

BSE SENSEX 59,845
S&P CNX 17,807



Stock Info

Bloomberg	NMDC IN
Equity Shares (m)	2,931
M.Cap.(INRb)/(USD\$b)	326.8 / 3.9
52-Week Range (INR)	127 / 71
1, 6, 12 Rel. Per (%)	-3/34/11
12M Avg Val (INR M)	1512
Free float (%)	39.2

Financials Snapshot (INR b)

Y/E MARCH	2022	2023E	2024E
Sales	259	184	220
Adj. EBITDA	128	63	76
Adj. PAT	98	52	57
EBITDA Margin (%)	49	34	34
Adj. EPS (INR)	33	18	19
EPS Gr. (%)	48	-47	10
BV/Sh. (INR)	62	68	76

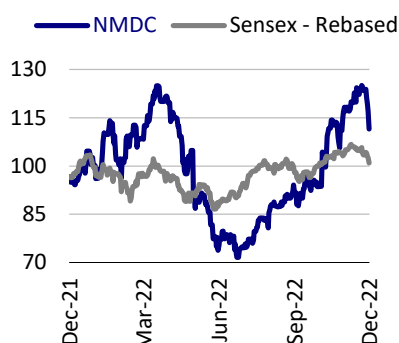
Ratios

Net D:E	-0.3	-0.4	-0.4
RoE (%)	41.0	27.3	27.1
RoCE (%)	35.2	23.7	23.8
Payout (%)	45.0	62.2	61.6

Valuations

P/E (x)	3.8	7.2	6.5
P/BV (x)	2.1	1.9	1.7
EV/EBITDA(x)	2.5	4.4	3.6
Div. Yield (%)	11.7	8.7	9.5

Stock Performance (1-year)



CMP: INR112 TP:INR138 (+24%)

BUY

China opening to help iron ore; reiterate BUY

Focus on finishing real estate projects in China to boost steel, ore demand

- The Chinese government appears to be focusing on reopening the economy now after three long years of following a strict zero covid strategy (ZCS), which has led to significant reduction in GDP growth rate.
- China has taken several measures to open its economy in the recent times. These include reducing quarantine period for incoming visitors, doing away with negative virus tests and health code checks to travel domestically not required anymore. The government has in fact stopped reporting cases on a daily basis, indicating its firm resolve to open the economy irrespective of the consequences.
- We believe these measures are taken to boost the GDP growth in China which in turn should lead to higher steel production and consequently demand for iron ore and pellets.
- We believe NMDC will be a beneficiary from rising demand for iron ore globally as the company would increase its production of iron ore and maintain margins, which are sufficient to propel its valuations further, given that it does not have the baggage of steel plant anymore.
- We have marginally increased our FY23/24 EBITDA estimate by 3%/4% to factor in marginally higher ASP on renewed Chinese demand. We value NMDC at 5x FY23 EV/EBITDA with higher volume from both Karnataka and Chhattisgarh. We reiterate our **BUY rating with a revised TP of INR 138 (v/s 134 earlier)**

Iron ore prices set to rise further

- NMDC has rolled back the INR 300 price reduction taken in mid-Nov'22, primarily due to withdrawal of export duty on iron ore, pellet, and steel by the government. Although NMDC does not export anything, the withdrawal has opened up opportunities for the company.
- With recent increase in exports in both iron ore and pellet and robust OMC auctions, we expect NMDC to announce further hike in iron ore prices.

No more steel plant capex hangover; expect strong dividend

- NMDC has formally de-merged its balance sheet and the process of listing of the steel plant is on. We believe the government is likely to dis-invest its shareholding in the NMDC steel plant.
- Any additional capex now on the steel plant will be through the balance sheet of the steel plant without recourse to the mining business.
- NMDC does not have a very large capex pipeline for the mining business, hence, we expect a strong dividend.

Valuation remains attractive, fundamentals supportive; retain BUY

- The stock is trading at 4x our FY24 EV/EBTIDA. With no more capex-intensive programs, the company is likely to generate a strong cash flow despite us factoring a lower iron ore price regime.
- With China re-opening and rushing to finish real estate projects, we expect demand for iron ore to remain strong in the near term. In addition, we expect with winter in China, focus shall again be on importing more pellets from India which should drive demand for iron ore in India. The government waiving off pellet export duty is an added advantage.
- We expect NMDC to continue with volume CAGR of 11.5% from FY21-25 on the back of higher volumes in both Chhattisgarh and Karnataka. We expect NMDC to clock a record 51mt in FY25.
- We build a DPS of INR 12 for FY24 and INR 10 for FY25, implying a payout of 59-61% and an attractive dividend yield of 9.5%/7.9% for FY24/25, respectively.

