



**HDFC securities**

Equity  
Research

Pick<sub>of the</sub>  
week

RETAIL DESK

| Industry | CMP        | Recommendation                 | Add on dips to | Sequential Targets | Time Horizon |
|----------|------------|--------------------------------|----------------|--------------------|--------------|
| Mining   | Rs. 132.70 | Buy at CMP and add on declines | Rs. 119-123    | Rs. 151-163        | 4-6 Quarters |

NMDC is a Navratna public sector enterprise in India. Incorporated in 1958, 74.9% stake in the company is held by Indian Government. It is single largest iron ore producer in India and eighth largest and one of the lowest cost iron ore producers in the world. NMDC is involved in the exploration of wide range of minerals including iron ore, copper, rock phosphate, lime stone, dolomite, gypsum, bentonite, magnesite, diamond, tin, tungsten, graphite, beach sands etc.

#### Investment Rationale:

- Plans to increase Iron ore production to drive better utilization;
- Higher iron ore prices could derive better realisation;
- Ongoing integrated steel plant at Nagarnar, Chhattisgarh could help to add profitability going forward;
- Steel anti-dumping duties and higher domestic steel production to lead to stronger iron ore demand;
- Strong financials led by consistent growth, strong credit profile, and low cost operations;

#### Concerns:

- Fall in iron ore prices due to weak demand and/or competition from imports;
- Delay in obtaining statutory clearances could postpone commissioning of new projects;
- Increasing regulatory pressure on environment, safety and sustainability;
- Interest of minority shareholders may not align with that of the majority shareholder i.e. Gol.

#### View and Valuation:

NMDC proposes to augment its production capacity of iron ore to 67mn tpa by FY22 from 34.05 mn tpa (FY17). It has also embarked on value addition projects by setting up pelletisation plant at Donimalai by utilizing slimes and a 3mn tpa integrated steel plant in Chhattisgarh. NMDC proposes to act as a facilitator and developer of green field steel plants by creating Special Purpose Vehicles (SPVs) in the mineral rich states of Jharkhand, Karnataka and Chhattisgarh.

NMDC is committed to focus on maintaining cost competitiveness in global and domestic market in a scenario where prices are expected to remain subdued over the medium term though they are high currently. NMDC continues to enhance organizational capabilities and other enablers to achieve its short-term and long-term objectives.

NMDC given its vast reserves of iron ore at ~325 Mn tonne (apart from untapped reserves of 2299 mn tonnes) and the current buoyancy in steel industry globally (and specially in India) could be a beneficiary for the coming few quarters. An attractive dividend yield of ~5% is another trigger.

We feel investors could buy the stock at the CMP and add on dips to Rs 119-123 band (~4.5x FY20E EV/EBITDA) for sequential targets of Rs 151 (5.75x FY20E EV/EBITDA) and Rs 163 (6.25x FY20E EV/EBITDA) over 4-6 quarters. At the CMP of Rs 132.70 the stock trades at 5.0x FY20E EV/EBITDA.

| HDFC Scrip Code   | NMDLTDEQNR |
|-------------------|------------|
| BSE Code          | 526371     |
| NSE Code          | NMDC       |
| Bloomberg         | NMDC IN    |
| CMP Feb 02 2018   | Rs. 132.7  |
| Equity Capital    | 316.9      |
| Face Value (Rs)   | 1.0        |
| Eq- Share O/S(cr) | 316.9      |
| Market Cap (Rscr) | 41984.8    |
| Book Value (Rs)   | 71.4       |
| Avg.52 Wk Volume  | 3423772    |
| 52 Week High      | 162.6      |
| 52 Week Low       | 147.7      |

| Shareholding Pattern % (Dec 31, 17) |       |
|-------------------------------------|-------|
| Promoters                           | 74.9  |
| Institutions                        | 21.0  |
| Non Institutions                    | 4.1   |
| Total                               | 100.0 |

#### FUNDAMENTAL ANALYST

Abdul Karim

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## KEY HIGHLIGHTS

- **NMDC is a Navratna public sector enterprise in India. Incorporated in 1958, 74.9% stake in the company is held by government. It is single largest iron ore producer in India and eighth largest and one of the lowest cost iron ore producers in the world.**
- **With a capacity of ~46mn tonne from four fully mechanised mines (two each in Chhattisgarh and Karnataka), NMDC Ltd has produced 34mn tonne of iron ore in FY17. It has access to high quality iron ore (65% Fe content) that commands a premium. It is operating at ~80% utilisation.**
- **NMDC is committed to focus on maintaining cost competitiveness in global and domestic market in a scenario where prices are expected to remain subdued over the medium term. NMDC continues to enhance organizational capabilities and other enablers to achieve its short-term and long-term objectives.**

## Financial Summary:

| Particulars (Rs in cr) | Standalone |        |       |        |        | Consolidated |         |         |         |
|------------------------|------------|--------|-------|--------|--------|--------------|---------|---------|---------|
|                        | Q2FY18     | Q2FY17 | YoY-% | Q1FY18 | QoQ-%  | FY17         | FY18E   | FY19E   | FY20E   |
| Net Sales              | 2421.3     | 1739.2 | 39.2% | 2841.5 | -14.8% | 8829.6       | 11152.8 | 13533.5 | 16021.1 |
| EBITDA                 | 1202.9     | 825.9  | 45.7% | 1494.9 | -19.5% | 3596.3       | 5563.0  | 6620.6  | 7443.4  |
| APAT                   | 844.3      | 770.8  | 9.5%  | 969.2  | -12.9% | 2545.4       | 3686.5  | 4348.5  | 4794.6  |
| Diluted EPS (Rs)       | 2.7        | 2.4    | 9.5%  | 3.1    | -12.9% | 8.0          | 11.7    | 13.7    | 15.2    |
| P/E (x)                |            |        |       |        |        | 16.5         | 11.4    | 9.7     | 8.8     |
| EV/EBITDA (x)          |            |        |       |        |        | 10.2         | 6.7     | 5.6     | 5.0     |

(Source: Company, HDFC sec)

## Company Profile:

NMDC is a Navratna public sector enterprise in India. Incorporated in 1958, 74.9% stake in the company is held by Indian Government. It is single largest iron ore producer in India and eighth largest and one of the lowest cost iron ore producers in the world. NMDC is involved in the exploration of wide range of minerals including iron ore, copper, rock phosphate, lime stone, dolomite, gypsum, bentonite, magnesite, diamond, tin, tungsten, graphite, beach sands etc.

With a capacity of ~46mn tonne from four fully mechanised mines (two each in Chhattisgarh and Karnataka), NMDC Ltd has produced 34mn tonne of iron ore in FY17. It has access to high quality iron ore (65% Fe content) that commands a premium. NMDC is operating at ~80% utilisation. As on March 31, 2017, NMDC had 5572 employees.

