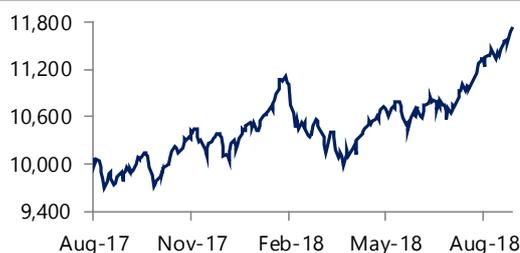


AUGUST 29, 2018

	28-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,897	0.5	4.2	10.6	
NIFTY Index	11,739	0.4	4.1	9.8	
NSEBANK Index	28,270	0.0	2.3	6.2	
NIFTY 500 Index	9,986	0.3	4.2	7.3	
CNXMcap Index	19,718	(0.3)	5.0	3.5	
BSESMCAP Index	17,043	0.4	3.6	(2.2)	
World Indices					
Dow Jones	26,064	0.1	2.4	7.0	
Nasdaq	8,030	0.2	3.8	8.6	
FTSE	7,617	0.5	(1.1)	(0.2)	
NIKKEI	22,813	0.1	1.0	2.6	
Hangseng	22,813	0.1	1.0	2.6	
Shanghai	28,352	0.3	(1.2)	(6.7)	
Value traded (Rs cr)					
	28-Aug	% Chg Day			
Cash BSE	2,678	(5.4)			
Cash NSE	32,637	8.9			
Derivatives	-	-			
Net inflows (Rs cr)					
	27-Aug	MTD	YTD		
FII	436	1,525	(1,885)		
Mutual Fund	739	3,958	76,557		
Nifty Gainers & Losers					
	28-Aug	Price (Rs)	Chg (%)	Vol (mn)	
Gainers					
Hindalco Ind		239	3.8	18.9	
Adani Ports		387	2.2	5.1	
Reliance Ind		1,319	2.1	8.7	
Losers					
Gail India		364	(5.0)	10.5	
Yes Bank Ltd		371	(3.2)	26.3	
HPCL		257	(2.0)	4.6	
Advances / Declines (BSE)					
28-Aug	A	B	T	Total	% total
Advances	185	434	58	677	100
Declines	244	589	95	928	137
Unchanged	3	32	13	48	7
Commodity					
	28-Aug	% Chg			
		1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	76.0	0.1	2.3	0.8	
Gold (US\$/OZ)	1,201	(0.9)	(1.6)	(7.3)	
Silver (US\$/OZ)	14.7	(1.3)	(4.8)	(9.8)	
Debt / forex market					
28-Aug	1 Day	1 Mth	3 Mths		
10 yr G-Sec yield %	7.9	7.9	7.8	7.7	
Re/US\$	70.1	70.2	68.7	67.4	

Nifty



Source: Bloomberg

News Highlights

- ▶ The department of industrial policy and promotion (DIPP) has effectively ruled out foreign direct investment (FDI) in inventory-based ecommerce, allaying concerns raised by those opposed to such a move, even as it agreed with the need for a regulator to oversee the sector.(ET)
- ▶ **State Bank of India** said that the appropriate authority has accorded approval to explore and initiate the process of divestment of its 3.9 percent stake in National Stock Exchange of India through secondary sale. (Bloomberg)
- ▶ **Tata Motors** to showcase five new public transport vehicles at the bus and coach exhibition, Busworld India starting from Aug. 29. Under its new turnaround strategy, the company is "aggressively" focusing on introducing new range of products with improved features and modern technological advancements said Rohit Srivastava, product line head.(Bloomberg)
- ▶ **Lakshmi Vilas Bank** received approval from IRDA to offer general insurance products. The bank had executed a corporate agency agreement with HDFC Ergo General Insurance Company to sell non-life insurance products under open architecture.(Bloomberg)
- ▶ LIC has given its in principle approval for subscription of equity shares on preferential basis subject to its total exposure not exceeding 14.90% of post issue capital of **IDBI Bank** at any point of time," the filing said. (Mint)
- ▶ **Vedanta Ltd** has bagged 41 out of 55 oil and gas exploration blocks offered in India's maiden open acreage auction, the Directorate General of Hydrocarbons (DGH) said (BL)
- ▶ **Jet Airways** said it has received an additional equity of \$300 million in the form of advance lease incentives and borrowings from domestic banks. (ET)
- ▶ **Bharti Airtel** plans to roll out 9,000 new sites and 4,150 kilometres of optic fiber for financial year 2018-19 in Rajasthan. This announcement is the part of the company's network expansion plan LEAP. (Bloomberg)
- ▶ **JSW Steel Ltd.** will replace **Lupin Ltd.** in the benchmark NSE Nifty 50 Index. (ET)
- ▶ **Jaiprakash power** to mull conversion of loan of lenders into Compulsory Convertible Pref Share up to Rs 40 bn. (Moneycontrol)

