NMDC (NATMIN)

₹ 117

One-offs continue to impact performance…

- NMDC reported a subdued set of Q4FY17 numbers. The topline came in above our estimate but adjusted EBITDA and adjusted PAT were below our estimates. The company reported a net income from operations of ₹ 2871.7 crore, up 88% YoY, 15% QoQ and above our estimate of ₹ 2689.4 crore. Iron ore sales volume of 9.8 million tonnes (MT) was below our estimate of 10.0 MT. NMDC's blended realisation came in at ₹ 2898/tonne, up 67% YoY, 19% QoQ vs. our estimate of ₹ 2647/tonne
- EBITDA came in at ₹ 932.1 crore. Resulting EBITDA/tonne was at ₹ 954/tonne. During the quarter, there were a slew of one-offs/provisions
- One-offs during Q4FY17, which were included in other expenses: a) existing liability towards mines closure obligation under MMDR Amendment Act, 2015 was reviewed, wherein a liability of ~₹ 58 crore was provided for, b) the company provided for ~₹ 100 crore for doubling of railway lines, required to increase the evacuation capacity of Bailadila sector c) ~₹ 59 crore was provided towards expected credit loss (ECL), d) write-down with respect to J&K subsidiary ~₹ 42.4 crore and e) ~₹ 50 crore was provided with respect to service tax payable on royalty
- Subsequently, reported PAT came in at ₹ 511.9 crore

High quality asset with large reserve base

NMDC has a large reserve base with high grade deposits and significant mine life. As on April 1, 2016, as per UNFC, NMDC's total iron ore reserve and resource base is 2299.2 MT (average Fe grade of 64.33%). At FY16 production run rate, the company has a mine life of ~77 years (reserves: production: 77). A higher mine life coupled with superior quality deposit provide strong earnings visibility.

Models sales volume of 38.5 MT for FY18E, 40 MT for FY19E…

During the current fiscal year, NMDC's production and sales volumes have grown at a healthy pace. For FY17, NMDC's production volumes stood at 34.03 million tonnes (MT), up 19.1% YoY while sales volumes were at 35.6 MT, up 23.5% YoY. Going forward, we expect sales volume to grow at a CAGR of 11.6% in FY16-19E. We have modelled sales 38.5 MT in FY18E and 40 MT for FY19E.

Sales volume to grow at CAGR of ~6% in FY17-19E; maintain HOLD…

NMDC reported a subdued performance in Q4FY17. Going forward, we expect sales volumes to grow at a CAGR of ~6% in FY17-19E. We value the stock at 6.5x FY19E EV/EBITDA and arrive at a target price of ₹ 120. We have a **HOLD** recommendation on NMDC.

Rating matrix

Rating	:	Hold
Target	:	₹ 120
Target Period	:	12 months
Potential Upside	:	2%

What's Changed?

Target	Changed from ₹ 140 to ₹ 120
EPS FY18E	Changed from ₹ 13.3 to ₹ 9.4
EPS FY18E	Changed from ₹ 14.4 to ₹ 10.9
Rating	Unchanged

Quarterly Performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	2871.7	1530.0	87.7	2497.9	15.0
Rep. EBITDA	932.1	418.2	122.9	1026.6	-9.2
EBITDA (%)	32.5	27.3	513 bps	41.1	-864 bps
Rep. PAT	511.9	459.1	11.5	595.1	-14.0

Key Financials

₹ Crore	FY16	FY17 P	FY18E	FY19E
Op. Income	6,455.8	8,828.1	8,655.0	9,646.1
EBITDA	3,188.9	3,601.1	4,067.8	4,678.3
Net Profit	3,028.3	2,589.1	2,977.6	3,460.8
EPS (₹)	7.6	8.2	9.4	10.9

*P - Provisional

Valuation summary

₹ Crore	FY16	FY17 P	FY18E	FY19E
P/E	15.3	14.3	12.4	10.7
Target P/E	15.7	14.6	12.7	11.0
BV	75.9	71.2	80.4	89.0
EV / EBITDA	8.6	9.8	8.4	7.1
P/BV	1.5	1.6	1.5	1.3
RoNW	10.1	11.5	11.7	12.3
RoCE	9.4	15.1	15.2	15.9

