

Estimate changes

TP change

Rating change



Bloomberg	NMDC IN
Equity Shares (m)	2,931
M.Cap.(INRb)/(USDb)	332.2 / 4.1
52-Week Range (INR)	126 / 71
1, 6, 12 Rel. Per (%)	13/-1/9
12M Avg Val (INR M)	1516

Financials & Valuations (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	259	174	214
Adj EBITDA	128	55	57
Adj. PAT	98	45	43
EBITDA Margin (%)	49	31	27
Cons. Adj. EPS (INR)	33	15	15
EPS Gr. (%)	48	-54	-4
BV/Sh. (INR)	119	126	132

Ratios

Net D:E	-0.1	-0.1	0.0
RoE (%)	30.2	12.6	11.5
RoCE (%)	26.2	11.3	10.3
Payout (%)	45.0	58.1	60.6

Valuations

P/E (x)	3.8	8.2	8.5
P/BV (x)	1.1	1.0	1.0
EV/EBITDA(x)	2.6	6.1	6.3
Div. Yield (%)	11.7	7.1	7.1

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	60.8	60.8	60.8
DII	21.0	22.1	21.9
FII	6.0	5.9	6.8
Others	12.3	11.2	10.5

FII Includes depository receipts

CMP:INR113

TP: INR124 (+9%)

Neutral

Weak results; costs rise | maintain Neutral

- NMDC's net sales declined 51% YoY and 30% QoQ to INR33b in 2QFY23 (in line). Iron ore sales fell 6% YoY (up 8% QoQ) at 8.43mt. YoY decline in iron ore sales reflects demand slow down in the merchant ore market.
- EBITDA shrunk 73% YoY and 55% QoQ to INR8.5b, and was significantly lower than our estimate of INR12b despite in-line revenue, indicating higher-than-estimated operating costs partly offset by lower royalty and additional premium as IBM prices come at a lag. EBITDA/t at INR1,009 was down 71% YoY and 59% QoQ, which reflects higher costs as both sales volume and ASP were in line.
- APAT fell 62% YoY and 40% QoQ to INR8.9b, 9% miss on our estimate of INR9.7b. While EBITDA miss was at 27%, APAT miss was just 9% due to significantly higher-than-estimated other income (+3.8x YoY/+2x QoQ).

Iron ore demand remains weak, demerger not a trigger in our view

- After imposition of export duty on steel (15%), iron ore (50% for all grades) and pellets (45%) in May'22, NMDC reduced the price of iron ore fines/lumps by INR2,350/INR2,200, respectively. However, since Aug'22 to date, NMDC managed to raise iron ore lumps prices by INR200/t and fines by INR100/t and has since then rolled over the prices.
- We note that the sharp rise in thermal coal prices along with weak demand for secondary TMT has kept prices of iron ore low. The situation has not changed much since then.
- NMDC has demerged the steel plant with shareholders of NMDC getting similar number of shares in NMDC steel plant. The demerger and listing of the shares in NMDC steel plant is no trigger in our view. We believe the existing investors who received shares through demerger will largely be sellers in that company post-listing.
- All large private steel players in India have their own expansion plans in HRC, which is at a notably lower capex than NMDC. We do not expect the NMDC steel plant to be divested at a premium for several reasons.

Valuation and view

- Due to the weak results, we have cut our FY23/24 EBITDA estimates by 6%/1%, respectively, and PAT estimate by 2% each. We note that a possible demand recovery in China can lead to improved demand in steel and consequently steel prices in India.
- We believe iron ore prices will remain under pressure and will not pick up as long as export duty on iron ore continues. We also expect steel players to ramp up their captive mines that will further reduce the demand for merchant iron ore.
- The stock is trading at 4.1x FY23E EV/EBITDA on core mining business. We value the steel business at 50% to the CWIP at INR38/sh. We believe the stock adequately reflects the current downturn in the domestic iron ore market. Maintain **Neutral** with a revised SoTP-based TP of INR124 (v/s INR128 earlier).

