

NMDC

Refer to important disclosures at the end of this report

Tax disputes settled, expect more cash outflow; downgrade to SELL

CMP: Rs 85
as of (June 17, 2020)TP: Rs 72 (▼)
12 months

Rating: SELL (▼)

Upside: (15.1) %

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- NMDC paid Rs9.8bn direct tax liability under the *Vivad se Vishwas* scheme and Rs1.4bn service tax liability under the *Sabka Vishwas* scheme. As per the FY19 annual report, NMDC had won direct tax related matters at ITAT and was not required to make provisions.
- Chhattisgarh govt alleged non-payment of storage fee, which NMDC has disputed. The state had also raised a tax demand of Rs16.2bn under the common cause judgment. NMDC has paid Rs6bn under protest and has filed a case to recover the same.
- Q4FY20 EBITDA stood at Rs14.9bn (yoy/qoq: -29%/-6%), 8% below our est., largely due 9% lower-than-expected ASP. Domestic prices are likely to drop further as recently auctioned mines in Odisha start production. NMDC is unlikely to increase exports.
- We cut our FY21/22E volume by 15%/9% and lower our ASP estimates by 10%/4%, resulting in EBITDA reduction of 39%/22% for FY21/22E. We cut our target EV/EBITDA multiple to 4x (from 5x) factoring in various disputes settled by NMDC. We downgrade to Sell, with a TP of Rs72 (from Rs140). Key risk: Price hikes by NMDC in the near term.

Disputes across states where NMDC operates

We note that both Karnataka and Chhattisgarh have raised disputes with NMDC and have either raised substantial tax demands or have stopped NMDC from mining. We believe that if NMDC settles the disputes, it might result in substantial cash outflow, leaving nothing for shareholders. NMDC has Rs8 cash/share only. It has significant committed capex for the expansion of both mines as well as railways.

Unable to increase exports when export market is strong

NMDC has not increased exports in recent times despite the fact that the export market is very strong, with prices upwards of \$100/t. Domestic demand is just recovering after the lockdown and NMDC has already taken Rs950/t cut in price over the last two months. As we re-enter into monsoon season, chances of further price hikes look remote.

Outlook and valuation

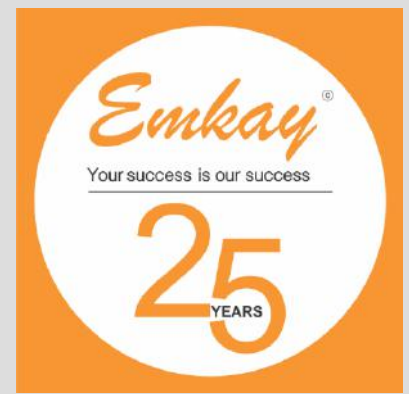
We believe that the recent steps taken by NMDC to settle tax disputes even for cases where it has won in the ITAT is worrisome. We also await management guidance on the Nagarnar Steel plant, which is in a near ready state but commissioning has been delayed. Hence, we lower our investment multiple for the stock from 5x to 4x and downgrade to Sell with UW in sector EAP.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Metals & Mining \(Page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,21,527	1,16,992	93,424	1,09,602	1,31,189
EBITDA	69,244	60,019	43,131	51,337	65,338
EBITDA Margin (%)	57.0	51.3	46.2	46.8	49.8
APAT	46,375	36,988	30,990	36,475	46,788
EPS (Rs)	15.1	12.1	10.1	11.9	15.3
EPS (% chg)	31.0	(20.2)	(16.2)	17.7	28.3
ROE (%)	18.4	13.8	11.0	12.3	14.6
P/E (x)	5.6	7.0	8.4	7.1	5.6
EV/EBITDA (x)	3.1	3.9	5.6	4.8	3.7
P/BV (x)	1.0	0.9	0.9	0.8	0.8

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-39/-30
Target Price change (%)	(48.6)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	10.1	11.9
Consensus	13.9	15.5
Mean Consensus TP (12M)	Rs 114	