Stock data

Particular	Amount
Market Capitalization	₹ 37018.8 Crore
Total Debt (FY17 P)	₹ 0 Crore
Cash and Investments (FY17 P)	₹ 5289.3 Crore
EV	₹ 37741.1 Crore
52 week H/L	152 / 85
Equity capital	₹ 316.4 Crore
Face value	₹ 1

Price performance (%)

Return %	1M	3M	6M	12M
NMDC	-10.6	-17.6	-4.3	28.7

Research Analyst

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Variance Analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
Reported revenue	2,871.7	2,689.4	1,530.0	87.7	2,497.9	15.0	The topline came in above our estimates
Other Income	134.3	304.0	444.2	-69.8	155.9	-13.9	
Employee Expense	372.0	213.8	134.5	176.6	175.0	112.5	Employee expense came in higher than our estimate
Raw Material Expense	-0.8	215.2	103.5	-100.8	119.3	-100.7	
Royalty & cess	540.4	309.3	152.4	254.5	494.8	9.2	Royalty and cess expense came in higher than our estimate
Selling Expense	281.9	161.4	232.8	21.1	167.0	68.8	
Other Expense	746.1	470.7	488.6	52.7	515.2	44.8	Other expenses came in higher than our estimate on account of one-offs.
Reported EBITDA	932.1	1,319.1	418.2	122.9	1,026.6	-9.2	The reported EBITDA came in lower than our estimate
EBITDA Margin (%)	32.5	49.0	27.3	513 bps	41.1	-864 bps	The EBITDA margin was lower than our estimate
Depreciation	30.7	55.2	66.2	-53.7	55.1	-44.3	
Interest	5.9	4.5	65.5	-91.1	5.3	10.4	
Exceptional Items	-201.3	0.0	167.2	-220.4	201.3	-200.0	
PBT	1,231.2	1,563.4	563.5	118.5	920.8	33.7	
Tax Outgo	719.3	469.0	104.5	588.6	325.7	120.9	
Reported PAT	511.9	1,094.4	459.1	11.5	595.1	-14.0	The reported PAT came in lower than our estimate
Key Metrics							
Iron ore sales volume (MT)	9.8	10.0	8.6	13.6	10.1	-3.3	The iron ore sales volume came in marginally lower than our estimate

Source: Company, ICICIdirect.com Research

Estimates

	FY17 P	FY18E			FY19E			
(₹ Crore)		New	Old	Change	New	Old	Change	Comments
Total Op. Income	8,828.1	8,655.0	9,332.3	-7.3	9,646.1	10,076.0	-4.3	Downward revised estimates on all parameters
EBITDA	3,601.1	4,067.8	5,005.6	-18.7	4,678.3	5,800.0	-19.3	
EBITDA Margin (%)	40.8	47.0	53.6	-664 bps	48.5	57.6	-906 bps	
PAT	2,589.1	2,977.6	4,215.8	-29.4	3,460.8	4569.4	-24.3	
EPS (₹)	8.2	9.4	13.3	-29.2	10.9	14.4	-24.0	

Source: Company, ICICIdirect.com Research

Assumptions

		Current		Earlier		Comments
	FY17 P	FY18E	FY19E	FY18E	FY19E	
Iron ore sales volume (MT)	35.6	38.5	40.0	38.5	40.0	Iron ore sales volume maintained

Source: Company, ICICIdirect.com Research

Company Analysis

NMDC Ltd (NMDC), a Navratna public sector enterprise, is engaged in mining iron ore. The company is India's largest iron ore miner having access to superior quality iron ore assets.

