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CHANAKYA
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NMDC : Pricing likely to be supportive

Company Background

NMDC is Government of India enterprise engaged in mining of iron ore. Its projects under construction include, 1.2 million tons per annum (MTPA) Pellet Plant at Donimalai, 3.0 million tons per annum (MTPA) Integrated Steel Plant in Chhattisgarh, Panthal Magnesite Project, Screening Plant III at Kirandul Complex, Screening Plant II at Donimalai Complex, doubling of Railway Line between Kirandul and Jagdalpur, Steel Plant at Bellary and Rail Link between Dalli-Rajhara-Rowghat-Jagdalpur Railway Line Project.

It proposes to diversify into other commodities, such as steel making raw materials (coking coal, manganese ore nickel) and thermal coal.

It also proposes to invest in raw materials, such as tungsten and rare earth minerals.

NMDC is the largest iron ore producer in India by volume, and produced 36mt of iron ore from four fully mechanised 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 possesses 1.3 bn tonnes high grade iron ore reserves with average Fe content of 65%. This is better than most global majors (including Rio Tinto, Fortescue Metals Group, BHP Billiton and Vale) whose grades vary between 53-62% Fe content. Most mines in Australia have reserves with Fe content of 55-60%, while ore quality in Brazil and other geographies is inferior. Superior product quality ensures strong demand for the company's offerings and is one of the reasons for premium pricing in the local market.

Investment Rationale

NMDC is India's largest [redacted] Environmental Clearance from Ministry of Environment & Forests (MOEF) and the Government of Chhattisgarh have already been obtained.

Rail Transport Clearance was received and the Final Detailed Project Report of Railway siding is also approved by East Coast Railway, Government of Chhattisgarh has sanctioned water and power for construction as well as for operation of the plant.

Regarding power for operation of the Steel Plant from Raipur through Chhattisgarh State Power Transmission Company Limited (CSPTCL) is progressing at site.

Full or partial stake in steel plant may happen; A big positive

We believe RoE for steel projects is likely to be much below and hence it is not an attractive investment avenue. Management has indicated that they are actively pursuing sale of this asset and the same is likely to happen by end of FY18.

Whether sale happens by FY18 or not, the company is going to complete the project by end of the year FY18. As on Jul 2017, it has invested Rs 13500cr and it will need to infuse another Rs 4000-5000cr to complete the plant. Company expects to garner at least 1x invested capital from this sale.

Iron Ore Mining expansion

As an addition to present Donimalai Iron Ore Mine and augmenting production Capacity, the construction of Kumaraswamy Iron Ore Mine with a capacity of 7.0 MTPA is being taken up with an estimated capital outlay of Rs. 898 cr.

The entire project is being executed through six packages. Orders have been placed for all the packages and the major works have been completed.

Integrated trial of crushing plant and downhill conveyor is in progress. Electrical substation charged. Service center facilities and water pipe line works are completed. Production is scheduled during the FY17.

1.2 MTPA Pellet Plant at [redacted] part of this increase is due to rupee depreciation.

The management guides steel plant to start commissioning by Mar 2018. The full benefit of this plant may accrue from FY20 onwards.

Company expects sale of Nagarnar steel plant by FY18 or early FY19. Management expects sales volume of 35.5 million tonnes while targets export worth 3 million tonnes. NMDC's Rs 20000cr steel plant may be completed by FY18. The company has few months to sell the plant, they expect at least Rs 14000 crore for it because they have already spent around Rs 13000 crore on it. Expect the sale to be completed by FY18 or beginning of FY19.

Q1 FY18 Results Update

NMDC managed to register strong performance in Q1 FY18 on the back of higher realisations and lower operating costs. The outperformance was led by higher export sales and impact of price hikes taken in H1 CY17. The management indicated that average prices for the quarter were higher on qoq basis in export market even though global prices tumbled.

Sales volume was at 9.2mn tons led by strong export volume of 0.7mn tons. EBIDTA/ton stood at Rs.1,628 vs. Rs.954/ton in Q4 FY17. The impact of strong operating profit on PAT was reduced by higher tax outgo.

Impressive EBITDA growth on higher realisation

NMDC's Q1 FY18 EBITDA grew 83% YoY to Rs 14.9bn primarily due to higher realization (+ 39% YoY). EBITDA margin came in at 52.6% which was the highest since Q2 FY16. Going ahead, we expect EBITDA margin to dip as NMDC has already taken a price cut of Rs 200/t in July 2017.

Also, despite high global iron ore prices, the company is likely to find it difficult to increase prices due to intense competition from Odisha based miners. Currently, NMDC's prices are at premium of Rs 300 500/t compared to these miners.

Additionally, the differential pricing enjoyed by the company in Karnataka may come under pressure when one of its main customers in that state commences captive iron ore mining towards FY18 end.

Completed Buyback worth Rs 7500cr

In Aug 2016, company had bought back shares worth Rs 7500cr. It was done at Rs 94 per share worth Rs.80cr equity shares.

