

## NMDC LTD.

Industry  
Bloomberg  
BSE Code  
NSE Code

MINING  
NMDC IN  
526371  
NMDC

Friday, August 31, 2018

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>110</b>
<b>Price Target</b>	<b>116</b>
<b>Previous Target</b>	<b>112</b>
<b>Potential Upside</b>	<b>6%</b>

## Stock Info

52wk Range H/L	163/93
Mkt Capital (Rs Cr)	34645
Free float (%)	25%
Avg. Vol 1M (,000)	4147
No. of Shares (Crore)	316
Promoters Pledged %	0%

## Volume still weak, price hike to keep realization strong..

## Key Highlights

- ☑ NMDC is Navratna Public Sector Enterprise and is India's largest iron ore miner producing around 36mt (FY18) of iron ore. It has 3 fully mechanized mines viz., Bailadila Deposit-14/11C, Bailadila Deposit-5, 10/11A (Chhattisgarh State) and Donimalai Iron ore mines (Karnataka State). Company is also in the process of commissioning of 3mtpa steel plant.
- ☑ Company has recently taken price hike of Rs.150/t in lump and fines reflecting increase in international prices of iron ore (5% increase in Aug'18 prices). Recent price hike including 2 other hikes taken in FY19 would keep realization strong going forward.
- ☑ Commissioning of steel plant on line as company has floated tenders for operation and maintenance of steel plant for 3 years starting Oct'18.

## Result Update

Company's 1QFY19 revenue came in at Rs.2422 crore (-14.8% YoY) led by substantial fall in volume. Sales volume for the quarter came in at 6.84mt (-26% YoY, -35% QoQ), drop in Karnataka volume due availability of iron ore at lower price from international sources. EBITDA for the quarter stood at Rs.1424 crore (-4.8% YoY). EBITDA/t improved to Rs.2082 (15%QoQ, 28%YoY) because of lower other expenses due to lower sales volume and higher realization YoY (Rs.3504/t in 1QFY19 vs. Rs.3068/t in 1QFY18). Cost/t was at Rs.1459 (-22%QoQ, flat YoY) reflecting decrease in other expenses. PAT for the quarter came in Rs.975 crore (flat QoQ, -12% YoY).

## View and Valuation

NMDC's 1QFY19 performance got impacted by decrease in volume primarily on account of fall of 74% YoY in volume from Karnataka at 0.87mt. Volume dip was because of increase in import of iron ore in 1QFY19 driven by price difference (falling international price of iron ore in 1QFY19, whereas domestic prices were on an uptrend). Production and sales volume for July'18 were still weak at 1.52mt (down 35% QoQ and 37%YoY) and 1.88mt (down 19%QoQ and 34% YoY), volumes were lower due to monsoon. We expect recent price hike of Rs.150/t both in lumps and fines would keep realization strong in FY19. However, we expect muted volume growth in FY19 led by increase in supply from other players (Odisha mines), auctioning of iron ore mines for captive consumption and commissioning of captive mine by some of big steel players like JSW Steel. We expect Volume/PAT CAGR of 5% over FY18-20e. We value the stock at **Rs.116 (5.5x FY20e EV/EBITDA) with a NEUTRAL rating.**

## Key Risks to our rating and target

- ◆ Sharp decline in international iron ore prices.
- ◆ Less than expected volume growth.

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	12356	6456	8828	11615	11829	12172
EBITDA	7778	2751	3602	5809	6061	6138
EBIT	7616	2534	3406	5553	5780	5824
PAT	6422	2713	2589	3806	4122	4180
EPS (Rs)	16	7	8	12	13	13
EPS growth (%)	0%	-58%	20%	47%	8%	1%
ROE (%)	20%	9%	11%	16%	16%	15%
ROCE (%)	24%	9%	15%	23%	22%	20%
BV	82	73	71	77	84	90
P/B (X)	1.59	1.33	1.87	1.54	1.31	1.21
P/E (x)	8.03	14.32	16.27	9.86	8.41	8.30

Research Analyst

SAGAR SHARMA

Sagar.sharma@narnolia.com

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## 1Q FY 19 Results lower other expenses improves operating margins....