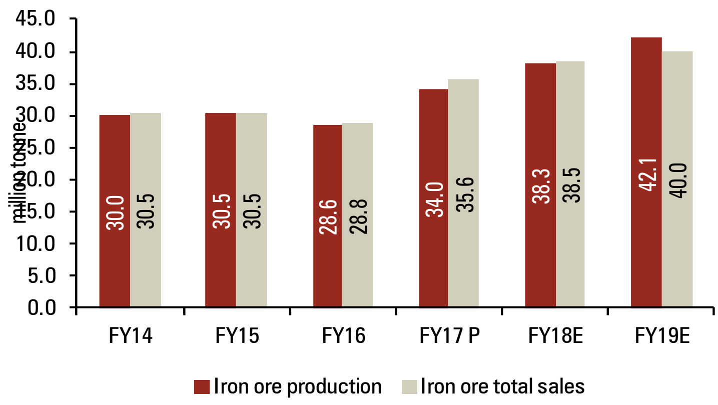
High quality asset with large reserve base

NMDC has a large reserve base with high grade deposits and significant mine life. As on April 1, 2016, as per UNFC, NMDC's total iron ore reserve and resource base was 2299.2 MT (average Fe grade of 64.33%). At FY16 production run rate, the company has a mine life of ~77 years (reserves: production: 77). A higher mine life coupled with superior quality deposit provide strong earnings visibility.

Sales volume in FY17-19E to grow at a ~6%

During the current fiscal year, NMDC's production and sales volumes grew at a healthy pace. For FY17, NMDC's production volumes were at 34.03 million tonnes (MT), up 19.1% YoY while sales volumes were at 35.6 MT, up 23.5% YoY. Going forward, we expect sales volume to grow at a CAGR of 11.6% in FY16-19E. We have modelled sales 38.5 MT in FY18E and 40 MT for FY19E.

Exhibit 1: Iron ore production and sales trend



Source: Company, ICICIdirect.com Research

Outlook & valuation

NMDC reported a subdued performance in Q4FY17. Going forward, we expect sales volumes to grow at a CAGR of ~6% in FY17-19E. We value the stock at 6.5x FY19E EV/EBITDA and arrive at a target price of ₹ 120. We have a **HOLD** recommendation on NMDC.

Exhibit 2: Valuation matrix

Particulars	Value
FY19E EBITDA (₹ crore)	4678
EV/EBITDA multiple	6.5
Enterprise value (₹ Crore)	30409
FY19E cash & cash equivalent (₹ crore)	7501
Implied equity (₹ crore)	37910
No.of shares	316.4
Implied target price (₹) (A)	120

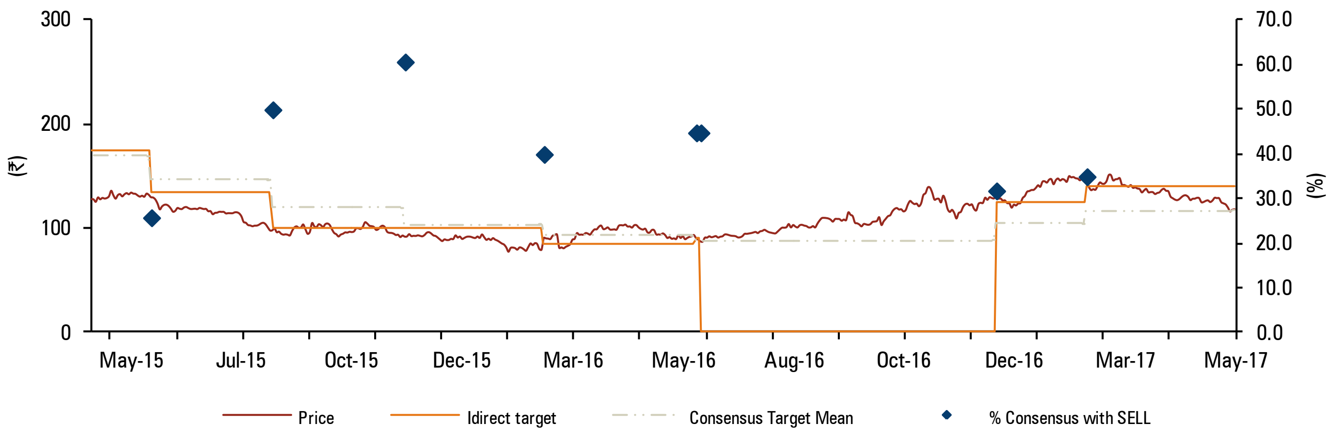
Source: Company, ICICIdirect.com Research

