

BSE SENSEX
36,387

S&P CNX
10,907

CMP: INR91

TP: INR111(+22%)

Buy



Stock Info

Bloomberg	NMDC IN
Equity Shares (m)	3,164
M.Cap.(INRb)/(USD\$b)	287 / 4
52-Week Range (INR)	152 / 86
1, 6, 12 Rel. Per (%)	-5/-5/-40
12M Avg Val (INR M)	434
Free float (%)	27.6

Financials Snapshot (INR b)

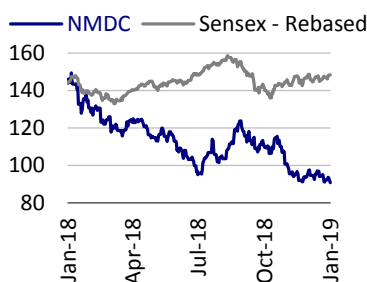
Y/E March	2019E	2020E	2021E
Sales	108.1	96.2	141.3
EBITDA	62.3	48.8	60.6
Adj. PAT	39.9	31.8	37.7
Adj. EPS (INR)	12.6	10.1	11.9
EPS Gr(%)	-3.6	-20.4	18.6
BV/Sh. (INR)	82.0	84.9	89.6
RoE (%)	15.9	12.0	13.7
RoCE (%)	15.2	11.5	13.1
P/E (x)	7.2	9.1	7.6
P/BV	1.1	1.1	1.0

Shareholding pattern (%)

As On	Dec-18	Sep-18	Dec-17
Promoter	72.4	72.4	74.9
DII	19.0	19.4	17.4
FII	3.9	3.7	3.6
Others	4.7	4.5	4.1

FII Includes depository receipts

Stock Performance (1-year)



Iron ore dispatches to grow even without Donimalai

17mtpa capacity already renewed; Maintain Buy

We met the management of NMDC for a business update. Key highlights:

- **Karnataka mining complex:** Donimalai and Kumarswamy are NMDC's two mining leases (ML) in Karnataka with permitted annual production of 7mtpa each. Donimalai operations are temporarily shut pending a hearing in the High Court regarding unreasonable demand of 80% share in revenue as a condition for renewing the ML. Management is very confident of winning the case because (1) this judgment will have unprecedented impact on all Public Sector Undertakings (PSUs), (2) the mining act doesn't provide for it, and (3) it will stifle merchant mining. The next court hearing is on 22 January 2019.
- **Chhattisgarh mining complex:** Two MLs with total capacity of 17mtpa have already been renewed, which is half of current production. ML of 7mtpa deposit 11B is valid up to September 2037 (20 years) and 10mtpa deposit 13 is valid up to 2067 (50 years). Renewal of other leases is in process. NMDC is currently shipping about 23mtpa iron ore from this complex. In the worst case if outcome in the Donimalai judgment is not favorable, NMDC will still have 17mtpa profitable capacity. Further, NMDC is confident that the Chhattisgarh government will not be as demanding as the Karnataka government. The Chhattisgarh government is aware that MLs will not fetch much price from private miners in auction because of the Naxal problem in the area.
- **Targeting 30-31mt dispatches in FY19 even without Donimalai:** NMDC has already dispatched 22.1mt in nine months and is targeting another 9mt dispatches in 4Q. A slightly better volume can be achieved in FY20 aided by higher exports.
- **Strengthening evacuation infra:** NMDC is creating a storage yard near Jagdalpur, which will debottleneck dispatches from Chhattisgarh by 4-5mt (to 28mt). This will help dispatches of 35mt even without Donimalai. KK line is being doubled in phases. The project will be fully completed during FY21.
- **3mtpa steel plant at Nagarnar** will be commissioned during FY20. About 1000 people have been recruited at various levels (mostly retirees from SAIL, RINL, NINL), O&M has been outsourced.
- **Maintain Buy:** We believe that NMDC will eventually get its MLs renewed without sharing any revenues as per the Mining Act Amendment 2015, but are not sure how long the legal battle will drag. The steel plant may have some teething troubles in the initial years, but it is likely to be a valuable asset. It will enjoy low cost iron ore, economy of scale, high productivity from state-of-art technology, and it doesn't have legacy issues like SAIL. We value the stock at INR111/share based on 3xEV/EBITDA for book value and for CWIP at end-FY20. Maintain **Buy**.