NMDC has also spread its footprint globally, with acquisition of leases of gold deposits in Tanzania, a majority stake in an iron ore deposit in Australia and a coking coal deposit in Mozambique in partnership with two other public sector enterprises under the Ministry of Steel.

## Offer for Sale (OFS):

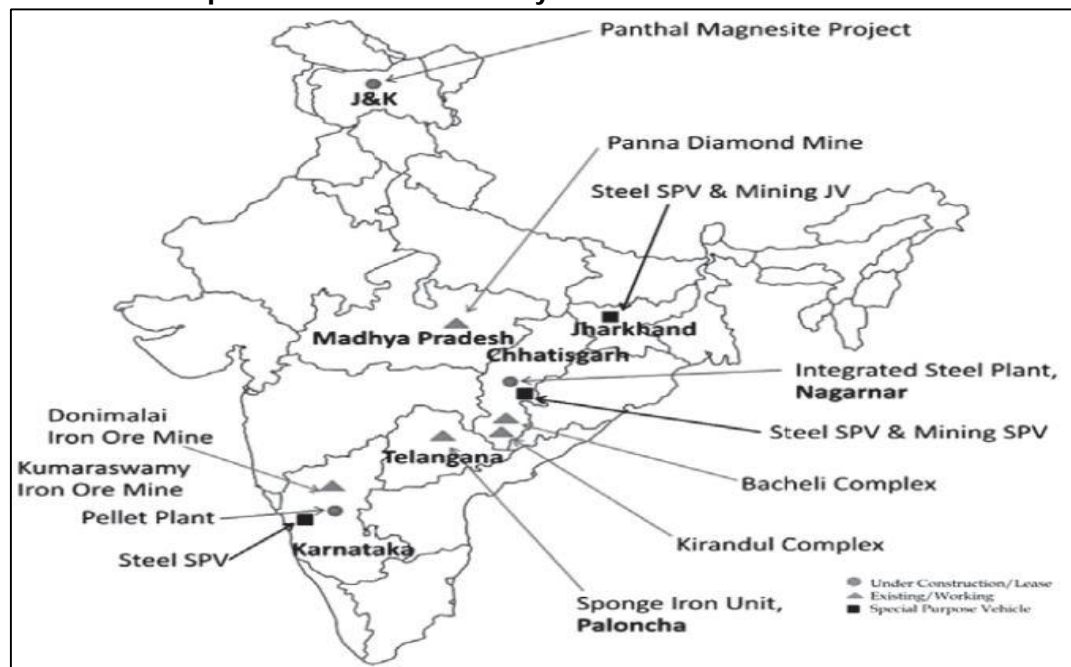
NMDC's promoter, GOI had sold a 2.52% (vs originally planned 1.5% stake due to oversubscription) through OFS route on January 09, 2018 (for non-Retail Investors only) and on January 10, 2018 (for Retail Investors and for non-Retail Investors). The government had fixed clearing price of Rs 153.50 per share for institutions and Rs.161.05 for retail (which after 5% discount works out to Rs.153). It raised Rs.1200 cr from the OFS and its stake has since then fallen to 72.4%.

## Global Presence:

Spreading its footprint globally, NMDC has a majority stake of 78.56% in Legacy iron ore Limited, Australia which has iron ore, gold and base metals interest (19 tenements) in Western Australia.

ICVL, a JV company of SAIL, RINL, NTPC, CIL and NMDC acquired a coking/thermal coal mine in Mozambique. Operations were discontinued due to the depressed coking coal prices from December 2015. In view of upswing in the coking coal prices, ICVL is in the process of restarting operations at the Benga Mine. NMDC is in the process of setting up of a pilot-scale processing plant for gold in its mining lease in Tanzania.

NMDC has wide presence across the country:



(Source: Company, HDFC sec)

### Mines and Physical Performance:

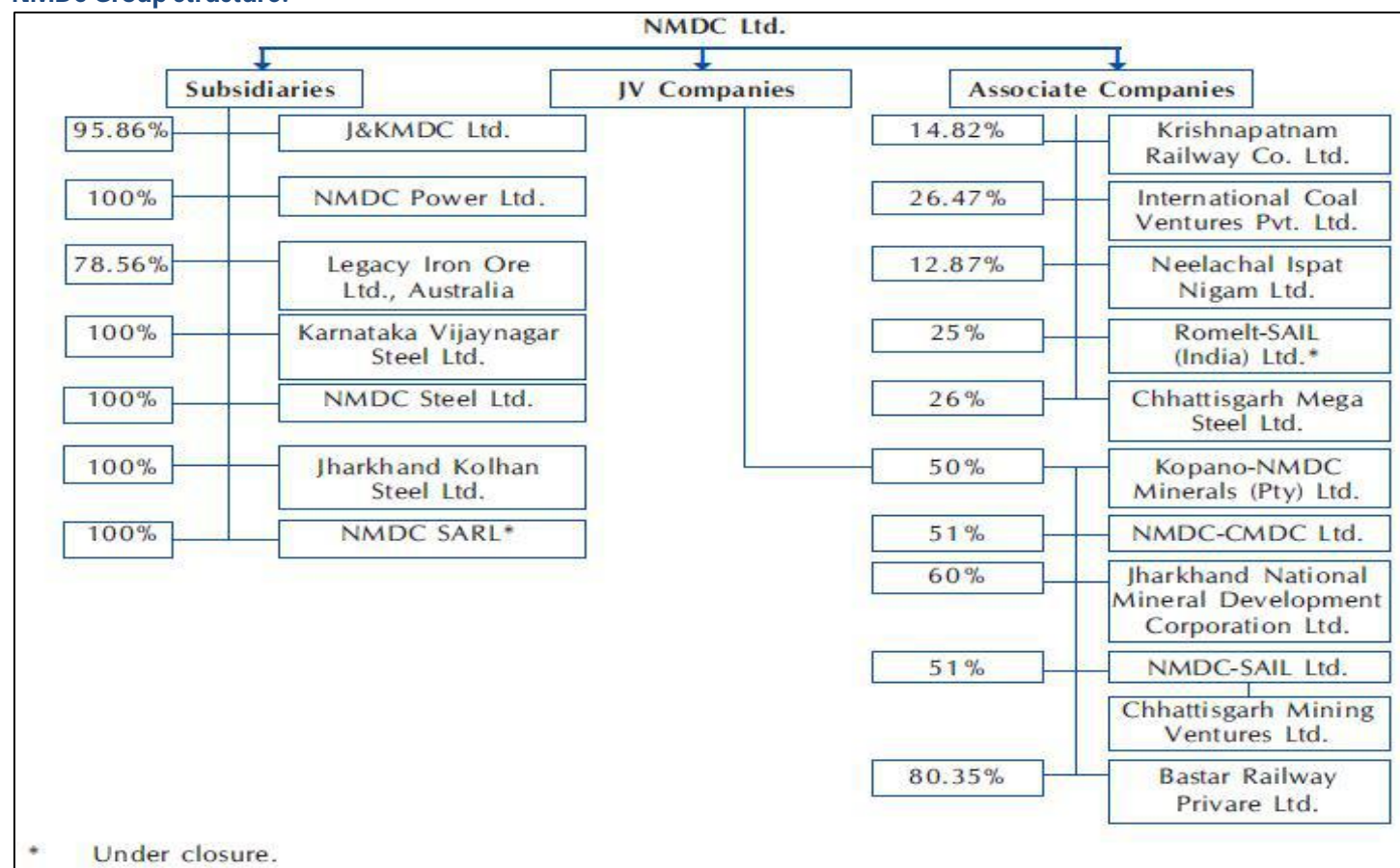
| Particulars                              | Capacity-ROM ore/year | Average grade |
|--|-----------------------|---------------|
| <b>iron ore Mines/Projects</b>           |                       |               |
| Bailadilairon ore Mines, Bacheli         | 6MTPA                 | +66% Fe       |
| Bailadila Deposit - 10 & 11A             | 5MTPA                 | + 65% Fe      |
| Bailadilairon ore Mines, Kirandul        |                       | +66% Fe       |
| Bailadila Deposit - 11/C                 | 5MTPA                 | + 65% Fe      |
| Donimalaiiron ore Mines                  | 4 MTPA                | + 65% Fe      |
| <b>Steel/ Sponge Iron Units</b>          |                       |               |
| NMDC Iron & Steel Plant, Jagdalpur       |                       |               |
| Sponge Iron Unit, Paloncha               | 2X100 TPD             |               |
| <b>Other Mineral Projects</b>            |                       |               |
| Diamond Mining Project, Panna            | 84,000 carats         |               |
| Lalapur Silica Sand Project, Lalapur     |                       |               |
| Arki Limestone Project, Arki             |                       |               |
| Research & Development, Uppal, Hyderabad |                       |               |
| Global Exploration Centre, Raipur        |                       |               |
| NMDC Central Workshop, Bacheli           |                       |               |