Exhibit 3: Valuation matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	6455.8	-46.5	7.6	-52.8	15.3	8.6	10.1	9.4
FY17 P	8828.1	36.7	8.2	7.1	14.3	9.8	11.5	15.1
FY18E	8655.0	-2.0	9.4	15.0	12.4	8.4	11.7	15.2
FY19E	9,646.1	11.5	10.9	16.2	10.7	7.1	12.3	15.9

Source: Company, ICICIdirect.com Research

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Sep-12	Mining ban imposed in Goa
Oct-12	NMDC shifts to monthly contracts; cuts iron ore prices
Apr-13	Reports yearly numbers. Proposes a dividend of ₹ 7/share for FY13. Gives strong production guidance
Oct-13	Increases the price of its products for the first time in calendar year 2013. Iron ore fines & lumps prices increased by ₹ 100/tonne
Dec-13	Increases the price of iron ore fines & lumps by ₹ 200 each for December 2013
Sep-15	Iron ore lumps prices decreased by ₹200/tonne, prices for fines cut by ₹300/tonne
Oct-15	Prices of iron ore lumps cut by ₹350/tonne, fines by ₹200/tonne
Nov-15	Decreased prices of iron ore lumps by ₹400/tonne, while increasing the prices of fines by ₹100/tonne
Dec-15	Prices cut for iron ore lumps by ₹300/tonne, fines remain unchanged
Feb-16	Gives a healthy interim dividend of ₹9.5/ share
Mar-16	Increases the prices of iron ore lumps and fines by ₹150/tonne
Mar-16	Declares second interim dividend of ₹1.5/share
Apr-16	Increases the prices of iron ore lumps by ₹150/tonne and fines by ₹150/tonne

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	31-Mar-2017	74.94%	2371.1	0.0
2	Life Insurance Corporation of India	31-Mar-2017	12.32%	389.9	0.0
3	LIC Mutual Fund Asset Management Company Ltd.	31-Mar-2017	2.02%	63.9	-1.9
4	The Vanguard Group, Inc.	31-Mar-2017	0.76%	24.1	-0.1
5	Eastspring Investments (Singapore) Limited	28-Feb-2017	0.66%	20.9	-0.2
6	Robeco Institutional Asset Management B.V.	28-Feb-2017	0.38%	12.0	0.8
7	PGGM Vermogensbeheer B.V.	31-Dec-2015	0.18%	5.7	2.0
8	L&T Investment Management Limited	31-Mar-2017	0.17%	5.2	3.1
9	Hirtle, Callaghan & Co., LLC	31-Dec-2015	0.12%	3.9	0.6
10	Northern Trust Investments, Inc.	31-Mar-2017	0.09%	2.9	0.4

Source: Reuters, ICICIdirect.com Research, *- m is million shares

Shareholding Pattern

(in %)	Jun-16	Sep-16	Oct-16	Dec-16	Mar-17
Promoter	80.0	80.0	74.9	74.9	74.9
Others	20.0	20.0	25.1	25.1	25.1

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
L&T Investment Management Limited	6.3	3.1	Matthews International Capital Management, L.L.C.	-16.5	-9.1
City of London Investment Management Co. Ltd.	3.5	1.9	Norges Bank Investment Management (NBIM)	-10.0	-5.5
Robeco Institutional Asset Management B.V.	1.8	0.8	Schroder Investment Management Ltd. (SIM)	-5.0	-2.7
Invesco Asset Management (India) Private Limited	1.4	0.7	LIC Mutual Fund Asset Management Company Ltd.	-4.0	-1.9
Goldman Sachs Asset Management (US)	1.3	0.6	JM Financial Asset Management Pvt. Ltd.	-2.3	-1.1

