

NMDC

Attractively valued

Incorporated in November 1958, government-owned NMDC is India's largest iron ore producer with a capacity of 32mn tonne. The company operates high-grade iron ore mines in Chhattisgarh and Karnataka. As of March 31, 2011, its estimated reserves and resources stood at 1,434m tonnes.

Iron ore capacity to expand: NMDC aims to ramp up its production capacity to 48mn tonne by FY2015E (current capacity – 32mn tonne) through increased exploration of its existing mines and development of new mines, ie, Bailadila 11/B, Kumaraswamy and Deposit 10 & 11/A. However, given its past track record, we forecast iron ore production capacity to increase to 40mn tonne by FY2015 (compared to its target of 48mn tonne).

Low cost producer of iron ore: NMDC is one of the lowest cost producers of iron ore on account of its highly mechanized mines, high-grade iron ore mines and logistical efficiencies. Further, NMDC (unlike other PSUs such as SAIL and Coal India) does not face issues of overstaffing.

Seeking to diversify into steel making: NMDC intends to diversify its operations by moving downstream through establishing steel plants and pellet plants. Accordingly, the company aims to build an integrated 3mn tonne steel plant in Jagdalpur, Chhattisgarh with a capex of ₹15,525cr.

Outlook and valuation: Over the past five years, NMDC has traded at an average EV/EBITDA of 11.1x, compared to its upper band price valuation of 3.6x FY2014E EV/EBITDA. A strong balance sheet, presence in sellers market (iron ore), low cost of production, high-grade mines and long mine life make NMDC an attractive bet in our view. **Valuing the stock at 5.5x FY2014E EV/EBITDA, we derive a fair price of ₹198 and recommend investors to Subscribe to the issue at the upper price band of ₹150.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012	FY2013E	FY2014E
Net sales	11,369	11,261	11,209	12,525
% chg	82.2	(1.0)	(0.5)	11.7
Net profit	6,499	7,266	7,343	8,160
% chg	88.3	11.8	1.1	11.1
FDEPS (₹)	16.4	18.3	18.5	20.6
OPM (%)	76.1	79.3	78.4	78.3
P/E (x)	9.2	8.2	8.1	7.3
P/BV (x)	3.1	2.4	2.0	1.6
RoE (%)	38.8	33.3	27.0	24.6
RoCE (%)	50.6	40.1	31.7	29.1
EV/Sales (x)	3.7	3.5	3.4	2.8
EV/EBITDA (x)	4.9	4.4	4.3	3.6

Source: Company, Angel Research

Please refer to important disclosures at the end of this report

SUBSCRIBE

Issue Open: December 12, 2012
 Issue Close: December 12, 2012

Issue Details

Face Value: ₹1

Present Eq. Paid-up Capital: ₹396cr

Offer Size: 39.6cr Shares

Post Eq. Paid-up Capital: ₹396cr

Issue size (amount):* ₹5,749-5,947cr

Price Band: ₹145-150

Post-issue implied mkt cap: ₹61,354cr

Promoters holding Pre-Issue: 90.0%

Promoters holding Post-Issue: 80.0%

*Note: *At the lower and upper price band, respectively*

Post Issue Shareholding Pattern

Promoters Group	80.0
MF/Banks/Indian Fls/FIIs/Public & Others	20.0

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Company background

Incorporated in November 1958, government-owned NMDC is India's largest iron ore producer with a capacity of 32mn tonne. The company operates high-grade iron ore mines at Kirandul and Bachel in Chhattisgarh and Donimalai in Karnataka. As of March 31, 2011, its estimated reserves and resources stood at 1,434m tonnes with majority of its ore over 64% Fe grade.

Issue details

The FPO comprises an offer for sale of 39.6cr equity shares of face value ₹1 each. There is no fresh issue of equity. NMDC has fixed the issue price band at ₹145-150 per share.

