

NMDC (NMDC IN)

Rating: ACCUMULATE | CMP: Rs145 | TP: Rs170

November 12, 2021

Q2FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	170		175	
Sales (Rs. m)	184,198	198,853	184,198	198,853
% Chng.	-	-	-	-
EBITDA (Rs. m)	74,337	79,180	77,148	79,180
% Chng.	(3.6)	-	-	-
EPS (Rs.)	20.0	21.3	20.7	21.4
% Chng.	(3.5)	(0.1)	-	-

Key Financials - Standalone

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	153,701	251,967	184,198	198,853
EBITDA (Rs. m)	87,959	120,987	74,337	79,180
Margin (%)	57.2	48.0	40.4	39.8
PAT (Rs. m)	65,959	92,963	58,551	62,562
EPS (Rs.)	22.5	31.7	20.0	21.3
Gr. (%)	90.8	40.9	(37.0)	6.8
DPS (Rs.)	7.8	14.3	9.0	9.6
Yield (%)	5.4	9.9	6.2	6.6
RoE (%)	23.0	28.8	16.1	15.7
RoCE (%)	28.6	34.5	18.6	18.3
EV/Sales (x)	2.5	1.5	2.0	1.8
EV/EBITDA (x)	4.4	3.1	4.9	4.5
PE (x)	6.4	4.6	7.2	6.8
P/BV (x)	1.4	1.2	1.1	1.0

Key Data

NMDC.BO | NMDC IN

52-W High / Low	Rs.213 / Rs.88
Sensex / Nifty	59,920 / 17,874
Market Cap	Rs.424bn / \$ 5,689m
Shares Outstanding	2,931m
3M Avg. Daily Value	Rs.4242.7m

Shareholding Pattern (%)

Promoter's	60.79
Foreign	6.83
Domestic Institution	21.85
Public & Others	10.53
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(5.5)	(26.6)	59.4
Relative	(5.1)	(39.7)	16.0

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Higher costs led the miss

Quick Pointers:

- Waiting for SEBI's nod for demerger of Nagarnar steel plant. Post SEBI's approval, it will take a quarter's time to secure MCA and exchange's approval.
- Looking to complete the demerger and listing of steel plant by Q4FY22

NMDC reported Q2FY22 EBITDA below our estimates by 6% while above consensus estimates by 9%. Miss was largely due to higher than expected costs.

Global iron ore prices witnessed steep decline of ~50% in last six months due to steel output cuts in China. We believe that domestic iron ore prices would decline by 10-15% due to weakness in global iron ore prices and contraction in steel mill's margins with sharp increase in coking coal cost. However, domestic iron ore supplies would remain uncertain due to surrender of auctioned mines and low visibility on production by state PSUs in Odisha. In spite of weakness in global iron ore prices, we maintain our Accumulate rating on back of attractive valuations, constrained domestic supplies and value unlocking on demerger of steel plant. We retain our TP of Rs170 based on 1) EV/EBITDA of 4.5x FY23e for iron ore operations and 2) EV/T of US\$600 for 3mtpa steel plant.

- Higher than expected costs partially offsets increase in realisations:** Volumes fell 5% QoQ at 9.0mnt (PLe:9.0mnt). Realisations increased 9% QoQ/Rs620 (124% YoY/Rs4,125/t) at Rs7,445/t (PLe:Rs7,400). Cost increased sharply by 66% QoQ (+126% YoY) to Rs3,975 as impact of additional 22.5% royalty got fully reflected in the quarter (Q1 carried only 50% of the impact). Costs missed our estimates of Rs3,735 due to steeper than expected increase in royalty and other expenses. Hence, EBITDA fell 25% QoQ at Rs31.1bn (PLe:Rs33.1bn). PAT declined 27% QoQ at Rs23.4bn (PLe:Rs25.5bn).
- Key takeaways from earnings call:** 1) Volume guidance for FY22e at 44mnt (33.3mnt in FY21) 2) Current domestic prices are at discount of 15-20% to import parity prices at East coast 3) Expect domestic prices to hover with 10-15% discount to parity prices 4) Awarded orders worth Rs15bn on 12.5mnt screening plant in Chhattisgarh out of total project cost of Rs21.5bn 5) Awarded orders of Rs15bn on slurry pipeline out of total project cost of Rs30bn 6) Slurry pipeline will be commissioned by end of FY24 7) Capex guidance for FY22e at Rs37.2bn including Rs21.5bn capex towards steel plant and rest on slurry pipeline and beneficiation plant in Chhattisgarh 8) Spent Rs190bn (out of Rs219bn) on steel Plant till Q2FY22 9) Hopeful of commissioning steel plant by Q4FY22 10) Rs26bn of dues pending from monitoring committee in Karnataka; waiting for Supreme Court to hear the matter