What's Inside

- ▶ **Company Update:** NMDC Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

Stock Details

Market cap (Rs mn)	:	343598
52-wk Hi/Lo (Rs)	:	163 / 94
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	3,148,506
Shares o/s (mn)	:	3164

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	116,149	116,483	113,185
Growth (%)	31.6	0.3	(2.8)
EBITDA	58,254	57,705	54,462
EBITDA margin (%)	50.2	49.5	48.1
PAT	38,089	38,669	35,726
EPS	12.0	12.2	11.3
EPS Growth (%)	49.7	1.5	(7.6)
BV (Rs/share)	78	85	90
Dividend/share (Rs)	4.3	5.0	5.0
ROE (%)	16.2	14.3	12.2
ROCE (%)	13.9	12.8	11.0
P/E (x)	1.4	1.3	1.1
EV/EBITDA (x)	5.4	5.4	5.8
P/BV (x)	1.4	1.3	1.1

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Jun-18	Mar-18	Dec-17
Promoters	72.4	72.4	74.9
FII	4.0	4.2	3.8
DII	19.0	18.8	17.4
Others	4.5	4.6	3.9

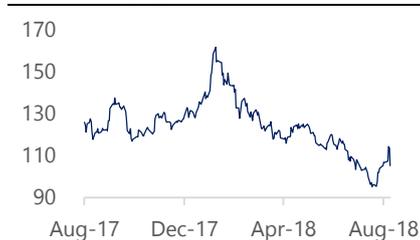
Source: Company

Price Performance (%)

(%)	1M	3M	6M
NMDC	4.6	(9.1)	(16.0)
Nifty	4.1	9.8	11.9

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

NMDC LTD

PRICE Rs.108

TARGET Rs.125

BUY

NMDC has revised prices of domestic iron ore thrice YTD, adding up to Rs300 and Rs350 per tonne for iron ore fines and lump ore to Rs2,960/tonne and Rs3,350/tonne, respectively. We believe that the recent hike in the iron ore prices is backed by 4% month on month increase in international iron ore prices, rupee depreciation and the surge in pellet prices (~4 years high / +25% YoY). Though, we continue to remain cautious on the outlook of iron ore prices for the medium to long term perspective. But, expect it to remain strong in the coming months, as Odisha miners has also hiked prices in the range of Rs250-300/tonne.

Key Highlights

- ❑ NMDC hiked the prices of iron ore by Rs150/tonne (~5%) for Lumps and Fines to Rs3,350/tonne and Rs2,960/tonne, respectively, both in Karnataka and Chhattisgarh.
- ❑ The company recently commissioned 1.2MT pellet plant and expect to sell 400-500KT in FY19E and will reach breakeven in FY20E at 60% utilisation level (700-800KT).
- ❑ July production declined ~36% YoY due to the monsoon, we expect costs pertaining to mine-closure expenses and contribution towards a District Mineral Fund likely to fall.
- ❑ Management indicated that, offtake in Karnataka has picked up in the month of Aug (declined 25% YoY in 1QFY19 due to lower offtake as steelmakers switched to imports) by one of the large steel maker in the state and souring by the steel plant in Vizag.

Outlook

Though, we expect NMDC's iron ore volume to grow at a CAGR of ~6% for the next three to five years, but expectations of weak prices due to increase in iron ore supply by the big miners from Australia and Brazil in the medium term would keep the seaborne iron ore market oversupplied. This, coupled with surplus production in domestic markets, supports our cautious view on iron ore. However, in the coming months, due to uptick in pellet prices, international iron ore prices and price hiked by Odisha miners, domestic iron ore prices are likely to remain strong and shall support NMDC's earnings. At CMP, the stock is trading at 5.4x and 5.8x FY19E and FY20E EV/EBITDA, which in our view factors all the possible negatives. We maintain BUY with an unchanged target price of Rs125, factoring the CWIP of steel plant at 50% of its investment and valuing in core business at 5.5x FY20E EBITDA.

Key Risks

Lower than expected volume, realisation and increased in export duty on pellet sales.

