Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

NMDC Limited

Solid Q4; Robust growth outlook and attractive valuation

Metal & Mining	Sharekhan code: NMDC	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 179**	
Price Target: **Rs. 205**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

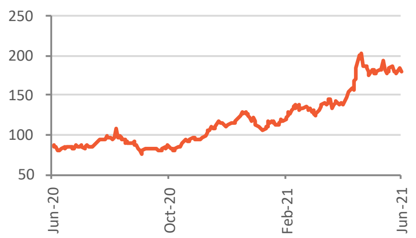
Company details

Market cap:	Rs. 52,414 cr
52-week high/low:	Rs. 213 / 76
NSE volume: (No of shares)	148.0 lakh
BSE code:	526371
NSE code:	NMDC
Free float: (No of shares)	92.9 cr

Shareholding (%)

Promoters	68.3
FII	4.6
DII	20.7
Others	6.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2	41	58	105
Relative to Sensex	-6	35	46	55

Sharekhan Research, Bloomberg

Summary

- Q4FY21 numbers were strong with 15% beat in operating profit at Rs. 4,240 crore (up 53.3% q-o-q) led by higher iron ore realisation of Rs. 6,138/tonne (12% above estimate) partially offset by higher-than-expected royalty. PAT at Rs. 2,836 crore (up 31.4% q-o-q) also marginally exceeded estimate.
- Iron ore production guidance of 44 MT implies 29% y-o-y increase for FY22 and thus we model strong 31%/7% y-o-y increase in iron ore sales volume to 41 MT/44 MT in FY22/FY23 while royalty premium be go up to 22.5% from Q1FY22. Steel plant demerger to be completed by Q3FY22.
- We raise our FY22-FY23 earnings estimates to factor higher iron ore prices (18-23% discount to current prices) and expect EBITDA/PAT CAGR of 9%/13% over FY21-23E despite assuming royalty premium of 22.5% on entire volumes.
- We retain a Buy rating on NMDC with a revised PT of Rs. 205 as core business' valuation of 3.8x its FY23E EV/EBITDA is attractive. Strategic sale of steel plant to unlock value but likely stake dilution by government through OFS is a near-term overhang.

NMDC Limited's Q4FY2021 results were strong with 15% beat in operating profit at Rs. 4,240 crore (up 185% y-o-y; 53.3% q-o-q), led by stronger-than-expected iron ore realisation at Rs. 6,138/tonne (up 67.1% y-o-y; up 30.8% q-o-q and 12% above our estimate of Rs. 5,500/tonne) partially offset by higher-than-expected royalty and other levies (up 2.5x q-o-q in Q4FY2021). Iron ore sales volume grew strongly by 29.9% y-o-y and 19.5% q-o-q to 11.1 million tonne (in-line with our expectations). Strong realisation led to 15% beat in blended EBITDA/tonne at Rs. 3,823/tonne (up 121.5% y-o-y; 28.3% q-o-q). PAT at Rs. 2,836 crore, up 31.4% q-o-q and was 2% above our estimate of Rs. 2,771 crore and largely in-line with consensus estimate as strong operating performance was offset by higher effective tax rate of 34% (versus assumption of 25%). We remain optimistic about sustained strong performance in FY2022 as the company has hiked iron ore lump/fines price by 50%/56% since February 2021 and current prices of Rs. 7,650/Rs. 6,560 per tonne are 97%/94% above FY2021 average iron ore price. Moreover, we highlight here that India's iron ore lump/fines prices are at a steep discount of 60%/57% to that of China's iron price. NMDC would also benefit from higher volume (given re-start of production at Donimalai mine) but royalty premium will also increase to 22.5% from Q1FY2022 on all mines (except for Kumarswamy iron ore mine which is due for renewal in 2022) which has been extended after the commencement of MMDR Amendment Act, 2015. Management has guided for strong 29% y-o-y growth in iron ore production to 44 million tonnes and thus we expect strong 31%/7% y-o-y growth in iron ore sales volume to 41mt/44mt in FY2022E/FY2023E. Robust iron ore sales volume and higher prices re-enforce our confidence with respect to strong earnings growth over next two years. Thus, we expect a 13% PAT CAGR over FY2021-FY2023E despite assumption of higher royalty premium of 22.5% and high base of FY2021. Valuation of 3.8x its FY2023E EV/EBITDA (excluding value of CWIP at 0.5x for the steel plant) seems attractive, as compared to average of 5.3x its FY2023E EV/EBITDA for global mining companies given strong return ratios (RoE/RoCE of 22.1%/24.5%). Potential strategic sale of 3-mtpa Nagarnar Steel Plant (CWIP of Rs. 18,560 crore or Rs. 63/share) could help unlock value for NMDC and result in further upgrade of valuation as the street is ascribing only 50% value to CWIP of steel plant. Hence, we maintain our Buy rating on NMDC with a revised price target (PT) of Rs. 205.

Key positives

- Better-than-expected consolidated EBITDA margin at Rs. 3,823/tonne (up 121.5% y-o-y, up 28.3% q-o-q) led by sharp rise in iron ore realisations to Rs. 6,138/tonne (up 67.1% y-o-y; up 30.8% q-o-q).
- Sharp 19.5% q-o-q increase in iron volume to 11.1 million tonne.

Key negatives

- Sharp rise of 2.5x q-o-q rise in royalty and other levies in Q4FY2021.

Our Call

Valuation – Maintain Buy rating on NMDC with a revised PT of Rs. 205: NMDC's valuation of 3.8x its FY2023E EV/EBITDA (excluding value of the steel plant at 0.5x CWIP) is attractive as it is at a steep discount of 28% to average EV/EBITDA multiple of 5.3x for global mining peers despite earnings visibility and strong return ratios (RoE/RoCE of 22.1%/24.5%). Value unlocking from the demerger and potential strategic sales of the steel plant (could add Rs. 30-32/share to NMDC's valuation as the street is ascribing only 50% value to CWIP of Rs. 18,560 crore). Hence, we maintain our Buy rating on NMDC with a revised PT of Rs. 205. We highlight here that likely stake dilution by the government through OFS could act as an overhang on NMDC's stock price in the near term.

Key Risks

A sharp fall in the domestic and international iron ore price, potential delay in volume pick-up, and royalty premium of more than 22.5% in future for mine lease renewals could impact earnings and valuation. Delay in demerger and strategic sale of the steel plant beyond FY2022 could impact value unlocking timeline.