Stock Details

Bloomberg Code	NMDC IN
Face Value (Rs)	1
Shares outstanding (mn)	3,062
52 Week H/L	140 / 62
M Cap (Rs bn/USD bn)	260 / 3.41
Daily Avg Volume (nos.)	71,05,171
Daily Avg Turnover (US\$ mn)	7.2

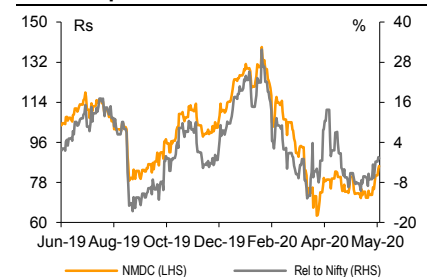
Shareholding Pattern Mar '20

Promoters	69.7%
FIIIs	6.0%
DIIIs	20.0%
Public and Others	4.4%

Price Performance

(%)	1M	3M	6M	12M
Absolute	15	15	(26)	(21)
Rel. to Nifty	6	7	(10)	(6)

Relative price chart



Source: Bloomberg

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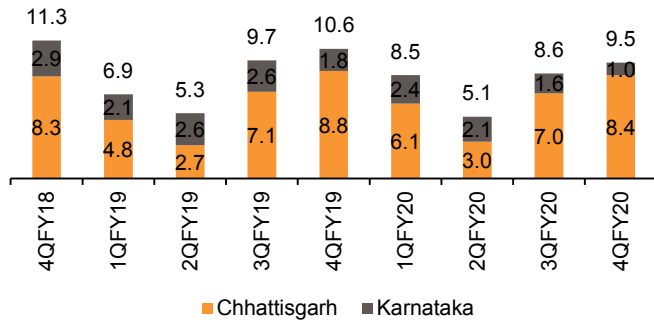
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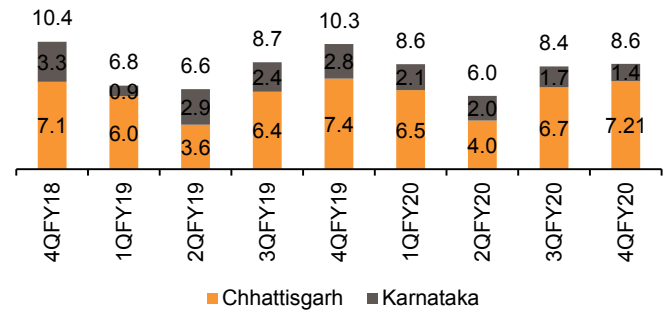
Story in Charts

