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Q1FY21 result review

Metals

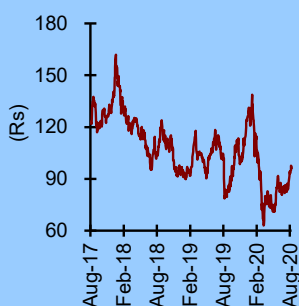
Target price: Rs130

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	69.7	69.7	69.7
Institutional investors	26.5	26.0	25.7
MFs and others	4.4	3.5	3.7
FIs/Banks	2.0	2.0	2.0
Insurance Cos.	14.3	14.5	14.7
FII	5.8	6.0	5.4
Others	3.8	4.3	4.7

Source: NSE

Price chart



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INDIA

NMDC

BUY

Maintained

Demerger of steel plant can allow value unlocking **Rs96**

NMDC Q1FY21 EBITDA/te surprised on the back of better cost control, despite volumes declining 29% YoY to 6.28mnte. NMDC board has accorded in-principle approval to demerge the steel unit in a 'time bound manner'. This can unlock significant value for the minority investors as hardly any value gets attributed to Rs 160bn of WIP in NMDC's balance sheet on account of the steel plant. Series of price hikes (~Rs 700/te post Q1FY21) rebasing expected EBITDA/te, possible resolution of Karnataka mining remain additional tailwinds. Maintain BUY.

Conference call: Friday, 28th August at 15:30 IST; 022-6280-1144, 022-7115-8045

- **Demerger of steel plant can lead to value unlocking.** The in-principle approval by the board of NMDC to demerge the steel plant, i.e creating a separate listed company eventually with a shareholding akin to NMDC will be value accretive to the minority shareholders. If pursued in a time bound manner, this can lead to i) separate avenues of fund raising for the government of India ii) allowing FCF yield and correspondingly the dividend yield of NMDC to increase substantially; we have already see NMDC raising NCDs for completion of the steel project. All incremental capex for the steel plant can be self-funded by the demerged entity and iii) improve return ratios of the mining entity substantially; allow investors a better pureplay mining opportunity. We see execution as the key risk.
- **Substantial price hikes will improve EBITDA profile of NMDC in the coming quarters.** NMDC has announced price hikes of ~ Rs700/te post Q1FY21. Given the current steel spreads, the slow ramp-up of iron ore production in Odisha and elevated iron ore prices globally, we see substantial scope of price increases going forward. Reported Q1FY21 EBITDA/te of Rs1200/te will get rebased to Rs 2200/2300/te over the next three quarters. We feel the same has not been adequately discounted in the share price.
- **Q1FY21 EBITDA/te surprised.** Adjusted for ECL of Rs294mn and Rs 1.5bn paid to PMCARES fund, EBITDA/te was Rs 1485/te against Rs 1237/te expected. The cost surprise can be attributed to the bulged other expense of Q4FY20 which has largely normalised in the current quarter.
- **Covid-19 impact muted what could have been a blockbuster Q1FY21.** NMDC has highlighted Covid impact on operations for Q1FY21. There has been a loss of around 1.823mnte of production and 2.394mnte of sales. This has resulted in a loss in revenue of around Rs7.37bn and PBT of Rs3.17bn.
- **Maintain BUY.** We are yet to witness any closure in demand from Chattisgarh state (~ Rs 16bn of which NMDC paid Rs6bn in protest) or restart of Donimalai mines. With approaching commissioning of the steel plant and the in-principle approval of demerger, as well as series of price hikes underway, NMDC makes a compelling investment case.

Market Cap	Rs294bn/US\$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)	8,605
Absolute Return 3m (%)	28.0
Absolute Return 12m (%)	20.8
Sensex Return 3m (%)	24.6
Sensex Return 12m (%)	5.0

Year to March	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	121,527	116,992	101,259	166,286
Net Income (Rs mn)	46,375	44,442	35,170	39,485
EPS (Rs)	15.1	11.8	11.5	12.9
% Chg YoY	26.0	(22.3)	(2.4)	12.3
P/E (x)	5.7	7.3	7.5	6.7
CEPS (Rs)	16.1	12.7	12.5	16.4
EV/E (x)	3.3	4.1	5.5	4.9
Dividend Yield (%)	6.4	6.2	4.8	5.4
RoCE (%)	31.9	23.0	15.7	16.7
RoE (%)	17.8	16.1	11.7	12.2

