

NMDC

31 January 2012

Reuters: NMDC.BO; Bloomberg: NMDC IN

Stable quarter; lacks trigger for re-rating

NMDC's 3QFY12 results were broadly in line with EBITDA being 5%/6% lower than our/consensus estimates while PAT was 4%/6% lower than our/consensus expectations. The company has disappointed on the volume front with a 15% QoQ drop because of a shift in sales operations at the Karnataka unit - from the open market to the e-auction route - while it was 6% below our estimate. We revise our FY12 volume estimate downwards by 1% due to disappointment in 3QFY12, while our realisation assumption has been increased marginally 0.2% in view of the current pricing trend. The above factors resulted in a 1% drop in EBITDA as well as PAT estimates for FY12, while our FY13 estimates stay mostly unchanged. We retain our Sell rating on NMDC while maintaining our target price at Rs154, which is 14% lower than the current market price.

Subdued iron ore volume growth: NMDC reported a 15% YoY and a 2% QoQ increase in iron ore production at 7.15mt for the quarter. However, the company reported flat volume growth YoY, while it was down 15% QoQ because of a shift in sale operations at the Karnataka unit - from the open market to the e-auction route.

Realisation up QoQ due to price hike, but seen down in 4QFY12: As indicated in our quarterly preview, the company had undertaken around 10% price hike at the beginning of 3QFY12 and this enabled a 6% YoY and a 9% QoQ rise in blended realisation. We would also like to highlight that company went for around 5% cut in iron ore prices at the beginning of 4QFY12.

Valuation: NMDC is currently trading at P/E multiples of 9.0x and 10.1x for FY12E and FY13E, respectively, while EV/EBITDA multiples stand at 5.2x and 5.4x for the same period. We retain our Sell rating on NMDC while maintaining our target price at Rs154 (4.0x FY13 EV/EBITDA), which is 14% lower than the current market price.

SELL

Sector: Steel

CMP: Rs179

Target Price: Rs154

Downside: 14%

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Key Data

Current Shares O/S (mn)	3,964.7
Mkt Cap (Rsbn/US\$b)	708.1/14.3
52 Wk H / L (Rs)	305/136
Daily Vol. (3M NSE Avg.)	503,502

Price Performance (%)

	1 M	6 M	1 Yr
NMDC	11.0	(25.6)	(32.1)
Nifty Index	12.4	(5.2)	(5.6)

Source: Bloomberg

Y/E March (Rsmn)	3QFY11	2QFY12	3QFY12	% Chg (YoY)	% Chg (QoQ)	9MFY11	9MFY12	% Chg (YoY)
Net sales	26,212	30,623	28,220	7.7	(7.8)	75,992	86,669	14.1
Raw material & employee costs	1,320	2,498	1,652	25.2	(33.8)	4,299	5,892	37.0
% of sales	5.0	8.2	5.9			5.7	6.8	
Royalty & cess	2,586	2,299	2,623	1.4	14.1	5,976	7,298	22.1
% of sales	9.9	7.5	9.3			7.9	8.4	
Selling expenses including freight	1,488	591	445	(70.1)	(24.8)	4,643	1,463	(68.5)
% of sales	5.7	1.9	1.6			6.1	1.7	
Other operating expenses	659	882	892	35.4	1.2	2,000	2,509	25.5
% of sales	2.5	2.9	3.2			2.6	2.9	
EBITDA	20,159	24,354	22,607	12.1	(7.2)	59,074	69,507	17.7
EBITDA (%)	76.9	79.5	80.1			77.7	80.2	
Depreciation	294	324	345	17.3	6.4	829	1,006	21.3
Other income	2,947	5,029	5,254	78.3	4.5	7,624	14,702	92.8
PBT	22,812	29,059	27,516	20.6	(5.3)	65,869	83,202	26.3
Provision for tax	7,632	9,428	8,928	17.0	(5.3)	21,863	26,971	23.4
-effective tax rate (%)	33.5	32.4	32.4			33.2	32.4	
PAT	15,180	19,632	18,588	22.4	(5.3)	44,006	56,231	27.8
NPM (%)	52.1	55.1	55.5			52.6	55.5	
EPS (Rs)	3.8	5.0	4.7	22.4	(5.3)	11.1	14.2	27.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Revenue	62,391	113,689	122,039	115,341	119,641
YoY (%)	(17.5)	82.2	7.3	(5.5)	3.7
EBITDA	44,295	86,497	97,497	89,570	91,979
EBITDA margin (%)	71.0	76.1	79.9	77.7	76.9
PAT	34,473	64,992	78,499	70,171	72,790
EPS (Rs)	8.7	16.4	19.8	17.7	18.4
YoY (%)	(21.2)	88.5	20.8	(10.6)	3.7
RoE (%)	24.2	33.8	30.9	22.8	20.0
RoCE (%)	24.2	33.8	30.9	22.8	20.0
P/E (x)	20.6	10.9	9.0	10.1	9.7
EV/ EBITDA (x)	13.1	6.2	5.2	5.4	5.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Our estimates versus actuals