Exhibit 1: Shareholding Pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter and promoter group	3,56,84,18,180	90.0	3,17,19,46,580	80.0
Total public holding	3,61,53,993	10.0	79,27,69,420	20.0
Total	3,96,47,16,000	100	3,96,47,16,000	100

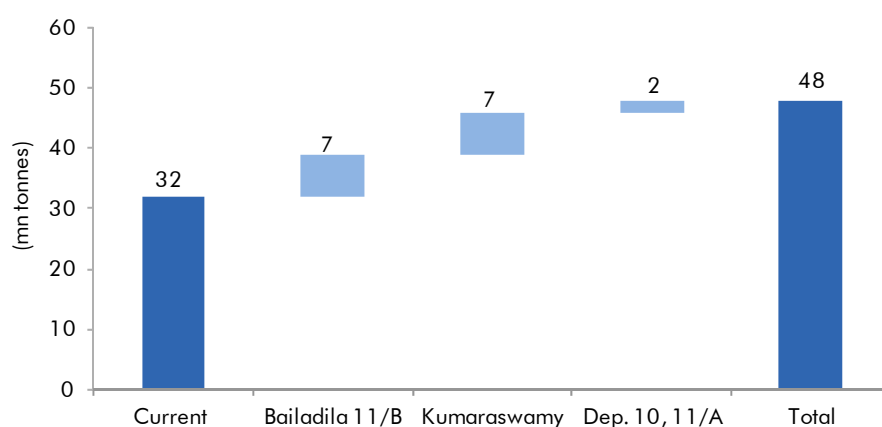
Source: Source: RHP, Angel Research

Investment arguments

Iron ore capacity to expand

NMDC aims to ramp up its production capacity to 48mn tonne by FY2015E (current capacity – 32mn tonne) through increased exploration of its existing mines and development of new mines, ie, Bailadila 11/B, Kumaraswamy and Deposit 10 & 11/A. However, given its past track record, we forecast iron ore production capacity to increase to 40mn tonne by FY2015 (compared to NMDC’s target of 48mn tonne). In the near term, although we expect sales volumes to remain flat in FY2013, we expect it to grow by 13.0% yoy during FY2014.

Exhibit 2: Iron ore capacity expansion details

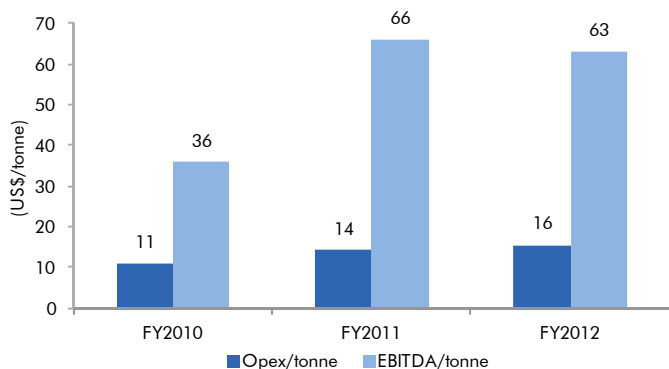


Source: Company, Angel Research

Low cost producer of iron ore

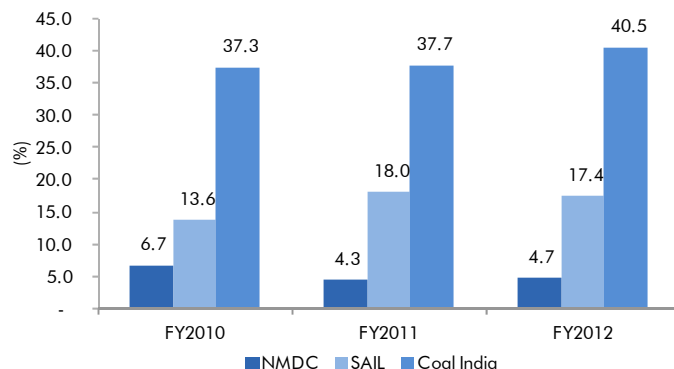
NMDC is one of the lowest cost producers of iron ore on account of its highly mechanized mines, high-grade iron ore mines and logistical efficiencies. Further, NMDC (unlike other PSUs such as SAIL and Coal India) does not face issues of high employees’ costs as a percentage of net sales. Its staff costs/ net sales ratio is the lowest compared to other PSUs.

Exhibit 3: NMDC’s opex & EBITDA per tonne trend



Source: Company, Angel Research

Exhibit 4: Employee costs as a percentage of sales



Source: Company, Angel Research

Seeking to diversify into steel making

The management intends to diversify its operations by moving downstream through establishing steel plants and pellet plants. Accordingly, the company aims to build an integrated 3mn tonne steel plant in Jagdalpur, Chhattisgarh. The land acquisition for the same is nearly complete, which gives comfort as land acquisition has been a major bottleneck to greenfield projects in recent times. Also, NMDC plans to set up another 3mn tonne steel plant in Karnataka in partnership with the Russian steel giant, Severstal.

