

NMDC

Performance Highlights

Particulars (₹ cr)	2QFY12	2QFY11	% chg (yoy)	1QFY12	% chg (qoq)
Net sales	3,062	2,460	24.5	2,783	10.1
EBITDA	2,435	1,840	32.3	2,255	8.0
% margin	79.5	74.8	471bp	81.0	(150)bp
Net profit	1,963	1,379	42.4	1,801	9.0

Source: Company, Angel Research

For 2QFY2012, NMDC's top line and bottom line came in slightly ahead of our estimates. The company's sales volumes grew by 47.4% yoy, while realization dipped by 15.4% yoy. **We maintain our Neutral view on the stock.**

Realization dips by 15.4% yoy: Despite iron ore sales volumes growth of 47.4% yoy, NMDC's net sales grew by only 24.5% yoy to ₹3,062cr on account of a 15.4% yoy decline in iron ore realization.

EBITDA/tonne decreased by 10.2% yoy: EBITDA increased by 32.3% yoy to ₹2,435cr and EBITDA margin expanded by 471bp yoy to 79.5%. EBITDA/tonne decreased by 10.2% yoy to ₹3,214 due to lower average realization. Selling expenses/tonne (including freight) decreased by 78.6% yoy to ₹78.

Other income boosts net profit growth: Other income during the quarter grew by 104.6% yoy to ₹503cr. Consequently, net profit increased by 42.4% yoy to ₹1,963cr in 2QFY2012.

Outlook and valuation: NMDC reported strong growth in sales volumes during 2QFY2012, led by ramp-up in its Karnataka iron ore mines. Although we do not expect growth in realization, we expect robust growth in sales volumes. The stock is currently trading at 6.5x FY2012E and 5.4x FY2013E EV/EBITDA. **Valuing the stock at 5.5x FY2013E EV/EBITDA, we derive a fair price of ₹241 and maintain our Neutral view on the stock.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	6,239	11,369	13,582	14,932
% chg	(17.5)	82.2	19.5	9.9
Net profit	3,451	6,499	8,565	9,346
% chg	(21.1)	88.3	31.8	9.1
FDEPS (₹)	8.7	16.4	21.6	23.6
OPM (%)	70.9	76.1	80.2	80.0
P/E (x)	27.2	14.5	11.0	10.1
P/BV (x)	6.6	4.9	3.6	2.8
RoE (%)	26.6	38.8	37.9	31.5
RoCE (%)	33.4	50.6	47.4	39.6
EV/Sales (x)	13.0	6.7	5.2	4.3
EV/EBITDA (x)	18.3	8.9	6.5	5.4

Source: Company, Angel Research

NEUTRAL

CMP	₹237
Target Price	-

Investment Period	-
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Stock Info	
Sector	Mining
Market Cap (₹ cr)	94,022
Beta	0.8
52 Week High / Low	305/205
Avg. Daily Volume	60959
Face Value (₹)	1
BSE Sensex	17,705
Nifty	5,327
Reuters Code	NMDC.BO
Bloomberg Code	NMDC@IN

Shareholding Pattern (%)	
Promoters	90.0
MF / Banks / Indian Fls	8.4
FII / NRIs / OCBs	0.7
Indian Public / Others	0.8

Abs. (%)	3m	1yr	3yr
Sensex	(2.7)	(11.6)	80.9
NMDC	(1.3)	(14.4)	64.9

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Exhibit 1: 2QFY2012 performance

