

BSE SENSEX
58,576

S&P CNX
17,530



Stock Info

Bloomberg	NMDC IN
Equity Shares (m)	2,931
M.Cap.(INRb)/(USDb)	497.3 / 6.5
52-Week Range (INR)	213 / 128
1, 6, 12 Rel. Per (%)	2/15/4
12M Avg Val (INR M)	2512
Free float (%)	39.2

Financials Snapshot (INR b)

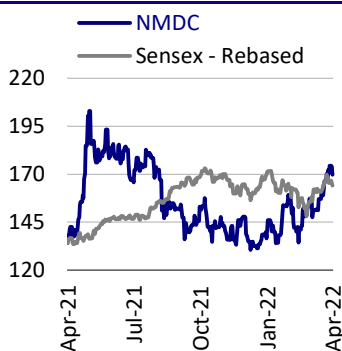
Y/E March	2021	2022E	2023E
Net Sales	153.7	264.4	232.1
EBITDA	88.0	130.5	97.1
PAT	66.0	99.8	74.4
EPS (INR)	22.5	34.1	25.4
Gr. (%)	47.0	51.3	-25.4
BV/Sh (INR)	101.5	115.6	126.0
RoE (%)	23.5	31.4	21.0
RoCE (%)	20.3	28.7	19.4
P/E (x)	7.5	5.0	6.7
P/BV (x)	1.7	1.5	1.3
EV/EBITDA	5.2	3.6	4.8

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: INR170 TP: INR220 (+30%)

Buy

Steel plant commissioning nears; demerger in 3QFY23E

Multiple long-term and short-term triggers to propel the stock

- After posting the highest ever annual production of iron ore (at 42mt) in FY22, NMDC has raised the bar and is now aiming at 46mt for FY23E and even higher for FY24E. The growth will be driven by both Chhattisgarh and Karnataka sectors.
- The Nagarnar Iron and Steel Company (NISP) steel plant is nearing commissioning and we expect the same to be completed by end-2QFY23/early-3QFY23.
- The company is working on the demerger of the steel plant in parallel and is likely to complete the process in 2QFY23/early-3QFY23.
- With more iron ore mines being put on auction and steel companies achieving self-sufficiency, the long-term approach of the government to tax iron ore exports (to discourage the same) may warrant a second thought. This can trigger a re-rating of NMDC as it plans to increase its capacity to 70mt in the near term.
- The stock is trading at 3.4x our FY23E EV/EBITDA, excluding the book value of the steel plant. We raise our SoTP-based TP to INR220 (from INR200) valuing NMDC's: (a) mining business at 5x FY23E EV/EBITDA and (b) steel plant CWIP at 75% of the total capex (from 50% earlier). Our FY23 iron ore fines assumption is at a 10% discount to the CMP. **Maintain BUY.**

Iron ore prices raised by INR1,100/t in the last four months

- NMDC has increased iron ore prices by INR200/t for fines and INR1,000/t for lumps, marking a fourth price hike since the beginning of 4QFY22. It has raised the offer prices to INR5,160/t and INR6,100/t, respectively. The price hikes are driven by higher prices of pellets, DRI and secondary TMT.
- These hikes have resulted in a cumulative price increase of INR1,100/t for fines and INR1,200/t for lumps.
- Further hikes in iron ore prices will depend on international coal prices, which will fuel the domestic secondary TMT and DRI prices.

Commissioning of steel plant and demerger of business in 2Q/3QFY23E

- As highlighted in our previous report (link [here](#)), NMDC has already initiated the process of commissioning of the steel plant by starting the heating of the coke oven batteries in Jan'22.
- We believe the demerger of the NISP, which is likely to be completed by 3QFY23E, will be the key trigger for the stock. Thereafter, the government is anticipated to call for bids from potential suitors, which should likely lead to a sale of the government's holding in the steel plant to the new owner.
- The management highlighted that the demerged financials would likely be presented to the Board in 1HFY23E.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- As highlighted in our previous report (link [here](#)), the management is likely to split the company vertically with mirror shareholding structure. This means, a person holding one share in NMDC will receive one share in NISP in addition to his/her existing holding of one share in NMDC.
- These shares of NISP will be listed on the stock exchanges once they are issued and regulatory approvals are in place.
- In the interim, the NISP will have a separate management (post-demerger) team and the required manpower will be working on an MDO basis.

