

BSE SENSEX 18,858 S&P CNX 5,661

**CMP: Rs258**

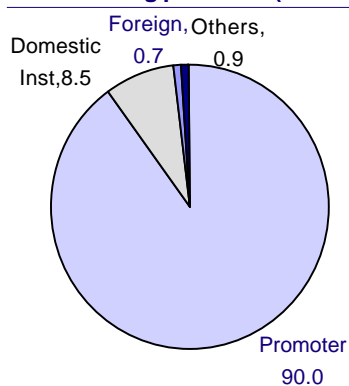
**Not Rated**



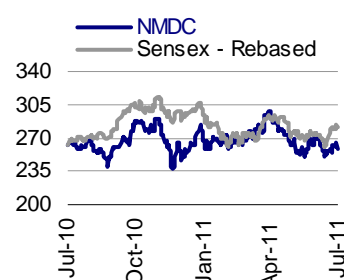
Bloomberg	NMDC IN
Equity Shares (m)	3,964.7
52-Week Range (Rs)	305/227
1,6,12 Rel. Perf. (%)	-5/-7/-1
M.Cap. (Rs b)	1,023.0
M.Cap. (US\$ b)	22.7

Y/E March	2011	2012E	2013E
Net Sales (Rs b)	114	121	112
EBITDA (Rs b)	86	90	77
PAT (Rs b)	65	69	62
Growth (%)	88.8	6.9	-10.8
EPS (Rs)	16.4	17.5	15.6
EPS Gr. (%)	88.8	6.9	-10.8
BV/Share (Rs)	48.4	63.4	76.4
P/E (x)	15.7	14.7	16.5
P/BV (x)	5.3	4.1	3.4
EV/Sales (x)	7.5	6.9	7.4
EV/EBITDA (x)	9.8	9.2	10.8
RoE (%)	33.8	27.7	20.5
RoCE (%)	44.1	34.9	24.5
RoIC	451.2	181.6	111.6

#### Shareholding pattern % (Mar-11)



#### Stock performance (1 year)



### Restoration of slurry pipeline to drive volumes

**Good long-term potential, but risk of execution delays exists**

- We met the management of NMDC, India's largest and lowest cost iron ore producer.
- Following the expiry of its Japanese contracts, it has moved to a more transparent pricing mechanism. It now uses the Platts' iron ore price index as a reference to price its products.
- The restoration of the 267km slurry pipeline, which was damaged in a Maoist attack in July 2010, will help NMDC to achieve 10-14% volume growth in FY12.
- Given its rich iron ore reserves and high share of lumps in its product mix, we believe NMDC has good long-term potential. However, the risk of execution delays exists.

#### Has shifted to a more transparent pricing mechanism

- NMDC has historically been pricing its products based on export parity prices for iron ore using Japanese steel mill contracts. With the expiry of its Japanese contracts, it has now moved to a more transparent global index-based pricing.
- NMDC has started using Platts' iron ore price index to price its products from 1QFY12. It is now following quarterly pricing, based on the average iron ore fines price in the previous quarter.
- It calculates ex-mine prices backwards, adjusting for moisture, sea freight, port handling charges, export duty, inland transportation cost, etc.

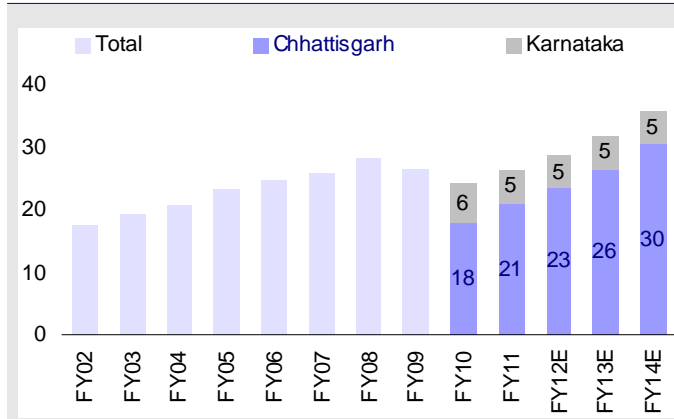
#### Superior realization due to high share of lumps in product mix

- Lumps constitute 40% of NMDC's product mix.
- Worldwide, lumps command a 12-15% premium to fine prices. In addition, NMDC charges a domestic premium of ~15%, based on local market dynamics.
- Average cfr China prices for 63.5% Fe were ~US\$185/dmt in 4QFY11, which implies blended realization of INR4,298/wmt for NMDC in 1QFY12.