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	2842	2421	2469	3883	2422	-14.8%	-37.6%	8,828	11,615	31.6%
Other Income	129	110	111	170	125	-2.7%	-26.5%	909	520	-42.8%
Total Income	2970	2531	2580	4053	2547	-14.2%	-37.2%	9,737	12,135	24.6%
COGS	28	188	35	-1	39	41.5%	-	368	249	-32.4%
Employee Cost	204	212	218	412	237	16.4%	-42.5%	886	1,046	18.2%
Other Expenses	404	331	381	635	244	-39.5%	-61.5%	1,522	1,751	15.1%
Expenditure	1347	1218	1259	1982	998	-25.9%	-49.6%	5,226	5,806	11.1%
EBITDA	1495	1203	1210	1901	1424	-4.8%	-25.1%	3,602	5,809	61.3%
Depreciation	47	62	77	70	62	31.9%	-12.3%	196	256	30.5%
EBIT	1448	1141	1133	1831	1362	-5.9%	-25.6%	3,406	5,553	63.0%
Interest	8	10	11	8	11	32.6%	42.2%	21	37	78.7%
PBT	1569	1241	1233	1993	1477	-5.9%	-25.9%	4,294	6,035	40.6%
Exceptional	0	0	-145	1	0	-	-	-	(144)	-
Tax	599	396	491	887	501	-16.4%	-43.5%	1,705	2,373	39.2%
PAT	969	844	887	1106	975	0.6%	-11.8%	2,589	3,806	47.0%

### Operating Matrix

Volume/Realization	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %
Production (mt)	6.31	9.71	10.38	8.50	7.18	8.56	11.35	6.87	-19.1%
Sales (mt)	8.01	10.06	9.78	9.18	8.30	8.06	10.54	6.84	-25.5%
Realization (Rs./tonne)	2129	2456	2896	3068	2887	3014	3653	3504	14.2%

EBITDA/Cost	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %
EBITDA/tonne (Rs.)	1030	1021	954	1628	1450	1501	1804	2082	27.9%
Cost/tonne (Rs.)	1140	1463	1984	1466	1469	1563	1881	1459	-0.5%

### Recent price hike to keep realization strong

1QFY19 realization came in around Rs.3504/t (14% YOY, -4% QoQ). Company has been increasing prices of iron ore continuously in FY19, with recent one of Rs.150/t taking prices to Rs.3350/t and Rs.2960/t for lumps and fines w.e.f 27 August, 2018. The recent price hike is in line with increase in international prices of iron ore (up 5% for Aug'18 at USD 67/t). Realizations going forward are expected to be strong led by increasing iron ore prices. Further, EBITDA/t also increased to Rs.2082 (28% YoY, 14% QoQ) led by higher realization and lower other expenses due to lower volume.

### Declining trend in volume

Company's production and sales volume declined to 6.87mt (-19% YoY, -39% QoQ) and 6.84mt (-26% YoY, -34% QoQ). Though Chhattisgarh sales volume increased by 3% YoY to 5.97mt, Karnataka volume declined by 74% YoY to 0.87mt. Volume de-growth was due to increase in imports in 1QFY19 because of iron ore price difference (declining international prices as compare to continuous increase in domestic prices).

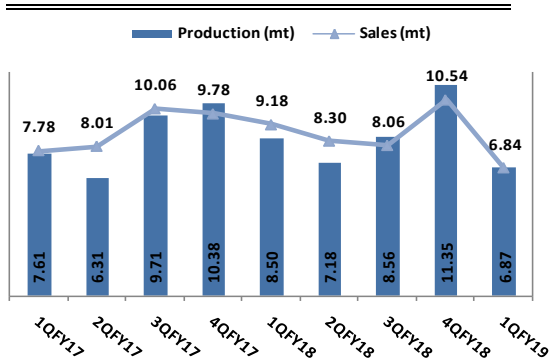
### Update on steel plant

Commissioning of steel plant seems to be on line as company has recently floated tenders for operation and maintenance of electrical installations of blast furnace and its auxiliaries for 3 MTPA integrated steel plant at Nagarnar, Chhattisgarh for a period of three years commencing from Oct'18. In relations to divestment of steel plant, Management has earlier stated that there are various issues that need to be worked out before divestment of steel plant, but irrespective of any decision steel plant will get commission.