Y/E March (₹ cr)	2QFY12	2QFY11	yoy %	1QFY12	qoq %
Net Sales	3,062	2,460	24.5	2,783	10.1
Raw Material	63	(3)		5	1,122.7
% of net sales	2.1	(0.1)		0.2	
Consumption of stores & spares	52	43	21.3	40	31.2
% of net sales	1.7	1.8		1.4	
Staff Cost	134	126	6.6	129	4.0
% of net sales	4.4	5.1		4.6	
Other Expenditure	377	453	(16.7)	354	6.6
% of net sales	12.3	18.4		12.7	
Total Expenditure	627	620	1.2	528	18.8
% of net sales	20.5	25.2		19.0	
Operating Profit	2,435	1,840	32.3	2,255	8.0
OPM%	79.5	74.8		81.0	
Other Operating Income	-	-		-	
EBITDA	2,435	1,840	32.3	2,255	8.0
EBITDA margin (%)	79.5	74.8		81.0	
Interest	-	-		-	
Depreciation	32	30	8.5	34	(4.2)
Other Income	503	246	104.6	442	13.8
Exceptional Items	-	-		-	
Profit before Tax	2,906	2,056	41.3	2,663	9.1
% of net sales	94.9	83.6		95.7	
Tax	943	678	39.1	862	9.4
% of PBT	32.4	33.0		32.4	
Net profit	1,963	1,379	42.4	1,801	9.0

Source: Company, Angel Research

Exhibit 2: 2QFY2012 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	3,062	2,917	5.0
EBITDA	2,435	2,333	4.4
EBITDA margin (%)	79.5	80.0	(47)bp
PAT	1,963	1,844	6.5

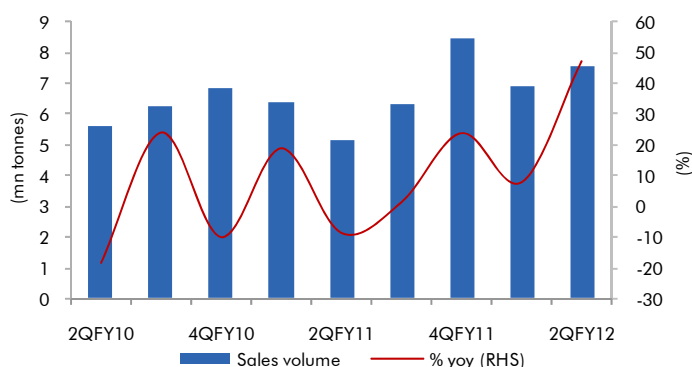
Source: Company, Angel Research

Result highlights

Robust top-line performance

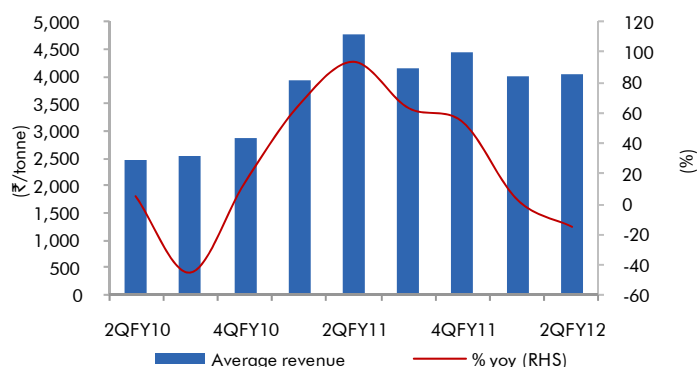
NMDC's net sales grew by 24.5% yoy to ₹3,062cr (in-line with our estimate of ₹2,917cr) mainly due to higher iron ore sales volumes, partially offset by lower realization. Iron ore sales volumes grew by 47.4% yoy to 7.6mn tonnes. However, average realization decreased by 15.4% yoy to ₹4,030/tonne on account of lower export sales (which have higher realization).

