

Estimate changes

TP change

Rating change



Bloomberg	NMDC IN
Equity Shares (m)	2931
M.Cap.(INRb)/(USDb)	308.2 / 3.7
52-Week Range (INR)	132 / 71
1, 6, 12 Rel. Per (%)	-7/-9/3
12M Avg Val (INR M)	1209

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	177	199	214
Adj EBITDA	61	64	63
Adj. PAT	48	50	46
EBITDA Margin (%)	34	32	29
Cons. Adj. EPS (INR)	17	17	16
EPS Gr. (%)	-51	3	-8
BV/Sh. (INR)	77	87	95

Ratios

Net D:E	-0.3	-0.3	-0.2
RoE (%)	23.8	20.7	17.2
RoCE (%)	20.6	19.4	16.1
Payout (%)	19.9	44.1	48.1

Valuations

P/E (x)	6.4	6.2	6.8
P/BV (x)	1.4	1.2	1.1
EV/EBITDA(x)	4.0	3.7	3.9
Div. Yield (%)	6.2	7.1	7.1

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	60.8	60.8	60.8
DII	19.4	20.3	21.8
FII	7.3	6.6	6.9
Others	12.5	12.4	10.5

FII Includes depository receipts

CMP: INR105

TP: INR135 (+28%)

Buy

Beat on revenue and EBITDA

Volume momentum to continue, temporary headwinds in pricing

- Revenue stood at INR58.5b, down 13% YoY, but 12% above our estimate of INR52.4b. Blended ASP for the quarter stood at INR4,715/t, down 14% YoY and was INR395/t above our estimate of INR4,320/t.
- EBITDA stood at INR21.6b (down 25% YoY), 33% above our estimate of INR16.3b. NMDC posted better performance, on the back of lower input cost, better realizations, and higher volumes.
- APAT was down 29% YoY and stood at INR15.8b, but 24% above our estimate of INR12.7b.
- Exceptional income of INR12.3b includes a) receipt of INR9.6b from Monitoring Committee - toward 10% of the amount withheld for the period 01/01/19 to 31/03/22 and b) INR2.8b profit on Strategic disinvestment of NINL.
- In 4QFY23, NMDC has recorded its best ever quarterly production at 14.1t, up 2% YoY. Production from Chhattisgarh mines was down 1% YoY at 10.3mt and production from Karnataka mines stood at 3.8mt (up 10% YoY).
- NMDC posted the highest quarterly sales volume at 12.4mt (up 1% YoY). Sales from Chhattisgarh mines were down 4% YoY at 8.2mt, which was compensated by higher sales from Karnataka mines, which stood around 3.9mt.
- FY23 Sales/EBITDA/APAT stood at INR177b / INR61b / INR48b, down 32%/53%/51%. Production for FY23 crossed 40mt mark for the second consecutive year and production stood at 40.8mt (down 3% YoY) and sales stood at 38.3mt (down 5% YoY).
- Despite facing the highest rainfall in the Bailadila region, NMDC achieved a production 40.8mt.
- The Board declared a final dividend of INR2.85, taking the total dividend to INR6.6 for FY23.

Highlights from the management commentary

- NMDC is expected to produce and sell around 46-49mt of iron ore in FY24.
- Incremental capex will take the total capacity to 100mt in six to seven years.
- NMDC expects to clock the highest production and sales in 1QFY24.
- NMDC expects to register a net profit of around INR55b in FY24E.
- NMDC might continue its volume growth; however, the global iron ore market is facing certain headwinds and expects pricing pressure in the first two quarters.

Iron ore prices under pressure

- Iron ore prices across the globe are currently witnessing price correction due to subdued global steel demand. In line with the global price movement, the company has taken a price reduction in Apr'23.

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- In Apr'23, the premiums for iron ore lump to fines have significantly narrowed down to INR190/t from ~INR1,200/t in 2QFY23. The premiums commanded by lumps are currently at their lowest level since Feb'17.