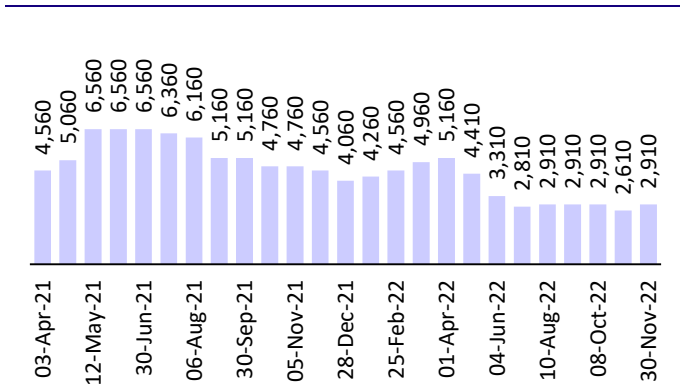
Story in charts

Exhibit 1: Key operating metrics

Key metrics	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Iron ore sales volume - m tons	28.8	35.6	36.1	32.4	31.5	33.0	40.1	39.7	46.7	51.0
Blended realization - INR/t	2,233	2,479	3,220	3,756	3,713	4,663	6,455	4,640	4,713	4,440
Operating expenses - INR/t	1,030	1,217	1,468	1,549	1,739	1,995	3,317	3,044	3,088	3,095
EBITDA - INR/t	1,203	1,262	1,752	2,207	1,974	2,669	3,138	1,596	1,625	1,345
EBITDA - INR b	35	45	63	71	62	88	126	63	76	69

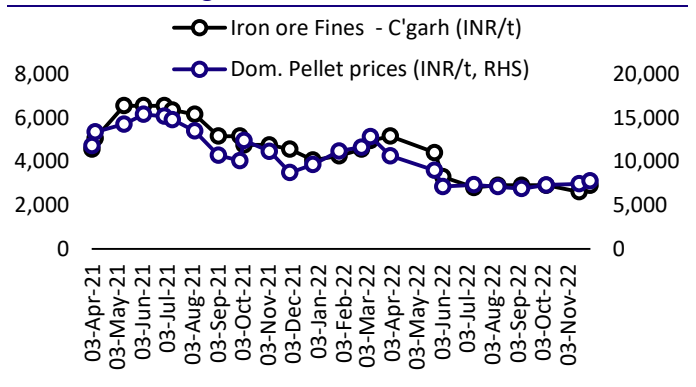
Source: MOFSL, Company

Exhibit 2: Price for iron ore fines (INR/t) has been stable since Jul '22



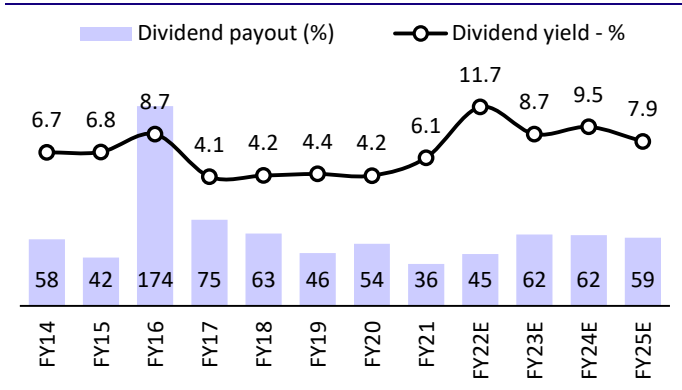
Source: MOFSL, Company Data

Exhibit 3: Domestic pellet price v/s NMDC fines (both INR/t) have been moving in tandem