Valuation (Consolidated) Rs cr

Particulars	FY20	FY21	FY22E	FY23E
Revenue	11,699	15,370	23,882	26,927
OPM (%)	51.3	57.2	38.3	38.6
Adjusted PAT	3,671	6,277	7,034	8,038
% y-o-y growth	*-20.5*	*71.0*	*12.1*	*14.3*
Adjusted EPS (Rs.)	12.0	20.5	23.0	26.3
P/E (x)	14.9	8.7	7.8	6.8
P/B (x)	2.0	1.8	1.6	1.4
EV/EBITDA (x)	8.8	5.7	5.7	4.8
RoNW (%)	13.7	21.8	22.0	22.1
RoCE (%)	19.7	26.5	24.1	24.5

Source: Company; Sharekhan estimates

Sharp 15% beat in operating profit led by higher ore realisation at Rs. 6,138/tonne (up 31% q-o-q), volumes up 19.5% q-o-q to 11.1mt

Q4FY2021 revenue increased by 114.8% y-o-y and 57.2% q-o-q to Rs. 6,848 crore, which was 12% above our estimate of Rs. 6,089 crore on account of better-than-expected iron ore realisation at Rs. 6,138/tonne (12% higher than our assumption of Rs. 5,500/tonne). Iron ore sales volume at 11.1 million tonne (up 19.5% q-o-q) was in-line with our estimates. Operating profit of Rs. 4,240 crore (up 185% y-o-y; up 53.3% q-o-q) was 15%/10% above our/consensus estimate of Rs. 3,679 crore/Rs. 3,870 crore. The sharp beat in operating profit was driven by stronger-than-expected blended margin at Rs. 3,823/tonne (up 28.3% q-o-q and beat of 15% versus our estimate of Rs. 3,323/tonne), backed by higher iron ore realisation. PAT at Rs. 2,836 crore, up 31.4% q-o-q and was 2% above our estimate of Rs. 2,771 crore and largely in-line with consensus estimate as strong operating performance was offset by effective tax rate of 34% (versus assumption of 25%).

Q4FY2021 conference call highlights

- **Impressive iron ore production guidance for FY2022 –** Management has guided for iron ore production volume of 44 million tonne, which implies 29% y-o-y growth for FY2022. The company's statutory approvals for ramp-up of iron ore production capacity to 83 million tonne from 51.8 million tonnes currently.
- **Update on commissioned of the steel plant –** The company's steel plant is largely ready and expected to get commissioned by Q3FY2021 (delay on account of non-availability of manpower). Out of the total project cost of Rs. 21,300 crore, NMDC has spent ~Rs. 18,560 crore on the steel plant.
- **Timeline for demerger of steel plant –** The company has started the process of demerger of Nagarnar steel plant into a separate company and is optimistic to complete the demerger by Q3FY2022. In terms of timeline, the company expects to get approval for draft demerger scheme from the board by July 31, 2021, and post that the company would take necessary regulatory approval (shareholder's, SEBI approval among others) in the next 100-150 days. The divestment process of steel plant is taken by DIPAM and the company does not have any role to play in the same.
- **Impact of higher royalty premium of 22.5% –** NMDC has started paying royalty premium of 22.5% with effect from March 28, 2021, on all mines (expect for Kumarswamy iron ore mine) for the mines, which have been extended after the commencement of MMDR Amendment Act, 2015. The lease for Kumarswamy iron ore mine will expire in 2022 and, thus, all mines will pay higher royalty. NMDC paid Rs. 149 crore (Rs. 48 crore for Karnataka mines and Rs. 101 crore for Chhattisgarh mines) extra royalty in Q4FY2021 to account for royalty premium. The entire additional royalty will be allowed for tax deduction as it is a normal expenditure for the company. The calculation of District Mineral Fund (DMF) and other levies at 19.8% remains unchanged.
- **Capex guidance –** Management has guided for capex of Rs. 3,700 crore for FY2022 as compared to capex of Rs. 2,000 crore for FY2021. Capex would be focused on 2mtpa pellet plant at Nagarnar and iron ore slurry pipeline system under phase 1 at an estimated capex of Rs. 3,000 crore. The steel plant would have capex of Rs. 1,500 crore in FY2022, largely related to commissioning activities.
- **Domestic iron ore price outlook –** Management expects domestic iron price to remain buoyant as demand remains robust, offsetting an increase in iron ore from Odisha miners. However, near-term price has seemed to be peaked out and is likely to remain stagnant as steel demand/price normally tends to be lower during monsoons.
- **Logistic (evacuation work) –** Management has indicated that the work to double the railway lines is progressing well and the company has completed 70% of the work.
- **Debt position –** Debt for the steel plant is at Rs. 546 crore and that for working capital requirement is at Rs. 1,448 crore as of March 2021.

Results (consolidated) Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Net Sales	6,848	3,187	114.8	4,355	57.2
Total Expenditure	2,607	1,700	53.4	1,588	64.2
Reported operating profit	4,240	1,488	185.0	2,767	53.3
Adjusted operating profit	**4,240**	**1,488**	**185.0**	**2,767**	**53.3**
Other Income	85	134	-36.2	106	-19.5
EBITDA	4,325	1,621	166.8	2,873	50.6
Interest	4	-21	-119.4	2	151.8
Depreciation	57	68	-15.9	61	-6.0
Exceptional income/(expense)	0	-96	NA	0	NA
Reported PBT	4,264	1,479	188.4	2,810	51.7
Adjusted PBT	**4,264**	**1,575**	**170.8**	**2,810**	**51.7**
Tax	1,431	1,131	26.5	702	103.8
Reported PAT	2,834	347	715.9	2,108	34.4
Adjusted PAT	**2,834**	**370**	**665.9**	**2,108**	**34.4**
Loss from Discontinued operations (after tax)	2	0	NA	0	NA
Share of Profit I (Loss) of Associates/JVs	0	-31	NA	50	NA
Minority interest (MI)	0	0	NA	0	NA
Reported PAT after MI	2,836	315	799.1	2,158	31.4
Adjusted PAT after MI	**2,836**	**338**	**738.9**	**2,158**	**31.4**
Equity Cap (cr)	307	307		307	
Reported EPS (Rs)	9.2	1.0	799.1	7.0	31.4
Adjusted EPS (Rs)	9.2	1.1	738.9	7.0	31.4
Margins(%)			**BPS**		**BPS**
Adjusted OPM	61.9	46.7	1524.7	63.5	-160.6
Adjusted NPM	41.4	10.6	3080.8	49.5	-813.3