Consolidated Quarterly Performance

(INR b)

Y/E March	FY22				FY23E				FY22	FY23E	FY23	v/s Est (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Iron ore Production (mt)	8.9	8.8	10.6	13.9	8.9	7.1	10.8	11.5	42.2	38.3	8.7	-18.3
Iron ore Sales (mt)	9.0	9.0	9.8	12.3	7.8	8.4	10.8	11.5	40.1	38.5	8.7	-3.1
Avg NSR (INR/t)	7,248	7,561	5,967	5,456	6,111	3,947	4,087	4,308	6,455	4,533	3,918	
Net Sales	65.1	67.9	58.7	67.0	47.7	33.3	44.1	49.3	258.8	174.4	34.0	-2.2
Change (YoY %)	236.1	204.7	34.9	-2.1	-26.8	-51.0	-24.9	-26.4	68.4	-32.6	-49.9	
Change (QoQ %)	-4.9	4.3	-13.5	14.1	-28.9	-30.2	32.5	11.9			-28.6	
Adj EBITDA	41.7	31.1	26.1	28.8	19.0	8.5	12.8	14.4	127.8	54.7	12.0	-28.8
Change (YoY %)	452.7	202.3	-5.6	-32.0	-54.5	-72.7	-51.1	-50.0	45.3	-57.2	-61.6	
Change (QoQ %)	-1.6	-25.4	-16.1	10.4	-34.2	-55.2	49.9	13.0			-37.0	
EBITDA per ton (USD)	63	47	35	31	31	13	15	15	43	18	17	-26.6
EBITDA per ton (INR/t)	4,644	3,466	2,654	2,347	2,434	1,009	1,183	1,259	3,188	1,421	1,376	-26.6
Interest	0.0	0.0	0.1	0.3	0.2	0.2	0.1	0.1	0.4	0.5	0.1	135.9
Depreciation	0.6	0.6	0.6	1.1	0.8	0.7	0.8	0.8	2.9	3.1	0.6	24.4
Other Income	1.4	0.9	1.5	3.3	1.5	4.3	1.5	1.7	7.2	8.9	1.4	210.1
PBT (before EO Item)	42.6	31.4	27.0	30.8	19.4	11.9	13.4	15.2	131.8	59.9	12.7	-6.4
Extra-ordinary item	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	2.0	0.0	0.0	
PBT (after EO Item)	42.6	31.4	27.0	32.8	19.4	11.9	13.4	15.2	133.8	59.9	12.7	-6.4
Total Tax	10.7	8.0	6.5	10.7	4.8	3.0	3.1	3.6	35.8	14.5	3.0	1.4
% Tax	25.1	25.5	24.0	32.5	24.5	25.3	23.4	23.6	26.8	24.2	23.3	
Reported PAT	31.9	23.4	20.5	20.1	14.7	8.9	10.3	11.6	95.9	45.4	9.7	-8.7
Adjusted PAT	31.9	23.4	20.5	22.2	14.7	8.9	10.3	11.6	97.9	45.4	9.7	-8.7
Change (YoY %)	497.7	202.4	-2.8	-30.3	-54.0	-62.2	-49.9	-47.5	48.5	-53.6	-59	
Change (QoQ %)	0.3	-26.6	-12.4	8.1	-33.7	-39.7	15.9	13.2			-34	

Source: Company, MOFSL

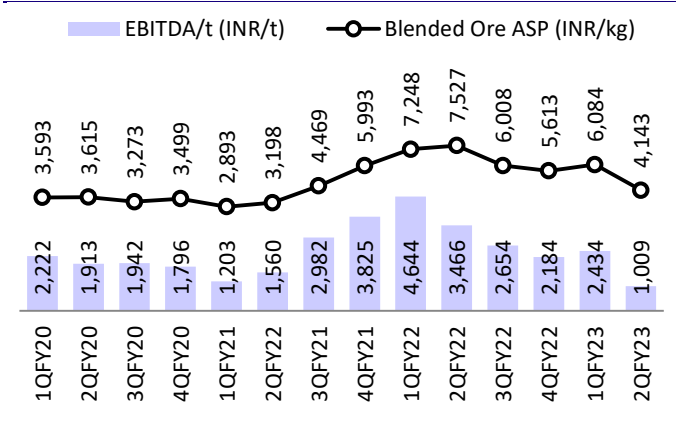
Commissioning of the steel plant at the wrong time