Exhibit 1: Q2FY22 Result Overview (Rs mn)

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Net Sales	67,935	22,299	204.7	65,122	1,33,057	41,674	219.3
Stores and spares consumed	386	1,066	(63.8)	(4,418)	(4,032)	1,028	(492.3)
<i>% of Net Sales</i>	<i>0.6</i>	<i>4.8</i>		<i>-6.8</i>	<i>-3.0</i>	<i>2.5</i>	
Employee Cost	2,894	2,672	8.3	2,681	5,576	5,208	7.1
<i>% of Net Sales</i>	<i>4.3</i>	<i>12.0</i>		<i>4.1</i>	<i>4.2</i>	<i>12.5</i>	
Selling, general and administrative	520	1,249	(58.4)	500	1,020	2,447	(58.3)
<i>% of Net Sales</i>	<i>0.8</i>	<i>5.6</i>		<i>0.8</i>	<i>0.8</i>	<i>5.9</i>	
Royalty and cess	27,608	3,801	626.3	20,155	47,764	8,012	496.2
<i>% of Net Sales</i>	<i>40.6</i>	<i>17.0</i>		<i>31.0</i>	<i>35.9</i>	<i>19.2</i>	
Other expenses	5,381	3,209	67.7	4,426	9,807	7,129	37.6
<i>% of Net Sales</i>	<i>7.9</i>	<i>14.4</i>		<i>6.8</i>	<i>7.4</i>	<i>17.1</i>	
Total Expenditure	36,789	11,997	206.6	23,345	60,135	23,823	152.4
EBITDA	31,146	10,302	202.3	41,777	72,922	17,851	308.5
<i>Margin (%)</i>	<i>45.8</i>	<i>46.2</i>		<i>64.2</i>	<i>54.8</i>	<i>42.8</i>	
Depreciation	596	534	11.6	552	1,148	1,107	3.7
Other income	888	884	0.5	1,441	2,329	1,601	45.5
EBIT	31,438	10,651	195.2	42,665	74,103	18,344	304.0
Interest	17	17	-	30	47	110	
PBT	31,421	10,634	195.5	42,635	74,056	18,234	306.1
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	31,421	10,634	195.5	42,635	74,056	18,234	306.1
Tax	8,010	2,892	177.0	10,705	18,715	5,159	262.8
<i>% PBT</i>	<i>25.5</i>	<i>27.2</i>		<i>25.1</i>	<i>25.3</i>	<i>28.3</i>	
Reported PAT	23,411	7,742	202.4	31,930	55,341	13,075	323.2
Adjusted PAT	23,411	7,742	202.4	31,930	55,341	13,075	323.2