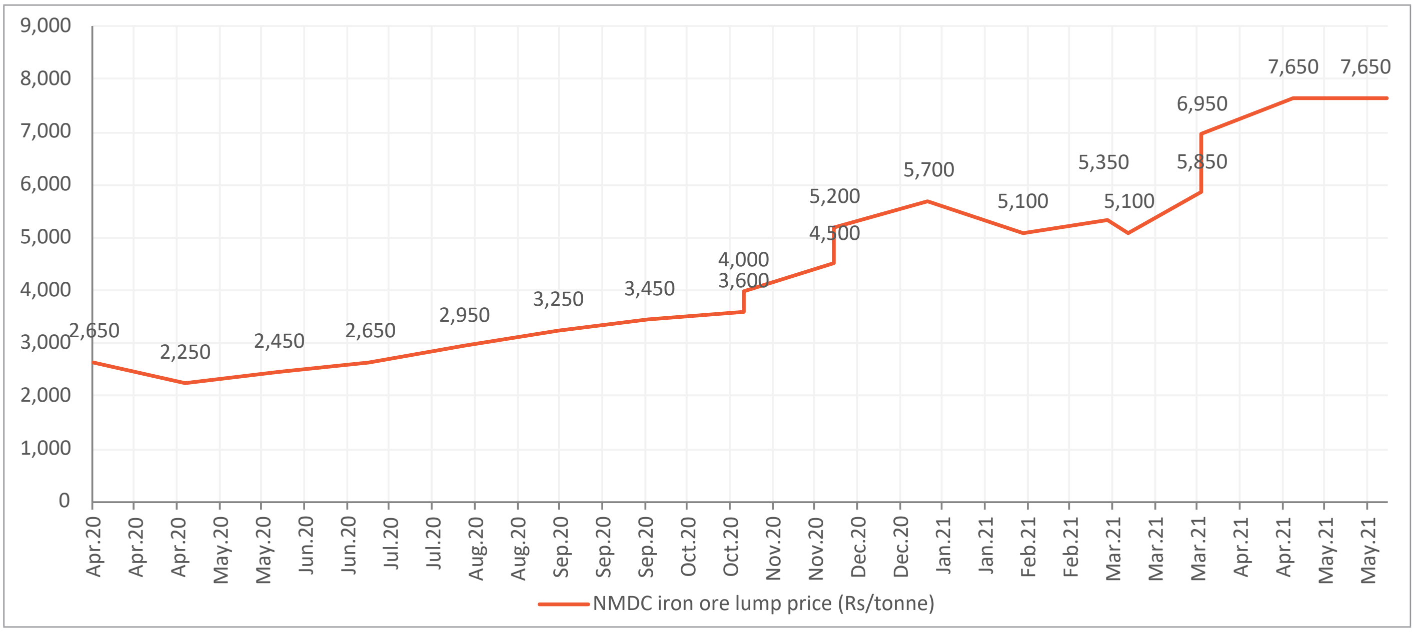
Source: Company; Sharekhan Research

Key operating performance

Particulars	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Iron ore production (million tonnes)	12.3	9.5	29.9	9.6	28.2
Iron ore sales (million tonnes)	11.1	8.6	28.7	9.3	19.5
Domestic iron realisation (Rs/tonnne)	5,941	3,473	71.1	4,402	35.0
Blended iron ore realisation (Rs/tonnne)	6,138	3,674	67.1	4,691	30.8
EBITDA/tonne (Rs/tonne)	3,823	1,726	121.5	2,980	28.3

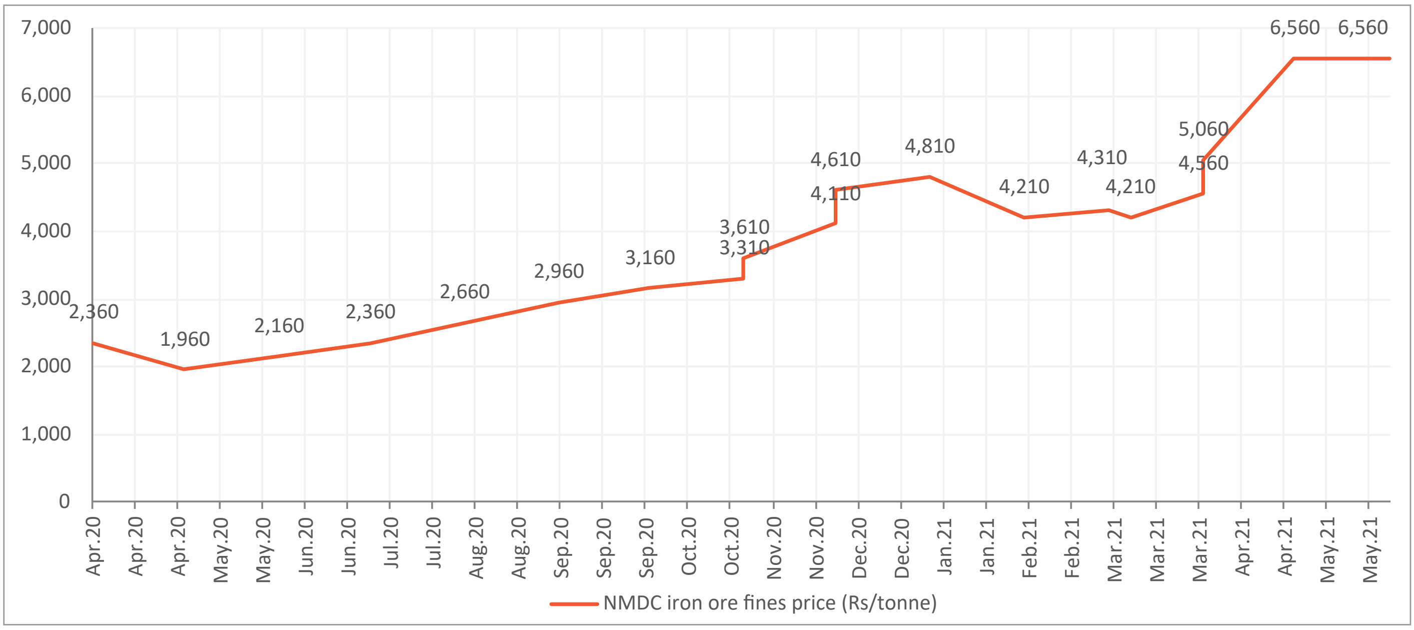
Source: Company; Sharekhan Research

NMDC iron ore lump price (up 50% since Feb'21)



Source: Company

NMDC iron ore fines price (up 56% since Feb'21)



