Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

NMDC Ltd

Strong Q4 margin; valuation attractive & healthy dividend yield

Metal & Mining	Sharekhan code: NMDC

Reco/View: Buy	↔	CMP: **Rs. 105**	Price Target: **Rs. 125**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING	30.69
Updated Mar 08, 2023	

High Risk

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

Source: Morningstar

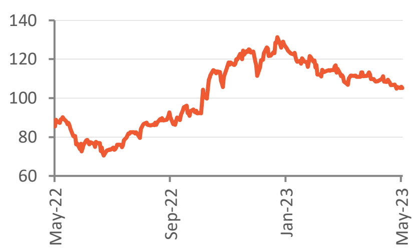
Company details

Market cap:	Rs. 30,815 cr
52-week high/low:	Rs. 132 / 81
NSE volume: (No of shares)	73.2 lakh
BSE code:	526371
NSE code:	NMDC
Free float: (No of shares)	114.9 cr

Shareholding (%)

Promoters	60.8
FII	7.3
DII	19.4
Others	12.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.4	-6.1	-11.1	23.1
Relative to Sensex	-6.2	-10.0	-10.2	8.1

Sharekhan Research, Bloomberg

Summary

- Q4FY2023 consolidated EBITDA of Rs. 2,162 crore (up 89.6% q-o-q) was 19% above our estimate, led by a strong beat in EBITDA per tonne. Adjusted PAT of Rs. 1,414 crore (up 55% q-o-q) was in line, as beat in EBITDA got offset by higher-than-expected tax rate, depreciation cost and negative other income.
- EBITDA/tonne increased by 46% q-o-q to Rs. 1,742 and was 21.8% above our estimate. Iron ore sales volume (missed estimate by 2.3%) while blended realisations grew by 29.5%/21.4% q-o-q to 12.4 MMT/ 4,715 per tonne.
- Lump/Fine price has remained stable at Rs. 4,500/4,100 per tonne since March 2023 but management sees considerable pricing headwinds in the near term. FY24 iron ore production volume guidance of 46-50 mt implies 13-22% y-o-y growth. The Nagarnar steel plant would be commissioned by June-23 with expectation of 4.5-5 mt iron ore volumes for NMDC.
- We maintain a Buy rating on NMDC with a revised PT of Rs. 125 given inexpensive valuation of 3x/1x its FY25E EV/EBITDA and P/BV, respectively and the stock offers healthy dividend yield of ~6-7%.

Q4FY23 consolidated revenues at Rs 5,851 crore (down 13.8% y-o-y; up 57.3% q-o-q) was 5.9% above our estimate of Rs. 5,525 crore. 8.4% beat in blended iron ore realisations to Rs. 4,715/tonne (up 21.4% q-o-q) was partially offset by a 2.3% miss in iron ore sales volume to 12.4 million tonnes (flat y-o-y). The miss is sales volumes was more than offset by a strong 21.8% beat in EBITDA/tonne to Rs. 1,742 (down 20.8% y-o-y, up 46.3% q-o-q) and consequently operating profit came 19% above our estimate to Rs. 2,162 crore (down 20.6% y-o-y; up 89.6% q-o-q). Adjusted PAT at Rs 1,414 crore (down 24.2% y-o-y; up 55% q-o-q) was in-line with our estimate of Rs. 1,415 crore as beat in EBITDA got offset by higher tax rate of 30.7% versus our estimate of 25% and a higher-than-expected depreciation cost and negative other income. We have adjusted Q4FY23 PAT for one time receipt of Rs. 957 crore from the Monitoring committee and Rs. 280 crore of profit on disinvestment of NINL.

Key positives

- Sharp 22% beat in EBITDA/tonne to Rs. 1,742. up 46% q-o-q.

Key negatives

- Marginal miss of 2% in iron ore sales volume at 12.4 million tonnes (flat y-o-y).

Management Commentary

- FY24 iron production guidance of 46-50 mt implies 13-22% y-o-y growth.
- NMDC Steel expects commission its steel plant by end-June 2023. Management expects to sell ~ 4.5-5 MMT of iron ore to NMDC Steel.
- FY24 capex guidance of Rs2000 crore. NMDC would require annual capex of Rs3000 crore to ramp-up iron ore production capacity to 100 mtpa.
- Other updates – 1) Cash & bank balance stood at Rs. 7,098 crore as on March 31, 2023, 2) exports of iron ore not economical given 30% export and logistic/port handling costs of ~$20/5 per tonne respectively, 3) Outstanding dues receivable from the Monitoring committee is Rs. 1,900 crore after the release of Rs. 957 crore in Q4FY23.