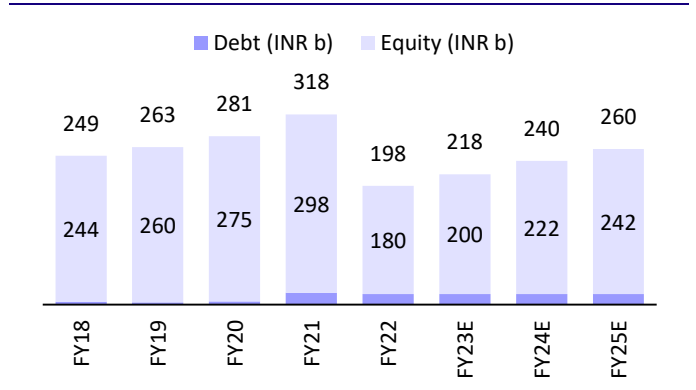
Source: MOFSL, Company Data, SteelMint

Exhibit 4: Attractive dividend yield of over 8%



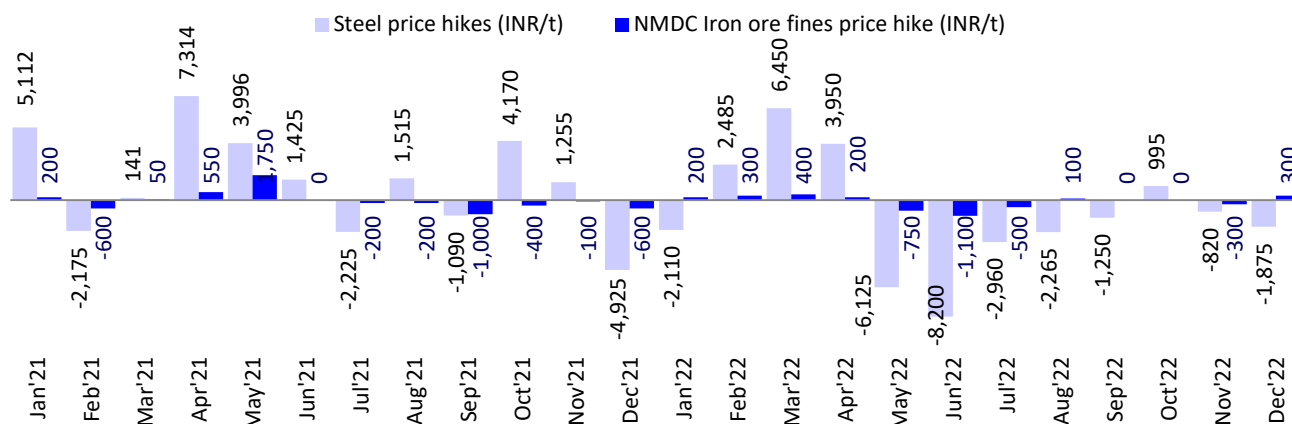
Source: Company, MOFSL

Exhibit 5: Debt has been stable since FY21



Source: Company, MOFSL

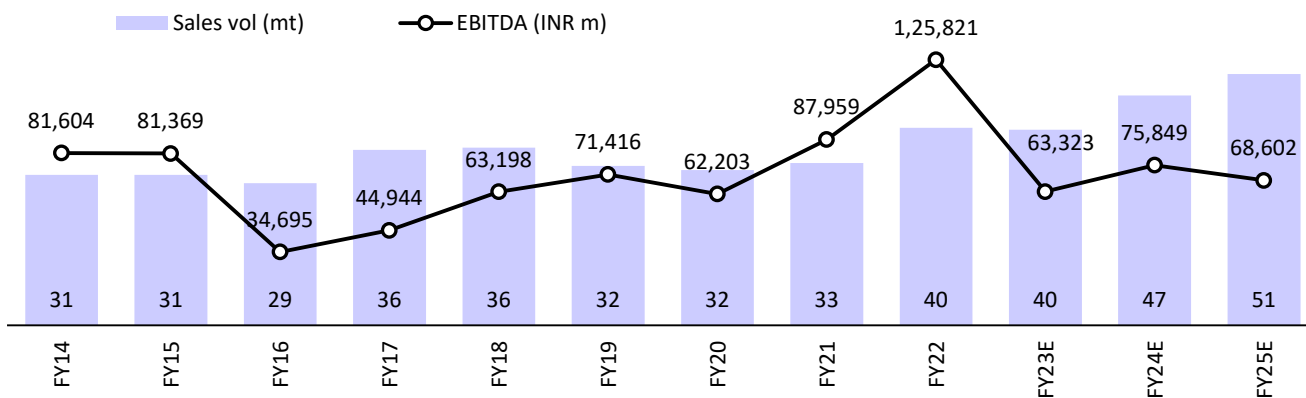
Exhibit 6: Iron ore prices have not corrected as sharply as steel prices



Source: MOFSL, Company

Domestic iron ore prices have not corrected as much as the correction in the steel prices. This is largely on account of continued demand for iron ore despite lower steel prices. We note that the iron ore prices are more responsive to steel production level than steel prices. In case of a decline in steel production, the demand and consequently prices for iron ore and pellets should reduce. However, steel price reduction, owing to oversupply in both domestic and international market, is unlikely to result in correction in iron ore prices. Unabated steel production and more capacities coming up in the next three years augur well for iron ore demand and prices.