*- Shares in million
Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				(₹ crore)
(Year-end March)	FY16	FY17 P	FY18E	FY19E
Operating Income (Iron ore)	6454.0	8827.8	8595.0	9586.1
Other minerals and services	1.8	0.4	60.0	60.0
Total Operating Income	6455.8	8828.1	8655.0	9646.1
Growth (%)	-47.8	36.7	-2.0	11.5
Raw Material Expenses	355.2	368.3	519.3	578.8
Employee Expenses	671.3	885.6	778.9	868.1
Royalty & Cess	882.3	1,524.7	1,384.8	1,543.4
Selling & other Expenses	1,358.1	2,448.5	1,904.1	1,977.4
Total Operating Expenditure	3,267.0	5,227.1	4,587.1	4,967.7
EBITDA	3188.9	3601.1	4067.8	4678.3
Growth (%)	-59.0	12.9	13.0	15.0
Depreciation	207.8	196.2	212.7	212.7
Interest	65.4	20.8	0.0	0.0
Other Income	1,774.4	908.8	589.1	699.7
PBT	4,690.1	4,292.9	4,444.3	5,165.3
Exceptional Item	184.8	0.0	0.0	0.0
Total Tax	1,476.9	1,703.8	1,466.6	1,704.6
PAT	3,028.3	2,589.1	2,977.6	3,460.8
Growth (%)	-52.8	-14.5	15.0	16.2
EPS (₹)	7.6	8.2	9.4	10.9

Source: Company, ICICIdirect.com Research

Cash flow statement				(₹ crore)
(Year-end March)	FY16	FY17 P	FY18E	FY19E
Profit after Tax	3,028.3	2,589.1	2,977.6	3,460.8
Add: Depreciation	207.8	196.2	212.7	212.7
(Inc)/dec in Current Assets	164.2	355.3	1,080.8	6.8
Inc/(dec) in CL and Provisions	-434.8	1,006.6	18.8	587.6
Others	0.0	0.0	0.0	0.0
CF from operating activities	2,965.5	4,147.2	4,289.9	4,267.9
(Inc)/dec in Investments	-133.5	-31.6	-24.9	-20.0
(Inc)/dec in Fixed Assets	-2,793.9	-2,350.5	-2,987.1	-2,500.0
Others	34.2	438.5	0.0	0.0
CF from investing activities	-2,893.2	-1,943.5	-3,012.0	-2,520.0
Issue/(Buy back) of Equity	0.0	-80.1	0.0	0.0
Inc/(dec) in loan funds	1,497.0	-1,497.0	0.0	0.0
Dividend paid & dividend tax	-5,248.7	-1,906.4	-740.4	-740.4
Inc/(dec) in Share Cap	-0.3	-666.6	666.4	0.0
Others	0.0	-7,527.8	0.0	0.0
CF from financing activities	-3,752.0	-11,677.8	-74.0	-740.4
Net Cash flow	-3,679.7	-9,474.1	1,203.9	1,007.5
Opening Cash	18,443.2	14,763.5	5,289.3	6,493.2
Closing Cash	14,763.5	5,289.3	6,493.2	7,500.7

Source: Company, ICICIdirect.com Research

Balance sheet				(₹ crore)
(Year-end March)	FY16	FY17 P	FY18E	FY19E
Liabilities				
Equity Capital	396.5	316.4	316.4	316.4
Reserve and Surplus	29,714.6	22,203.0	25,106.7	27,827.1
Total Shareholders funds	30,111.1	22,519.4	25,423.1	28,143.5
Total Debt	1,497.0	0.0	0.0	0.0
Deferred Tax Liability	122.2	0.0	0.0	0.0
Others	50.5	611.2	611.2	611.2
Total Liabilities	31,780.7	23,130.6	26,034.3	28,754.7
Assets				
Gross Block	3,765.2	4,007.2	4,501.6	5,501.6
Less: Acc Depreciation	1,858.2	2,054.4	2,274.4	2,487.1
Net Block	1,907.0	1,952.8	2,227.2	3,014.5
Capital WIP	9,722.9	11,831.4	14,331.4	15,831.4
Total Fixed Assets	11,629.9	13,784.2	16,558.6	18,845.8
Investments	695.4	727.0	751.9	771.9
Inventory	637.0	540.0	659.3	735.4
Debtors	1,896.1	1,043.5	1,883.8	1,969.7
Loans and Advances	2,978.3	2,606.0	1,804.9	1,677.6
Other Current Assets	745.5	1,712.1	472.7	431.4
Cash	14,763.5	5,289.3	6,493.2	7,500.7
Total Current Assets	21,020.3	11,190.9	11,314.1	12,314.8
Current Liabilities	1,541.8	1,429.2	2,354.8	2,889.0
Provisions	23.1	1,142.3	235.5	288.9
Current Liabilities & Prov	1,564.9	2,571.5	2,590.3	3,177.9
Net Current Assets	19,455.4	8,619.4	8,723.8	9,136.9
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	31,780.7	23,130.6	26,034.3	28,754.7

