

BSE SENSEX
53,424

S&P CNX
16,013

एनएमडीसी



NMDC

Stock Info

	NMDC IN
Bloomberg	NMDC IN
Equity Shares (m)	2,931
M.Cap.(INRb)/(USDb)	448.8 / 5.8
52-Week Range (INR)	213 / 122
1, 6, 12 Rel. Per (%)	7/9/5
12M Avg Val (INR M)	2506
Free float (%)	39.2

Financials Snapshot (INR b)

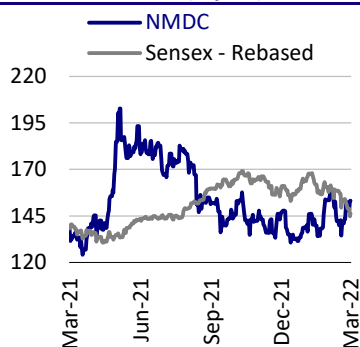
Y/E March	2021	2022E	2023E
Net Sales	153.7	274.0	252.5
EBITDA	88.0	141.6	115.4
PAT	66.0	106.9	87.2
EPS (INR)	22.5	36.5	29.8
Gr. (%)	47.0	62.1	-18.4
BV/Sh (INR)	101.5	116.0	127.8
RoE (%)	23.5	33.5	24.4
RoCE (%)	20.3	30.7	22.6
P/E (x)	6.8	4.2	5.1
P/BV (x)	1.5	1.3	1.2
EV/EBITDA	4.7	3.0	3.6

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	60.8	60.8	69.7
DII	21.8	21.9	20.5
FII	5.3	6.8	4.5
Others	12.1	10.5	5.4

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR153 TP: INR216 (+41%)

Buy

Strong pricing and volumes augur well

Hikes in iron ore prices continue

Iron ore prices increased by INR400/t

- NMDC has announced an increase in iron ore prices by INR400/t for both fines and lumps, marking a third price hike within 4QFY22 and raising the offer prices to INR4,960/t and INR6,000/t, respectively. The price hikes have been driven by strong steel and international pellet prices.
- The price of DR-CLO has been increased by INR480/t raising the offer price to INR7,200/t.
- These have resulted in a cumulative price increase of INR900/t for fines and INR1,100/t for lumps.
- We expect the iron ore prices to taper going forward into FY23 led by better market balance.

Commissioning of steel plant and demerger of business in 1HFY23E

- The process of commissioning of the steel plant has already started and hot metal production is likely to start in 1HFY23.
- We believe the demerger of the Nagarnar Iron and Steel Company (NISPC) will be the key trigger for the stock. Thereafter, the government is likely to call for bids from potential suitor, which should likely culminate into sale of the government's holding in the steel plant to the new owner.
- The management has highlighted that the demerged financials would likely be presented to the Board in 1HFY23E.
- The demerger of accounts is a precursor to split the company into: a) existing mining operations and b) new steel business.
- Other steps include: calling for a members and creditors meeting, and obtaining approvals from relevant statutory authorities.
- The key step of demerger will be a vertical split of the shareholding as well as issuance of shares in the steel plant to the existing shareholders of NMDC in the same proportion as their holdings in NMDC.

Valuation remains inexpensive; retain BUY with 41% potential upside

- We believe that domestic iron ore prices should correct in FY23E, as China is likely to curb steel production. This will result in lower international iron ore prices too.
- Further, increasing supplies from the auctioned iron ore mines should lead to lower prices in FY23E. However, we expect NMDC to increase its production and sales volume by 5%.
- NMDC is currently trading at 2.4x/2.9x our FY22/23 EV/EBITDA for the core mining business.
- Our SoTP-based TP of INR216 (up from INR214) comprises: a) INR187 for the core iron ore mining business, factoring in higher ASP and volume post the current price hike and valuing the same at 4.5x FY23 EV/EBITDA and (b) INR29 for the steel CWIP at 50% discount.