Source: Company

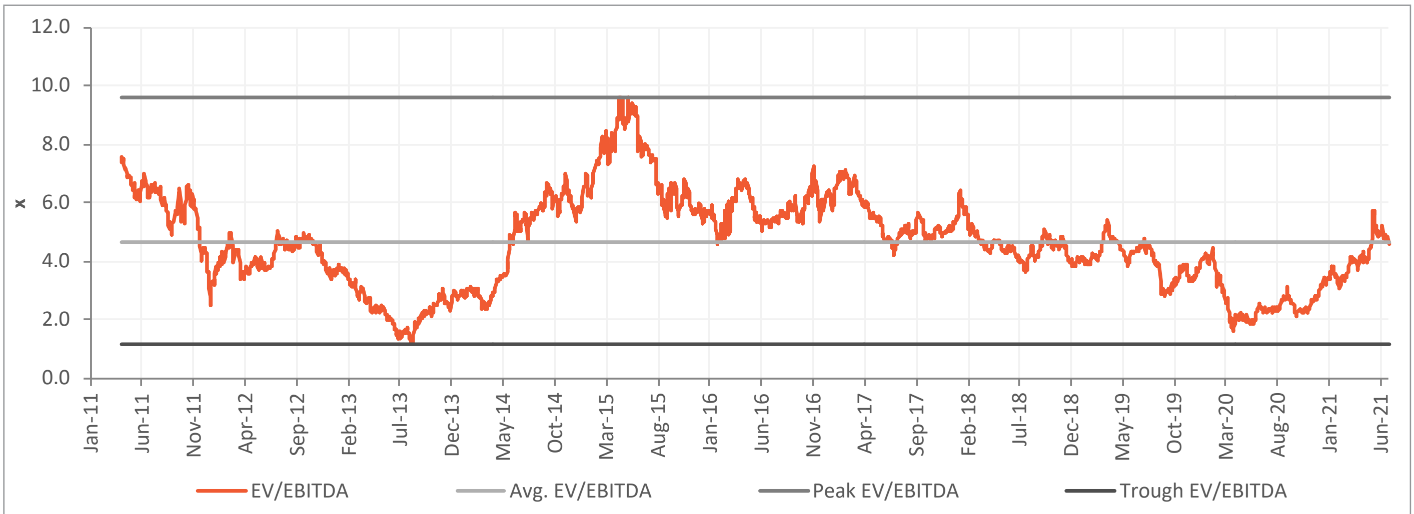
Outlook and Valuation

- **Sector view – Strong iron ore demand led by higher steel production; Pricing to remain strong given domestic supply deficit:** We expect India's iron ore demand to be strong over FY2022E-FY2023E, led by high growth in steel production. Our positive stance for steel production/demand stems from multiple factors such as strong retail demand emanating from a thriving rural economy and green shoots of recovery in white goods and the automobile sector, especially from tractors, passenger vehicles, and two-wheelers. Globally, increased focus on a stimulus in China would sustain the recent economic revival and drive steel production higher in China. We believe increased global iron prices (>$175-200/tonne) and expectation of iron ore deficit in India until FY2023 (till Odisha mines' production is back to normal levels) would help sustain high domestic iron prices and resultantly higher average selling price to iron ore miners.

- **Company outlook – Robust volume growth and better realisation to drive 13% PAT CAGR over FY2021-FY2023E:** We see multiple triggers for improvement in NMDC's iron ore output, led by: 1) resumption of iron ore production at Donimalai mine (7mtpa capacity and was shut down since November 2018), 2) capacity expansion at Kumarasamy mines (in Karnataka) to 10 mtpa from 7 mtpa currently, and 3) higher production from Chhattisgarh mines (through addition of screening lines and de-bottlenecking). Hence, we expect NMDC iron ore sales volume to pick up sharply by 30.8%/7.4% y-o-y to 40.5 mt/43.5 mt in FY2022E/FY2023E. Increased volume and better realisation would drive 9%/13% EBITDA/PAT CAGR over FY2021-FY2023E despite assumption of higher royalty premium of 22.5% on entire iron ore volumes.

- **Valuation – Maintain Buy rating on NMDC with a revised PT Rs. 205:** NMDC's valuation of 3.8x its FY2023E EV/EBITDA (excluding value of the steel plant at 0.5x CWIP) is attractive as it is at a steep discount of 28% to average EV/EBITDA multiple of 5.3x for global mining peers despite earnings visibility and strong return ratios (RoE/RoCE of 22.1%/24.5%). Value unlocking from the demerger and potential strategic sales of the steel plant (could add Rs. 30-32/share to NMDC's valuation as the street is ascribing only 50% value to CWIP of Rs. 18,560 crore). Hence, we maintain our Buy rating on NMDC with a revised PT of Rs. 205. We highlight here that likely stake dilution by the government through OFS could act as an overhang on NMDC's stock price in the near term.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
NMDC	7.8	6.8	5.7	4.8	1.6	1.4
Rio Tinto#	8.9	11.4	5.1	6.2	2.4	2.3
BHP#	8.6	10.8	5.1	6.1	2.6	2.5
Anglo American plc#	7.5	8.8	3.9	4.4	1.4	1.3
Vale SA#	5.6	7.4	3.6	4.4	2.0	1.8

Source: Sharekhan estimates; #Bloomberg

About company

NMDC, a government-owned company, is India's largest iron ore producer with more than 35 million tonne of iron ore from three fully mechanised mines viz., Bailadila Deposit-14/11C, Bailadila Deposit-5, 10/11A (Chhattisgarh State), and Donimalai Iron Ore Mines (Karnataka State). The company is also engaged in the production and sale of diamonds, sponge iron, and wind power. NMDC is also under the final stage to set up a 3mtpa steel plant with total capital outlay estimated at ~Rs. 21,300 crore.

Investment theme

We see multiple triggers for improvement in the operational performance of NMDC over the next two years with potential sharp ramp-up in iron production given the company has resumed production from Donimalai and sustained domestic high iron price. Potential value unlocking from the demerger and strategic sales by its steel plant by Q3FY2021 are likely to help unlock value. However, likely stake dilution by the government through OFS for NMDC could act as an overhang on the stock price in the near term.

Key Risks

- A sharp fall in domestic and international iron ore price, potential delay in volume pick-up, and royalty premium of more than 22.5% for mine lease renewals could impact earnings and valuation.
- Delay in the demerger and strategic sale of the steel plant beyond FY2022 could impact value unlocking.

Additional Data

Key management personnel

Sumit Deb	Chairman and Managing Director
Amitava Mukherjee	Director - Finance
P.K. Satpathy	Director - Production

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp. of India	13.5
2	Nippon Life India Asset Management Ltd	2.6
3	Aditya Birla Sun Life Asset Management Co. Ltd	0.7
4	Vanguard Group Inc.	0.6
5	Principal Financial Group Inc.	0.4
6	Kotak Mahindra Asset Management Co. Ltd	0.3
7	NPS Trust	0.3
8	Tata Asset Management Ltd.	0.2
9	WisdomTree Investments Inc.	0.2
10	Edelweiss Asset Management Ltd.	0.1

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

NMDC

Estimate change	↑
TP change	↑
Rating change	↔

Bloomberg	NMDC IN
Equity Shares (m)	2,931
M.Cap.(INRb)/(USDb)	524.1 / 7.1
52-Week Range (INR)	213 / 76
1, 6, 12 Rel. Per (%)	-2/47/58
12M Avg Val (INR M)	1638
Free float (%)	31.7

Financials & Valuations (INR b)

Y/E MARCH	2021	2022E	2023E
Sales	153.7	299.5	234.0
EBITDA	88.0	156.1	107.7
Adj. PAT	66.0	116.2	80.2
EBITDA Margin (%)	57.2	52.1	46.0
Cons. Adj. EPS (INR)	22.5	39.6	27.4
EPS Gr. (%)	47.0	76.2	-31.0
BV/Sh. (INR)	101.5	117.2	128.5
Ratios			
Net D:E	-0.1	-0.1	-0.1
RoE (%)	23.5	36.3	22.3
RoCE (%)	20.3	33.2	20.6
Payout (%)	36.4	60.5	58.5
Valuations			
P/E (x)	8.0	4.5	6.5
P/BV (x)	1.8	1.5	1.4
EV/EBITDA(x)	6.4	3.5	5.3
Div. Yield (%)	4.3	13.4	8.9

Note: Above nos. are consol.

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	68.3	69.7	69.7
DII	20.8	20.5	20.1
FII	4.6	4.5	6.0
Others	6.3	5.4	4.3

FII Includes depository receipts

CMP: INR179 TP: INR215 (+20%) Buy

Earnings outlook remains strong

Higher pricing to offset impact of premium levy

- NMDC is a play on strong iron ore prices and volumes, well-reflected in its 4QFY21 result – EBITDA at INR42.4b (+53% YoY) and EBITDA/t at INR3,825 (+113% YoY) were the highest ever.
- We raise our FY22/FY23 EBITDA forecast by 61%/38% to factor in higher pricing and volumes. Reiterate **Buy**.