Exhibit 5: Chhattisgarh steel project status

Capacity	3mn tonne per year
Capex	₹15,525cr
Land	Total land required: 1,934 acres. Total land acquired: 1,932 acres. Balance land is under allotment process.
Date of completion	42 months from "Zero date" i.e., receipt of all statutory clearance/approvals and placement of orders. Targeted period – FY2015

Source: Company, Angel Research

Outlook and valuation

Over the past five years, NMDC has traded at an average EV/EBITDA of 11.1x (mainly due to low liquidity), compared to its upper band price valuation of 3.6x FY2014E EV/EBITDA. Strong balance sheet, presence in sellers market (iron ore), low cost of production, high-grade mines and long mine life make NMDC an attractive bet in our view. **Valuing the stock at 5.5x FY2014E EV/EBITDA, we derive a fair price of ₹198 and recommend investors to Subscribe to the issue at the upper price band of ₹150.**

Key concerns

Disturbances due to Maoists activities in Bailadila

In the past, NMDC has faced Maoists attacks in Bailadila region. Such attacks have affected production and movement of iron ore from Bailadila region.

Delays in setting up the steel plant

NMDC is planning to set up steel plants in Chhattisgarh and Karnataka. However, it does not have experience in setting up steel projects. As such, there could be potential delays/ cost overruns in its steel projects.

Profit & loss statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net Sales	7,564	6,239	11,369	11,261	11,209	12,525
Other operating income	-	-	-	-	-	-
Total operating income	7,564	6,239	11,369	11,261	11,209	12,525
% chg	32.4	(17.5)	82.2	(1.0)	(0.5)	11.7
Total Expenditure	1,726	1,817	2,722	2,336	2,424	2,713
Net Raw Materials	86	211	123	234	278	344
Personnel	421	420	492	529	548	570
Other	1,219	1,186	2,107	1,573	1,598	1,800
EBITDA	5,838	4,422	8,646	8,925	8,785	9,812
% chg	34.6	(24.2)	95.5	3.2	(1.6)	11.7
(% of Net Sales)	77.2	70.9	76.1	79.3	78.4	78.3
Depreciation & Amortization	74	73	125	130	123	138
EBIT	5,764	4,349	8,521	8,794	8,662	9,674
% chg	34.8	(24.6)	95.9	3.2	(1.5)	11.7
(% of Net Sales)	76.2	69.7	75.0	78.1	77.3	77.2
Interest & other Charges	-	-	-	-	-	-
Other Income	884	862	1,206	2,016	2,298	2,505
Recurring PBT	6,648	5,211	9,727	10,811	10,960	12,179
% chg	34.4	(21.6)	86.7	11.1	1.4	11.1
Extraordinary Inc/(Expense)	-	-	-	(513)	-	-
PBT (reported)	6,648	5,211	9,727	10,760	10,960	12,179
Tax	2,276	1,760	3,228	3,494	3,617	4,019
(% of PBT)	34.2	33.8	33.2	32.5	33.0	33.0
PAT (reported)	4,372	3,451	6,499	7,266	7,343	8,160
ADJ. PAT	4,372	3,451	6,499	7,266	7,343	8,160
% chg	34.5	(21.1)	88.3	11.8	1.1	11.1
(% of Net Sales)	57.8	55.3	57.2	64.5	65.5	65.1
Basic EPS (₹)	11.0	8.7	16.4	18.3	18.5	20.6
Fully Diluted EPS (₹)	11.0	8.7	16.4	18.3	18.5	20.6
% chg	34.5	(21.1)	88.3	11.8	1.1	11.1

Balance sheet (Standalone)