Exhibit 3: Sales volumes up 47.4% yoy



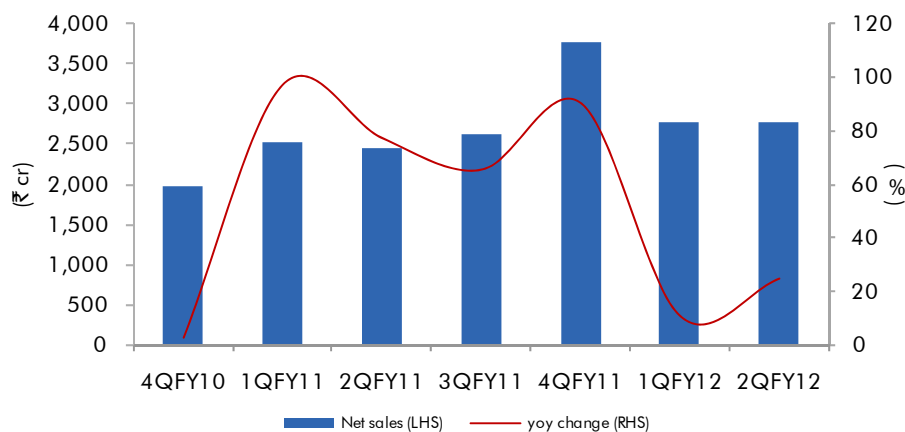
Source: Company, Angel Research

Exhibit 4: Realization decreased by 15.4% yoy



Source: Company, Angel Research

Exhibit 5: Net sales grew by 24.5% yoy

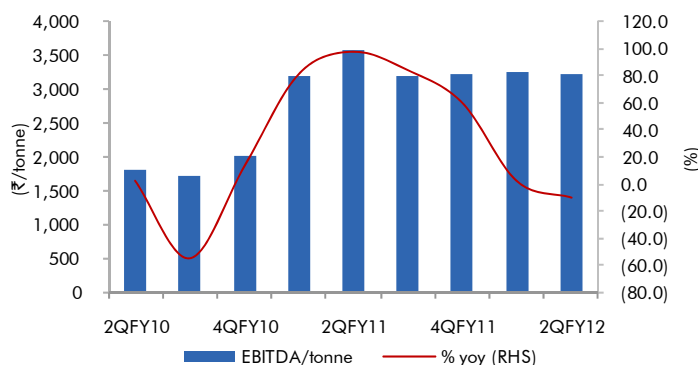


Source: Company, Angel Research

EBITDA/tonne decreased by 10.2% yoy

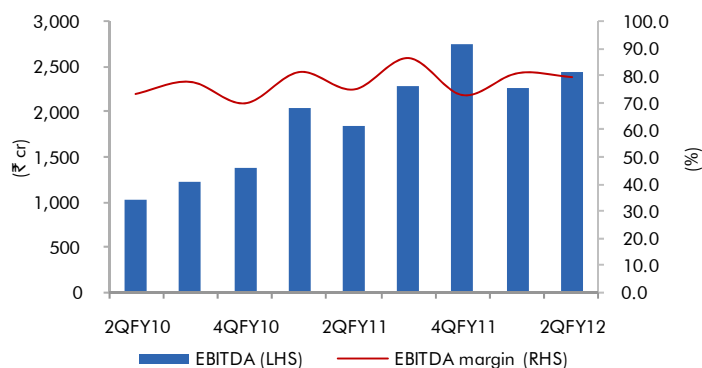
During the quarter, EBITDA increased by 32.3% yoy to ₹2,435cr and EBITDA margin expanded by 471bp yoy to 79.5%. EBITDA/tonne decreased by 10.2% yoy to ₹3,214 due to lower average realization. Selling expenses/tonne (including freight) decreased by 78.6% yoy to ₹78 due to lower freight costs on the back of stoppage of iron ore exports. Royalty and cess expenses/tonne decreased by 21.9% yoy to ₹303 on account of lower realization.