Exhibit 1: Production to be impacted going forward due to Covid-19



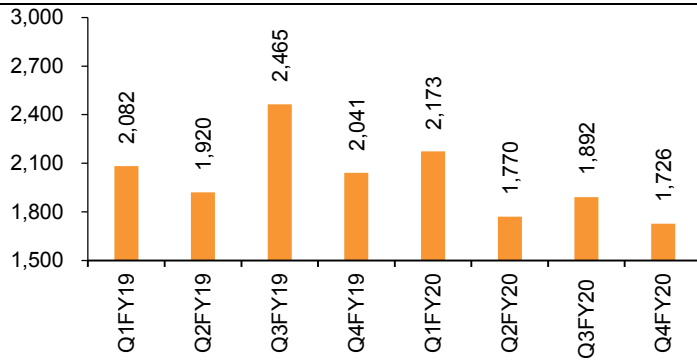
Source: Company, Emkay Research

Exhibit 2: Sales likely to dip going forward as demand remain low



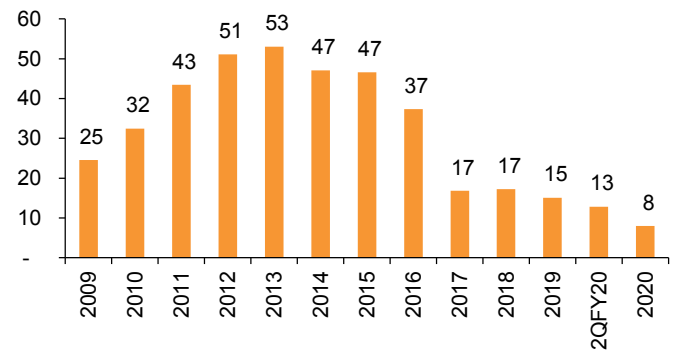
Source: Company, Emkay Research

Exhibit 3: Ebitda (Rs/t) to remain soft going forward



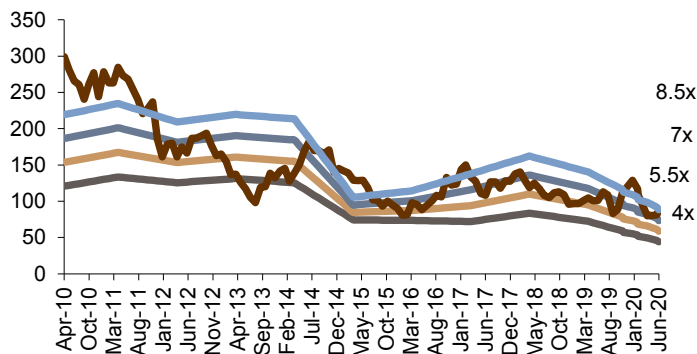
Source: Company, Emkay Research

Exhibit 4: Cash per share has depleted



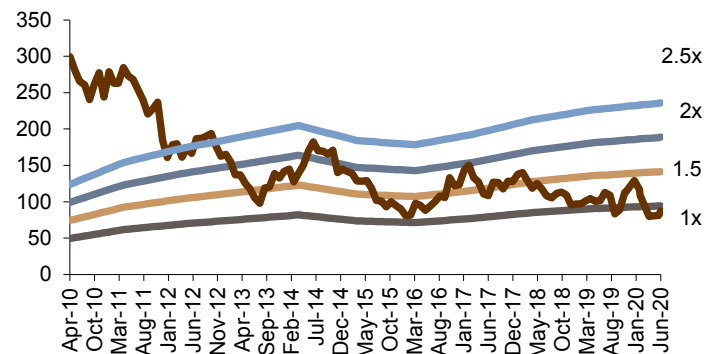
Source: Company, Emkay Research

Exhibit 5: EV/EBITDA Valuations are not cheap at current levels



Source: Company, Emkay Research

Exhibit 6: P/B valuation for NMDC



Source: Company, Emkay Research

Exhibit 7: Actual vs Estimates

Rs mn	Actual	Estimates (Emkay)	Consensus (Estimates)	% Variation		Comment
				Emkay	Consensus	
Total Revenue	31,873	36,934	34,335	-14%	-7%	lower vol and ASP lead to topline miss
EBITDA	14,877	16,104	18,889	-8%	-21%	Due to top line miss
EBITDA Margin	46.7%	43.6%	55.0%	-171 bps	104 bps	
Net Profit	3,473	12,288	13,664	-72%	-75%	Rs 7.7bn paid to settle past tax disputes

Source: Emkay Research, Company

Exhibit 8: Quarterly Consolidated Financials (Rs mn)