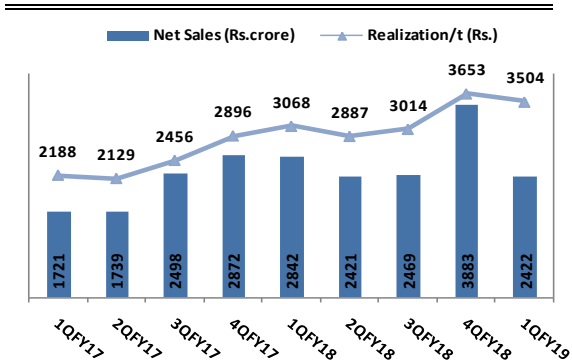
### Other highlights

Other expenses for the quarter included Rs.29 crore towards doubling of railway line between Kirandul and Jagdalpur and between Jagdalpur and Ambagaon, Rs.26 crore for expected credit loss and Rs.11 crore for mines closure obligation.

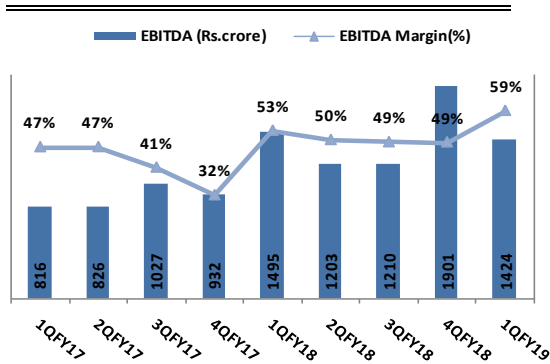
**Exhibit: Iron Ore Production and Sales Volume Trend**  
 volume impacted due to increase in import in 1QFY19....



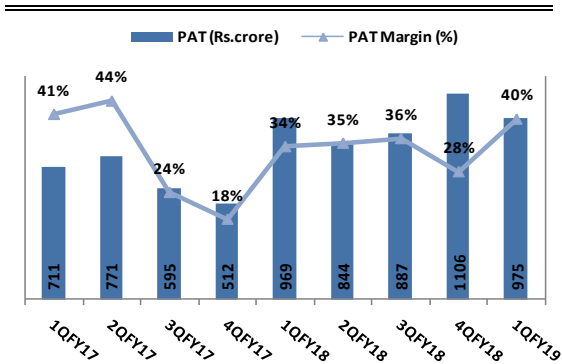
**Exhibit: Net sales and Realization Trend**  
 realization holding strong led by increasing domestic iron ore prices....



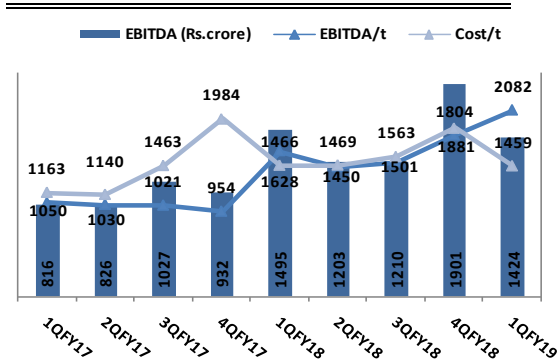
**Exhibit: EBITDA and EBITDA Margin Trend**  
 margins improve led by fall in other expenses, expected to correct in 2QFY19....



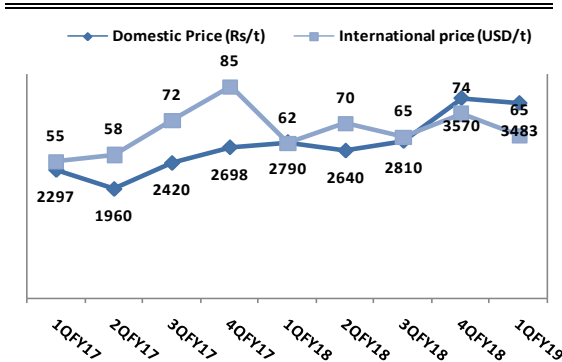
**Exhibit: PAT and PAT Margin Trend**  
 PAT margin reflecting increase in EBITDA margin....



**Exhibit: EBITDA/t and Cost/t Trend**  
 fall in other expenses led to increase in EBITDA/t and fall in cost/t....



**Exhibit: Iron Ore Price Trend**  
 domestic prices still on a upward trend as compare to declining trend in international prices...