Jatin Damania

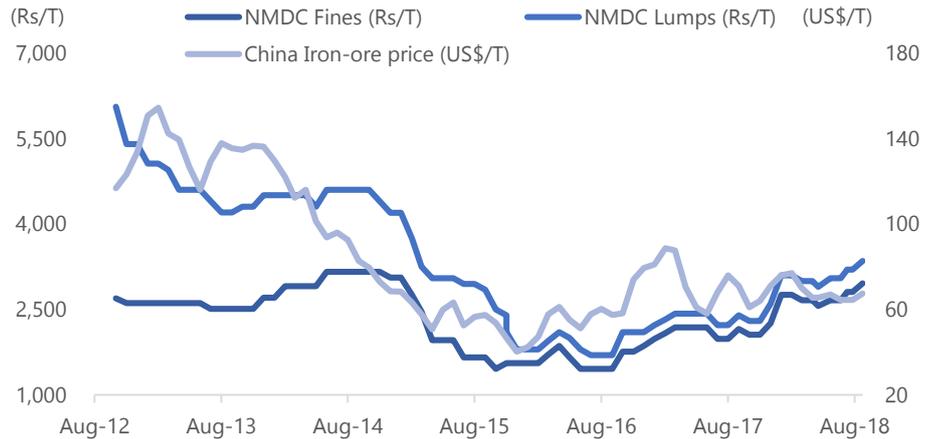
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Price hike to partly offset the dip in volume

The recent hike in the iron ore prices by NMDC, will partially offset the impact of the decline in volume. NMDC has revised prices of domestic iron ore thrice YTD, adding up to Rs300 and Rs350 per tonne for iron ore fines and lump ore to Rs2,960/tonne and Rs3,350/tonne, respectively. We believe that the recent hike in the iron ore prices is backed by rupee depreciation, a 4% increase in international iron ore prices compared to the previous month and the surge in pellet prices (~4 years high / +25% YoY).

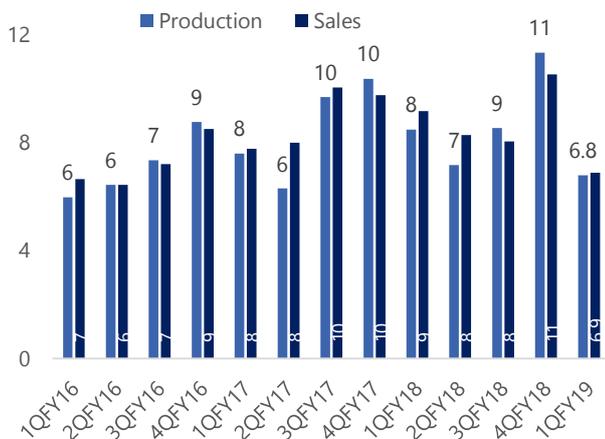
NMDC's iron ore prices vs global prices



Source: Company, Kotak Securities – Private Client Research

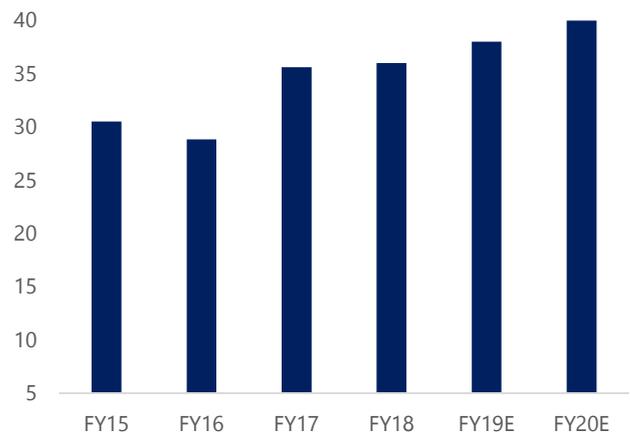
Volume in 1QFY19 declined by 26% YoY and weakness continued in the month of July as well. However, from the August, offtake in Karnataka (volume to the largest steel maker in the state was 1.3MT for the August, as against a monthly average of 800-900KT) has resumed and the management expects the trend to continue. Besides this, Vizag steel makers have also started sourcing the iron ore from the states. We expect volume to grow at 5.5% CAGR during the FY18-20E period.