Valuations remain attractive, fundamentals are supportive

- India is one of the few countries, which is expected to witness a surge in steel production and consumption over the next decade.
- India is all set to double its capacity with all major steel manufacturers undertaking robust capacity expansion to cater to the ever-rising domestic demand, which will further drive the demand for iron ore in India.
- NMDC, which has clocked the production of over 40mt for two consecutive years, has started FY24E with the highest ever first month (Apr) production and sales of 3.5mt and 3.4mt (up 11.4% and 10.1% YoY).
- NMDC is undertaking numerous capex programs, which will drive up its mining capacity to 100mt from its current 50mt.
- However, the recent auctions conducted by NMDC has received lackluster response (less than 50% of the quantity booked at base price) and considering the iron ore price correction seen over the last few weeks, on the back of subdued global steel demand and headwinds in Europe and the US, we have reduced our FY24 estimates for ASP/revenue/EBITDA/APAT by 9%/9%/8%/8%.
- NMDC trades at an FY24E EV/EBITDA of 3.7x and FY24E P/B of 1.2x. We have a BUY rating on NMDC with a TP of INR135 (Previous INR150).
- Key downside risks to our target price are any further price reduction in global market, which would have a domino effect on the prices of NMDC as well and considering the lackluster response received during the recent auctions would also impact NMDC's FY24E target of 50mt production.

Consolidated quarterly performance (INR b)

Y/E March	FY22				FY23E				FY22	FY23	FY23	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Iron ore Production (mt)	8.9	8.8	10.6	13.9	8.9	7.1	10.7	14.1	42.2	40.8		
Iron ore Sales (mt)	9.0	9.0	9.8	12.3	7.8	8.4	9.6	12.4	40.1	38.2		
Avg NSR (INR/t)	7,248	7,561	5,967	5,456	6,111	3,947	3,885	4,715	6,455	4,622		
Net Sales	65.1	67.9	58.7	67.0	47.7	33.3	37.2	58.5	258.8	176.7	52.4	11.6
Change (YoY %)	236.1	204.7	34.9	-2.1	-26.8	-51.0	-36.7	-12.7	68.4	-31.7		
Change (QoQ %)	-4.9	4.3	-13.5	14.1	-28.9	-30.2	11.8	57.3				
Adj EBITDA	41.7	31.1	26.1	28.8	19.0	8.5	11.4	21.6	127.8	60.5	16.3	32.9
Change (YoY %)	452.7	202.3	-5.6	-32.0	-54.5	-72.7	-56.3	-25.0	45.3	-52.7		
Change (QoQ %)	-1.6	-25.4	-16.1	10.4	-34.2	-55.2	34.0	89.6				
EBITDA per ton (INR/t)	4,644	3,466	2,654	2,347	2,434	1,009	1,191	1,742	3,188	1,584		
Interest	0.0	0.0	0.1	0.3	0.2	0.2	0.3	0.1	0.4	0.8	0.1	
Depreciation	0.6	0.6	0.6	1.1	0.8	0.7	0.8	0.9	2.9	3.4	0.8	
Other Income	1.4	0.9	1.5	3.3	1.5	4.3	2.0	-0.1	7.2	7.7	1.7	
PBT (before EO Item)	42.6	31.4	27.0	30.8	19.4	11.9	12.3	20.5	131.8	64.1	17.0	
Extra-ordinary item	0.0	0.0	0.0	2.0	0.0	0.0	0.0	12.4	2.0	12.4		
PBT (after EO Item)	42.6	31.4	27.0	32.8	19.4	11.9	12.3	32.9	133.8	76.5	17.0	
Total Tax	10.7	8.0	6.5	10.7	4.8	3.0	3.3	10.1	35.8	21.1		
% Tax	25.1	25.5	24.0	32.5	24.5	25.3	26.6	30.7	26.8	27.6		
Reported PAT	31.9	23.4	20.5	20.1	14.7	8.9	9.0	22.8	95.9	55.3		
Adjusted PAT	31.9	23.4	20.5	22.2	14.7	8.9	9.0	15.8	97.9	48.4	12.7	24.3
Change (YoY %)	497.7	202.4	-2.8	-30.3	-54.0	-62.2	-55.9	-28.5	48.5	-50.6		
Change (QoQ %)	0.3	-26.6	-12.4	8.1	-33.7	-39.7	2.1	75.1				

