

NMDC Ltd.

₹ 186

**Expl-ORE Growth!****Buy**

July 27, 2012

**Company Background**

NMDC was incorporated in 1958 as a Government of India fully owned public enterprise. The Company is under the administrative control of the Ministry of Steel, Government of India. Since inception the company was 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. NMDC is India's single largest iron ore producer and exporter, presently producing about 30 mn tons of iron ore from 3 fully mechanized mines. NMDC has the only mechanized diamond mine in the country with a capacity of 1.00 lakh carats / annum at Panna ( Madhya Pradesh State ).

**Key Highlights**

- ➔ NMDC is actively pursuing acquisition of overseas strategic mineral assets with the objective of meeting its own requirements and also towards raw material security for the country's steel and fertilizer industries.
- ➔ NMDC signed the contract for Steel Making Shop (SMS) Package for the upcoming 3 MTPA Integrated Steel Plant at Nagarnar, Chhattisgarh with the consortium led by M/s Siemens VAI MT GmbH & Co. (SVAI), Austria on 23.05.2012.
- ➔ NMDC has recently completed the acquisition of 50% equity in Legacy Iron Ore Limited. Legacy will serve as a platform to propel acquisition and development of mineral assets in Australia. This is endowed with an asset having more than 1 billion tonne of magnetite resource.
- ➔ NMDC is planning to set up 10 MTPA pipe line for evacuation of iron ore from Bailadila Sector to Vizag with a loop line of 2 MTPA capacity at Nagarnar to cater steel plant.
- ➔ In Brazil an iron ore asset very close to port with reserves more than 1 bn has been identified for acquisition in Russia and in Mozambique the company have identified coking coal assets. These assets have more than 50 MT and 150 MT respectively.
- ➔ NMDC is aggressively taking up the proposal of steel plant in Karnataka with Severstal, the largest steel producer in Russia.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11
Revenue (₹ mn)	84,741.8	71,104.3	1,25,804.2
<b>Rev. growth (%)</b>	<b>32.51</b>	<b>(16.09)</b>	<b>76.93</b>
EBITDA (₹ mn)	67,255.6	52,608.2	97,543.2
Net profit (₹ mn)	43,723.8	34,472.6	64,992.2
Shares outstanding (mn)	3,964.7	3,964.7	3,964.7
EPS (INR)	11.0	8.7	16.4
<b>EPS growth (%)</b>	<b>(95.52)</b>	<b>(21.16)</b>	<b>88.53</b>
P/E (x)	14.2	33.8	17.3
EV/ EBITDA	9.2	22.2	11.5
<b>ROCE (%)</b>	<b>43.99</b>	<b>26.65</b>	<b>38.85</b>

Arpit Jain

aj@indiratrade.com

**Info Codes**

Reuters	: NMDC.BO
Bloomberg	: NMDC@IN
NSE	: NMDC
BSE	: 526371

**Market Data**

52 Wk Range (₹)	: 259 /136
Shares in Issue (mn)	: 3965
Mkt. Cap (₹ bn)	: 731.5
BSE 2 Wk Avg Vol	: 59000

**Share Holding Pattern (%)**

Promoters	: 90.00
DII's	: 08.43
FII's	: 00.65
Others	: 00.92

**Investment Theme**

NMDC is actively pursuing the acquisition of overseas strategic mineral assets with the objective of meeting its own requirements and also towards raw material security for the country's steel and fertilizer industries. After successful acquisition of Legacy NMDC is in an upbeat mood and is laying its hands for more acquisitions in Brazil, Mozambique, Russia, USA and South Africa. NMDC is in talks with few companies and their projects are being evaluated by the internal team and is also in the process of appointing consultants for their comprehensive due diligence. NMDC has been growing phase by phase from Mini Ratna to Navratna and now very soon it may enter into the big league of Maharatna once its steel plant starts functioning.

**Expanding Ratna!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 09	Mar 10	% Chg	Mar 11	% Chg
Total Sales + Excise	75640.3	62390.9	(17.52)	113742.0	82.31
Other Income	9051.7	8631.8	(4.64)	12085.1	40.01
Change in Stocks	1273.9	(19.0)	(101.49)	1132.8	(6062.11)
Raw Material Con.	1084.9	1089.9	0.46	1438.3	31.97
Employee Exp.	3683.7	3457.2	(6.15)	3877.2	12.15
Indirect Taxes	47.4	46.0	(2.95)	130.9	184.57
Other Exp.	13894.3	13802.4	(0.66)	23970.3	73.67
Operating Exp.	17436.4	18414.5	5.61	28283.9	53.60
Operating Profit	58203.9	43976.4	(24.44)	85458.1	94.33
Total Interest	9.7	0.0	(100.00)	15.1	-
Gross Profit	67245.9	52608.2	(21.77)	97528.1	85.39
Net Dep.	558.0	446.8	(19.93)	223.4	(50.00)
Total Taxation	22964.1	17688.8	(22.97)	32312.5	82.67
Net Profit/Loss	43723.8	34472.6	(21.16)	64992.2	88.53