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Exhibit 1: Key operating metrics

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Iron ore production - m tons	25.2	27.8	27.2	30.0	31.0	28.6	34.0	35.6	29.6	32.0
Iron ore sales volume - m tons	26.2	27.3	26.3	30.5	30.5	28.8	35.6	36.1	30.9	32.0
Blended realization - INR/t	4,320	4,125	4,074	3,954	4,049	2,239	2,479	3,220	3,458	3,005
Operating expenses - INR/t	1,036	855	1,112	1,278	1,383	1,025	1,217	1,468	1,474	1,481
Royalty/FDT/Cess	355	375	491	442	573	371	429	615	599	547
Selling	432	53	311	442	383	145	204	177	174	280
Mining	249	427	309	394	427	510	585	675	701	654
EBITDA - INR/t	3,284	3,270	2,963	2,676	2,666	1,214	1,262	1,752	1,985	1,524

Source: MOSL

Exhibit 2: Mining leases

Mines	Lease area (Ha)	Extraction capacity (mtpa)	Lease Original	Validity extended	Proven reserves (m tons)	Fe %
Merchant mining						
Kirandul Complex, Chhattisgarh						
Deposit 14	322.4	5	2015	2020	132.2	64.7
Deposit 14 NMZ	506.7	7	2015	2020	63.9	65.8
Deposit 11C		0.7	2017	2020	0.7	64.7
Bacheli Complex, Chhattisgarh						
Deposit 5	540.1	10	2015	2020	43.5	65.4
Deposit 10	309.3	5	2015	2020	142.4	65.9
Deposit 11A	874.9		2017	2020	25.6	65.5
Deposit 11B		7	New	2037	114.3	
Donimalai Complex, Karnataka						
Donimalai	608	4	2018	?	22.1	66.3
Kumarswamy		7	2022	2022	130.9	
JV with CMDC, Chhattisgarh						
Deposit 13		10		2067	319.6	65.5
		45.7			995.2	

Source: MOSL, Company

Exhibit 3: Target price Calculations

Y/E March	2016	2017	2018	2019E	2020E	2021E
Iron ore						
EBITDA per ton (INR)	1,214	1,262	1,752	1,996	1,524	1,721
Volumes (m tons)	28.8	35.6	36.1	31.2	32.0	35.2
Steel						
EBITDA per ton (INR)						5,000
Volumes (m tons)						1.0
EBITDA	34,998	44,944	63,198	62,327	48,756	65,591
Target EV/EBITDA(x)					3.0	5.0
Target EV					146,268	327,955
Less: Net Debt	-132,666	-52,893	-49,381	-48,274	-38,225	-37,635
Add: CWIP	97,229	118,314	125,199	145,199	165,199	80,199
Equity Value					349,692	445,790
Target price (INR/share)					111	141

Source: MOSL, Company

Financials and Valuations

Income Statement (Consolidated)

Y/E March	2016	2017	2018	2019E	2020E	2021E
Net sales	64,556	88,294	116,149	108,054	96,153	141,301
Total Expenses	29,559	43,350	52,951	45,727	47,397	80,710
Iron ore cost (INR/ton)	1025	1217	1468	1464	1481	2293
Steel cost (INR/t)						31,000
EBITDA	34,998	44,944	63,198	62,327	48,756	60,591
% of Net Sales	54.2	50.9	54.4	57.7	50.7	42.9
EBITDA per ton ore	1,214	1,262	1,752	1,996	1,524	1,721
EBITDA per ton steel						5,000
Deprn. & Amortization	2,078	1,962	2,560	2,822	3,299	5,667
EBIT	32,920	42,982	60,638	59,504	45,457	54,924
Net Interest			371	205		
Other income	17,744	9,088	5,197	3,742	1,311	529
PBT before EO	50,664	52,070	65,464	63,041	46,768	55,453
EO income	-1,848	-8,933	-5,309	-1,782		
PBT after EO	48,816	43,137	60,155	61,260	46,768	55,453
Tax	14,769	17,038	22,093	22,456	14,966	17,745
Rate (%)	30.3	39.5	36.7	36.7	32.0	32.0
Reported PAT	34,047	26,099	38,062	38,803	31,802	37,708
Adjusted PAT	35,335	31,504	41,421	39,932	31,802	37,708
Change (%)	-49.1	-10.8	31.5	-3.6	-20.4	18.6