Valuation remains inexpensive; retain BUY with 30% potential upside

- Domestic iron ore price is not a true reflection of the international price, as it depends upon several factors including: (a) domestic secondary iron ore price, (b) domestic sponge iron price, and (c) domestic pellet price. A weak pricing in any of these three segments can impact the pricing of domestic iron ore. We believe as long as international thermal coal price remains strong, the pricing for the domestic sponge iron, secondary rebar and pellet will remain strong and so will domestic iron ore price.
- The current government has been trying to e-auction more iron ore mines to help steel and other units achieve self-sufficiency. This should reduce the dependence on merchant iron ore for these steel plants. Once the major steel plants achieve self-sufficiency in iron ore, there will be no case for imposition of 30% export duty on iron ore. The government in that case is likely to reconsider this policy and liberalize the sector as well and implement a level-playing field for the Indian iron ore miners in the international market.
- While NMDC has guided for 46mt iron ore production in FY23, we are building in production and sales of 45mt in our estimates. In addition, our price assumption is 10% lower compared with the current price, which leaves headroom for both price as well as volume expansion.
- NMDC's iron ore price is about 30% cheaper on the eastern coast of India and about 20% cheaper on the western coast of India v/s Australian imports on grades adjusted basis. Hence, there is a disincentive for steel makers to import iron ore vis-à-vis buying from NMDC.
- NMDC is currently trading at 3.4x/3.1x our FY23E/24E EV/EBITDA for the core mining business.
- Our SoTP-based TP of INR220 (up from INR200) comprises: a) INR173 for the core iron ore mining business, factoring in a lower ASP v/s the CMP – valuing at 5x FY23 EV/EBITDA and (b) INR47 for the steel CWIP at 25% discount as the commissioning is likely to happen in FY23 itself.
- Key risk to our call is slowdown in China, which could lead to lower steel and iron ore prices.

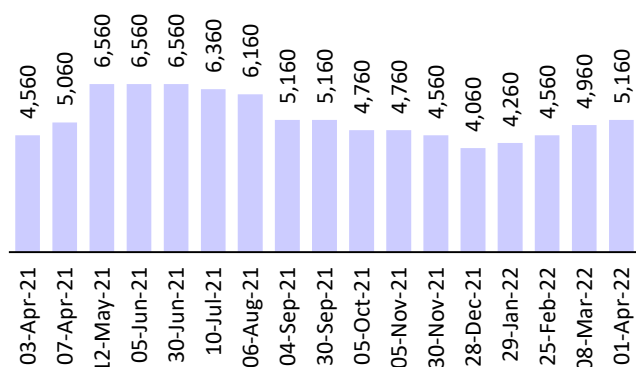
Story in charts

Exhibit 1: Key operating metrics

Key metrics	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Iron ore sales volume - m tons	28.8	35.6	36.1	32.4	31.5	33.0	40.8	45.0	50.0
Blended realization - INR/t	2,233	2,479	3,220	3,756	3,713	4,663	6,480	5,157	4,696
Operating expenses - INR/t	1,030	1,217	1,468	1,549	1,739	1,995	3,281	2,999	2,810
EBITDA - INR/t	1,203	1,262	1,752	2,207	1,974	2,669	3,199	2,157	1,886
EBITDA - INR b	35	45	63	71	62	88	130	97	94

