

February 9, 2021

Q3FY21 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	145		145	
Sales (Rs. m)	1,70,081	1,58,283	1,70,081	1,58,283
% Chng.	-	-	-	-
EBITDA (Rs. m)	73,132	61,685	73,426	61,762
% Chng.	(0.4)	(0.1)	-	-
EPS (Rs.)	18.3	15.6	18.3	15.5
% Chng.	(0.2)	0.1	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,16,992	1,56,241	1,70,081	1,58,283
EBITDA (Rs. m)	60,104	86,878	73,132	61,685
Margin (%)	51.4	55.6	43.0	39.0
PAT (Rs. m)	36,109	63,549	53,591	45,580
EPS (Rs.)	11.8	21.7	18.3	15.6
Gr. (%)	(22.2)	83.9	(15.7)	(14.9)
DPS (Rs.)	5.3	5.5	5.0	5.0
Yield (%)	4.5	4.7	4.2	4.2
RoE (%)	13.5	21.8	16.5	12.7
RoCE (%)	21.0	28.1	21.1	15.9
EV/Sales (x)	2.9	2.0	1.8	1.9
EV/EBITDA (x)	5.7	3.6	4.2	4.9
PE (x)	10.0	5.4	6.4	7.6
P/BV (x)	1.3	1.1	1.0	0.9

Key Data

NMDC.BO | NMDC IN

52-W High / Low	Rs.131 / Rs.62
Sensex / Nifty	51,349 / 15,116
Market Cap	Rs.361bn/ \$ 4,941m
Shares Outstanding	3,062m
3M Avg. Daily Value	Rs.2586.69m

Shareholding Pattern (%)

Promoter's	69.65
Foreign	4.46
Domestic Institution	20.42
Public & Others	5.47
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.2)	32.2	3.5
Relative	(10.9)	(2.1)	(17.1)

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Strong show, attractive valuations drive positive outlook

Quick Pointers:

- Best ever quarter on back of strong prices
- EBITDA expected to further grow 45% QoQ in Q4, led by higher volumes and better prices

NMDC reported Q3FY21 EBITDA above our/consensus estimates by 8%/16%. The beat was largely due to better than expected performance on both realisations and cost.

Unlike past, NMDC has been forthcoming this time in undertaking price hikes in tandem with strong global prices and shortage in domestic market. Company reduced prices by 11%-12% in last week due to softness in domestic demand, improved supplies in Odisha and slide in global prices. Risks emanating from rising domestic supplies are very well factored in our estimates with FY22 realisations assumed at steep cut of ~20% over current levels and hefty discount of ~45% (above the historical average of 35%) to import parity price. On the back of stable outlook on global iron ore prices and value unlocking with the demerger of steel plant, we maintain BUY rating with TP of Rs145 based on 1) EV/EBITDA of 4x FY22e for iron ore operations and 2) EV/T of US\$500 for steel plant.

- Higher realisations and lower costs led the beat:** Volumes rose 10% YoY at 9.3mnt (PLe:9.4mnt) on the back of 11%/8% growth in Chhattisgarh mines/Karnataka volumes at 7.4mnt/1.8mnt. Realisations increase 31%/Rs1,087/t YoY (↑40%/Rs1,325 QoQ) at Rs4,645/t (PLe:Rs4,510). Cost remained flat at Rs1,660/t above our estimates of Rs1,765 largely due to lower than expected SG&A expenses. Led by better margins, EBITDA came above estimates by 8% at Rs27.7bn, up 74% YoY (+69% QoQ). Aided by lower tax rate, PAT rose 53% YoY at Rs21.1bn (PLe:Rs19.0bn).
- Better placed to compete captive miners:** Merchant mining business in India is going to face significant headwinds due to auction of mines as steel producers have clear competitive edge on pricing. However, we believe that NMDC would be better off as compared to other merchant miners in India due to its strong logistics network (dedicated railway line/slurry pipeline), superior ore grade and dedicated customers base (Arcelor/RINL/Exports MoU). Offtake to JSTL's Dolvi plant could be at risk due to acquisition of captive mines by JSTL in Odisha. However, we believe that JSTL would continue to procure NMDC ore due to its premium quality (with low alumina content) for blending with lower grade Odisha ore and meet DRI grade Lump requirement.

