

Performs well...

About the stock: Incorporated in 1958, NMDC is India's largest merchant iron ore miner.

- During FY21, NMDC's iron ore production volume was at ~34 MT while sales volume for FY21 was at ~33 MT
- NMDC is one of the lowest cost iron ore producers in the world

Q2FY22 Results: NMDC reported a healthy performance in Q2FY22.

- During the quarter, NMDC reported iron ore sales volume of 9.0 million tonnes (MT), up 36% YoY but down 5% QoQ (in line with our estimate of 8.9 million tonnes). EBITDA/tonne came in at ₹ 3488/tonne, higher than our estimate of ₹ 3000/tonne (EBITDA/tonne of ₹ 4421/tonne in Q1FY22)
- For the quarter, revenue from operations was at ₹ 6794 crore, up 205% YoY & 4% QoQ, higher than our estimate of ₹ 5944 crore. EBITDA for the quarter was at ₹ 3115 crore, up 202%YoY but down 25%QoQ, higher than our estimate of ₹ 2679 crore. Ensuing PAT was at ₹ 2341 crore, up 202% YoY but down 27% QoQ (our estimate of ₹ 2074 crore)

What should investors do? NMDC's share price has given a return of ~54% over the last 12 months (from ~₹ 91 in November 2020 to ~₹ 140 in November 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value NMDC at ₹ 175, based on SoTP valuation

Key triggers for future price performance:

- NMDC is targeting commissioning of the Nagarnar steel plant during Q4FY22
- For FY22E, NMDC has given a volume guidance of 44 MT
- NMDC has chalked out a capex plan of ₹ 3750 crore for FY22E

Alternate Stock Idea: In our metal sector coverage, we also like Hindalco.

- Hindalco is the world's largest aluminium company by revenue and a major player in copper
- BUY with a target price of ₹ 600

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21	CAGR(FY16-FY21 in %)	FY22E	FY23E	CAGR(FY21-FY23E in %)
Net Sales	8,828	11,615	12,153	11,699	15,370	18.9	25,430	18,213	8.9
EBITDA	3,601	5,809	6,930	6,010	8,796	22.5	13,389	7,985	-4.7
EBITDA Margin (%)	40.8	50.0	57.0	51.4	57.2		52.7	43.8	
Adj PAT	2,589	3,806	4,643	3,611	6,253	15.6	10,168	6,050	-1.6
EPS (₹)	8.2	12.0	15.2	11.8	21.3		34.7	20.6	
EV/EBITDA (x)	10.8	6.8	5.8	7.1	4.2		2.7	4.3	
RoCE (%)	15.1	22.3	25.3	20.3	27.0		35.1	18.7	
RoE (%)	11.5	15.6	17.9	13.1	21.0		28.6	15.4	

Source: Company, ICICI Direct Research



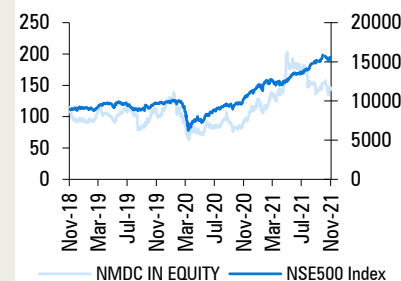
Particulars

Particular	Amount
Market Capitalization	₹ 41000 crore
Total Debt (FY21)	₹ 1995 crore
Cash and Investments (FY21)	₹ 5806 crore
EV	₹ 37189 crore
52 week H/L	213 / 76
Equity capital	₹ 293.1 crore
Face value	₹ 1

Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	70	70	68	68	61
FII	4	4	5	5	7
DII	20	20	21	20	22
Others	5	5	6	7	11
Total	100	100	100	100	100

Price Chart



Key Risks

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

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Key takeaways from conference call

