

Additional premium levy to lead to EBITDA margin profile deterioration...

NMDC reported an operationally healthy set of Q1FY21 numbers wherein topline, PAT came in line with our estimate while EBITDA came in higher than our estimate. Total operating income for the quarter was at ₹ 1938 crore, broadly in line with our estimate of ₹ 1988 crore. EBITDA margin for the quarter was at 39.0%, higher than our estimate of 35.4%. Hence, EBITDA for the quarter was at ₹ 755 crore, higher than our estimate of ₹ 704 crore. PAT came in at ₹ 533 crore, broadly in line with our estimate of ₹ 538 crore.

Additional premium imposed for renewal of Donimalai

The Centre and Karnataka government have arrived at an arrangement to restart the Donimalai mines. Under this arrangement, a committee will be formed that will decide how much premium NMDC must pay for renewal of mines. By the time the committee comes out with final recommendation on rate, in the interim, to avoid losses to the state government, an additional premium of 22.5% has been levied on the renewal (cumulative outgo would be 37.5% inclusive the existing royalty rate of 15%). The decision of the final rate that could be levied is expected in the next three months. While NMDC can restart the Donimalai mine by paying the new cumulative rate of 37.5%, the same will lead to an increase in the company's outgo due to the additional premium imposed. Also, whatever rate the committee decides will lead to a change in the MMDR Act. Hence, this development is likely to have an impact on other mines of NMDC.

Receives in-principle approval for demerger of steel plant...

The Board of Directors of NMDC have given an in-principle approval to the proposal to demerge NMDC Iron and Steel Plant (NISP). The proposed new entity will have a mirror shareholding pattern similar to NMDC (the demerger process is likely to take nine to 10 months to be completed). If this demerger step is pursued in a time bound manner, it would enhance the return ratios of the core mining entity, auguring well for the company.

Valuation & Outlook

Going forward, we believe that higher outgo due to the additional premium levied is likely to adversely impact the EBITDA margin profile of NMDC. In the next three months, the final recommendation rate, which the committee decides will lead to a change in the MMDR Act. Hence, this development is also likely to have impact on other mines of NMDC also. Hence, the EBITDA margin profile of NMDC is expected to deteriorate notably. Going forward, we value the stock on an SoTP basis and arrive at a target price of ₹ 100. We maintain our **HOLD** recommendation on the stock.



Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	30001 crore
Total Debt (FY 19) (₹Crore)	₹565 crore
Cash & Cash Eq. (₹Crore)	₹4608 crore
EV (₹Crore)	₹25964 crore
52 week H/L	140 / 62
Equity capital	₹306.2 Crore
Face value	₹1

Key Highlights

- For Q1FY21, NMDC reported iron ore sales volume of 6.3 MT (down 28% YoY, 27% QoQ), broadly in line with our estimate of 6.4 MT. Domestic sales volume came in at 6.0 MT (down 26% YoY, 25% QoQ), while export sales volume came in at 0.3 MT (down 50% YoY 55% QoQ)
- EBITDA/tonne was at ₹ 1203/tonne (₹ 1731/tonne in Q4FY20, ₹ 2153/tonne in Q1FY20) vs. our estimate of ₹ 1100/tonne
- Maintain HOLD rating on stock with revised target price of ₹ 100

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	11,615	12,153	11,699	10,173	14,858
EBITDA	5,809	6,930	6,010	4,789	4,187
EBITDA Margin (%)	50.0	57.0	51.4	47.1	28.2
Adj PAT	3,806	4,643	3,611	3,561	2,771
EPS (₹)	12.0	15.2	11.8	11.6	9.0
EV/EBITDA (x)	4.5	3.9	4.9	5.4	5.9
RoCE (%)	22.3	25.3	20.3	14.3	9.9
RoE (%)	15.6	17.9	13.1	11.3	8.3