Revision in estimates – We have fine-tuned our FY24-25 earnings estimate to factor FY23 P&L and balance sheet numbers as well as revised volume assumption.

Our Call

Valuation – Maintain Buy on NMDC with a revised PT of Rs. 125: Reopening of China's economy and strong domestic steel demand bodes well for volume growth of NMDC which would be the key earnings growth driver over FY24-25. Moreover, recent demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Moreover, valuation of 3x its FY2025E EV/EBITDA and 1x its FY25E P/BV is attractive, and the stock offers a healthy dividend yield of 6-7%. Hence, we maintain our Buy rating on NMDC with a revised price target (PT) of Rs. 125.

Key Risks

1) Fall in domestic iron ore price and demand could impact the earnings outlook. 2) Imposition of export tax on steel/iron ore/pellets could impact the sector's valuation.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	25,965	17,667	20,922	22,227
OPM (%)	48.6	34.3	32.9	35.5
Adjusted PAT	9,429	4,365	5,460	6,172
% y-o-y growth	50.2	-53.7	25.1	13.0
Adjusted EPS (Rs.)	32.2	14.9	18.6	21.1
P/E (x)	3.3	7.1	5.6	5.0
P/B (x)	1.7	1.4	1.2	1.0
EV/EBITDA (x)	1.9	3.8	3.6	3.0
RoNW (%)	39.4	21.5	22.4	21.9
RoCE (%)	44.2	25.0	24.7	24.7

Source: Company; Sharekhan estimates

Strong EBITDA beat offset by higher-than-expected tax rate, depreciation cost and negative other income.

Q4FY23 consolidated revenues at Rs 5,851 crore (down 13.8% y-o-y; up 57.3% q-o-q) was 5.9% above our estimate of Rs. 5,525 crore. 8.4% beat in blended iron ore realisations to Rs. 4,715/tonne (up 21.4% q-o-q) was partially offset by a 2.3% miss in iron ore sales volume to 12.4 million tonnes (flat y-o-y). The miss is sales volumes was more than offset by a strong 21.8% beat in EBITDA/tonne to Rs. 1,742 (down 20.8% y-o-y, up 46.3% q-o-q) and consequently operating profit came 19% above our estimate to Rs. 2,162 crore (down 20.6% y-o-y; up 89.6% q-o-q). Adjusted PAT at Rs 1,414 crore (down 24.2% y-o-y; up 55% q-o-q) was in-line with our estimate of Rs. 1,415 crore as beat in EBITDA got offset by higher tax rate of 30.7% versus our estimate of 25% and a higher-than-expected depreciation cost and negative other income. We have adjusted Q4FY23 PAT for one time receipt of Rs. 957 crore from the Monitoring committee and Rs. 280 crore of profit on disinvestment of NINL.