Please refer to important disclosures at the end of this report

Table 1: Q1FY21 result review*(Rs mn, year ending March31)*

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Net sales	19,375	32,637	(40.6)	31,873	(39.2)
Increase/Decrease in stock in trade	(566)	(121)	NA	(410)	NA
Consumption of raw materials	52	80	NA	50	NA
Consumption of stores & spares	476	506	(5.9)	734	(35.2)
Employees cost	2,546	2,531	0.6	2,906	(12.4)
Selling expenses incl Freight	1,197	1,901	(37.0)	2,032	(41.1)
Royalty & cess	4,210	5,817	(27.6)	5,841	(27.9)
Other expenditure (Reported)	3,925	3,255	20.6	5,843	(32.8)
Total costs (Reported)	11,841	13,969	(15.2)	16,996	(30.3)
EBITDA (reported)	7,534	18,668	(59.6)	14,877	(49.4)
Margin (%)	38.9	57.2		46.7	
Depreciation	574	648	(11.4)	677	(15.2)
EBIT	6,960	18,021	(61.4)	14,201	(51.0)
Other income	718	1,228	(41.6)	1,336	(46.3)
Finance Cost	93	117	(20.5)	(213)	(143.7)
Exceptional items	-	-		964	NA
PBT	7,585	19,132	(60.4)	14,786	(48.7)
Tax	2,267	7,337	(69.1)	11,312	(80.0)
PAT (Reported)	5,318	11,794	(54.9)	3,473	53.1
PAT (Adjusted)	5,318	11,794	(54.9)	3,700	43.7
Sales volume (mnte)	6.3	8.7	(28.1)	8.6	(27.1)
Realization (Rs/te)	3,062	3,679	(16.8)	3,674	(16.7)
Realization (US\$/te)	40	53	(23.7)	51	(20.5)
EBITDA (Rs/te)	1,200	2,138	(43.9)	1,726	(30.5)

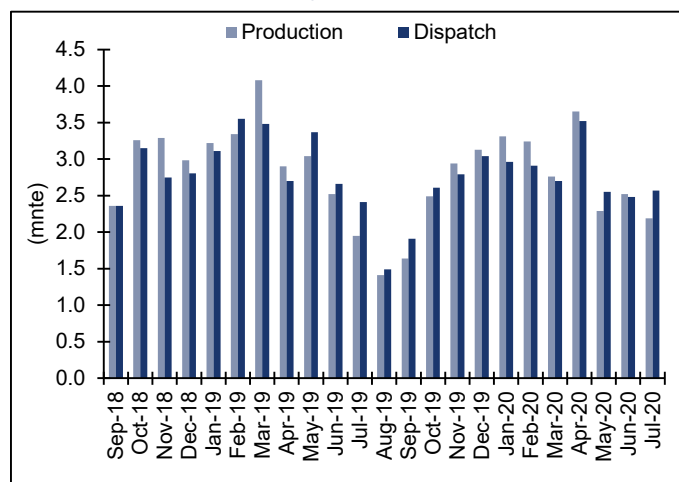
Source: Company data, I-Sec research

Table 2: Q1FY21 segmental result review*(Rs mn, year ending March31)*

	Q1FY21	Q1FY20	% chg YoY	Q4FY20	% chg QoQ
Segment Revenue					
Iron Ore	19,229	32,121	(40.1)	31,667	(39.3)
Other Minerals & Services	146	515	(71.6)	206	(29.2)
Total	19,375	32,636	(40.6)	31,873	(39.2)
Less: Intersegment Revenue		(1)		-	
Net Sales/Income from Operations	19,375	32,637	(40.6)	31,873	(39.2)
Segment Results					
Iron Ore	9,499	19,047	(50.1)	15,991	(40.6)
Other Minerals & Services	(365)	(280)	NM	(1,445)	NM
Total	9,134	18,767	(51.3)	14,546	(37.2)
Less: Interest	93	117	(20.5)	(213)	NM
Add: Unallocable net income	(1,462)	468	NM	22	NM
Total Profit before Tax	7,579	19,117	(60.4)	14,781	(48.7)
Capital Employed					
Iron Ore	56,608	40,098	41.2	56,038	1.0
Other Minerals & Services	5,592	5,972	(6.4)	5,621	(0.5)
Other Reconciliation Items	215,813	220,975	(2.3)	211,182	2.2
Total	278,013	267,045	4.1	272,841	1.9

