NMDC (NATMIN)

ICICI direct Research

CMP: ₹ 178 | Target: ₹ 210 (18%) | Target Period: 12 months | BUY

June 28, 2021

Performs well…

NMDC reported an operationally healthy set of numbers for Q4FY21 wherein topline and EBITDA came in higher than our estimate. For Q4FY21, NMDC reported sales volume of 11.1 MT, up 29% YoY, 19% QoQ (our estimate 11.1 MT). For Q4FY21, NMDC reported topline of ₹ 6848 crore (up 115% YoY, 57% QoQ), higher than our estimate of ₹ 6133 crore. Better-than-expected realisation aided Q4FY21. NMDC's blended realisation for Q4FY21 was at ₹ 6138/tonne, up 67% YoY, 32% QoQ, higher than our estimate of ₹ 5500/tonne. EBITDA for the quarter was at ₹ 4242 crore (up 184% YoY, 53% QoQ), higher than our estimate of ₹ 3996 crore. For Q4FY21, EBITDA/tonne was at ₹ 3847/tonne, up 110% YoY, 27% QoQ, higher than our estimate of ₹ 3600/tonne. Ensuing PAT for Q4FY21 was at ₹ 2836 crore, up 35% QoQ (our estimate of ₹ 3031 crore).

Model sales volume of 40 MT for FY22E, 42 MT for FY23E…

For Q4FY21, NMDC reported production volume of 12.3 MT (up 30% YoY, 28% QoQ) while sales volume for Q4FY21 was at 11.1 MT (up 29% YoY, 19% QoQ). For FY21, NMDC reported production volume of 34.2 MT (up 8% YoY) while sales volume for FY21 was at 33.3 MT (up 6% YoY). After a muted Q1FY21 due to Covid-19 related concerns, NMDC posted a smart volume recovery in the last three quarters. Going forward, the company is aiming to clock production volume of 44 MT for FY22E wherein Donimalai mine is expected to contribute ~7 MT. FY22 sales volume guidance is 42 MT. Going forward, we model sales volume of 40 MT for FY22E (upward revised from 38 MT earlier) and 42 MT for FY23E (upward revised from 40 MT earlier). In the first couple of months of FY22 (April-May 2021), NMDC reported production volume of 5.9 MT while sales volume was at 6.4 MT.

De-merger of steel plant expected in Q3FY22…

NMDC is targeting commissioning of the Nagarnar steel plant during Q3FY22. The demerger of the steel plant is also targeted at Q3FY22. The progress on both would be a key monitorable, going forward. The demerger of the steel plant would enhance the return ratios of the core mining entity, auguring well for the company. Of the total project cost of ₹ 21300 crore for the steel plant, till date NMDC has incurred a capex of ₹ 18560 crore.

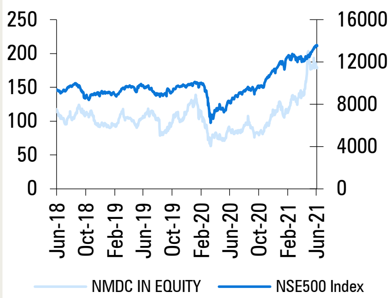
Valuation & Outlook

Over the next couple of years, uptick in volumes augurs well for NMDC. Furthermore, blended realisations of NMDC are also likely to improve further during Q1FY22 on the back of price hikes of ₹ 2250/tonne for fines and ₹ 2300/tonne for lumps taken by the company during April-May 2021. These price hikes would offset the additional royalty premium. On the back of volume growth coupled with healthy pricing environment, we have a positive view on NMDC. We value the stock on an SoTP basis and arrive at a target price of ₹ 210 (earlier ₹ 125). We upgrade the stock from HOLD to **BUY** recommendation.

Particulars

Particular	Amount
Market Capitalization	₹ 52077 crore
Total Debt (FY20)	₹ 1995 crore
Cash and Investments (FY20)	₹ 5806 crore
EV	₹ 48266 crore
52 week H/L	213 / 76
Equity capital	₹ 293.1 crore
Face value	₹ 1

Price Performance



Key risks to the call

- Lower than expected sales volume
- Any steep correction in iron ore prices

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E	CAGR (in %)
Net Sales	11,615	12,153	11,699	15,370	22,428	18,229	8.9
EBITDA	5,809	6,930	6,010	8,796	10,156	8,088	-4.1
EBITDA Margin (%)	50.0	57.0	51.4	57.2	45.3	44.4	-11.9
Adj PAT	3,806	4,643	3,611	6,253	7,230	5,700	
EPS (₹)	12.0	15.2	11.8	21.3	24.7	19.5	
EV/EBITDA (x)	8.9	7.6	9.1	5.5	4.6	5.3	
RoCE (%)	22.3	25.3	20.3	27.0	24.9	17.2	
RoE (%)	15.6	17.9	13.1	21.0	20.5	14.6	