(Source: Company, HDFC sec)

**Clientele:**

| Company                          | Company                              | Company                          |
|----------------------------------|--------------------------------------|----------------------------------|
| Rashtriya Ispat Nigam Ltd. (VSP) | Steel Exchange India Ltd.            | JSW (Salem) Ltd.                 |
| KIOCL Ltd.                       | Gopani Iron & Power (India) Pvt Ltd. | Gerdau Steel Ltd.                |
| Essar Steel India Ltd.           | Grace Industries Ltd.                | Srikalahasthi Pipes Ltd (LANCO). |
| JSW Steel Ltd Dolvi.             | Noble Tech Industries Pvt Ltd.       | BMM Ispat Ltd.                   |
| Amba River Coke Ltd.             | Welspun Steel Ltd.                   | Kalyani Steel Ltd.               |
| JSW Steel (Salav) Ltd.           | SAL Steel Ltd, Gujarat.              | Mukund Iron & Steel Ltd.         |
| Lloyds Metals & Energy Ltd.      | CG based Sponge Iron Units.          | JSW Steel Ltd, Toranagallu.      |
| MaaMahamaya Industries Ltd.      |                                      |                                  |

(Source: Company, HDFC sec)

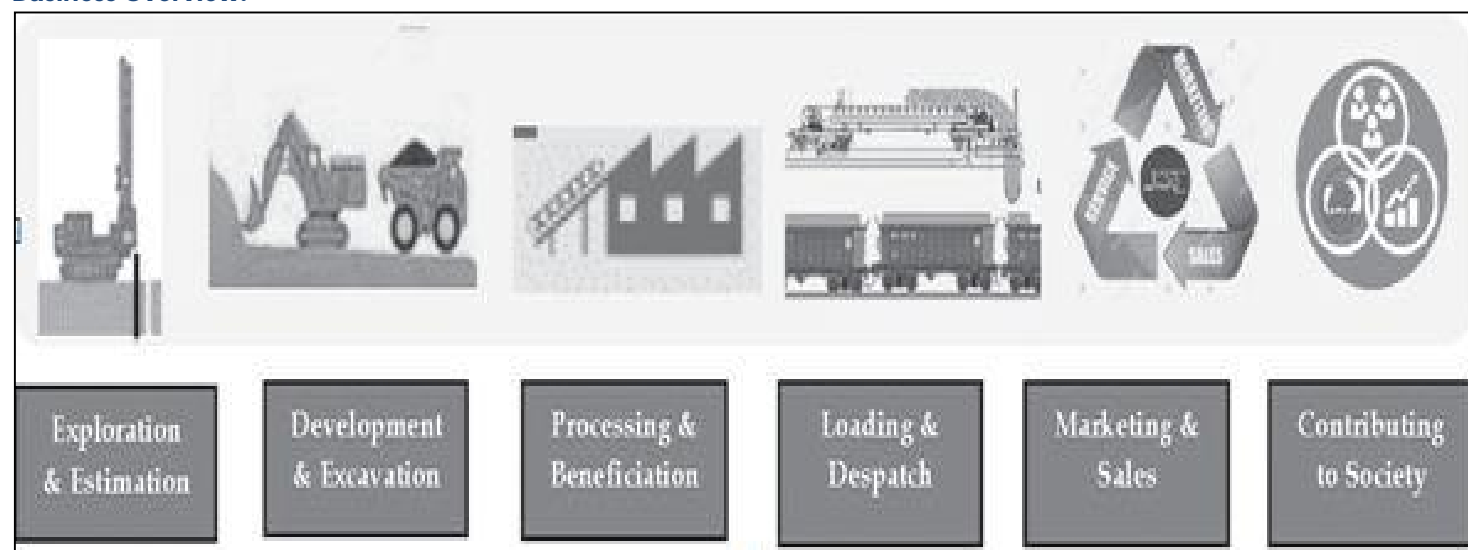
**NMDC Group structure:**


(Source: Company, HDFC sec)

