

November 11, 2020

Q2FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	98		98	
Sales (Rs. m)	1,25,305	1,32,756	1,22,060	1,33,240
% Chng.	2.7	(0.4)		
EBITDA (Rs. m)	45,882	45,965	43,806	45,497
% Chng.	4.7	1.0		
EPS (Rs.)	11.1	10.9	10.4	10.5
% Chng.	6.9	3.2		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,16,992	1,09,791	1,25,305	1,32,756
EBITDA (Rs. m)	60,104	52,760	45,882	45,965
Margin (%)	51.4	48.1	36.6	34.6
PAT (Rs. m)	36,109	38,424	32,454	31,876
EPS (Rs.)	11.8	13.1	11.1	10.9
Gr. (%)	(22.2)	11.2	(15.5)	(1.8)
DPS (Rs.)	5.3	5.5	5.0	5.0
Yield (%)	5.8	6.1	5.5	5.5
RoE (%)	13.5	13.8	11.2	10.4
RoCE (%)	21.0	17.4	14.4	13.5
EV/Sales (x)	2.2	2.3	2.2	2.1
EV/EBITDA (x)	4.3	4.9	5.9	6.1
PE (x)	7.7	6.9	8.2	8.3
P/BV (x)	1.0	0.9	0.9	0.8

Key Data

NMDC.BO | NMDC IN

52-W High / Low	Rs.140 / Rs.62
Sensex / Nifty	43,594 / 12,749
Market Cap	Rs.278bn/ \$ 3,736m
Shares Outstanding	3,062m
3M Avg. Daily Value	Rs.1614.38m

Shareholding Pattern (%)

Promoter's	69.65
Foreign	4.45
Domestic Institution	20.44
Public & Others	5.46
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.3	25.3	(12.4)
Relative	3.4	(9.3)	(19.0)

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Premium on lease renewal holds the key

Quick Pointers:

- Waiting for amendment in act for clarity on payment of premium on lease renewal
- Process underway for divestment of steel plant

NMDC reported Q2FY21 EBITDA missed our estimates by 5% while it is 4% above consensus estimates. Miss was largely due to lower than expected realisations, partially offset by lower costs.

Unlike past, NMDC has been forthcoming this time in undertaking price hikes in tandem with strong global prices and shortage in domestic market. However, clarity regarding premium on lease renewal would hold the key for stock. On the back of stable outlook on global iron ore prices and value unlocking with the demerger of steel plant, we maintain Accumulate rating with TP of Rs98 based on 1) EV/EBITDA of 4x FY22e for iron ore operations (factoring 22% premium on entire iron ore operations) and 2) EV/T of US\$475 for steel plant.

- Lower realisations led the marginal miss in earnings:** Volumes rose 14% YoY at 6.6mt (PLe:6.5mt) on the back of 20% growth in Chhattisgarh mines' volumes at 4.8mnt and flat volumes in Karnataka operations. Realisations fell 12%/Rs460/t YoY (↑8%/Rs255 QoQ) at Rs3,320/t (PLe:Rs3,500). Lower realisations were partially offset by lower costs. Cost fell 10% YoY/Rs200 at Rs1,760/t below our estimates of Rs1,835 largely due to lower than expected SG&A expenses. Impacted by lower than expected margins, EBITDA fall short our estimates by 5% at Rs10.3bn (PLe:Rs10.8bn), down 3% YoY (+36% QoQ). PBT came in line with estimate at Rs10.6bn due to sharp fall in depreciation. Aided by lower tax rate, PAT rose 10% YoY at Rs7.7bn (PLe:Rs7.8bn).
- Key earnings call Highlights:** **1)** It would 9-12 months for divestment of plant **2)** Raised Rs5.2bn through NCD to fund capex of steel plant as part of plan to fund the remaining capex of Rs52bn through debt **3)** Spent Rs173.8bn on steel plant till Q2FY21 **4)** Waiting for amendment in the act for clarity on payment of premium on renewal of mine leases **5)** All the allocated minerals are likely to attract premium on prospective basis under the amended act **6)** It would take six months for increase in mining capacity of Kumaraswamy mines from 7mnt to 10mnt

