

BUY

TP: INR 175.00
▲ 50.0%

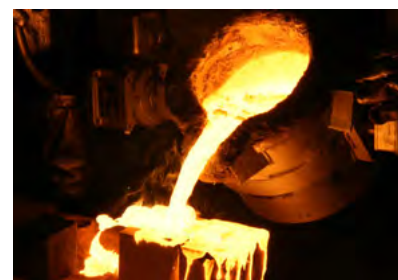
NMDC

NMDC IN

Cheap valuations, high dividend yield – BUY

NMDC reported a mixed Q4FY13 with revenues surprising positively on higher sales volume and stable realisations, but profits slipping on increased selling expense and higher provisions towards Karnataka mining cases. NMDC announced dividend of Rs 7/sh with dividend yield rising to ~6%, providing support to the stock. We cut FY15 earnings by 10% on lower realisations and higher selling expense, and revise our TP to Rs 175 (from Rs 190). Maintain BUY as risk-reward is favourable and volume ramp-up remains the key trigger.

- ➔ **Revenues surprise on higher volumes:** Q4FY13 revenues came in at Rs 32bn (+24% YoY, +56% QoQ), ahead of estimates due to above-expected sales volume at 8.24mt (+55% QoQ, +27% YoY) and stable realisations of Rs 3,899/t (+1% QoQ).
- ➔ **Profitability disappoints on higher selling expense:** EBITDA was lower than expected at Rs 17.5bn (-11% YoY, +26% QoQ) with EBITDA margin disappointing at 54.6%. This was largely on account of higher selling and other expenses, along with a one-off of Rs 40bn related to the Karnataka mining ban in Q4FY13. Adjusting for the one-off, EBITDA/t was still low at Rs 2,440/t (-7% QoQ) largely due to higher selling expense at Rs 476/t (+43% QoQ).
- ➔ **Increased dividend a big positive:** NMDC has announced dividend of Rs 7/sh (Rs 4/sh in FY12), taking the payout ratio to 41% (from 24% in FY12). We expect dividends to go up in future years and the dividend yield of ~6% should provide further support to the stock.
- ➔ **Maintain BUY:** We cut FY15 earnings estimates by 10% on lower realisations and higher selling expense, but maintain BUY as the risk-reward is clearly favourable and volume ramp-up remains the key stock trigger. Our new March'14 TP of Rs 175 is set at 5x FY15E EV/EBITDA. Decline in global prices remains a key risk to our call.



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PRICE CLOSE (29 May 13)
INR 116.70

MARKET CAP
INR 4,62,680 mln
USD 8,242 mln

SHARES O/S
3,964.7 mln

FREE FLOAT
20.0%

3M AVG DAILY VOLUME./VALUE
3.5 mln/ USD 8.6 mln

52 WK HIGH 52 WK LOW
INR 198.95 INR 116.60

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	1,12,853	1,11,676	1,06,958	1,15,236	1,30,932
EBITDA (INR mln)	84,494	88,304	77,754	81,521	92,803
Adjusted net profit (INR mln)	65,025	73,682	71,589	71,754	76,916
Adjusted EPS (INR)	16.4	18.5	17.0	17.5	19.4
Adjusted EPS growth (%)	88.2	12.5	(7.9)	2.9	10.9
DPS (INR)	3.3	4.5	7.0	7.2	8.0
ROIC (%)	33.1	26.9	20.4	18.4	18.2
Adjusted ROAE (%)	38.8	33.8	27.6	24.4	22.9
Adjusted P/E (x)	17.3	8.7	6.9	6.7	6.0
EV/EBITDA (x)	11.3	4.9	3.2	2.9	2.3
P/BV (x)	5.9	2.6	1.7	1.5	1.3

Source: Company, Bloomberg, RCML Research

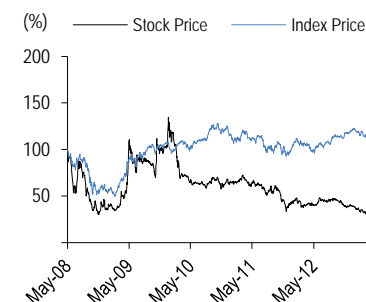




Fig 1 - Earnings revision

FY15E (Rs mn)	New	Old	% chg
Revenue	1,30,932	1,37,333	-5%
EBITDA	92,803	1,05,288	-12%
Net income	76,916	85,276	-10%

Source: RCML Research, Company

Fig 2 - Quarterly highlights

(Rs mn)	Q4FY13A	Q4FY12A	% YoY	Q3FY13	% QoQ
Sales	32,043	25,937	24%	20,477	56%
EBITDA	17,498	19,765	-11%	13,913	26%
Depreciation	387	321	20%	321	20%
EBIT	17,111	19,443	-12%	19,443	-12%
Other income	5,474	5,477	0%	5,563	-2%
PBT	22,453	24,920	-10%	19,137	17%
Tax expense	7,804	7,970	-2%	6,209	26%
Net income	14,650	16,951	-14%	12,928	13%
EBITDA margins	54.6	76.2	-2,160bps	67.9	-1,333bps

Source: RCML Research, Company

Fig 3 - Actual vs Estimate highlights

(Rs mn)	Q4FY13A	Q4FY13E	% chg	Q4FY12	% YoY
Sales	32,043	27,563	16%	25937	24%
EBITDA	17,498	18,291	-4%	19,765	-11%
Net income	14,650	15,903	-8%	16,951	-14%
EBITDA margins	54.6	66.4	-1,175bps	76.2	-2,160bps