**New Projects and Business Diversifications (As on March 31, 2017):**

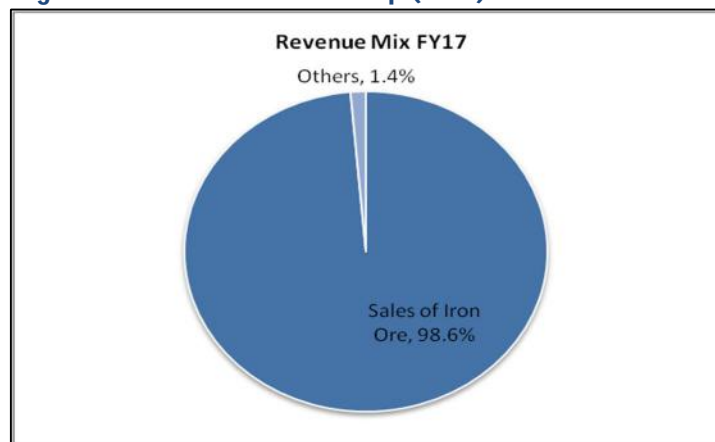
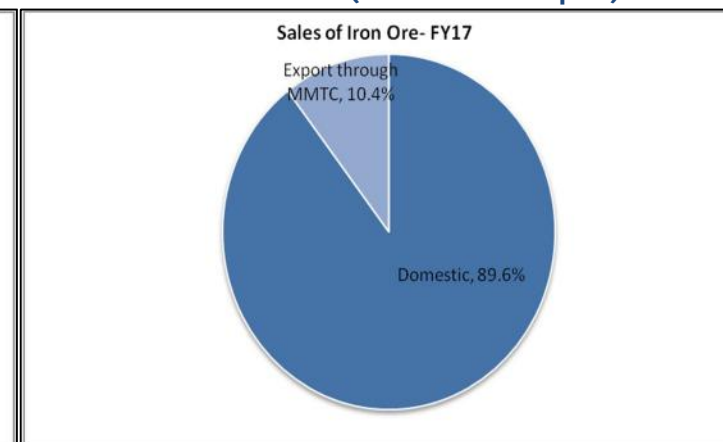
| Completed Projects  |
|---|
| Crushing & Downhill system of 11B - Kirandul Complex          |
| Crushing Plant & Downhill Conveyor - Kumaraswamy              |
| 1.2 MTPA Pellet Plant - Donimalai                             |
| Ongoing Projects  |
| 3 MTPA Iron & Steel Plant - Nagarnar, Chhattisgarh            |
| Doubling of KK line between Kirandul to Jagdalpur             |
| Doubling of KK line between Jagdalpur to Ambagaon             |
| Additional Screening Line & upgradation of existing conveyors |
| Projects awaiting Statutory clearances                        |
| Screening Plant III - Kirandul Complex                        |
| Screening Plant II - Donimalai Complex                        |
| 15 MTPA Slurry Pipeline - Kirandul to Nagarnar                |
| SPVs  |
| Rail SPV (IRCON - SAIL - NMDC-CMDC)                           |
| State of Karnataka (Steel)                                    |
| State of Jharkhand (Steel)                                    |
| International Projects  |
| Tanzania Gold Mine  |
| Legacy iron ore Limited, Australia                            |

(Source: Company, HDFC sec)

**Business Overview:**


(Source: Company, HDFC sec)



**Segment-wise revenue Break-up (FY17)**

**Revenue Mix from iron ore (Domestic and Export)- FY17**


(Source: Company, HDFC sec)

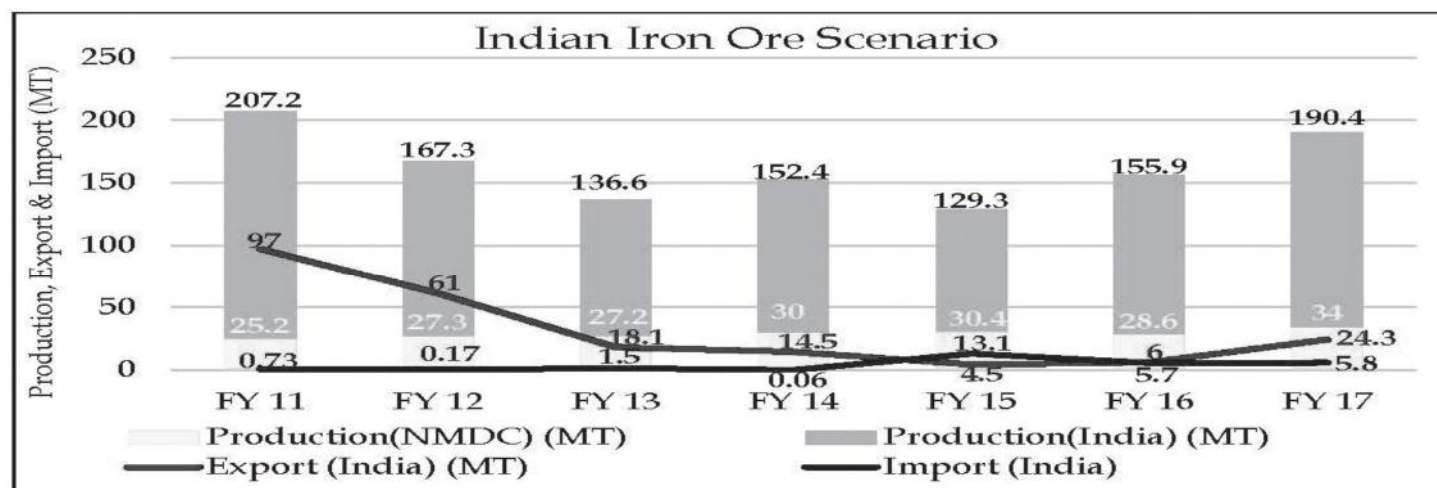
**Physical Performance**

| Particulars          | Unit       | FY10    | FY11    | FY12    | FY13    | FY14.   | FY15    | FY16    | FY17    |
|----------------------|------------|---------|---------|---------|---------|---------|---------|---------|---------|
| <b>Production</b>    |            |         |         |         |         |         |         |         |         |
| Iron Ore (WMT)-      | Lakh Tonne | 238.0   | 251.6   | 272.6   | 271.8   | 300.3   | 304.4   | 285.7   | 340.1   |
| Diamond              | Carats     | 16529.2 | 10865.9 | 18043.4 | 31533.4 | 37081.7 | 35085.5 | 35558.0 | 35636.0 |
| Sponge Iron          | Tones      |         | 38962.0 | 37259.5 | 36289.0 | 29734.4 | 28994.0 | 6614.0  | 5474.0  |
| <b>Sales, Volume</b> |            |         |         |         |         |         |         |         |         |
| Iron Ore (WMT)       | Lakh Tonne | 240.9   | 263.2   | 273.0   | 262.7   | 305.0   | 305.2   | 288.4   | 356.2   |
| Diamond              | Carats     | 7335.3  | 18421.2 | 8085.0  | 17863.0 | 43487.6 | 38788.6 | 36682.9 | 25631.5 |
| Sponge Iron          | Tones      |         | 39775.0 | 33732.0 | 37599.5 | 30572.3 | 25191.4 | 8364.5  | 8579.4  |

