

# NMDC

10 July 2012

Reuters: NMDC.BO; Bloomberg: NMDC IN

## Raise Our Target Price, But Maintain Hold

NMDC's new pricing mechanism based on domestic demand-supply dynamics rather than export parity would partially help it to mitigate the effect of cyclical downturn in iron ore prices. Besides this, NMDC has commissioned its uniflow railway line system in June 2012, which gives us comfort about our FY13E volume estimate of 29mt, a growth of 6.2% YoY, despite being hit by the damage to slurry pipeline in Chhattisgarh. We revise our EBITDA estimates upward by 3% and 7% for FY13E and FY14E, respectively, on the back of improvement in expected realisation and higher volume. The stock price has risen 15% since our last update (*"Performance in Line; We Upgrade Stock to Hold"* dated 29 May 2012) as compared to a 7% rise in the benchmark Sensex in the same period. We retain our Hold rating on NMDC with a revised target price of Rs206 (up 21% from our earlier TP), which is 7% above the CMP.

**Volume growth visible after a long period of subdued growth:** NMDC reported volume CAGR of 1.3% over the past five years due to disruption to iron ore despatches by Maoists and slower expansion due to delay in projects as well as regulatory hurdles. Although, we remain circumspect about NMDC's guidance of hitting the 50mt-mark in FY16, it surely depicts strong growth on the back of commissioning of new projects. NMDC has started its uniflow railway line system in June 2012, which would augment evacuation capacity by 3mt. NMDC is also on the verge of commencing operations at Bailadila Deposit 11B mine in October 2012, which has a capacity of 7mt. We expect this unit to contribute to volume from 1QFY14. We expect a 9.1% iron ore volume CAGR over FY12-14E

**Domestic iron ore prices to be partially insulated from global prices:** NMDC has changed its pricing mechanism from export parity to the one based on domestic demand-supply dynamics. We believe this would be partially beneficial as NMDC would be able to mitigate the drop in global iron ore prices to some extent. We have increased our FY13E and FY14E realisation assumptions by 3% and 4%, respectively, but still our assumptions have factored in a fair amount of caution, with blended realisation seen at US\$72/70/tn in FY13E/FY14E compared to US\$94/85/tn in FY11/FY12, respectively.

**Valuation reasonable:** NMDC is currently trading at P/E multiples of 10.3x and 9.6x for FY13E and FY14E, respectively, while EV/EBITDA multiples are at 5.8x and 5.3x for the same period. Post follow-on public offer in March 2010, the stock traded at average P/E and EV/EBITDA of 13.0x and 8.1x, respectively, while the current multiples are lower than 1SD below average. Although the current multiples are marginally higher than the global average, we believe the premium valuation is likely to sustain due to longer mine life. We have also revised our target multiple from 4x to 5x FY14E EV/EBITDA, in line with our metal sector coverage universe as we believe the cyclical downturn in iron ore would not materially affect the dynamics of the business.

Y/E Mar (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	62,391	113,689	112,615	115,191	124,141
YoY (%)	(17.5)	82.2	(0.9)	2.3	7.8
EBITDA	44,295	86,465	89,281	90,761	97,557
EBITDA (%)	71.0	76.1	79.3	78.8	78.6
Adj PAT	34,473	64,992	72,654	74,174	80,299
EPS (Rs)	8.7	16.4	18.3	18.7	20.3
YoY (%)	(21.2)	88.5	11.8	2.1	8.3
RoE (%)	24.2	33.8	29.8	24.9	22.5
RoCE (%)	24.2	33.8	29.8	24.9	22.5
P/E (x)	22.3	11.8	10.6	10.3	9.6
EV/EBITDA (x)	14.4	6.9	6.3	5.8	5.3

Source: Company, Nirmal Bang Institutional Equities Research

**HOLD**
**Sector:** Mining

**CMP:** Rs194

**Target Price:** Rs206

**Upside:** 7%

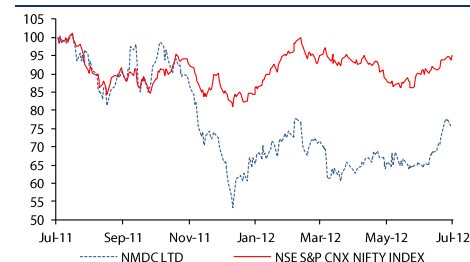
**Giriraj Daga**

giriraj.daga@nirmalbang.com

+91-22-3926 8168

**Key Data**

Current Shares O/S (mn)	3,964.7
Mkt Cap (Rsbn/US\$bn)	766.8/13.8
52 Wk H / L (Rs)	263/136
Daily Vol. (3M NSE Avg.)	397,407