Q4FY23 conference call highlights

- **Strong volume growth guidance; iron price headwinds likely in H1FY23:** Management expects FY24 volumes to be 46-50 million tonnes due to enhanced efficiency, expectation of normal monsoons in Chhattisgarh and upgradation of Kumaraswamy capacity from 7 MMT to 10 MMT. In FY24, company expects to achieve its best ever Q1 volumes. Headwinds on the pricing front are expected to continue till at least H1FY24. Company expects net PAT of over Rs. 5,500 crore in FY24.
- **NMDC steel update:** The management expects to sell ~ 4.5-5 MMT of iron ore to NMDC Steel and is confident it will start commissioning by end of June 2023 as the ancillary plants have already been commissioned, operations of the blast furnace are strong and company has already started to sell coke.
- **Capex guidance:** The company guided for a capex of at least Rs. 2,000 crore for FY24 and an annual capex of Rs. 3000 crore, FY25 onwards to meet its targeted overall capacity of 100 million tons. The Cash and Bank balance stood at Rs. 7,098 crore as on March 31, 2023, which the management said will be used for funding capex requirements rather than giving buybacks.
- **Update on key projects:** The slurry pipeline capex requirements has been increased to Rs. 3,500 crore out of which ~Rs. 1200/1200/900 crore each will be spent on pellet plant/laying of slurry pipeline/ beneficiation plant. Rs 1,240 crore has been spent on the project till date and management expects it to be a gamechanger on its completion in 3 years.
- **Other updates:** 1) The management said exports are presently not feasible due to export duty on iron ore of 30% and logistic/port handling costs of ~$20/$5 per tonne respectively and 2) Outstanding dues receivable from Monitoring committee is Rs. 1,900 crore after the release of Rs. 957 crore in Q4. Around Rs. 250-300 crore expense on monetary committee will be continued.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Revenue	**5,851**	**6,785**	**-13.8**	**3,720**	**57.3**
Total Expenditure	3,689	4,061	-9.2	2,579	43.0
Operating profit	**2,162**	**2,725**	**-20.6**	**1,141**	**89.6**
Other Income	-9	333	NA	205	NA
Interest	12	25	-53.2	30	-60.7
Depreciation	93	112	-16.5	84	11.6
Exceptional income/(expense)	1,237	0	NA	0	NA
Reported PBT	**3,286**	**2,920**	**12.5**	**1,232**	**166.7**
Adjusted PBT	**2,048**	**2,920**	**-29.9**	**1,232**	**66.3**
Tax	1,008	1,058	-4.7	328	207.8
Reported PAT	2,277	1,862	22.3	904	151.9
Adjusted PAT	1,420	1,862	-23.8	904	57.0
Loss from Discontinued operations (after tax)	0	0	NA	0	NA
Share of Profit I (Loss) of Associates/JVs	-5	4	NA	10	NA
Minority interest (MI)	0	0	NA	1	NA
Reported PAT after MI	**2,272**	**1,867**	**21.7**	**912**	**149.0**
Adjusted PAT after MI	**1,414**	**1,867**	**-24.2**	**912**	**55.0**
Equity Cap (cr)	293	293		293	
Reported EPS (Rs)	**7.8**	**6.4**	**21.7**	**3.1**	**149.0**
Adjusted EPS (Rs)	**4.8**	**6.4**	**-24.2**	**3.1**	**55.0**
Margins (%)			**BPS**		**BPS**
OPM	37.0	40.2	-319.9	30.7	629.3
Adjusted NPM	24.2	27.5	-334.3	24.5	-35.7
Tax rate	30.7	36.2	-553.2	26.6	409.6

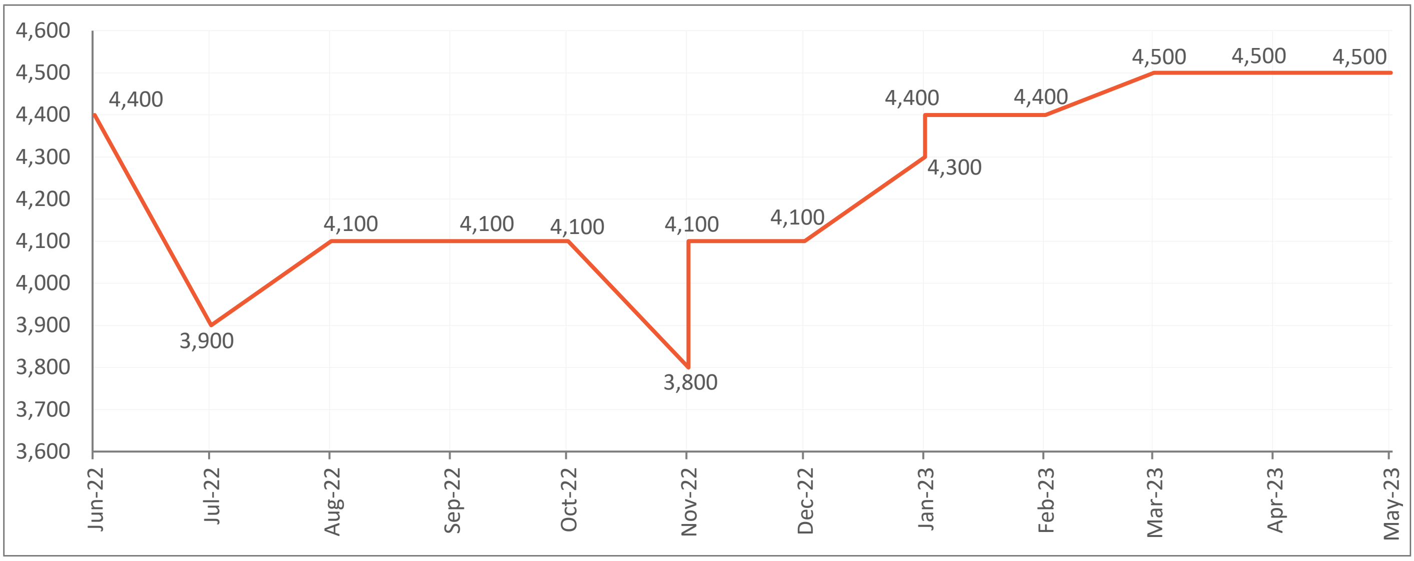
Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)
Iron ore production (million tons)	14.1	13.9	1.9	10.7	32.5
Iron ore sales (million tons)	12.4	12.4	0.2	9.6	29.5
Domestic iron realisation (Rs/tonne)	4,663	5,386	-13.4	3,821	22.0
Blended iron ore realisation (Rs/tonne)	4,715	5,477	-13.9	3,883	21.4
EBITDA/tonne (Rs/tonne)	1,742	2,199	-20.8	1,191	46.3