(Source: Company, HDFC sec)

**Industry Overview:**

- The steel industry witnessed a major growth cycle in the last two decades, driven by China's growth. It resulted in a massive increase in global iron ore production, which more than doubled from 950 million tonnes per annum in 2000 to over 2200mtpa in 2016.
- Production of iron ore in India at 190MT in FY17 was 22% higher than FY16. Exports from India also increased to 24MT during the year, which was 4 times than FY16. Most of the exports from India was to China of low grade ore (58% Fe and below), which has lower export duty of 10%.
- According to a draft new policy the eligibility criteria for bidders on big projects is expected to be lowered from 4 percent net worth of the value of a project's resources currently to 2 percent net worth.
- Indian iron ore production is likely to grow in line with domestic steel production. Going forward, domestic supplies are likely to grow substantially till 2020 as non-captive miners, with their leases expiring by 2020 (as per MMDR Amendment Act, 2015), are likely to maximise production.



Source: Steel Mint

### Industry Growth Drivers:

- Growth in steel intensive sectors such as housing, infrastructure, automotive, consumer durables in the coming years.
- Growing urbanisation of the Indian economy coupled with rising income levels of the burgeoning Indian middle class.
- Government initiatives such as Make-in-India, Freight corridors, 100 Smart cities, Rural electrification and Housing for all by 2022.
- Continuous thrust by the government to use domestically manufactured iron and steel products in government procurement.
- Restrictions on steel imports in the country on account of measures being taken by Govt. of India such as anti-dumping duty, MIP etc. would also help domestic steel production to rise.

### Investment Rationale:

#### NMDC plans to increase Iron ore production to drive better utilisation:

NMDC is largest iron ore mining company in India having a very consistent track record in mining operations. However, NMDC has little influence in determining iron ore price as it is affected by the global demand and supply dynamics. Considering the Indian demand of iron ore and in order to maintain its focus on profitability despite price volatility, NMDC has slowly expanded its iron ore production capacities. In FY17, the company has registered its highest ever production and sales of 34 million tonnes and 35.6 million tonnes respectively. NMDC has also maintained its sales and production growth in first two quarters of FY18 as well. However 9MFY18 production was up 2.5%, while Sales were down 0.8% due to low despatches in Oct and Nov 2017. It is expected to increase the overall production over the next few years. NMDC is further set to increase iron ore production from its Karnataka mines if the Supreme Court increases or lifts the mining cap on iron ore production. NMDC is operating at ~80% utilisation. NMDC is well placed due to high quality of ore and access to rail infrastructure. We expect utilisation to improve, as its key customers (JSW Steel, Essar Steel and RINL) are all ramping up production.



## Plans to doubling iron ore production could help to generate more revenue going forward:

NMDC closed the last financial year with production of 34mt of iron ore. It has drawn up near, medium and long-term strategies and plans to almost double iron ore production, taking it up to 50mtpa by 2019 and further increasing it to 67mtpa by 2022. To achieve this target, NMDC can explore its existing untapped iron ore reserves of 2299mt. At current rate of 34mtpa of production, these reserves of 2299mt can last for another 68 years.

NMDC Ltd may take up integrated load trials at its upcoming 3mtpa Steel plant at Nagarnar near Jagdalpur in Bastar region of Chhattisgarh very soon, The company has also commenced work for setting up the 2.0 MTPA Pellet Plant at Nagarnar.

It is on the way for construction of the 5th iron ore screening line at its existing screening plant number 2 at Bailadilair on ore Mine at Kirandul complex in Dantewada district of Bastar region.

## Higher iron ore prices could derive better realisation:

Given a bullish long steel product prices, and continued impact on domestic iron ore supply, as few miners in Odisha have exhausted their EC (environment Clearance) limit to replace lost production, is a positive for NMDC. NMDC is the largest iron ore producer in India and has access to high quality iron ore (65% Fe content). It is among the lowest cost producers.

Since Oct 2017, merchant miners in Odisha have raised the price of iron ore lump by 49 percent and of fines by 59 percent. During this period, NMDC increased the price by 35 percent for lumps and eight percent for fines. On January 2018, NDMC hikes iron ore prices by up to 22 per cent. With Odisha and NMDC together accounting for 45 percent of iron ore supply to the domestic steel industry, this has put the latter under stress. This is likely to drive iron ore prices higher in the near future and it is expected that they might go to Rs 6,500 per tonne for lumps and Rs 3,000 a tonne for fines in about a month or two. Higher iron ore prices could derive better realisation going forward.

With a turnaround in the steel industry and recent rate hike of iron ore prices by NMDC (monopoly position in the iron ore production), margins of the company are likely to improve. A number of private mining leases are expected to expire by end of FY20. NMDC will continue to enjoy long-term leases.

## Iron ore prices in India – INR/t



(Source: Company, HDFC sec)

**Ongoing integrated steel plant at Nagarnar, Chhattisgarh could help to add profitability going forward:**

NMDC is setting up a 3mtpa steel plant at Nagarnar, Chhattisgarh, which is 290km from Vizag port. The steel project is running behind schedule and is likely to start production by FY20. However, the steel plant is likely to be highly profitable because of high quality European equipment and technology, high economies of scale at 3mtpa single 4,500 cubic meter blast furnace, captive iron ore mines and easy access to mines and ports. Apart from this, NMDC is also trying to secure mining leases from the state governments in Chhattisgarh and neighbouring Jharkhand for coking coal and iron ore for the plant.

The total investment cost of NMDC's steel plant is estimated at Rs 18,000cr (\$2.8 billion). NMDC has already spent about Rs 10,000cr. The company is looking to borrow from domestic debt markets for the remaining cash. However, NMDC has alternative plans to strategic divest at least 49 percent of its stake in the 3mn tpa Chhattisgarh steel plant. There is no further update on the same so far. If NMDC divests its 49 percent of its stake, it will help to improve its profitability and return ratios. The value of this plant is not fully reflected in the current valuations of NMDC.

**Steel anti-dumping duties and higher domestic steel production to lead to stronger iron ore demand:**

In July 2017, India imposed anti-dumping duty on imports of certain flat steel products from China and European Union (EU) for five years to guard the interest of domestic players from cheap in-bound shipments. Imposition of anti-dumping duties and strong international steel prices have enabled larger steel companies to increase production levels catering to the domestic and export market and prices of their products. Domestic crude steel production at 75.5MT registered a growth of 4.6% YoY during April-December 2017. Domestic steel capacities of ~20mtpa by larger steel players are expected to be commissioned/ramped up over FY18-20 driving iron ore demand. NMDC is well positioned to capitalize on the increased demand with higher mining capacities in place. Investment in railway infrastructure would also enable higher volumes from Chhattisgarh.