- During the quarter, NMDC reported iron ore sales volume of 9.0 million tonnes (MT), up 36% YoY but down 5% QoQ (in line with our estimate of 8.9 million tonnes). EBITDA/tonne came in at ₹ 3488/tonne, higher than our estimate of ₹ 3000/tonne (EBITDA/tonne of ₹ 4421/tonne in Q1FY22)
- For the quarter, revenue from operations was at ₹ 6794 crore, up 205% YoY & 4% QoQ, higher than our estimate of ₹ 5944 crore. EBITDA for the quarter was at ₹ 3115 crore, up 202%YoY but down 25%QoQ, higher than our estimate of ₹ 2679 crore. Ensuing PAT was at ₹ 2341 crore, up 202% YoY but down 27% QoQ (our estimate of ₹ 2074 crore)
- Blended realisation increased on a QoQ basis on account of better grades on a sequential basis
- NMDC is targeting commissioning of the Nagarnar steel plant during Q4FY22
- For FY22E, NMDC has given a volume guidance of 44 MT
- H1FY22 capex was to the tune of ₹ 1000 crore of which ₹ 600 crore was for the steel plant while balance ₹ 400 crore was for mining. NMDC has chalked out a capex plan of ₹ 3750 crore for FY22E
- Till date, the company has incurred a capex to the tune of ~₹ 19000 crore for the upcoming Nagarnar steel plant

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP		TP	Rating	Mcap (₹)	Topline(in ₹ crore)			EBITDA (in ₹crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
	(₹)	(₹)				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	161	160	Hold		99690	90026	104536	112001	18,574	20,734	22,081	12,702	15,473	17,067	7.8	6.4	5.8	4.5	4.4	4.4
NMDC	140	175	Buy		41000	15370	25430	18213	8,796	13,389	7,985	6,253	10,168	6,050	6.6	4.0	6.8	4.2	2.7	4.3

Source: Company, ICICI Direct Research

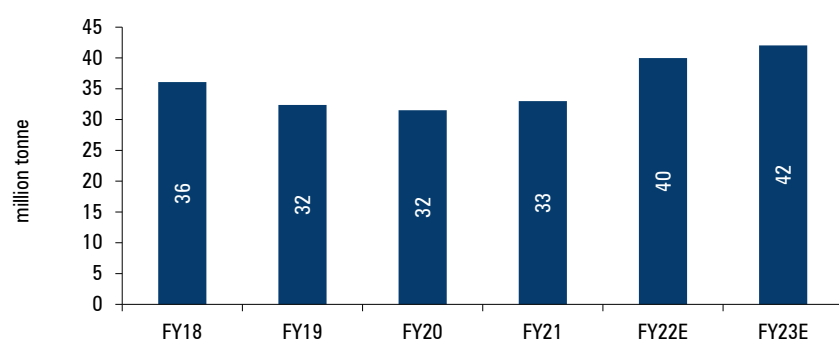
Exhibit 2: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Total Operating Income	6,794	5,944	2,230	205%	6,512	4%	Topline came in higher than our estimates
Other Income	89	150	88	1%	144	-38%	
Total Operating Expense	3,679	3,265	1,200	207%	2,334	58%	
EBITDA	3,115	2,679	1,030	202%	4,178	-25%	EBITDA came in higher than our estimates
EBITDA Margin (%)	45.8	45.1	46.2	-34 bps	64.2	-1831 bps	EBITDA margin came in higher than our estimates
Depreciation	60	55	53	12%	55	8%	
Interest	2	3	2	0%	3	NA	
Exceptional Items	0	0	0	NA	0	NA	
PBT	3,142	2,771	1,063	196%	4,264	-26%	
Tax Outgo	801	697	289	177%	1,071	-25%	
Reported PAT	2,341	2,074	774	202%	3,193	-27%	PAT came in higher than our estimates
Key Metrics							
Iron ore sales volume (MT)	9.0	8.9	6.6	36%	9.4	-5%	Sales volume came broadly in line with our estimates
EBITDA/tonne	3,488	3,000	1,560	124%	4,421	-21%	EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Financial Story in charts