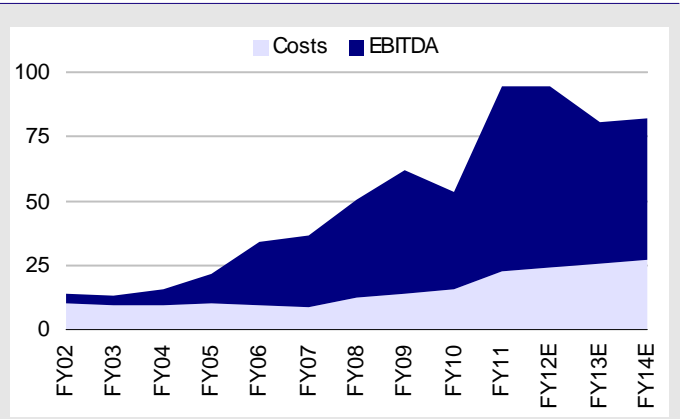
#### Restoration of Essar's 8mtpa slurry pipeline to increase FY12 volumes by 10-14%

- NMDC has started supplying iron ore to Essar Steel through its 8mtpa slurry pipeline, as it has been restored recently. The 267km iron ore fines slurry pipeline was severely damaged in a Maoist attack in July 2010, disrupting shipments. Its restoration will help NMDC to achieve higher volumes in FY12.
- In 4QFY11, NMDC supplied ~1.3m tons of ore through this pipeline. The company expects to achieve volumes of ~30m tons in FY12. Even on a conservative basis, we believe NMDC will be able to increase volumes by 10% in FY12 to 28.7m tons.
- We expect NMDC's iron ore volumes to grow at a CAGR of 11% over FY11-14. Restoration of Essar's supply will help NMDC to post 10-14% growth in FY12. The commissioning of Deposit 11B will help drive volumes to ~36m tons by FY14.

11% volume CAGR over FY11-14... (m/ton)



... to compensate margin compression (USD/ton)

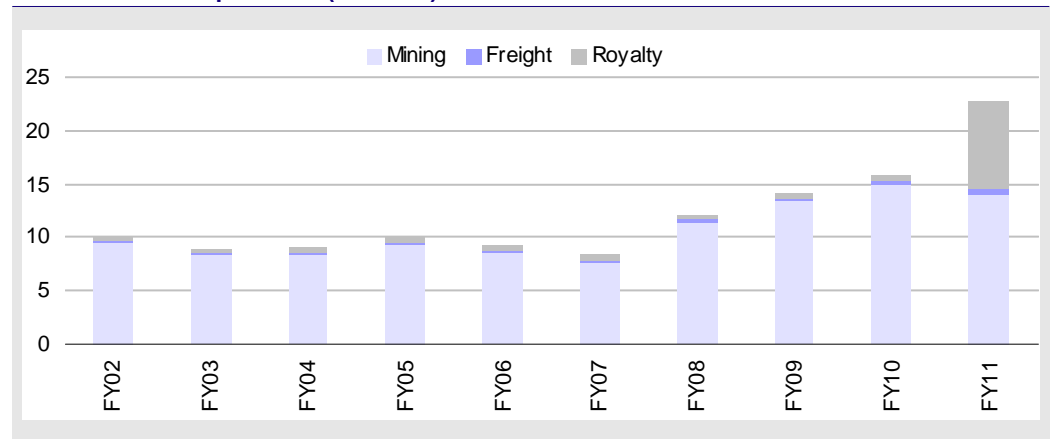


Source: Company/MOSL

**Low cost iron ore producer in India; exports discontinued**

- NMDC is the lowest-cost iron ore producer in India due to economies of scale. Following the government's quantitative ceiling of ~5.6mtpa (3.8mtpa of lumps) on exports and good domestic demand for its ore, NMDC has restricted exports of iron ore to 4m-5m tons over the last few years.
- We expect no exports by NMDC in FY12, as its agreement with MMTC (acting as canalizing agency for the government) has expired in March 2011.