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	% qoq	% yoy	FY20	FY19	% change
Production (kt)	10.60	8.43	5.00	8.41	9.74	16%	-8%	31.49	32.36	-3%
Sales (kt)	10.17	8.67	5.81	8.41	8.62	2%	-15%	31.49	32.36	-3%
Revenue from Operations	36,433	32,637	22,418	30,064	31,873	6%	-13%	1,16,992	1,21,527	-4%
ASP (Rs/t)	3,582	3,765	3,858	3,575	3,698	3%	3%	3,715	3,756	-1%
Expenditure										
Consumption of raw materials	161	80	177	59	50	-15%	-69%	365	520	-30%
Changes in inventory	-258	-121	500	-508	-410	NA	NA	-538	-792	NA
Stores & spares	932	506	521	670	734	10%	-21%	2,432	2,650	-8%
Employee expense	2,820	2,531	2,457	2,593	2,906	12%	3%	10,494	10,394	1%
Royalty & Other Levies	5,019	5,817	3,508	5,796	5,841	1%	16%	20,963	20,038	5%
Selling Expenses	1,329	1,901	1,150	1,942	2,032	5%	53%	7,024	3,682	91%
Other expenses	5,507	3,255	3,520	3,610	5,843	62%	6%	16,234	13,105	24%
Total Expenses	15,510	13,969	11,833	14,163	16,996	20%	10%	56,973	52,283	9%
EBITDA	20,923	18,668	10,585	15,901	14,877	-6%	-29%	60,019	69,244	-13%
EBITDA/t	2,057	2,153	1,822	1,891	1,726	-9%	-16%	1,906	2,140	-11%
Depreciation	804	648	977	647	677	5%	-16%	2,949	2,790	6%
EBIT	20,119	18,021	9,608	15,254	14,201	-7%	-29%	57,070	66,454	-14%
Other Income	1,961	1,228	1,276	1,302	1,336	3%	-32%	5,144	5,890	-13%
Interest	102	117	97	98	-213	NA	NA	99	403	-75%
PBT before exceptionals	21,978	19,132	10,787	16,459	15,750	-4%	-28%	62,115	71,940	-14%
Exceptionals	-	-	-	-	964	NA	NA	-	-	NA
PBT	21,978	19,132	10,787	16,459	14,786	-10%	-33%	62,115	71,940	-14%
Current Tax	7,305	6,893	4,100	1,203	3,361	179%	-54%	15,556	27,527	-43%
Earlier Years (Net)	9	-	-	-	7,715	NA	90661%	7,715	9	90661%
Deferred Tax	125	444	-329	1,504	237	-84%	90%	1,857	-1,970	NA
Total Tax	7,438	7,337	3,771	2,707	11,312	318%	52%	25,127	25,565	-2%
ETR	34%	38%	35%	16%	24%	788 bps	-948 bps	40%	36%	14%
PAT	14,539	11,794	7,017	13,752	3,473	-75%	-76%	36,988	46,375	-20%
No. of shares	3061.9	3061.9	3061.9	3061.9	3061.9	0%	0%	3061.9	3061.9	0%
EPS	4.75	3.85	2.29	4.49	1.13	-75%	-76%	12.08	15.15	-20%

Source: Company, Emkay Research

Exhibit 9: Margins

Margins	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	% qoq	% yoy	FY20	FY19	% change
EBITDA	57%	57%	47%	53%	47%	-621 bps	-1075 bps	51%	57%	-568 bps
EBIT	55%	55%	43%	51%	45%	-619 bps	-1067 bps	49%	55%	-590 bps
PBT	60%	59%	48%	55%	46%	-836 bps	-1393 bps	53%	59%	-610 bps
PAT	40%	36%	31%	46%	11%	-3484 bps	-2901 bps	32%	38%	-654 bps

Source: Company, Emkay Research

Exhibit 10: Key Assumptions and Change in Estimates

	FY21			FY22			FY23
	Original	Revised	% change	Original	Revised	% change	Revised
Sales Vol	32	27	-15.6%	36	33	-9%	36
ASP	3,865	3,460	-10.5%	3,513	3,357	-4%	3,680
Revenue	1,23,680	93,424	-24.5%	1,26,465	1,09,602	-13.3%	1,31,189
EBITDA	65,846	43,131	-34.5%	65,861	51,337	-22.1%	65,338
PAT	50,526	30,990	-38.7%	51,753	36,475	-29.5%	46,788
EPS	16.5	10.1	-38.7%	16.9	11.9	-29.5%	15.3