**One Year Indexed Stock Performance**

**Price Performance (%)**

	1 M	6 M	1 Yr
NMDC	15.0	14.4	(24.9)
Nifty Index	5.5	10.2	(5.6)

Source: Bloomberg

## Exhibit 1: Operations summary

Description	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
<b>Iron ore segment</b>										
Volume (mt)	23.2	24.8	25.6	28.2	26.5	24.1	26.3	27.3	29.0	32.5
Realisation (Rs/tn)	939	1,477	1,630	2,024	2,856	2,584	4,286	4,072	3,950	3,800
Costs (Rs/tn)	503	445	366	460	604	760	1,034	855	842	818
EBITDA (Rs/tn)	436	1,032	1,264	1,564	2,251	1,823	3,252	3,217	3,108	2,982
Realisation (US\$/tn)	20.9	33.4	36.0	50.3	62.1	54.5	94.0	84.9	72.5	69.7
<b>Financials (Rsmn)</b>										
Net sales	22,300	37,109	41,858	57,113	75,640	62,391	113,689	112,615	115,191	124,141
EBITDA	11,865	26,899	32,270	43,402	58,406	44,295	86,465	89,281	90,761	97,557
PAT	7,554	18,278	23,197	32,510	43,723	34,473	64,992	72,654	74,174	80,299
EPS (Rs)	1.9	4.6	5.9	8.2	11.0	8.7	16.4	18.3	18.7	20.3

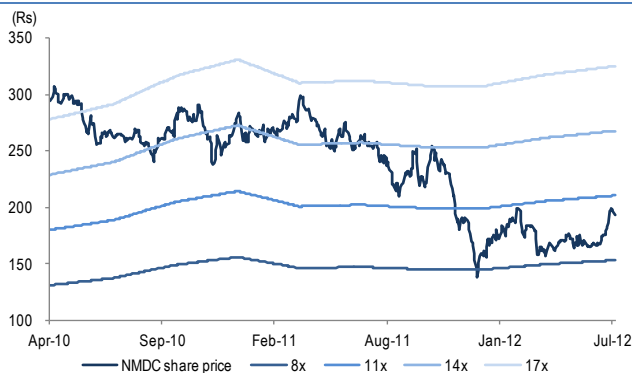
Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Change in our earnings estimates

Description	Earlier assumptions		New assumptions		Change (%)		
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	
<b>Operational details</b>							
Iron ore volume (mt)		29.0	32.0	29.0	32.5	0.0	1.6
Realisation (Rs/tn)		3,850	3,650	3,950	3,800	2.6	4.1
<b>Financials (Rsmn)</b>							
Net sales		112,291	117,441	115,191	124,141	2.6	5.7
EBITDA		87,861	91,172	90,761	97,557	3.3	7.0
PAT		71,592	75,167	74,174	80,299	3.6	6.8

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: One-year forward P/E (post FPO)



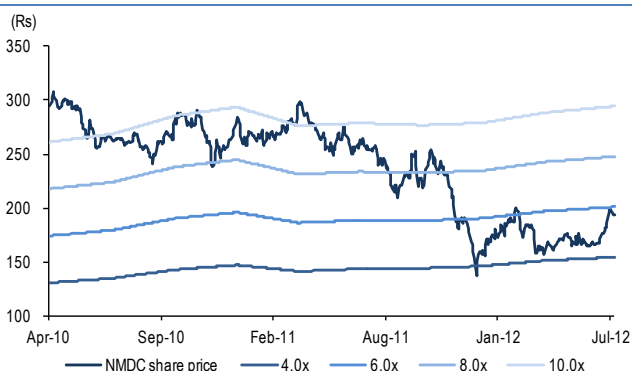
Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 4: One-year forward average P/E (post FPO)



Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 5: One-year forward EV/EBITDA (post FPO)



Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 6: One-year forward average EV/EBITDA (post FPO)



Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 7: Peer comparison

Summary	CMP	Mkt-cap	Performance (% chg)			P/E (x)		P/BV (x)		RoE (%)		EV/EBITDA (x)	
	US\$	US\$bn	3M	6M	12M	CY12E/	CY13E/	CY12E/	CY13E/	CY12E/	CY13E/	CY12E/	CY13E/
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
BHP Billiton	31.9	163.1	(9.2)	(11.2)	(32.4)	9.6	8.9	2.4	2.0	28.1	24.2	5.4	4.9
Rio Tinto Plc	47.3	91.7	(9.7)	(7.4)	(33.2)	7.0	6.0	1.4	1.2	21.1	21.0	4.6	4.0
Vale SA	19.6	106.7	(11.0)	(8.7)	(32.1)	5.8	5.6	1.2	1.1	22.5	20.0	4.3	4.3
Anglo American Plc	32.0	44.5	(8.2)	(14.9)	(33.8)	8.0	6.5	1.0	0.9	12.8	14.6	4.6	3.7
Fortescue Metals Group	5.0	15.4	(16.6)	8.7	(28.5)	10.1	7.2	4.2	2.8	47.6	42.9	7.3	5.8
Cliffs Natural Resources Inc	47.1	6.7	(28.4)	(28.8)	(50.4)	5.8	4.6	0.9	0.8	15.9	17.9	4.7	3.4
NMDC	3.5	13.8	10.6	8.6	(39.6)	10.3	9.6	2.6	2.2	24.9	22.5	5.8	5.3
			<b>(10.4)</b>	<b>(7.7)</b>	<b>(35.7)</b>	<b>8.1</b>	<b>6.9</b>	<b>2.0</b>	<b>1.6</b>	<b>24.7</b>	<b>23.3</b>	<b>5.3</b>	<b>4.5</b>

Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Financials**
**Exhibit 8: Income statement**

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
<b>Revenue</b>	<b>62,391</b>	<b>113,689</b>	<b>112,615</b>	<b>115,191</b>	<b>124,141</b>
YoY growth (%)	(17.5)	82.2	(0.9)	2.3	7.8
Staff costs	4,195	4,924	5,291	5,550	5,850
% of sales	6.7	4.3	4.7	4.8	4.7
Royalty & cess	3,606	9,318	10,226	11,600	12,513
% of sales	5.8	8.2	9.1	10.1	10.1
Selling exp. & freight costs	4,689	8,639	1,440	3,000	3,200
% of sales	7.5	7.6	1.3	2.6	2.6
Other expenditure	5,606	4,345	6,376	4,280	5,021
% of sales	9.0	3.8	5.7	3.7	4.0
Total expenditure	18,096	27,225	23,334	24,430	26,584
<b>EBITDA</b>	<b>44,295</b>	<b>86,465</b>	<b>89,281</b>	<b>90,761</b>	<b>97,557</b>
EBITDA margin (%)	71.0	76.1	79.3	78.8	78.6
Depreciation	766	1,250	1,328	1,646	1,898
<b>EBIT</b>	<b>43,529</b>	<b>85,215</b>	<b>87,953</b>	<b>89,114</b>	<b>95,659</b>
Exceptional loss/(gain)	73	0	513	0	0
Other income	8,617	12,057	20,154	23,304	26,044
<b>PBT</b>	<b>52,073</b>	<b>97,272</b>	<b>107,595</b>	<b>112,419</b>	<b>121,703</b>
Provision for tax	17,601	32,280	34,941	38,245	41,403
Effective tax rate (%)	33.8	33.2	32.5	34.0	34.0
<b>PAT</b>	<b>34,473</b>	<b>64,992</b>	<b>72,654</b>	<b>74,174</b>	<b>80,299</b>
YoY growth (%)	(21.2)	88.5	11.8	2.1	8.3
PAT margin (%)	55.3	57.2	64.5	64.4	64.7

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 10: Balance Sheet**

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Share capital	3,965	3,965	3,965	3,965	3,965
Reserves and surplus	138,760	188,181	240,099	293,399	352,826
Shareholders' fund	142,724	192,145	244,064	297,364	356,790
Loan fund	0	0	0	0	0
<b>Total capital employed</b>	<b>142,724</b>	<b>192,145</b>	<b>244,064</b>	<b>297,364</b>	<b>356,790</b>
Gross block	17,711	22,728	24,898	29,398	33,898
Less: Acc depreciation	9,840	11,736	13,063	14,710	16,608
Net block	7,872	10,993	11,835	14,689	17,290
Capital WIP	5,561	6,772	15,061	37,061	79,061
Net fixed assets	13,432	17,764	26,896	51,749	96,351
Investments	761	1,357	2,478	2,478	2,478
Cash and bank	128,549	172,281	202,646	236,760	251,603
Inventories	2,988	4,154	4,589	4,525	4,845
Debtors	4,270	4,854	7,370	7,487	8,069
Other CA and loans & adv	6,829	10,427	22,506	17,279	18,621
Total CA and loans & adv	142,636	191,716	237,111	266,051	283,138
Creditors	5,205	5,717	4,083	4,886	5,317
Other current liabilities	2,320	2,002	5,620	4,501	5,457
Provisions	5,952	10,088	11,716	11,716	11,716
Net current assets	129,160	173,908	215,691	244,947	260,648
Miscellaneous expenses	220	145	0	0	0
Deferred tax assets	(849)	(1,029)	(1,001)	(1,810)	(2,687)
<b>Total assets</b>	<b>142,724</b>	<b>192,145</b>	<b>244,064</b>	<b>297,364</b>	<b>356,790</b>