Source: RCML Research, Company

BUY

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Results Review

INDIA
MATERIALS**Per Share Data**

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	16.4	18.5	17.0	17.5	19.4
Adjusted EPS	16.4	18.5	17.0	17.5	19.4
DPS	3.3	4.5	7.0	7.2	8.0
BVPS	48.5	61.6	69.4	79.1	90.5

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	8.5	3.9	2.3	2.1	1.7
EV/EBITDA	11.3	4.9	3.2	2.9	2.3
Adjusted P/E	17.3	8.7	6.9	6.7	6.0
P/BV	5.9	2.6	1.7	1.5	1.3

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	74.9	79.1	72.7	70.7	70.9
EBIT margin	73.8	77.9	71.4	69.7	70.0
Adjusted profit margin	57.6	66.0	66.9	62.3	58.7
Adjusted ROAE	38.8	33.8	27.6	24.4	22.9
ROCE	33.2	27.1	20.5	18.5	18.3
YoY Growth (%)					
Revenue	81.4	(1.0)	(4.2)	7.7	13.6
EBITDA	91.5	4.5	(11.9)	4.8	13.8
Adjusted EPS	88.2	12.5	(7.9)	2.9	10.9
Invested capital	34.5	26.9	12.7	13.9	14.4
Working Capital & Liquidity Ratios					
Receivables (days)	15	20	31	29	23
Inventory (days)	46	68	69	60	48
Payables (days)	104	132	145	127	100
Current ratio (x)	11.1	11.3	8.0	9.5	9.7
Quick ratio (x)	10.8	11.0	7.9	9.3	9.6
Turnover & Leverage Ratios (x)					
Gross asset turnover	5.6	4.8	4.5	4.8	5.5
Total asset turnover	0.6	0.5	0.4	0.4	0.4
Net interest coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	66.8	67.8	69.6	67.8	67.0
Interest burden (PBT/EBIT)	116.8	124.9	134.6	131.8	125.3
EBIT margin (EBIT/Revenue)	73.8	77.9	71.4	69.7	70.0
Asset turnover (Revenue/Avg TA)	61.6	47.0	37.3	35.4	35.8
Leverage (Avg TA/Avg equities)	109.3	109.0	110.4	110.5	108.8
Adjusted ROAE	38.8	33.8	27.6	24.4	22.9



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	1,12,853	1,11,676	1,06,958	1,15,236	1,30,932
EBITDA	84,494	88,304	77,754	81,521	92,803
EBIT	83,279	87,002	76,368	80,327	91,609
Net interest income/(expenses)	0	0	0	0	0
Other income/(expenses)	14,025	21,108	22,390	23,182	23,183
Exceptional items	0	513	4,058	2,400	0
EBT	97,304	1,08,623	1,02,816	1,05,909	1,14,792
Income taxes	(32,280)	(34,942)	(31,228)	(34,157)	(37,879)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	65,025	73,682	71,588	71,752	76,913
Adjustments	0	0	1	2	3
Adjusted net profit	65,025	73,682	71,589	71,754	76,916

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	7,498	9,470	13,753	9,772	11,103
Other current liabilities	9,939	11,582	18,728	18,728	18,728
Provisions	0	0	1	2	3
Debt funds	0	0	1	2	3
Other liabilities	0	0	0	0	0
Equity capital	396	396	3,965	3,965	3,965
Reserves & surplus	1,91,749	2,43,667	2,71,146	3,09,539	3,54,777
Shareholders' fund	1,92,145	2,44,064	2,75,111	3,13,503	3,58,742
Total liabilities and equities	2,09,582	2,65,115	3,07,591	3,42,007	3,88,578
Cash and cash eq.	1,72,281	2,02,646	2,10,259	2,23,720	2,42,803
Accounts receivables	4,854	7,370	10,822	7,605	8,641
Inventories	4,154	4,589	6,375	4,736	5,381
Other current assets	11,666	22,572	33,985	33,985	33,985
Investments	1,357	2,478	2,497	2,497	2,497
Net fixed assets	10,993	11,888	10,503	9,309	8,115
CWIP	5,677	14,942	34,505	61,505	88,505
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,029)	(1,001)	(1,045)	(1,045)	(1,045)
Other assets	0	0	1	2	3
Total assets	2,09,952	2,65,115	3,07,591	3,42,007	3,88,578

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	66,240	74,983	72,974	72,947	78,107
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(2,089)	(10,244)	(5,281)	875	(350)
Other operating cash flows	180	(28)	44	0	0
Cash flow from operations	64,331	64,711	67,736	73,821	77,757
Capital expenditures	(4,400)	(11,462)	(19,563)	(27,000)	(27,000)
Change in investments	(595)	(1,121)	(19)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(4,996)	(12,583)	(19,582)	(27,000)	(27,000)
Equities issued	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(2,520)	(2,896)	(2,896)	(2,896)	(2,896)
Dividends paid	(13,084)	(17,841)	(17,841)	(17,841)	(17,841)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(15,604)	(20,737)	(20,737)	(20,737)	(20,737)
Changes in cash and cash eq	43,731	31,391	27,417	26,084	30,020
Closing cash and cash eq	1,72,281	2,03,672	2,30,064	2,36,344	2,53,741

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