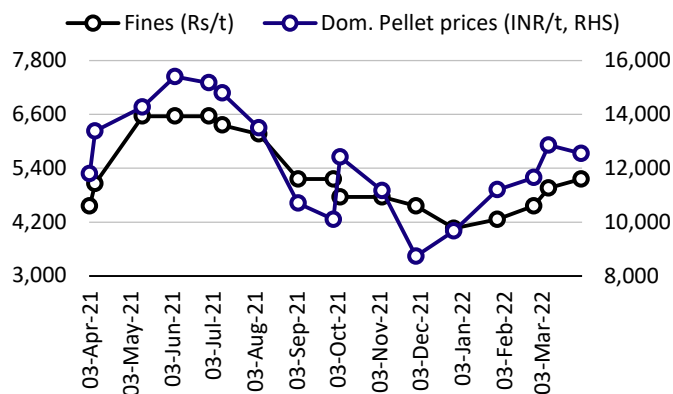
Source: MOFSL, Company

Exhibit 2: Price for fines recovered 27% post 62% drop



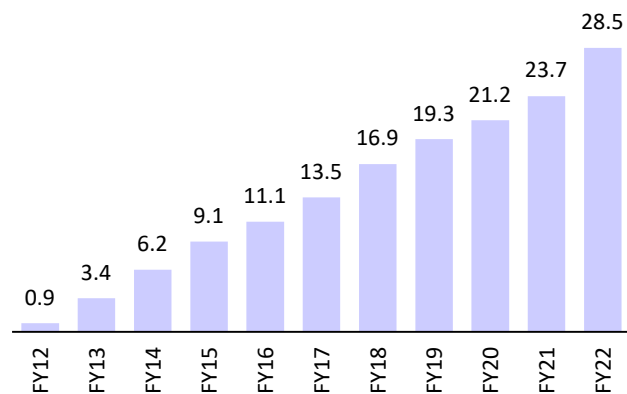
Source: MOFSL, Company Data

Exhibit 3: Domestic pellet price v/s NMDC fines price



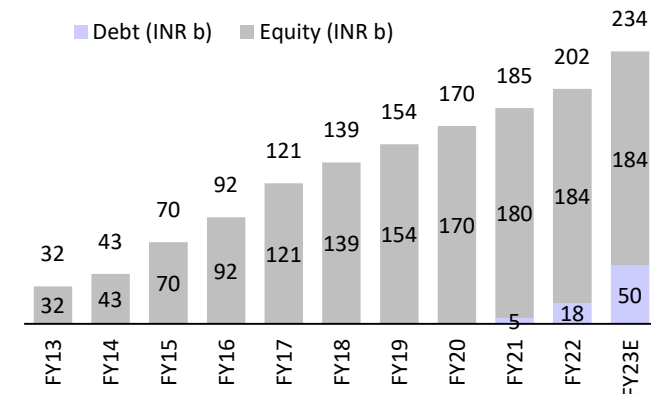
Source: MOFSL, Company Data, SteelMint

Exhibit 4: Money retained by monitoring committee (INR b)



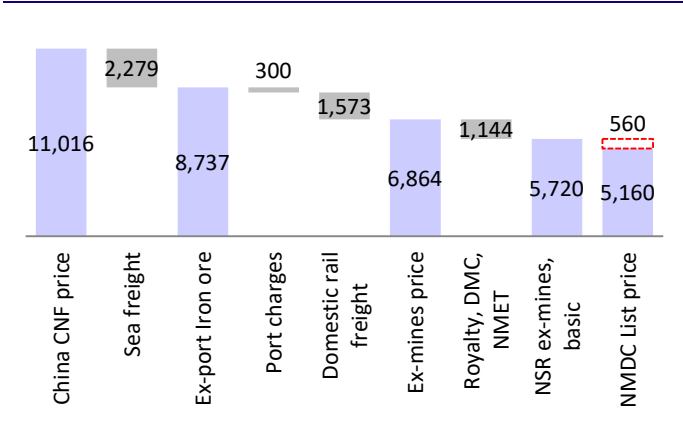
Source: MOFSL, Company Data

Exhibit 5: NISP capex largely equity funded



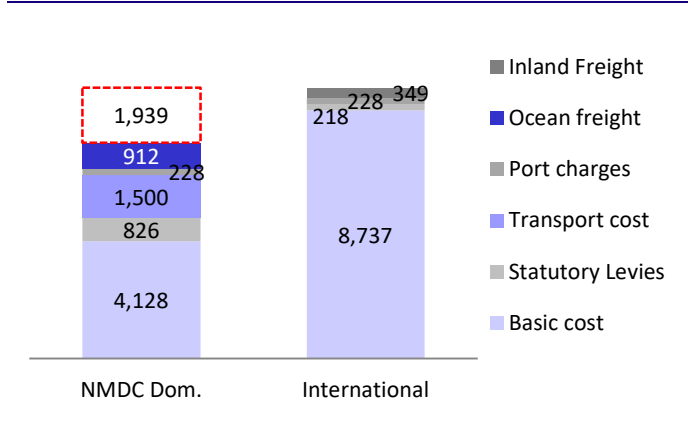
Source: MOFSL, Company Data

Exhibit 6: Iron ore export is profitable despite 30% export tax (INR/t)



