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Q4FY20 result review and  
earnings revision

## Metals

Target price: Rs130

### Earnings revision

(%)	FY21E	FY22E
Sales	↓ 6.7	↓ 6.5
EBITDA	↓ 15.0	↓ 6.9
EPS	↓ 17.9	↓ 7.9

### Target price revision

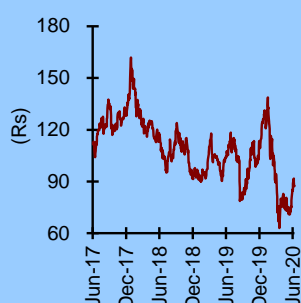
Rs130 from Rs140

### Shareholding pattern

	Sep '19	Dec '19	Mar '20
Promoters	72.3	69.7	69.7
Institutional investors	23.1	26.5	26.0
MFs and others	1.6	4.4	3.5
FIs/Banks	2.0	2.0	2.0
Insurance Cos.	14.2	14.3	14.5
FII	5.3	5.8	6.0
Others	4.7	3.8	4.3

Source: NSE

### Price chart



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INDIA

NMDC

ICICI Securities

BUY

Maintained

Covid-19 crisis impeded higher domestic prices

Rs85

Covid-19 outbreak has impeded what could have been the best two quarters for domestic iron ore prices. Combination of a domestic supply shock post Odisha iron ore auctions and global price rally (fuelled by sharp demand increase in China and continued supply uncertainty from Brazil) could have materialised into higher iron ore prices for NMDC. However, the demand impact created by Covid-19 crisis led to domestic fine prices witnessing a drop of 33% in the past three months, a period in which global prices moved up by 20%. NMDC would do well to focus on volumes and capture as much market share as possible, given there is a vacancy that Odisha iron ore will create for the incumbent. Q4FY20 EBITDA disappointed, mainly due to lower-than-expected realisations. We maintain BUY with a revised target price of Rs130/share. (Rs140 earlier).

- **Q4FY20 disappointment was driven by lower-than-expected realisations.** While average lump and fine prices witnessed an increase of ~Rs400/te QoQ, NMDC's blended realisation increased ~Rs117/te QoQ. Consolidated EBITDA/te of Rs1,726/te would have increased by another Rs230/te but typical year-end spends bloated other expenses. There was i) Rs1.35bn worth of CSR spend for the full year incurred in the current quarter, ii) risk and hardship allowance of Rs400mn to CISF and iii) Rs250mn worth of environmental expense provided in Q4FY20; resulting in 62% QoQ increase in other expense.
- **Favourable valuations, EBITDA/te near cyclical lows and multiple earnings triggers are key investment arguments.** Despite 35% run up in the stock price, things that we still like are: i) With 15-16% FY20 and near-term historical RoE, the stock is still trading at below < 1x book; even in a muted FY21E, we expect NMDC to do RoE of 9-10%, ii) FY21E expected EBITDA at Rs1,300-1,400/te is closer to the historical bottom of the EBITDA band ever reached (FY15/16) and iii) there are multiple potential triggers i.e. restart of Karnataka operations, potential market share increase from the vacuum created in Odisha etc.
- **Significant reduction in cash balance over FY20.** Cash and bank balance has reduced from Rs46bn to Rs24bn YoY. There has been a significant buildup of receivables (~Rs20bn in FY20) which restricted FCF. Capex of Rs24bn for FY20, dividend outgo of Rs19.5bn, and cash tax outgo of Rs7.71bn for Vivad se Vishwas scheme led to a reduction in cash balance. There is another risk of a potential cash outflow of ~Rs10bn in FY21 (Rs6bn paid in protest against demand of the state of ~Rs16bn while renewing mining leases) to Chhattisgarh government.
- **Maintain BUY with a revised target price of Rs130/share.** We maintain our BUY rating on NMDC with a DCF-based revised target price of Rs130/share (Rs140/share earlier). The change in earnings reflects our lower assumption of domestic iron ore price for FY21/22E given ~33% drop witnessed in the same over Feb-May, '20.