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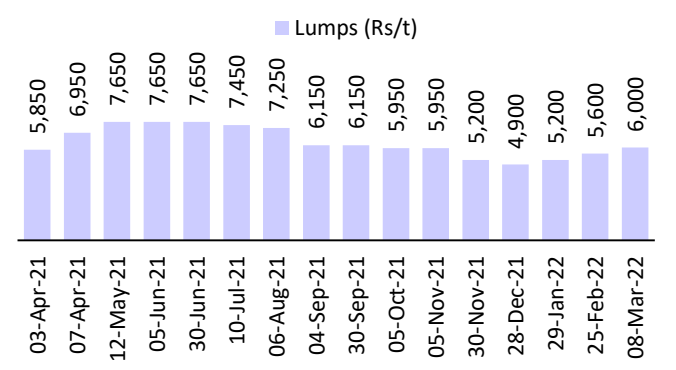
Story in charts

Exhibit 1: Key operating metrics

Key metrics	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY24E
Iron ore production - m tons	28.6	34.0	35.6	32.4	31.5	34.2	41.0	43.0	45.0	45.0
Iron ore sales volume - m tons	28.8	35.6	36.1	32.4	31.5	33.0	41.0	43.0	45.0	45.0
Blended realization - INR/t	2,233	2,479	3,220	3,756	3,713	4,663	6,683	5,873	5,083	4,880
Operating expenses - INR/t	1,030	1,217	1,468	1,549	1,739	1,995	3,230	3,190	2,896	2,818
EBITDA - INR/t	1,203	1,262	1,752	2,207	1,974	2,669	3,453	2,683	2,187	2,062

