

NMDC Ltd.**₹ 104****A Jewel at a Throwaway Price Accumulate**

Jun 21, 2013

Company Background

Incorporated in 1958 as a Government of India fully owned public enterprise. NMDC is under the administrative control of the Ministry of Steel, Government of India. Since inception 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, presently producing about 30 mtpa of iron ore from 3 fully mechanized mines. NMDC has made valuable and substantial contribution to the National efforts in the mineral sector during the last five decades and is a consistent profit making and a dividend paying company and therefore been accorded with a "Navaratna" Status. 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.

Key Highlights

- ➔ 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 mtpa by 2014-15.
- ➔ NMDC posted a net profit of Rs 14649.50 mn for the quarter ended March 31, 2013 as compared to Rs 16422.80 mn for the quarter ended March 31, 2012. Total Income has increased from Rs 31448.70 mn for the quarter ended March 31, 2012 to Rs 37516.40 mn for the quarter ended March 31, 2013.
- ➔ 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, etc.
- ➔ Last Year the Company paid a dividend of 450% even this year it has announced a dividend of 700%. If the company declares similar dividends next year, going by the current market prices of NMDC just the dividend would translate into a 10% tax-adjusted return for the highest income tax bracket.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	71,104.3	125,796.3	132,957.4
Rev. growth (%)	(16.09)	76.92	5.69
EBITDA (INR mn)	52,917.7	98,598.9	109,002.5
Net profit (INR mn)	34,472.6	64,992.2	72,653.9
Shares outstanding (mn)	3,964.7	3,964.7	3,964.7
EPS (INR)	8.7	16.4	18.3
EPS growth (%)	(21.16)	88.53	11.79
P/E (x)	33.8	17.3	8.8
RONW (%)	26.6	38.8	33.5
ROCE (%)	26.6	38.8	33.5

Nishant Chopra

nishantc@indiratrade.com

Info Codes

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

Market Data

52 Wk Range (₹)	: 100 - 203
Shares in Issue (mn)	: 3964.7
Mkt. Cap (₹ bn)	: 416.69
BSE 2 Wk Avg Vol	: 163000

Share Holding Pattern (%)

Promoters	: 80.00
DIIs	: 11.48
FIIIs	: 4.76
Others	: 3.76

Investment Theme

Metal stocks have underperformed over the past one year on account of global overcapacity, subdued domestic demand, decreasing prices, rising input costs and delays in obtaining procedural clearances for mines. We believe that the recent fall has left some stocks undervalued. NMDC is one amongst them. However, NMDC has captive assets and strong visibility on earnings growth over coming years, low leverage levels and inexpensive valuations. Further NMDC is looking out for both expansion of its operating base into Coal, Diamond, Gold, etc. for which NMDC is looking forward for leases / buy properties from foreign countries directly / under Special Purpose Vehicle / Joint Ventures or by securing leases from State Governments. Hence, we believe growth would come the easy way in NMDC. We therefore recommend to accumulate NMDC.

A Good Ore-organization

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	62390.9	113757.7	82.33	112687.3	(0.94)
Other Income	8631.8	12055.1	39.66	19665.0	63.13
Change in Stocks	(19.0)	1132.8	(6062.11)	218.3	(80.73)
Raw Material Con.	1089.9	2351.6	115.76	2565.7	9.10
Employee Exp.	3457.2	4927.4	42.53	5388.8	9.36
Indirect Taxes	46.0	130.3	183.26	116.6	(10.51)
Other Exp.	13802.4	21058.0	52.57	15615.6	(25.84)
Operating Exp.	18414.5	27334.5	48.44	23468.4	(14.14)
Operating Profit	43976.4	86423.2	96.52	89218.9	3.23
Total Interest	0.0	15.1	-	40.4	167.55
Gross Profit	52608.2	98463.2	87.16	108843.5	10.54
Net Dep.	447.2	1160.5	159.50	1348.1	16.17
Total Taxation	17688.4	32310.5	82.66	34841.5	7.83
Net Profit/Loss	34472.6	64992.2	88.53	72653.9	11.79