Source: MOFSL, Company



Highlights from the management commentary

Guidance

- NMDC is expected to produce and sell around 46-49mt of iron ore in FY24E.
- Apr'23 was the best first month for the company and the momentum is expected to continue even in May'23 with the best ever May production and dispatch.
- NMDC expects to clock the highest 1QFY24 production and sales.
- NMDC expects to register a net profit of ~INR55b in FY24E.
- NMDC might continue the volume growth; however, the iron ore is facing certain headwinds and expects pricing pressure in the first two quarters.
- Receivables of INR25.4b recorded under non-current assets belong to NMDC Steel and the same is expected to be received as soon as the steel plant starts its production. The entire amount is expected to be received in FY24E.

Capex

- NMDC has earmarked INR20b as capex for FY24E, and intends to spend INR30b p.a. thereafter. These investments will contribute to increasing the capacity to 100mt over the next six to seven years
- Currently, 24km of pipeline for the slurry project has already been laid and an additional 24km are in the process of being aligned. NMDC has also acquired pipes for another 24km. The project is expected to be completed by FY25.
- NMDC is also contemplating setting up two more pipelines between Nagarnar to Vizag and Nagarnar to Raipur, with each project costing INR70-80b. This would be a game changer for NMDC.
- 110km of the KK line is already completed and the remaining is expected to be completed over the next few months, taking the total handling capacity to 40mt from 28mt.
- NMDC has multiple capex projects on its drawing board, which are under various stages of approval, tendering or execution, such as slurry pipelines, mine expansion, beneficiation plant, and coal blocks.

Export

- As prices in the international market has corrected in the last few months and as iron ore export attracts up to 30% of duty, NMDC finds it feasible to sell in the domestic market.
- Considering the current iron ore rate, it will not be feasible to export up to USD130/t rate.
- NMDC has not exported in 4QFY23.

Panna diamond mine

- The mine is expected to commissioned in Oct'23
- Expected to breakeven by FY25

Major customers

- 80% of the sale is to top four customers, of which JSTL, AM/NS, and RINL contribute the most.

- All the major clients of NMDC are undertaking expansion of their steel plants and thus offtake should not be an issue for NMDC.
- NMDC steel plant is expected to procure 5mt p.a. from NMDC.
- Due to the segregation of the iron ore market based on geographic presence, NMDC will focus on its existing customers unless there is new capex from a new client in close proximity to the mines.

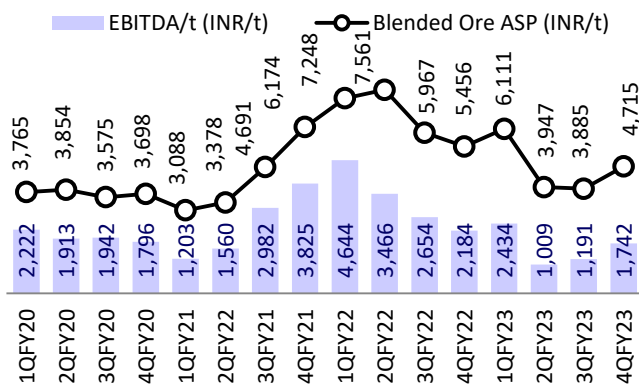
Receipt from monitoring committee

- NMDC received INR9.6b from monitoring committee toward 10% of the amount withheld between 01/01/19 and 31/03/22
- An amount of INR19b is still outstanding for a period prior to 01/01/19
- NMDC has approached the court for recovery of the same