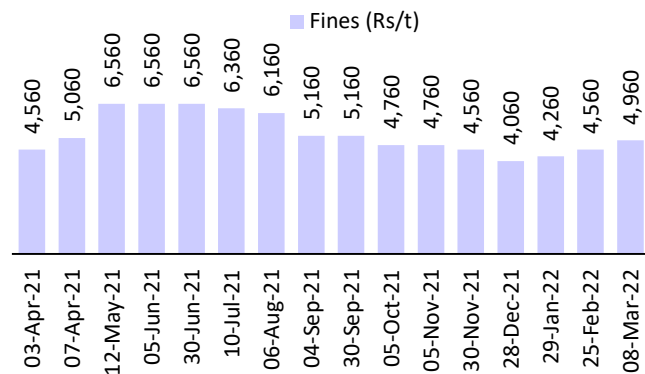
Source: MOFSL, Company

Exhibit 2: Post 49% drop, prices of lumps climb 22%



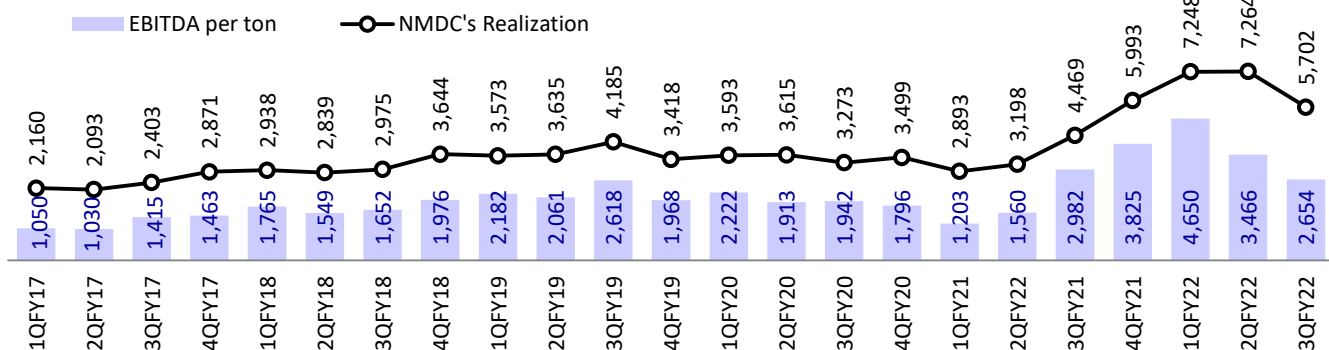
Source: MOFSL, Company Data

Exhibit 3: Prices for fines also recover 22% post 62% drop



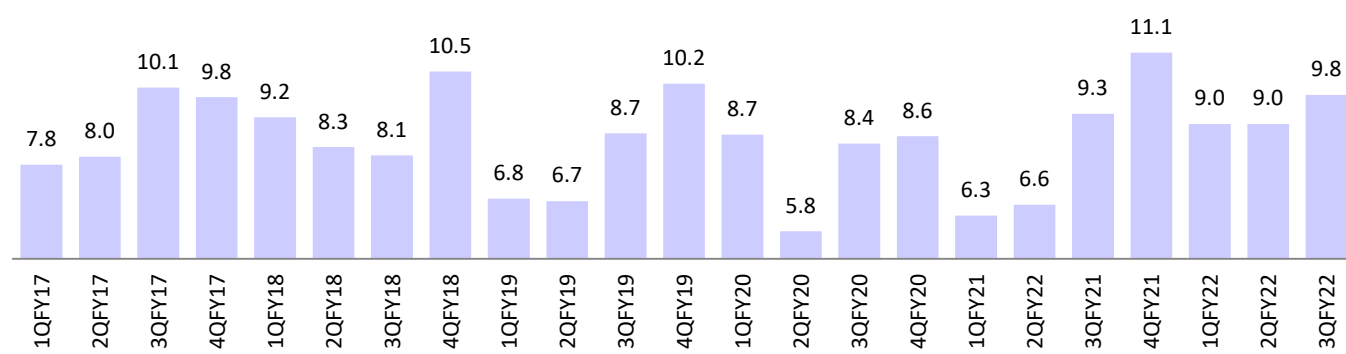
Source: MOFSL, Company Data

Exhibit 4: Profitability remains above cycle average despite steep correction



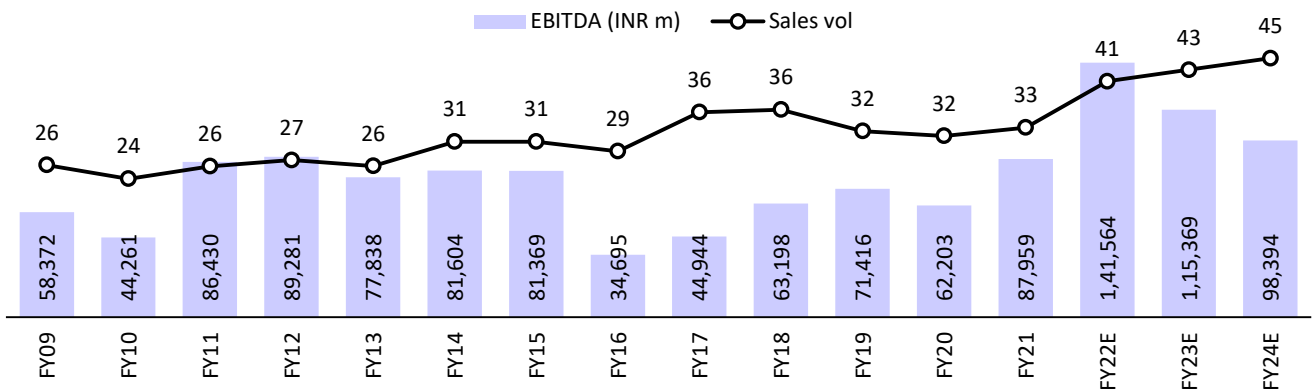
Source: MOFSL, Company

Exhibit 5: 4QFY22 delivery likely to be a new peak



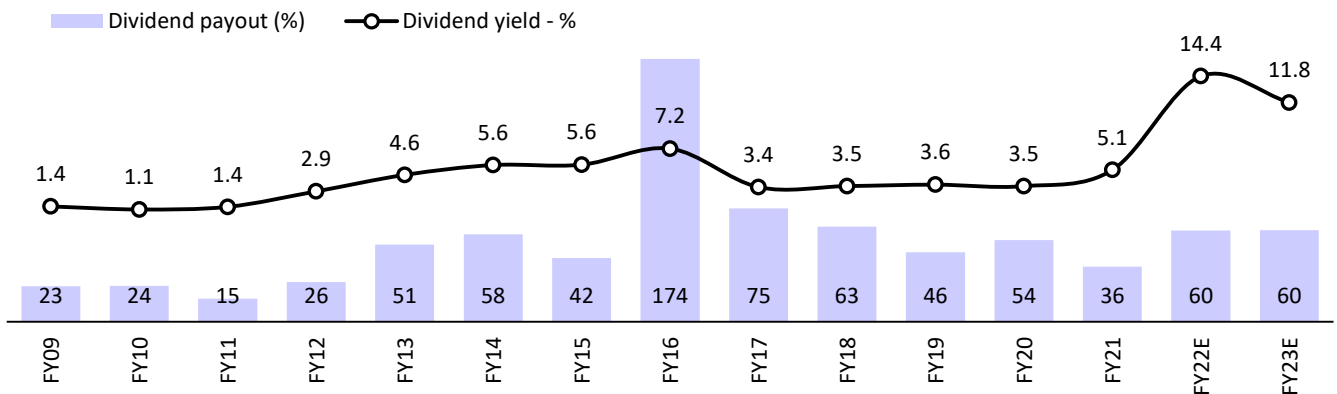
Source: MOFSL, Company

Exhibit 6: EBITDA remains strong despite lower ASP supported rising iron ore volumes



