Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

NMDC Ltd

Strong Q1; impressive volume guidance; valuations attractive

Metal & Mining	Sharekhan code: NMDC

Reco/View: Buy	↔	CMP: **Rs. 117**	Price Target: **Rs. 135**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Stock Update

Result Update

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 30.79

Updated Aug 08, 2023

High Risk

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

Source: Morningstar

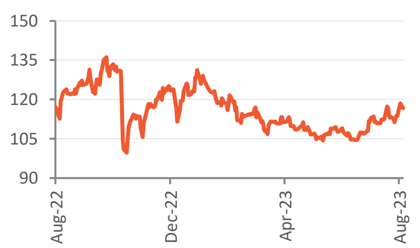
Company details

Market cap:	Rs. 34,186 cr
52-week high/low:	Rs. 132 / 91
NSE volume: (No of shares)	83.8 lakh
BSE code:	526371
NSE code:	NMDC
Free float: (No of shares)	114.9 cr

Shareholding (%)

Promoters	60.8
FII	7.0
DII	18.0
Others	14.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.7	11.3	-1.7	-0.2
Relative to Sensex	7.2	5.3	-9.1	-8.3

Sharekhan Research, Bloomberg

Summary

- Consolidated PAT at Rs. 1,652 crore (up 17% q-o-q) was 28% above our estimate, led by a beat in EBITDA margins, higher other income, and lower depreciation.
- EBITDA/tonne rose 4% q-o-q to Rs. 1,816 and was 23% above our estimate led by better-than-expected blended iron ore realisation of Rs. 4,915/tonne (up 4.2% q-o-q) as impact of price cuts was back ended. Iron ore sales volume of 11 mt (down 12% q-o-q) was marginally below our estimate of 11.2 mt.
- We believe near-term iron ore prices would stay rangebound and growth for NMDC would be largely driven by higher volumes (management guided for 15-20% y-o-y volume growth in FY24).
- We maintain a Buy on NMDC with a revised PT of Rs. 135 given inexpensive valuation of 3.4x/1.1x its FY25E EV/EBITDA and P/BV, respectively and the stock offers a healthy dividend yield of ~6%. High cash of ~Rs. 11,200 crore or 33% of current market capitalisation provide comfort.

Q1FY24 consolidated revenues at Rs. 5,395 crore (up 13.2% y-o-y; down 7.8% q-o-q) was 10% above our estimate of Rs. 4,906 crore led by 12% beat in blended iron realisations of Rs. 4,915/tonne (up 4% q-o-q) partially offset by marginal miss in iron ore sales volume at 11 million tonnes (up 41% y-o-y; down 11.6% q-o-q). Higher iron ore realisation led to a 23% beat in EBITDA margin at Rs. 1,816/tonne (up 4.2% q-o-q) and consequently operating profit of Rs. 1,994 crore (up 5% y-o-y; down 7.8% q-o-q) was 21% above our estimate of Rs. 1,649 crore. Domestic iron ore realisation was at Rs. 4,850/tonne (up 4% q-o-q) and 10% above our estimate. PAT at Rs. 1,652 crore (up 14.6% y-o-y; up 16.8% q-o-q) was 28% above our estimate on the account of better-than-expected margin, higher other income and lower depreciation.

Key positives

- Sharp 23% beat in EBITDA/tonne at Rs. 1,816, up 4% q-o-q.

Key negatives

- Marginal miss of 2% in iron ore sales volume at 11 million tonnes, down 11.6% q-o-q.

Management Commentary

- FY24/FY25 iron production guidance of 47-49 mt/>50mt. Target to reach 100 mt on next 5 years.
- NMDC Steel has commissioned blast furnace and full plant commissioning expected in next one week.
- FY24/FY25 capex guidance of Rs. 2,000 crore/Rs. 2,500 crore. NMDC would require annual capex of Rs. 5,000 crore to ramp-up iron ore production capacity to 100 mtpa.
- Australia gold mining to start in next one month and expect small profits of $15-20 mn, which will be invested for exploration of adjoining 4-5 gold mines. NMDC is also exploring mining of lithium with partner Hancock.
- Other updates – 1) Cash & bank balance stood at Rs. 11,200 crore as on June 31, 2023, 2) EoI for exports of iron ore to safeguard against any slowdown in demand from its top three customers (accounts for 70% of volume), 3) Iron ore prices now aligned with IBM prices with loading of 21%.