Exhibit 6: EBITDA/tonne declined by 10.2% yoy



Source: Company, Angel Research

Exhibit 7: EBITDA margin stood at 79.5%

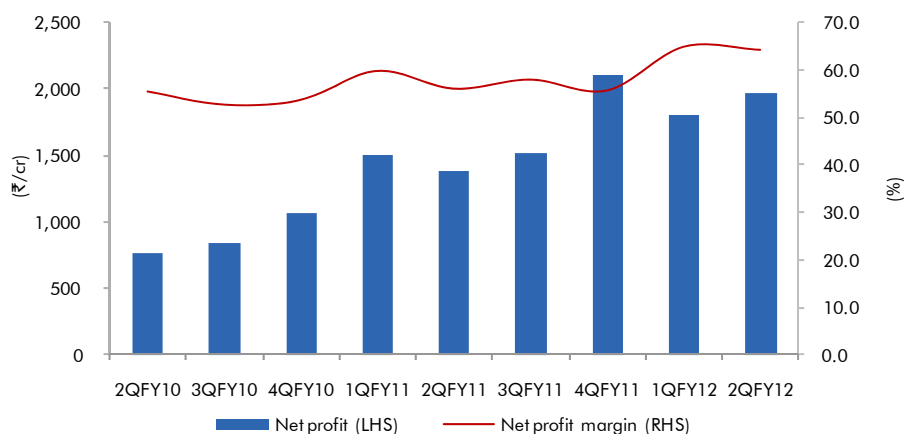


Source: Company, Angel Research

Other income boosts net profit growth

Other income grew by 104.6% yoy to ₹503cr. Consequently, net profit increased by 42.4% yoy to ₹1,963cr (above with our estimate of ₹1,844cr) in 2QFY2012.

Exhibit 8: Net margin stood at 64.1%



Source: Company, Angel Research

Investment rationale

Targets production to 50mn tonnes by FY2014–15E

Management aims to ramp up its production capacity to 50mn tonnes by FY2014–15E through increased exploration of its existing mines and development of new mines, i.e., Deposit 11B and Deposit 13 in Bailadila and Kumaraswamy, respectively, in Karnataka. The targeted cost for the development of the three mines is ₹2,400cr.

However, in FY2011, the company's volumes have been impacted by iron ore ban in Karnataka and Naxal activities in the Dantewada region of Chhattisgarh.

Seeking to diversify into steel making

Management intends to diversify its operations by moving downstream through the establishment of steel plants and pellet plants. Accordingly, on December 10, 2010, the company announced that it had signed a joint venture (JV) with OJSC Severstal (a vertically integrated steel maker from Russia) to build an integrated 2mn tonne steel plant in Karnataka. This JV will have captive coking coal mine in Russia, while it will have an iron ore mining subsidiary in India.

Strong balance sheet could pave way for overseas acquisitions

During September 2011, NMDC purchased a 50% stake in Australia-based Legacy Iron Ore (Legacy) as a cornerstone investor for ₹92cr. Also, the company is currently prospecting various mining assets, including an iron ore mine and a phosphate mine in Australia, an iron ore mine in Brazil and a coking coal asset in Russia. With a strong balance sheet having net cash of ₹20,725cr (September 30, 2011), we do not rule out the company acquiring mining assets overseas.

Outlook and valuation

NMDC reported strong growth in sales volumes during 2QFY2012, led by ramp-up in its Karnataka iron ore mines. Going forward, although we do not expect growth in realization, we expect robust growth in sales volumes. The stock is currently trading at 6.5x FY2012E and 5.0x FY2013E EV/EBITDA. **Valuing the stock at 5.5x FY2013E EV/EBITDA, we derive a fair price of ₹241 and maintain our Neutral view on the stock.**

Exhibit 9: Key assumptions

	FY2012E	FY2013E
Sales volume (mn tonnes)	32	35
Average realization (US\$/tonne)	87	87