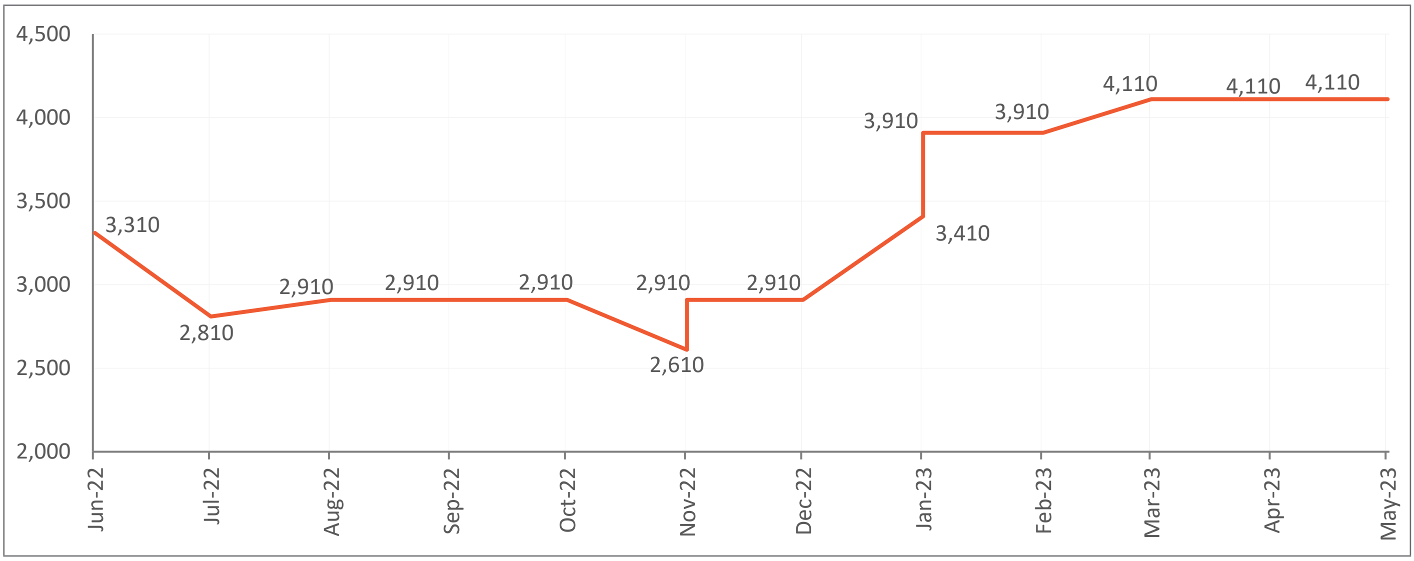
Source: Company; Sharekhan Research

NMDC iron ore lump prices trend



Source: NMDC; Sharekhan Research

NMDC iron ore fine prices trend



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. 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.