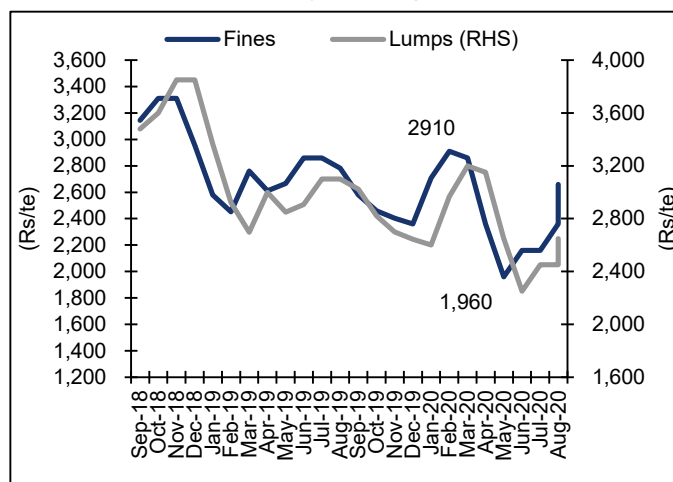
Source: Company data, I-Sec research.

Chart 1: NMDC monthly volumes



Source: Company data, I-Sec research

Chart 2: NMDC monthly pricing – sharp increase



Source: Company data, I-Sec research

Table 3: Pricing and volume reconciliation

(mnte)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Production	6.98	5.26	9.52	10.60	8.40	5.00	8.58	9.47	6.61
Kirandul	2.34	1.05	3.14	4	2.76	1.31	3.43	4.68	2.39
Bacheli	2.53	1.58	3.84	4.79	3.32	1.7	3.43	3.77	2.41
Donimalai + KIOM	2.09	2.63	2.54	1.81	2.35	2	1.62	1.03	1.81
Sales	6.78	6.71	8.7	10.17	8.67	5.82	8.41	8.62	6.28
Kirandul	2.83	1.86	3.03	3.46	3.3	1.93	3.61	3.63	2.66
Bacheli	3.06	1.91	3.25	3.91	3.3	2.06	3.1	3.58	2.10
Donimalai + KIOM	0.88	2.92	2.42	2.8	2.1	1.83	1.71	1.41	1.52
Prices (Rs/te)									
Lumps	3,264	3,448	3,892	3,185	3,253	3,278	2,937	3,359	2,612
Fines	2,670	2,760	3,152	2,632	2,733	2,680	2,392	2,636	1,995
Average	2,884	2,999	3,398	2,827	2,916	2,891	2,578	2,871	2,167

Source: Company data, I-Sec research

Table 4: Key assumptions

	FY19	FY20	FY21E	FY22E
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
Blended Realization (Rs/te)	3,710	3,674	3,596	3,112
EBITDA/te (Rs)	2,140	1,906	1,725	1,725
INR/US\$	69.9	70.9	75.0	75.0

Source: Company data, I-Sec research

Valuations and key risks

We maintain our **BUY** rating on NMDC with a target price of Rs130/share.

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

Table 5: DCF valuation summary for NMDC

<i>(Rs mn, year ending March 31)</i>	FY20	FY21E	FY22E	FY23E	FY24E	FY25E
EBIT	57,070	45,157	50,865	64,512	78,132	81,491
Taxes	23,451	11,366	12,803	16,238	19,666	20,511
NOPAT	33,619	33,791	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	(1,692)	(7,665)	(10,329)	15,184	10,449
FCFF	(4,363)	14,599	11,542	36,742	22,257	45,341
Terminal value						508,214
FCFF + TV	(4,363)	14,599	11,542	36,742	22,257	508,214
EV	323,830	364,138	389,958	421,702	431,769	457,438
Net debt	(24,375)	(7,043)	(16,186)	(40,386)	(59,365)	(86,598)
Equity Value			406,144			
Number of share			3,062			
Per share value			130			