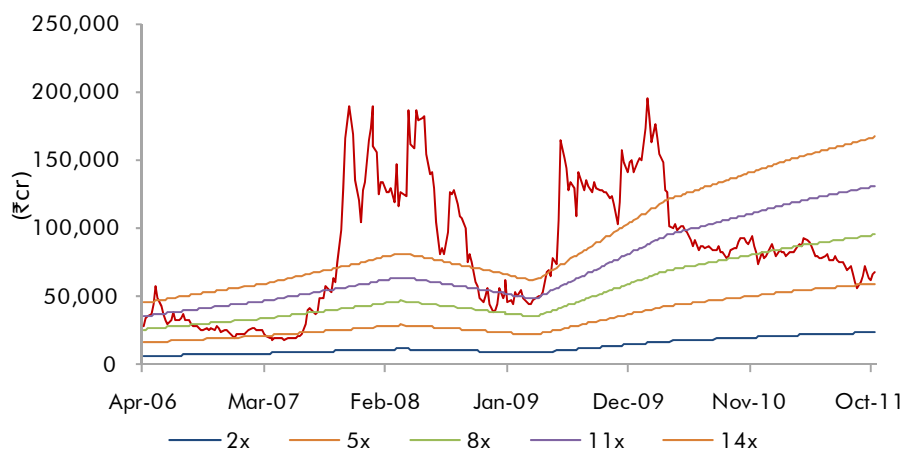
Source: Angel Research

Exhibit 10: EPS – Angel forecast vs. consensus

Year (₹)	Angel forecast	Bloomberg consensus	Variation (%)
FY2012E	21.6	19.7	9.7
FY2013E	23.6	20.6	14.4