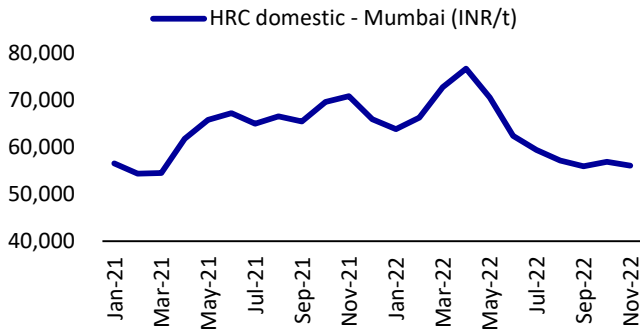
Exhibit 7: EBITDA expected to remain strong despite lower ASP, supported by rising iron ore volumes



Source: Company, MOFSL

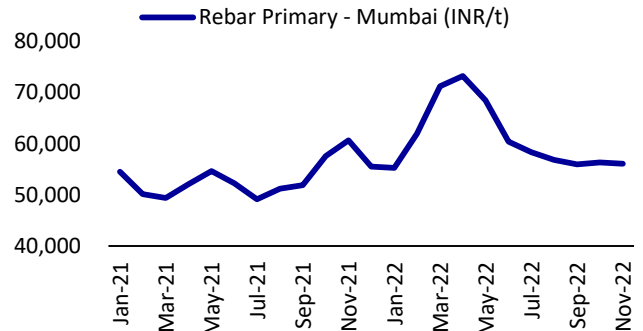
We continue to remain conservative in our approach as we expected lower ASP to be countered by higher volumes, resulting in lower EBITDA, despite strong volume growth over FY21-25E.

Exhibit 8: Domestic HRC prices have contracted following imposition of export duty; likely to increase in Jan'23



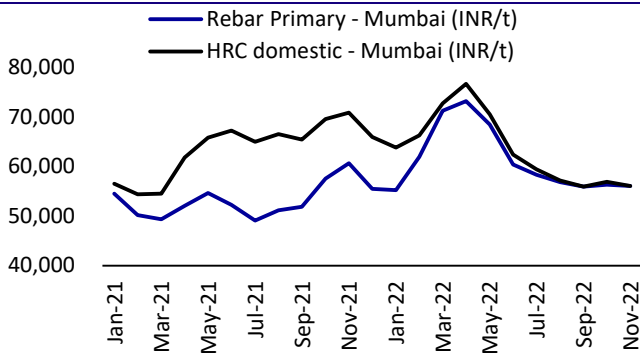
Source: Company, MOFSL

Exhibit 9: Primary rebar has started increasing from Oct'22



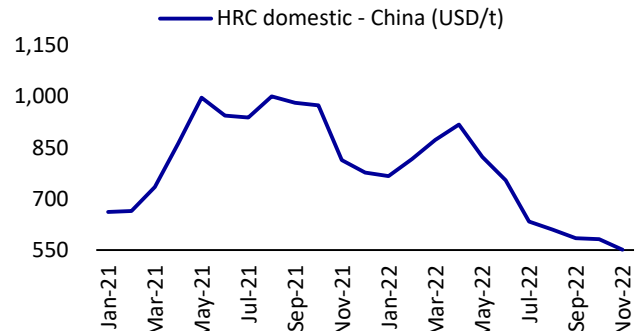
Source: Company, MOFSL

Exhibit 10: Gap between HRC and Rebar has narrowed in recent months as HRC contracted more than rebar



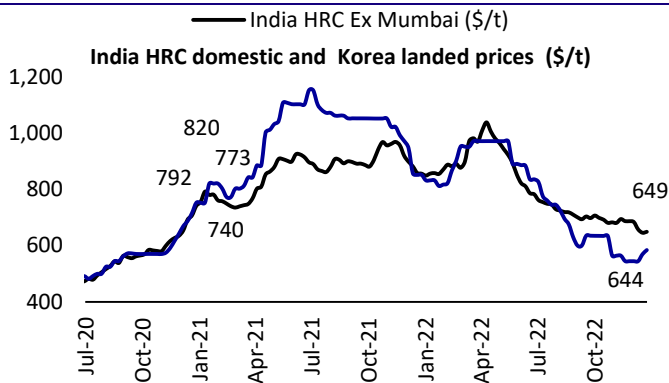
Source: Company, MOFSL

Exhibit 11: HRC prices in China have corrected 45% from their highs of Aug '21, owing to rising Covid cases