Source: Company, ICICI Direct Research

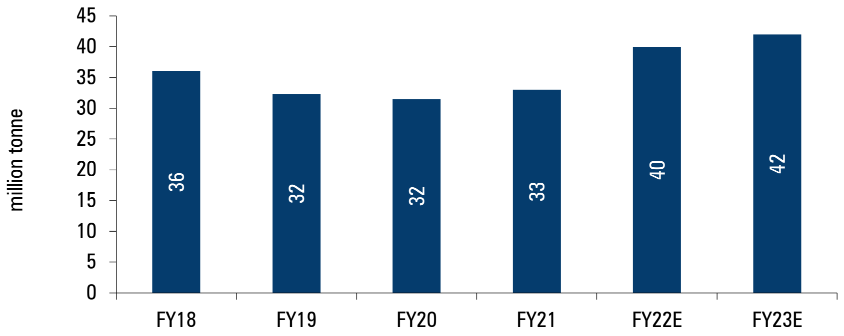
Exhibit 1: Variance analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	6,848	6,133	3,187	115%	4,355	57%	Topline came in higher than our estimates
Other Income	85	125	134	-36%	106	-20%	
Total Operating Expense	2,607	2,137	1,700	53%	1,588	64%	
EBITDA	**4,240**	**3,996**	**1,488**	**185%**	**2,767**	**53%**	EBITDA came in higher than our estimates
EBITDA Margin (%)	61.9	65.2	46.7	1525 bps	63.5	-161 bps	EBITDA margin came in higher than our estimates
Depreciation	57	65	68	-16%	61	-6%	
Interest	4	5	-21	-119%	2	152%	
Exceptional Items	0	0	96	-	0		
PBT	**4,264**	**4,051**	**1,479**	**188%**	**2,810**	**52%**	
Tax Outgo	1,431	1,020	1,131	26%	702	104%	NMDC reported effective tax rate of 34%, higher than our estimate of 25% (Q3FY21 effective tax rate was at 25%). In Q4FY21, total tax expense included earlier year tax of ₹ 343 crore
Reported PAT	**2,834**	**3,031**	**347**	**716%**	**2,108**	**34%**	PAT came in lower than our estimate on the back of higher-than-expected effective tax rate
Key Metrics							
Iron ore sales volume (MT)	11.1	11.1	8.6	29%	9.3	19%	Sales volume came in line with our estimates
Realisation per tonne	6,138	5,500	3,674	67%	4,644	32%	Realisations came in higher than our estimate
EBITDA/tonne	3,847	3,600	1,832	110%	3,028	27%	EBITDA/tonne came in higher than our estimate