Dividend and buyback

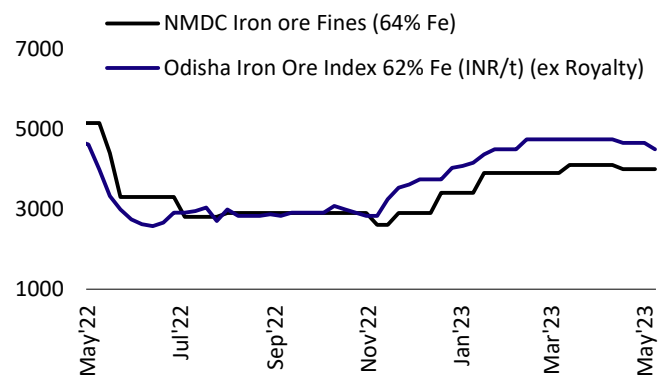
- NMDC has over INR70b as cash and investments as on Mar'23; however, the company plans to utilize the same to enhance the capacity to 100mt
- No buyback would be undertaken in the near future.
- NMDC usually distributes around 45% of its PAT as dividend to its investors.

Exhibit 1: EBITDA/t improved on the back of higher ASP of ore, both move in co-relation to each other



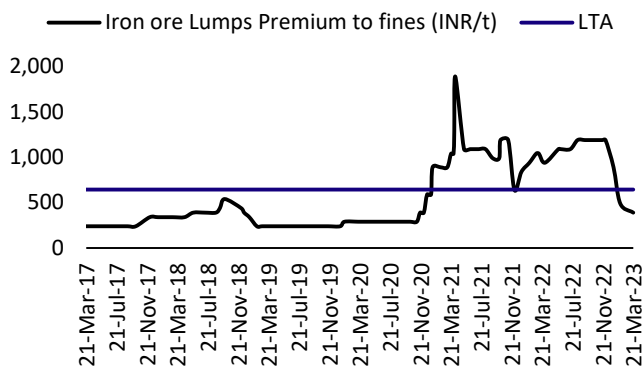
Source: MOFSL, Company

Exhibit 2: NMDC iron ore prices have strong linkages to Odisha Iron ore Fines



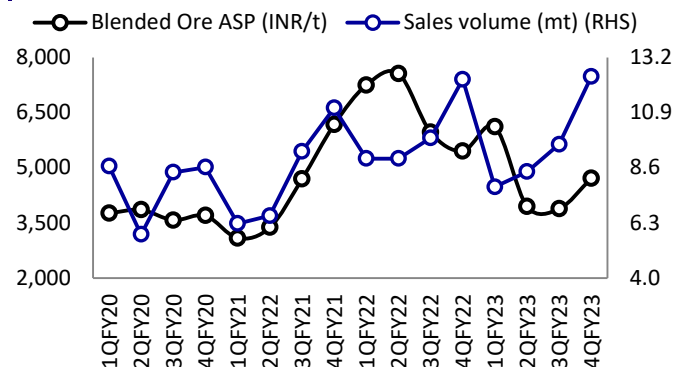
Source: MOFSL, SteelMint

Exhibit 3: Premium for lumps has been continuously reducing and since Jan '23 premiums are below its historical LTA of INR644/t

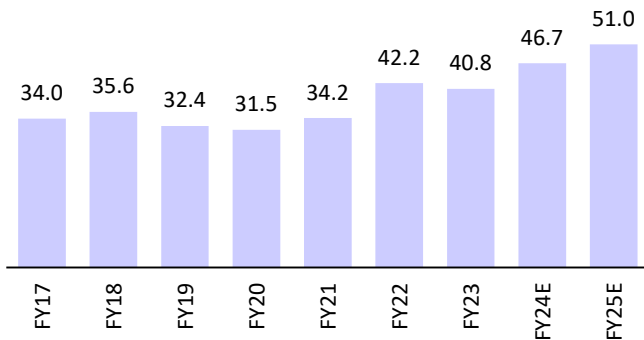


Source: MOFSL, Company

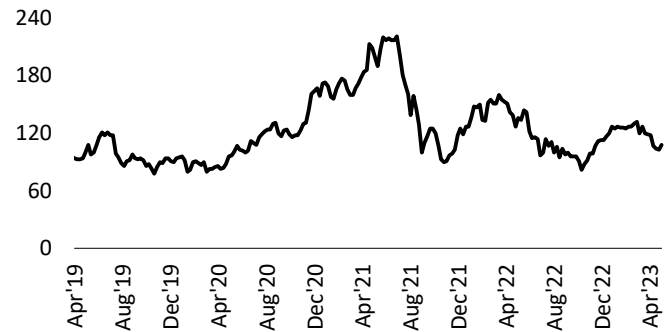
Exhibit 4: Sales volumes and blended ore ASP move in a similar direction



