

## In line performance

9<sup>th</sup> Feb, 2015

<b>CMP:</b>	<b>Rs.141</b>
<b>Target Price</b>	<b>Rs. 173</b>
<b>Rating:</b>	<b>BUY</b>

### Stock Info

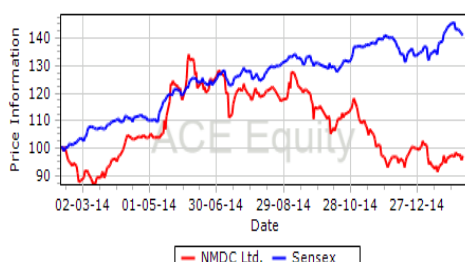
BSE Group	A
BSE Code	526371
NSE Symbol	NMDC
Bloomberg	NMDC.IN
Reuters	NMDC.BO
BSE Sensex	28,718
NSE Nifty	8,661

### Market Info

Market Capital	Rs 55,803 cr
Equity Capital	Rs 396 cr
Avg. Trading Vol.	30,60,090
52 Wk High/ Low	196/123
Face Value	1

### Shareholding Pattern (%) (Dec 2014)

Promoters	80.0
Domestic Institutions	11.2
Foreign Institutions	6.2
Public & others	2.6
<b>Total</b>	<b>100.0</b>



NMDC's earnings came in line with estimates at Rs 1,593cr. An iron ore sales volume was up by 7.2% yoy to 7.0mn tonnes while its production was up by 11.1% to 8.6 mn tonnes. Blended realisations remained almost flat qoq at Rs 4,224 per ton, while on yoy basis it declined by 2.6%.

Revenues increased by 4.4% on YoY basis to Rs 2,946 crs largely on account of higher volumes. Operating cost increased by 1.2% on YoY basis to Rs 1,432 per ton largely due to increased royalty which increased to Rs 661 per ton from Rs 226 per ton. Employee cost increased marginally to Rs 260 per ton from Rs 242 per ton. Other expenditure decreased marginally from Rs 320/t to Rs 307/t on YoY basis. Consequently, EBITDA margins for the quarter declined by 127 bps YoY to 66.1%. However EBIDTA for the quarter increased by 2.4% on YoY basis to Rs 1,948 crs. Profit for the quarter increased by 1.6% YoY to Rs 1,593 crs

### Valuations:

We believe a soft iron ore price is factored in the share price. We expect NMDC to deliver volumes growth of 6-10% over next two years, while we forecast realisations to remain muted over the same period. Higher dividend payout (725% interim dividend announced) is another main trigger for the stock. Post recent correction, stock is trading at 3.3x its FY16E EV/EBITDA. We have valued stock at EV/EBITDA(x) of 5.0 (x) its FY16 estimates and have arrived at a fair value of Rs 173 per share. Recommend "BUY" rating on the stock.

### Financials

(Rs Cr)	FY13	FY14	FY15E	FY16E
Net Revenue	10,704	12,058	12,460	12,518
EBITDA	7,375	7,862	7,919	7,670
EBITDA%	68.9	65.2	63.6	61.3
PAT	6,341	6,510	6,704	6,405
EPS	16.0	16.4	16.9	16.2
PAT Growth (%)	(12.7)	2.7	3.0	(4.5)
RONW (%)	23.0	21.7	20.3	18.0
P/E (x)	8.8	8.6	8.3	8.7
EV/EBITDA (x)	4.3	4.1	3.3	3.3

Source: - Company data, Arianth Research



Rs in Crore	3QFY15	3QFY14	YOY (%)	2QFY15	QoQ (%)
<b>Net Sales</b>	<b>2946</b>	<b>2823</b>	<b>4%</b>	<b>3105</b>	<b>-5%</b>
Expenditure	997.9	920	8%	1099	-9%
<b>EBITDA</b>	<b>1948.2</b>	<b>1903</b>	<b>2%</b>	<b>2006</b>	<b>-3%</b>
EBITDA Margins (%)	66%	67%		65%	
Other Income	525	508	3%	527	0%
Interest	0	0		0	
Depreciation	53	36		41	
PBT after exceptional items	2,420	2374	2%	2492	-3%
Tax	827	807		813	
Tax rate (%)	34%	34%		33%	
Reported PAT	1593	1567	2%	1567	2%
<b>Adj PAT</b>	<b>1593</b>	<b>1567</b>		<b>1567</b>	
Adj NPM	54%	56%		50%	
EPS (Rs)	4.0	4.0	2%	4.0	2%