Source: ICICI Direct Research, Company

Financial Story in charts

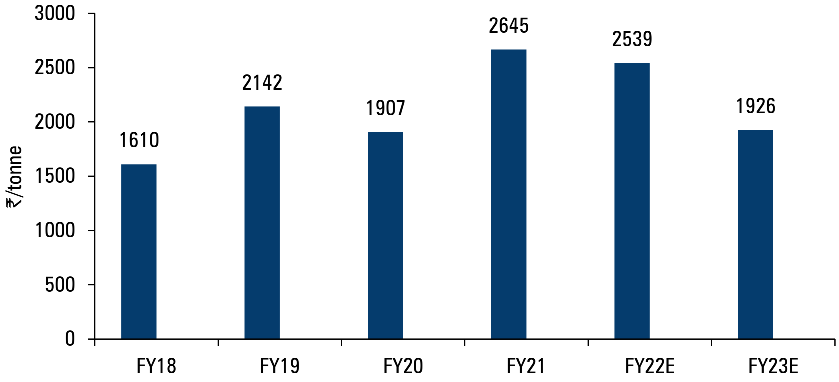
Exhibit 2: Trend in Sales Volume



Source: Company, ICICI Direct Research

We assume sales volumes of 40 MT for FY22E and 42 MT for FY23E

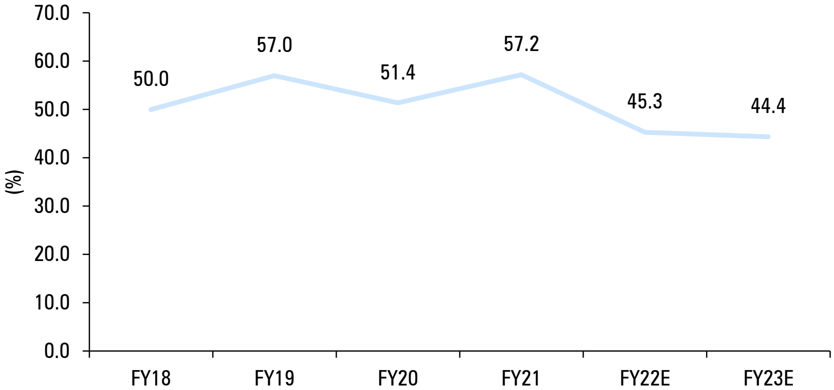
Exhibit 3: Trend in EBITDA/tonne margins level



Source: Company, ICICI Direct Research

We model EBITDA/tonne of ₹ 2539/tonne for FY22E and ₹ 1926/tonne for FY23E

Exhibit 4: Trend in EBITDA margin (in %)



Source: Company, ICICI Direct Research

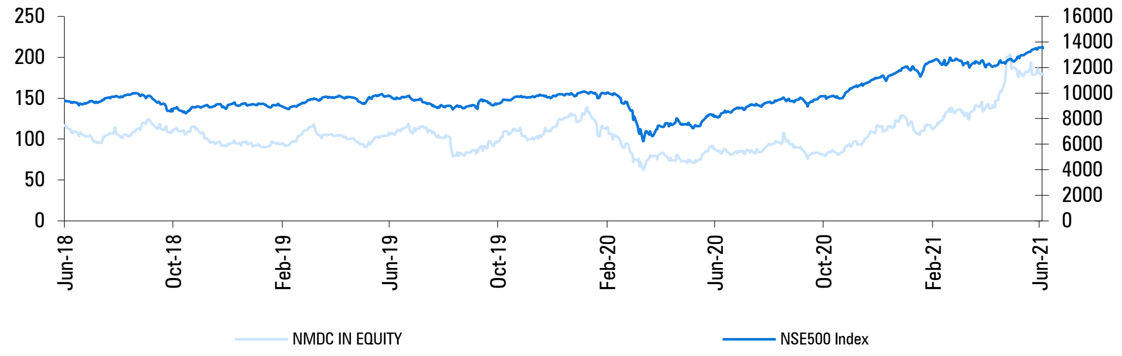
Over the next couple of years, we expect EBITDA margin to hover at ~44-45% range

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	14.9	8.9	15.6	22.3
FY19	12,152.7	4.6	15.2	26.0	11.8	7.6	17.9	25.3
FY20	11,699.2	-3.7	11.8	-22.2	15.2	9.1	13.1	20.3
FY21	15370.1	31.4	21.3	80.9	8.4	5.5	21.0	27.0
FY22E	22427.6	45.9	24.7	15.6	7.3	4.6	20.5	24.9
FY23E	18228.9	-18.7	19.5	-21.2	9.2	5.3	14.6	17.2

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Sep-20	Jan-21	Mar-21
Promoter	69.65	68.29	68.29
Others	30.35	31.71	31.71
Total	100.00	100.00	100.00

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	**11699**	**15370**	**22428**	**18229**
Growth (%)	-4	31	46	-19
Total Operating Expenditure	5689	6574	12271	10141
EBITDA	**6010**	**8796**	**10156**	**8088**
Growth (%)	-13	46	15	-20
Depreciation	294	228	892	1012
Interest	10	17	70	134
Other Income	514	350	480	636
PBT	**6220**	**8901**	**9674**	**7578**
Exceptional Item	96	0	0	0
Total Tax	2513	2648	2444	1878
PAT	**3611**	**6253**	**7230**	**5700**
Growth (%)	-22	73	16	-21
EPS (₹)	**11.8**	**21.3**	**24.7**	**19.5**

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	3,611	6,253	7,230	5,700
Add: Depreciation	294	228	892	1,012
(Inc)/dec in Current Assets	-1,712	168	-1,252	616
Inc/(dec) in CL and Provisions	-179	683	503	-191
Others	0	0	0	0
CF from operating activities	**2,015**	**7,331**	**7,373**	**7,137**
(Inc)/dec in Investments	-46	1	0	0
(Inc)/dec in Fixed Assets	-2,299	-1,956	-3,700	-2,000
Others	-57	640	50	50
CF from investing activities	**-2,403**	**-1,316**	**-3,650**	**-1,950**
Issue/(Buy back) of Equity	0	-13	0	0
Inc/(dec) in loan funds	201	1,429	0	0
Dividend paid & dividend tax	-1,952	-2,274	-1,758	-1,758
Inc/(dec) in Share Cap	-76	-1,743	0	0
Others	0	0	0	0
CF from financing activities	**-1,827**	**-2,602**	**-1,758**	**-1,758**
Net Cash flow	-2,215	3,414	1,964	3,429
Opening Cash	4,608	2,392	5,806	7,770
Closing Cash	**2,392**	**5,806**	**7,770**	**11,199**

