

Muted iron ore realisation impacts performance...

About the stock: Incorporated in 1958, NMDC is India's largest merchant iron ore miner.

- During FY22, NMDC's iron ore production volume was at ~42 million tonne (MT) while sales volume for FY22 was at ~41 MT
- NMDC is one of the lowest cost iron ore producers in the world

Q2FY23 Results: On the back of lower-than-expected iron ore realisations, NMDC reported a muted set of Q2FY23 numbers wherein topline, EBITDA and PAT all came in below our estimate.

- For Q2FY23, Sales volumes were at 8.4 million tonnes (MT), down 6% YoY but up 8% QoQ, lower than our estimate of 8.7 MT. Iron ore sales realisation for the quarter was at ₹ 3980/tonne, down 48% YoY, 36% QoQ, lower than our estimate of ₹ 4500/tonne. EBITDA/tonne for the quarter was at ₹ 1013/tonne, down 71% YoY, 58% QoQ, lower than our estimate of ₹ 1500/tonne
- For the quarter, revenue from operations was at ₹ 3328 crore, down 51% YoY and 30% QoQ, lower than our estimate of ₹ 4046 crore. EBITDA for the quarter was at ₹ 854 crore, down 73% YoY, 55% QoQ, lower than our estimate of ₹ 1305 crore. EBITDA margin for the quarter was at 25.7%, lower than our estimate of 32.3% (EBITDA margin of 45.8% in Q2FY22, 39.9% in Q1FY23). Ensuing PAT for the quarter was at ₹ 889 crore, down 62% YoY, 40% QoQ, lower than our estimate of ₹ 1008 crore

What should investors do? NMDC's share price has given a return of ~9% in the last one year (from ~₹ 100 in November 2021 to ~₹ 109 levels in November 2022).

- On the back of a muted trend in iron ore realisations, we downgrade the stock from BUY to **HOLD**

Target Price and Valuation: We value NMDC at ₹ 115, 4.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- For FY23E, we assume iron ore sales volume of 40 million tonnes (MT) while for FY24E we assume iron ore sales volume of 42 MT
- Going forward, for FY23E, we expect an EBITDA margin of 34.3% while for FY24E we expect EBITDA margin at 35.5%

Alternate Stock Idea: In our metal sector coverage, we like Jindal Stainless (JSL).

- Jindal Stainless (JSL) has a 1.1 million tonnes per annum (MTPA) integrated stainless steel facility at Jajpur, Odisha
- BUY with a target price of ₹ 180



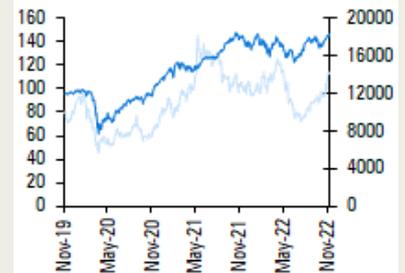
Particulars

Particular	Amount
Market Capitalization	₹ 31870 crore
Total Debt (Q2FY23)	₹ 1792 crore
Cash and Investments (Q2FY23)	₹ 7939 crore
EV	₹ 25723 crore
52 week H/L	143 / 81
Equity capital	₹ 293.1 crore
Face value	₹ 1

Shareholding Pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	60.8	60.8	60.8	60.8
FIs	5.3	6.9	5.9	5.9
DIs	21.8	21.8	22.1	21.0
Public	12.1	10.5	11.2	12.3
Total	100.0	100.0	100.0	100.0

Price Chart



— NMDC (LHS) — Nifty (RHS)

Key Risks

- Higher than expected sales volume
- Lower than expected iron ore realisations

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22	CAGR(FY17-FY22 in %)	FY23E	FY24E	CAGR(FY22-FY24E in %)
Net Sales	11,615	12,153	11,699	15,370	25,965	24	15,754	16,128	-21
EBITDA	5,809	6,930	6,010	8,796	12,631	29	5,408	5,733	-33
EBITDA Margin (%)	50.0	57.0	51.4	57.2	48.6		34.3	35.5	
Adj PAT	3,806	4,643	3,611	6,253	9,448	30	4,274	4,435	-31
EPS (₹)	12.0	15.2	11.8	21.3	32.2		14.6	15.1	
EV/EBITDA (x)	5.1	4.4	5.4	3.2	2.0		4.5	4.2	
RoCE (%)	22.3	25.3	20.3	27.0	62.6		23.5	23.0	
RoE (%)	15.6	17.9	13.1	21.0	52.7		21.5	20.5	