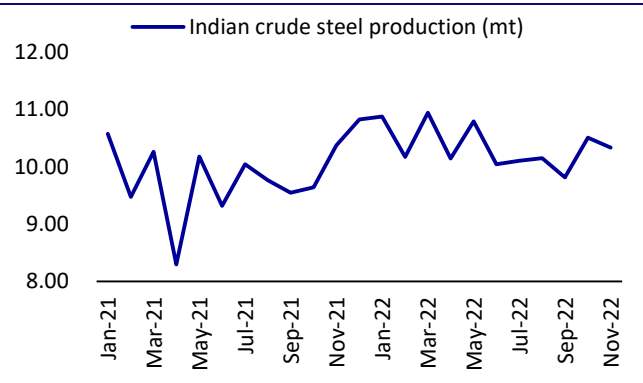
Source: Company, MOFSL

Exhibit 12: Landed import premium/discount to domestic



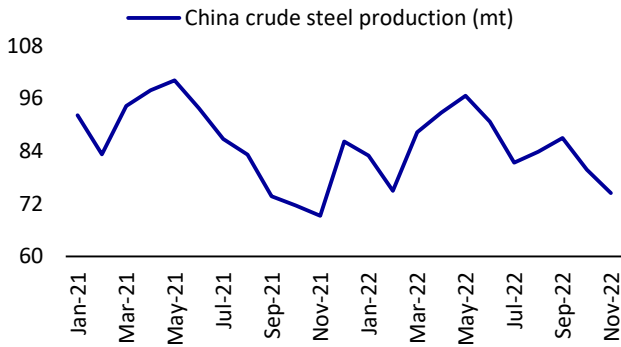
Source: MOFSL, Company

Exhibit 13: For FY23E, India witnessed the highest production of 10.5mt in Oct '22



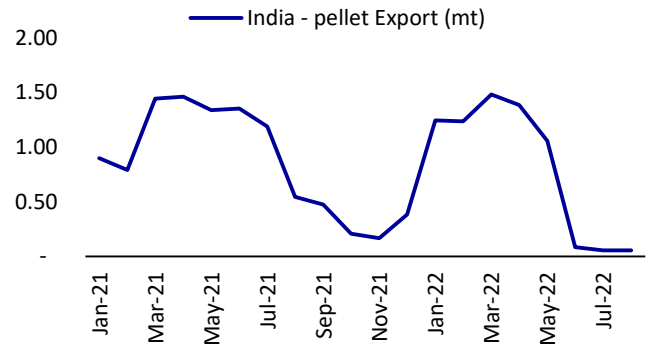
Source: MOFSL, Company

Exhibit 14: China has reported lower than 75mt of crude steel production in Oct '22; lowest since Feb '22



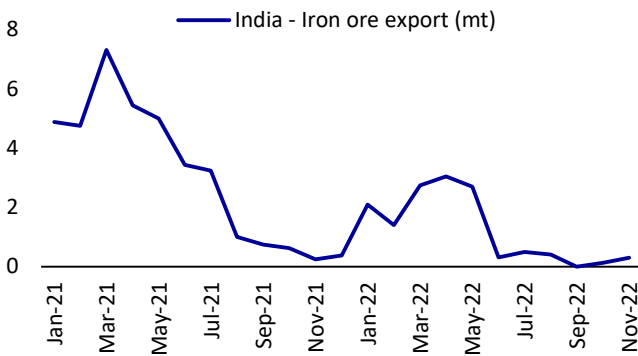
Source: MOFSL, Company

Exhibit 15: India witnessed negligible exports post imposition of ban from Jun '22 onwards



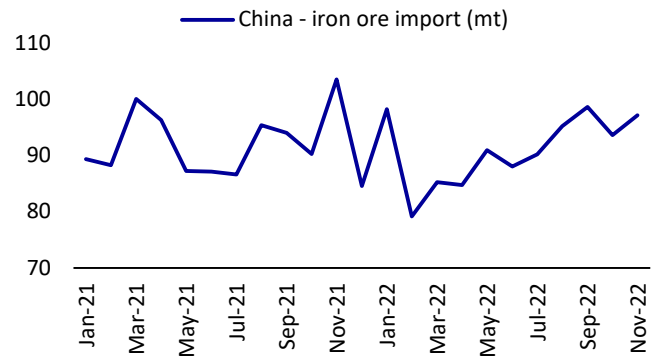
Source: MOFSL, Company

Exhibit 16: Export of iron ore from India has gradually started to pick up



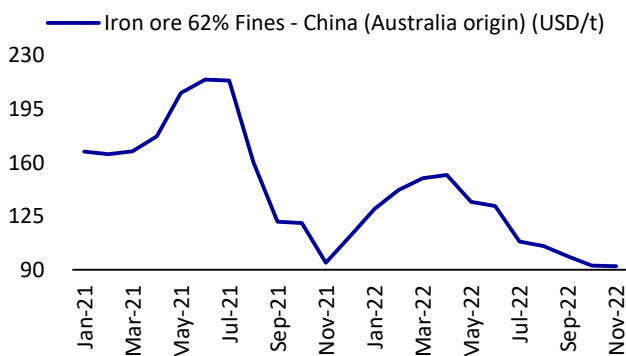
Source: MOFSL, Company

Exhibit 17: China's iron ore import has been increasing, reflecting higher steel demand