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17 P	FY18E	FY19E
Per share data (₹)				
EPS	7.6	8.2	9.4	10.9
Cash EPS	8.2	8.8	10.1	11.6
BV	75.9	71.2	80.4	89.0
DPS	11.0	5.2	2.0	2.0
Cash Per Share (Incl Invst)	39.0	19.0	22.9	26.1
Operating Ratios (%)				
EBITDA Margin	49.4	40.8	47.0	48.5
PBT / Total Op. income	72.6	48.6	51.3	53.5
PAT Margin	46.9	29.3	34.4	35.9
Inventory days	36.0	22.3	28.0	28.0
Debtor days	107.2	43.1	80.0	75.0
Creditor days	87.2	59.1	100.0	110.0
Return Ratios (%)				
RoE	10.1	11.5	11.7	12.3
RoCE	9.4	15.1	15.2	15.9
RoIC	18.5	20.6	21.2	22.5
Valuation Ratios (x)				
P/E	15.3	14.3	12.4	10.7
EV / EBITDA	8.6	9.8	8.4	7.1
EV / Net Sales	4.2	4.0	3.9	3.4
Market Cap / Sales	6.3	4.6	4.7	4.2
Price to Book Value	1.7	1.8	1.6	1.4
Solvency Ratios				
Debt/EBITDA	0.5	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.0	2.3	1.9	1.5
Quick Ratio	3.6	2.1	1.6	1.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Metals & Mining)

Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	TP (₹)	Rating	(₹ Cr)	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Coal India	265	365	Buy	164775	16.1	19.6	22.4	18.6	15.3	13.4	9.8	8.0	6.6	36.9	51.5	62.1	36.1	48.6	56.3
Hindalco	191	180	Hold	39349	13.7	17.3	22.2	13.3	10.5	8.2	7.6	7.0	6.2	7.0	7.6	8.5	6.8	8.0	9.4
Hindustan Zinc	234	300	Buy	98950	19.7	23.9	25.5	13.8	11.3	10.6	9.3	7.3	6.1	26.9	33.2	30.3	27.0	27.0	24.3
JSW Steel	190	215	Buy	45927	14.3	18.8	20.8	13.5	10.2	9.3	7.2	6.7	6.3	13.3	14.5	14.5	15.3	17.4	16.4
NMDC	117	120	Hold	37019	8.2	9.4	10.9	14.3	12.4	10.7	9.8	8.4	7.1	15.1	15.2	15.9	11.5	11.7	12.3
SAIL	57	60	Buy	23502	-5.9	-0.6	6.2	NA	NA	10.1	62.6	13.6	6.6	-2.0	2.1	7.0	-6.5	-0.7	7.3
Vedanta	242	260	Buy	71753	15.1	30.5	34.4	9.3	16.3	15.9	4.8	4.1	3.6	12.1	14.2	14.8	9.3	16.3	15.9
Tata Steel	484	550	Buy	143506	42.2	47.0	64.2	11.5	10.3	7.5	7.4	7.2	6.0	9.4	9.4	11.1	10.8	13.8	16.2

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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ANALYST CERTIFICATION

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