EBITDA up 53% YoY on higher pricing and better volumes

- Revenue / EBITDA / Adjusted PAT rose 57%/53%/51% QoQ (in-line) to INR68.5b/INR42.4b/INR31.8b in 4QFY21 on higher volumes and realization.
- Sales volumes stood at 11.1mt, up 29% YoY and 19% QoQ. The Donimalai mines resumed operations in 4QFY21 and contributed 0.44mt (4%) to volumes. Export volumes increased 23% YoY to 0.82mt.
- On 28th Mar'21, an amendment to the MMDR Act (1957) came into effect. This requires NMDC to pay an additional 22.5% royalty on iron ore sales from all mines renewed post 2015 (Kumaraswamy mine due for renewal in Oct'22). This resulted in expenditure of INR1.49b (Chhattisgarh mines – INR1.0b and Donimalai – INR0.5b) in 4QFY21.
- Blended realization grew 32% QoQ to INR6,174/t on sharp price hikes in 4QFY21. As a result, EBITDA/t increased 28% QoQ to INR3,825 on higher iron ore prices.
- The company provisioned INR3.43b towards income tax payments for earlier years.
- Net cash increased by INR19.8b YoY to INR38.1b in FY21.
- FY21 rev / EBITDA / adj PAT rose 31%/41%/33% to INR153.7b/INR87.9b/INR65.9b.
- OCF/FCF stood at INR73.3b/INR57.3b in FY21 (v/s INR20.5b/-INR3.4b in FY20).

Valuation and view

- NMDC is a play on strong iron ore prices and volumes. We expect a strong 14% volume CAGR to 43mt over FY21–23E, aided by the resumption of the Donimalai mines and increased volumes at Chhattisgarh. While the non-renewal of export contracts implies higher domestic volume sales – given the robust demand and iron ore shortage domestically – we expect NMDC would be able to increase volumes in the domestic market.
- NMDC's average price in 1QFY22 is higher by 35% QoQ, which would result in EBITDA/t expansion despite a non-pass through premium of 22.5% coming into effect. However, NMDC's EBITDA margins are likely to dilute due to royalties, and premiums now form ~40% of revenues (v/s ~18% earlier). We expect NMDC's EBITDA to grow 77% YoY to INR156b in FY22E.
- We value the stock at INR215/share on SOTP, valuing the Iron Ore business at 5.0x FY23E EV/EBITDA. We add the value of the steel plant at 25% of the book value. At CMP, the stock is trading at 4.0x the core Iron Ore Mining business and provides an attractive dividend yield of ~13%. Reiterate **Buy**.

Amit Murarka - Research analyst (Amit.Murarka@motilaloswal.com)
Basant Joshi - Research analyst (Basant.Joshi@motilaloswal.com)

Quarterly Performance (Standalone) – INR m

Y/E March	FY20				FY21				FY20	FY21	FY21	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**32,637**	**22,418**	**30,064**	**31,873**	**19,375**	**22,299**	**43,551**	**68,476**	**1,16,992**	**153,701**	**66,344**	**3**
EBITDA	**19,265**	**11,126**	**16,334**	**15,478**	**7,549**	**10,302**	**27,686**	**42,423**	**62,203**	**87,959**	**41,751**	**2**
Change (YoY %)	30	-20	-28	-23	-61	-7	70	174	-13	41	169.7	
Interest	117	97	98	-213	93	17	16	41	99	168	23	
Depreciation	648	976	646	675	573	534	605	567	2,869	2,278	657	-14
Other Income	1,228	1,275	1,302	1,333	717	884	1,048	850	5,138	3,499	999	-15
PBT (before EO Item)	**19,728**	**11,329**	**16,892**	**16,350**	**7,600**	**10,634**	**28,113**	**42,664**	**64,373**	**89,011**	**42,070**	**1**
Extra-ordinary item	-596	-524	-419	-9,238	0	0	0	0	-10,778	0	0	
PBT (after EO Item)	**19,132**	**10,805**	**16,473**	**7,112**	**7,600**	**10,634**	**28,113**	**42,664**	**53,596**	**89,011**	**42,070**	**1**
Total Tax	7,337	3,771	2,707	3,598	2,267	2,892	7,020	14,306	17,413	26,485	10,938	31
% Tax	38.4	34.9	16.4	50.6	29.8	27.2	25.0	33.5	32.5	29.8	26.0	
Reported PAT	**11,794**	**7,034**	**13,766**	**3,514**	**5,333**	**7,742**	**21,093**	**28,359**	**36,183**	**62,527**	**31,132**	**-9**
Adjusted PAT	**12,390**	**7,558**	**14,185**	**12,752**	**5,333**	**7,742**	**21,093**	**31,791**	**46,886**	**65,959**	**31,132**	**2**

Exhibit 1: Operating metrics

	FY19				FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Production - m tons	6.98	5.26	9.54	10.59	8.43	5.01	8.58	9.47	6.61	5.64	9.60	12.30
Sales volume - m tons	6.78	6.71	8.70	10.17	8.67	5.82	8.41	8.62	6.28	6.60	9.28	11.09
Blended realization - INR/t	3,573	3,635	4,193	3,583	3,765	3,854	3,575	3,698	3,088	3,378	4,691	6,174
Lumps	3,017	3,317	3,550	2,833	2,954	3,033	2,633	3,094	2,336	2,822	4,109	5,333
Fines	2,660	2,910	3,027	2,560	2,714	2,793	2,393	2,816	2,046	2,532	3,725	4,425
EBITDA/t	2,182	2,061	2,618	1,968	2,222	1,913	1,942	1,796	1,203	1,560	2,982	3,825
Operating cost (ex-roy) - INR/t	734	1,073	747	959	872	1,338	943	1,225	1,214	1,241	1,039	955

Source: MOFSL, Company

Highlights from management commentary

Operational highlights

- Production increased 30% YoY to 12.3mt and sales 29% YoY to 11.1mt.
- Reported realization (excl. royalty) rose 64% YoY (24% QoQ) to INR4,699/t.
- Export sales stood at 0.82mt (up 23% YoY).
- Operating cost (excl. royalty) was down 21% YoY to INR955/t on higher volumes.
- The Donimalai mines resumed operations in 4Q and produced 0.55mt. Sales from Donimalai stood at 0.44mt.
- FY21 production/sales increased 8.5%/4.6% YoY to 34.2/33.0mt.

Impact of MMDR Act Amendment

- On 28th Mar'21, an amendment to the MMDR Act (1957) came into effect, requiring NMDC to pay an additional royalty (premium) of 22.5% on mines renewed after 2015. As a result of this amendment, royalties and premiums would now form ~40% of total revenues.
- However, the same would apply to the Kumaraswamy mine from Oct'22 as its mining lease is due for renewal during this month.
- In 4Q, the company paid INR1.49b in premiums on iron ore. Of this, INR0.5b was toward the Donimalai mine, whereas the balance INR1.0b was towards the Chhattisgarh mines for 4 days of volumes.
- While the premium paid would not be passed on to customers, the company has taken price hikes to protect its margins in 1QFY22.