**Low cost iron ore producer (USD/ton)**



Source: Company/MOSL

**Completion of Bailadila 11B deposit development delayed to March 2012**

- To achieve targeted production of 50mtpa by 2015, NMDC is developing Deposit 11B at Chhattisgarh and Kumaraswamy deposit at Karnataka. Deposit 11B forms part of Bailadila deposit 11 lease, with planned 7mtpa of ROM capacity. The total development expenditure is ~INR6b, of which INR3b has already been spent. NMDC plans to spend another INR1b in FY12. However, the project work gets hampered due to Naxalite activities in the region.
- NMDC was earlier planning to complete the project by 4QFY11, which has been delayed to March 2012. The company expects to evacuate ~3mtpa of iron ore through Uniflow dispatch line, which is being constructed at Bacheli by East Coast Railways over the same period.

**New Mines under development for volume growth and steel venture**

Mines	Location	Lease Validity	Reserves (mtpa)	MoEF clearances	Status and comm by
Deposit 11B	Chhattisgarh	Mar-12	114.3	Granted	Under development; Mar 2012
Kumaraswamy	Bellary	2022	130.9	Granted	Lease renewal under dispute
Deposit 13	Chhattisgarh	Pending	319.6	Pending	51% JV with CMDC
Deposit 4	Chhattisgarh	Expired	105*	Yet to apply	For 3mtpa greenfield steel plant

\* total resources

**Capex of INR33b planned for FY12 mainly for 3mtpa greenfield steel plant**

	Capex (Rs m)		Total project cost (Rs m)	Capacity (mtpa)	Location	Comm by
	FY11A	FY12E				
Bailadila 11 B	410	1,000	6,072	7	Bastar, CG	Mar-12
Kumaraswamy	212	800	8,986	7	Bellary, KN	May-13
Steel greenfield plant	2,162	26,150	155,250	3	Nagarnar, CG	FY15
Steel plant JV Severstal	550	10	-	2	Karnataka	-
Pellet plant at Donimalai	30	1,000	5,720	1.2	Donimalai, KN	Mar-13
Modifications/ replacements	1,954	3,190				
R&D	146	140				
Feasibility studies	104	443				
JKMDC & Other ventures	1,433	358				
	<b>7,003</b>	<b>33,090</b>				

Source: Company/MOSL

**Largest iron ore producer in India, with huge reserve base**

NMDC is India's largest iron ore producer, with ~31m tons of annual extraction capacity and rich iron ore reserves of 1.3b tons. It has three fully mechanized operating mines, which are located in the states of Chhattisgarh and Karnataka. Currently ~80% of its iron ore production comes from two of its mining complexes in the Bailadila deposits in the state of Chhattisgarh.

**Operating Mining Complexes**

Mines	Lease area (Ha)	Extraction cap (mtpa)	Lease Validity	Proved reserves (mtpa)	Fe %
<b>Kirandul Complex, CG</b>					
Deposit 14	322.4	5	2015	132.2	64.7
Deposit 14 NMZ	506.7	7	2015	63.9	65.8
Deposit 11C		0.7	2017	0.7	64.7
<b>Bacheli Complex, CG</b>					
Deposit 5	540.1	10	2015	43.5	65.4
Deposit 10	309.3	5	2015	142.4	65.9
Deposit 11A	874.9		2017	25.6	65.5
<b>Donimalai Complex, KN</b>					
Donimalai	608	4	2028	22.1	66.3

Source: Company/MOSL

**Complex wise iron ore production details (m tons)**

	FY07	FY08	FY09	FY10	FY11
Kirandul, Chhattisgarh	10.2	11.4	11.4	7.4	8.8
Bacheli, Chhattisgarh	10.4	11.7	10.8	10.7	12.1
Donimalai, Karnataka	5.7	6.9	6.4	5.7	4.2
	<b>26.3</b>	<b>30.0</b>	<b>28.6</b>	<b>23.8</b>	<b>25.2</b>

Source: Company/MOSL

### Rich iron ore reserves, with upgrade potential; risk of execution delays exists

- NMDC has rich reserves of iron ore in India. Domestic demand is strong and we expect NMDC's volumes to grow 10-14% in FY12. Over the next 4-5 years, NMDC is targeting annual production of ~50m tons to cater to growing domestic demand. However, majority of the volume growth is expected from Bailadila deposits in Chhattisgarh, which is affected by Naxalite activities. Though the management is confident of starting Deposit 11B (7mtpa capacity) by the end of FY12, we do not rule out further delays.
- The stock trades at 14.8x FY12E EPS and at an EV of 9.3x FY12E EBITDA. It trades at an EV of USD14 per ton of reserves - 40% premium to Sesa Goa due to superior grade of ore and higher share of lumps in product mix. NMDC's existing reserves have potential of upgrade if extensive exploration activities are undertaken.
- NMDC is undertaking INR155b capex to set up a 3mtpa steel plant in Chhattisgarh. It has acquired land and is ordering equipment. It has already ordered a blast furnace. The project is likely to be completed by 2015 and could drag valuations. We do not have a rating on the stock.