Quarterly production and sales (MT)



Source: Company, Kotak Securities – Private Client Research

5.5% volume CAGR expected during FY18-20E period

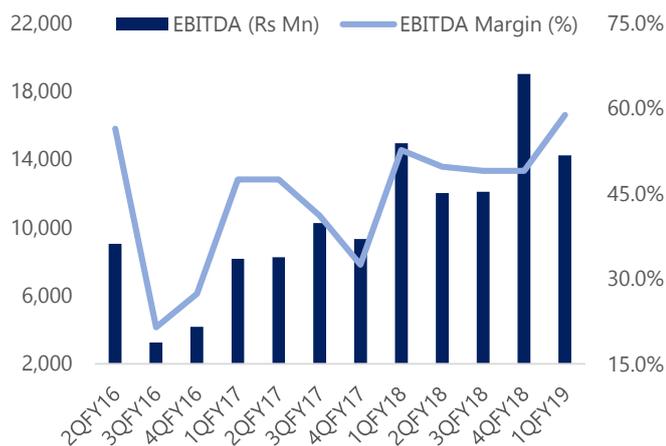


Source: Company, Kotak Securities – Private Client Research

Expenses to increase and weigh on margin

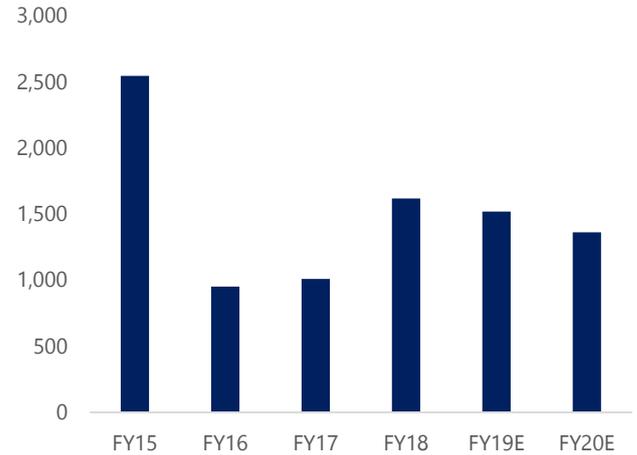
NMDC reported highest EBITDA margin of 58.8% in the last 12 quarters in 1QFY19, backed by a decline in expenses. Despite the increase in iron ore prices, we believe that margin has peaked in 1QFY19 and will decline in the coming quarters with the increase in production, as it will lead to increase in mine closure expenses, selling expenses, credit loss and District Mineral Fund. We expect EBITDA/tonne to decline from Rs1,618/tonne in FY18 to Rs1,362/tonne in FY20E. 1QFY19 EBITDA/tonne stood at Rs2,073/tonne.

EBITDA Margin at its peak



Source: Company, Kotak Securities – Private Client Research

EBITDA/T is expected to decline (Rs/T)



Source: Company, Kotak Securities – Private Client Research

LKAB declares force majeure; supported pellet prices

Swedish iron ore miner LKAB has declared force majeure due to fire on a stretch of Norwegian railways. LKAB is the EU's largest iron ore producer and mines around 80% of all iron ore within the EU, according to the company's latest financial report. It is also the world's second-largest producer in the seaborne pellet market, producing 24.60MT in 2017. Following the continued shutdown of Brazilian pelletizer Samarco's mine and China's strict blast furnace production control, pellet demand has increased significantly especially in the past month. This has led to huge demand of pellets by China from India, resulting in a 29% increase in pellet prices over the previous months to Rs8,100/tonne (~4 years high). We believe the uptick in pellet prices will benefit NMDC, as the company has recently commissioned 1.2MT pellet plant. The management expects to sell 400-500KT of pellet in FY19E and expect to break even in FY20E (operating at ~60% utilisation level).

Valuation

Though, we expect NMDC's iron ore volume to grow at a CAGR of ~6% for the next three to five years, but expectations of weak prices due to increase in iron ore supply by the big miners from Australia and Brazil in the medium term would keep the seaborne iron ore market oversupplied. This, coupled with surplus production in domestic markets, supports our cautious view on iron ore. However, in the coming months, due to uptick in pellet prices, international iron ore prices and price hiked by Odisha miners, domestic iron ore prices are likely to remain strong and shall support NMDC's earnings. At CMP, the stock is trading at 5.4x and 5.8x on FY19E and FY20E EV/EBITDA, respectively, which in our view factors all the possible negatives. We maintain BUY with an unchanged target price of Rs125, factoring the CWIP of steel plant at 50% of its investment and valuing in core business at 5.5x FY20E EBITDA.