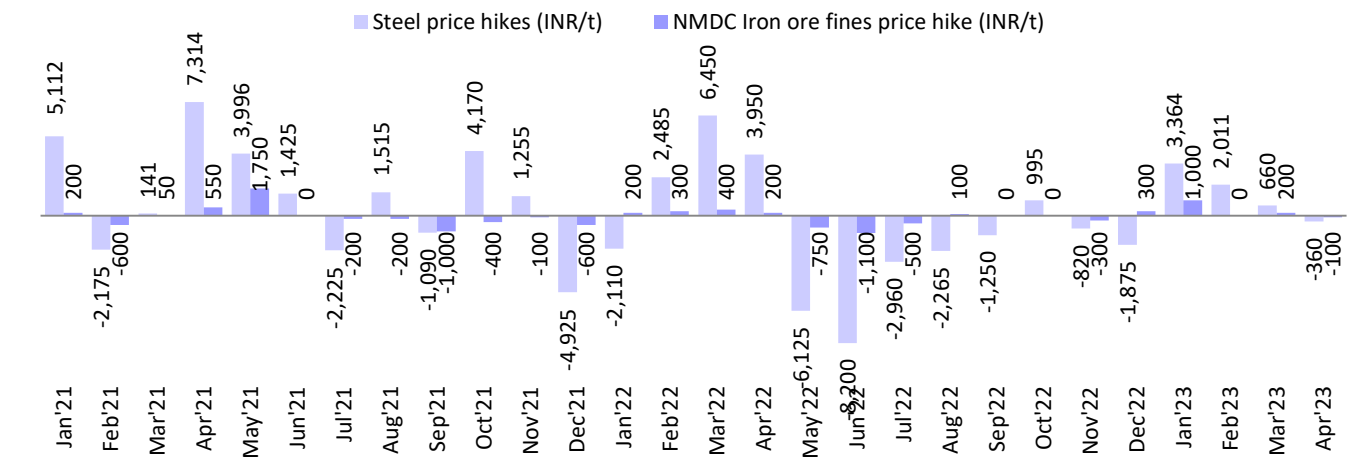
Source: MOFSL, Company

Exhibit 5: Production for FY23 was slightly lower; however, it is expected to bounce back in FY24

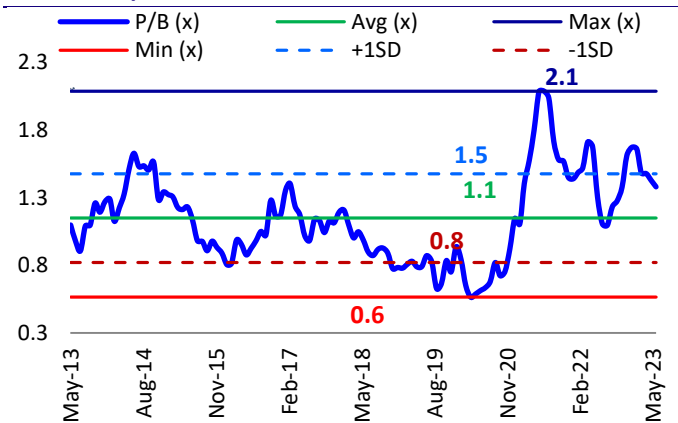
Source: MOFSL, Company

Exhibit 6: International iron ore prices (USD/t) have been correcting since Feb'23