Exhibit 1: Q3FY21 Result Overview (Rs mn)

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY20	9MFY21	9MFY20	YoY gr. (%)
Net Sales	43,551	30,064	44.9	22,299	85,225	85,119	0.1
Stores and spares consumed	1,092	221	393.4	1,066	2,120	1,883	12.6
<i>% of Net Sales</i>	<i>2.5</i>	<i>0.7</i>		<i>4.8</i>	<i>2.5</i>	<i>2.2</i>	
Employee Cost	2,719	2,587	5.1	2,672	7,927	7,570	4.7
<i>% of Net Sales</i>	<i>6.2</i>	<i>8.6</i>		<i>12.0</i>	<i>9.3</i>	<i>8.9</i>	
Selling, general and administrative	2,239	1,942	15.3	1,249	4,686	4,993	(6.1)
<i>% of Net Sales</i>	<i>5.1</i>	<i>6.5</i>		<i>5.6</i>	<i>5.5</i>	<i>5.9</i>	
Royalty and cess	6,223	5,797	7.3	3,801	14,234	15,122	(5.9)
<i>% of Net Sales</i>	<i>14.3</i>	<i>19.3</i>		<i>17.0</i>	<i>16.7</i>	<i>17.8</i>	
Other expenses	3,593	3,602	(0.2)	3,209	10,722	10,367	3.4
<i>% of Net Sales</i>	<i>8.3</i>	<i>12.0</i>		<i>14.4</i>	<i>12.6</i>	<i>12.2</i>	
Total Expenditure	15,865	14,150	12.1	11,997	39,689	39,934	(0.6)
EBITDA	27,686	15,914	74.0	10,302	45,536	45,185	0.8
<i>Margin (%)</i>	<i>63.6</i>	<i>52.9</i>		<i>46.2</i>	<i>53.4</i>	<i>53.1</i>	
Depreciation	605	646	(6.3)	534	1,712	2,269	(24.6)
Other income	1,048	1,302	(19.5)	884	2,649	3,805	(30.4)
EBIT	28,129	16,570	69.8	10,651	46,474	46,721	(0.5)
Interest	16	98	(83.2)	17	127	312	
PBT	28,113	16,473	70.7	10,634	46,347	46,409	(0.1)
Extraordinary income/(expense)	-	-		-	-	-	
PBT (After EO)	28,113	16,473	70.7	10,634	46,347	46,409	(0.1)
Tax	7,020	2,707	159.3	2,892	12,179	13,815	(11.8)
<i>% PBT</i>	<i>25.0</i>	<i>16.4</i>		<i>27.2</i>	<i>26.3</i>	<i>29.8</i>	
Reported PAT	21,093	13,766	53.2	7,742	34,168	32,594	4.8
Adjusted PAT	21,093	13,766	53.2	7,742	34,168	32,594	4.8