Source: - Company data, Arihant Research



Profit and Loss Account, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
<b>Net Sales</b>	10,704	12,058	12,460	12,518
YoY%	(5.0)	12.6	3.3	0.5
<b>Income from Operations</b>	10,704	12,058	12,460	12,518
Consumption of stores and parts	258	346	408	458
Employee Cost	580	706	796	903
Royalty Expenses	952	960	1,093	1,098
Selling and Distribution Expenses	818	1,347	1,591	1,687
Total Expenditure	3,329	4,196	4,541	4,847
<b>Operating EBITDA</b>	7,375	7,862	7,919	7,670
Operating EBITDA margin %	68.9	65.2	63.6	61.3
Depreciation	139	150	174	315
Operating EBIT	7,237	7,712	7,746	7,356
Other Income	2239	2095	2412	2349
Interest	13	2	-	-
PBT before Excp Items	9,462	9,804	10,158	9,704
Exceptional item	-	45	-	-
PBT	9,462	9,850	10,158	9,704
Tax Expense	3,122	3,340	3,454	3,299
<b>Net Profit</b>	6,341	6,510	6,704	6,405
YoY%	(12.7)	2.7	3.0	(4.5)
Effective Tax Rate	33.0	33.9	34.0	34.0
<b>Reported EPS</b>	16.0	16.4	16.9	16.2

Balance Sheet, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
<b>Liabilities + Equity</b>				
(a) Share capital	396	396	396	396
<b>(b) Reserves and surplus</b>	27,114	29,592	32,585	35,279
Shareholders' funds	27,511	29,988	32,982	35,675
Non-current liab & Prov	148	148	150	153
Current liabilities	3,236	1,341	5,140	5,263
<b>Total - Equity and liabilities</b>	30,894	31,477	38,272	41,092
<b>Assets</b>				
Non-current assets				
<b>Fixed assets</b>	4,501	6,639	8,413	12,913
Long Term Inv	250	250	250	250
Loans + Adv + Others	551	726	1,014	1,340
Total non current assets	800	977	1,264	1,590
Current assets				
<b>Cash</b>	21,026	18,657	23,835	21,585
Other Current Assets	4,567	5,204	4,761	5,004
Sub-total - Current assets	25,593	23,861	28,596	26,589
<b>Total - Assets</b>	30,894	31,477	38,272	41,092

Cash Flow Statement, Year Ending March				
Particulars, in Rs crore	FY13	FY14	FY15 E	FY16 E
Operating Activities				
<b>PBT</b>	9,462	9,761	10,158	9,704
Add Depr	141	110	174	315
Others	(2,198)	(1,997)	-	-
Total	7,405	7,874	10,332	10,019
Cash Taxes	(4,087)	(3,565)	(3,454)	(3,299)
Changes in Working Cap	(231)	(588)	4,243	(120)
<b>Cash Flow from Operations</b>	3,087	3,721	11,120	6,599
Investing Activities				
Change in investments/LT adv	2,646	5,740	-	-
Capex	(1,977)	(2,285)	(1,947)	(4,814)
<b>Cash Flow from Investing</b>	669	3,455	(1,947)	(4,814)
Financing Activities				
<b>Dividends + Taxes paid</b>	(2,534)	(5,798)	(3,711)	(3,711)
Change in Non Curr Liab	(13.4)	(2.6)	(284.8)	(323.6)
<b>Cash Flow from Financing</b>	(2,548)	(5,801)	(3,996)	(4,035)
Opening Cash	3,098	4,306	5,681	10,858
Changes during year	1,208	1,375	5,177	(2,249)
<b>Closing Cash</b>	4,306	5,681	10,858	8,609
<b>Other bank balance</b>	16,720	12,976	12,976	12,976
<b>Total</b>	21,026	18,657	23,835	21,585

Ratio Analysis				
	FY13	FY14	FY15 E	FY16 E
<b>Profitability</b>				
<b>Operating EBITDA%</b>	68.9	65.2	63.6	61.3
Operating EBIT%	67.6	64.0	62.2	58.8
PAT%	59.2	54.0	53.8	51.2
<b>ROE</b>	23.0	21.7	20.3	18.0
Du Pont ROAE breakup				
PAT / Sales	59.2	54.0	53.8	51.2
Sales / Avg Total Assets	0.37	0.39	0.36	0.32
Avg Total Assets / Avg Eqty	1.11	1.08	1.11	1.16
<b>Average ROE</b>	24.4	22.6	21.3	18.7
<b>Other Ratios</b>				
Current Ratio	7.9	17.8	5.6	5.1
Long Term Debt / Equity	-	-	-	-
<b>EPS</b>	16.0	16.4	16.9	16.2
DPS	7.0	8.5	8.0	8.0
Dividend Payout ratio	51.1	60.6	55.4	57.9
<b>P/E</b>	8.8	8.6	8.3	8.7
BVPS	69.4	75.6	83.2	90.0
<b>P/BV</b>	2.0	1.9	1.7	1.6

Source: Company data, Arihant Research



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**Stock Rating Scale**

	<b>Absolute Return</b>
Buy	> 20%
Accumulate	12% to 20%
Hold	5% to 12%
Neutral	-5% to 5%
Reduce	< -5%

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