QUARTERLY PERFORMANCE (CONSOLIDATED)										(INR MILLION)		
Y/E MARCH	FY11				FY12				FY10	FY11	FY12E	FY13E
	1Q	2Q	3Q	4Q	10E	20E	30E	40E				
Production (m tons)	5.8	4.6	6.2	8.6	7.0	5.5	7.2	9.0	23.8	25.2	28.7	31.7
Sales (m tons)	6.5	5.1	6.3	8.4	7.0	5.5	7.2	9.0	24.1	26.3	28.7	31.7
Avg Iron ore realisation (USD/t)	86	103	93	100	97	98	93	93	54	95	95	81
<b>Net Sales</b>	<b>25,180</b>	<b>24,600</b>	<b>26,212</b>	<b>37,698</b>	<b>30,085</b>	<b>23,883</b>	<b>29,701</b>	<b>36,941</b>	<b>62,391</b>	<b>113,689</b>	<b>120,611</b>	<b>112,375</b>
Change (YoY %)	97.0	77.0	65.1	90.1	19.5	-2.9	13.3	-2.0	-17.6	82.2	6.1	-6.8
<b>EBITDA</b>	<b>20,511</b>	<b>18,404</b>	<b>20,159</b>	<b>27,390</b>	<b>22,891</b>	<b>17,812</b>	<b>21,937</b>	<b>27,018</b>	<b>44,226</b>	<b>86,465</b>	<b>89,657</b>	<b>76,957</b>
As % of Net Sales	81.5	74.8	76.9	72.7	76.1	74.6	73.9	73.1	70.9	76.1	74.3	68.5
<b>EBITDA per ton (USD)</b>	<b>70</b>	<b>77</b>	<b>71</b>	<b>73</b>	<b>73</b>	<b>73</b>	<b>68</b>	<b>68</b>	<b>38</b>	<b>72</b>	<b>70</b>	<b>55</b>
Interest	0	0	0	0	0	0	0	0	0	0	0	0
Depreciation	237	298	294	420	401	352	417	433	766	1,250	1,602	2,397
Other Income	2,218	2,459	2,947	4,433	4,307	3,790	4,479	4,652	8,961	12,057	17,228	19,405
<b>PBT (before EO Item)</b>	<b>22,492</b>	<b>20,565</b>	<b>22,812</b>	<b>31,403</b>	<b>26,797</b>	<b>21,250</b>	<b>26,000</b>	<b>31,236</b>	<b>52,420</b>	<b>97,272</b>	<b>105,283</b>	<b>93,964</b>
Extra-ordinary Income												
<b>PBT (after EO Item)</b>	<b>22,492</b>	<b>20,565</b>	<b>22,812</b>	<b>31,403</b>	<b>26,797</b>	<b>21,250</b>	<b>26,000</b>	<b>31,236</b>	<b>52,420</b>	<b>97,272</b>	<b>105,283</b>	<b>93,964</b>
Total Tax	7,452	6,780	7,632	10,416	9,111	7,225	8,840	10,620	17,719	32,280	35,796	31,948
% Tax	33.1	33.0	33.5	33.2	34.0	34.0	34.0	34.0	33.8	33.2	34.0	34.0
<b>Reported PAT</b>	<b>15,040</b>	<b>13,785</b>	<b>15,180</b>	<b>20,986</b>	<b>17,686</b>	<b>14,025</b>	<b>17,160</b>	<b>20,616</b>	<b>34,702</b>	<b>64,992</b>	<b>69,487</b>	<b>62,016</b>
Minority interest												
<b>Adjusted PAT</b>	<b>15,040</b>	<b>13,785</b>	<b>15,180</b>	<b>20,986</b>	<b>17,686</b>	<b>14,025</b>	<b>17,160</b>	<b>20,616</b>	<b>34,702</b>	<b>64,992</b>	<b>69,487</b>	<b>62,016</b>
Change (YoY %)	94.4	78.8	76.5	96.9	17.6	1.7	13.0	-1.8	-20.6	87.3	6.9	-10.8