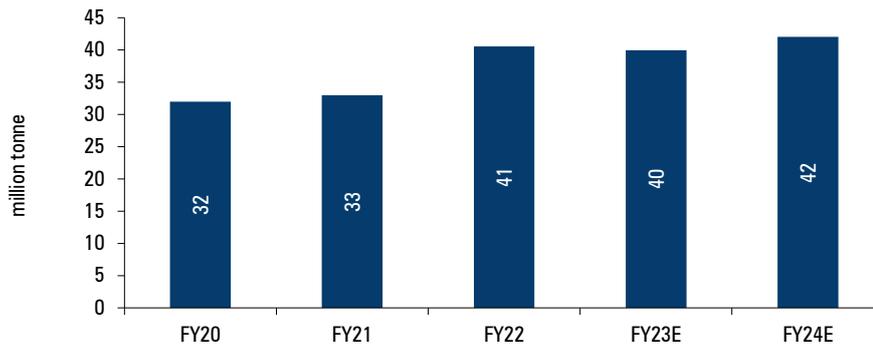
Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	3,328	4,046	6,794	-51%	4,767	-30%	Topline came in lower than our estimate
Other Income	426	150	89	380%	146	192%	Other income came in higher than our estimate
Total Operating Expense	2,474	2,741	3,679	-33%	2,867	-14%	
EBITDA	854	1,305	3,115	-73%	1,900	-55%	EBITDA came in lower than our estimate
EBITDA Margin (%)	25.7	32.3	45.8	-2018 bps	39.9	-1420 bps	EBITDA margin came in lower than our estimate
Depreciation	74	90	60	24%	85	-13%	
Interest	18	18	2	958%	15	19%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	1,188	1,347	3,142	-62%	1,946	-39%	
Tax Outgo	299	339	800	-63%	473	-37%	
Reported PAT	889	1,008	2,342	-62%	1,473	-40%	PAT came in lower than our estimate
Key Metrics							
Iron ore sales volume (MT)	8.4	8.7	9.0	-6%	7.8	8%	Iron ore sales volume came in lower than our estimate
EBITDA/tonne	1,013	1,500	3,466	-71%	2,436	-58%	EBITDA/tonne came in lower than our estimate

Source: Company, ICICI Direct Research

Financial Story in charts

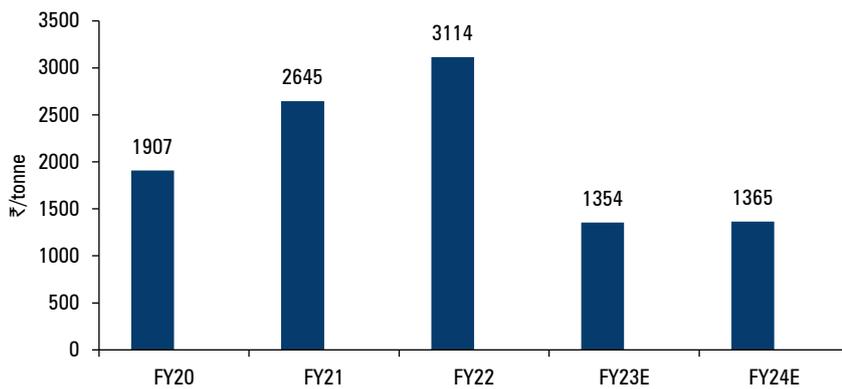
Exhibit 2: Trend in sales volume (in MT)



We assume sales volumes of 40 MT for FY23E and 42 MT for FY24E

Source: Company, ICICI Direct Research

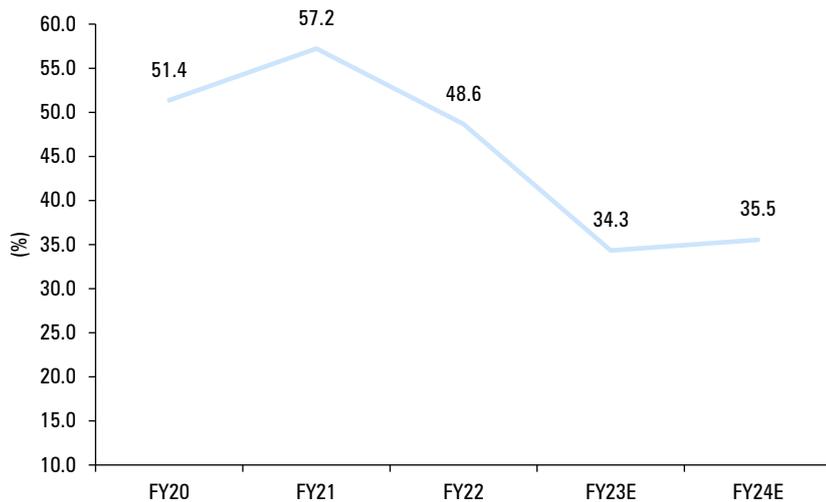
Exhibit 3: Trend in EBITDA/tonne margins level (in ₹/tonne)



We model EBITDA/tonne of ₹ 1354/tonne for FY23E and ₹ 1365/tonne for FY24E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in EBITDA margin (in %)



Over the next couple of years, we expect NMDC's EBITDA margin to hover at ~34-35% level,

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	11,699	-3.7	11.8	-22.2	9.2	5.4	13.1	20.3
FY21	15,370	31.4	21.3	80.9	5.1	3.2	21.0	27.0
FY22	25,965	68.9	32.2	51.1	3.4	2.0	52.7	62.6
FY23E	15,754	-39.3	14.6	-54.8	7.5	4.5	21.5	23.5
FY24E	16,128	2.4	15.1	3.8	7.2	4.2	20.5	23.0