Source: Emkay Research

Exhibit 11: Valuation

Valuation	UoM	Mar-22
EBITDA	Rs mn	51,337
Multiple	(x)	4
Enterprise Value	Rs mn	2,05,350
Less: Net Debt	Rs mn	-15,190
Implied Market Cap	Rs mn	2,20,540
No of shares	mn	3,062
Fair Value	Rs/Share	72

Source: Emkay Research

Exhibit 12: Global Peer Comparison

Company	M.Cap	PE (x)			EV/EBITDA (x)			PB (x)			ROE (x)		
	USD mn	CY19/ FY20	CY20/ FY21	CY21/ FY22	CY19/ FY20	CY20/ FY21	CY21/ FY22	CY19/ FY20	CY20/ FY21	CY21/ FY22	CY19/ FY20	CY20/ FY21	CY21/ FY22
NMDC Ltd	4,990	8	7	6	3.7	3.4	4.7	NA	0.9	0.9	16.6	16.7	13.2
Vale SA	54,554	14	8.0	6.7	4.2	3.8	3.6	1.5	1.4	1.3	6.7	16.4	17.6
Rio Tinto PLC	94,038	9	10.8	12.2	4.9	5.8	6.2	2.2	2.1	2.0	23.5	21.1	17.1
BHP Group Ltd	1,13,281	13	13.2	15.7	5.3	5.9	6.4	2.5	2.5	2.4	18.6	18.9	15.6
Anglo American PLC	27,457	8	12.4	9.5	3.8	5.3	4.7	1.1	1.1	1.0	14.3	9.6	9.9
Fortescue Metals Group Ltd	30,059	10	6.7	9.8	5.6	3.9	5.4	2.8	2.3	2.3	26.0	37.4	22.8

Source: Emkay Research, Bloomberg

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,21,527	1,16,992	93,424	1,09,602	1,31,189
Expenditure	52,283	56,973	50,293	58,265	65,851
EBITDA	69,244	60,019	43,131	51,337	65,338
Depreciation	2,790	2,949	3,913	4,238	4,563
EBIT	66,454	57,070	39,218	47,099	60,775
Other Income	5,890	5,144	2,599	2,048	2,153
Interest expenses	403	99	403	403	403
PBT	71,940	62,115	41,414	48,744	62,525
Tax	25,565	25,127	10,424	12,269	15,738
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	46,375	36,988	30,990	36,475	46,788
Adjusted PAT	46,375	36,988	30,990	36,475	46,788

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	3,062	3,062	3,062	3,062	3,062
Reserves & surplus	2,57,378	2,73,669	2,83,485	3,03,120	3,33,067
Net worth	2,60,440	2,76,731	2,86,547	3,06,182	3,36,129
Minority Interest	139	81	81	81	81
Loan Funds	0	0	0	0	0
Net deferred tax liability	(5,827)	(3,971)	(3,971)	(3,971)	(3,971)
Total Liabilities	2,54,752	2,72,841	2,82,656	3,02,291	3,32,239
Net block	35,124	38,391	36,642	37,404	37,841
Investment	39,999	42,100	46,088	49,360	53,648
Current Assets	79,773	73,480	55,907	51,646	62,872
Cash & bank balance	46,194	24,375	18,940	15,190	20,697
Other Current Assets	12,672	19,634	12,214	12,357	12,794
Current liabilities & Provision	38,333	36,133	35,983	36,121	37,124
Net current assets	41,440	37,347	19,925	15,525	25,748
Misc. exp	0	0	0	0	0
Total Assets	2,54,752	2,72,841	2,82,656	3,02,291	3,32,239