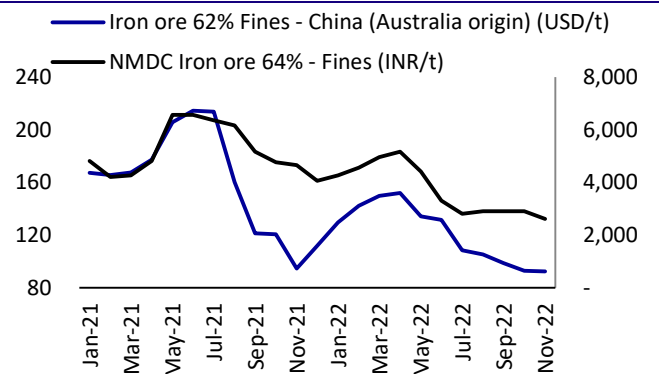
Source: MOFSL, Company

Exhibit 18: International iron ore prices have touched a recent low in Nov '22 on fears of recession in US/EU



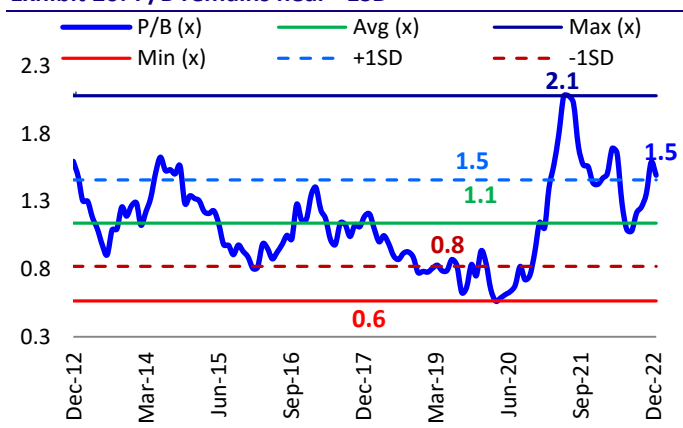
Source: MOFSL, Company

Exhibit 19: Domestic iron ore prices have moved in direct correlation to international ore prices so far



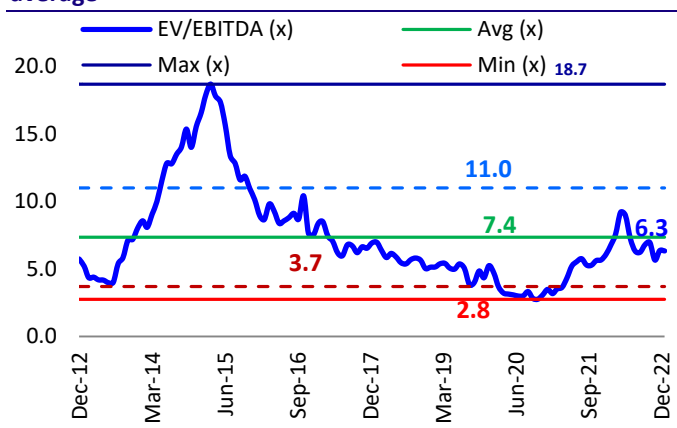
Source: MOFSL, Company

Exhibit 20: P/B remains near +1SD



Source: MOFSL, Company Data

Exhibit 21: ...whereas EV/EBITDA is below long-term average



Source: MOFSL, Company Data

Exhibit 22: Key assumptions and change in estimates

	UoM	FY23E			FY24E		
		New	Old	% change	New	Old	% change
Iron ore Volumes - mt	mt	39.7	39.7	-	46.7	46.7	-
Blended ASP (INR/t)	INR/t	4,640	4,560	1.8	4,713	4,602	2.4
Revenue	INRb	184	181	1.8	220	215	2.4
EBITDA/t - INR	INR/t	1,596	1,550	3.0	1,625	1,561	4.1
EBITDA	INR b	63	61	3.0	76	73	4.1
Adj PAT	"	52	50	2.7	57	55	4.0