**NMDC proposes to invest in capital intensive projects to modernise and increase capacities to retain its domestic leadership:**

NMDC has diversified into steel-making and has undertaken several capital intensive projects to modernise and increase capacities to retain its domestic leadership, apart from foraying into overseas businesses successfully.

**Gold and Diamond:** NMDC plans to expand its presence in Panna mines in Madhya Pradesh and also bid for a US\$9bn diamond project in Madhya Pradesh, competing against resources conglomerates Adani and Vedanta.

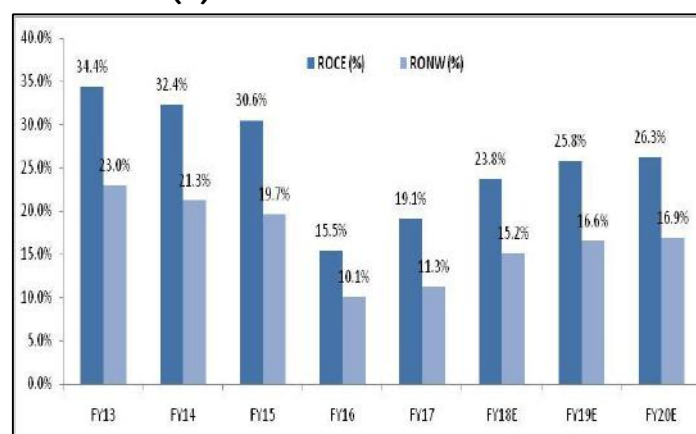
**Tungsten:** NMDC is working with Midhani for stepping up output of tungsten for use in defence and other strategic applications, NMDC has been engaged in discussions with Masan Resources based in Vietnam. Masan operates a mine that produces some 6,000 tonnes of ammonium para Tungsten per annum. Currently, India imports tungsten due to higher production cost. NMDC and Midhani signed a MoU in October 2017 to explore suitable tungsten assets in India and abroad for investment as well as development of technologies. NMDC has diversified and expanded its presence to other geographies including Australia, Mozambique and Tanzania.

## Strong financials led by consistent growth, strong credit profile, and minimum cost benefit:

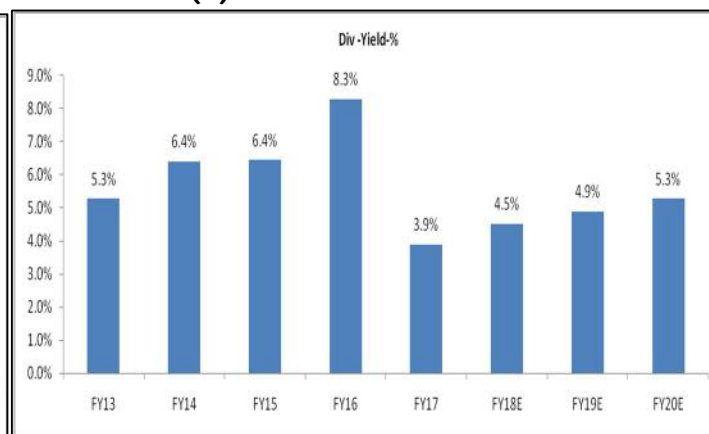
NMDC is a debt free company and has Rs 5,600cr of cash and equivalents on Balance Sheet. This is even after successfully completing its buyback of Rs 7,528cr in FY17 which reduced its paid up capital quite significantly by 20.2%. NMDC is known for constantly rewarding its shareholders through dividends and buyback of shares. It has been maintaining a very strong dividend payout of ~70% resulting in dividend yield of ~5%. We expect ~5% dividend yield in next FY19E and FY20E, respectively.

We expect 21.3% and 18.4% revenue growth led by 38.4mtpa and 43.1mtpa iron ore sales volume in FY19E and FY20E, respectively. We expect to see 38.6mtpa and 43mtpa iron ore production in FY19E and FY20E respectively.

Return Ratio (%)



Dividend Yield (%)



(Source: Company, HDFC sec)

## Risk and Concerns:

### Fall in iron prices:

NMDC continues to witness strong volume growth with improving realisations driving its quarterly performance. Sharp fall in Iron ore prices globally may adversely affect the profitability of company.

### Weak demand of iron ore:

Weak demand of iron ore by customers such as JSW, Rashtriya Ispat Ltd and other major steel producers due to economic slowdown or alternate suppliers could impact its revenue going forward.

### Competition:

Iron ore mining industry in India is expected to witness enhanced competition over the next few years because of higher demand. NMDC is competing against resources conglomerates Adani and Vedanta. Indian iron ore industry will continue to be uncompetitive on a global level due to higher rates of royalty and other levies such as DMF, NMET, Export duty etc. as well as significantly higher logistic costs.

**Delay in obtaining statutory clearances:**

The major challenges faced in project implementation are due to delay in obtaining statutory clearances which affects the integral commissioning of the facilities even if the upstream and downstream facilities are ready. Government actions, including the imposition of tariffs and duties, speculative trades, regulatory issues could hit its future plans and earning going forward.

**Increasing regulatory pressure on environment, safety and sustainability:**

Company has mines in Chhattisgarh and Steel SPV and mining JV in Jharkhand, and these areas are disturbed by Naxalite activities. Disturbances due to Maoist and Naxalite activities in Bailadila and Jharkhand region from where majority of NMDC's production comes, could affect its earnings and profitability.

**Interest of minority shareholders may not align with that of the majority shareholder i.e. Gol** – The main promoter i.e. Gol's decisions for NMDC may not always be in the interest of minority shareholders.

**Peer Comparison:**

Comparing with its other mining companies, like Coal India and Hindustan Zinc, NMDC is trading at discount on valuation front.

| Company        | Market Cap,<br>Rs in cr | EPS   |       |       | P/E   |       |       | EV/EBITDA |       |       |
|----------------|-------------------------|-------|-------|-------|-------|-------|-------|-----------|-------|-------|
|                |                         | FY18E | FY19E | FY20E | FY18E | FY19E | FY20E | FY18E     | FY19E | FY20E |
| NMDC           | 41984.8                 | 11.7  | 13.7  | 15.2  | 11.4  | 9.7   | 8.8   | 6.7       | 5.6   | 5.0   |
| Coal India     | 181267.8                | 11.8  | 19.1  | 21.2  | 24.7  | 15.3  | 13.8  | 12.2      | 7.7   | 6.8   |
| Hindustan Zinc | 124483.2                | 21.3  | 24.0  | 25.2  | 13.8  | 12.3  | 11.7  | 9.0       | 7.6   | 6.2   |

(Source: Company, HDFC sec)

**View and Valuation:**

NMDC proposes to augment its production capacity of iron ore to 67mn tpa by FY22 from 34.05 mn tpa (FY17). It has also embarked on value addition projects by setting up pelletisation plant at Donimalai by utilizing slimes and a 3mn tpa integrated steel plant in Chhattisgarh. NMDC proposes to act as a facilitator and developer of green field steel plants by creating Special Purpose Vehicles (SPVs) in the mineral rich states of Jharkhand, Karnataka and Chhattisgarh.