E: MOSL Estimates

## Financials and Valuation

Income Statement (consolidated)					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
<b>Net sales</b>	<b>57,113</b>	<b>75,640</b>	<b>62,391</b>	<b>113,689</b>	<b>120,611</b>	<b>112,375</b>
Change (%)	36.4	32.4	-17.5	82.2	6.1	-6.8
Total Expenses	13,753	17,268	18,130	27,225	30,954	35,419
<b>EBITDA</b>	<b>43,360</b>	<b>58,372</b>	<b>44,261</b>	<b>86,465</b>	<b>89,657</b>	<b>76,957</b>
% of Net Sales	75.9	77.2	70.9	76.1	74.3	68.5
Deprn. & Amortization	600	736	732	1,250	1,602	2,397
<b>EBIT</b>	<b>42,760</b>	<b>57,637</b>	<b>43,529</b>	<b>85,215</b>	<b>88,055</b>	<b>74,559</b>
Net Interest						
Other income	6,715	8,846	8,617	12,057	17,228	19,405
<b>PBT before EO</b>	<b>49,475</b>	<b>66,482</b>	<b>52,146</b>	<b>97,272</b>	<b>105,283</b>	<b>93,964</b>
<b>PBT after EO</b>	<b>49,475</b>	<b>66,482</b>	<b>52,146</b>	<b>97,272</b>	<b>105,283</b>	<b>93,964</b>
Tax	16,965	22,759	17,719	32,280	35,796	31,948
Rate (%)	34.3	34.2	34.0	33.2	34.0	34.0
<b>Reported PAT</b>	<b>32,510</b>	<b>43,724</b>	<b>34,427</b>	<b>64,992</b>	<b>69,487</b>	<b>62,016</b>
<b>Adjusted PAT</b>	<b>32,510</b>	<b>43,724</b>	<b>34,427</b>	<b>64,992</b>	<b>69,487</b>	<b>62,016</b>
Change (%)	40.1	34.5	-21.3	88.8	6.9	-10.8

Balance Sheet					(INR Million)	
Y/E March	2008	2009	2010	2011	2012E	2013E
Share Capital	1,322	3,965	3,965	3,965	3,965	3,965
Reserves	81,575	112,404	138,760	188,181	247,416	299,181
<b>Share holders funds</b>	<b>82,897</b>	<b>116,369</b>	<b>142,724</b>	<b>192,145</b>	<b>251,381</b>	<b>303,145</b>
Defferred tax liability (net)	60	580	849	1,029	1,029	1,029
<b>Capital Employed</b>	<b>82,957</b>	<b>116,950</b>	<b>143,573</b>	<b>193,174</b>	<b>252,409</b>	<b>304,174</b>
Gross Block	14,214	16,692	17,711	22,730	37,730	52,730
Less: Accum. Deprn.	8,533	9,225	9,840	11,740	13,342	15,739
<b>Net Fixed Assets</b>	<b>5,681</b>	<b>7,466</b>	<b>7,872</b>	<b>10,990</b>	<b>24,388</b>	<b>36,991</b>
Capital WIP	1,118	2,483	5,561	6,774	24,864	64,864
Investments	833	715	761	1,357	1,357	1,357
<b>Curr. Assets</b>	<b>82,827</b>	<b>117,710</b>	<b>142,636</b>	<b>191,716</b>	<b>220,005</b>	<b>218,603</b>
Inventories	1,661	3,025	2,988	4,154	3,965	3,695
Sundry Debtors	4,877	10,272	4,270	4,854	11,565	10,776
Cash and Bank	71,988	97,397	128,549	172,281	194,048	193,706
Loans and Advances	4,301	7,017	6,829	10,427	10,427	10,427
<b>Curr. Liability &amp; Prov.</b>	<b>7,748</b>	<b>11,648</b>	<b>13,477</b>	<b>17,807</b>	<b>18,349</b>	<b>17,785</b>
Sundry Creditors	4,184	4,846	7,525	7,719	8,261	7,697
Other Liabilities & prov.	3,563	6,802	5,952	10,088	10,088	10,088
<b>Net Current Assets</b>	<b>75,079</b>	<b>106,063</b>	<b>129,160</b>	<b>173,908</b>	<b>201,656</b>	<b>200,818</b>
<b>Application of Funds</b>	<b>82,957</b>	<b>116,950</b>	<b>143,573</b>	<b>193,174</b>	<b>252,409</b>	<b>304,174</b>