Post Buy Back Equity capital of the company got reduced 20% to Rs 316.4cr. NMDC has incurred total capex of Rs 6800cr in FY15 and FY16 while Rs 3000cr was spent in FY17. Post Buy Back and ongoing capital expenditure on Steel Plant, as on Mar 2017, company has cash & equivalents of Rs 5300cr.

Valuations and Recommendation

NMDC has a large reserve base with high grade deposits and significant mine life. As on April, 2016, NMDC's total iron ore reserve and resource (R&R) base is 2299.2 MT (average Fe grade of 64.33%). At the FY16 production run rate, the company has a mine life of 75 years (reserves: production: 77). A higher mine life coupled with superior quality deposit provide strong earnings visibility.

Secular trend towards Urbanisation, Government's push for infrastructure, spending on roads, railways and focus on housing for all will drive steel demand in India.

Government's support to steel industry from cheap imports has improved the health of the steel industry. We believe that local iron ore producers will also reap benefits of the upturn in international ore prices.

We expect revenue to record 13.2% CAGR over FY17-FY19E, driven by combination of both higher sales volume and improvement in iron ore realisation. Export volumes is likely to increase to 2.9 MT and 3.4 MT in FY18E and FY19E as against 1.25 MT in FY16.

We expect EBITDA to post 22% CAGR during the same period. Given the higher dividend payout in the previous years coupled with capex on steel plants in the coming years, we expect cash reserves to come down, resulting in decline in other income.

However, strong operating margin would lead to 23% cagr in PAT during FY17-FY19E.

We recommend investors to BUY NMDC at Rs 132 and add on declines to Rs 117 with Target Price of Rs 168. Based upon 8.5x FY19E EV/EBITDA and 14x PE we have arri[redacted]

Infy puts off Sept qtr results to Oct 24

Infosys, India's second-largest information technology (IT) services firm, has deferred announcing its second-quarter (Q2) results by nearly two weeks — the first time in recent years.

The bellwether IT services firm generally discloses its quarter numbers within 15 days of the beginning of the next quarter but this time, however, it has set October 24 as the date of announcement.

Infosys has attributed this delay to "logistics issues". The following week has holidays on account of Diwali, resulting in a further delay by a week.

Sources aware of the development said non-executive Chairman Nandan Nilekani had engagements on the earlier scheduled dates, and they were fixed before he rejoined the company.

The Infosys numbers are eagerly watched by analysts and investors because its performance indicates the future of the $117-billion technology services sector.

"Infosys has announced that the voting window on the share buyback and other resolutions will remain open till October 8. The shareholders' voting process will take its own time. So Infosys will require time before it could announce its financials," said the analyst with a brokerage firm.

The July-September results will be the first after Nandan Nilekani's return to the company, which he has rejoined as non-executive chairman.

Nilekani returned last month to head Infosys, which he had co-founded with N R Narayana Murthy and five others, after a three-year experiment with an outsider as chief executive officer (CEO) had failed.

Murthy had publicly raised concerns over corporate governance in the severance pay given to Rajiv Bansal, former chief financial officer who had raised the red flag in the acquisition of Panaya, an Israeli technology firm. The resulting public spat between the Infosys board and Murthy depressed investor confidence with the stock losing more than Rs.32,000 crore in market capitalisation in the next two days.

This also made investors and a few board members, along with the founders, to persuade Nilekani to return. Subsequently Nilekani outlined his plan: Hiring executive search firm Egon Zehnder to help in selecting a CEO; and asking board membersD NP rah lad and Ravi V en kate san to take stock of Sikka's strategy and also to look at the investigation report on Pa na ya.

The results will give an indication whether Nilekani would continue with the software plus services strategy adopted by Sikka, or tweak it to reflect his worldview of the explosion in data and how Infosys could help traditional companies battle competition from start-ups that rely on data to disrupt businesses and sectors.

Reliance General Insurance gets Irdai nod for listing

Anil Ambani-controlled Reliance Capital has got an in-principle approval from the Insurance Regulatory and Development Authority of India (Irdai) to list its non-life Insurance arm, Reliance General Insurance.

Reliance General Insurance said that the listing was expected to be completed in FY18 if the necessary approvals could be secured. It expects to raise Rs 1,500-2,000 crore through listing its general insurance business, sources say. Last month, Reliance Capital had filed an application before Irdai for listing its general insurance business through an initial public offering (IPO). It also sought approval to sell up to 25 per cent of its shares in Reliance General Insurance, which it fully owns.

The listing would enable small investors to participate in this high-growth and new wealth creation opportunity, said Rakesh Jain, executive director and chief executive officer of Reliance General Insurance.

ICICI Lombard was the first general insurance company to file a prospectus for listing. Government-owned non-life insurers — New India Assurance and General Insurance Corporation — have also filed their draft prospectus.