Source: Company, PL

Exhibit 2: Operating Metrics

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY20	9MFY21	9MFY20	YoY gr. (%)
Iron ore production (mn tonnes)	9.6	8.6	11.9	5.6	21.8	22.0	(0.8)
Iron ore sales volumes (mn tonnes)	9.3	8.4	10.4	6.6	22.2	22.9	(3.2)
Realisation (Rs/t)	4,644	3,557	30.5	3,320	3,802	3,670	3.6
EBITDA (Rs/t)	2,982	1,892	57.6	1,560	2,055	1,974	4.1
Cost (Rs/t)	1,662	1,665	-0.2	1,760	1,748	1,696	3.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,16,992	1,56,241	1,70,081	1,58,283
YoY gr. (%)	(3.7)	33.5	8.9	(6.9)
Cost of Goods Sold	2,258	3,087	3,675	3,922
Gross Profit	1,14,734	1,53,153	1,66,406	1,54,360
Margin (%)	98.1	98.0	97.8	97.5
Employee Cost	10,468	10,885	11,419	11,969
Other Expenses	37,138	47,734	73,640	72,554
EBITDA	60,104	86,878	73,132	61,685
YoY gr. (%)	(13.3)	44.5	(15.8)	(15.7)
Margin (%)	51.4	55.6	43.0	39.0
Depreciation and Amortization	2,944	3,298	3,448	3,598
EBIT	57,160	83,579	69,684	58,087
Margin (%)	48.9	53.5	41.0	36.7
Net Interest	99	625	680	633
Other Income	5,138	4,338	4,611	5,156
Profit Before Tax	61,235	87,293	73,614	62,610
Margin (%)	52.3	55.9	43.3	39.6
Total Tax	25,126	23,744	20,023	17,030
Effective tax rate (%)	41.0	27.2	27.2	27.2
Profit after tax	36,109	63,549	53,591	45,580
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	36,109	63,549	53,591	45,580
YoY gr. (%)	(22.2)	76.0	(15.7)	(14.9)
Margin (%)	30.9	40.7	31.5	28.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	36,109	63,549	53,591	45,580
YoY gr. (%)	(22.2)	76.0	(15.7)	(14.9)
Margin (%)	30.9	40.7	31.5	28.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	36,109	63,549	53,591	45,580
Equity Shares O/s (m)	3,062	2,931	2,931	2,931
EPS (Rs)	11.8	21.7	18.3	15.6

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	2,225	752	(500)
Other Non-Current Assets	30,755	27,076	27,626	28,206
Current Assets				
Investments	-	-	-	-
Inventories	7,235	8,361	9,059	8,697
Trade receivables	22,237	20,119	21,901	20,382
Cash & Bank Balance	24,375	34,868	44,062	51,504
Other Current Assets	15,973	15,906	15,906	15,906
Total Assets	3,12,944	3,44,006	3,85,534	4,16,823
Equity				
Equity Share Capital	3,062	2,931	2,931	2,931
Other Equity	2,73,749	3,02,848	3,41,786	3,72,713
Total Network	2,76,811	3,05,779	3,44,717	3,75,643
Non-Current Liabilities				
Long Term borrowings	5,714	5,656	5,656	5,656
Provisions	8,280	8,779	9,329	9,909
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,259	2,660	3,719	3,705
Other current liabilities	19,881	21,132	22,115	21,911
Total Equity & Liabilities	3,12,944	3,44,006	3,85,534	4,16,824

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	61,140	87,293	73,614	62,610
Add. Depreciation	2,949	3,298	3,448	3,598
Add. Interest	99	(3,282)	(3,523)	(4,035)
Less Financial Other Income	5,138	4,338	4,611	5,156
Add. Other	739	2,175	3,061	3,510
Op. profit before WC changes	64,927	89,484	76,600	65,682
Net Changes-WC	(20,872)	370	(3,582)	(1,927)
Direct tax	(22,796)	(21,998)	(18,551)	(15,778)
Net cash from Op. activities	21,260	67,857	54,467	47,977
Capital expenditures	(24,035)	(27,085)	(34,142)	(29,918)
Interest / Dividend Income	4,065	3,282	3,523	4,035
Others	16,843	-	-	-
Net Cash from Inv. activities	(3,128)	(23,803)	(30,619)	(25,882)
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	10,944	9,195	7,442
Free Cash Flow	(2,775)	40,772	20,325	18,059

