the iron ore business is facing a slowdown, strong domestic demand coupled with constrained supply has improved fundamentals of Indian iron ore miners like NMDC.
- Investments in pelletization capacities in India will lead to acceleration in demand (and therefore, higher prices) for iron ore fines, which constitute ~65% of NMDC's product mix.
- Unlike its global peers, NMDC's average iron ore realization is resilient, helping to keep margins stable.

Key investment risks

- NMDC's Chhattisgarh operations are prone to disruption on account of Naxal activity in the region.

Recent developments

- NMDC has declared second interim dividend of INR1/share for FY13.

Valuation and view

- Stock is trading at compelling FY15. EV/EBITDA of 3x.

Sector view

- Quarterly average iron ore prices (63.5% Fe fines CFR, China) have improved 4% QoQ due to better sentiments in China. Current prices are also higher by 20% over 3QFY13 average at USD147/ton. However, we believe that prices will correct by 25-30% over the next 2-3 years due to significant capacity addition by major players and slowdown in Chinese demand.
- Although we expect international prices to correct, domestic prices are expected to remain resilient. Demand supply equation is turning favorable for domestic miners, which will keep its average iron ore realisation resilient. Indian iron ore supply is likely to remain constrained due to increased compliance requirements and stricter mining norms, while demand from steel sector will continue to rise albeit there is some temporary slow down currently.

Comparative valuations

| | NMDC | SESA Goa | Jindal Steel |
|---------------|-------|----------|--------------|
| P/E (x) | FY13E | 8.9 | 5.5 |
| | FY14E | 7.7 | 6.6 |
| P/BV (x) | FY13E | 2.1 | 1.0 |
| | FY14E | 1.8 | 1.0 |
| EV/Sales (x) | FY13E | 3.6 | 6.9 |
| | FY14E | 2.9 | 6.8 |
| EV/EBITDA (x) | FY13E | 4.8 | 10.3 |
| | FY14E | 4.0 | 11.0 |

EPS: MOSL forecast v/s consensus (INR)

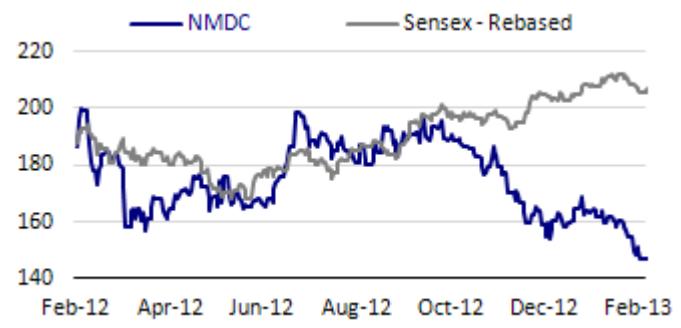
| | MOSL Forecast | Consensus Forecast | Variation (%) |
|------|---------------|--------------------|---------------|
| FY13 | 16.5 | 17.9 | -7.8 |
| FY14 | 19.0 | 19.3 | -1.7 |

Target price and recommendation

| Current Price (INR) | Target Price (INR) | Upside (%) | Reco. |
|---------------------|--------------------|------------|-------|
| 147 | 213 | 44.8 | Buy |

Basis: 6x FY14E EBITDA

Stock performance (1 year)



Shareholding pattern (%)

| | Dec-12 | Sep-12 | Dec-11 |
|---------------|--------|--------|--------|
| Promoter | 80.0 | 90.0 | 90.0 |
| Domestic Inst | 11.9 | 8.4 | 8.4 |
| Foreign | 4.4 | 0.7 | 0.8 |
| Others | 3.7 | 0.9 | 0.9 |