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 9: Cash flow**

Y/E March (Rsmn)	FY10	FY11	FY12E	FY13E	FY14E
EBIT	43,529	85,215	87,953	89,114	95,659
(Inc.)/dec. in working capital	9,257	(5,249)	(13,045)	4,858	(858)
<b>Cash flow from operations</b>	<b>52,786</b>	<b>79,966</b>	<b>74,908</b>	<b>93,972</b>	<b>94,801</b>
Other income	8,617	12,057	20,154	23,304	26,044
Depreciation	766	1,250	1,328	1,646	1,898
Tax paid (-)	17,705	33,195	34,242	37,435	40,527
Dividends paid (-)	8,953	9,942	15,307	20,873	20,873
<b>Net cash from operations</b>	<b>35,512</b>	<b>50,136</b>	<b>46,841</b>	<b>60,614</b>	<b>61,343</b>
Capital expenditure (-)	4,202	5,152	10,459	26,500	46,500
<b>Net cash after capex</b>	<b>31,310</b>	<b>44,984</b>	<b>36,382</b>	<b>34,114</b>	<b>14,843</b>
(Inc.)/dec. in investments	(46)	(595)	(1,121)	0	0
<b>Cash from financial activities</b>	<b>(46)</b>	<b>(595)</b>	<b>(1,121)</b>	<b>0</b>	<b>0</b>
Others	(112)	(658)	(4,896)	0	(0)
Opening cash	97,397	128,549	172,281	202,646	236,760
Closing cash	128,549	172,281	202,646	236,760	251,603
Change in cash	31,153	43,731	30,365	34,114	14,843

Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 11: Key ratios**

Y/E March	FY10	FY11	FY12	FY13E	FY14E
<b>Per share (Rs)</b>					
EPS	8.7	16.4	18.3	18.7	20.3
Book value	36.0	48.5	61.6	75.0	90.0
<b>Valuation (x)</b>					
P/E	22.3	11.8	10.6	10.3	9.6
P/BV	5.4	4.0	3.1	2.6	2.2
EV/EBITDA	14.4	6.9	6.3	5.8	5.3
EV/sales	10.2	5.2	5.0	4.6	4.2
M-cap/sales	12.3	6.8	6.8	6.7	6.2
<b>Returns ratios (%)</b>					
RoCE	24.2	33.8	29.8	24.9	22.5
RoE	24.2	33.8	29.8	24.9	22.5
<b>Margin ratios (%)</b>					
EBITDA margin	71.0	76.1	79.3	78.8	78.6
PBIT margin	69.8	75.0	78.1	77.4	77.1
PBT margin	73.3	77.4	81.0	81.2	81.0
PAT margin	55.3	57.2	64.5	64.4	64.7
<b>Turnover ratios</b>					
Asset turnover ratio (x)	3.5	5.0	4.5	3.9	3.7
Avg collection period (days)	25.0	15.6	23.9	23.7	23.7
Avg payment period (days)	103.9	74.2	63.9	72.8	72.8
<b>Solvency ratios (x)</b>					
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
31 January 2012	Sell	179	154
12 April 2012	Sell	161	154
29 May 2012	Hold	168	171
10 July 2012	Hold	194	206

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

**'Access our reports on Bloomberg Type NBIE <GO>'**

### Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	+91 22 3926 8098 / 99
Hemindra Hazari	Head of Research	hemindra.hazari@nirmalbang.com	+91 22 3926 8017 / 18

### Sales and Dealing:

Neha Grover	AVP Sales	neha.grover@nirmalbang.com	+91 22 3926 8093
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Sudhindar Rao	Dealing Desk	sudhindar.rao@nirmalbang.com	+91 22 3926 8229, +91 22 6636 8832
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park  
 Lower Parel (W), Mumbai-400013.  
 Board No. : 91 22 3926 8000/1  
 Fax. : 022 3926 8010