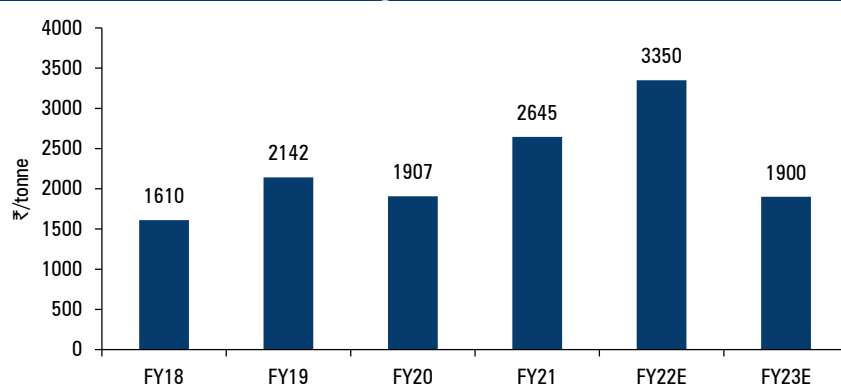
Exhibit 3: Trend in sales volume



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

Source: Company, ICICI Direct Research

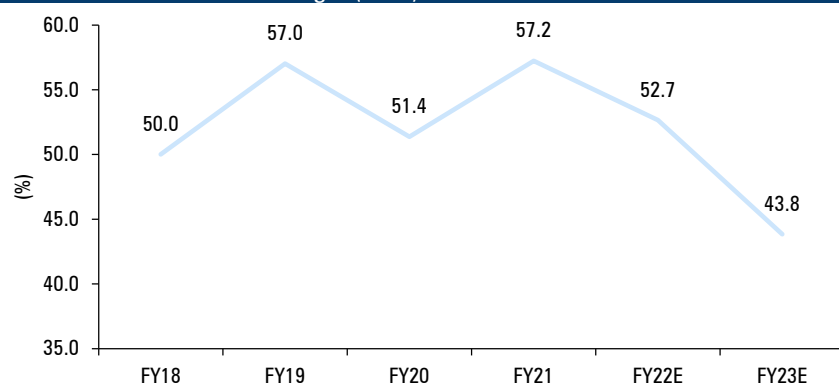
Exhibit 4: Trend in EBITDA/tonne margins level



We model EBITDA/tonne of ₹ 3350/tonne for FY22E and ₹ 1900/tonne for FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA margin (in %)



For FY22E, we expected EBITDA margin to come in at 52.7% while for FY23E we expect EBITDA margin to come in at 43.8%

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	11,615	31.6	12.0	47.0	11.6	6.8	15.6	22.3
FY19	12,153	4.6	15.2	26.0	9.2	5.8	17.9	25.3
FY20	11,699	-3.7	11.8	-22.2	11.9	7.1	13.1	20.3
FY21	15,370	31.4	21.3	80.9	6.6	4.2	21.0	27.0
FY22E	25,430	65.4	34.7	62.6	4.0	2.7	28.6	35.1
FY23E	18,213	-28.4	20.6	-40.5	6.8	4.3	15.4	18.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	11699	15370	25430	18213
Growth (%)	-4	31	65	-28
Total Operating Expenditure	5689	6574	12041	10229
EBITDA	6010	8796	13389	7985
Growth (%)	-13	46	52	-40
Depreciation	294	228	210	270
Interest	10	17	70	134
Other Income	514	350	480	504
PBT	6220	8901	13589	8084
Exceptional Item	96	0	0	0
Total Tax	2513	2648	3420	2035
PAT	3611	6253	10168	6050
Growth (%)	-22	73	63	-41
EPS (₹)	11.8	21.3	34.7	20.6

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	3,611	6,253	10,168	6,050
Add: Depreciation	294	228	210	270
(Inc)/dec in Current Assets	-1,712	168	-2,670	2,042
Inc/(dec) in CL and Provisions	-179	683	997	-687
Others	0	0	0	0
CF from operating activities	2,015	7,331	8,705	7,674
(Inc)/dec in Investments	-46	1	0	0
(Inc)/dec in Fixed Assets	-2,299	-1,956	-3,700	-3,000
Others	-57	640	50	50
CF from investing activities	-2,403	-1,316	-3,650	-2,950
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	-4,396	-2,345
Inc/(dec) in Share Cap	-76	-1,743	0	0
Others	0	0	0	0
CF from financing activities	-1,827	-2,602	-4,396	-2,345
Net Cash flow	-2,215	3,414	659	2,380
Opening Cash	4,608	2,392	5,806	6,465
Closing Cash	2,392	5,806	6,465	8,845