Financials and Valuation

| Income Statement (Consolidated) | | (INR Million) | | | | Ratios | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|--------------------------------|-------------------------------|--------------|--------------|--------------|------------|
| Y/E March | 2012 | 2013E | 2014E | 2015E | | 2012 | 2013E | 2014E | 2015E | |
| Net sales | 112,615 | 101,649 | 118,164 | 142,089 | Basic (INR) | | | | | |
| Change (%) | -0.9 | -9.7 | 16.2 | 20.2 | EPS | 18.5 | 16.5 | 19.0 | 22.9 | |
| Total Expenses | 23,334 | 26,650 | 31,102 | 34,875 | Cash EPS | 18.8 | 16.9 | 19.4 | 23.3 | |
| EBITDA | 89,281 | 74,999 | 87,063 | 107,214 | BV/Share | 61.6 | 71.6 | 83.0 | 97.2 | |
| % of Net Sales | 79.3 | 73.8 | 73.7 | 75.5 | DPS | 4.5 | 5.5 | 6.5 | 7.5 | |
| Depn. & Amortization | 1,328 | 1,346 | 1,478 | 1,631 | Payout (%) | 26.1 | 39.0 | 40.0 | 38.3 | |
| EBIT | 87,953 | 73,653 | 85,585 | 105,583 | Valuation (x) CMP@147.1 | | | | | |
| Net Interest | | | | | P/E | 8.0 | 8.9 | 7.7 | 6.4 | |
| Other income | 20,169 | 23,123 | 25,252 | 27,894 | Cash P/E | 7.8 | 8.7 | 7.6 | 6.3 | |
| PBT before EO | 108,123 | 96,776 | 110,837 | 133,477 | P/BV | 2.4 | 2.1 | 1.8 | 1.5 | |
| EO income | | | | | EV/EBITDA | 4.3 | 4.8 | 4.0 | 3.0 | |
| PBT after EO | 108,123 | 96,776 | 110,837 | 133,477 | Dividend Yield (%) | 3.1 | 3.7 | 4.4 | 5.1 | |
| Tax | 34,941 | 31,289 | 35,468 | 42,713 | EV/ton | 6 | 5 | 5 | 4 | |
| Rate (%) | 32.3 | 32.3 | 32.0 | 32.0 | Return Ratios (%) | | | | | |
| Reported PAT | 73,182 | 65,487 | 75,369 | 90,764 | RoE | 31.7 | 26.3 | 23.0 | 23.3 | |
| Adjusted PAT | 73,182 | 65,487 | 75,369 | 90,764 | RoCE | 31.5 | 26.2 | 22.9 | 23.2 | |
| Change (%) | 12.6 | -10.5 | 15.1 | 20.4 | RoIC | 347.0 | 243.8 | 209.2 | 220.4 | |
| Balance Sheet | | (INR Million) | | | | Working Capital Ratios | | | | |
| Y/E March | 2012 | 2013E | 2014E | 2015E | | Fixed Asset Turnover (x) | 4.7 | 3.6 | 3.7 | 4.0 |
| Share Capital | 3,965 | 3,965 | 3,965 | 3,965 | | Asset Turnover (x) | 0.5 | 0.4 | 0.4 | 0.4 |
| Reserves | 240,099 | 280,073 | 325,291 | 381,265 | | Debtor (Days) | 35 | 35 | 35 | 35 |
| Share holders funds | 244,064 | 284,038 | 329,255 | 385,229 | | Inventory (Days) | 12 | 12 | 12 | 12 |
| Defferred tax liability (r | 1,001 | 1,001 | 1,001 | 1,001 | | Creditors (Days) | 25 | 25 | 25 | 25 |
| Capital Employed | 245,065 | 285,039 | 330,256 | 386,230 | Leverage Ratio (x) | | | | | |
| Gross Block | 23,882 | 27,882 | 31,882 | 35,882 | Current Ratio | 10.9 | 11.5 | 11.8 | 12.2 | |
| Less: Accum. Deprn. | 11,994 | 13,339 | 14,817 | 16,448 | Debt/Equity | -0.8 | -0.8 | -0.7 | -0.7 | |
| Net Fixed Assets | 11,888 | 14,542 | 17,065 | 19,434 | | | | | | |
| Capital WIP | 19,147 | 38,120 | 62,510 | 87,753 | | | | | | |
| Investments | 2,478 | 2,478 | 2,478 | 2,478 | | | | | | |
| Curr. Assets | 232,972 | 251,834 | 271,270 | 301,272 | | | | | | |
| Inventories | 4,589 | 3,342 | 3,885 | 4,671 | | | | | | |
| Sundry Debtors | 7,370 | 9,747 | 11,331 | 13,625 | | | | | | |
| Cash and Bank | 202,646 | 220,379 | 237,688 | 264,609 | | | | | | |
| Loans and Advances | 18,367 | 18,367 | 18,367 | 18,367 | | | | | | |
| Curr. Liability & Prov. | 21,420 | 21,936 | 23,067 | 24,705 | | | | | | |
| Sundry Creditors | 6,447 | 6,962 | 8,093 | 9,732 | | | | | | |
| Other Liabilities & prov. | 14,973 | 14,973 | 14,973 | 14,973 | | | | | | |
| Net Current Assets | 211,552 | 229,899 | 248,203 | 276,566 | | | | | | |
| Application of Funds | 245,065 | 285,039 | 330,256 | 386,230 | | | | | | |
| E: MOSL Estimates | | | | | | | | | | |
| | | (INR Million) | | | | Cash Flow Statement | | | | |
| Y/E March | 2012 | 2013E | 2014E | 2015E | | 2012 | 2013E | 2014E | 2015E | |
| Pre-tax profit | | 108,123 | 96,776 | 110,837 | 133,477 | | | | | |
| Depreciation | | | 258 | 1,346 | 1,478 | 1,631 | | | | |
| (Inc)/Dec in Wkg. Cap. | | | -7,134 | -614 | -995 | -1,442 | | | | |
| Tax paid | | | -34,941 | -31,289 | -35,468 | -42,713 | | | | |
| Other operating activities | | | -2,183 | | | | | | | |
| CF from Op. Activity | 64,123 | 66,219 | 75,851 | 90,953 | | | | | | |
| (Inc)/Dec in FA + CWIP | | -13,529 | -22,973 | -28,391 | -29,242 | | | | | |
| (Pur)/Sale of Investments | | -1,121 | | | | | | | | |
| CF from Inv. Activity | -14,650 | -22,973 | -28,391 | -29,242 | | | | | | |
| Equity raised/(repaid) | | | | | | | | | | |
| Debt raised/(repaid) | | | | | | | | | | |
| Dividend (incl. tax) | | -19,109 | -25,513 | -30,152 | -34,790 | | | | | |
| Other financing activities | | | | | | | | | | |
| CF from Fin. Activity | -19,109 | -25,513 | -30,152 | -34,790 | | | | | | |
| (Inc)/Dec in Cash | | 30,365 | 17,733 | 17,309 | 26,921 | | | | | |
| Add: opening Balance | | 172,281 | 202,646 | 220,379 | 237,688 | | | | | |
| Closing Balance | 202,646 | 220,379 | 237,688 | 264,609 | | | | | | |

N O T E S

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