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	306	293	293	293
Reserve and Surplus	27,228	29,463	34,934	38,876
Total Shareholders funds	27,534	29,756	35,227	39,169
Total Debt	566	1,994	1,994	1,994
Deferred Tax Liability	0	0	0	0
Others	544	1,851	1,901	1,951
Total Liabilities	**28,643**	**33,601**	**39,123**	**43,115**
Assets				
Net Block	3,046	3,170	20,055	21,043
Capital WIP	15,472	17,077	3,000	3,000
Total Fixed Assets	18,518	20,247	23,054	24,042
Investments	986	985	985	985
Inventory	724	922	1,352	1,099
Debtors	2,224	2,140	3,072	2,497
Loans and Advances	4,369	4,597	4,486	4,557
Other Current Assets	1,535	1,681	1,682	1,823
Cash	2,392	5,806	7,770	11,199
Total Current Assets	11,243	15,145	18,362	21,175
Current Liabilities	226	360	614	499
Provisions	2,275	2,823	3,072	2,997
Current Liabilities & Prov	2,501	3,183	3,687	3,496
Net Current Assets	8,743	11,962	14,675	17,679
Others Assets	397	408	408	408
Application of Funds	**28,643**	**33,601**	**39,123**	**43,115**

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	11.8	21.3	24.7	19.5
Cash EPS	12.3	20.5	25.7	21.2
BV	89.9	101.5	120.2	133.7
DPS	5.3	7.8	6.0	6.0
Cash Per Share (Incl Invst)	6.0	13.0	19.7	31.4
Operating Ratios (%)				
EBITDA Margin	51.4	57.2	45.3	44.4
PBT / Total Op. income	53.2	57.9	43.1	41.6
PAT Margin	30.9	40.7	32.2	31.3
Inventory days	23	22	22	22
Debtor days	69	51	50	50
Creditor days	7	9	10	10
Return Ratios (%)				
RoE	13.1	21.0	20.5	14.6
RoCE	20.3	27.0	24.9	17.2
RoIC	23.1	34.3	32.5	24.4
Valuation Ratios (x)				
P/E	15.1	8.3	7.2	9.2
EV / EBITDA	9.1	5.5	4.6	5.3
EV / Net Sales	4.7	3.1	2.1	2.4
Market Cap / Sales	4.8	3.4	2.3	2.9
Price to Book Value	2.0	1.8	1.5	1.3
Solvency Ratios				
Debt/EBITDA	0.1	0.2	0.2	0.2
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	4.5	4.8	5.0	6.1
Quick Ratio	4.2	4.5	4.6	5.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP		M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	149	165	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	376	475	Buy	83764	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	340	340	Hold	139098	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	690	800	Buy	162896	32.9	76.0	70.2	20.6	8.9	9.7	10.7	6.5	6.7	13.8	21.4	17.6	17.0	28.3	20.8
NMDC	178	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2040	2400	Buy	9532	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	626	825	Buy	11790	3.0	55.0	84.0	224.0	12.6	8.2	NA	9.1	4.6	-5.4	19.0	25.2	1.3	19.3	23.4
Tata Steel	1165	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	131	130	Buy	51047	9.0	15.0	17.0	10.7	6.6	6.0	6.0	5.2	4.6	11.2	12.2	12.3	9.3	12.7	12.5
Jindal Stainless	107	125	Buy	4706	8.6	9.4	10.2	11.0	10.1	9.3	5.4	5.4	5.5	16.0	14.2	12.7	13.0	12.5	11.9
Jindal Stainless Hisar	200	244	Buy	4249	29.0	27.0	32.0	6.3	6.8	5.7	5.2	5.1	4.1	18.6	15.8	16.9	23.2	17.4	16.8
Vedanta	262	300	Hold	93673	33.0	37.9	41.0	8.4	7.4	6.8	5.3	4.0	3.5	17.3	22.5	23.6	19.7	19.9	18.9
HEG	2207	2800	Buy	7985	-7.0	215.0	320.0	NA	11.1	7.4	NA	8.2	5.4	-0.5	27.1	34.3	-0.7	21.1	26.1

Source: ICICI Direct Research, Company

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Pankaj Pandey **Head – Research** **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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