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NMDC given its vast reserves of iron ore at ~325 Mn tonne (apart from untapped reserves of 2299 mn tonnes) and the current buoyancy in steel industry globally (and specially in India) could be a beneficiary for the coming few quarters. An attractive dividend yield of ~5% is another trigger.

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**Quarterly Financials – (Standalone)**

| Particulars (Rs in cr)            | Q2FY18  | Q2FY17   | YoY-%  | Q1FY18   | QoQ-%   | H1FY18   | H1FY17   | YoY-%  |
|-----------------------------------|---------|----------|--------|----------|---------|----------|----------|--------|
| Net Sales                         | 2421.33 | 1739.15  | 39.2%  | 2841.53  | -14.8%  | 5262.86  | 3459.8   | 52.1%  |
| Total Income from Operation       | 2421.33 | 1739.15  | 39.2%  | 2841.53  | -14.8%  | 5262.86  | 3459.8   | 52.1%  |
| Raw Material Consumed             | 4.15    | 2.12     | 95.8%  | 0        | -       | 4.15     | 5.22     | -20.5% |
| Stock Adjustment                  | 132.54  | 107.41   | 23.4%  | -27.76   | -577.4% | 104.78   | 143.12   | -26.8% |
| Employee Expenses                 | 212.38  | 168.8    | 25.8%  | 203.59   | 4.3%    | 415.97   | 338.66   | 22.8%  |
| Selling & Administrative Expenses | 486.75  | 298.49   | 63.1%  | 711.04   | -31.5%  | 1197.79  | 766.54   | 56.3%  |
| Other Expenses                    | 382.6   | 336.44   | 13.7%  | 459.81   | -16.8%  | 842.41   | 563.91   | 49.4%  |
| Total Expenditure                 | 1218.42 | 913.26   | 33.4%  | 1346.68  | -9.5%   | 2565.1   | 1817.45  | 41.1%  |
| EBITDA                            | 1202.91 | 825.89   | 45.7%  | 1494.85  | -19.5%  | 2697.76  | 1642.35  | 64.3%  |
| Depreciation/Amortization         | 61.96   | 54.43    | 13.8%  | 46.69    | 32.7%   | 108.65   | 110.4    | -1.6%  |
| EBIT                              | 1140.95 | 771.46   | 47.9%  | 1448.16  | -21.2%  | 2589.11  | 1531.95  | 69.0%  |
| Other Income                      | 109.85  | 273.49   | -59.8% | 128.59   | -14.6%  | 238.44   | 618.66   | -61.5% |
| Interest                          | 10.17   | 1.47     | 591.8% | 8.15     | 24.8%   | 18.32    | 9.61     | 90.6%  |
| Profit before tax                 | 1240.63 | 1043.48  | 18.9%  | 1568.6   | -20.9%  | 2809.23  | 2141     | 31.2%  |
| Tax Paid                          | 396.33  | 272.72   | 45.3%  | 599.4    | -33.9%  | 995.73   | 658.9    | 51.1%  |
| Reported PAT                      | 844.3   | 770.76   | 9.5%   | 969.2    | -12.9%  | 1813.5   | 1482.1   | 22.4%  |
| Adjusted PAT                      | 844.3   | 770.76   | 9.5%   | 969.2    | -12.9%  | 1813.5   | 1482.1   | 22.4%  |
| EPS (Adj) (Unit Curr.)            | 2.66855 | 2.436115 | 9.5%   | 3.063317 | -12.9%  | 5.731867 | 4.684423 | 22.4%  |

(Source: Company, HDFC sec)

**Financials (Consolidated):**
**Income Statement**

| Particulars                    | FY16   | FY17   | FY18E   | FY19E   | FY20E   |
|--------------------------------|--------|--------|---------|---------|---------|
| Net Revenue from operations    | 6455.8 | 8829.6 | 11152.8 | 13533.5 | 16021.1 |
| Consumption of raw materials   | 9.7    | 5.4    | 7.8     | 10.8    | 14.4    |
| Consumption of Stores & Spares | 282.4  | 264.1  | 390.3   | 521.0   | 865.1   |
| Changes in inventories         | 63.1   | 98.9   | 111.5   | 108.3   | 104.1   |
| Employee Benefit expense       | 675.0  | 888.8  | 1115.3  | 1366.9  | 1666.2  |
| Power, Electricity and Water   | 67.7   | 87.7   | 111.5   | 148.9   | 176.2   |
| Repairs & Maintenance          | 119.4  | 112.4  | 167.3   | 203.0   | 256.3   |
| Royalty & Other Levies         | 882.7  | 1524.7 | 1527.9  | 1874.4  | 2275.0  |
| Selling Expenses               | 417.1  | 725.9  | 836.5   | 1035.3  | 1249.6  |
| Other Expenses                 | 759.0  | 1525.6 | 1321.6  | 1644.3  | 1970.6  |
| Total Expenditure              | 3276.1 | 5233.3 | 5589.8  | 6912.9  | 8577.7  |
| EBITDA                         | 3179.8 | 3596.3 | 5563.0  | 6620.6  | 7443.4  |
| Depreciation & Amortisation    | 209.2  | 196.7  | 230.2   | 292.0   | 383.4   |

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| EBIT  | 2970.6 | 3399.7 | 5332.9 | 6328.6 | 7060.0 |
| Other Income  | 1776.0 | 910.2  | 446.1  | 433.1  | 400.5  |
| Finance cost  | 65.5   | 20.8   | 41.0   | 55.1   | 77.1   |
| Profit before tax and Exceptional Item                                    | 4681.1 | 4289.1 | 5738.0 | 6706.6 | 7383.4 |
| Exceptional items   | 184.8  | 0.0    | 0.0    | 0.0    | 0.0    |
| Profit before tax   | 4496.3 | 4289.1 | 5738.0 | 6706.6 | 7383.4 |
| Tax Paid  | 1477.3 | 1704.0 | 1996.8 | 2293.7 | 2517.7 |
| PAT   | 3019.0 | 2585.0 | 3741.2 | 4412.9 | 4865.7 |
| Profit from discontinuing operations before tax                           | -0.7   | -0.8   | -0.7   | -0.7   | -0.7   |
| Tax expense of discontinuing operations                                   | 0.3    | 0.3    | 0.2    | 0.2    | 0.2    |
| Profit from discontinuing operations after tax (XII-XIII)                 | -0.5   | -0.5   | -0.5   | -0.4   | -0.5   |
| Profit for the year   | 3018.5 | 2584.5 | 3740.7 | 4412.5 | 4865.2 |
| Share of minority(loss)   | 2.0    | 1.2    | 1.9    | 2.2    | 2.4    |
| Share of losses of associates   | -87.8  | -40.3  | -56.1  | -66.2  | -73.0  |
| Profit after adjusting minority interest and share of losses of associat- | 2932.8 | 2545.4 | 3686.5 | 4348.5 | 4794.6 |
| Earning per equity share:   | 7.4    | 8.0    | 11.7   | 13.7   | 15.2   |