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	71,934	61,150	41,414	48,744	62,525
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(5,582)	(16,455)	8,000	(2,623)	(9,003)
Operating Cashflow	40,966	21,260	42,903	38,091	42,347
Capital expenditure	(20,060)	(24,035)	(31,497)	(25,000)	(20,000)
Free Cash Flow	20,907	(2,775)	11,406	13,091	22,347
Investments	(2,056)	(814)	0	0	0
Other Investing Cash Flow	9,290	17,657	0	0	0
Investing Cashflow	(7,892)	(3,128)	(31,497)	(25,000)	(20,000)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	189	77	0	0	0
Dividend paid (incl tax)	(31,388)	(19,525)	(16,840)	(16,840)	(16,840)
Other Financing Cash Flow	(1,359)	2,014	0	0	0
Financing Cashflow	(32,961)	(17,533)	(16,840)	(16,840)	(16,840)
Net chg in cash	113	599	(5,435)	(3,750)	5,507
Opening cash position	54,610	46,194	24,375	18,940	15,190
Closing cash position	46,194	24,375	18,940	15,190	20,697

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	57.0	51.3	46.2	46.8	49.8
EBIT Margin	54.7	48.8	42.0	43.0	46.3
Effective Tax Rate	35.5	40.5	25.2	25.2	25.2
Net Margin	38.2	31.6	33.2	33.3	35.7
ROCE	29.2	23.6	15.1	16.8	19.8
ROE	18.4	13.8	11.0	12.3	14.6
RoIC	235.7	139.6	88.1	125.0	150.7

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	15.1	12.1	10.1	11.9	15.3
CEPS	16.1	13.0	11.4	13.3	16.8
BVPS	85.1	90.4	93.6	100.0	109.8
DPS	5.5	5.3	5.5	5.5	5.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	5.6	7.0	8.4	7.1	5.6
P/CEPS	5.3	6.5	7.5	6.4	5.1
P/BV	1.0	0.9	0.9	0.8	0.8
EV / Sales	1.8	2.0	2.6	2.2	1.8
EV / EBITDA	3.1	3.9	5.6	4.8	3.7
Dividend Yield (%)	6.5	6.2	6.5	6.5	6.5

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.2)	(0.1)	(0.1)	0.0	(0.1)
Net Debt/EBITDA	(0.7)	(0.4)	(0.4)	(0.3)	(0.3)
Working Cap Cycle (days)	(14.3)	40.5	3.8	1.1	14.1

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4.6	(3.7)	(20.1)	17.3	19.7
EBITDA	19.3	(13.3)	(28.1)	19.0	27.3
EBIT	19.8	(14.1)	(31.3)	20.1	29.0
PAT	21.9	(20.2)	(16.2)	17.7	28.3

Quarterly (Rs mn)	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Revenue	36,433	32,637	22,418	30,064	31,873
EBITDA	20,923	18,668	10,585	15,901	14,877
EBITDA Margin (%)	57.4	57.2	47.2	52.9	46.7
PAT	14,548	11,794	7,017	13,752	11,188
EPS (Rs)	4.6	3.7	2.2	4.3	3.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-19	Sep-19	Dec-19	Feb-20	Mar-20
Promoters	72.3	72.3	72.3	69.7	69.7
FIs	4.8	5.3	6.0	5.8	6.0
DIs	18.0	17.8	17.6	20.7	20.0
Public and Others	4.9	4.7	4.1	3.9	4.4