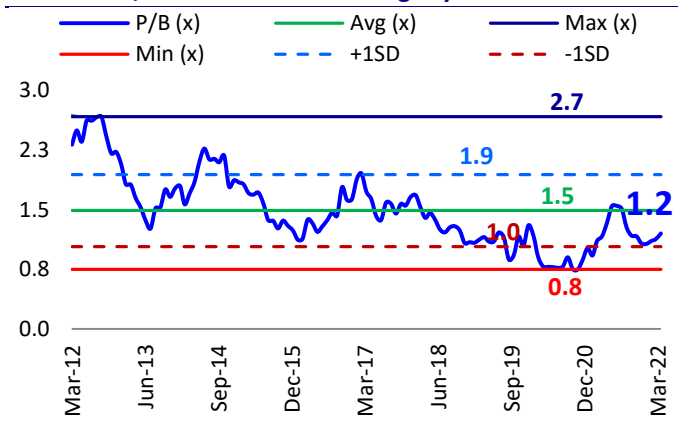
Source: Company, MOFSL

Exhibit 7: Dividend yields to remain strong even at current levels



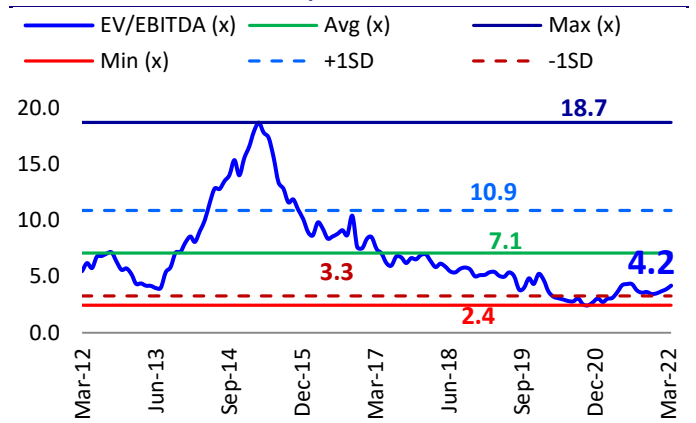
Source: MOFSL, Company

Exhibit 8: P/B remains below average cycle...



Source: MOFSL, Company Data

Exhibit 9: ...and so does EV/EBITDA



Source: MOFSL, Company Data

Exhibit 10: Global Comp valuation

Company	M.Cap USD m	PE (x)			EV/EBITDA (x)			PB (x)			ROE (x)		
		CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23	CY20/ FY21	CY21/ FY22	CY22/ FY23
NMDC Ltd	5,832	4.2	5.1	6	3.0	3.6	4.3	1.3	1.2	1.1	33.5	24.4	19.1
Vale	1,03,483	6.3	8	8.3	4.0	4.7	4.8	2.4	2.2	2.1	38.8	27.1	23.4
Rio Tinto	1,29,159	7.9	10.1	11.3	4.6	5.5	6	2.3	2.2	2	28.9	21.2	17.7
BHP Biliton	1,79,367	9.3	11.8	15	4.9	5.9	6.8	3.5	3.4	3.4	35.1	27.5	23.4
FMG	41,947	7.9	10.3	12.8	4.7	5.8	7	2.6	2.5	2.5	31.9	25.3	19.7

Source: MOFSL, Company

Exhibit 11: Key Assumptions and change in estimate

	FY22E			FY23E			FY24E		
	Old	New	% change	Old	New	% change	Old	New	% change
Iron ore Volumes - mt	40.0	41.0	2.5	43.0	43.0	-	45.0	45.0	-
Blended ASP (INR/t)	6,645	6,683	0.6	5,828	5,873	0.8	5,048	5,083	0.7
EBITDA/t - INR	3,414	3,453	1.1	2,654	2,683	1.1	2,164	2,187	1.0
EBITDA	1,36,572	1,41,564	3.7	1,14,138	1,15,369	1.1	97,380	98,394	1.0
Adj PAT	1,03,228	1,06,922	3.6	86,320	87,231	1.1	73,653	74,403	1.0

Source: MOFSL

Exhibit 12: Valuation remains inexpensive (INR m)