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	1,937.5	1,987.9	3,263.7	-40.6	3,187.3	-39.2	Topline came in line with our estimates
Other Income	71.7	100.0	122.9	-41.6	133.6	-46.3	
Total Operating Expense	1,184.1	1,284.0	1,398.2	-15.3	1,699.6	-30.3	
EBITDA	754.9	703.9	1,865.6	-59.6	1,487.7	-49.4	EBITDA came in higher than our estimates on the back of better-than-expected EBITDA margin
EBITDA Margin (%)	39.0	35.4	57.2	-1828 bps	46.7	-779 bps	EBITDA Margins came in higher than our estimates
Depreciation	57.3	70.0	64.9	-11.5	67.7	-15.2	
Interest	9.3	15.0	11.7	-20.5	-21.3	-143.7	
Exceptional Items	0.0	0.0	0.0	0.0	96.4	0.0	
PBT	760.0	718.9	1,911.9	-60.3	1,478.6	-48.7	
Tax Outgo	226.7	180.9	733.7	-69.1	1,131.2	-80.0	
Reported PAT	533.3	538.0	1,178.2	-54.9	347.3	53.1	PAT came in line with our estimate
Key Metrics							
Iron ore sales volume (MT)	6.3	6.4	8.7	-27.6	8.6	-26.7	Sales volume came in line with our estimates

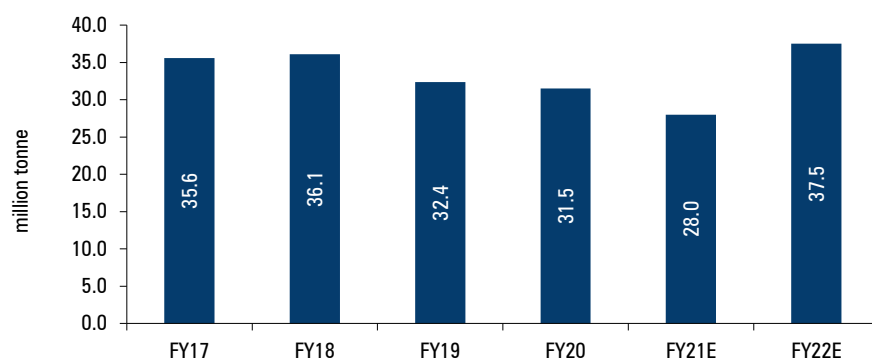
Source: ICICI Direct Research, Company

Conference Call highlights

- The demerger process of the steel plant is likely to take nine to 10 months to be completed. The proposed new entity will have a mirror shareholding pattern similar to NMDC
- The steel plant is likely to get commissioned in FY22. The balance capex for the steel plant is expected to be in the range of ~₹ 3000-4000 crore
- While the actual balance capex for the steel plant is estimated at ₹ 3000 crore, an additional ₹ 1000 crore provision has been made for the various price variation clause. The planned capex of ₹ 4000 crore is inclusive of that provision amount
- The total capex for FY21 is estimated at ₹ 1850 crore, of ~₹ 1400 would be towards the steel plant
- In future, NMDC will be supplying iron ore to the proposed steel plant from the two deposits specifically identified for the steel plant i.e. Deposit 13 and Deposit 4. However, both these mines would continue to remain merchant mines of NMDC. They would continue to be a part of NMDC's operations. The iron ore supplied to the proposed steel plant would be at arm's length pricing
- NMDC's production and sales volume for Q1FY21 was impacted by Covid-19 related shutdowns. On account of this, the company posted a 22% YoY decline in production volume to 6.6 MT, 28% YoY decline in sales volume to 6.3 MT.
- However, on a YoY basis, NMDC did witness an uptick in both production and sales volume in July 2020. For July 2020, NMDC's production volume were at 2.2 MT (up 13% YoY) while sales volumes were at 2.6 MT (up 7% YoY)
- In the coming months, the company expects realisations to inch upwards from current levels
- For FY21, NMDC is targeting sales volumes at levels similar to that which it achieved in FY20