Source: MOFSL

Exhibit 23: Valuation remains inexpensive – TP calculation

Y/E March	UoM	FY23E
Iron ore		
Volumes	mt	39.7
EBITDA	INR/t	1,596
EBITDA		
Target EV/EBITDA(x)	INR m	63,323
Target EV	x	5.0
Target EV	INR m	3,16,614
Add: Net Cash	INR m	89,925
Equity Value	INR m	4,06,538
Share o/s	mn	2,931
Target price (INR/share)	INR/sh	138

Source: MOFSL

Exhibit 24: Global comparative valuations

Company	M-Cap USD m	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
		FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24	FY22	FY23	FY24
NMDC*	4,213	3.3	6.3	5.7	2.1	3.7	3.0	1.8	1.6	1.5	41.0	27.3	27.1
Vale	78,804	4.8	7.1	7.6	4.1	4.7	4.8	2.1	1.9	1.7	44.1	28.5	22.1
FMG	42,250	6.8	9.8	12.2	4.1	5.5	6.4	2.4	2.4	2.3	36.4	25.0	20.4

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

Financials and Valuations

Consolidated Income Statement							(INR b)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net sales	88	116	122	117	154	259	184.1	220.0	226.5
Change (%)	37.1	31.5	4.6	-3.7	31.4	68.4	-28.9	19.5	2.9
Total Expenses	43	53	50	55	66	133	120.8	144.1	157.9
EBITDA	44.9	63.2	71.4	62.2	88.0	125.8	63.3	75.8	68.6
% of Net Sales	50.9	54.4	58.8	53.2	57.2	48.6	34.4	34.5	30.3
EBITDA/t	1,262	1,752	2,207	1,974	2,669	3,138	1,596	1,625	1,345
Adj EBITDA	44.9	63.2	71.4	62.2	88.0	127.8	63.3	75.8	68.6
Adj EBITDA/t	1,262	1,752	2,207	1,974	2,669	3,188	1,596	1,625	1,345
Deprn. & Amortization	2.0	2.6	2.8	2.9	2.3	2.9	3.1	3.3	2.9
EBIT	43.0	60.6	68.6	59.3	85.7	122.9	60.2	72.6	65.7
Net Interest		0.4	0.4	0.1	0.2	0.4	0.5	0.3	0.2
Other income	9.1	5.2	5.9	5.1	3.5	7.2	8.9	5.5	1.4
PBT before EO	52.1	65.5	74.1	64.4	89.0	129.7	68.6	77.8	66.9
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	68.6	77.8	66.9
Tax	17	22	26	17	26	36	16.7	20.7	17.4
Rate (%)	39.5	36.7	35.5	32.5	29.8	27.2	24.4	26.6	26.0
Reported PAT	26.1	38.1	46.4	36.2	62.5	95.9	51.8	57.1	49.5
Adjusted PAT	31.5	41.4	47.8	46.9	66.0	97.9	51.8	57.1	49.5
Change (%)	-10.1	31.5	15.4	-1.9	40.7	48.5	-47.1	10.3	-13.4

Consolidated Balance Sheet							(INR b)		
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	3.2	3.2	3.1	3.1	2.9	2.9	2.9	2.9	2.9
Reserves	222.0	240.4	256.5	272.3	294.6	177.4	197.0	218.9	239.1
Share holders funds	225.2	243.5	259.5	275.3	297.6	180.3	199.9	221.9	242.0
Loans		5.0	3.6	5.7	19.9	17.9	17.9	17.9	17.9
Long-term Provisions	6.1	7.1	7.7	8.3	9.5	12.5	12.5	12.5	12.5
Capital Employed	231.3	255.7	270.8	289.3	327.0	210.7	230.3	252.3	272.4
Gross Block	39.7	49.5	52.8	58.9	62.4	70.2	75.2	80.2	85.2
Less: Accum. Deprn.	20.2	22.8	25.5	28.4	30.7	33.6	36.7	39.9	42.9
Net Fixed Assets	19.5	26.7	27.2	30.5	31.7	36.7	38.6	40.3	42.4
Capital WIP	118.3	125.2	137.9	154.7	170.8	13.3	17.3	24.3	29.3
Investments	7.3	7.9	9.4	9.9	9.8	8.9	8.9	8.9	8.9
Curr. Assets	111.9	126.3	123.3	116.4	155.5	190.2	201.8	215.9	229.2
Inventories	5.4	5.7	6.7	7.2	9.2	21.3	13.1	15.7	16.1
Sundry Debtors	10.4	14.7	14.2	22.2	21.4	29.5	21.2	25.3	26.1
Cash and Bank	52.9	54.4	46.1	23.9	58.1	79.8	107.8	115.3	127.3
Loans and Advances	43.2	51.5	56.3	63.0	66.9	59.6	59.6	59.6	59.6
Curr. Liability & Prov.	25.7	30.4	27.0	22.1	40.8	38.4	36.3	37.2	37.3
Sundry Creditors	2.0	1.6	2.0	2.3	3.6	6.6	4.5	5.4	5.6
Other Liabilities & prov.	23.7	28.8	25.0	19.8	37.2	31.7	31.7	31.7	31.7
Net Current Assets	86.2	95.9	96.3	94.3	114.7	151.8	165.5	178.8	191.8
Application of Funds	231.3	255.7	270.8	289.3	327.0	210.7	230.3	252.3	272.4