Exhibit 1: Q2FY21 Result Overview (Rs mn)

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	H1FY21	H1FY20	YoY gr. (%)
Net Sales	22,299	22,418	(0.5)	19,375	41,674	55,055	(24.3)
Stores and spares consumed	1,066	1,197	(11.0)	(38)	1,028	1,662	(38.2)
<i>% of Net Sales</i>	<i>4.8</i>	<i>5.3</i>		<i>-0.2</i>	<i>2.5</i>	<i>3.0</i>	
Employee Cost	2,672	2,451	9.0	2,537	5,208	4,982	4.5
<i>% of Net Sales</i>	<i>12.0</i>	<i>10.9</i>		<i>13.1</i>	<i>12.5</i>	<i>9.0</i>	
Selling, general and administrative	1,249	1,150	8.7	1,197	2,447	3,051	(19.8)
<i>% of Net Sales</i>	<i>5.6</i>	<i>5.1</i>		<i>6.2</i>	<i>5.9</i>	<i>5.5</i>	
Royalty and cess	3,801	3,508	8.4	4,210	8,012	9,325	(14.1)
<i>% of Net Sales</i>	<i>17.0</i>	<i>15.6</i>		<i>21.7</i>	<i>19.2</i>	<i>16.9</i>	
Other expenses	3,209	3,510	(8.6)	3,920	7,129	6,765	5.4
<i>% of Net Sales</i>	<i>14.4</i>	<i>15.7</i>		<i>20.2</i>	<i>17.1</i>	<i>12.3</i>	
Total Expenditure	11,997	11,816	1.5	11,826	23,823	25,785	(7.6)
EBITDA	10,302	10,602	(2.8)	7,549	17,851	29,270	(39.0)
<i>Margin (%)</i>	<i>46.2</i>	<i>47.3</i>		<i>39.0</i>	<i>42.8</i>	<i>53.2</i>	
Depreciation	534	976	(45.3)	573	1,107	1,623	(31.8)
Other income	884	1,275	(30.7)	717	1,601	2,504	(36.1)
EBIT	10,651	10,902	(2.3)	7,693	18,344	30,151	(39.2)
Interest	17	97	(82.3)	93	110	215	
PBT	10,634	10,805	(1.6)	7,600	18,234	29,936	(39.1)
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	10,634	10,805	(1.6)	7,600	18,234	29,936	(39.1)
Tax	2,892	3,771	(23.3)	2,267	5,159	11,108	(53.6)
<i>% PBT</i>	<i>27.2</i>	<i>34.9</i>		<i>29.8</i>	<i>28.3</i>	<i>37.1</i>	
Reported PAT	7,742	7,034	10.1	5,333	13,075	18,828	(30.6)
Adjusted PAT	7,742	7,034	10.1	5,333	13,075	18,828	(30.6)

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY20	H1FY21	H1FY20	YoY gr. (%)
Iron ore production (mn tonnes)	5.6	5.0	12.6	6.6	12.2	13.4	(8.9)
Iron ore sales volumes (mn tonnes)	6.6	5.8	13.5	6.3	12.9	14.5	(11.1)
Realisation (Rs/t)	3,320	3,780	(12.2)	3,064	3,195	3,735	(14.4)
EBITDA (Rs/t)	1,560	1,823	(14.4)	1,203	1,386	2,021	(31.4)
Cost (Rs/t)	1,760	1,957	-10.1	1,861	1,809	1,714	5.5