- As a result of this amendment, all PSUs, including NMDC, would be able to seek renewals for their mines as and when they are due for renewal at a 22.5% premium on the value of sales.

Update on demerger and steel plant

- The commissioning of the 3mtpa steel plant is guided by end-3QFY22 as most of the facilities have been completed.
- NMDC would continue to supply iron ore to the steel plant at an arms-length price post the de-merger.
- The company has entered into tie-ups for the procurement of raw materials such as coking coal, limestone, and dolomite.
- However, the management did not guide for steel volumes in the first year of operation.
- The company has spent INR185.6b on the steel plant thus far. Total capex spend for steel plant stands at INR213.0b. Of the remaining capex of INR27.4b, INR15.0b would be spent this year.
- The de-merger process is likely to be completed by Dec'21.
- The board expects to approve the de-merger scheme by July-end, post which approvals from shareholders, SEBI, and NCLT would be sought.
- The demerged entity would be listed separately.

Guidance

- **Volume guidance:** Volumes for FY22 are guided at 44mt – Chhattisgarh: 31mt and Karnataka: 13mt.
- **Capex guidance:** FY22 capex is guided at INR37.0b, including INR15.0b for the steel plant.
- NMDC plans to establish a pellet capacity to increase the sale of value-added products. In Phase I, it plans to set up a 2mt pellet plant at Nagarnar with a slurry pipeline from Bacheli. This would entail capex of INR30b. In Phase II, it plans to set up a 6mtpa pellet plant in Vizag, along with a slurry pipeline through capex of ~INR50b.

Other highlights

- The Govt. of India cancelled the preferential export duty arrangement of 10% for NMDC. As a result, NMDC's export contract with Korea/Japan has ended. The company does not have any committed export volumes at FY21-end.
- NMDC has availed long-term debt of INR5.5b for the steel plant.
- It plans to increase volumes to 80mt+ over the long term and accordingly plans to raise capacity at its mines.

Valuation and view

- **Play on pricing and volumes:** NMDC is a play on strong iron ore prices and volumes. We expect a strong 14% volume CAGR to 43mt over FY21–23E, aided by the resumption of the Donimalai mines and increased volumes at Chhattisgarh. While the non-renewal of export contracts implies higher domestic volume sales – given the robust demand and iron ore shortage domestically – we expect NMDC would be able to increase volumes in the domestic market. While we expect pricing to remain strong, we expect prices to taper off from 2HFY22.
- **Additional premium to be dilute margins:** The imposition of a 22.5% additional royalty (premium) on NMDC's iron ore sales would dilute its margins as the same would not be passed on. As a result, NMDC's EBITDA margins are likely to dilute as royalties and premiums now form ~40% of revenues (v/s ~18% earlier).
- **Steel plant divestment to create value:** While the management expects the steel plant to get commissioned by 3QFY22, we have not factored in volumes from the same. The steel plant de-merger process is guided to be completed by Dec'21. We believe the divestment in the steel plant should create value for stakeholders as the market currently does not ascribe value to NMDC's ~INR180b investment in the steel plant.
- **Earnings to remain strong:** We expect NMDC's EBITDA to grow 77% YoY to INR156b in FY22 on the back of 24% volume growth and higher iron ore prices.
- We value the stock at INR215/share on SOTP, valuing the Iron Ore business at 5.0x FY23E EV/EBITDA. We add the value of the steel plant at ~25% of the book value. At CMP, the stock is trading at 4.0x the core Iron Ore Mining business and provides an attractive dividend yield of ~13%. Reiterate **Buy**.

Exhibit 2: Target price derivation

Y/E March	2018	2019	2020	2021	2022E	2022E
Iron ore						
EBITDA per ton (INR)	1,752	2,207	1,974	2,669	3,806	2,504
Volumes (m tons)	36.1	32.4	31.5	33.0	41.0	43.0
EBITDA	**63,198**	**71,416**	**62,203**	**87,959**	**1,56,062**	**1,07,657**
Target EV/EBITDA(x)						5.0
Target EV						5,38,286
Add: Net Cash	49,381	42,436	18,268	38,115	26,822	42,301
Add: Nagarnar Steel Plant @25% of BV	31,300	34,481	38,679	42,692	46,442	50,192
Equity Value						6,30,779
Target price (INR/share)						**215**

Source: MOFSL, Company

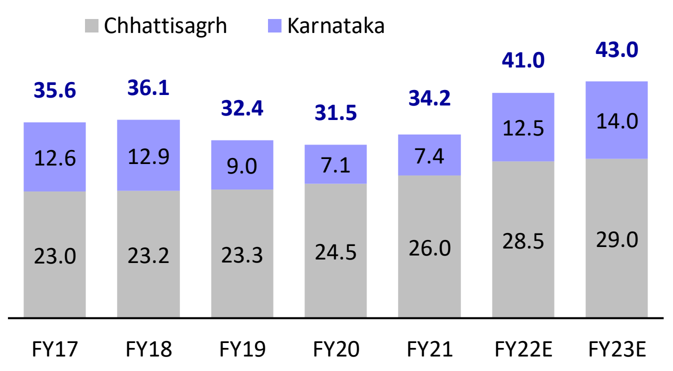
Exhibit 3: Change in estimates

	Revised		Old		Change (%)	
INR m	**FY22E**	**FY23E**	**FY22E**	**FY23E**	**FY22E**	**FY23E**
Iron ore Volumes - mt	41.0	43.0	37.5	39.5	9.3	8.9
Blended Iron ore realisation (INR/t)	7,304	5,442	5,695	4,958	28.3	9.8
EBITDA/t - INR	3,806	2,504	2,579	1,979	47.6	26.5
EBITDA	1,56,062	1,07,657	96,728	78,155	61.3	37.7
Adj PAT	1,16,190	80,186	72,120	58,709	61.1	36.6
Target Price (INR/share)		215	170			26.6

Source: MOSL

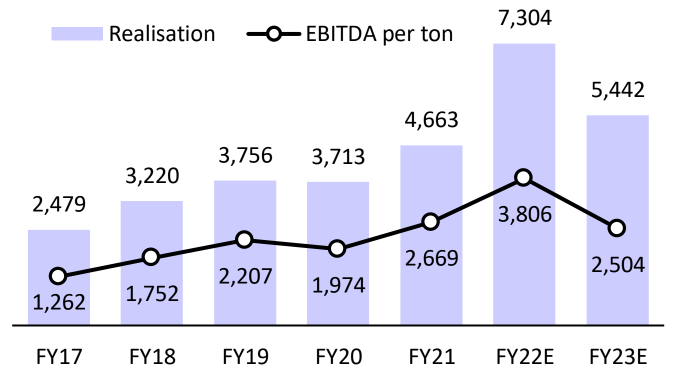
Story in charts

Exhibit 4: Expect 14% volume CAGR in FY21–23E



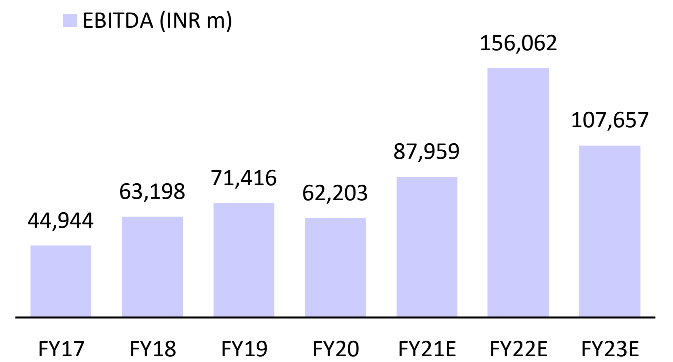
Source: Company, MOFSL

Exhibit 5: EBITDA/t to stay strong over FY22–23E...