Description	3QFY11	2QFY12	3QFY12	YoY (%)	QoQ (%)	3QFY12E	Devi (%)
Operational data							
Production (mt)	6.19	6.99	7.15	15.4	2.2	7.55	(5.4)
Sales (mt)	6.31	7.58	6.40	1.5	(15.5)	6.80	(5.8)
Realisation (Rs/tonne)	4,141	4,030	4,391	6.0	9.0	4,400	(0.2)
Cost incl. depreciation (Rs/tonne)	924	827	838	(9.4)	1.4	912	(8.1)
EBIT (Rs/tonne)	3,217	3,203	3,553	10.4	10.9	3,488	1.9
Segment Financials (Rsmn)							
Revenue							
Iron ore	26,132	30,536	28,120	7.6	(7.9)	29,920	(6.0)
Other minerals and service	193	212	212	9.7	(0.1)	220	(3.7)
Total	26,325	30,748	28,332	7.6	(7.9)	30,140	(6.0)
Less: inter-segment	113	125	113	(0.4)	(10.1)	125	(10.0)
Net revenue	26,212	30,623	28,220	7.7	(7.8)	30,015	(6.0)
EBIT							
Iron ore	20,299	24,273	22,754	12.1	(6.3)	23,717	(4.1)
Other minerals and service	(115)	141	(12)	(89.5)	(108.5)	120	(110.0)
Unallocable	2,628	4,645	4,775	81.7	2.8	4,800	(0.5)
Total	22,812	29,059	27,516	20.6	(5.3)	28,637	(3.9)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Our estimates versus actuals

Description	3QFY11	2QFY12	3QFY12	YoY (%)	QoQ (%)	3QFY12E	Devi (%)	3QFY12 BBE	Devi (%)
Revenue	26,212	30,623	28,220	7.7	(7.8)	30,015	(6.0)	29,796	(5.3)
EBITDA	20,159	24,354	22,607	12.1	(7.2)	23,787	(5.0)	24,119	(6.3)
PAT	15,180	19,632	18,588	22.4	(5.3)	19,330	(3.8)	19,762	(5.9)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Change in earnings estimates

Description	Earlier assumption			New assumption			Change (%)		
	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E	FY12E	FY13E	FY14E
Operational details									
Iron ore volume (mt)	29.75	31.00	NA	29.35	31.00	34.00	(1.4)	0.0	-
Realisation (Rs/tonne)	4,135	3,700	NA	4,144	3,700	3,500	0.2	0.0	-
Financials (Rsmn)									
Net sales	123,409	115,341	NA	122,039	115,341	119,641	(1.1)	0.0	-
EBITDA	98,252	89,570	NA	97,497	89,570	91,979	(0.8)	0.0	-
PAT	78,954	70,215	NA	78,499	70,171	72,790	(0.6)	(0.1)	-

Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Revenue	62,391	113,689	122,039	115,341	119,641
YoY growth (%)	(17.5)	82.2	7.3	(5.5)	3.7
Staff cost	4,195	4,924	5,550	5,950	5,951
% of sales	6.7	4.3	4.5	5.2	5.0
Royalty & cess	3,606	9,318	12,654	12,400	13,600
% of sales	5.8	8.2	10.4	10.8	11.4
Selling exp & freight	4,689	8,639	2,873	3,000	3,200
% of sales	7.5	7.6	2.4	2.6	2.7
Other expenditure	5,606	4,313	3,464	4,421	4,911
% of sales	9.0	3.8	2.8	3.8	4.1
Total expenditure	18,096	27,193	24,542	25,771	27,662
EBITDA	44,295	86,497	97,497	89,570	91,979
EBITDA margin (%)	71.0	76.1	79.9	77.7	76.9
Depreciation	766	1,250	1,406	1,696	1,948
EBIT	43,529	85,247	96,091	87,874	90,031
Prior period adjustment	(73)	(32)	0	0	0
Other income	8,617	12,057	20,102	18,478	20,290
PBT	52,073	97,272	116,192	106,353	110,322
Provision for tax	17,601	32,280	37,693	36,181	37,531
Effective tax rate (%)	33.8	33.2	32.4	34.0	34.0
PAT	34,473	64,992	78,499	70,171	72,790
YoY growth (%)	(21.2)	88.5	20.8	(10.6)	3.7
PAT margin (%)	55.3	57.2	64.3	60.8	60.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance Sheet