## Financial Details

### Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Share Capital</b>	<b>396</b>	<b>396</b>	<b>396</b>	<b>396</b>	<b>316</b>	<b>316</b>	<b>316</b>	<b>316</b>
Reserves	27,114	29,592	31,935	28,721	22,203	24,037	26,147	28,315
Networth	27,511	29,988	32,332	29,118	22,519	24,354	26,464	28,632
Debt	-	-	-	1,497	-	500	-	-
<b>Other Non Cur Liab</b>	<b>148</b>	<b>148</b>	<b>149</b>	<b>353</b>	<b>611</b>	<b>714</b>	<b>655</b>	<b>655</b>
Total Capital Employed	27,511	29,988	32,332	30,615	22,519	24,854	26,464	28,632
Net Fixed Assets (incl CWIP)	4,501	6,639	9,044	11,641	13,784	15,192	18,401	21,150
Non Cur Investments	250	250	562	695	727	786	1,458	1,595
Other Non Cur Asst	5	5	5	1,221	2,060	2,626	2,284	2,290
Non Curr Assets	5,301	7,616	10,580	13,907	17,117	19,770	22,990	26,059
Inventory	637	681	692	622	540	572	582	599
<b>Debtors</b>	<b>1,082</b>	<b>1,448</b>	<b>1,752</b>	<b>796</b>	<b>1,044</b>	<b>1,473</b>	<b>1,500</b>	<b>1,543</b>
Cash & Bank	21,026	18,657	18,443	14,764	5,289	5,438	4,100	3,200
Other Curr Assets	790	726	1,008	189	179	307	313	322
Curr Assets	25,593	23,861	23,890	18,765	8,585	8,839	7,608	6,809
Creditors	161	186	227	324	199	160	162	167
Provisions (both)	1,873	13	632	423	917	742	410	422
Other Curr Liab	1,215	1,153	1,141	350	837	967	985	1,013
Curr Liabilities	3,236	1,341	1,990	1,703	2,572	3,041	3,479	3,580
<b>Net Curr Assets</b>	<b>22,357</b>	<b>22,520</b>	<b>21,900</b>	<b>17,061</b>	<b>6,013</b>	<b>5,798</b>	<b>4,129</b>	<b>3,228</b>
<b>Total Assets</b>	<b>30,894</b>	<b>31,477</b>	<b>34,470</b>	<b>32,671</b>	<b>25,702</b>	<b>28,609</b>	<b>30,598</b>	<b>32,867</b>

### Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Revenue from Operation</b>	<b>10,704</b>	<b>12,058</b>	<b>12,356</b>	<b>6,456</b>	<b>8,828</b>	<b>11,615</b>	<b>11,829</b>	<b>12,172</b>
Change (%)	-5%	13%	2%	-48%	37%	32%	2%	3%
Other Income	2,239	2,095	2,265	1,809	909	520	558	436
<b>EBITDA</b>	<b>7,375</b>	<b>7,773</b>	<b>7,778</b>	<b>2,751</b>	<b>3,602</b>	<b>5,809</b>	<b>6,061</b>	<b>6,138</b>
Change (%)	-17%	5%	0%	-65%	31%	61%	4%	1%
Margin (%)	69%	64%	63%	43%	41%	50%	51%	50%
Depr & Amor.	139	150	162	217	196	256	281	314
<b>EBIT</b>	<b>7,237</b>	<b>7,623</b>	<b>7,616</b>	<b>2,534</b>	<b>3,406</b>	<b>5,553</b>	<b>5,780</b>	<b>5,824</b>
Int. & other fin. Cost	13	2	-	66	21	37	21	21
EBT	9,462	9,715	9,882	4,278	4,294	6,035	6,318	6,239
Exp Item	-	(45)	113	185	-	(144)	-	-
Tax	3,122	3,340	3,346	1,380	1,705	2,373	2,196	2,059
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>6,341</b>	<b>6,421</b>	<b>6,422</b>	<b>2,713</b>	<b>2,589</b>	<b>3,806</b>	<b>4,122</b>	<b>4,180</b>
Adjusted PAT	6,341	6,421	6,422	2,690	2,522	3,854	4,134	4,180
Change (%)	-13%	1%	0%	-58%	-5%	47%	8%	1%
Margin(%)	59%	53%	52%	42%	29%	33%	35%	34%