Target price Calculations						
Y/E March	2018	2019	2020	2021	2022E	2023E
Iron ore						
EBITDA per ton (INR)	1,752	2,207	1,974	2,669	3,453	2,683
Volumes (m tons)	36.1	32.4	31.5	33.0	41.0	43.0
EBITDA	63,198	71,416	62,203	87,959	1,41,564	1,15,369
Target EV/EBITDA(x)						4.5
Target EV						5,19,162
Add: Net Cash	49,381	42,436	18,268	38,115	27,759	32,058
Add: 50% CWIP	31,300	34,481	38,679	42,692	85,000	85,000
Equity Value						6,36,220
Target price (INR/share)						216

Source: MOFSL

Financials and Valuations

Income Statement						(INR m)		
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net sales	88,294	1,16,149	1,21,527	1,16,992	1,53,701	2,74,012	2,52,530	2,28,713
Total Expenses	43,350	52,951	50,110	54,789	65,742	1,32,449	1,37,161	1,30,319
Iron ore cost (INR/ton)	1217	1468	1549	1739	1995	3230	3190	2896
Steel cost (INR/t)								
EBITDA	44,944	63,198	71,416	62,203	87,959	1,41,564	1,15,369	98,394
% of Net Sales	50.9	54.4	58.8	53.2	57.2	51.7	45.7	43.0
EBITDA per ton ore	1,262	1,752	2,207	1,974	2,669	3,453	2,683	2,187
Deprn. & Amortization	1,962	2,560	2,789	2,869	2,278	2,478	2,653	2,828
EBIT	42,982	60,638	68,628	59,334	85,680	1,39,085	1,12,716	95,566
Net Interest		371	403	99	168	120	120	120
Other income	9,088	5,197	5,883	5,138	3,499	4,050	4,500	4,500
PBT before EO	52,070	65,464	74,107	64,373	89,011	1,43,015	1,17,096	99,946
EO income	-8,933	-5,309	-2,120	-10,778				
PBT after EO	43,137	60,155	71,987	53,596	89,011	1,43,015	1,17,096	99,946
Tax	17,038	22,093	25,565	17,413	26,485	36,093	29,865	25,542
Rate (%)	39.5	36.7	35.5	32.5	29.8	25.2	25.5	25.6
Reported PAT	26,099	38,062	46,422	36,183	62,527	1,06,922	87,231	74,403
Adjusted PAT	31,504	41,421	47,789	46,886	65,959	1,06,922	87,231	74,403
Change (%)	-10.1	31.5	15.4	-1.9	40.7	62.1	-18.4	-14.7

Balance Sheet						(INR m)		
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Share Capital	3,164	3,164	3,062	3,062	2,931	2,931	2,931	2,931
Reserves	2,22,026	2,40,374	2,56,453	2,72,278	2,94,631	3,37,077	3,71,555	4,01,998
Shareholders' funds	2,25,189	2,43,538	2,59,515	2,75,340	2,97,561	3,40,008	3,74,486	4,04,929
Loans		5,001	3,642	5,656	19,945	19,945	19,945	19,945
Long-term Provisions	6,112	7,141	7,684	8,334	9,497	9,497	9,497	9,497
Capital Employed	2,31,301	2,55,680	2,70,841	2,89,329	3,27,003	3,69,450	4,03,928	4,34,371
Gross Block	39,724	49,473	52,752	58,878	62,391	67,391	72,391	77,391
Less: Accum. Deprn.	20,196	22,756	25,545	28,414	30,692	33,171	35,824	38,652
Net Fixed Assets	19,528	26,717	27,207	30,464	31,699	34,220	36,567	38,739
Capital WIP	1,18,314	1,25,199	1,37,925	1,54,716	1,70,767	2,00,767	2,35,767	2,70,767
Investments	7,270	7,865	9,393	9,856	9,849	9,849	9,849	9,849
Curr. Assets	1,11,909	1,26,311	1,23,295	1,16,404	1,55,535	1,67,112	1,63,832	1,56,646
Inventories	5,400	5,717	6,662	7,235	9,217	15,014	13,837	12,532
Sundry Debtors	10,435	14,727	14,245	22,237	21,399	37,536	31,134	28,197
Cash and Bank	52,893	54,382	46,077	23,923	58,060	47,704	52,002	49,058
Loans and Advances	43,181	51,484	56,311	63,008	66,859	66,859	66,859	66,859
Curr. Liability & Prov.	25,719	30,411	26,979	22,103	40,846	42,499	42,087	41,630
Sundry Creditors	1,988	1,595	2,027	2,256	3,602	5,255	4,843	4,386
Other Liabilities & prov.	23,731	28,815	24,952	19,848	37,244	37,244	37,244	37,244
Net Current Assets	86,190	95,900	96,316	94,301	1,14,689	1,24,613	1,21,745	1,15,016
Misc. Exp. (not w/off)								
Application of Funds	2,31,301	2,55,680	2,70,841	2,89,336	3,27,003	3,69,449	4,03,928	4,34,370