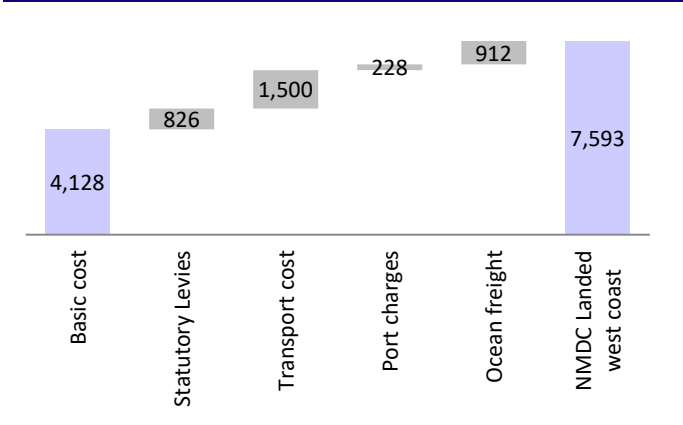
Source: MOFSL

Exhibit 7: NMDC ore is 30% cheaper compared to import for similar grade of iron ore(USD/t)



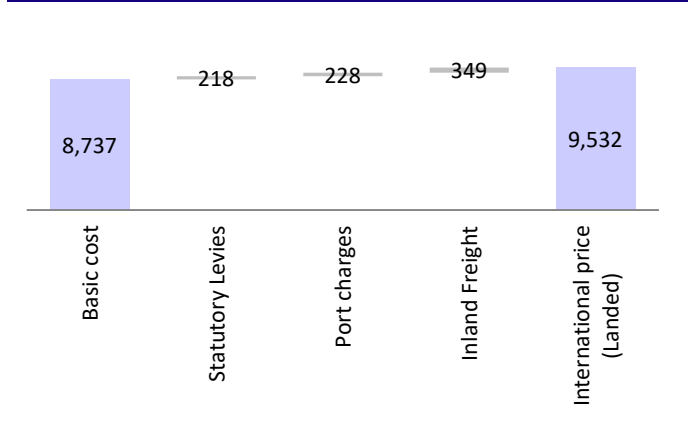
Source: MOFSL

Exhibit 8: Domestic iron ore landed price (INR/t)



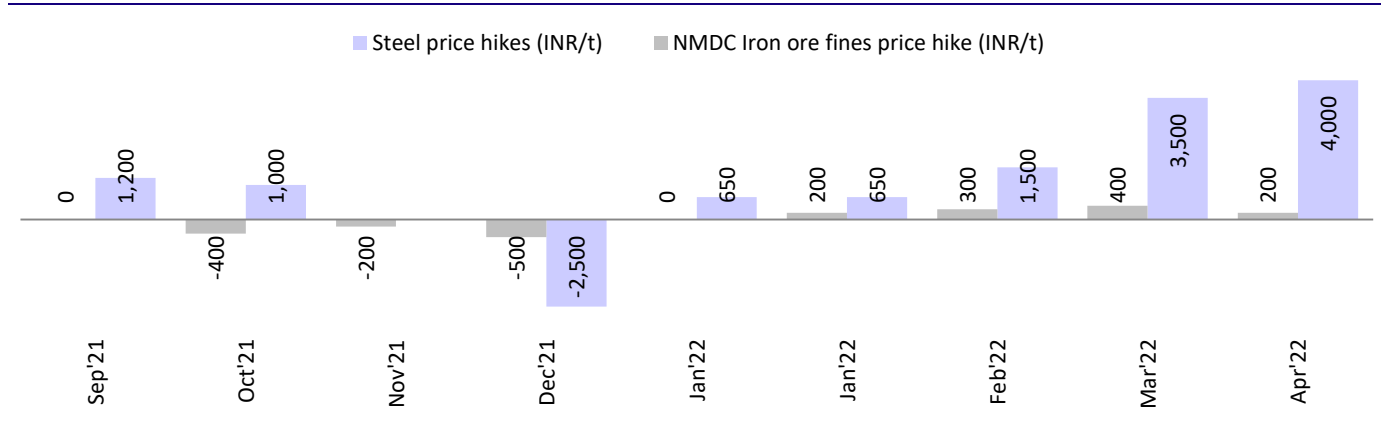
Source: MOFSL

Exhibit 9: Imported iron ore landed price (USD/t)



