



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score **NEW**

ESG RISK RATING **30.69**
Updated Oct 08, 2022

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 34,654 cr
52-week high/low:	Rs. 143/81
NSE volume: (No of shares)	91.6 lakh
BSE code:	526371
NSE code:	NMDC
Free float: (No of shares)	114.9 cr

Shareholding (%)

Promoters	60.8
FII	6.6
DII	20.2
Others	12.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.9	8.5	43.3	12.2
Relative to Sensex	-11.6	9.5	40.3	6.8

Sharekhan Research, Bloomberg

Summary

- Q3FY2023 consolidated operating profit of Rs. 1,141 crore (up 18% q-o-q) was 3% above our estimate, led by marginal beat in EBITDA margin. PAT of Rs. 912 crore (down 6.2% q-o-q) was in line, as benefit of better margin was offset by higher tax rate and increased interest and depreciation cost.
- EBITDA margin recovered sequentially and increased by 18% q-o-q to Rs. 1,191/tonne (3% above our estimate). Iron ore sales volume posted strong growth of 13.6% q-o-q to 9.6mt, while blended realisation was at Rs. 3,883/tonne (down 1.6% q-o-q).
- NMDC has taken price hike of Rs. 600/Rs. 1,300 per tonne since November 2022, but domestic prices are still at a steep discount to international prices. Management has guided to achieve iron ore sales volume of 41mt (flat y-o-y but seems difficult as ask rate for Q4 is high at 14.8mt) in FY2023 and aims for 50 million tonne for FY2024. Potential listing of NMDC Steel Limited (expected by the end of February 2023) would be a key catalyst for the stock.
- We maintain Buy on NMDC with an unchanged PT of Rs. 145, as likely improvement in iron ore prices bodes well for margin/earnings recovery in FY2024. Valuation of 3.2x its FY2025E EV/EBITDA and 0.8x its FY2025E P/BV is attractive and the stock offers high dividend yield of 8-9%.

NMDC's Q3FY2023 consolidated revenue at Rs. 3,720 crore (down 36.7% y-o-y; up 11.8% q-o-q) was in line with our estimate of Rs. 3,705 crore. Iron ore sales volume at 9.6 million tonne (down 2.7% y-o-y) and blended iron ore realisation at Rs. 3,883/tonne (down 1.6% q-o-q) were in line with our estimate of 9.5 million tonnes and Rs 3,900/tonne respectively. Operating profit of Rs. 1,141 crore (down 56.3% y-o-y; up 34% q-o-q) was 3.7% above our estimate of Rs. 1,100 crore as EBITDA/tonne at Rs. 1,191 (down 55.1% y-o-y, up 17.9% q-o-q) was 2.8% above our estimate of Rs. 1,158. PAT at Rs. 912 crore (down 55.5% y-o-y; down 6.2% q-o-q) was in line with our estimate of Rs. 915 crore, as beat in EBITDA was more than offset by higher tax rate of 26.6% versus our estimate of 25% and higher-than-expected interest and depreciation cost.

Key positives

- Marginal beat of 3% in EBITDA margin at Rs. 1,191/tonne.
- Potential listing of NMDC Steel Limited by the end of February 2023 could unlock value for NMDC.

Key negatives

- Higher-than-expected interest and depreciation cost.

Management Commentary

- The company said demand for 9MFY2023 was under pressure due to weakness in the steel industry. However, the outlook for Q4 is strong, given the revival trend in the industry and opportunity to exploit the export market by the end of Q4.
- Management expects FY2023/FY2024 volumes to be at 40/50 million tonne. Donimalai mines will contribute additional 3 million tonne and Bailadila Mines will contribute 7 million tonne.
- The company gave capex guidance of Rs. 3,500 crore for FY2023; and excluding capex for the steel plant, it will be Rs. 1,800-2,000 crore. FY2024 capex will be Rs. 1,500-1,600 crore. Management expects the 2 million tonne pellet plant and the 15 million tonne slurry pipeline to be commissioned by the end of CY2024.
- The company expects NMDC Steel Limited to be listed by the end of February 2023 and will invest 10% in the steel business. The pricing methodology has not yet been determined.
- Cash balance is ~Rs. 8,000 crore and short-term borrowings are ~Rs. 2,395 crore as on date.