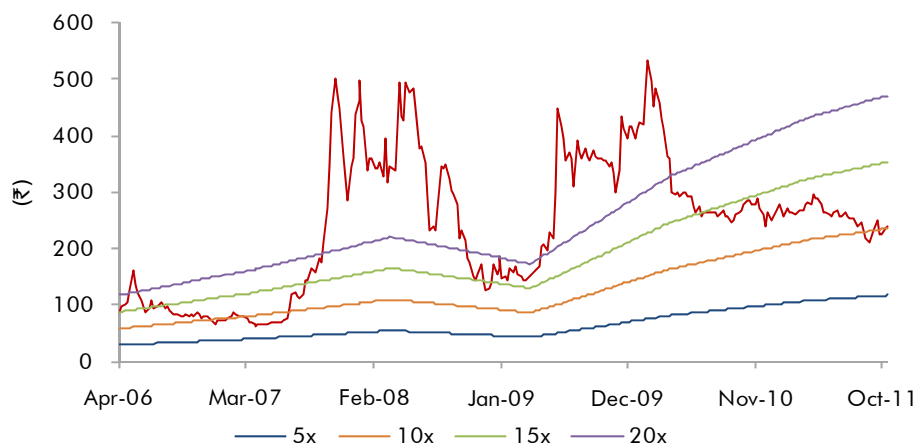
Source: Bloomberg, Angel Research

Exhibit 11: EV/EBITDA band



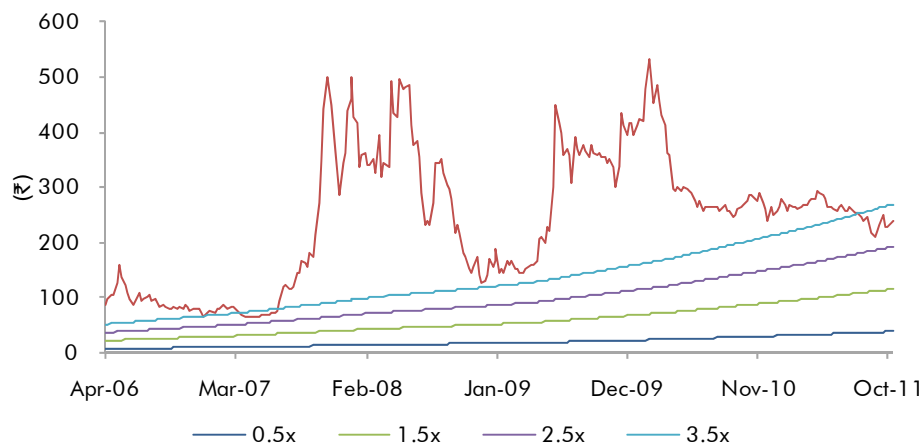
Source: Bloomberg, Angel Research

Exhibit 12: P/E band



Source: Bloomberg, Angel Research

Exhibit 13: P/BV band



Source: Bloomberg, Angel Research

Exhibit 14: Recommendation summary

Companies	CMP	Target	Reco.	Mcap	Upside	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(₹) price	(₹)				FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Sesa Goa	207	232	Buy	18,025	12	7.0	6.3	1.2	1.0	4.6	4.5	18.7	17.7	21.1	19.4
NMDC	237	-	Neutral	94,022	2	11.0	10.1	3.6	2.8	6.5	5.4	37.9	31.5	47.4	39.6
Coal India	332	358	Accum.	209,956	8	14.3	13.2	4.7	3.7	9.3	8.1	37.5	31.2	34.9	29.2
MOIL	257	-	Neutral	4,317	-	8.9	8.3	1.8	1.5	3.8	3.1	21.2	19.6	23.8	21.6

Source: Company, Angel Research

Profit & loss statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net Sales	5,711	7,564	6,239	11,369	13,582	14,932
Other operating income	-	-	-	-	-	-
Total operating income	5,711	7,564	6,239	11,369	13,582	14,932
% chg	36.4	32.4	(17.5)	82.2	19.5	9.9
Total Expenditure	1,374	1,726	1,817	2,722	2,687	2,984
Net Raw Materials	145	86	211	123	295	355
Personnel	356	421	420	492	543	582
Other	874	1,219	1,186	2,107	1,848	2,046
EBITDA	4,337	5,838	4,422	8,646	10,895	11,948
% chg	34.5	34.6	(24.2)	95.5	26.0	9.7
(% of Net Sales)	75.9	77.2	70.9	76.1	80.2	80.0
Depreciation & Amortisation	60	74	73	125	149	164
EBIT	4,277	5,764	4,349	8,521	10,746	11,784
% chg	36.1	34.8	(24.6)	95.9	26.1	9.7
(% of Net Sales)	74.9	76.2	69.7	75.0	79.1	78.9
Interest & other Charges	-	-	-	-	-	-
Other Income	671	884	862	1,206	2,037	2,165
Recurring PBT	4,947	6,648	5,211	9,727	12,783	13,949
% chg	41.4	34.4	(21.6)	86.7	31.4	9.1
Extraordinary Inc/(Expense)	-	-	-	-	-	-
PBT (reported)	4,947	6,648	5,211	9,727	12,783	13,949
Tax	1,696	2,276	1,760	3,228	4,218	4,603
(% of PBT)	34.3	34.2	33.8	33.2	33.0	33.0
PAT (reported)	3,251	4,372	3,451	6,499	8,565	9,346
ADJ. PAT	3,251	4,372	3,451	6,499	8,565	9,346
% chg	40.1	34.5	(21.1)	88.3	31.8	9.1
(% of Net Sales)	56.9	57.8	55.3	57.2	63.1	62.6
Basic EPS (₹)	8.2	11.0	8.7	16.4	21.6	23.6
Fully Diluted EPS (₹)	8.2	11.0	8.7	16.4	21.6	23.6
% chg	40.1	34.5	(21.1)	88.3	31.8	9.1

Balance sheet

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity Share Capital	132	396	396	396	396	396
Reserves & Surplus	8,157	11,240	13,876	18,818	25,527	33,017
Shareholders' Funds	8,290	11,637	14,272	19,215	25,924	33,414
Share Warrants	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Total Loans	-	-	-	-	-	-
Deferred Tax Liability	6	58	85	103	103	103
Total Liabilities	8,296	11,695	14,357	19,317	26,027	33,517
APPLICATION OF FUNDS						
Gross Block	1,421	1,669	1,771	2,273	3,273	4,273
Less: Acc. Depreciation	853	923	984	1,174	1,323	1,487
Net Block	568	747	787	1,099	1,950	2,786
Capital Work-in-Progress	112	248	556	677	745	819
Goodwill	-	-	-	-	-	-
Investments	83	72	76	136	136	136
Current Assets	8,283	11,771	14,264	19,172	25,328	31,993
Cash	7,199	9,740	12,855	17,228	23,296	29,858
Loans & Advances	244	403	519	1,043	1,043	1,043
Other	840	1,628	890	901	990	1,093
Current liabilities	775	1,165	1,348	1,781	2,147	2,232
Net Current Assets	7,508	10,606	12,916	17,391	23,182	29,762
Mis. Exp. not written off	25	22	22	14	14	14
Total Assets	8,296	11,695	14,357	19,317	26,027	33,517