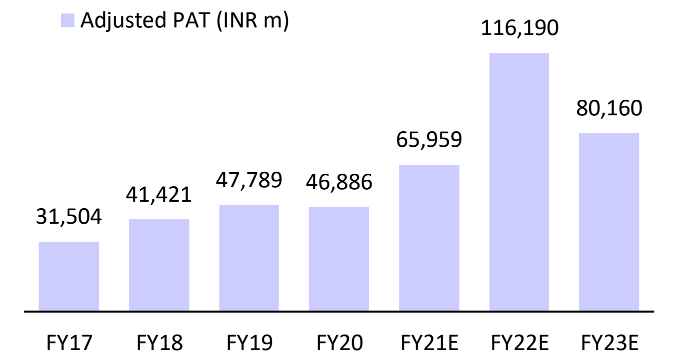
Source: Company, MOFSL

Exhibit 6: ...keeping EBITDA elevated...



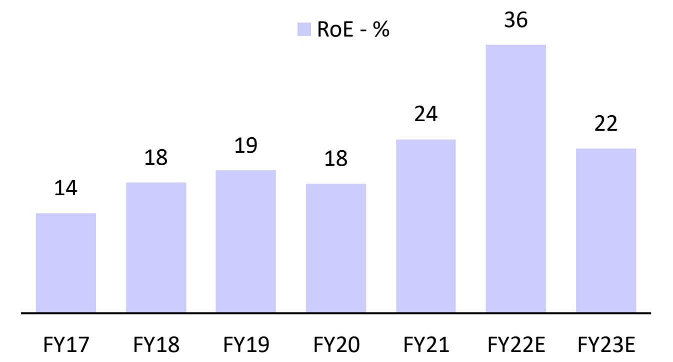
Source: Company, MOFSL

Exhibit 7: ...as well as PAT



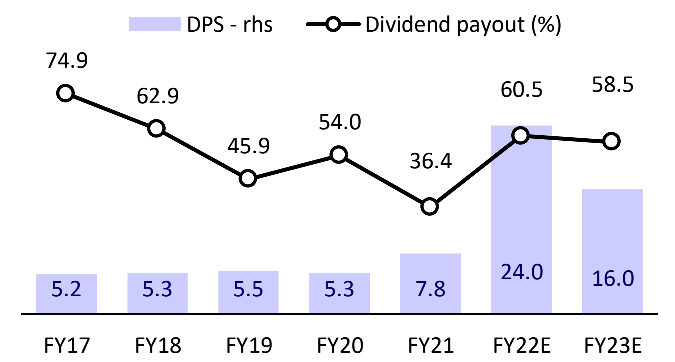
Source: Company, MOFSL

Exhibit 8: RoE to improve in FY22



Source: MOFSL

Exhibit 9: Dividend yield of ~13% at current prices



Source: MOFSL

Financials and Valuations

Income Statement								(INR m)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Net sales	**64,408**	**88,294**	**1,16,149**	**1,21,527**	**1,16,992**	**1,53,701**	**2,99,465**	**2,34,014**
Change (%)	-47.9	37.1	31.5	4.6	-3.7	31.4	94.8	-21.9
EBITDA	**34,695**	**44,944**	**63,198**	**71,416**	**62,203**	**87,959**	**1,56,062**	**1,07,657**
% of Net Sales	53.9	50.9	54.4	58.8	53.2	57.2	52.1	46.0
EBITDA per ton ore	1,203	1,262	1,752	2,207	1,974	2,669	3,806	2,504
Depn. & Amortization	2,078	1,962	2,560	2,789	2,869	2,278	2,528	2,778
EBIT	**32,618**	**42,982**	**60,638**	**68,628**	**59,334**	**85,680**	**1,53,533**	**1,04,879**
Net Interest			371	403	99	168	120	120
Other income	17,744	9,088	5,197	5,883	5,138	3,499	3,600	3,600
PBT before EO	**50,361**	**52,070**	**65,464**	**74,107**	**64,373**	**89,011**	**1,57,013**	**1,08,359**
EO income	-1,848	-8,933	-5,309	-2,120	-10,778			-97
PBT after EO	**48,514**	**43,137**	**60,155**	**71,987**	**53,596**	**89,011**	**1,57,013**	**1,08,262**
Tax	14,769	17,038	22,093	25,565	17,413	26,485	40,824	28,173
Rate (%)	30.4	39.5	36.7	35.5	32.5	29.8	26.0	26.0
Reported PAT	**33,744**	**26,099**	**38,062**	**46,422**	**36,183**	**62,527**	**1,16,190**	**80,089**
Adjusted PAT	**35,029**	**31,504**	**41,421**	**47,789**	**46,886**	**65,959**	**1,16,190**	**80,160**
Change (%)	-49.6	-10.1	31.5	15.4	-1.9	40.7	76.2	-31.0