Source: Company, ICICI Direct Research

Exhibit 6: Valuation (SoTP Based)

Particulars	Units	Mar-24E
EBITDA (FY24E)	₹ crore	5,733
Multiple	x	4.5
EV	₹ crore	25797
Net Cash and Cash Equivalents (FY24E)	₹ crore	7927
Equity value (Core)	₹ crore	33,724
No. of Equity Shares	in crore	293
Target price of NMDC	in ₹/share	115
CMP of NMDC	in ₹/share	109
Upside (%)	in %	6%

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	15370	25965	15754	16128	
Growth (%)	31	69	-39	2	
Total Operating Expenditure	6574	13334	10347	10396	
EBITDA	8796	12631	5408	5733	
Growth (%)	46	44	-57	6	
Depreciation	228	287	326	351	
Interest	17	39	58	66	
Other Income	350	718	912	843	
PBT	8901	13023	5936	6159	
Exceptional Item	0	0	0	0	
Total Tax	2648	3575	1662	1725	
PAT	6253	9448	4274	4435	
Growth (%)	73	51	-55	4	
EPS (₹)	21.3	32.2	14.6	15.1	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	6,253	9,448	4,274	4,435	
Add: Depreciation	228	287	326	351	
(Inc)/dec in Current Assets	168	-2,401	218	933	
Inc/(dec) in CL and Provisions	683	-737	791	-56	
Others	0	0	0	0	
CF from operating activities	7,331	6,597	5,608	5,663	
(Inc)/dec in Investments	1	-3	0	0	
(Inc)/dec in Fixed Assets	-1,956	-3,047	-2,000	-2,500	
Others	640	1,925	0	0	
CF from investing activities	-1,316	-1,125	-2,000	-2,500	
Issue/(Buy back) of Equity	-13	0	0	0	
Inc/(dec) in loan funds	1,429	-202	0	0	
Dividend paid & dividend tax	-2,274	-4,320	-2,345	-2,638	
Inc/(dec) in Share Cap	-1,743	1,183	-9	0	
Others	0	0	0	0	
CF from financing activities	-2,602	-3,339	-2,354	-2,638	
Net Cash flow	3,414	2,133	1,255	525	
Opening Cash	2,392	5,806	7,939	9,194	
Closing Cash	5,806	7,939	9,194	9,719	

Source: Company, ICICI Direct Research

Exhibit 9 : Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	293	293	293	293	
Reserve and Surplus	29,463	17,631	19,552	21,349	
Total Shareholders funds	29,756	17,924	19,845	21,642	
Total Debt	1,994	1,792	1,792	1,792	
Deferred Tax Liability	0	0	0	0	
Others	1,851	2,641	2,641	2,641	
Total Liabilities	33,601	22,358	24,278	26,075	
Assets					
Gross Block	6,313	6,269	6,519	7,019	
Less: Acc Depreciation	3,143	3,430	3,756	4,107	
Net Block	3,170	2,839	2,763	2,912	
Capital WIP	17,077	1,298	3,048	5,048	
Total Fixed Assets	20,247	4,137	5,811	7,960	
Investments	985	987	987	987	
Inventory	922	2,132	1,942	1,767	
Debtors	2,140	2,964	2,806	2,209	
Loans and Advances	4,597	3,984	3,939	4,032	
Other Current Assets	1,681	2,660	2,836	2,581	
Cash	5,806	7,939	9,194	9,719	
Total Current Assets	15,145	19,679	20,717	20,309	
Current Liabilities	360	667	647	707	
Provisions	2,823	1,780	2,590	2,474	
Current Liabilities & Prov	3,183	2,446	3,237	3,181	
Net Current Assets	11,962	17,233	17,479	17,127	
Others Assets	408	0	0	0	
Application of Funds	33,601	22,358	24,278	26,075	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	21.3	32.2	14.6	15.1	
Cash EPS	20.5	30.8	14.5	15.1	
BV	101.5	61.2	67.7	73.8	
DPS	7.8	14.7	8.0	9.0	
Cash Per Share (Incl Invst)	13.0	21.0	25.3	27.0	
Operating Ratios (%)					
EBITDA Margin	57.2	48.6	34.3	35.5	
PBT / Total Op. income	57.9	50.2	37.7	38.2	
PAT Margin	40.7	36.4	27.1	27.5	
Inventory days	22	30	45	40	
Debtor days	51	42	65	50	
Creditor days	9	9	15	16	
Return Ratios (%)					
RoE	21.0	52.7	21.5	20.5	
RoCE	27.0	62.6	23.5	23.0	
Valuation Ratios (x)					
P/E	5.1	3.4	7.5	7.2	
EV / EBITDA	3.2	2.0	4.5	4.2	
EV / Net Sales	1.8	1.0	1.6	1.5	
Market Cap / Sales	2.1	1.2	2.0	2.0	
Price to Book Value	1.1	1.8	1.6	1.5	
Solvency Ratios					
Debt/EBITDA	0.2	0.1	0.3	0.3	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	4.8	8.0	6.4	6.4	
Quick Ratio	4.5	7.2	5.8	5.8	

Source: Company, ICICI Direct Research

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Sell: < -15%



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