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,16,992	1,09,791	1,25,305	1,32,756
YoY gr. (%)	(3.7)	(6.2)	14.1	5.9
Cost of Goods Sold	2,258	2,808	3,643	3,937
Gross Profit	1,14,734	1,06,983	1,21,662	1,28,819
Margin (%)	98.1	97.4	97.1	97.0
Employee Cost	10,468	10,885	11,419	11,969
Other Expenses	37,138	36,560	56,449	62,297
EBITDA	60,104	52,760	45,882	45,965
YoY gr. (%)	(13.3)	(12.2)	(13.0)	0.2
Margin (%)	51.4	48.1	36.6	34.6
Depreciation and Amortization	2,944	3,298	3,448	3,598
EBIT	57,160	49,461	42,434	42,368
Margin (%)	48.9	45.1	33.9	31.9
Net Interest	99	439	501	531
Other Income	5,138	3,758	2,647	1,950
Profit Before Tax	61,235	52,780	44,580	43,786
Margin (%)	52.3	48.1	35.6	33.0
Total Tax	25,126	14,356	12,126	11,910
Effective tax rate (%)	41.0	27.2	27.2	27.2
Profit after tax	36,109	38,424	32,454	31,876
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	36,109	38,424	32,454	31,876
YoY gr. (%)	(22.2)	6.4	(15.5)	(1.8)
Margin (%)	30.9	35.0	25.9	24.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	36,109	38,424	32,454	31,876
YoY gr. (%)	(22.2)	6.4	(15.5)	(1.8)
Margin (%)	30.9	35.0	25.9	24.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,109	38,424	32,454	31,876
Equity Shares O/s (m)	3,062	2,931	2,931	2,931
EPS (Rs)	11.8	13.1	11.1	10.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	50,796	46,844	48,894	50,944
Tangibles	50,796	46,844	48,894	50,944
Intangibles	-	-	-	-
Acc: Dep / Amortization	12,701	17,925	21,373	24,971
Tangibles	12,701	17,925	21,373	24,971
Intangibles	-	-	-	-
Net fixed assets	38,095	28,919	27,521	25,974
Tangibles	38,095	28,919	27,521	25,974
Intangibles	-	-	-	-
Capital Work In Progress	1,55,299	1,84,218	2,16,310	2,44,178
Goodwill	-	-	-	-
Non-Current Investments	11,345	18,569	18,621	18,672
Net Deferred tax assets	3,971	2,915	2,023	1,148
Other Non-Current Assets	30,755	27,126	27,726	28,326
Current Assets				
Investments	-	-	-	-
Inventories	7,235	6,904	7,865	8,352
Trade receivables	22,237	14,137	16,135	17,095
Cash & Bank Balance	24,375	14,916	1,601	(7,541)
Other Current Assets	15,973	15,906	15,906	15,906
Total Assets	3,12,944	3,17,356	3,37,484	3,55,914
Equity				
Equity Share Capital	3,062	2,931	2,931	2,931
Other Equity	2,73,749	2,77,723	2,95,524	3,12,747
Total Networkth	2,76,811	2,80,654	2,98,455	3,15,678
Non-Current Liabilities				
Long Term borrowings	5,714	5,656	5,656	5,656
Provisions	8,280	8,829	9,429	10,029
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,259	2,188	3,046	3,329
Other current liabilities	19,881	20,030	20,899	21,222
Total Equity & Liabilities	3,12,944	3,17,356	3,37,484	3,55,914

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	61,140	52,780	44,580	43,786
Add. Depreciation	2,949	3,298	3,448	3,598
Add. Interest	99	(2,702)	(1,559)	(829)
Less Financial Other Income	5,138	3,758	2,647	1,950
Add. Other	739	1,848	2,397	2,972
Op. profit before WC changes	64,927	55,225	48,865	49,526
Net Changes-WC	(20,872)	6,561	(3,710)	(3,893)
Direct tax	(22,796)	(13,301)	(11,234)	(11,034)
Net cash from Op. activities	21,260	48,485	33,921	34,599
Capital expenditures	(24,035)	(27,085)	(34,142)	(29,918)
Interest / Dividend Income	4,065	2,702	1,559	829
Others	16,843	-	-	-
Net Cash from Inv. activities	(3,128)	(24,383)	(32,583)	(29,088)
Issue of share cap. / premium	-	(13,781)	-	-
Debt changes	2,091	-	-	-
Dividend paid	(19,525)	(19,329)	(14,653)	(14,653)
Interest paid	(99)	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(17,533)	(33,110)	(14,653)	(14,653)
Net change in cash	599	(9,008)	(13,314)	(9,143)
Free Cash Flow	(2,775)	21,400	(221)	4,681

