Stake divestment not a major overhang for NMDC

Rising output, strong iron ore demand keep analysts positive

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Investor attention is directed towards NMDC, as talk of divestment gets louder. The Securities and Exchange Board of India (Sebi) directive for public sector companies to increase minimum public shareholding to 25 per cent means the government will have to divest about 10 per cent stake in NMDC over three years.

However, chances of the divestment being undertaken earlier are increasing looking at the government's need to tackle high fiscal deficit. As investors ponder on its impact on the stock, analysts are not concerned. Though exact timing and mode of divestment is still not clear, analysts feel that the increased supply in the counter might be well absorbed, as new investors are coming in and risk appetite is increasing.

In their report (dated July 2), analysts at Motilal Oswal Securities have raised the target price for the stock to ₹220. From current levels of ₹182, it means an upside of almost 19 per cent for the stock that is already up 45 per cent since March'14.

The expectations that steel demand and production will accelerate over the next five years means demand for iron ore will remain strong and NMDC would be a key beneficiary.

Vikas Gupta of Arthveda says though some investors lost the opportunity to invest at the bottom of the cycle, the stock is nowhere near its intrinsic value. NMDC is a play on the country's growth story and with more than ₹20,000 crore as cash in the books and an excellent dividend payout, the company remains a good investment bet.

Compiled by BS Research Bureau

Meanwhile, NMDC is seeing regular growth in volumes and realisations. For the quarter ending June 2014, its production was up 13.5 per cent year-on-year, while sales volumes jumped 16.7 per cent.

For the June quarter, analysts at Edelweiss expect NMDC's domestic realisations to rise sequentially, though some of the gains at profit level may get offset by higher share of lower-margin export sales.

Chirag Shah at Barclays says, "The SC judgment on Odisha mining should be a key positive for NMDC in either case, in our view. Given that iron ore availability in India is expected to remain constrained, a drop in international prices is unlikely to translate into a proportionate correction in domestic iron ore prices."

In the long run, NMDC's growth and margins are further likely to be driven by its upcoming steel plant, which is likely to be commissioned by January 2017.