

In line performance...

NMDC's Q2FY21 performance came in line with our estimate on all fronts. NMDC reported sales volume of 6.6 million tonnes (MT), up 14% YoY (our estimate: 6.5 MT). Total operating income for the quarter was at ₹ 2230 crore, down 1% YoY (our estimate: ₹ 2324 crore). EBITDA came in at ₹ 1030 crore, down 3% YoY (our estimate: ₹ 1055 crore) while EBITDA margin was at 46.2%, down 110 bps YoY (our estimate: 45.4%). EBITDA/tonne came in ₹ 1560/tonne vs. ₹ 1623/tonne. Ensuing PAT came in ₹ 774 crore, up 10% YoY (our estimate of ₹ 793 crore). NMDC's board has approved buyback of 13.12 crore shares (representing 4.3% of the total number of fully paid-up equity shares in the paid-up share capital of the company) at ₹ 105/share. Consequently, the total buyback size is at ₹ 1378 crore.

For FY21E, volume guidance is ~32 MT...

For Q2FY21, NMDC reported production volume of 5.6 MT (up 13% YoY but down 15% QoQ) while sales volume for Q2FY21 were at 6.6 MT (up 14% YoY, 5% QoQ). For H1FY21, NMDC reported production volume of 12.2 MT (down 9% YoY) while sales volume for H1FY21 were at 12.9 MT (down 11% YoY). Going forward, the management has given a sales volume guidance of ~32 MT for FY21E. The company expects the volume loss in H1FY21 to be compensated by a stronger performance in H2FY21.

Iron ore price environment expected to remain healthy...

The average blended realisation for Q2FY21 was at ₹ 3320/tonne (up 8% QoQ) wherein domestic realisation was at ₹ 3114/tonne (up 9% YoY). NMDC has steadily increased iron ore prices over the last six months. Since May 2020 lows, NMDC fines prices and lumps prices have increased 69% and 60%, respectively. NMDC fines prices currently (as on November 2020) was at ₹ 3310/tonne (₹ 1960/tonne in May 2020) while lumps prices currently (as on November 2020) were at ₹ 3600/tonne (₹ 2250/tonne in May 2020). Both the lumps and fines prices are on FOR basis and are excluding royalty, DMF, NMET, Cess, Forest permit fee and other taxes. Going forward, on the back of good demand, the company expects the iron ore pricing environment to remain healthy, auguring well for H2FY21.

Valuation & Outlook

NMDC reported a steady set of numbers for Q2FY21. With respect to the status of Donimalai mines, the company has indicated that it is awaiting orders from Karnataka State government. Management expects the requisite approval for the Donimalai mine to come in by Q3FY21. We have not built in any volume for Donimalai mines in FY21 and are factoring a restart in FY22. We value the stock on SoTP basis and arrive at a target price of ₹ 100. We maintain our **HOLD** recommendation on the stock.



Particulars

Particular	Amount
Market Capitalization	₹ 27878 crore
Total Debt (FY20)	₹ 565 crore
Cash and Investments (FY20)	₹ 4608 crore
EV	₹ 26051 crore
52 week H/L	140 / 62
Equity capital	₹ 306.2 crore
Face value	₹ 1

Key Highlights

- For Q2FY21, NMDC reported sales volume of 6.6 Million tonnes (MT), up 14% YoY (our estimate: 6.5 MT)
- EBITDA/tonne came in ₹1560/tonne, as against ₹1623/tonne.
- Maintain HOLD rating on stock with 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)	4.2	3.6	4.5	5.0	5.5
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