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	30,064	31,873	19,375	22,299
YoY gr. (%)	(17.6)	(12.5)	(40.6)	(0.5)
Raw Material Expenses	221	375	(38)	1,066
Gross Profit	29,842	31,499	19,413	21,233
Margin (%)	99.3	98.8	100.2	95.2
EBITDA	15,914	14,919	7,549	10,302
YoY gr. (%)	(26.1)	(22.6)	(59.6)	(2.8)
Margin (%)	52.9	46.8	39.0	46.2
Depreciation / Depletion	646	675	573	534
EBIT	15,269	14,245	6,976	9,768
Margin (%)	50.8	44.7	36.0	43.8
Net Interest	98	(213)	93	17
Other Income	1,302	1,333	717	884
Profit before Tax	16,473	14,826	7,600	10,634
Margin (%)	54.8	46.5	39.2	47.7
Total Tax	2,707	11,311	2,267	2,892
Effective tax rate (%)	16.4	76.3	29.8	27.2
Profit after Tax	13,766	3,515	5,333	7,742
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	13,766	11,959	5,333	7,742
YoY gr. (%)	(12.7)	(11.1)	(54.8)	10.1
Margin (%)	45.8	37.5	27.5	34.7
Extra Ord. Income / (Exp)	-	(229)	-	-
Reported PAT	13,766	3,515	5,333	7,742
YoY gr. (%)	(12.7)	(75.8)	(54.8)	10.1
Margin (%)	45.8	11.0	27.5	34.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,766	3,515	5,333	7,742
Avg. Shares O/s (m)	3,164	3,164	3,164	3,164
EPS (Rs)	4.4	3.8	1.7	2.4

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.8	13.1	11.1	10.9
CEPS	12.8	14.2	12.3	12.1
BVPS	90.4	95.8	101.8	107.7
FCF	(0.9)	7.3	(0.1)	1.6
DPS	5.3	5.5	5.0	5.0
Return Ratio(%)				
RoCE	21.0	17.4	14.4	13.5
ROIC	13.6	13.4	10.5	9.6
RoE	13.5	13.8	11.2	10.4
Balance Sheet				
Net Debt : Equity (x)	(0.1)	0.0	0.0	0.0
Net Working Capital (Days)	85	63	61	61
Valuation(x)				
PER	7.7	6.9	8.2	8.3
P/B	1.0	0.9	0.9	0.8
P/CEPS	7.1	6.4	7.4	7.5
EV/EBITDA	4.3	4.9	5.9	6.1
EV/Sales	2.2	2.3	2.2	2.1
Dividend Yield (%)	5.8	6.1	5.5	5.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total Volume (mt)	32	30	38	40
Realization/t (Rs.)	3,672	3,583	3,216	3,221
EBITDA/t (Rs)	1,907	1,759	1,207	1,149

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-20	Accumulate	98	83
2	31-Aug-20	Accumulate	125	108
3	10-Jul-20	Accumulate	87	86
4	02-Jun-20	Accumulate	98	85
5	20-Apr-20	Hold	90	80
6	07-Feb-20	Reduce	105	116
7	03-Jan-20	Reduce	105	129

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,805	1,563
2	Ambuja Cement	BUY	285	254
3	Coal India	Hold	132	113
4	Heidelberg Cement India	Hold	195	185
5	Hindalco Industries	BUY	230	192
6	Hindustan Zinc	Hold	235	223
7	Jindal Steel & Power	BUY	260	191
8	JK Lakshmi Cement	BUY	370	285
9	JSW Steel	Reduce	223	321
10	NMDC	Accumulate	98	83
11	Shree Cement	Reduce	19,100	20,297
12	Steel Authority of India	Reduce	30	34
13	Tata Steel	Reduce	315	374
14	The Ramco Cements	Reduce	675	802
15	Ultratech Cement	BUY	5,400	4,629

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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