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 08	Mar 09	Mar 10	Mar 11
<b>SOURCES OF FUNDS</b>	<b>82,896.5</b>	<b>1,16,369.1</b>	<b>1,42,724.3</b>	<b>1,92,145.2</b>
Equity Share capital	1,321.6	3,964.7	3,964.7	3,964.7
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	81,574.9	1,12,404.4	1,38,759.6	1,88,180.5
Secured Loans	0.0	0.0	0.0	0.0
Unsecured Loans	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>82,896.5</b>	<b>1,16,369.1</b>	<b>1,42,724.3</b>	<b>1,92,145.2</b>
Gross Block	14,052.6	16,691.7	17,398.6	22,292.2
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	8,372.5	9,225.4	9,527.6	11,300.9
Net Block	5,680.1	7,466.3	7,871.0	10,991.3
Capital Work in Progress	1,118.3	2,483.1	5,612.9	6,771.7
Investments	832.8	715.4	761.4	1,356.8
Current Assets	1,00,787.9	1,57,480.7	1,99,642.5	2,64,246.4
Less : Current Liabilities	25,768.1	51,998.4	71,331.3	91,365.5
Total Net Current Assets	75,019.8	1,05,482.3	1,28,311.2	1,72,880.9
Misc. Expenses not written	245.5	222.0	167.8	144.5
<b>NOTE</b>				
Bk Val Unquoted Investments	602.7	715.4	761.4	1,356.8
Mkt Val. Quoted Investments	233.4	0.0	0.0	0.0
Contingent Liabilities	6,575.6	4,664.9	4,972.4	24,676.3
Dividend (%)	385	221	175	330

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 11	Sep 11	Dec 11	Mar 12
Net Sales	27,826.10	30,623.20	28,219.50	25,945.80
Cost Of Sales	2,903.90	3,970.50	2,989.20	3,243.90
Operating Profit	24,922.20	26,652.70	25,230.30	22,701.90
Recurring Income	4,418.20	5,029.40	5,253.90	5,467.70
Adjusted PBDIT	29,340.40	31,682.10	30,484.20	28,169.60
Financial Expenses	0.00	0.00	0.00	14.80
Depreciation	337.90	323.80	344.60	321.40
Other Write Offs	2,375.70	2,299.20	2,623.20	2,928.00
Adjusted PBT	26,626.80	29,059.10	27,516.40	24,905.40
Tax Charges	8,615.30	9,427.60	8,928.30	7,969.60
Adjusted PAT	18,011.50	19,631.50	18,588.10	16,935.80
Non Recurring Items	0.00	0.00	0.00	(513.00)
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	18,011.50	19,631.50	18,588.10	16,422.80

## 52 Week Index Relative Percentage Appreciation



## NMDC vs SENSEX

## Points to Ponder

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. NMDC Signed MoU with RINL for developing Slurry pipeline of about 450 Kms from Jagdalpur to Vishakapatnam and 3-4 MTPA Pellet Plant at Vishakapatnam. NMDC is also on the verge of commencing operations at Bailadila Deposit 11B mine in October 2012, which has a capacity of 7mt. NMDC has changed its pricing mechanism from export parity to the one based on domestic demand-supply dynamics. This would be partially beneficial as NMDC would be able to mitigate the drop in global iron ore prices to some extent.

## Risks Associated

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. Iron ore sales volumes were affected due to breakdown of slurry pipeline in Bailadila mines and lower availability of railway rakes. Average iron ore prices after sharp rise in 2010 started to fell. However this fall was seen drastically by more than 23% during Sep to Dec quarter. This led domestic mining companies to lower the iron ore prices. However in Jan prices have started to recover on hope that demand will resurge with the economic recovery in Europe and US.

## In a Nutshell

NMDC is one of the prestigious Company of India having strong fundamentals to sustain the market dynamics. NMDC has made valuable and substantial contribution to the National efforts in the mineral sector during the last five decades and has been accorded the status of schedule-A Public Sector Company. NMDC is presently producing about 22 mn tonnes of iron ore from its Bailadila sector mines and 7 mn tonnes from Donimalai sector mines. The demand for steel will continue to grow in the years to come and this in turn would call for increased demand for iron ore. NMDC is gearing itself to meet the expected increase in demand by enhancing production capabilities of existing mines and opening up new mines. The production capability would increase to around 50 mn tonnes per year by 2014-15. For Value addition NMDC is in the process of developing a 3 mtpa steel plant at Jagdalpur and 2 pellet plants at Donimalai (1.2 mtpa) and at Bachel (2 mtpa). Besides, NMDC is also in the process of merger of Sponge Iron India Limited with plan for expansion to produce billets. Besides iron ore, NMDC also plans to go for other minerals like Coal, Diamond, gold etc for which NMDC is looking forward for leases / buy properties from foreign countries directly / under Special Purpose Vehicle / Joint Ventures. For continuing the exploration activities NMDC has set a Global Exploration Centre at Raipur, Chhattisgarh. NMDC is taking up diversification activities through its intensive R&D efforts for production of High-Tech and High Value added products from Blue Dust like Carbon free sponge iron powder, Nano crystalline powder.

## Indira Group Offices

<b>Registered Office</b>	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	<b>Tel :</b> +91-22-22656812 <b>Fax :</b> +91-22-22656985 <b>Email :</b> <a href="mailto:im@indiratrade.com">im@indiratrade.com</a>
<b>Administrative Office</b>	: Ramavat House, E-15 Saket Nagar, Indore 452018
	<b>Tel :</b> +91-731-2566361 <b>Fax :</b> +91-731-2562117 <b>Email :</b> <a href="mailto:ii@indiratrade.com">ii@indiratrade.com</a>
<b>Institutional Dealing Unit</b>	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	<b>Tel :</b> +91-22-30080675 <b>Fax :</b> +91-22-23870767 <b>Email :</b> <a href="mailto:ie@indiratrade.com">ie@indiratrade.com</a>

## Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate 10% to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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