Market Cap	Rs260bn/US\$3.4bn
Reuters/Bloomberg	NMDC.BO/NMDC IN
Shares Outstanding (mn)	3,061.9
52-week Range (Rs)	139/63
Free Float (%)	30.3
FII (%)	6.0
Daily Volume (US\$/'000)	10,850
Absolute Return 3m (%)	14.9
Absolute Return 12m (%)	(16.6)
Sensex Return 3m (%)	7.4
Sensex Return 12m (%)	(13.9)

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	121,527	116,992	88,479	166,286
Net Income (Rs mn)	46,375	44,442	27,341	39,222
EPS (Rs)	15.1	11.8	8.9	12.8
% Chg YoY	26.0	(22.3)	(24.1)	43.5
P/E (x)	5.7	7.3	9.6	6.7
CEPS (Rs)	16.1	12.7	10.0	16.3
EV/E (x)	3.3	4.1	7.1	5.0
Dividend Yield (%)	6.4	6.2	3.7	5.3
RoCE (%)	31.9	23.0	12.2	16.7
RoE (%)	17.8	16.1	9.3	12.3

Please refer to important disclosures at the end of this report

**Table 1: Q4FY20 result review***(Rs mn, year ending March31)*

	Q4FY20	Q4FY19	% chg YoY	Q3FY20	% chg QoQ
<b>Net sales</b>	<b>31,873</b>	<b>36,433</b>	<b>(12.5)</b>	<b>30,064</b>	<b>6.0</b>
Increase/Decrease in stock in trade	(410)	(258)	NA	(508)	NA
Consumption of raw materials	50	161	NA	59	NA
Consumption of stores & spares	734	932	(21.3)	670	9.5
Employees cost	2,906	2,829	2.7	2,587	12.3
Selling expenses incl Freight	2,032	1,329	52.9	1,942	4.6
Royalty & cess	5,841	5,020	16.4	5,797	0.8
Other expenditure (Reported)	5,843	5,517	5.9	3,602	62.2
<b>Total costs (Reported)</b>	<b>16,996</b>	<b>15,530</b>	<b>9.4</b>	<b>14,150</b>	<b>20.1</b>
<b>EBITDA (reported)</b>	<b>14,877</b>	<b>20,904</b>	<b>(28.8)</b>	<b>15,914</b>	<b>(6.5)</b>
Margin (%)	46.7	57.4		52.9	
Depreciation	677	805	(15.9)	646	4.8
<b>EBIT</b>	<b>14,201</b>	<b>20,098</b>	<b>(29.3)</b>	<b>15,268</b>	<b>(7.0)</b>
Other income	1,336	1,962	(31.9)	1,302	2.6
Finance Cost	(213)	102	(308.3)	98	(318.5)
Exceptional items	964	-		-	NA
<b>PBT</b>	<b>14,786</b>	<b>21,958</b>	<b>(32.7)</b>	<b>16,473</b>	<b>(10.2)</b>
Tax	11,312	7,438	52.1	2,707	317.9
<b>PAT (Reported)</b>	<b>3,473</b>	<b>14,520</b>	<b>(76.1)</b>	<b>13,766</b>	<b>(74.8)</b>
<b>PAT (Adjusted)</b>	<b>11,892</b>	<b>14,520</b>	<b>(18.1)</b>	<b>13,766</b>	<b>(13.6)</b>
Sales volume (mnte)	8.6	10.2	(15.2)	8.4	2.1
Realization (Rs/te)	3,674	3,529	4.1	3,545	3.7
Realization (US\$/te)	51	50	1.3	50	1.9
EBITDA (Rs/te)	1,726	2,056	(16.0)	1,886	(8.5)

Source: Company data, I-Sec research; For YoY comparison refer to Financial summary.

**Table 2: Q4FY20 segmental result review***(Rs mn, year ending March31)*

	Q4FY20	Q4FY19	% chg YoY	Q3FY20	% chg QoQ
<b>Segment Revenue</b>					
Iron Ore	31,667	35,889	(11.8)	29,916	5.9
Other Minerals & Services	206	583	(64.6)	147	40.0
<b>Total</b>	<b>31,873</b>	<b>36,472</b>	<b>(12.6)</b>	<b>30,064</b>	<b>6.0</b>
Less: Intersegment Revenue		38		-	
<b>Net Sales/Income from Operations</b>	<b>31,873</b>	<b>36,433</b>	<b>(12.5)</b>	<b>30,064</b>	<b>6.0</b>
<b>Segment Results</b>					
Iron Ore	15,991	21,807	(26.7)	15,928	0.4
Other Minerals & Services	(1,445)	(342)	NM	29	NM
<b>Total</b>	<b>14,546</b>	<b>21,465</b>	<b>(32.2)</b>	<b>15,957</b>	<b>(8.8)</b>
Less: Interest	(213)	102	NM	98	NM
Add: Unallocable net income	22	593	(96.3)	341	(93.6)
<b>Total Profit before Tax</b>	<b>14,781</b>	<b>21,955</b>	<b>(32.7)</b>	<b>16,200</b>	<b>(8.8)</b>
<b>Capital Employed</b>					
Iron Ore	56,038	34,734	61.3	48,498	15.5
Other Minerals & Services	5,621	6,105	(7.9)	5,807	(3.2)
Other Reconciliation Items	211,182	213,913	(1.3)	234,843	(10.1)
<b>Total</b>	<b>272,841</b>	<b>254,752</b>	<b>7.1</b>	<b>289,149</b>	<b>(5.6)</b>