## Financial Details

### Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	23%	21%	20%	9%	11%	16%	16%	15%
ROCE	26%	25%	24%	9%	15%	23%	22%	20%
Asset Turnover	0.3	0.4	0.4	0.2	0.3	0.4	0.4	0.4
Debtor Days	37	44	52	45	43	46	46	46
Inv Days	22	21	20	35	22	18	18	18
Payable Days	5	6	7	18	8	5	5	5
Int Coverage	548	4,120	-	39	164	150	278	281
P/E	8.6	8.6	8.0	14.3	16.3	9.9	8.4	8.3
Price / Book Value	2.0	1.8	1.6	1.3	1.9	1.5	1.3	1.2
EV/EBITDA	4.5	4.7	4.3	8.8	10.2	5.5	5.0	5.1
FCF per Share	2.8	3.7	3.5	(2.7)	(0.6)	5.4	5.9	4.0
Div Yield	4%	9%	6%	13%	3%	4%	5%	5%

### Cash Flow

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>PBT</b>	<b>9,462</b>	<b>9,761</b>	<b>9,769</b>	<b>4,092</b>	<b>4,294</b>	<b>6,035</b>	<b>6,318</b>	<b>6,239</b>
(inc)/Dec in Working Capital	(231)	(588)	(739)	419	(467)	(719)	933	(182)
Non Cash Op Exp	(2,057)	(1,887)	(1,991)	(947)	(104)	437	302	335
Int Paid (+)	13	2	-	66	21	37	21	21
Tax Paid	3,122	3,340	3,346	1,380	1,705	2,373	2,196	2,059
others								
<b>CF from Op. Activities</b>	<b>3,087</b>	<b>3,721</b>	<b>4,007</b>	<b>1,862</b>	<b>2,134</b>	<b>3,380</b>	<b>5,357</b>	<b>4,333</b>
(inc)/Dec in FA & CWIP	(1,959)	(2,249)	(2,614)	(2,932)	(2,315)	(1,663)	(3,490)	(3,063)
Free Cashflow	1,128	1,472	1,393	(1,070)	(181)	1,717	1,866	1,270
(Pur)/Sale of Inv	(2)	(1)	(312)	(133)	(32)	-	-	-
others								
<b>CF from Inv. Activities</b>	<b>669</b>	<b>3,455</b>	<b>1,687</b>	<b>4,276</b>	<b>5,152</b>	<b>(1,723)</b>	<b>(4,162)</b>	<b>(3,200)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	1,497	(1,497)	-	-	-
Int. Paid	(13)	(2)	-	-	(7,540)	-	-	-
Div Paid (inc tax)	(2,534)	(5,798)	(3,449)	(5,988)	(1,461)	(2,012)	(2,012)	(2,012)
others								
<b>CF from Fin. Activities</b>	<b>(2,548)</b>	<b>(5,801)</b>	<b>(3,449)</b>	<b>(6,291)</b>	<b>(7,249)</b>	<b>(1,549)</b>	<b>(2,533)</b>	<b>(2,033)</b>
Inc(Dec) in Cash	1,208	1,375	2,245	(154)	37	108	(1,338)	(900)
Add: Opening Balance	3,098	4,306	5,681	189	34	5,289	5,438	4,100
<b>Closing Balance</b>	<b>4,306</b>	<b>5,681</b>	<b>7,926</b>	<b>34</b>	<b>71</b>	<b>5,397</b>	<b>4,100</b>	<b>3,200</b>

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com. Registered Office Address: Shivam Chambers, 1st Floor, 53, Syed Amir Ali Avenue, Kolkata 700 091. Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-4054 1766.

Registration details Company & Group entities: MCL: SEBI Registration: INZ000166737 (BSE/NSE/MSE); CDSL: IN-DP-424-2007; NSDL: IN-DP-NSDL-245-2005; Research Analyst: INH300002407, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI: ARN 3087

SEBI Registration: BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 G. Raj & Company Consultants Ltd (G RAJ), MCX/NCDEX Commodities Broker: INZ000051636 Microsec Commerze Limited, PMS: INP000005109Narnolia Velox Advisory Ltd., Investment Adviser: INA300005439 Eastwind Capital Advisors Pvt Ltd. (EASTWIND),IRDA License No.134 (Microsec Insurance Brokers Limited), AMFI: ARN 20558, PFRDA NPS POP: 35012016 Narnolia Securities Ltd. (NSL), RBI Registered NBFC:B.05.02568 Narnolia Capital Advisors Pvt. Ltd.