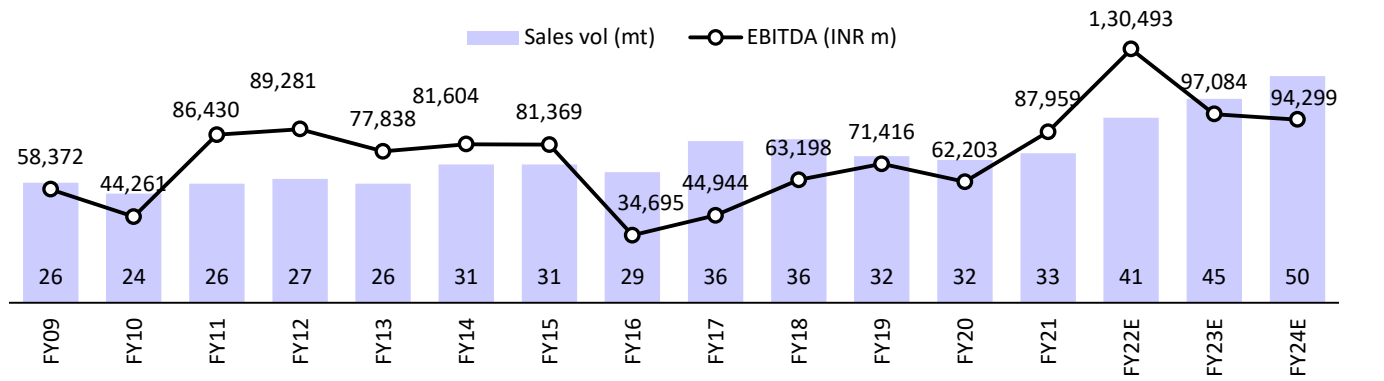
Source: MOFSL

Exhibit 10: Steel price hikes provide headroom for further NMDC price hikes of iron ore



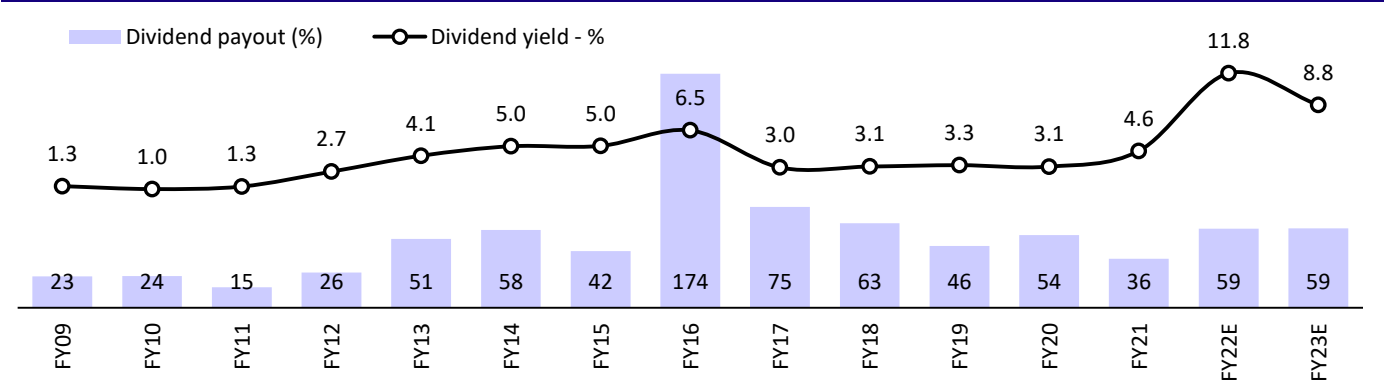
Source: MOSL, Company

Exhibit 11: EBITDA expected to remain strong despite lower ASP, supported by rising iron ore volumes