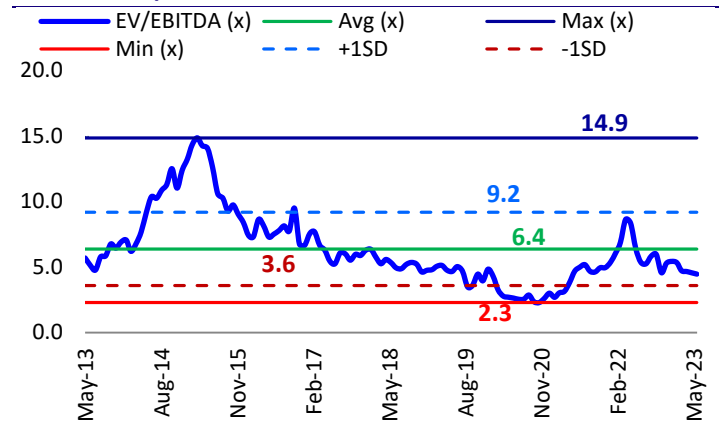
Source: MOFSL, SteelMint

Exhibit 7: Iron ore prices have moved together with steel since the start of CY23

Source: MOFSL, Company

Exhibit 8: P/B

Source: MOFSL, Company data

Exhibit 9: EV/EBITDA near -1SD

Source: MOFSL, Company data

Exhibit 10: Global comparative valuations

Company	M-Cap USD mn	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
NMDC*	3,808	3.2	6.4	6.2	2.0	4.0	3.7	1.7	1.4	1.2	41.0	23.8	20.7
Vale	61,442	3.7	4.9	5.8	3.2	3.5	3.8	1.7	1.6	1.4	45.7	30.3	22.6
FMG	41,929	6.7	7.6	9.7	4.1	4.4	5.3	2.4	2.2	2.1	36.4	30.7	23.5

Source: MOFSL, Company (*) denotes MOFSL estimates

Exhibit 11: Key assumptions and summary of changes to our estimates

	UoM	FY23			FY24E			FY25E		
		New	Old	% change	New	Old	% change	New	Old	% change
Iron ore Volumes - mt	mt	38.2	37.9	0.7	46.7	46.7	-	51.0	51.0	-
Blended ASP (INR/t)	INR/t	4,622	4,495	2.8	4,270	4,666	-8.5	4,188	4,312	-2.9
Revenue	INRb	177	171	3.6	199	218	-8.5	214	220	-2.9
EBITDA/t - INR	INR/t	1,584	1,454	8.9	1,381	1,502	-8.0	1,233	1,278	-3.5
EBITDA	INR b	61	55	9.7	64	70	-8.0	63	65	-3.5
Adj PAT	"	48	45	6.8	50	54	-7.9	46	47	-3.7

Exhibit 12: Calculation of the target price

Y/E March	UoM	FY24E
Iron ore		
Volumes	mt	46.7
EBITDA	INR/t	1,381
EBITDA	INR m	64,477
Target EV/EBITDA(x)	x	5.0
Target EV	INR m	3,22,386
Add: Net Cash	INR m	71,965
Equity Value	INR m	3,94,351
Share o/s	Mn	2,931
Target price (INR/share)	INR/sh	135

Financials and valuation

Consolidated Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	88	116	122	117	154	259	176.7	199.3	213.6
Change (%)	37.1	31.5	4.6	-3.7	31.4	68.4	-31.7	12.8	7.1
Total Expenses	43	53	50	55	66	133	116.1	134.8	150.7
EBITDA	44.9	63.2	71.4	62.2	88.0	125.8	60.5	64.5	62.9
% of Net Sales	50.9	54.4	58.8	53.2	57.2	48.6	34.3	32.3	29.4
EBITDA/t	1,262	1,752	2,207	1,974	2,669	3,138	1,584	1,381	1,233
Adj EBITDA	44.9	63.2	71.4	62.2	88.0	127.8	60.5	64.5	62.9
Adj EBITDA/t	1,262	1,752	2,207	1,974	2,669	3,188	1,584	1,381	1,233
Depn. & Amortization	2.0	2.6	2.8	2.9	2.3	2.9	3.4	3.6	2.9
EBIT	43.0	60.6	68.6	59.3	85.7	122.9	57.2	60.9	60.0
Net Interest		0.4	0.4	0.1	0.2	0.4	0.8	0.3	0.3
Other income	9.1	5.2	5.9	5.1	3.5	7.2	7.7	6.0	1.4
PBT before EO	52.1	65.5	74.1	64.4	89.0	129.7	64.1	66.6	61.0
EO income	-8.9	-5.3	-2.1	-10.8		2.0	12.4		
PBT after EO	43.1	60.2	72.0	53.6	89.0	131.8	76.5	66.6	61.0
Tax	17	22	26	17	26	36	21.1	16.8	15.4
Rate (%)	39.5	36.7	35.5	32.5	29.8	27.2	27.6	25.2	25.2
Reported PAT	26.1	38.1	46.4	36.2	62.5	95.9	55.3	49.8	45.7
Adjusted PAT	31.5	41.4	47.8	46.9	66.0	97.9	48.4	49.8	45.7
Change (%)	-10.1	31.5	15.4	-1.9	40.7	48.5	-50.6	2.9	-8.4