Financials and Valuations

Key Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)									
EPS	10.0	13.1	15.6	15.3	22.5	33.4	17.7	19.5	16.9
Cash EPS	10.6	13.9	16.5	16.2	23.3	34.4	18.7	20.6	17.9
BV/Share	71.2	77.0	84.8	89.9	101.5	61.5	68.2	75.7	82.6
DPS	5.2	5.3	5.5	5.3	7.8	14.7	11.0	12.0	10.0
Payout (%)	74.9	62.9	45.9	54.0	36.4	45.0	62.2	61.6	59.2
Valuation (x)									
P/E	12.7	9.7	8.1	8.3	5.6	3.8	7.2	6.5	7.5
Cash P/E	12.0	9.1	7.7	7.8	5.4	3.7	6.7	6.1	7.1
P/BV	1.8	1.6	1.5	1.4	1.2	2.1	1.9	1.7	1.5
EV/Sales	3.9	3.0	2.8	3.2	2.2	1.2	1.5	1.2	1.2
EV/EBITDA	7.7	5.6	4.8	5.9	3.8	2.5	4.4	3.6	3.8
Dividend Yield (%)	4.1	4.2	4.4	4.2	6.1	11.7	8.7	9.5	7.9
EV (USD/t)	3.6	3.8	3.4	3.6	3.1	2.9	2.4	2.3	2.2
Return Ratios (%)									
EBITDA Margins	50.9	54.4	58.8	53.2	57.2	48.6	34.4	34.5	30.3
Net Profit Margins	35.7	35.7	39.3	40.1	42.9	37.8	28.1	26.0	21.8
RoE	13.5	17.7	19.3	17.5	23.5	41.0	27.3	27.1	21.3
RoCE	11.5	17.1	18.3	15.5	20.3	35.2	23.7	23.8	18.9
RoIC	44.0	63.4	60.8	44.9	63.6	90.9	44.4	53.3	46.2
Working Capital Ratios									
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.0	2.5	3.7	2.4	2.7	2.7
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.5	1.2	0.8	0.9	0.8
Debtor (Days)	43	46	43	69	51	42	42	42	42
Inventory (Days)	22	18	20	23	22	30	26	26	26
Creditors (Days)	8	5	6	7	9	9	9	9	9
Growth (%)									
Sales	37.1	31.5	4.6	-3.7	31.4	68.4	-28.9	19.5	2.9
EBITDA	29.5	40.6	13.0	-12.9	41.4	43.0	-49.7	19.8	-9.6
PAT	-10.1	31.5	15.4	-1.9	40.7	48.5	-47.1	10.3	-13.4
Leverage Ratio (x)									
Current Ratio	4.4	4.2	4.6	5.3	3.8	5.0	5.6	5.8	6.1
Debt/Equity	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.4	-0.4	-0.5

Consolidated Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	43.1	60.2	72.0	53.6	89.0	131.8	68.6	77.8	66.9
Depreciation	2.0	2.6	2.8	2.9	2.3	2.9	3.1	3.3	2.9
(Inc)/Dec in Wkg. Cap.	13.1	-8.7	-8.6	-21.4	5.3	-15.7	14.4	-5.8	-1.0
Tax paid	-18.9	-23.4	-26.0	-23.0	-24.9	-43.5	-16.7	-20.7	-17.4
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	69.3	54.6	51.3
(Inc)/Dec in FA + CWIP	-23.5	-20.5	-20.0	-24.0	-16.0	-30.5	-9.0	-12.0	-10.0
(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	-9.0	-12.0	-10.0
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	-32.2	-35.2	-29.3
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	-32.2	-35.2	-29.3
(Inc)/Dec in Cash	-94.7	1.5	-8.3	-22.2	34.1	21.7	28.1	7.4	12.0
Add: opening Balance	147.6	52.9	54.4	46.1	23.9	58.1	79.8	107.8	115.3
Closing Balance	52.9	54.4	46.1	23.9	58.1	79.8	107.8	115.3	127.3

NOTES

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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