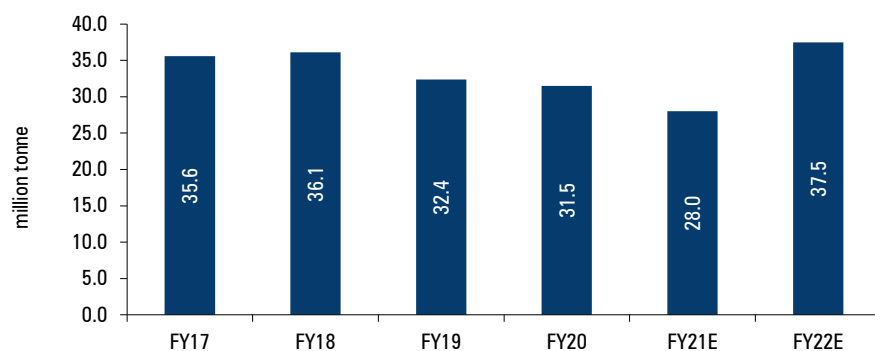
Exhibit 1: Variance analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	2,229.9	2,324.0	2,241.8	0.5%	1,937.5	-13.1%	Topline came in line with our estimates
Other Income	88.4	75.0	127.5	44.3%	71.7	-18.8%	
Total Operating Expense	1,199.7	1,269.0	1,181.6	-1.5%	1,182.6	-1.4%	
EBITDA	1,030.2	1,055.0	1,060.2	2.9%	754.9	-26.7%	EBITDA came in line with our estimates
EBITDA Margin (%)	46.2	45.4	47.3	109 bps	39.0	-724 bps	EBITDA Margin came in line with our estimates
Depreciation	53.4	60.0	97.6	82.7%	57.3	7.3%	
Interest	1.7	10.0	9.7	465.1%	9.3	441.9%	
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	
PBT	1,063.4	1,060.0	1,080.5	1.6%	760.0	-28.5%	
Tax Outgo	289.2	267.0	377.1	30.4%	226.7	-21.6%	
Reported PAT	774.2	793.0	703.4	-9.1%	533.3	-31.1%	PAT came in line with our estimate
Key Metrics							
Iron ore sales volume (MT)	6.6	6.6	5.8	-12.1%	6.3	-4.5%	Sales volume came in line with our estimates

Source: ICICI Direct Research, Company

Financial Story in charts

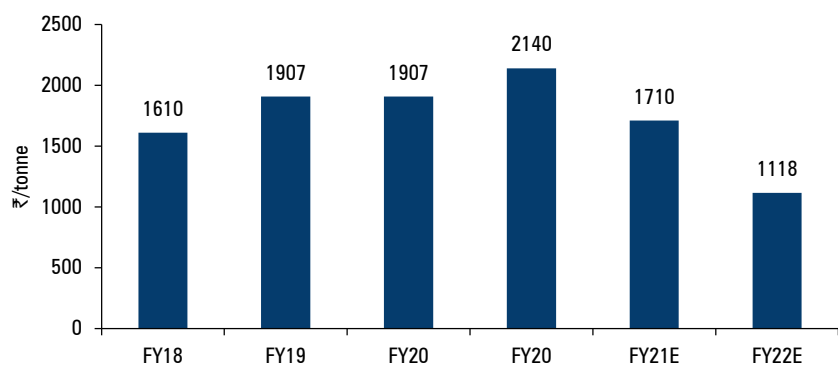
Exhibit 2: Trend in Production



We model sales volumes of 28 MT for FY21E and 37.5 MT for FY22E

Source: Company, ICICI Direct Research

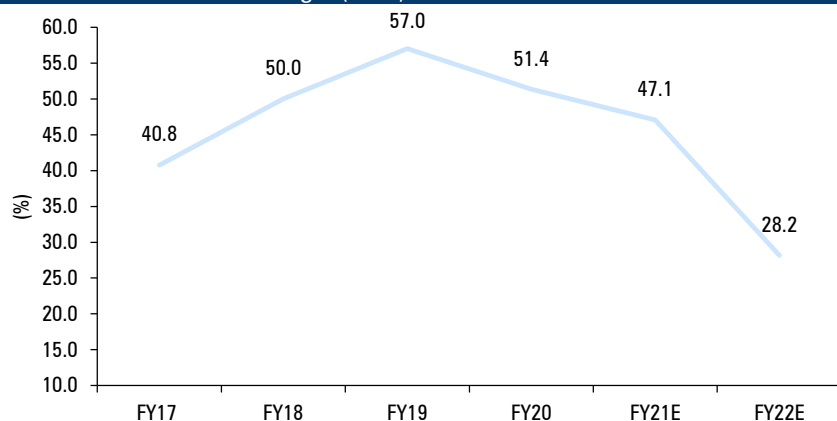
Exhibit 3: Trend in EBITDA/tonne margins level