Consolidated Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	3.2	3.2	3.1	3.1	2.9	2.9	2.9	2.9	2.9
Reserves	222.0	240.4	256.5	272.3	294.6	177.4	223.4	251.3	275.0
Share holders funds	225.2	243.5	259.5	275.3	297.6	180.3	226.4	254.2	277.9
Loans		5.0	3.6	5.7	19.9	17.9	4.2	4.2	4.2
Long-term Provisions	6.1	7.1	7.7	8.3	9.5	12.5	14.1	14.1	14.1
Capital Employed	231.3	255.7	270.8	289.3	327.0	210.7	244.6	272.5	296.2
Gross Block	39.7	49.5	52.8	58.9	62.4	70.2	69.0	74.0	79.0
Less: Accum. Deprn.	20.2	22.8	25.5	28.4	30.7	33.6	36.9	40.5	43.4
Net Fixed Assets	19.5	26.7	27.2	30.5	31.7	36.7	32.1	33.5	35.6
Capital WIP	118.3	125.2	137.9	154.7	170.8	13.3	19.9	34.9	59.9
Investments	7.3	7.9	9.4	9.9	9.8	8.9	9.3	9.3	9.3
Curr. Assets	111.9	126.3	123.3	116.4	155.5	190.2	221.2	233.1	230.1
Inventories	5.4	5.7	6.7	7.2	9.2	21.3	26.6	30.0	32.2
Sundry Debtors	10.4	14.7	14.2	22.2	21.4	29.5	26.6	30.0	32.1
Cash and Bank	52.9	54.4	46.1	23.9	58.1	79.8	71.0	76.1	68.8
Loans and Advances	43.2	51.5	56.3	63.0	66.9	59.6	97.0	97.0	97.0
Curr. Liability & Prov.	25.7	30.4	27.0	22.1	40.8	38.4	37.9	38.4	38.7
Sundry Creditors	2.0	1.6	2.0	2.3	3.6	6.6	4.3	4.8	5.1
Other Liabilities & prov.	23.7	28.8	25.0	19.8	37.2	31.7	33.6	33.6	33.6
Net Current Assets	86.2	95.9	96.3	94.3	114.7	151.8	183.3	194.7	191.3
Application of Funds	231.3	255.7	270.8	289.3	327.0	210.7	244.6	272.5	296.2