- NMDC is commissioning its steel plant when demand for HRC is weak; JSW is ramping up its 5mt HRC expansion at Dolvi and by end FY24 it will be commissioning another 5mt at Vijayanagar followed by 5mt HRC expansion by Tata Steel and another 6mt by JSPL.
- Amongst these capacities, we believe it will be very difficult for NMDC to sell in the domestic market, which could keep its production at lower utilization levels and also the margins thin.
- As highlighted earlier, bulk of the manpower engaged in NMDC Steel plant is either contractual or on deputation from other PSUs.
- The plant is in the vicinity of iron ore hub is a positive though.

China can remain a wild card with difficult to predict

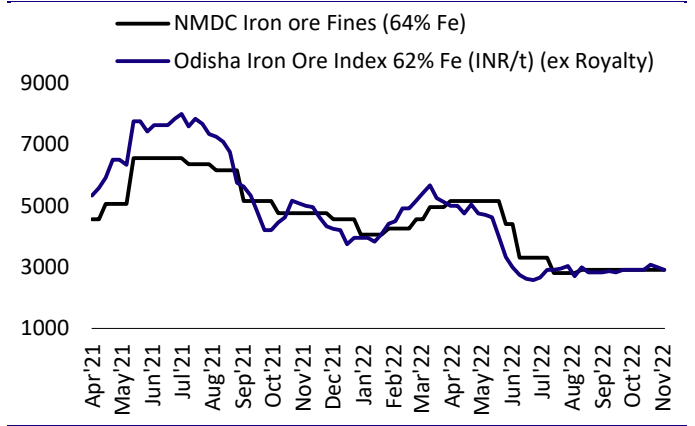
- China has recently started loosening its zero-Covid strategy through lowering the mandatory hotel/home quarantine period. In addition, it is also supporting targeted lending to the private real estate developers to prevent any defaults.
- These measures will eventually lead to a better demand for steel and we believe steel prices should pick up consequently.
- However, we believe unless the government removes the export duty on iron ore, the pricing power will not return in the sector.