Revision in estimates – We have lowered our FY2023 earnings estimates to factor lower iron ore volume assumption, partially offset by higher other income, and maintain our FY2024-FY2025 earnings estimates.

Our Call

Valuation – Maintain Buy on NMDC with an unchanged PT of Rs. 145: The recent withdrawal of export duty on steel/iron ore/pellet and reopening of China will lead to higher prices for iron ore and improved volume growth, which will improve the profitability of NMDC. Demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Moreover, valuation of 3.2x its FY2025E EV/EBITDA and 0.8x its FY25E P/BV is attractive and the stock offers a high dividend yield of 8-9%. Hence, we maintain our Buy rating on NMDC with an unchanged price target (PT) of Rs. 145.

Key Risks

A decrease in iron ore prices and demand and imposition of steel/iron ore/pellet export tax are critical downside risks and vice versa. 2) Increase in Covid cases and potential lockdowns.

Valuation (Consolidated)

Particulars	FY22	FY23E	FY24E	FY25E
Revenue	25,882	16,416	21,842	22,227
Operating profit	12,583	5,469	7,395	8,033
OPM (%)	48.6	33.3	33.9	36.1
Adjusted PAT	9,380	4,557	5,767	6,125
% y-o-y growth	49.4	-51.4	26.6	6.2
Adjusted EPS (Rs.)	32.0	15.5	19.7	20.9
P/E (x)	3.7	7.6	6.0	5.7
P/B (x)	1.0	0.9	0.9	0.8
EV/EBITDA (x)	2.3	4.9	3.6	3.2
RoNW (%)	28.9	12.6	14.9	14.7
RoCE (%)	31.9	12.0	15.9	16.2

Source: Company; Sharekhan estimates

In-line Q3; Beat in EBITDA offset by higher tax rate and interest and depreciation cost

Q3FY2023 consolidated revenue at Rs. 3,720 crore (down 36.7% y-o-y; up 11.8% q-o-q) was in line with our estimate of Rs. 3,705 crore. Iron ore sales volume at 9.6 million tonne (down 2.7% y-o-y) and blended iron ore realisation at Rs. 3,883/tonne (down 1.6% q-o-q) were in line with our estimate of 9.5 million tonne and Rs. 3,900/tonne respectively. Operating profit of Rs. 1,141 crore (down 56.3% y-o-y; up 34% q-o-q) was 3.7% above our estimate of Rs. 1,100 crore, as EBITDA/tonne at Rs. 1,191 (down 55.1% y-o-y, up 17.9% q-o-q) was 2.8% above our estimate of Rs. 1,158. PAT at Rs. 912 crore (down 55.5% y-o-y; down 6.2% q-o-q) was in line with our estimate of Rs. 915 crore as beat in EBITDA was more than offset by higher tax rate of 26.6% versus our estimate of 25% and higher-than-expected interest and depreciation cost.

Results (Consolidated)

Particulars	Rs cr				
	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	3,720	5,874	-36.7	3,328	11.8
Total Expenditure	2,579	3,263	-20.9	2,477	4.1
Operating profit	1,141	2,611	-56.3	851	34.0
Other Income	205	153	33.9	426	-52.0
Interest	30	9	225.7	18	64.5
Depreciation	84	61	38.0	74	12.9
PBT	1,232	2,694	-54.3	1,185	3.9
Tax	328	647	-49.4	299	9.4
PAT	904	2,047	-55.8	886	2.1
Loss from Discontinued operations (after tax)	0	0		0	
Share of Profit I (Loss) of Associates/JVs	10	1	640.9	86	-88.7
Minority interest (MI)	1	0		0	
PAT after MI	912	2,048	-55.5	972	-6.2
Equity Cap (cr)	293	293		293	
EPS (Rs.)	3.1	7.0	-55.5	3.3	-6.2
Margins (%)			BPS		BPS
OPM	30.7	44.5	-1379.3	25.6	509.0
NPM	24.5	34.9	-1034.9	29.2	-468.7
Tax rate	26.6	24.0	257.5	25.3	133.9