Financials and valuation

Key Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	10.0	13.1	15.6	15.3	22.5	33.4	16.5	17.0	15.6
Cash EPS	10.6	13.9	16.5	16.2	23.3	34.4	17.7	18.2	16.6
BV/Share	71.2	77.0	84.8	89.9	101.5	61.5	77.2	86.7	94.8
DPS	5.2	5.3	5.5	5.3	7.8	14.7	6.6	7.5	7.5
Payout (%)	74.9	62.9	45.9	54.0	36.4	45.0	19.9	44.1	48.1
Valuation (x)									
P/E	10.6	8.1	6.8	6.9	4.7	3.2	6.4	6.2	6.8
Cash P/E	10.0	7.6	6.4	6.5	4.6	3.1	6.0	5.8	6.4
P/BV	1.5	1.4	1.3	1.2	1.0	1.7	1.4	1.2	1.1
EV/Sales	3.2	2.5	2.3	2.6	1.8	1.0	1.4	1.2	1.2
EV/EBITDA	6.3	4.5	3.9	4.9	3.1	2.0	4.0	3.7	3.9
Dividend Yield (%)	4.9	5.0	5.2	5.0	7.3	13.9	6.2	7.1	7.1
EV (USD/t)	2.9	3.1	2.8	3.0	2.6	2.3	2.1	2.0	2.1
Return Ratios (%)									
EBITDA Margins	50.9	54.4	58.8	53.2	57.2	48.6	34.3	32.3	29.4
Net Profit Margins	35.7	35.7	39.3	40.1	42.9	37.8	27.4	25.0	21.4
RoE	13.5	17.7	19.3	17.5	23.5	41.0	23.8	20.7	17.2
RoCE	11.5	17.1	18.3	15.5	20.3	35.2	20.6	19.4	16.1
RoIC	44.0	63.4	60.8	44.9	63.6	90.9	32.7	30.7	28.9
Working Capital Ratios									
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.0	2.5	3.7	2.6	2.7	2.7
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.5	1.2	0.7	0.7	0.7
Debtor (Days)	43	46	43	69	51	42	55	55	55
Inventory (Days)	22	18	20	23	22	30	55	55	55
Creditors (Days)	8	5	6	7	9	9	9	9	9
Growth (%)									
Sales	37.1	31.5	4.6	-3.7	31.4	68.4	-31.7	12.8	7.1
EBITDA	29.5	40.6	13.0	-12.9	41.4	43.0	-51.9	6.5	-2.5
PAT	-10.1	31.5	15.4	-1.9	40.7	48.5	-50.6	2.9	-8.4
Leverage Ratio (x)									
Current Ratio	4.4	4.2	4.6	5.3	3.8	5.0	5.8	6.1	5.9
Debt/Equity	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.3	-0.3	-0.2

Consolidated Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	43.1	60.2	72.0	53.6	89.0	131.8	76.5	66.6	61.0
Depreciation	2.0	2.6	2.8	2.9	2.3	2.9	3.4	3.6	2.9
(Inc)/Dec in Wkg. Cap.	13.1	-8.7	-8.6	-21.4	5.3	-15.7	-31.5	-6.3	-3.9
Tax paid	-18.9	-23.4	-26.0	-23.0	-24.9	-43.5	-20.7	-16.8	-15.4
Other operating activities	0.4	3.2	0.3	8.5	1.6	0.9	-3.0		
CF from Op. Activity	39.7	33.8	40.5	20.6	73.3	76.4	24.7	47.1	44.6
(Inc)/Dec in FA + CWIP	-23.5	-20.5	-20.0	-24.0	-16.0	-30.5	-14.0	-20.0	-30.0
(Pur)/Sale of Investments	-0.3	-2.5	7.7	17.2	0.3	-24.4	8.9		
Others		6.3	-3.5	-18.4	2.4	4.2	5.6		
CF from Inv. Activity	-23.8	-16.8	-15.8	-25.2	-13.3	-50.7	0.4	-20.0	-30.0
Equity raised/(repaid)	-76.1		-10.1		-17.0		0.0		
Interest paid		-0.4	-0.4	-0.1	-0.2	-0.4	-0.8		
Debt raised/(repaid)	-15.0	5.0	-1.4	2.0	14.3	14.9	-13.8		
Dividend (incl. tax)	-19.6	-23.9	-21.3	-19.5	-22.7	-43.2	-11.0	-22.0	-22.0
Other financing activities		3.7	0.2	0.1	-0.3	24.7	-8.4		
CF from Fin. Activity	-110.6	-15.6	-33.0	-17.5	-25.9	-4.0	-33.9	-22.0	-22.0
(Inc)/Dec in Cash	-94.7	1.5	-8.3	-22.2	34.1	21.7	-8.8	5.1	-7.3
Add: opening Balance	147.6	52.9	54.4	46.1	23.9	58.1	79.8	71.0	76.1
Closing Balance	52.9	54.4	46.1	23.9	58.1	79.8	71.0	76.1	68.8

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