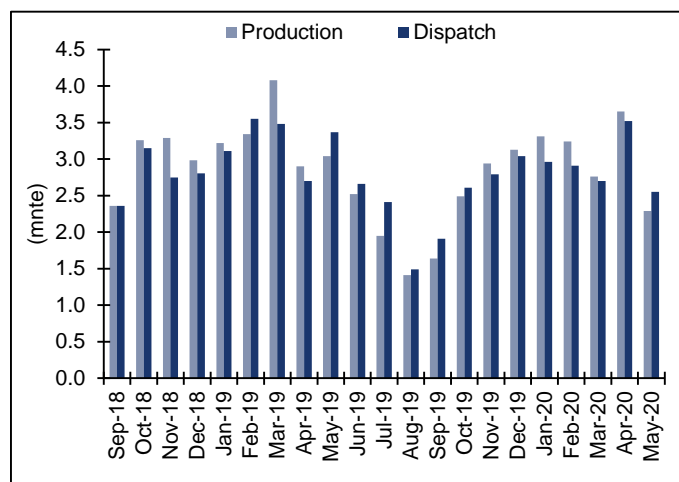
Source: Company data, I-Sec research.

**Table 3: Provisions for Q4FY20 – EBITDA is clean/ comparable to past quarters**

Exceptional Item	Amount and Treatment	Q4FY19	Provided for FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Service Tax payable on royalty	The company has contended the issue of service tax payable on royalty w.e.f. 01.04.2016 as per the Central Government circular. The courts have granted a stay on the order.	Rs301mn	Rs301mn				i) Rs260mn in interest provided for FY20 written back against interest expenses.  ii) Rs1.8bn of service tax previously provided written back in the form of extraordinary expenses.
Mine closure obligations	Review of existing liability led to additional provision.		Rs359.9mn in other expenses				
Doubling of rail lines	Towards increasing evacuation capacity of Bailadila sector, provided in 'other expenses' for doubling of railway line between Kirandul and Jagdalpur under MoU with the Railways. The amount for previous quarters has been considered through retained earnings.		Rs1.3bn in other expenses				
Expected Credit Loss	Provided under 'other expenses' as amount pertaining to the quarter towards expected credit loss on total trade receivables of Rs24.16bn. The amount for previous quarters has been considered through retained earnings. Also, 10% of sales from Karnataka have gone to CEC since 2012 (~Rs14bn of receivables) is being written down.	Rs742.2 in other expenses	Rs2.5bn in other expenses	Rs596mn in other expenses	Rs524mn in other expenses	Rs420mn in other expenses	Rs562mn in other expenses
Write-down of J&K Subsidiary	Ministry of Environment has withdrawn EC of J&K subsidiary for setting up 30,000tpa dead burnt magnesite plant at Panthal, Jammu. With no signs of resumption, the equity and advances have been provided for.						
Other items in Other Expense which <u>recurs every year</u>							Rs1.35bn for CSR, Rs400mn for risk and hardship allowance to CISF. Environmental expense of Rs250mn etc.
Extraordinary expense							Rs2bn of mine closure obligations, Rs700mn as previous year's payment to CISF and Rs1.8bn as writeback of previous excess provision for service tax.
Vivad se Vishwas Scheme							Rs9.7bn has been paid to settle outstanding tax demands. Rs2bn was paid earlier when NMDC chose to contest the (tax) demand. Hence, tax is higher by Rs7.7bn in Q4FY20.