Financial Story in charts

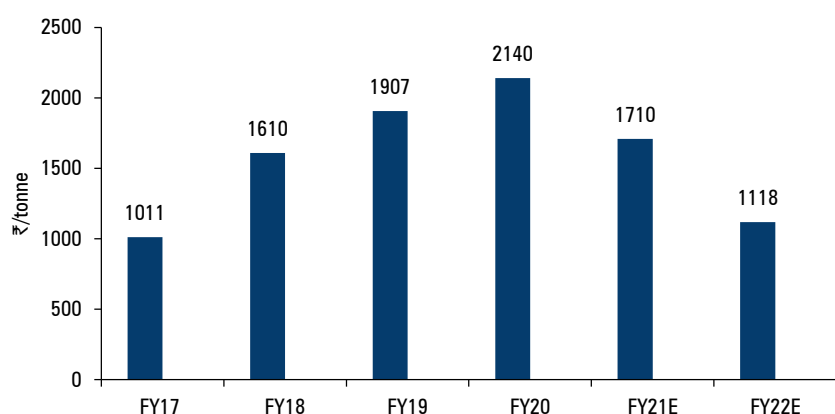
Exhibit 2: Trend in sales volume...



We model sales volumes of ₹ 28 MT for FY21E and 37.5 MT for FY22E. We upward revise FY22 iron ore volumes to 37.5 MT (from 35.0 MT earlier), factoring in the ramp up from Donimalai mines

Source: Company, ICICI Direct Research

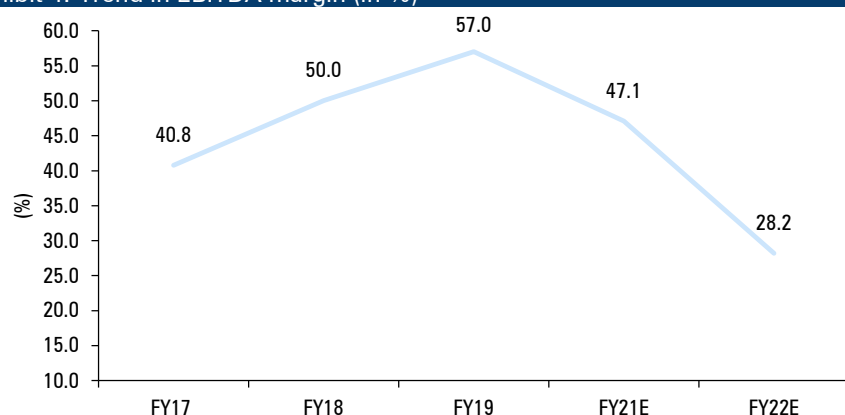
Exhibit 3: Trend in EBITDA/tonne ...



We model EBITDA/tonne of ₹ 1710/tonne for FY21E and ₹ 1118x/tonne for FY22E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in EBITDA margin (in %)



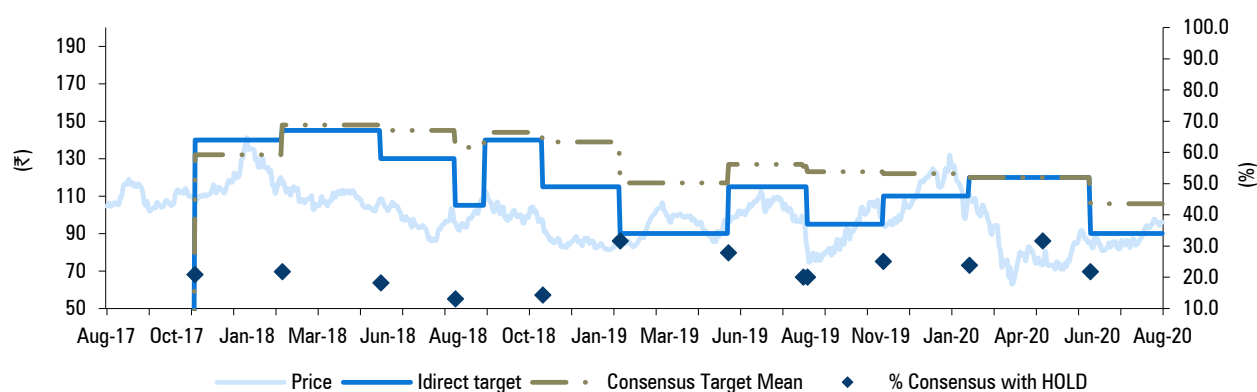
We model EBITDA margin of 47.1% for FY21E and 28.2% for FY22E. The steep decline in EBITDA margin for FY22E is on account of higher premium to be paid on account of the recent development

Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	11,614.9	31.6	12.0	47.0	8.1	4.5	15.6	22.3
FY19	12,152.7	4.6	15.2	26.0	6.5	3.9	17.9	25.3
FY20	11,699.2	-3.7	11.8	-22.2	8.3	4.9	13.1	20.3
FY21E	10172.7	-13.0	11.6	-1.4	8.4	5.4	11.3	14.3
FY22E	14858.4	46.1	9.0	-22.2	10.8	5.9	8.3	9.9

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	GOVERNMENT OF INDIA	30-06-2020	69.7	2135.5	0.0
2	LIFE INSURANCE CORP	30-06-2020	12.9	394.6	0.0
3	RELIANCE CAPITAL TRU	27-08-2020	2.3	69.8	0.3
4	VANGUARD GROUP	31-07-2020	0.8	25.8	-0.9
5	ADITYA BIRLA SUN LIF	31-07-2020	0.7	22.7	4.9
6	ICICI PRUDENTIAL LIF	31-07-2020	0.6	17.9	-1.4
7	ICICI PRUDENTIAL ASS	31-07-2020	0.2	6.1	-2.5
8	KOTAK MAHINDRA ASSET	31-07-2020	0.2	5.2	0.9
9	SEB	31-05-2019	0.2	5.2	-0.9
10	LIC PENSION FUND LTD	30-06-2018	0.2	4.9	0.0

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Feb-20	Mar-20	Jun-20
Promoter	69.65	69.65	69.65
Others	30.35	30.35	30.35
Total	100.00	100.00	100.00

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	12153	11699	10173	14858
Growth (%)	5	-4	-13	46
Raw Material Expenses	238	226	509	743
Employee Expenses	1037	1047	865	1263
Royalty & Cess	2004	2096	1772	5397
Selling & other Expenses	1945	2320	2238	3269
Total Operating Expenditure	5223	5689	5384	10672
EBITDA	6930	6010	4789	4187
Growth (%)	19	-13	-20	-13
Depreciation	279	294	302	880
Interest	40	10	38	35
Other Income	588	514	362	453
PBT	7199	6220	4811	3724
Exceptional Item	0	96	0	0
Total Tax	2557	2513	1250	954
PAT	4643	3611	3561	2771
Growth (%)	22	-22	-1	-22
EPS (₹)	15.2	11.8	11.6	9.0

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	4,643	3,611	3,561	2,771
Add: Depreciation	279	294	302	880
(Inc)/dec in Current Assets	-332	-1,712	-40	-1,459
Inc/(dec) in CL and Provisions	-362	-179	-48	1,781
Others	0	0	0	0
CF from operating activities	4,228	2,015	3,775	3,972
(Inc)/dec in Investments	-153	-46	0	0
(Inc)/dec in Fixed Assets	-1,600	-2,299	-1,860	-1,984
Others	-124	-57	0	0
CF from investing activities	-1,878	-2,403	-1,860	-1,984
Issue/(Buy back) of Equity	-10	0	0	0
Inc/(dec) in loan funds	-136	201	-566	0
Dividend paid & dividend tax	-2,043	-2,221	-2,149	-2,149
Inc/(dec) in Share Cap	-991	193	2,434	1,380
Others	0	0	50	50
CF from financing activities	-3,181	-1,827	-231	-720
Net Cash flow	-830	-2,215	1,685	1,269
Opening Cash	5,438	4,608	2,392	4,077
Closing Cash	4,608	2,392	4,077	5,346