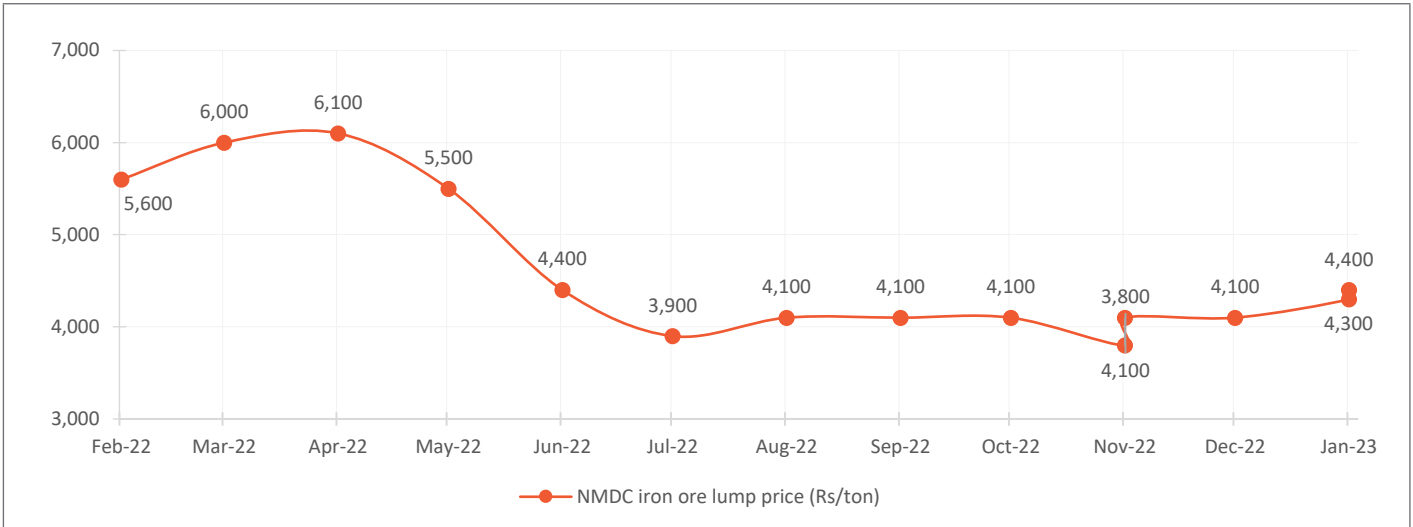
Source: Company, Sharekhan Research

Key operating metrics

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Iron ore production (million tonne)	10.7	10.6	0.1	7.1	50.0
Iron ore sales (million tonne)	9.6	9.8	-2.7	8.4	13.6
Domestic iron realisation (Rs./tonne)	3,821	5,914	-35.4	3,890	-1.8
Blended iron ore realisation (Rs./tonne)	3,883	5,966	-34.9	3,947	-1.6
EBITDA/tonne (Rs./tonne)	1,191	2,652	-55.1	1,009	17.9