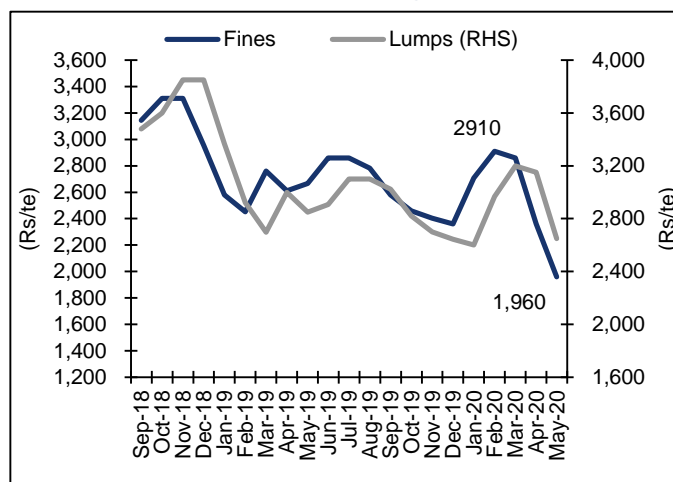
Source: Company data, I-Sec research

Chart 1: NMDC monthly volumes



Source: Company data, I-Sec research

Chart 2: NMDC monthly pricing data



Source: Company data, I-Sec research

Table 4: Pricing and volume reconciliation

(mnte)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
<b>Production</b>	<b>6.98</b>	<b>5.26</b>	<b>9.52</b>	<b>10.60</b>	<b>8.40</b>	<b>5.00</b>	<b>8.58</b>	<b>9.47</b>
Kirandul	2.34	1.05	3.14	4	2.76	1.31	3.43	4.68
Bacheli	2.53	1.58	3.84	4.79	3.32	1.7	3.43	3.77
Donimalai + KIOM	2.09	2.63	2.54	1.81	2.35	2	1.62	1.03
<b>Sales</b>	<b>6.78</b>	<b>6.71</b>	<b>8.7</b>	<b>10.17</b>	<b>8.67</b>	<b>5.82</b>	<b>8.41</b>	<b>8.62</b>
Kirandul	2.83	1.86	3.03	3.46	3.3	1.93	3.61	3.63
Bacheli	3.06	1.91	3.25	3.91	3.3	2.06	3.1	3.58
Donimalai + KIOM	0.88	2.92	2.42	2.8	2.1	1.83	1.71	1.41
<b>Prices (Rs/te)</b>								
Lumps	3,264	3,448	3,892	3,185	3,253	3,278	2,937	3,359
Fines	2,670	2,760	3,152	2,632	2,733	2,680	2,392	2,636
<b>Average</b>	<b>2,884</b>	<b>2,999</b>	<b>3,398</b>	<b>2,827</b>	<b>2,916</b>	<b>2,891</b>	<b>2,578</b>	<b>2,871*</b>

Source: Company data, I-Sec research \*Average price increase was much lower than the supposed increase in fines and lumps price for the quarter.

## Change in earnings

We have reduced our realisation and consequent EBITDA assumptions for FY21/22 to factor in i) series of reductions in iron ore prices witnessed in domestic market post Q4FY20 and ii) higher export prices only to factor in depreciated INR/US\$ at 75 vis-à-vis 70 assumed earlier. The drop in domestic realisations significantly reduces our EBITDA/te for FY21/22E.

Table 5: Earnings change

	New		Old		% Chg	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues (Rs mn)	88,479	166,286	94,790	177,897	(6.7)	(6.5)
EBITDA (Rs mn)	38,048	61,444	44,773	65,996	(15.0)	(6.9)
PAT (Rs mn)	27,341	39,177	33,282	42,538	(17.9)	(7.9)

Source: Company data, I-Sec research

**Table 6: Key assumptions**

	<b>FY19</b>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>
<b>New</b>				
Total production (mnte)	32.4	31.5	28.0	35.0
Total sales (mnte)	32.4	31.5	28.0	35.0
Domestic	31.2	29.1	25.6	32.6
Export	1.2	2.4	2.4	2.4
<b>Blended Realization (Rs/te)</b>	<b>3,710</b>	<b>3,674</b>	<b>3,140</b>	<b>3,112</b>
<b>EBITDA/te (Rs)</b>	<b>2,140</b>	<b>1,906</b>	<b>1,359</b>	<b>1,492</b>
INR/US\$	69.9	70.9	75.0	75.0
<b>Old</b>				
<b>Total production (mnte)</b>	<b>32.4</b>	<b>31.5</b>	28.0	35.0
<b>Total sales (mnte)</b>	<b>32.4</b>	<b>31.5</b>	28.0	35.0
Domestic	31.2	29.1	25.6	32.6
Export	1.2	2.4	2.4	2.4
<b>Blended Realization (Rs/te)</b>	<b>3,710</b>	<b>3,674</b>	<b>3,365</b>	<b>3,352</b>
<b>EBITDA/te (Rs)</b>	<b>2,140</b>	<b>1,906</b>	<b>1,599</b>	<b>1,596</b>
INR/US\$	69.9	70.9	70.0	70.0

Source: Company data, I-Sec research

## Valuations and key risks

We maintain our **BUY** rating on NMDC with a revised target price of Rs130/share (Rs140/share earlier).