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	H1FY22	H1FY21	YoY gr. (%)
Iron ore production (mn tonnes)	8.8	5.6	55.6	8.9	17.7	12.2	44.4
Iron ore sales volumes (mn tonnes)	8.99	6.6	36.1	9.4	18.4	12.9	43.2
Realisation (Rs/t)	7,444	3,320	124.2	6,823	7,126	3,195	123.0
EBITDA (Rs/t)	3,466	1,560	122.2	4,421	3,956	1,386	185.4
Cost (Rs/t)	3,977	1,760	126.0	2,402	3,170	1,809	75.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	153,701	251,967	184,198	198,853
YoY gr. (%)	31.4	63.9	(26.9)	8.0
Cost of Goods Sold	1,376	3,705	3,992	4,349
Gross Profit	152,325	248,262	180,206	194,503
Margin (%)	99.1	98.5	97.8	97.8
Employee Cost	10,818	11,350	11,898	12,462
Other Expenses	46,595	113,725	91,661	100,387
EBITDA	87,959	120,987	74,337	79,180
YoY gr. (%)	46.3	37.5	(38.6)	6.5
Margin (%)	57.2	48.0	40.4	39.8
Depreciation and Amortization	2,278	2,656	2,761	2,873
EBIT	85,680	118,331	71,576	76,306
Margin (%)	55.7	47.0	38.9	38.4
Net Interest	168	150	150	150
Other Income	3,499	6,101	6,851	7,483
Profit Before Tax	89,011	124,282	78,277	83,639
Margin (%)	57.9	49.3	42.5	42.1
Total Tax	26,485	31,319	19,726	21,077
Effective tax rate (%)	29.8	25.2	25.2	25.2
Profit after tax	62,527	92,963	58,551	62,562
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	65,959	92,963	58,551	62,562
YoY gr. (%)	82.7	40.9	(37.0)	6.8
Margin (%)	42.9	36.9	31.8	31.5
Extra Ord. Income / (Exp)	(3,432)	-	-	-
Reported PAT	62,527	92,963	58,551	62,562
YoY gr. (%)	73.2	48.7	(37.0)	6.8
Margin (%)	40.7	36.9	31.8	31.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	62,527	92,963	58,551	62,562
Equity Shares O/s (m)	2,931	2,931	2,931	2,931
EPS (Rs)	22.5	31.7	20.0	21.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	47,957	49,807	51,857	53,907
Tangibles	47,957	49,807	51,857	53,907
Intangibles	-	-	-	-
Acc: Dep / Amortization	16,773	19,429	22,190	25,063
Tangibles	16,773	19,429	22,190	25,063
Intangibles	-	-	-	-
Net fixed assets	31,185	30,378	29,668	28,844
Tangibles	31,185	30,378	29,668	28,844
Intangibles	-	-	-	-
Capital Work In Progress	175,934	200,762	231,400	258,647
Goodwill	-	-	-	-
Non-Current Investments	18,860	18,912	18,963	19,015
Net Deferred tax assets	4,083	4,083	4,083	4,083
Other Non-Current Assets	32,307	33,691	34,691	35,691
Current Assets				
Investments	-	-	-	-
Inventories	9,217	13,100	10,197	10,965
Trade receivables	21,399	32,445	23,719	25,606
Cash & Bank Balance	58,060	67,096	78,231	84,405
Other Current Assets	13,798	13,798	13,798	13,798
Total Assets	367,849	417,302	447,815	484,150
Equity				
Equity Share Capital	2,931	2,931	2,931	2,931
Other Equity	294,631	345,759	377,961	412,370
Total Network	297,561	348,690	380,892	415,300
Non-Current Liabilities				
Long Term borrowings	19,945	19,945	19,945	19,945
Provisions	9,452	10,452	11,452	12,452
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,603	5,383	4,515	4,918
Other current liabilities	37,289	32,833	31,012	31,535
Total Equity & Liabilities	367,849	417,302	447,815	484,150

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	89,016	124,282	78,277	83,639
Add. Depreciation	2,278	2,656	2,761	2,873
Add. Interest	(742)	(5,189)	(5,939)	(6,571)
Less Financial Other Income	3,499	6,101	6,851	7,483
Add. Other	2,352	3,945	4,603	3,793
Op. profit before WC changes	92,905	125,694	79,702	83,734
Net Changes-WC	5,277	(22,015)	4,257	(5,603)
Direct tax	(24,877)	(31,319)	(19,726)	(21,077)
Net cash from Op. activities	73,305	72,359	64,233	57,053
Capital expenditures	(15,981)	(26,678)	(32,689)	(29,297)
Interest / Dividend Income	2,412	5,189	5,939	6,571
Others	(30,643)	-	-	-
Net Cash from Invt. activities	(44,211)	(21,489)	(26,749)	(22,726)
Issue of share cap. / premium	(17,006)	-	-	-
Debt changes	14,289	-	-	-
Dividend paid	(22,733)	(41,835)	(26,349)	(28,154)
Interest paid	(166)	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(25,616)	(41,835)	(26,349)	(28,154)
Net change in cash	3,478	9,036	11,134	6,174
Free Cash Flow	57,325	45,681	31,544	27,757