Exhibit 1: EBITDA/t impacted by lower blended Ore ASP



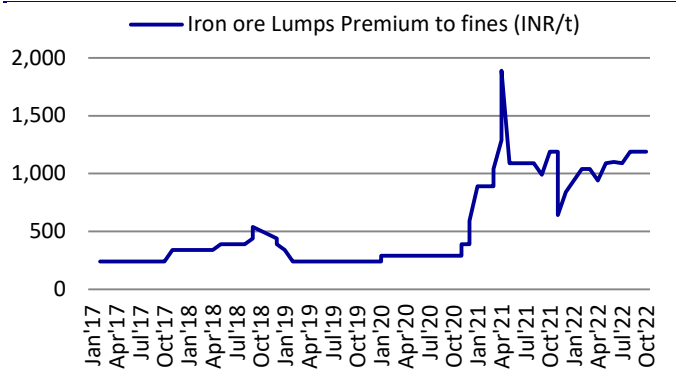
Source: MOFSL, Company

Exhibit 2: NMDC iron ore prices has strong linkage to Odisha Iron ore Fines



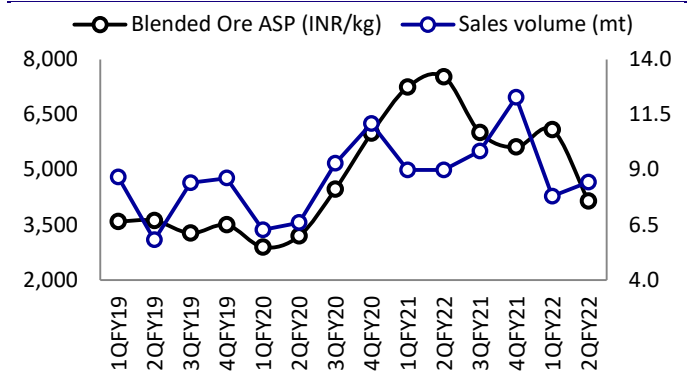
Source: MOFSL, Company

Exhibit 3: Premium for lumps still higher than historical average



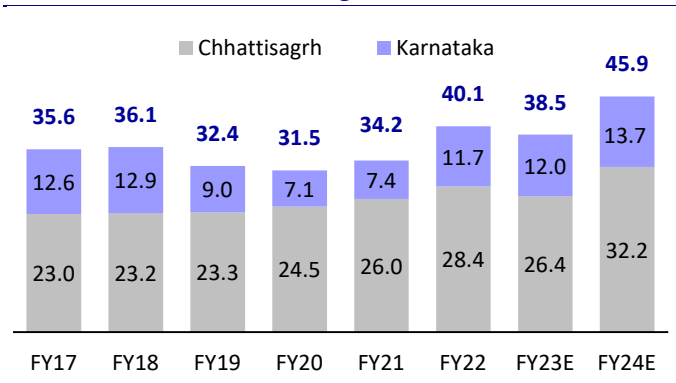
Source: MOFSL, Company

Exhibit 4: Revenue correction in the quarter was ASP driven



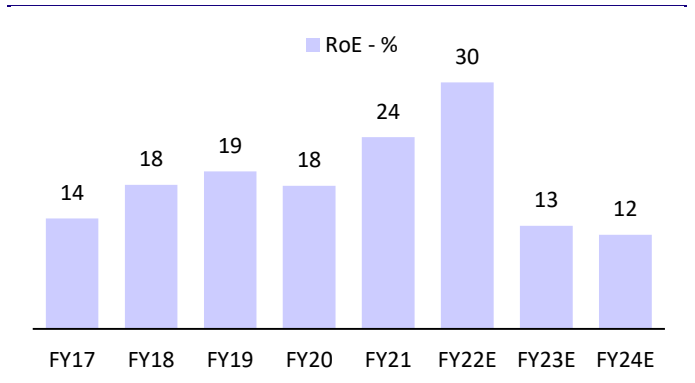
Source: MOFSL, Company

Exhibit 5: Production for FY23E is likely to take slight dip on weak demand before bouncing back in FY24E

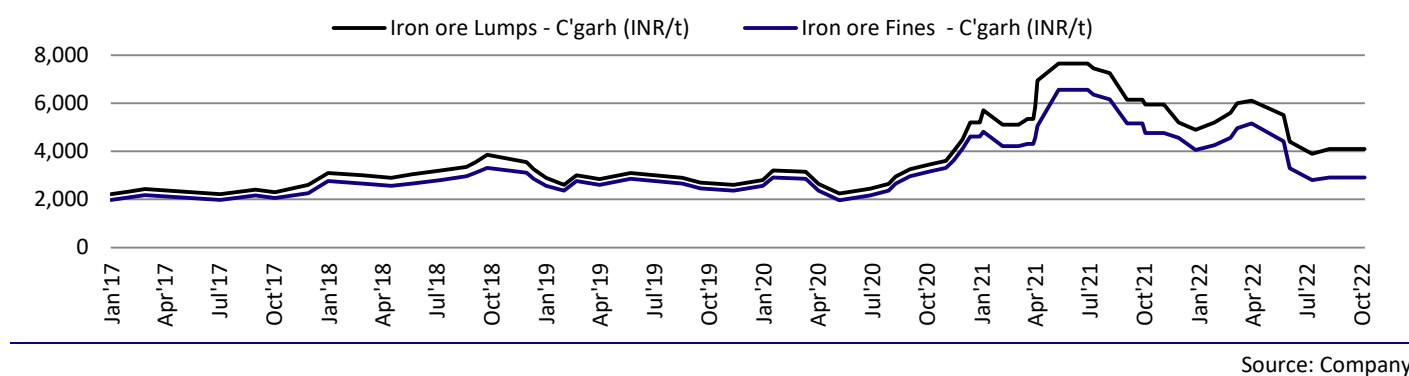
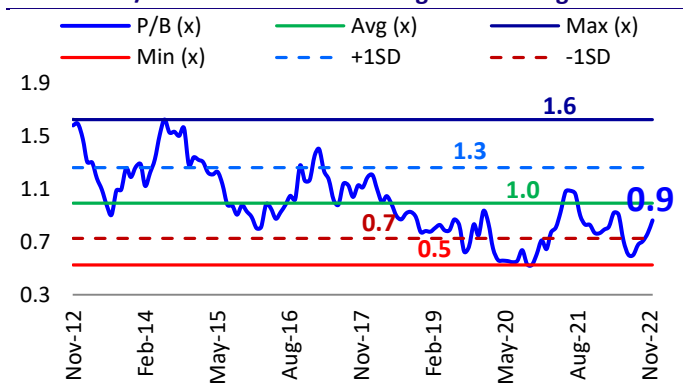
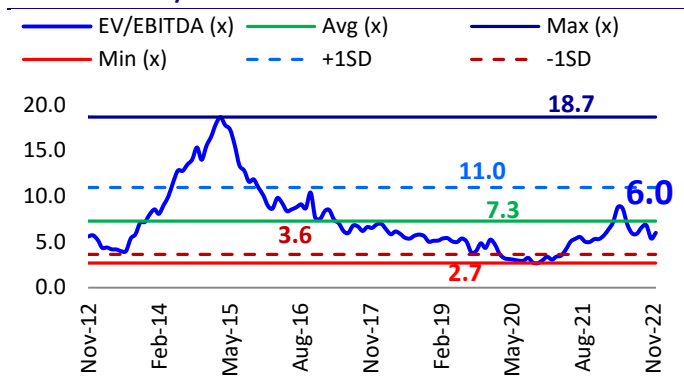