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	306	306	306	306
Reserve and Surplus	25,645	27,228	31,074	33,075
Total Shareholders funds	25,952	27,534	31,380	33,381
Total Debt	364	566	0	0
Deferred Tax Liability	0	0	0	0
Others	787	544	594	644
Total Liabilities	27,103	28,643	31,974	34,025
Assets				
Gross Block	5,310	5,953	6,353	24,619
Less: Acc Depreciation	2,589	2,907	3,208	4,088
Net Block	2,721	3,046	3,145	20,531
Capital WIP	13,792	15,472	16,932	650
Total Fixed Assets	16,513	18,518	20,076	21,180
Investments	939	986	986	986
Inventory	666	724	697	1,018
Debtors	1,425	2,224	2,090	2,646
Loans and Advances	3,783	3,942	4,069	4,086
Other Current Assets	1,266	1,962	2,035	2,600
Cash	4,608	2,392	4,077	5,346
Total Current Assets	11,747	11,243	12,968	15,696
Current Liabilities	203	226	223	326
Provisions	2,477	2,275	2,230	3,908
Current Liabilities & Prov	2,679	2,501	2,453	4,234
Net Current Assets	9,067	8,743	10,515	11,462
Others Assets	583	397	397	397
Application of Funds	27,103	28,643	31,974	34,025

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	15.2	11.8	11.6	9.0
Cash EPS	15.6	12.3	12.2	11.5
BV	84.8	89.9	102.5	109.0
DPS	5.5	5.3	6.0	6.0
Cash Per Share (Incl Invst)	18.1	11.0	16.5	20.7
Operating Ratios (%)				
EBITDA Margin	57.0	51.4	47.1	28.2
PBT / Total Op. income	59.2	53.2	47.3	25.1
PAT Margin	38.2	30.9	35.0	18.6
Inventory days	20	23	25	25
Debtor days	43	69	75	65
Creditor days	6	7	8	8
Return Ratios (%)				
RoE	17.9	13.1	11.3	8.3
RoCE	25.3	20.3	14.3	9.9
RoIC	32.0	23.1	17.1	12.2
Valuation Ratios (x)				
P/E	6.5	8.3	8.4	10.8
EV / EBITDA	3.9	4.9	5.4	5.9
EV / Net Sales	2.2	2.5	2.5	1.7
Market Cap / Sales	2.6	2.7	2.9	2.0
Price to Book Value	1.2	1.1	1.0	0.9
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.4	4.5	5.3	3.7
Quick Ratio	4.1	4.2	5.0	3.5

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	134	150	Hold	83272	27.1	22.2	22.9	5.0	6.1	5.9	2.8	4.4	4.5	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	185	225	Buy	43432	18.2	16.4	29.2	10.6	11.7	6.6	5.6	7.6	5.5	7.8	6.0	8.4	6.9	6.0	9.7
Hind Zinc	227	195	Hold	95767	16.1	12.4	18.8	11.8	15.3	10.1	6.6	8.2	4.8	20.8	20.0	26.0	16.9	14.5	19.0
JSW Steel	269	210	Hold	65059	19.5	3.3	22.2	10.5	61.3	9.2	8.9	11.7	6.5	7.2	4.5	10.6	12.7	2.1	12.5
NMDC	98	100	Hold	30007	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1176	1320	Buy	5252	65.8	49.5	66.0	17.1	22.7	17.0	12.5	16.0	11.4	22.2	14.8	19.8	18.0	12.3	14.4
Graphite Ind.	190	200	Hold	3473	2.0	1.0	21.0	80.8	231.3	8.7	NA	NA	3.2	-2.6	-5.4	6.0	1.0	0.3	8.7
Tata Steel	411	450	Hold	49461	41.4	-20.3	56.7	10.1	NA	7.4	9.1	12.6	5.7	5.0	2.0	8.9	6.4	-3.2	8.0
HEG	856	750	Hold	3004	14.0	4.0	74.0	56.1	192.7	10.5	NA	NA	4.4	1.6	1.4	11.0	1.6	0.5	7.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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