Company background

NMDC is India's single largest iron ore producer, presently producing about 36 million tonnes of iron ore from 3 fully mechanized mines viz., Bailadila Deposit-14/11C, Bailadila Deposit-5, 10/11A (Chhattisgarh State) and Donimalai Iron Ore Mines (Karnataka State). The company's principal operations include its four iron ore mining complexes at Kirandul and Bacheli in Chhattisgarh and Donimalai and Kumarswamy in Karnataka. NMDC also operates a diamond mine at Panna (Madhya Pradesh), the only mechanised diamond mine in the country and the largest diamond mine in Asia. NMDC is also setting up a 3 MTPA Steel Plant at Nagarnar in Chhattisgarh.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net sales	88,279	116,149	116,483	113,185
growth (%)	36.7	31.6	0.3	(2.8)
Operating expenses	52,341	57,895	58,778	58,723
EBITDA	35,939	58,254	57,705	54,462
growth (%)	31.1	62.1	(0.9)	(5.6)
Depreciation	1,967	2,566	2,951	3,025
EBIT	33,972	55,688	54,754	51,437
Other income	9,102	5,006	3,404	2,315
Interest paid	208	371	371	371
Exceptional items	0	1,443	0	0
PBT	42,866	61,765	57,787	53,381
Tax	17,038	23,733	19,185	17,722
Effective tax rate (%)	39.7	38.4	33.2	33.2
Net profit	25,828	38,032	38,601	35,658
Minority interest	392	(57)	(68)	(68)
Reported Net profit	25,437	38,089	38,669	35,726
growth (%)	7.7	49.7	1.5	(7.6)

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Pre-tax profit	42,866	61,765	57,787	53,381
Depreciation	1,967	2,566	2,951	3,025
Chg in working capital	(5,056)	(6,312)	4,230	(2,078)
Total tax paid	15,534	23,733	19,185	17,722
Other operating activities	(3,156)	(2,256)	371	371
Operating CF	21,086	32,031	46,154	36,976
Capital expenditure	(23,191)	(25,674)	(24,344)	(17,102)
Chg in investments	61,133	(604)	0	0
Other investing activities	13,772	0	0	0
Investing CF	51,713	(26,278)	(24,344)	(17,102)
Equity raised/(repaid)	(75,404)	0	0	0
Debt raised/(repaid)	(14,970)	11,571	(10,000)	0
Dividend (incl. tax)	20,360	15,918	18,509	18,509
Other financing activities	32,495	0	0	0
Financing CF	(78,239)	(4,347)	(28,509)	(18,509)
Net chg in cash & bank bal.	(5,440)	1,405	(6,699)	1,366
Closing cash & bank bal	53,205	54,611	47,912	49,277

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash & Bank balances	53,205	54,610	43,912	49,277
Other Current assets	54,469	61,696	59,070	61,137
Investments	6,123	6,727	6,727	6,727
Net fixed assets	139,506	160,023	190,889	215,932
Other non-current assets	4,534	3,857	3,857	3,857
Total assets	257,837	286,913	308,456	336,930
Current liabilities	19,537	18,696	20,300	21,619
Borrowings	12,324	23,894	13,894	13,894
Other non-current liabilities	0	0	0	0
Total liabilities	31,861	42,590	34,194	35,513
Share capital	3,164	3,164	3,164	3,164
Reserves & surplus	222,658	241,010	270,949	298,104
Shareholders' funds	225,822	244,174	274,113	301,268
Minority interest	154	149	149	149
Total equity & liabilities	257,837	286,913	308,456	336,930

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Profitability and return ratios (%)				
EBITDAM	40.7	50.2	49.5	48.1
EBITM	38.5	47.9	47.0	45.4
NPM	28.8	34.0	33.2	31.6
RoE	11.3	16.2	14.3	12.2
RoCE	9.9	13.9	12.8	11.0
Per share data (Rs)				
EPS	8.0	12.0	12.2	11.3
CEPS	8.7	13.3	13.2	12.2
BV	71.4	78.2	84.5	89.7
DPS	5.50	4.30	5.00	5.00
Valuation ratios (x)				
PE	13.5	9.0	8.9	9.6
P/BV	1.5	1.4	1.3	1.1
EV/EBITDA	8.4	5.4	5.4	5.8
EV/Sales	3.4	2.7	2.7	2.8
P/CEPS	12.5	8.2	8.3	8.9
Other key ratios				
D/E (x)	0.1	0.1	0.1	0.0
DSO (days)	12	13	30	30

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** - We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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