Source: MOFSL, Company

Exhibit 6: ... but the best of ROE is behind



Source: MOFSL, Company

Exhibit 7: NMDC Iron ore prices (INR/t); prices have been stable since 'Aug after touching a low in July '22**Exhibit 8: P/B remains below the long term average ...****Exhibit 9: ... EV/EBITDA also remains below LTA****Exhibit 10: Global comparative valuations**

Company	M-Cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24	CY21/ FY22	CY22/ FY23	CY23/ FY24
NMDC*	4,096	3.4	7.8	6.4	2.3	5.6	4.7	1.0	0.9	0.9	30.2	12.0	13.8
Vale	73,855	4.7	6.3	7.2	3.8	4.3	4.9	2.0	1.7	1.6	42.6	28.4	23.1
FMG	40,143	6.5	9.6	12.0	3.9	5.4	6.3	2.3	2.3	2.2	34.9	24.3	19.5

Source: MOFSL, Company (*) denotes MOFSL estimates

Exhibit 11: Key assumptions and summary of changes to our estimates

	UoM	FY23E			FY24E		
		New	Old	% change	New	Old	% change
Iron ore Volumes - mt	mt	38.5	39.8	-3.3	45.9	45.9	-
Blended ASP (INR/t)	INR/t	4,533	4,420	2.6	4,661	4,640	0.5
Revenue	INR b	174	176	-0.8	214	213	0.5
EBITDA/t - INR	INR/t	1,421	1,459	-2.6	1,251	1,267	-1.3
EBITDA	INR b	55	58	-5.8	57	58	-1.3
Adj PAT	"	45	46	-1.9	43	44	-2.0

Exhibit 12: Our TP calculation method

Y/E March	UoM	FY23E
Iron ore		
Volumes	mt	38.5
EBITDA	INR/t	1,421
EBITDA	INR m	54,678
Target EV/EBITDA(x)	x	4.0
Target EV	INR m	2,18,711
Add: Net Cash	INR m	35,652
Add: 50% CWIP	INR m	1,12,100
Equity Value	INR m	3,66,463
Share o/s	m	2,931
Target price (INR/share)	INR/sh	124