Balance Sheet								(INR M)
Y/E March	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022E**	**2023E**
Share Capital	3,965	3,164	3,164	3,062	3,062	2,931	2,931	2,931
Reserves	2,97,146	2,22,026	2,40,374	2,56,453	2,72,278	2,94,631	3,40,484	3,73,681
Share holders funds	**3,01,110**	**2,25,189**	**2,43,538**	**2,59,515**	**2,75,340**	**2,97,561**	**3,43,415**	**3,76,612**
Loans	**14,970**		**5,001**	**3,642**	**5,656**	**19,945**	**19,945**	**19,945**
Long-term Provisions	1,222	6,112	7,141	7,684	8,334	9,497	9,497	9,497
Capital Employed	**3,17,302**	**2,31,301**	**2,55,680**	**2,70,841**	**2,89,329**	**3,27,003**	**3,72,857**	**4,06,054**
Gross Block	37,304	39,724	49,473	52,752	58,878	62,391	67,391	72,391
Less: Accum. Deprn.	18,234	20,196	22,756	25,545	28,414	30,692	33,221	35,999
Net Fixed Assets	**19,070**	**19,528**	**26,717**	**27,207**	**30,464**	**31,699**	**34,170**	**36,392**
Capital WIP	97,229	1,18,314	1,25,199	1,37,925	1,54,716	1,70,767	2,00,767	2,30,767
Investments	6,954	7,270	7,865	9,393	9,856	9,849	9,849	9,849
Curr. Assets	**2,10,203**	**1,11,909**	**1,26,311**	**1,23,295**	**1,16,397**	**1,55,535**	**1,71,057**	**1,70,778**
Inventories	6,370	5,400	5,717	6,662	7,235	9,217	16,409	12,823
Sundry Debtors	18,961	10,435	14,727	14,245	22,237	21,399	41,023	28,851
Cash and Bank	1,47,636	52,893	54,382	46,077	23,923	58,060	46,767	62,246
Loans and Advances	37,237	43,181	51,484	56,311	63,002	66,859	66,859	66,859
Curr. Liability & Prov.	**16,154**	**25,719**	**30,411**	**26,979**	**22,103**	**40,846**	**42,987**	**41,732**
Sundry Creditors	3,244	1,988	1,595	2,027	2,256	3,602	5,743	4,488
Other Liabilities & prov.	12,909	23,731	28,815	24,952	19,848	37,244	37,244	37,244
Net Current Assets	**1,94,050**	**86,190**	**95,900**	**96,316**	**94,294**	**1,14,689**	**1,28,070**	**1,29,046**
Application of Funds	**3,17,302**	**2,31,301**	**2,55,680**	**2,70,841**	**2,89,329**	**3,27,003**	**3,72,856**	**4,06,054**

Financials and Valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)								
EPS	**8.8**	**10.0**	**13.1**	**15.6**	**15.3**	**22.5**	**39.6**	**27.4**
Cash EPS	9.4	10.6	13.9	16.5	16.2	23.3	40.5	28.3
BV/Share	75.9	71.2	77.0	84.8	89.9	101.5	117.2	128.5
DPS	11.0	5.2	5.3	5.5	5.3	7.8	24.0	16.0
Payout (%)	173.9	74.9	62.9	45.9	54.0	36.4	60.5	58.5
Valuation (x) CMP								
P/E					11.7	8.0	4.5	6.5
Cash P/E					11.0	7.7	4.4	6.3
P/BV					2.0	1.8	1.5	1.4
EV/EBITDA					9.1	6.4	3.5	5.3
Dividend Yield (%)					3.0	4.3	13.4	8.9
Return Ratios (%)								
EBITDA Margins	53.9	50.9	54.4	58.8	53.2	57.2	52.1	46.0
Net Profit Margins	54.4	35.7	35.7	39.3	40.1	42.9	38.8	34.3
RoE	11.2	13.5	17.7	19.3	17.5	23.5	36.3	22.3
RoCE	10.9	11.5	17.1	18.3	15.5	20.3	33.2	20.6
RoIC	37.0	44.0	63.4	60.8	44.9	63.6	111.5	71.0
Working Capital Ratios								
Fixed Asset Turnover (x)	1.7	2.2	2.3	2.3	2.0	2.5	4.4	3.2
Asset Turnover (x)	0.2	0.4	0.5	0.4	0.4	0.5	0.8	0.6
Debtor (Days)	50	43	46	43	69	51	50	45
Inventory (Days)	20	22	18	20	23	22	20	20
Creditors (Days)	20	8	5	6	7	9	7	7
Leverage Ratio (x)								
Current Ratio	13.0	4.4	4.2	4.6	5.3	3.8	4.0	4.1
Debt/Equity	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1

Cash Flow Statement **(INR M)**

Y/E March	2016	2017	2018	2019	2020	2021	2022E	2023E
Pre-tax profit	48,514	43,137	60,155	71,987	53,596	89,011	1,57,013	1,08,262
Depreciation	2,078	1,962	2,560	2,789	2,944	2,278	2,528	2,778
(Inc)/Dec in Wkg. Cap.	93	13,117	-8,676	-8,629	-21,434	5,277	-24,674	14,503
Tax paid	-17,373	-18,942	-23,432	-26,024	-23,047	-24,877	-40,824	-28,173
Other operating activities	-4,455	406	3,205	346	8,545	1,615		
CF from Op. Activity	**28,857**	**39,679**	**33,812**	**40,469**	**20,604**	**73,305**	**94,044**	**97,370**
(Inc)/Dec in FA + CWIP	-20,242	-23,505	-20,524	-19,972	-23,990	-15,981	-35,000	-35,000
(Pur)/Sale of Investments	-1,335	-316	-2,523	7,661	17,155	312		
Others			6,294	(3,504)	(18,391)	2,412	-	-
CF from Inv. Activity	**-21,576**	**-23,821**	**-16,753**	**-15,816**	**-25,226**	**-13,256**	**-35,000**	**-35,000**
Equity raised/(repaid)		-76,078		-10,067		-17,006		
Debt raised/(repaid)	14,970	-14,970	5,001	-1,359	2,014	14,289		
Dividend (incl. tax)	-58,694	-19,553	-23,923	-21,321	-19,525	-22,733	-70,337	-46,891
Other financing activities			3,721	190	77	(296)	-	-
CF from Fin. Activity	**-44,379**	**-1,10,601**	**-15,570**	**-32,959**	**-17,531**	**-25,912**	**-70,337**	**-46,891**
(Inc)/Dec in Cash	**-37,098**	**-94,743**	**1,490**	**-8,305**	**-22,154**	**34,137**	**-11,293**	**15,479**
Add: opening Balance	1,84,431	1,47,636	52,893	54,382	46,077	23,923	58,060	46,767
Closing Balance	**1,47,636**	**52,893**	**54,382**	**46,077**	**23,923**	**58,060**	**46,767**	**62,246**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Investment Advisory Services, Depository participant services & distribution of various financial products. MOFSL is a subsidiary company of Passionate Investment Management Pvt. Ltd.. (PIMPL). MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL , including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets Singapore Pte Ltd ("MOCMSPL") (Co.Reg. NO. 201129401Z) which is a holder of a capital markets services license and an exempt financial adviser in Singapore.As per the approved agreement under Paragraph 9 of Third Schedule of Securities and Futures Act (CAP 289) and Paragraph 11 of First Schedule of Financial Advisors Act (CAP 110) provided to MOCMSPL by Monetary Authority of Singapore. Persons in Singapore should contact MOCMSPL in respect of any matter arising from, or in connection with this report/publication/communication. This report is distributed solely to persons who qualify as "Institutional Investors", of which some of whom may consist of "accredited" institutional investors as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Accordingly, if a Singapore person is not or ceases to be such an institutional investor, such Singapore Person must immediately discontinue any use of this Report and inform MOCMSPL.

Specific Disclosures

1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
5 Research Analyst has not served as director/officer/employee in the subject company
6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
9 MOFSL has not received any compensation or other benefits from third party in connection with the research report
10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months

- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations 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 its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, 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 MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com.CIN no.: L67190MH2005PLC153397.Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai-400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs,Insurance Products and IPOs.Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

* MOSL has been amalgamated with Motilal Oswal Financial Services Limited (MOFSL) w.e.f August 21, 2018 pursuant to order dated July 30, 2018 issued by Hon'ble National Company Law Tribunal, Mumbai Bench.