Financials and Valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS	10.0	13.1	15.6	15.3	22.5	36.5	29.8	25.4
Cash EPS	10.6	13.9	16.5	16.2	23.3	37.3	30.7	26.4
BV/Share	71.2	77.0	84.8	89.9	101.5	116.0	127.8	138.2
DPS	5.2	5.3	5.5	5.3	7.8	22.0	18.0	15.0
Payout (%)	74.9	62.9	45.9	54.0	36.4	60.3	60.5	59.1
Valuation (x)								
P/E	15.4	11.7	9.8	10.0	6.8	4.2	5.1	6.0
Cash P/E	14.5	11.0	9.3	9.4	6.6	4.1	5.0	5.8
P/BV	2.1	2.0	1.8	1.7	1.5	1.3	1.2	1.1
EV/Sales	4.9	3.7	3.5	3.8	2.7	1.5	1.6	1.8
EV/EBITDA	9.6	6.9	6.0	7.2	4.7	3.0	3.6	4.3
Dividend Yield (%)	3.4	3.5	3.6	3.5	5.1	14.4	11.8	9.8
EV (USD/t)	4.5	4.7	4.2	4.4	3.8	3.9	3.8	3.7
Return Ratios (%)								
EBITDA Margins	50.9	54.4	58.8	53.2	57.2	51.7	45.7	43.0
Net Profit Margins	35.7	35.7	39.3	40.1	42.9	39.0	34.5	32.5
RoE	13.5	17.7	19.3	17.5	23.5	33.5	24.4	19.1
RoCE	11.5	17.1	18.3	15.5	20.3	30.7	22.6	17.8
RoIC	44.0	63.4	60.8	44.9	63.6	104.3	77.2	67.4
Working Capital Ratios								
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.0	2.5	4.1	3.5	3.0
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.5	0.7	0.6	0.5
Debtor (Days)	43	46	43	69	51	50	45	45
Inventory (Days)	22	18	20	23	22	20	20	20
Creditors (Days)	8	5	6	7	9	7	7	7
Leverage Ratio (x)								
Current Ratio	4.4	4.2	4.6	5.3	3.8	3.9	3.9	3.8
Debt/Equity	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
(INR m)								
Pre-tax profit	43,137	60,155	71,987	53,596	89,011	1,43,015	1,17,096	99,946
Depreciation	1,962	2,560	2,789	2,944	2,278	2,478	2,653	2,828
(Inc)/Dec in Wkg. Cap.	13,117	-8,676	-8,629	-21,434	5,277	-20,281	7,167	3,785
Tax paid	-18,942	-23,432	-26,024	-23,047	-24,877	-36,093	-29,865	-25,542
Other operating activities	406	3,205	346	8,545	1,615			
CF from Op. Activity	39,679	33,812	40,469	20,604	73,305	89,119	97,051	81,016
(Inc)/Dec in FA + CWIP	-23,505	-20,524	-19,972	-23,990	-15,981	-35,000	-40,000	-40,000
(Pur)/Sale of Investments	-316	-2,523	7,661	17,155	312			
Others		6,294	(3,504)	(18,391)	2,412			
CF from Inv. Activity	-23,821	-16,753	-15,816	-25,226	-13,256	-35,000	-40,000	-40,000
Equity raised/(repaid)	-76,078		-10,067		-17,006			
Interest paid		-369	-401	-97	-166			
Debt raised/(repaid)	-14,970	5,001	-1,359	2,014	14,289			
Dividend (incl. tax)	-19,553	-23,923	-21,321	-19,525	-22,733	-64,475	-52,753	-43,961
Other financing activities		3721	190	77	-296			
CF from Fin. Activity	-1,10,601	-15,570	-32,959	-17,531	-25,912	-64,475	-52,753	-43,961
(Inc)/Dec in Cash	-94,743	1,490	-8,305	-22,154	34,137	-10,356	4,299	-2,944
Add: opening Balance	1,47,636	52,893	54,382	46,077	23,923	58,060	47,704	52,002
Closing Balance	52,893	54,382	46,077	23,923	58,060	47,704	52,002	49,058

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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