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	306	293	293	293
Reserve and Surplus	27,228	29,463	35,235	38,941
Total Shareholders funds	27,534	29,756	35,529	39,234
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	39,424	43,179
Assets				
Net Block	3,046	3,170	20,737	22,467
Capital WIP	15,472	17,077	3,000	4,000
Total Fixed Assets	18,518	20,247	23,736	26,466
Investments	986	985	985	985
Inventory	724	922	1,533	1,098
Debtors	2,224	2,140	3,484	2,495
Loans and Advances	4,369	4,597	5,086	4,553
Other Current Assets	1,535	1,681	1,907	1,821
Cash	2,392	5,806	6,465	8,845
Total Current Assets	11,243	15,145	18,474	18,812
Current Liabilities	226	360	697	499
Provisions	2,275	2,823	3,484	2,994
Current Liabilities & Prov	2,501	3,183	4,180	3,493
Net Current Assets	8,743	11,962	14,294	15,319
Others Assets	397	408	408	408
Application of Funds	28,643	33,601	39,424	43,179

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	11.8	21.3	34.7	20.6
Cash EPS	12.3	20.5	32.8	20.0
BV	89.9	101.5	121.2	133.9
DPS	5.3	7.8	15.0	8.0
Cash Per Share (Incl Invst)	6.0	13.0	15.3	23.4
Operating Ratios (%)				
EBITDA Margin	51.4	57.2	52.7	43.8
PBT / Total Op. income	53.2	57.9	53.4	44.4
PAT Margin	30.9	40.7	40.0	33.2
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	28.6	15.4
RoCE	20.3	27.0	35.1	18.7
RoIC	23.1	34.3	43.8	24.6
Valuation Ratios (x)				
P/E	11.9	6.6	4.0	6.8
EV / EBITDA	7.1	4.2	2.7	4.3
EV / Net Sales	3.6	2.4	1.4	1.9
Market Cap / Sales	3.8	2.7	1.6	2.3
Price to Book Value	1.6	1.4	1.2	1.0
Solvency Ratios				
Debt/EBITDA	0.1	0.2	0.1	0.2
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	4.5	4.8	4.4	5.4
Quick Ratio	4.2	4.5	4.1	5.1

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	161	160	Hold	99690	4.5	4.4	4.4	7.8	6.4	5.8	4.5	4.4	4.4	42.3	41.7	39.8	34.8	36.7	35.5
Hindalco	468	600	Buy	101493	25.5	58.3	59.8	18.3	8.0	7.8	8.7	5.5	5.0	8.8	14.8	14.5	8.5	17.6	15.5
NMDC	140	175	Buy	41000	21.3	34.7	20.6	6.6	4.0	6.8	4.2	2.7	4.3	27.0	35.1	18.7	21.0	28.6	15.4
JSW Steel	669	725	Hold	161470	32.9	82.5	66.4	20.1	8.0	9.9	10.5	5.7	6.4	13.8	22.1	15.3	17.0	30.0	19.5
Ratnamani	2209	2450	Buy	10315	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2
Graphite Ind.	516	650	Buy	10069	-2.0	31.0	63.0	NA	16.8	8.4	NA	11.1	4.7	-5.4	12.1	23.1	-0.7	12.4	21.2
Jindal Stainless	184	250	Buy	8933	8.6	26.2	22.7	22.3	7.3	8.5	8.7	5.4	6.3	16.0	25.2	18.1	13.0	29.1	20.1
Jindal Stainless Hisar	337	488	Buy	7934	29.5	63.9	58.9	11.5	5.3	5.8	8.4	4.7	4.5	18.6	26.7	20.9	23.2	32.4	22.5
Vardhman Special Steel	260	340	Buy	1053	10.9	24.9	29.5	24.1	10.6	8.9	11.5	6.6	5.8	13.7	21.2	21.1	9.6	18.5	18.3
Tata Metaliks	962	1300	Buy	3037	69.9	88.9	101.2	15.5	12.1	10.7	8.3	7.1	5.7	24.6	24.9	23.0	17.0	18.1	17.1

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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