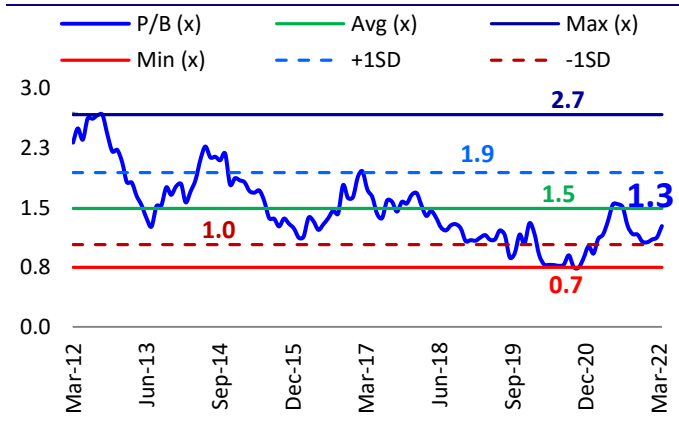
Source: Company, MOFSL

Exhibit 12: Dividend yield is attractive even at current levels



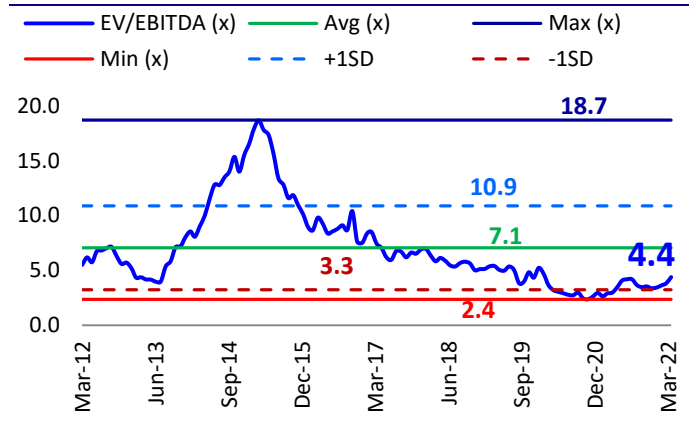
Source: MOFSL, Company

Exhibit 13: P/B remains below average cycle...



Source: MOFSL, Company Data

Exhibit 14: ...and so does EV/EBITDA



Source: MOFSL, Company Data

Exhibit 15: Key assumptions and change in estimates

INR m	FY22E			FY23E			FY24E		
	Old	New	% change	Old	New	% change	Old	New	% change
Iron ore Volumes - mt	40.8	40.8	-	43.0	45.0	4.7	45.0	50.0	11.1
Blended ASP (INR/t)	6,480	6,480	-	5,157	5,157	-	4,696	4,696	-
Revenue	2,64,356	2,64,356	-	2,21,742	2,32,055	4.7	2,11,328	2,34,808	11.1
EBITDA/t - INR	3,199	3,199	-	2,215	2,157	-2.6	1,935	1,886	-2.5
EBITDA	1,30,493	1,30,493	-	95,247	97,084	1.9	87,078	94,299	8.3
Adj PAT	98,730	99,803	1.1	72,340	74,440	2.9	66,029	72,113	9.2

Source: MOSL

Exhibit 16: Valuation remains inexpensive – TP calculation

Y/E March	2018	2019	2020	2021	2022E	2023E
Iron ore						
EBITDA per ton (INR)	1,752	2,207	1,974	2,669	3,199	2,157
Volumes (m tons)	36.1	32.4	31.5	33.0	40.8	45.0
EBITDA	63,198	71,416	62,203	87,959	1,30,493	97,084
Target EV/EBITDA(x)						5.0
Target EV						4,85,420
Add: Net Cash	49,381	42,436	18,268	38,115	28,168	30,055
Add: 75% CWIP	31,300	34,481	38,679	42,692	85,000	1,38,000
Equity Value						6,53,474
Target price (INR/share)						220

Source: MOFSL

Exhibit 17: Global comparative valuations

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*	6,530	5.0	6.7	6.9	3.6	4.8	5.1	1.5	1.3	1.3	31.4	21.0	18.8
Vale	1,00,072	5.3	6.8	8.4	3.3	4.1	4.9	2.2	2.0	1.9	45.9	30.3	23.0
FMG	48,469	8.1	9.9	13.6	4.9	5.7	7.5	2.8	2.7	2.7	34.9	30.4	20.4

Source: MOSL, Company. (*) denotes MOFSL estimates

Financials and valuations

Income Statement (Consolidated)

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	2,64,356	2,32,055	2,34,808
Total Expenses	43,350	52,951	50,110	54,789	65,742	1,33,862	1,34,972	1,40,509
Iron ore cost (INR/ton)	1217	1468	1549	1739	1995	3281	2999	2810
Steel cost (INR/t)								
EBITDA	44,944	63,198	71,416	62,203	87,959	1,30,493	97,084	94,299
% of Net Sales	50.9	54.4	58.8	53.2	57.2	49.4	41.8	40.2
EBITDA per ton ore	1,262	1,752	2,207	1,974	2,669	3,199	2,157	1,886
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	1,28,015	94,431	91,471
Net Interest		371	403	99	168	120	120	120
Other income	9,088	5,197	5,883	5,138	3,499	5,500	5,500	5,500
PBT before EO	52,070	65,464	74,107	64,373	89,011	1,33,395	99,811	96,851
EO income	-8,933	-5,309	-2,120	-10,778				
PBT after EO	43,137	60,155	71,987	53,596	89,011	1,33,395	99,811	96,851
Tax	17,038	22,093	25,565	17,413	26,485	33,592	25,371	24,738
Rate (%)	39.5	36.7	35.5	32.5	29.8	25.2	25.4	25.5
Reported PAT	26,099	38,062	46,422	36,183	62,527	99,803	74,440	72,113
Adjusted PAT	31,504	41,421	47,789	46,886	65,959	99,803	74,440	72,113
Change (%)	-10.1	31.5	15.4	-1.9	40.7	51.3	-25.4	-3.1