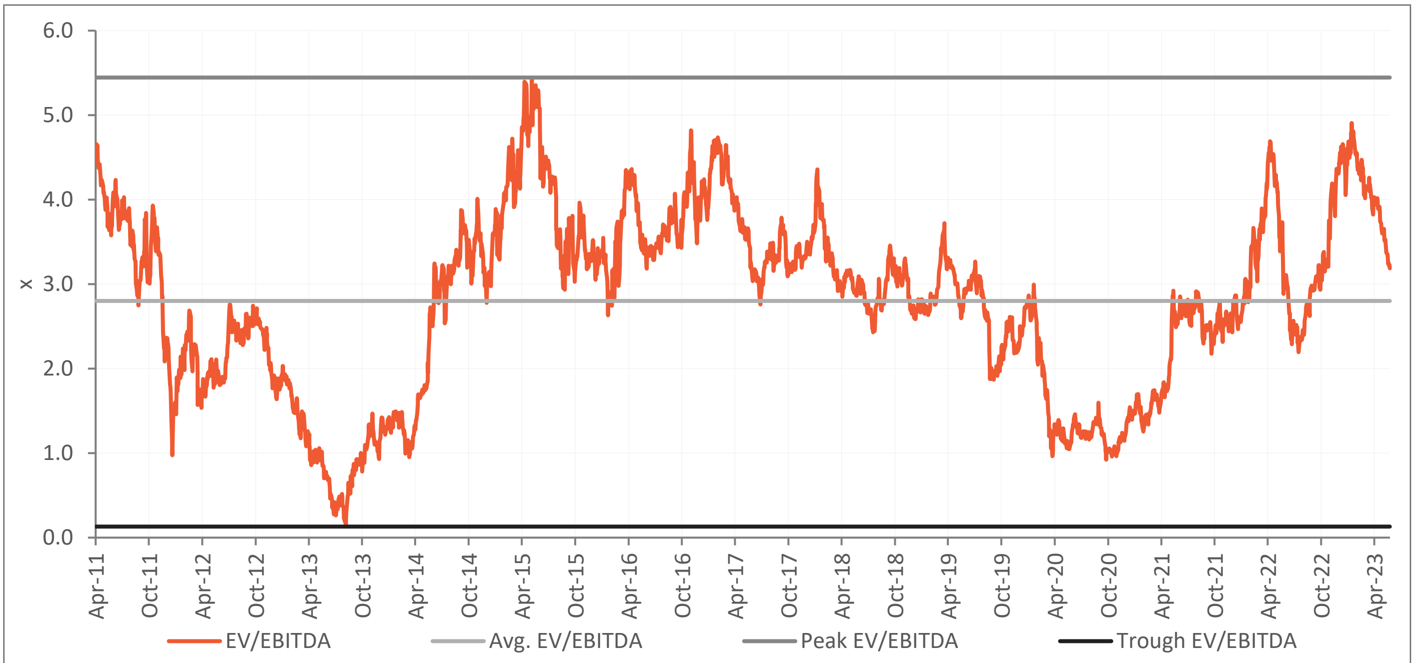
■ Company Outlook – Volume growth to drive growth over FY2024E-FY2025E

We expect a 14% 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 have remained largely stable in India since March 2023. We expect a Revenue/EBITDA/PAT CAGR of 12%/14%/19% over FY2023-FY2025E.

■ Valuation – Maintain Buy on NMDC with a revised PT of Rs. 125

Reopening of China's economy and strong domestic steel demand bodes well for volume growth of NMDC which would be the key earnings growth driver over FY24-25. Moreover, recent demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Moreover, valuation of 3x its FY2025E EV/EBITDA and 1x its FY25E P/BV is attractive, and the stock offers a healthy dividend yield of 6-7%. Hence, we maintain our Buy rating on NMDC with a revised price target (PT) of Rs. 125.

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 – Bacheli 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

Reopening of China economy and capacity expansion by domestic steel companies bodes well for volume/earnings growth of NMDC over FY24-25. Moreover, recent demerger of the steel business will reduce capital intensity. NMDC valuation is reasonable, and stock offers healthy dividend yield.

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.

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	11.69
2	Vanguard Group Inc/The	1.46
3	Aditya Birla Sun Life Asset Manage	1.01
4	PPFAS Asset Management	0.92
5	Mirae Asset Global Investments Co	0.74
6	SBI Funds Management Ltd	0.45
7	Nippon Life India Asset Management	0.37
8	Edelweiss Asset Management Ltd	0.33
9	POWER CORP OF CANADA	0.29
10	ICICI Prudential Asset Management	0.24

Source: Bloomberg

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 detoriating 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

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