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	396	396	396	396	396	396
Reserves & Surplus	11,240	13,876	18,818	24,010	29,635	35,885
Shareholders' Funds	11,637	14,272	19,215	24,406	30,031	36,281
Total Loans	-	-	-	-	-	-
Deferred Tax Liability	58	85	103	100	100	100
Other Long term Liabilities	-	-	22	23	23	23
Long Term Provisions	-	-	15	13	13	13
Total Liabilities	11,695	14,357	19,354	24,543	30,168	36,418
APPLICATION OF FUNDS						
Gross Block	1,669	1,771	2,273	2,388	3,388	3,888
Less: Acc. Depreciation	923	984	(1,174)	(1,199)	(1,323)	(1,460)
Net Block	747	787	1,099	1,189	2,066	2,428
Capital Work-in-Progress	248	561	568	1,494	4,894	7,894
Goodwill	-	-	-	-	-	-
Investments	72	76	136	248	248	248
Long Term Loans and Advances	-	-	199	512	512	512
Other non- current assets	-	-	11	7	7	7
Current Assets	11,771	14,264	19,086	23,199	24,387	27,325
Cash	9,740	12,855	17,228	20,265	21,483	24,321
Loans & Advances	403	683	557	1,048	1,048	1,048
Other	1,628	726	1,300	1,886	1,856	1,956
Current liabilities	1,165	1,348	1,744	2,105	1,945	1,995
Net Current Assets	10,606	12,916	17,342	21,094	22,442	25,330
Mis. Exp. not written off	22	17	-	-	-	-
Total Assets	11,695	14,357	19,354	24,543	30,168	36,418

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	6,648	5,207	9,726	10,760	10,960	12,179
Depreciation	74	73	122	184	123	138
Change in Working Capital	(785)	926	(525)	(889)	(129)	(50)
Others	(866)	(832)	(1,144)	(1,962)	-	-
Direct taxes paid	(2,292)	(1,770)	(3,318)	(3,502)	(3,617)	(4,019)
Cash Flow from Operations	2,778	3,604	4,862	4,595	7,337	8,247
Inc./ (Dec.) in Fixed Assets	(389)	(422)	(456)	(1,211)	(4,400)	(3,500)
Other income	880	828	(3,961)	472	-	-
Cash Flow from Investing	491	407	(4,417)	(739)	(4,400)	(3,500)
Issue of Equity	-	-	-	-	-	-
Inc./ (Dec.) in loans	-	-	-	-	-	-
Dividend Paid (Incl. Tax)	(728)	(895)	(994)	(1,911)	(1,718)	(1,909)
Others	-	-	-	(0.1)	-	-
Cash Flow from Financing	(728)	(895)	(994)	(1,911)	(1,718)	(1,909)
Inc./ (Dec.) in Cash	2,541	3,115	(550)	1,945	1,219	2,838
Opening Cash balances	7,199	9,740	1,648	1,153	3,098	21,483
Closing Cash balances	9,740	12,855	1,153	3,098	21,483	24,321

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	13.6	17.2	9.2	8.2	8.1	7.3
P/CEPS	13.4	16.9	9.0	8.0	8.0	7.2
P/BV	5.1	4.2	3.1	2.4	2.0	1.6
Dividend yield (%)	1.5	1.2	1.4	2.1	2.5	2.7
EV/Sales	6.6	7.5	3.7	3.5	3.4	2.8
EV/EBITDA	8.5	10.5	4.9	4.4	4.3	3.6
EV / Total Assets	4.2	3.2	2.2	1.6	1.3	1.0
Per Share Data (₹)						
EPS (Basic)	11.0	8.7	16.4	18.3	18.5	20.6
EPS (fully diluted)	11.0	8.7	16.4	18.3	18.5	20.6
Cash EPS	11.2	8.9	16.7	18.7	18.8	20.9
DPS	2.2	1.7	2.2	3.2	3.7	4.1
Book Value	29.4	36.0	48.5	61.6	75.7	91.5
Dupont Analysis						
EBIT margin	76.2	69.7	75.0	78.1	77.3	77.2
Tax retention ratio (%)	65.8	66.2	66.8	67.7	67.0	67.0
Asset turnover (x)	5.2	3.8	6.7	3.7	1.8	1.2
ROIC (Post-tax)	261.7	174.0	333.3	197.7	93.1	63.9
Cost of Debt (Post Tax)						
Returns (%)						
ROCE (Pre-tax)	57.7	33.4	50.6	40.1	31.7	29.1
Angel ROIC (Pre-tax)	454.4	347.9	744.9	444.2	284.9	258.0
ROE	43.9	26.6	38.8	33.3	27.0	24.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	4.9	3.6	5.6	4.8	3.9	3.4
Inventory / Sales (days)	64	60	56	72	65	60
Receivables (days)	50	25	16	24	24	24
Payables (days)	81	105	54	63	63	63
WC cycle (ex-cash) (days)	33	34	11	21	25	22
Solvency ratios (x)						
Net debt to equity	(0.8)	(0.9)	(0.9)	(0.8)	(0.7)	(0.7)
Net debt to EBITDA	(1.7)	(2.9)	(2.0)	(2.3)	(2.5)	(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

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