E: MOSL Estimates

## Financials and Valuation

### Ratios

Y/E March	2008	2009	2010	2011	2012E	2013E
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>8.2</b>	<b>11.0</b>	<b>8.7</b>	<b>16.4</b>	<b>17.5</b>	<b>15.6</b>
Cash EPS	8.4	11.2	8.9	16.7	17.9	16.2
BV/Share	20.8	29.3	35.9	48.4	63.4	76.4
DPS	1.6	2.2	2.2	2.2	2.2	2.2
Payout (%)	23.4	23.4	23.6	23.6	14.8	16.5

### Valuation (x) CMP@258

P/E				15.7	14.7	16.5
Cash P/E				15.4	14.4	15.9
P/BV				5.3	4.1	3.4
EV/Sales				7.5	6.9	7.4
EV/EBITDA				9.8	9.2	10.8
Dividend Yield (%)				0.9	0.9	0.9
EV/ton				14	14	14

### Return Ratios (%)

EBITDA Margins	75.9	77.2	70.9	76.1	74.3	68.5
Net Profit Margins	56.9	57.8	55.2	57.2	57.6	55.2
RoE	39.3	37.6	24.2	33.8	27.7	20.5
RoCE	51.5	49.3	30.3	44.1	34.9	24.5
RoIC	320.3	235.0	338.8	451.2	181.6	111.6

### Working Capital Ratios

Fixed Asset Turnover (x)	4.0	4.5	3.5	5.0	3.2	2.1
Asset Turnover (x)	0.7	0.6	0.4	0.6	0.5	0.4
Debtor (Days)	31	50	25	16	35	35
Inventory (Days)	11	15	17	13	12	12
Creditors (Days)	27	23	44	25	25	25

### Growth (%)

Sales	36.4	32.4	-17.5	82.2	6.1	-6.8
EBITDA	34.5	34.6	-24.2	95.4	3.7	-14.2
PAT	40.1	34.5	-21.3	88.8	6.9	-10.8

### Leverage Ratio (x)

Current Ratio	10.7	10.1	10.6	10.8	12.0	12.3
Debt/Equity	-0.9	-0.8	-0.9	-0.9	-0.8	-0.6

### Cash Flow Statement

(INR Million)

Y/E March	2008	2009	2010	2011	2012E	2013E
Pre-tax profit	49,475	66,482	52,146	97,272	105,283	93,964
Depreciation	541	692	614	1,900	1,602	2,397
(Inc)/Dec in Wkg. Cap.	-498	-5,575	8,056	-1,018	-5,980	496
Tax paid	-17,171	-22,238	-17,332	-32,280	-35,796	-31,948
<b>CF from Op. Activity</b>	<b>32,369</b>	<b>39,385</b>	<b>43,414</b>	<b>65,866</b>	<b>65,109</b>	<b>64,910</b>
(Inc)/Dec in FA + CWIP	-1,161	-3,843	-4,098	-6,232	-33,090	-55,000
(Pur)/Sale of Investments	-89	117	-46	-595		
<b>CF from Inv. Activity</b>	<b>-1,250</b>	<b>-3,725</b>	<b>-4,144</b>	<b>-6,827</b>	<b>-33,090</b>	<b>-55,000</b>
<b>CF from Fin. Activity</b>	<b>-7,623</b>	<b>-10,251</b>	<b>-8,117</b>	<b>-15,307</b>	<b>-10,252</b>	<b>-10,252</b>
<b>(Inc)/Dec in Cash</b>	<b>23,496</b>	<b>25,409</b>	<b>31,153</b>	<b>43,731</b>	<b>21,767</b>	<b>-342</b>
Add: opening Balance	48,492	71,988	97,397	128,549	172,281	194,048
<b>Closing Balance</b>	<b>71,988</b>	<b>97,397</b>	<b>128,549</b>	<b>172,281</b>	<b>194,048</b>	<b>193,706</b>

E: MOSL Estimates

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