Financials and valuation

Consolidated Income Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	88	116	122	117	154	259	174.4	213.9
Change (%)	37.1	31.5	4.6	-3.7	31.4	68.4	-32.6	22.7
Total Expenses	43	53	50	55	66	133	119.7	156.5
EBITDA	44.9	63.2	71.4	62.2	88.0	125.8	54.7	57.4
% of Net Sales	50.9	54.4	58.8	53.2	57.2	48.6	31.4	26.8
EBITDA/t	1,262	1,752	2,207	1,974	2,669	3,138	1,421	1,251
Adj EBITDA	44.9	63.2	71.4	62.2	88.0	127.8	54.7	57.4
Adj EBITDA/t	1,262	1,752	2,207	1,974	2,669	3,188	1,421	1,251
Depn. & Amortization	2.0	2.6	2.8	2.9	2.3	2.9	3.1	3.3
EBIT	43.0	60.6	68.6	59.3	85.7	122.9	51.6	54.1
Net Interest		0.4	0.4	0.1	0.2	0.4	0.5	0.3
Other income	9.1	5.2	5.9	5.1	3.5	7.2	8.9	5.5
PBT before EO	52.1	65.5	74.1	64.4	89.0	129.7	59.9	59.4
EO income	-8.9	-5.3	-2.1	-10.8		2.0		
PBT after EO	43.1	60.2	72.0	53.6	89.0	131.8	59.9	59.4
Tax	17	22	26	17	26	36	14.5	15.9
Rate (%)	39.5	36.7	35.5	32.5	29.8	27.2	24.2	26.8
Reported PAT	26.1	38.1	46.4	36.2	62.5	95.9	45.4	43.5
Adjusted PAT	31.5	41.4	47.8	46.9	66.0	97.9	45.4	43.5
Change (%)	-10.1	31.5	15.4	-1.9	40.7	48.5	-53.6	-4.3

Consolidated Balance Sheet

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	3.2	3.2	3.1	3.1	2.9	2.9	2.9	2.9
Reserves	222.0	240.4	256.5	272.3	294.6	347.1	366.1	383.2
Shareholders' funds	225.2	243.5	259.5	275.3	297.6	350.0	369.1	386.2
Loans		5.0	3.6	5.7	19.9	34.8	34.8	34.8
Long-term Provisions	6.1	7.1	7.7	8.3	9.5	12.5	12.5	12.5
Capital Employed	231.3	255.7	270.8	289.3	327.0	397.3	416.4	433.5
Gross Block	39.7	49.5	52.8	58.9	62.4	81.6	86.6	91.6
Less: Accum. Deprn.	20.2	22.8	25.5	28.4	30.7	33.6	36.7	39.9
Net Fixed Assets	19.5	26.7	27.2	30.5	31.7	48.0	49.9	51.6
Capital WIP	118.3	125.2	137.9	154.7	170.8	183.2	218.2	253.2
Investments	7.3	7.9	9.4	9.9	9.8	8.9	8.9	8.9
Curr. Assets	111.9	126.3	123.3	116.4	155.5	208.3	184.1	165.3
Inventories	5.4	5.7	6.7	7.2	9.2	21.6	14.8	18.2
Sundry Debtors	10.4	14.7	14.2	22.2	21.4	29.5	21.5	26.4
Cash and Bank	52.9	54.4	46.1	23.9	58.1	79.8	70.5	43.4
Loans and Advances	43.2	51.5	56.3	63.0	66.9	77.3	77.3	77.3
Curr. Liability & Prov.	25.7	30.4	27.0	22.1	40.8	51.2	44.9	45.6
Sundry Creditors	2.0	1.6	2.0	2.3	3.6	9.7	3.3	4.1
Other Liabilities & prov.	23.7	28.8	25.0	19.8	37.2	41.5	41.5	41.5
Net Current Assets	86.2	95.9	96.3	94.3	114.7	157.1	139.3	119.7
Application of Funds	231.3	255.7	270.8	289.3	327.0	397.3	416.4	433.5