Lower-than-expected sales volume and extensive correction in iron ore prices are the key negative risks to our call.

**Table 7: DCF valuation summary for NMDC (New)**

<i>(Rs mn, year ending March 31)</i>	<b>FY20</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBIT	57,070	34,897	50,865	64,512	78,132	81,491
Taxes	23,451	8,784	12,803	16,238	19,666	20,511
NOPAT	33,619	26,113	38,062	48,275	58,466	60,980
Depreciation	2,949	3,151	10,579	12,600	13,458	14,318
Capex	20,060	24,035	44,764	34,461	34,484	19,508
Net change in working capital	20,872	(3,308)	(6,049)	(10,329)	15,184	10,449
<b>FCFF</b>	<b>(4,363)</b>	<b>8,537</b>	<b>9,926</b>	<b>36,742</b>	<b>22,257</b>	<b>45,341</b>
Terminal value						508,214
<b>FCFF + TV</b>	<b>(4,363)</b>	<b>8,537</b>	<b>9,926</b>	<b>36,742</b>	<b>22,257</b>	<b>508,214</b>
<b>EV</b>	<b>317,741</b>	<b>357,373</b>	<b>388,504</b>	<b>421,702</b>	<b>431,769</b>	<b>457,438</b>
Net debt	(24,375)	(3,630)	(10,960)	(34,929)	(53,668)	(80,650)
Equity Value			399,464			
Number of share			3,062			
<b>Per share value</b>			<b>130</b>			

Source: Company data, I-Sec research

**Table 8: DCF valuation summary for NMDC (Old)**

<i>(Rs mn, year ending March 31)</i>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
EBIT	58,796	41,494	54,913	61,146	76,858	79,057
Taxes	15,405	10,444	14,387	15,390	20,137	19,899
NOPAT	43,391	31,050	40,526	45,755	56,722	59,158
Depreciation	2,995	3,279	11,083	13,348	14,207	15,066
Capex	30,411	35,432	35,453	35,476	15,500	15,525
Net change in working capital	5,478	(924)	(3,157)	(2,591)	15,605	12,609
<b>FCFF</b>	<b>10,497</b>	<b>(179)</b>	<b>19,312</b>	<b>26,219</b>	<b>39,824</b>	<b>46,091</b>
Terminal value						516,620
<b>FCFF + TV</b>	<b>10,497</b>	<b>(179)</b>	<b>19,312</b>	<b>26,219</b>	<b>39,824</b>	<b>516,620</b>
<b>EV</b>	<b>338,840</b>	<b>365,955</b>	<b>406,754</b>	<b>432,592</b>	<b>454,391</b>	<b>465,004</b>
Net debt	(34,862)	(21,003)	(23,102)	(33,600)	(51,430)	(75,657)
Equity Value			429,857			
Number of share			3,062			
<b>Per share value</b>			<b>140</b>			

Source: Company data, I-Sec research

## Financial summary

Table 9: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>121,527</b>	<b>116,992</b>	<b>88,479</b>	<b>166,286</b>
<b>Operating Expenses</b>	<b>52,283</b>	<b>56,973</b>	<b>50,431</b>	<b>104,783</b>
<b>EBITDA</b>	<b>69,244</b>	<b>60,019</b>	<b>38,048</b>	<b>61,504</b>
% margins	57.0	51.3	43.0	37.0
Depreciation & Amortization	2,790	2,949	3,151	10,579
Gross Interest	403	99	410	380
Other Income	5,890	5,144	2,050	1,871
<b>Recurring PBT</b>	<b>71,940</b>	<b>61,150</b>	<b>36,537</b>	<b>52,415</b>
Add: Extra ordinaries	-	(964)	-	-
Less: Taxes	25,565	25,127	9,196	13,193
<b>Net Income (Reported)</b>	<b>46,375</b>	<b>36,023</b>	<b>27,341</b>	<b>39,222</b>
<b>Recurring Net Income</b>	<b>46,375</b>	<b>44,442</b>	<b>27,341</b>	<b>39,222</b>