The general insurance sector is slated to grow in step with the economy, and affluence-led consumption will act as its primary growth driver. The coming years are likely to witness double-digit earnings growth in the sector largely owing to a disproportionately low penetration of insurance. Reliance General Insurance was poised to capitalise on opportunities across retail, corporate and government-supported consumer segments, Jain said.

Reliance Capital is also looking to list its subsidiaries Reliance Nippon Asset Management Company, Reliance Home Finance, and Reliance General Finance. Reliance Nippon Asset Management Company and Reliance Home Finance will be listed this year.

The firm reported a 22 per cent increase in net profit at Rs 44 crore for the first quarter ended June 30. It also posted a robust growth rate of 41 per cent in gross premium, at Rs 1,278 crore, in the same quarter.

The combined ratio, which indicates a non-life insurer's outflow on its net earned premium, stood at 104 per cent in Q1FY18 compared to 114 per cent in Q1FY17.The company had insured more than 3 million farmers under the government's crop insurance scheme Pradhan Mantri Fasal Bima Yojna, said Reliance General Insurance.

Cement prices to remain tepid as GST, Rera and monsoon hit demand

The Goods and Services Tax (GST) and Real Estate (Regulation and Development) Act, 2016 (Rera) implementation, together with good monsoons, cooled off cement prices across the country by 2-3 per cent on an average in the immediate months of the new tax regime. It is expected that prices will continue to remain low during the second quarter until the bulk of cement dealers move over to the new tax framework.

Sector analysts opined that the northern, central and eastern markets were particularly hit as most of the dealer base resorted to destocking in June in anticipation of GST and the pace of restocking is not satisfactory.

Moreover, dealers, particularly in the tier 2-3 markets are still sceptical of the input tax credit affecting volume uptake.

Based on cement channel checks, analysts are projecting that in the August-September period, prices are poised to be hit by 2-5 per cent across the five regions.

Rera Act as well as GST requires tighter compliance norms which has affected construction activities by large real estate companies, which slowed down in the July-August period.

Cement prices have been showing a declining trend since the beginning of the current financial year after the average prices peaked during April at Rs 307 a bag, rising by over four per cent, but then began to decline steadily, falling by 3.5 per cent in June i.e. the month just before the GST implementation.

However, prices dropped by six per cent at Rs 289 a bag during July-August as compared to the April prices.

As per the analyst, owing to weak demand, primarily from the channel partners, average trade segment prices (pan India) fell three per cent on a month-on-month basis and trade prices corrected by two per cent in the north and southern region, three per cent each in central and eastern region and by four per cent in the western belt.

He said the price correction in the west has been sharper as prices rose in Pune belt last month against the national price decline implying a higher base correction for the region.

Apart from GST, Rera and good monsoon, the impact of sand mining also pulled down cement prices particularity in Uttar Pradesh, Madhya Pradesh and Tamil Nadu region.

However, cement company executives are hopeful that the sand shortage owing to several bans by the National

Green Tribunal (NGT) will get sorted out by substituting artificial sand in the near future.

SBI Magnum Balanced Fund

Alternating between bad and good patches until 2011, this scheme has made a strong comeback with consistent performance since 2012. This has enabled a strong climb in the rankings, from two to five stars in the last three years.

The fund has outpaced the benchmark and its peers and maintains a 75-25 equity-debt mix. The equity part is multi-cap, with a strong mid-cap tilt.

The fund is currently being managed by Mr. Dinesh Ahuja and Mr. R.Srinivasan. Portion of equity in the fund is 71.50% and debt portion is 28.28%.

Fund has declared dividend of Rs. 0.60 on 30th June, 2017.

Minimum investment in this fund is Rs. 1000. Additional investment can be done in multiples of Rs.1000. Minimum SIP Investment is Rs. 500. Exit load is 1% for redemption within 365 days. NAV for the dividend option is Rs.28.8151.

Apart from the shares mentioned in the table, fund manager has also invested in Bharti Airtel, Sundaram Clayton, Divi's Lab, Sundaram Fin, AU Small Fin Bank.

Debt holdings include 6.79% GOI 2029, 7.73% GOI 2034, 7.69% National Bank Agriculture Rural Development 2032, 7.68% GOI 2023 etc.

This fund can be compared to HDFC Balanced Fund and ICICI Prudential Balanced Fund.

Past Performance	Fund	Benchmark Index
Last one month	-0.31 %	-1.18 %
Last 3 months	4.57 %	2.70 %
Last One year	11.45 %	9.91 %
Three years	12.49 %	7.14 %
Five years	19.01 %	12.22 %
From launch till date	16.61 %	--

Important Information	
Latest NAV	Rs. 118.1296 (Growth)
Expense Ratio	1.97 %
Turnover Ratio	19 %
Fund Category	Hybrid : Equity Oriented
Type	Open ended
Launch Date	Dec 1995
Risk grade	Below Average
Return grade	Average
Assets under Mgmt.	Rs. 13487 crore
Benchmark	VR Fund