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
Share capital	3,965	3,965	3,965	3,965	3,965
Reserves and surplus	138,760	188,181	249,981	303,454	359,546
Shareholders' fund	142,724	192,145	253,946	307,419	363,510
Short term loan	0	0	0	0	0
Long term loan	0	0	0	0	0
Total capital employed	142,724	192,145	253,946	307,419	363,510
Gross block	17,711	22,728	25,785	30,285	34,785
Less: Acc depreciation	9,840	11,736	13,122	14,798	16,726
Net block	7,872	10,993	12,663	15,487	18,059
Capital WIP	5,561	6,772	32,561	64,561	116,561
Net fixed assets	13,432	17,764	45,224	80,048	134,620
Investments	761	1,357	1,357	1,357	1,357
Cash and bank	128,549	172,281	205,314	225,449	227,910
Inventories	2,988	4,154	4,421	5,474	5,573
Debtors	4,270	4,854	7,322	6,920	7,178
Other CA and loans & adv	6,829	10,427	12,204	11,534	11,964
Total CA and loans & adv	142,636	191,716	229,261	249,377	252,625
Creditors	5,205	5,710	4,295	5,154	5,532
Other current liabilities	2,320	2,008	4,463	4,285	4,821
Provisions	5,952	10,088	11,480	11,480	11,480
Net current assets	129,160	173,908	209,024	228,458	230,792
Miscellaneous expenses	220	145	125	105	85
Deferred tax assets	(849)	(1,029)	(1,783)	(2,548)	(3,343)
Total assets	142,724	192,145	253,946	307,419	363,510

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
EBIT	43,529	85,247	96,091	87,874	90,031
(Inc.)/Dec in working capital	9,257	(5,249)	(3,473)	701	127
Cash flow from operations	52,786	79,998	92,618	88,575	90,158
Other income	8,617	12,057	20,102	18,478	20,290
Depreciation	766	1,250	1,406	1,696	1,948
Tax paid (-)	17,705	33,195	36,939	35,415	36,737
Dividends paid (-)	8,953	9,942	15,307	16,699	16,699
Net cash from operations	35,512	50,168	61,879	56,635	58,961
Capital expenditure (-)	4,202	5,152	28,846	36,500	56,500
Net cash after capex	31,310	45,016	33,033	20,135	2,461
(Inc.)/Dec. in investments	(46)	(595)	0	0	0
Cash from financial activities	(46)	(595)	0	0	0
Others	(112)	(690)	0	0	0
Opening cash	97,397	128,549	172,281	205,314	225,449
Closing cash	128,549	172,281	205,314	225,449	227,910
Change in cash	31,153	43,731	33,033	20,135	2,461

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key Ratios

Y/E March	FY10	FY11	FY12E	FY13E	FY14E
Per share (Rs)					
EPS	8.7	16.4	19.8	17.7	18.4
Book value	36.0	48.5	64.1	77.5	91.7
Valuation (x)					
P/E	20.6	10.9	9.0	10.1	9.7
P/BV	5.0	3.7	2.8	2.3	2.0
EV/EBITDA	13.1	6.2	5.2	5.4	5.2
EV/Sales	9.3	4.7	4.1	4.2	4.0
M-cap/Sales	11.4	6.2	5.8	6.1	5.9
Return Ratio (%)					
ROCE	24.2	33.8	30.9	22.8	20.0
ROE	24.2	33.8	30.9	22.8	20.0
Margin Ratio (%)					
EBITDA margin	71.0	76.1	79.9	77.7	76.9
PBIT margin	69.8	75.0	78.7	76.2	75.3
PBT margin	73.3	77.4	81.7	79.5	78.8
PAT margin	55.3	57.2	64.3	60.8	60.8
Turnover Ratio					
Asset turnover ratio (x)	3.5	5.0	4.7	3.8	3.4
Avg collection period (days)	25.0	15.6	21.9	21.9	21.9
Avg payment period (days)	103.9	74.2	56.0	72.8	72.7
Solvency Ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Interest coverage ratio	0.0	0.0	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
24 June 2011	Sell	252	208
1 August 2011	Sell	245	196
8 August 2011	Sell	247	222
9 January 2012	Sell	172	154

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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