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	81,320	75,724	48,729	79,336
of which cash & cash eqv.	46,194	24,375	3,630	10,972
Total Current Liabilities	38,333	36,133	33,191	62,487
<b>Net Current Assets</b>	<b>42,987</b>	<b>39,591</b>	<b>15,539</b>	<b>16,848</b>
<b>Investments</b>	<b>38,452</b>	<b>39,856</b>	<b>39,856</b>	<b>39,856</b>
Strategic/Group	38,452	39,856	39,856	39,856
<b>Net Fixed Assets</b>	<b>172,374</b>	<b>192,455</b>	<b>234,068</b>	<b>257,950</b>
Capital Work-in-Progress	138,189	155,299	198,189	30,000
Goodwill	939	939	939	939
<b>Total Assets</b>	<b>254,752</b>	<b>272,841</b>	<b>290,401</b>	<b>315,593</b>
<b>Liabilities</b>				
Borrowings	-	-	-	-
Equity Share Capital	3,062	3,062	3,062	3,062
Face Value per share (Rs)	1.0	1.0	1.0	1.0
Reserves & Surplus	257,378	273,669	291,229	316,421
<b>Net Worth</b>	<b>260,440</b>	<b>276,731</b>	<b>294,291</b>	<b>319,483</b>
<b>Total Liabilities</b>	<b>254,752</b>	<b>272,841</b>	<b>290,401</b>	<b>315,593</b>

Source: Company data, I-Sec research

Table 11: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>75,067</b>	<b>64,927</b>	<b>38,749</b>	<b>62,235</b>
WC Changes	(9,028)	(20,872)	3,308	6,032
Capital Commitments	(20,060)	(24,035)	(44,764)	(34,461)
<b>Free Cashflow</b>	<b>25,845</b>	<b>2,368</b>	<b>(9,853)</b>	<b>22,484</b>
<b>Cashflow from Investing Activities</b>				
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(21,321)	(19,525)	(9,780)	(14,030)
Extraordinary Items	-	-	-	-
<b>Chg. in Cash</b>	<b>(10,129)</b>	<b>(17,058)</b>	<b>(20,744)</b>	<b>7,342</b>

Source: Company data, I-Sec research

Table 12: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	15.1	11.8	8.9	12.8
Diluted Recurring EPS	15.1	11.8	8.9	12.8
Recurring Cash EPS	16.1	12.7	10.0	16.3
Dividend per share (DPS)	5.5	5.3	3.2	4.6
Book Value per share (BV)	84.8	90.1	95.8	104.0
<b>Growth Ratios (%)</b>				
Operating Income	4.6	(3.7)	(24.4)	23.7
EBITDA	19.3	(13.3)	(36.6)	37.4
Recurring Net Income	21.9	(22.3)	(24.1)	43.5
Diluted Recurring EPS	26.0	(22.3)	(24.1)	43.5
Diluted Recurring CEPS	25.1	(20.7)	(21.8)	63.3
<b>Valuation Ratios (x)</b>				
P/E	5.7	7.3	9.6	6.7
P/CEPS	5.4	6.8	8.6	5.3
P/BV	1.0	1.0	0.9	0.8
EV / EBITDA	3.3	4.1	7.1	5.0
EV / Operating Income	1.9	2.1	3.0	2.4
EV / Operating FCF	5.6	11.7	8.2	4.7
<b>Operating Ratios (%)</b>				
SG&A/Sales (%)	3.0	6.0	7.9	6.4
Other Income / PBT	8.2	8.4	5.6	3.6
Effective Tax Rate	35.5	41.1	25.2	25.2
NWC / Total Assets	(1.3)	5.6	4.1	1.9
Inventory Turnover (days)	8	8	8	4
Receivables (days)	43	69	69	84
Payables (days)	211	164	164	271
D/E Ratio (x)	-	-	-	-
<b>Profitability Ratios (%)</b>				
Recurring Net Income Margins	38.2	30.8	30.9	35.8
RoCE	31.9	23.0	12.2	16.7
RoNW	17.8	16.1	9.3	12.3
Dividend Payout Ratio	36.4	45.0	35.8	35.8
Dividend Yield	6.4	6.2	3.7	5.3
EBITDA Margins	57.0	51.3	43.0	47.7

Source: Company data, I-Sec research



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