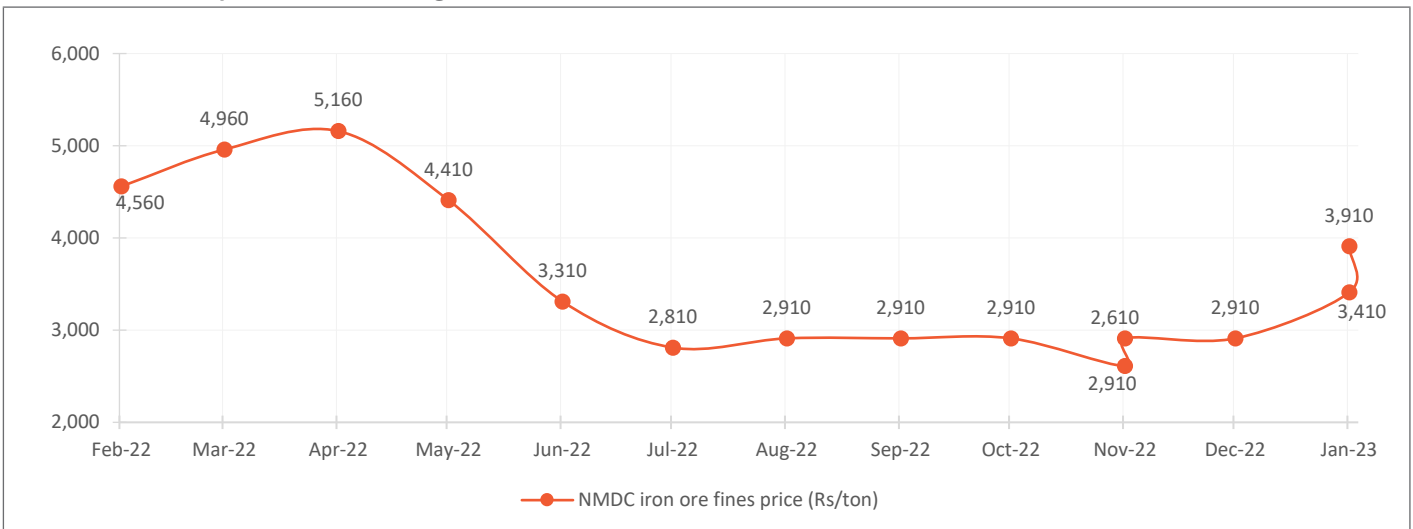
Source: Company, Sharekhan Research

NMDC iron ore lump prices are on a rising trend since November 2022



Source: NMDC; Sharekhan Research

NMDC iron ore fine prices are on a rising trend since November 2022



Source: NMDC; Sharekhan Research

Outlook and Valuation

■ Sector View – China pickup and reversal of export duty to improve the sector’s profitability

We believe domestic steel prices, which were range-bound in Q3FY2023, have bottomed out and will increase as the COVID-19 situation improves in China. Moreover, we expect pick-up in infrastructure/real estate activities in China. FTA signed with Australia provides a further tailwind to domestic steel production, as Indian steel producers can now purchase coking coal at zero import duty w.e.f. December 29, 2022. Overall, this will support demand and price levels of iron ore. The reversal of export duty on steel/iron ore/pellets bodes well for the sector, as it removes the regulatory burden and will encourage free pricing.