Cash flow statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Profit before tax	4,947	6,648	5,207	9,727	12,783	13,949
Depreciation	60	74	73	122	149	164
Change in Working Capital	(661)	(785)	926	(525)	277	(18)
Others	(105)	(866)	(832)	(1,143)	-	-
Direct taxes paid	(1,765)	(2,292)	(1,770)	(3,319)	(4,218)	(4,603)
Cash Flow from Operations	2,476	2,778	3,604	4,861	8,991	9,492
Inc./ (Dec.) in Fixed Assets	(123)	(389)	(422)	(517)	(1,068)	(1,074)
Other income	640	880	828	1,022	-	-
Cash Flow from Investing	517	491	407	506	(1,068)	(1,074)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(643)	(728)	(895)	(853)	(1,855)	(1,855)
Others	-	-	-	(142)	-	-
Cash Flow from Financing	(643)	(728)	(895)	(994)	(1,855)	(1,855)
Inc./ (Dec.) in Cash	2,350	2,541	3,115	4,373	6,068	6,562
Opening Cash balances	4,849	7,199	9,740	12,855	17,228	23,296
Closing Cash balances	7,199	9,740	12,855	17,228	23,296	29,858

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	28.9	21.5	27.2	14.5	11.0	10.1
P/CEPS	28.4	21.1	26.7	14.2	10.8	9.9
P/BV	11.3	8.1	6.6	4.9	3.6	2.8
Dividend yield (%)	2.1	0.9	0.8	1.3	1.7	1.7
EV/Sales	15.2	11.1	13.0	6.7	5.2	4.3
EV/EBITDA	20.0	14.4	18.3	8.9	6.5	5.4
EV / Total Assets	10.5	7.2	5.6	4.0	2.7	1.9
Per Share Data (₹)						
EPS (Basic)	8.2	11.0	8.7	16.4	21.6	23.6
EPS (fully diluted)	8.2	11.0	8.7	16.4	21.6	23.6
Cash EPS	8.4	11.2	8.9	16.7	22.0	24.0
DPS	4.9	2.2	2.0	3.2	4.0	4.0
Book Value	20.9	29.4	36.0	48.5	65.4	84.3
Dupont Analysis						
EBIT margin	74.9	76.2	69.7	75.0	79.1	78.9
Tax retention ratio (%)	65.7	65.8	66.2	66.8	67.0	67.0
Asset turnover (x)	6.0	5.2	3.8	6.7	6.0	4.9
ROIC (Post-tax)	293.1	261.7	174.0	336.9	316.6	258.1
Cost of Debt (Post Tax)						
Leverage (x)						
Operating ROE	293.1	261.7	174.0	336.9	316.6	258.1
Returns (%)						
ROCE (Pre-tax)	60.6	57.7	33.4	50.6	47.4	39.6
Angel ROIC (Pre-tax)	505.3	454.4	347.9	795.9	687.4	517.5
ROE	46.1	43.9	26.6	38.8	37.9	31.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	4.2	4.9	3.6	5.6	4.9	4.0
Inventory / Sales (days)	44	64	60	56	56	56
Receivables (days)	31	50	25	16	16	16
Payables (days)	61	81	105	105	105	105
WC cycle (ex-cash) (days)	23	33	34	5	5	6
Solvency ratios (x)						
Net debt to equity	(0.9)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)
Net debt to EBITDA	(1.7)	(1.7)	(2.9)	(2.0)	(2.2)	(2.5)
Interest Coverage (EBIT / Interest)	-	-	-	-	-	-

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Disclosure of Interest Statement	NMDC
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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