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	116,369.1	142,724.3	192,145.2	244,063.6
Equity Share capital	3,964.7	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	112,404.4	138,759.6	188,180.5	240,098.9
Long Term Loans	0.0	0.0	0.0	0.0
Short Term Loans	0.0	0.0	0.0	0.0
USES OF FUNDS	116,369.1	142,724.3	192,145.2	244,063.6
Gross Block	16,691.7	17,398.6	22,728.2	23,881.5
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	9,225.4	9,527.6	11,735.6	11,993.5
Net Block	7,466.3	7,871.0	10,992.6	11,888.0
Capital Work in Progress	2,483.1	5,612.9	5,676.9	14,941.6
Investments	715.4	761.4	1,356.8	2,477.7
Current Assets	157,480.7	199,642.5	265,339.9	322,404.9
Less : Current Liabilities	51,998.4	71,331.3	91,365.4	107,749.3
Total Net Current Assets	105,482.3	128,311.2	173,974.5	214,655.6
Misc. Expenses not written	222.0	167.8	144.4	100.7
NOTE				
Bk Val Unquoted Investments	715.4	761.4	1,356.8	1,481.4
Mkt Val. Quoted Investments	0.0	0.0	0.0	2,044.5
Contingent Liabilities	4,664.9	4,972.4	24,589.0	96,836.4
Dividend (%)	221	175	330	450

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 12	Sep 12	Dec 12	Mar 13
Net Sales	28,403.50	26,119.80	20,476.90	32,042.50
Cost Of Sales	3,151.90	4,560.00	4,517.40	11,509.40
Operating Profit	25,251.60	21,559.80	15,959.50	20,533.10
Recurring Income	5,521.40	5,830.80	5,562.60	5,473.90
Adjusted PBDIT	30,773.00	27,390.60	21,522.10	26,007.00
Financial Expenses	0.00	0.00	0.00	132.00
Depreciation	327.90	331.80	338.70	386.80
Other Write Offs	2,231.30	2,211.00	2,046.90	3,035.10
Adjusted PBT	28,213.80	24,847.80	19,136.50	22,453.10
Tax Charges	9,153.80	8,061.60	6,208.50	7,803.60
Adjusted PAT	19,060.00	16,786.20	12,928.00	14,649.50
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	19,060.00	16,786.20	12,928.00	14,649.50

52 Week Index Relative Percentage Appreciation



NMDC vs SENSEX vs Metals vs PSU

Points to Ponder

- ➔ NMDC signed the Memorandum of Understanding with Mosi OA Tunya Development Company of Zimbabwe as a strategic partner to invest in the exploration and development of the iron ore, coal, Gold and chrome tenements. This MoU will provide exclusivity to NMDC for participation in mineral projects at Zimbabwe. This collaboration is a significant step towards ensuring augmentation of NMDC’s mineral reserves and globalization of its operations.
- ➔ 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 Bacheli (2 mtpa). Besides, NMDC has acquired Sponge Iron India Limited with plan for expansion to produce billets.
- ➔ NMDC guides for a volume of 30- 32 mt in FY14, higher than earlier indication of 27- 28 mt. Karnataka volume is pegged at 9- 10 mtpa with 4.5 mt from Kumaraswamy n Demand scenario is good with better lump offtake recently; the management indicated that there may not be significant cut in prices further and international prices have lesser influence n Dividend pay out likely to be at least 40 percent with a possibility of going up.
- ➔ The company supplies raw material for three major gas-based sponge iron steel producers like Essar Steel, Ispat industries and Vikram Ispat.
- ➔ NMDC is developing two new mines at an indicative cost of about Rs. 1500 cr, The total production capacity is expect to increase up to 50 million tonnes per year by 2014-15. NMDC also has the only mechanized diamond mine in the country with a capacity of 1.00 lakh carats/annum at Panna (Madhya Pradesh).



In a Nutshell

NMDC is Government's own company specifically incorporated for management of mineral mining and development. Its total administrative control resides with Ministry of steel. Since inception 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. The consistent dividend paying and profit making company has a strong back up of an ISO 9001 certified R&D Centre, which has been declared as the "Centre of Excellence" in the field of mineral processing by the Expert Group of UNIDO. 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. In recognition to the Company's growing status and consistent excellent performance, the Company has been categorized by the Department of Public Enterprises as "NAVRATNA" Public Sector Enterprise in 2008. 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. Looking at the growing demand of the Steel, the current valuation of the company the future prospects seem to be bright.

Indira Group Offices

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

Rating Interpretation

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

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.