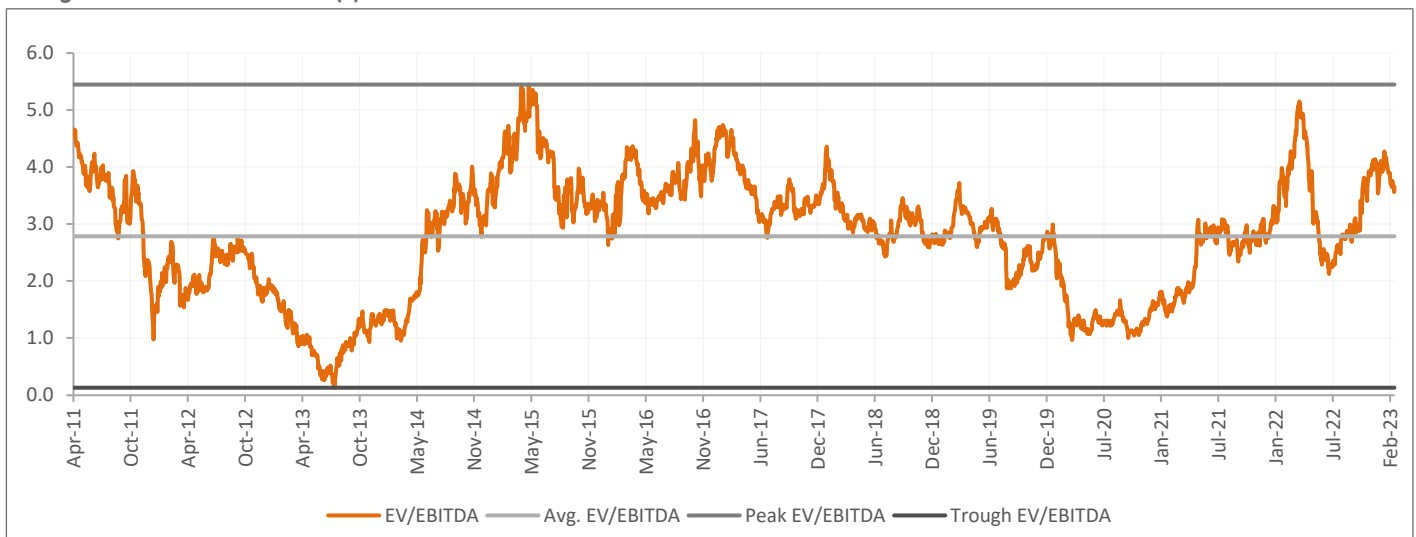
■ Company Outlook – Volume growth and price hikes from current levels will drive growth over FY2023-FY2025E

We expect a 9% iron ore sales volume CAGR for FY2023-FY2025E, driven by China reopening and reversal of export duties. Although iron ore prices have dropped from the highs of FY2022, we believe they have bottomed out and will see improvement in the coming quarters. We expect a Revenue/EBITDA/PAT CAGR of 16%/21%/16% over FY2023-FY2025E.

■ Valuation – Maintain Buy on NMDC with an unchanged PT of Rs. 145

The recent withdrawal of export duty on steel/iron ore/pellet and reopening of China will lead to higher prices for iron ore and improved volume growth, which will improve the profitability of NMDC. Demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Moreover, valuation of 3.2x its FY2025E EV/EBITDA and 0.8x its FY25E P/BV is attractive and the stock offers a high dividend yield of 8-9%. Hence, we maintain our Buy rating on NMDC with an unchanged PT of Rs. 145.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

NMDC, a government-owned company, is India's largest iron ore producer. NMDC is operating four iron ore mechanised mines viz., Bailadila Iron Ore Mines – Kirandul Complex (Dep-14, 14 NMZ, 11B and 11C), Bailadila Iron Ore Mine – Bachel Complex (Dep-5,10 and 11A) in Chhattisgarh, Donimalai Iron Ore Mine and Kumaraswamy Iron Ore Mine in Karnataka. The company also produces and sells diamonds, sponge iron, and wind power.

Investment theme

We expect domestic iron ore prices to improve, given the recent government decision to withdraw 15%/50%/45% export duty on steel/iron ore/pellets to control inflation. A rise in prices and strong volume growth will improve the valuation of NMDC.

Key Risks

- ♦ Fall in domestic iron ore price and demand could impact the earnings outlook.
- ♦ Imposition of export tax on steel/iron ore/pellets could impact the sector's valuation.
- ♦ Increase in Covid cases and extension of China reopening.

Additional Data

Key management personnel

Sumit Deb	Chairman and Managing Director
Amitava Mukherjee	Director - Finance
Dilip Kumar Mohanty	Director - Production

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	14.16
2	Vanguard Group Inc.	1.24
3	PPFAS Asset Management	0.92
4	Aditya Birla Sun Life Asset Management	0.91
5	SBI Funds Management Pvt. Ltd.	0.47
6	ICICI Prudential Asset Management	0.47
7	Blackrock Inc	0.30
8	Nippon Life India Asset Management	0.29
9	Dimensional Fund Advisors	0.28
10	Kotak Mahindra Asset Management	0.27

Source: Bloomberg (old data)

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.