Balance Sheet

Y/E March	2016	2017	2018	2019E	2020E	2021E
Share Capital	3,965	3,164	3,164	3,164	3,164	3,164
Reserves	297,146	222,026	240,374	256,398	265,420	280,348
Share holders funds	301,110	225,189	243,538	259,562	268,584	283,512
Loans	14,970		5,001	5,001	5,001	5,001
Deffered tax liability (net)	1,222	6,112	7,141	7,141	7,141	7,141
Capital Employed	317,302	231,301	255,680	271,704	280,726	295,654
Gross Block	37,304	39,724	49,473	53,473	57,473	157,473
Less: Accum. Deprn.	18,234	20,196	22,756	25,579	28,878	34,544
Net Fixed Assets	19,070	19,528	26,717	27,895	28,596	122,929
Capital WIP	97,229	118,314	125,199	145,199	165,199	80,199
Investments	6,954	7,270	7,865	7,865	7,865	7,865
Curr. Assets	210,203	111,909	126,311	125,482	113,151	121,219
Inventories	6,370	5,400	5,717	5,921	5,269	7,743
Sundry Debtors	18,961	10,435	14,727	14,802	13,172	19,356
Cash and Bank	147,636	52,893	54,382	53,275	43,226	42,636
Loans and Advances	37,237	43,181	51,484	51,484	51,484	51,484
Curr. Liability & Prov.	16,154	25,719	30,411	34,736	34,084	36,558
Sundry Creditors	3,244	1,988	1,595	5,921	5,269	7,743
Other Liabilities & prov.	12,909	23,731	28,815	28,815	28,815	28,815
Net Current Assets	194,050	86,190	95,900	90,746	79,067	84,661
Application of Funds	317,302	231,301	255,680	271,704	280,726	295,654

Financials and Valuations

Ratios						
Y/E March	2016	2017	2018	2019E	2020E	2021E
Basic (INR)						
EPS	8.9	10.0	13.1	12.6	10.1	11.9
Cash EPS	9.4	10.6	13.9	13.5	11.1	13.7
BV/Share	75.9	71.2	77.0	82.0	84.9	89.6
DPS	11.0	5.2	5.3	6.0	6.0	6.0
Payout (%)	172.4	74.9	52.9	58.7	71.6	60.4
Valuation (x)						
P/E	10.2	9.1	7.0	7.2	9.1	7.6
Cash P/E	9.6	8.6	6.5	6.7	8.2	6.6
P/BV	1.2	1.3	1.2	1.1	1.1	1.0
EV/Sales	3.5	2.7	2.1	2.2	2.6	1.8
EV/EBITDA	6.5	5.2	3.8	3.8	5.1	4.1
Dividend Yield (%)	12.1	5.7	5.8	6.6	6.6	6.6
EV (USD/t)	2.5	2.4	2.6	2.6	2.7	2.7
Return Ratios (%)						
EBITDA Margins	54.2	50.9	54.4	57.7	50.7	42.9
Net Profit Margins	54.7	35.7	35.7	37.0	33.1	26.7
RoE	11.3	13.5	17.7	15.9	12.0	13.7
RoCE	11.0	11.5	17.1	15.2	11.5	13.1
RoIC	37.4	44.0	63.4	56.4	47.6	32.6
Working Capital Ratios						
Fixed Asset Turnover (x)	1.7	2.2	2.3	2.0	1.7	0.9
Asset Turnover (x)	0.2	0.4	0.5	0.4	0.3	0.5
Debtor (Days)	50	43	46	50	50	50
Inventory (Days)	20	22	18	20	20	20
Creditors (Days)	20	8	5	20	20	20
Growth (%)						
Sales	-47.8	36.8	31.5	-7.0	-11.0	47.0
EBITDA	-57.0	28.4	40.6	-1.4	-21.8	24.3
PAT	-49.1	-10.8	31.5	-3.6	-20.4	18.6
Leverage Ratio (x)						
Current Ratio	13.0	4.4	4.2	3.6	3.3	3.3
Debt/Equity	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1

E: MOST Estimates

Cash Flow Statement

Y/E March	2016	2017	2018	2019E	2020E	2021E
Pre-tax profit	48,816	43,137	60,155	61,260	46,768	55,453
Depreciation	2,078	1,962	2,560	2,822	3,299	5,667
(Inc)/Dec in Wkg. Cap.	93	13,117	-8,221	4,047	1,630	-6,185
Tax paid	-17,373	-18,942	-23,057	-22,456	-14,966	-17,745
CF from Op. Activity	29,159	39,679	34,211	45,673	36,731	37,190
(Inc)/Dec in FA + CWIP	-20,242	-23,505	-16,635	-24,000	-24,000	-15,000
CF from Inv. Activity	-21,576	-23,821	-17,229	-24,000	-24,000	-15,000
Dividend (incl. tax)	-58,694	-19,553	-20,122	-22,780	-22,780	-22,780
CF from Fin. Activity	-44,379	-110,601	-15,493	-22,780	-22,780	-22,780
(Inc)/Dec in Cash	-36,796	-94,743	1,489	-1,107	-10,049	-590
Add: opening Balance	184,431	147,636	52,893	54,382	53,275	43,226
Closing Balance	147,636	52,893	54,382	53,275	43,226	42,636

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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