(Source: Company, HDFC sec)

### Balance Sheet

| Particulars, Rs in cr           | FY16           | FY17           | FY18E          | FY19E          | FY20E          |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>EQUITY AND LIABILITIES</b>   |                |                |                |                |                |
| Share Capital                   | 396.5          | 316.4          | 316.4          | 316.4          | 316.4          |
| Reserves & Surplus              | 28783.6        | 22265.8        | 23990.7        | 25871.3        | 28008.3        |
| <b>Shareholders' Funds:</b>     | <b>29180.1</b> | <b>22582.2</b> | <b>24307.1</b> | <b>26187.7</b> | <b>28324.7</b> |
| Minority interest:              | 16.9           | 15.4           | 15.8           | 15.7           | 17.0           |
| Long Term Provisions            | 353.5          | 611.3          | 657.2          | 690.0          | 724.5          |
| <b>Non-current Liabilities:</b> | <b>353.5</b>   | <b>611.3</b>   | <b>657.2</b>   | <b>690.0</b>   | <b>724.5</b>   |
| Short-term Borrowings           | 1497.0         | 0.0            | 0.0            | 0.0            | 0.0            |
| Trade payables                  | 324.5          | 198.9          | 244.4          | 259.5          | 307.3          |
| Other current Liabilities       | 1314.5         | 2069.8         | 2276.8         | 2504.4         | 2754.9         |
| Short term Provisions           | 69.4           | 306.1          | 275.5          | 261.7          | 251.2          |
| <b>Current Liabilities:</b>     | <b>3205.3</b>  | <b>2574.7</b>  | <b>2796.7</b>  | <b>3025.7</b>  | <b>3313.3</b>  |
| <b>TOTAL</b>                    | <b>32755.8</b> | <b>25783.7</b> | <b>27776.7</b> | <b>29919.1</b> | <b>32379.6</b> |
| <b>ASSETS:</b>                  |                |                |                |                |                |
| <b>Fixed Assets:</b>            | <b>11805.5</b> | <b>13950.6</b> | <b>16220.4</b> | <b>17428.4</b> | <b>19045.0</b> |
| Non-current investments         | 591.6          | 612.3          | 673.5          | 707.2          | 742.6          |
| Long term Loans and Advances    | 1959.3         | 2791.2         | 2512.1         | 2662.8         | 2929.1         |



|                               |                |                |                |                |                |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Other non-current assets      | 263.2          | 453.4          | 476.0          | 404.6          | 424.9          |
| <b>Non-current assets</b>     | <b>14619.7</b> | <b>17807.5</b> | <b>19882.1</b> | <b>21203.1</b> | <b>23141.6</b> |
| Inventories                   | 622.1          | 540.0          | 702.8          | 852.8          | 1053.4         |
| Trade receivables             | 796.1          | 1043.5         | 1344.5         | 1668.5         | 1975.2         |
| Cash and bank balances        | 14806.1        | 5320.5         | 4668.1         | 4956.4         | 4909.2         |
| Short term Loans and Advances | 1720.8         | 846.2          | 930.9          | 977.4          | 1026.3         |
| Other Current Assets          | 191.0          | 225.9          | 248.5          | 260.9          | 273.9          |
| <b>Current Assets</b>         | <b>18136.1</b> | <b>7976.2</b>  | <b>7894.6</b>  | <b>8716.0</b>  | <b>9238.0</b>  |
| <b>TOTAL</b>                  | <b>32755.8</b> | <b>25783.7</b> | <b>27776.7</b> | <b>29919.1</b> | <b>32379.6</b> |

(Source: Company, HDFC sec)

### Key Ratios

| Particulars                   | FY16    | FY17    | FY18E   | FY19E   | FY20E   |
|-------------------------------|---------|---------|---------|---------|---------|
| No of Equity Shares-cr        | 396.5   | 316.4   | 316.4   | 316.4   | 316.4   |
| Enterprise Value-cr           | 39302.6 | 36664.3 | 37316.8 | 37028.4 | 37075.7 |
| EPS                           | 7.4     | 8.0     | 11.7    | 13.7    | 15.2    |
| Cash EPS (PAT + Depreciation) | 7.9     | 8.7     | 12.4    | 14.7    | 16.4    |
| Book Value Per Share(Rs.)     | 73.6    | 71.4    | 76.8    | 82.8    | 89.5    |
| PE(x)                         | 17.9    | 16.5    | 11.4    | 9.7     | 8.8     |
| P/BV (x)                      | 1.8     | 1.9     | 1.7     | 1.6     | 1.5     |
| Mcap/Sales(x)                 | 8.1     | 4.8     | 3.8     | 3.1     | 2.6     |
| EV/EBITDA                     | 12.4    | 10.2    | 6.7     | 5.6     | 5.0     |
| EBITDAM (%)                   | 49.3%   | 40.7%   | 49.9%   | 48.9%   | 46.5%   |
| EBITM (%)                     | 46.0%   | 38.5%   | 47.8%   | 46.8%   | 44.1%   |
| PATM (%)                      | 46.8%   | 29.3%   | 33.5%   | 32.6%   | 30.4%   |
| ROCE (%)                      | 15.5%   | 19.1%   | 23.8%   | 25.8%   | 26.3%   |
| RONW (%)                      | 10.1%   | 11.3%   | 15.2%   | 16.6%   | 16.9%   |
| Div- Payout-%                 | 178.4%  | 76.8%   | 61.8%   | 56.8%   | 55.4%   |
| Div -Yield-%                  | 8.3%    | 3.9%    | 4.5%    | 4.9%    | 5.3%    |
| Current Ratio                 | 5.7     | 3.1     | 2.8     | 2.9     | 2.8     |
| Liquid Ratio                  | 5.5     | 2.9     | 2.6     | 2.6     | 2.5     |
| Debt-Equity                   | 0.1     | 0.0     | 0.0     | 0.0     | 0.0     |

(Source: Company, HDFC sec)

**Daily Closing Price Chart**


(Source: Company, HDFC sec)

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