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Net Revenue	31,873	19,375	22,299	43,551
YoY gr. (%)	(12.5)	(40.6)	(0.5)	44.9
Raw Material Expenses	375	(38)	1,066	1,092
Gross Profit	31,499	19,413	21,233	42,459
Margin (%)	98.8	100.2	95.2	97.5
EBITDA	14,919	7,549	10,302	27,686
YoY gr. (%)	(22.6)	(59.6)	(2.8)	74.0
Margin (%)	46.8	39.0	46.2	63.6
Depreciation / Depletion	675	573	534	605
EBIT	14,245	6,976	9,768	27,081
Margin (%)	44.7	36.0	43.8	62.2
Net Interest	(213)	93	17	16
Other Income	1,333	717	884	1,048
Profit before Tax	14,826	7,600	10,634	28,113
Margin (%)	46.5	39.2	47.7	64.6
Total Tax	11,311	2,267	2,892	7,020
Effective tax rate (%)	76.3	29.8	27.2	25.0
Profit after Tax	3,515	5,333	7,742	21,093
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	11,959	5,333	7,742	21,093
YoY gr. (%)	(11.1)	(54.8)	10.1	53.2
Margin (%)	37.5	27.5	34.7	48.4
Extra Ord. Income / (Exp)	(229)	-	-	-
Reported PAT	3,515	5,333	7,742	21,093
YoY gr. (%)	(75.8)	(54.8)	10.1	53.2
Margin (%)	11.0	27.5	34.7	48.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,515	5,333	7,742	21,093
Avg. Shares O/s (m)	3,164	3,164	3,164	3,164
EPS (Rs)	3.8	1.7	2.4	6.7

Source: Company Data, PL Research

Key Financial Metrics

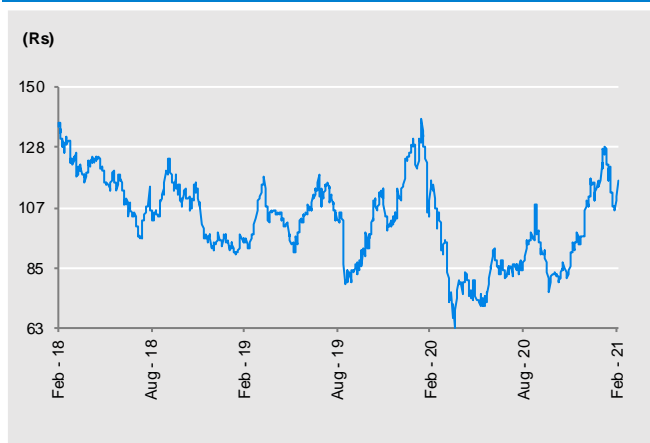
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	11.8	21.7	18.3	15.6
CEPS	12.8	22.8	19.5	16.8
BVPS	90.4	104.3	117.6	128.2
FCF	(0.9)	13.9	6.9	6.2
DPS	5.3	5.5	5.0	5.0
Return Ratio(%)				
RoCE	21.0	28.1	21.1	15.9
ROIC	13.6	23.2	17.7	13.5
RoE	13.5	21.8	16.5	12.7
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	85	60	58	59
Valuation(x)				
PER	10.0	5.4	6.4	7.6
P/B	1.3	1.1	1.0	0.9
P/CEPS	9.2	5.2	6.1	7.0
EV/EBITDA	5.7	3.6	4.2	4.9
EV/Sales	2.9	2.0	1.8	1.9
Dividend Yield (%)	4.5	4.7	4.2	4.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Total Volume (mt)	32	33	38	40
Realization/t (Rs.)	3,672	4,632	4,374	3,888
EBITDA/t (Rs)	1,907	2,601	1,925	1,562

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Jan-21	BUY	145	127
2	03-Dec-20	BUY	125	103
3	11-Nov-20	Accumulate	98	91
4	09-Oct-20	Accumulate	98	83
5	31-Aug-20	Accumulate	125	108
6	10-Jul-20	Accumulate	87	86
7	02-Jun-20	Accumulate	98	85
8	20-Apr-20	Hold	90	80

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,870	1,761
2	Ambuja Cement	BUY	285	270
3	Coal India	Hold	143	147
4	Dalmia Bharat	BUY	1,480	1,240
5	Heidelberg Cement India	Hold	228	236
6	Hindalco Industries	BUY	305	257
7	Hindustan Zinc	Reduce	260	296
8	Jindal Steel & Power	BUY	400	282
9	JK Lakshmi Cement	BUY	425	350
10	JSW Steel	Reduce	335	375
11	NMDC	BUY	145	127
12	Shree Cement	Hold	23,400	22,550
13	Steel Authority of India	Accumulate	66	58
14	Tata Steel	Hold	745	695
15	The Ramco Cements	Reduce	807	861
16	Ultratech Cement	BUY	6,100	5,535

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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