Balance Sheet

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	3,35,820	3,66,299	3,94,451
Shareholders' funds	2,25,189	2,43,538	2,59,515	2,75,340	2,97,561	3,38,750	3,69,229	3,97,382
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	3,68,192	3,98,671	4,26,824
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	1,65,670	1,58,183	1,49,216
Inventories	5,400	5,717	6,662	7,235	9,217	14,485	12,715	12,866
Sundry Debtors	10,435	14,727	14,245	22,237	21,399	36,213	28,610	28,949
Cash and Bank	52,893	54,382	46,077	23,923	58,060	48,113	49,999	40,542
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	42,314	41,694	41,747
Sundry Creditors	1,988	1,595	2,027	2,256	3,602	5,070	4,450	4,503
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	1,23,356	1,16,488	1,07,469
Misc. Exp. (not w/off)								
Application of Funds	2,31,301	2,55,680	2,70,841	2,89,336	3,27,003	3,68,192	3,98,671	4,26,823

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	34.1	25.4	24.6
Cash EPS	10.6	13.9	16.5	16.2	23.3	34.9	26.3	25.6
BV/Share	71.2	77.0	84.8	89.9	101.5	115.6	126.0	135.6
DPS	5.2	5.3	5.5	5.3	7.8	20.0	15.0	15.0
Payout (%)	74.9	62.9	45.9	54.0	36.4	58.7	59.1	61.0
Valuation (x)								
P/E	17.0	13.0	10.9	11.1	7.5	5.0	6.7	6.9
Cash P/E	16.0	12.2	10.3	10.4	7.3	4.9	6.5	6.6
P/BV	2.4	2.2	2.0	1.9	1.7	1.5	1.3	1.3
EV/Sales	5.5	4.2	3.9	4.3	3.0	1.8	2.0	2.0
EV/EBITDA	10.8	7.7	6.7	8.1	5.2	3.6	4.8	5.1
Dividend Yield (%)	3.0	3.1	3.3	3.1	4.6	11.8	8.8	8.8
EV (USD/t)	5.0	5.2	4.8	4.9	4.3	4.4	4.3	4.3
Return Ratios (%)								
EBITDA Margins	50.9	54.4	58.8	53.2	57.2	49.4	41.8	40.2
Net Profit Margins	35.7	35.7	39.3	40.1	42.9	37.8	32.1	30.7
RoE	13.5	17.7	19.3	17.5	23.5	31.4	21.0	18.8
RoCE	11.5	17.1	18.3	15.5	20.3	28.7	19.4	17.5
RoIC	44.0	63.4	60.8	44.9	63.6	96.8	66.3	65.3
Working Capital Ratios								
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.0	2.5	3.9	3.2	3.0
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.5	0.7	0.6	0.6
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	3.8	3.6
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
Pre-tax profit	43,137	60,155	71,987	53,596	89,011	1,33,395	99,811	96,851
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	-18,614	8,754	-437
Tax paid	-18,942	-23,432	-26,024	-23,047	-24,877	-33,592	-25,371	-24,738
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	83,667	85,847	74,504
(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	-58,614	-43,961	-43,961
Other financing activities		3721	190	77	-296			
CF from Fin. Activity	-1,10,601	-15,570	-32,959	-17,531	-25,912	-58,614	-43,961	-43,961
(Inc)/Dec in Cash	-94,743	1,490	-8,305	-22,154	34,137	-9,947	1,886	-9,457
Add: opening Balance	1,47,636	52,893	54,382	46,077	23,923	58,060	48,113	49,999
Closing Balance	52,893	54,382	46,077	23,923	58,060	48,113	49,999	40,542

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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