Source: Company data, I-Sec research

Financial summary

Table 6: Profit and loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Income (Sales)	121,527	116,992	101,259	166,286
Operating Expenses	52,283	56,973	52,951	104,843
EBITDA	69,244	60,019	48,308	61,444
% margins	57.0	51.3	47.7	37.0
Depreciation & Amortization	2,790	2,949	3,151	10,579
Gross Interest	403	99	410	380
Other Income	5,890	5,144	2,253	2,281
Recurring PBT	71,940	61,150	47,000	52,766
Add: Extra ordinaries	-	(964)	-	-
Less: Taxes	25,565	25,127	11,830	13,281
Net Income (Reported)	46,375	36,023	35,170	39,485
Recurring Net Income	46,375	44,442	35,170	39,485

Source: Company data, I-Sec research

Table 7: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	81,320	75,724	54,891	84,557
of which cash & cash eqv.	46,194	24,375	7,043	16,186
Total Current Liabilities	38,333	36,133	34,324	62,512
Net Current Assets	42,987	39,591	20,567	22,045
Investments	38,452	39,856	39,856	39,856
Strategic/Group	38,452	39,856	39,856	39,856
Net Fixed Assets	172,374	192,455	234,068	257,950
Capital Work-in-Progress	138,189	155,299	198,189	30,000
Goodwill	939	939	939	939
Total Assets	254,752	272,841	295,430	320,790
Liabilities				
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	296,258	321,618
Net Worth	260,440	276,731	299,320	324,680
Total Liabilities	254,752	272,841	295,430	320,790

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	75,067	64,927	49,009	62,175
WC Changes	(9,028)	(20,872)	1,692	7,665
Capital Commitments	(20,060)	(24,035)	(44,764)	(34,461)
Free Cashflow	25,845	2,368	(3,639)	24,379
Cashflow from Investing Activities				
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(21,321)	(19,525)	(12,581)	(14,124)
Extraordinary Items	-	-	-	-
Chg. in Cash	(10,129)	(17,058)	(17,332)	9,143

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS(Basic Recurring)	15.1	11.8	11.5	12.9
Diluted Recurring EPS	15.1	11.8	11.5	12.9
Recurring Cash EPS	16.1	12.7	12.5	16.4
Dividend per share (DPS)	5.5	5.3	4.1	4.6
Book Value per share (BV)	84.8	90.1	97.4	105.7
Growth Ratios (%)				
Operating Income	4.6	(3.7)	(13.4)	8.1
EBITDA	19.3	(13.3)	(19.5)	8.1
Recurring Net Income	21.9	(22.3)	(2.4)	12.3
Diluted Recurring EPS	26.0	(22.3)	(2.4)	12.3
Diluted Recurring CEPS	25.1	(20.7)	(1.7)	30.6
Valuation Ratios (x)				
P/E	5.7	7.3	7.5	6.7
P/CEPS	5.4	6.8	6.9	5.3
P/BV	1.0	1.0	0.9	0.8
EV / EBITDA	3.3	4.1	5.5	4.9
EV / Operating Income	1.9	2.1	2.6	2.3
EV / Operating FCF	5.6	11.7	6.8	4.5
Operating Ratios (%)				
SG&A/Sales (%)	3.0	6.0	6.9	6.4
Other Income / PBT	8.2	8.4	4.8	4.3
Effective Tax Rate	35.5	41.1	25.2	25.2
NWC / Total Assets	(1.3)	5.6	4.6	1.8
Inventory Turnover (days)	8	8	8	4
Receivables (days)	43	69	69	84
Payables (days)	211	164	164	271
D/E Ratio (x)	-	-	-	-
Profitability Ratios (%)				
Recurring Net Income Margins	38.2	30.8	34.7	36.1
RoCE	31.9	23.0	15.7	16.7
RoNW	17.8	16.1	11.7	12.2
Dividend Payout Ratio	36.4	45.0	35.8	35.8
Dividend Yield	6.4	6.2	4.8	5.4
EBITDA Margins	57.0	51.3	47.7	47.7

Source: Company data, I-Sec research

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