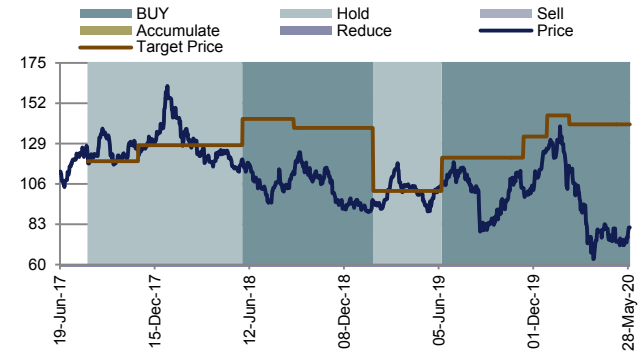
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
07-Feb-20	114	140	12m	Buy	Vishal Chandak
27-Dec-19	126	145	12m	Buy	Vishal Chandak
09-Dec-19	109	133	12m	Buy	Vishal Chandak
12-Nov-19	104	133	12m	Buy	Vishal Chandak
01-Oct-19	96	121	12m	Buy	Vishal Chandak
20-Aug-19	90	121	12m	Buy	Vishal Chandak
14-Aug-19	105	121	12m	Buy	Vishal Chandak
19-Jun-19	108	121	12m	Buy	Vishal Chandak
11-Jun-19	107	121	12m	Buy	Vishal Chandak
01-Feb-19	95	102	12m	Hold	Vishal Chandak
04-Sep-18	113	138	12m	Buy	Goutam Chakraborty
30-May-18	120	143	12m	Buy	Goutam Chakraborty
14-Nov-17	126	128	12m	Hold	Goutam Chakraborty
01-Nov-17	129	119	12m	Hold	Goutam Chakraborty
11-Sep-17	135	119	12m	Hold	Goutam Chakraborty
05-Sep-17	135	119	12m	Hold	Goutam Chakraborty
10-Aug-17	122	119	12m	Hold	Goutam Chakraborty

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Metals & Mining



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Sector

Metals and Mining

Analyst bio

Vishal Chandak is a CA and MBA (Finance). He brings in over 16 years of experience, including seven years in the corporate side, with balance being on both the buy side and sell side. Currently, his team tracks 12 stocks in the Metals and Mining space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Metals & Mining	2.32	2.28	-2%	-4	100.00
Coal India	0.44	0.47	5%	2	20.04
Hindalco	0.41	0.45	10%	4	19.45
Hindustan Zinc	0.07	0.07	2%	0	3.07
Jindal Stainless	0.00	0.00	NA	0	0.00
Jindal Stainless Hisar	0.00	0.00	NA	0	0.00
JSW Steel	0.36	0.36	0%	0	15.60
MOIL	0.00	0.00	NA	0	0.00
National Aluminium Co	0.05	0.00	-100%	-5	0.00
NMDC	0.14	0.14	0%	0	5.88
SAIL	0.06	0.05	-10%	-1	2.21
Tata Steel	0.44	0.37	-15%	-7	16.02
Vedanta	0.36	0.37	5%	2	16.04
Cash	0.00	0.04	NA	4	1.68

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

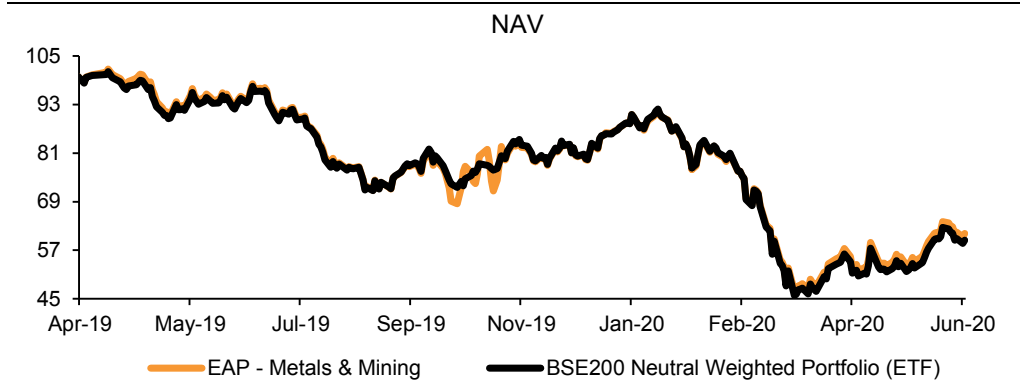
Sector portfolio NAV

	Base					Latest
	1-Apr-19	13-Sep-19	17-Dec-19	17-Mar-20	15-May-20	16-Jun-20
EAP - Metals & Mining	100.0	77.7	84.5	54.0	55.4	61.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	77.9	84.6	53.2	53.8	59.4

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 17 Jun 2020 13:14:22 (SGT)

Dissemination Date: 17 Jun 2020 13:15:22 (SGT)

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