Financials and valuation

Key Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	10.0	13.1	15.6	15.3	22.5	33.4	15.5	14.8
Cash EPS	10.6	13.9	16.5	16.2	23.3	34.4	16.6	16.0
BV/Share	71.2	77.0	84.8	89.9	101.5	119.4	125.9	131.8
DPS	5.2	5.3	5.5	5.3	7.8	14.7	9.0	9.0
Payout (%)	74.9	62.9	45.9	54.0	36.4	45.0	58.1	60.6
Valuation (x)								
P/E	12.7	9.7	8.1	8.3	5.6	3.8	8.2	8.5
Cash P/E	12.0	9.1	7.7	7.8	5.4	3.7	7.6	7.9
P/BV	1.8	1.6	1.5	1.4	1.2	1.1	1.0	1.0
EV/Sales	3.9	3.0	2.8	3.2	2.2	1.3	1.9	1.7
EV/EBITDA	7.7	5.6	4.8	5.9	3.8	2.6	6.1	6.3
Dividend Yield (%)	4.1	4.2	4.4	4.2	6.1	11.7	7.1	7.1
EV (USD/t)	3.6	3.8	3.4	3.6	3.1	3.0	2.9	3.1
Return Ratios (%)								
EBITDA Margins	50.9	54.4	58.8	53.2	57.2	48.6	31.4	26.8
Net Profit Margins	35.7	35.7	39.3	40.1	42.9	37.8	26.0	20.3
RoE	13.5	17.7	19.3	17.5	23.5	30.2	12.6	11.5
RoCE	11.5	17.1	18.3	15.5	20.3	26.2	11.3	10.3
RoIC	44.0	63.4	60.8	44.9	63.6	83.8	32.0	32.2
Working Capital Ratios								
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.0	2.5	3.2	2.0	2.3
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.5	0.7	0.4	0.5
Debtor (Days)	43	46	43	69	51	42	45	45
Inventory (Days)	22	18	20	23	22	31	31	31
Creditors (Days)	8	5	6	7	9	14	7	7
Growth (%)								
Sales	37.1	31.5	4.6	-3.7	31.4	68.4	-32.6	22.7
EBITDA	29.5	40.6	13.0	-12.9	41.4	43.0	-56.5	5.0
PAT	-10.1	31.5	15.4	-1.9	40.7	48.5	-53.6	-4.3
Leverage Ratio (x)								
Current Ratio	4.4	4.2	4.6	5.3	3.8	4.1	4.1	3.6
Debt/Equity	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	0.0

Consolidated Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR b)								
Pre-tax profit	43.1	60.2	72.0	53.6	89.0	131.8	59.9	59.4
Depreciation	2.0	2.6	2.8	2.9	2.3	2.9	3.1	3.3
(Inc)/Dec in Wkg. Cap.	13.1	-8.7	-8.6	-21.4	5.3	-15.7	8.5	-7.5
Tax paid	-18.9	-23.4	-26.0	-23.0	-24.9	-43.5	-14.5	-15.9
Other operating activities	0.4	3.2	0.3	8.5	1.6	0.9		
CF from Op. Activity	39.7	33.8	40.5	20.6	73.3	76.4	57.1	39.3
(Inc)/Dec in FA + CWIP	-23.5	-20.5	-20.0	-24.0	-16.0	-30.5	-40.0	-40.0
(Pur)/Sale of Investments	-0.3	-2.5	7.7	17.2	0.3	0.8		
Others		6.3	-3.5	-18.4	2.4	4.2		
CF from Inv. Activity	-23.8	-16.8	-15.8	-25.2	-13.3	-25.5	-40.0	-40.0
Equity raised/(repaid)	-76.1		-10.1		-17.0			
Interest paid		-0.4	-0.4	-0.1	-0.2	-0.4		
Debt raised/(repaid)	-15.0	5.0	-1.4	2.0	14.3	14.9		
Dividend (incl. tax)	-19.6	-23.9	-21.3	-19.5	-22.7	-43.2	-26.4	-26.4
Other financing activities		3.7	0.2	0.1	-0.3	-0.5		
CF from Fin. Activity	-110.6	-15.6	-33.0	-17.5	-25.9	-29.2	-26.4	-26.4
(Inc)/Dec in Cash	-94.7	1.5	-8.3	-22.2	34.1	21.7	-9.3	-27.1
Add: opening Balance	147.6	52.9	54.4	46.1	23.9	58.1	79.8	70.5
Closing Balance	52.9	54.4	46.1	23.9	58.1	79.8	70.5	43.4

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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