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	43,551	68,476	65,122	67,935
YoY gr. (%)	44.9	114.8	236.1	204.7
Raw Material Expenses	1,092	(744)	(4,418)	386
Gross Profit	42,459	69,220	69,540	67,549
Margin (%)	97.5	101.1	106.8	99.4
EBITDA	27,686	42,423	41,777	31,146
YoY gr. (%)	74.0	184.3	453.4	202.3
Margin (%)	63.6	62.0	64.2	45.8
Depreciation / Depletion	605	567	552	596
EBIT	27,081	41,856	41,224	30,550
Margin (%)	62.2	61.1	63.3	45.0
Net Interest	16	41	30	17
Other Income	1,048	850	1,441	888
Profit before Tax	28,113	42,664	42,635	31,421
Margin (%)	64.6	62.3	65.5	46.3
Total Tax	7,020	14,306	10,705	8,010
Effective tax rate (%)	25.0	33.5	25.1	25.5
Profit after Tax	21,093	28,359	31,930	23,411
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	21,093	31,791	31,930	23,411
YoY gr. (%)	53.2	165.8	498.7	202.4
Margin (%)	48.4	46.4	49.0	34.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	21,093	28,359	31,930	23,411
YoY gr. (%)	53.2	706.7	498.7	202.4
Margin (%)	48.4	41.4	49.0	34.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	21,093	28,359	31,930	23,411
Avg. Shares O/s (m)	2,931	2,931	2,931	2,931
EPS (Rs)	7.2	10.8	10.9	8.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	22.5	31.7	20.0	21.3
CEPS	23.3	32.6	20.9	22.3
BVPS	101.5	119.0	130.0	141.7
FCF	19.6	15.6	10.8	9.5
DPS	7.8	14.3	9.0	9.6
Return Ratio(%)				
RoCE	28.6	34.5	18.6	18.3
ROIC	24.9	32.1	17.5	17.1
RoE	23.0	28.8	16.1	15.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Working Capital (Days)	64	58	58	58
Valuation(x)				
PER	6.4	4.6	7.2	6.8
P/B	1.4	1.2	1.1	1.0
P/CEPS	6.2	4.4	6.9	6.5
EV/EBITDA	4.4	3.1	4.9	4.5
EV/Sales	2.5	1.5	2.0	1.8
Dividend Yield (%)	5.4	9.9	6.2	6.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Total Volume (mt)	33	40	42	45
Realization/t (Rs.)	4,581	6,202	4,274	4,315
EBITDA/t (Rs)	2,645	3,025	1,770	1,760

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	7-Oct-21	Accumulate	175	144
2	18-Aug-21	Accumulate	175	167
3	8-Jul-21	Accumulate	175	167
4	9-Feb-21	BUY	145	118
5	13-Jan-21	BUY	145	127
6	3-Dec-20	BUY	125	103

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,460	2,243
2	Ambuja Cement	BUY	445	380
3	Coal India	Accumulate	164	191
4	Dalmia Bharat	Accumulate	2,290	1,991
5	Heidelberg Cement India	Reduce	220	248
6	Hindalco Industries	BUY	570	478
7	Hindustan Zinc	Reduce	288	313
8	Jindal Steel & Power	BUY	535	419
9	JK Lakshmi Cement	Hold	670	615
10	JSW Steel	Accumulate	810	674
11	NMDC	Accumulate	175	144
12	Shree Cement	Hold	28,000	28,635
13	Steel Authority of India	Accumulate	155	116
14	Tata Steel	BUY	1,850	1,289
15	The Ramco Cements	Hold	990	943
16	Ultratech Cement	BUY	8,600	7,399

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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