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

Source: Company, ICICI Direct Research

Exhibit 4: Trend in EBITDA margin (in %)



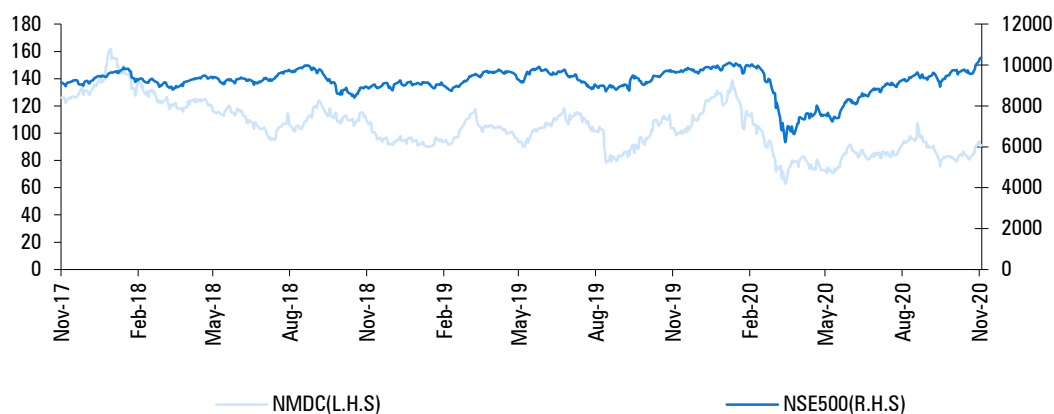
Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	11,614.9	31.6	12.0	47.0	7.6	4.2	15.6	22.3
FY19	12,152.7	4.6	15.2	26.0	6.1	3.6	17.9	25.3
FY20	11,699.2	-3.7	11.8	-22.2	7.8	4.5	13.1	20.3
FY21E	10172.7	-13.0	11.6	-1.4	7.9	5.0	11.3	14.3
FY22E	14858.4	46.1	9.0	-22.2	10.2	5.5	8.3	9.9

Source: Company, ICICI Direct Research

Exhibit 6: Historical price Chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Mar-20	Jun-20	Sep-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 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	12153	11699	10173	14858
Growth (%)	5	-4	-13	46
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 9: 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 10: 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 11: 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
RoC	32.0	23.1	17.1	12.2
Valuation Ratios (x)				
P/E	6.1	7.8	7.9	10.2
EV / EBITDA	3.6	4.5	5.0	5.5
EV / Net Sales	2.0	2.3	2.4	1.5
Market Cap / Sales	2.4	2.5	2.8	1.9
Price to Book Value	1.1	1.1	0.9	0.8
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 12: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹) Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	
Coal India	122	150	Hold	75855	27.1	22.2	22.9	4.9	6.0	5.8	2.7	4.3	4.4	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	208	240	Buy	46805	18.2	25.3	34.4	11.3	8.1	6.0	5.8	6.0	5.0	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	229	230	Hold	96612	16.1	17.1	21.1	13.8	13.1	10.6	8.2	7.8	5.8	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	338	330	Hold	81689	19.5	21.3	33.5	16.4	15.0	9.6	11.2	8.7	6.3	7.2	9.7	13.1	12.7	12.2	16.2
NMDC	91	100	Hold	27771	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	1341	1475	Buy	6266	65.8	53.1	73.8	19.2	23.8	17.2	13.7	16.6	11.7	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	185	200	Hold	3611	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	473	450	Hold	54218	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
Vedanta	103	100	Hold	38436	10.7	17.9	19.9	9.1	5.5	4.9	3.5	3.2	2.6	10.8	13.6	14.9	7.3	11.5	12.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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