Revision in estimates – We maintain our FY24-25 earnings estimate.

Our Call

Valuation – Maintain Buy on NMDC with a revised PT of Rs. 135: Strong domestic steel demand bodes well for a rise in NMDC's volumes, which would be a key earnings growth driver over FY24-25. Moreover, recent demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Valuation of 3.4x its FY2025E EV/EBITDA and 1.1x its FY25E P/BV is attractive, and the stock offers a healthy dividend yield of ~6%. NMDC has a high cash level of ~Rs. 11,200 crore which is 33% of its current market capitalisation and the same provide comfort to investors. Hence, we maintain a Buy rating on NMDC with a revised price target (PT) of Rs. 135.

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)	3.6	7.8	6.3	5.5
P/B (x)	1.9	1.5	1.3	1.1
EV/EBITDA (x)	2.1	4.4	4.1	3.4
RoNW (%)	39.4	21.5	22.4	21.9
RoCE (%)	44.2	25.0	24.7	24.7

Source: Company; Sharekhan estimates

Strong Q1 as margin beat expectation

Q1FY24 consolidated revenues at Rs. 5,395 crore (up 13.2% y-o-y; down 7.8% q-o-q) was 10% above our estimate of Rs. 4,906 crore led by 12% beat in blended iron realisations of Rs. 4,915/tonne (up 4% q-o-q) partially offset by marginal miss in iron ore sales volume at 11 million tonnes (up 41% y-o-y; down 11.6% q-o-q). Higher iron ore realisation led to a 23% beat in EBITDA margin at Rs. 1,816/tonne (up 4.2% q-o-q) and consequently operating profit of Rs. 1,994 crore (up 5% y-o-y; down 7.8% q-o-q) was 21% above our estimate of Rs. 1,649 crore. Domestic iron ore realisation was at Rs. 4,850/tonne (up 4% q-o-q) and 10% above our estimate. PAT at Rs. 1,652 crore (up 14.6% y-o-y; up 16.8% q-o-q) was 28% above our estimate on the account of better-than-expected margin, higher other income and lower depreciation.

Q1FY24 conference call highlights

- **Impressive iron ore production guidance -** FY24 iron production guidance of 47-49 mt implies 15-20% y-o-y growth and FY25 to be >50 mt. Target to further increase volume to 100mt in next 5 years. Q2FY24 iron ore production expected at 8 mt versus 7 mt in Q2FY23. The rise in production would be led by – 1) Karnataka mine addition capacity of 3mtpa to operational by Oct'23, 2) additional 2 mtpa form Bacheli mine at Chhattisgarh, 3) The company aims to start work for 365 days from Jan'24 and 4) start of third shift at Chhattisgarh mines.
- **Update on NMDC Steel –** NMDC steel has commissioned blast furnace and full plant commissioning expected in next one week. FY24 steel production of 1 mt and full utilisation expected in FY25. Nagarnar will consume 4.5-5 mt of iron ore at peak level.
- **Capex guidance -** FY24/FY25 capex guidance of Rs. 2,000 crore/Rs. 2,500 crore. Capex till August 15, 2023 was at Rs. 606 crore. NMDC would require annual capex of Rs. 5, 000 crore to ramp-up iron ore production capacity to 100 mtpa.
- **Coal blocks –** 1) Tokisud the process of land acquisition is on and has appointed MDO and expect some mining activities by end-FY24 or early next fiscal and 2) Rohne coal block would be in FY25.
- **Gold mining in Australia –** NMDC expects to start gold mining in the next one month in Australia as all approval in place expect for one. Expect small profits of $15-20 mn from gold mining and will invest the same for adjoining 4-5 gold mines.
- Tie-up with *Hancock* for joint iron ore mining in Australia and reserves could be at 15mt in next 4-5 years and also exploring mining of lithium.
- **Other updates –** 1) Cash & bank balance stood at Rs. 11,200 crore as on June 31, 2023, 2) EoI for exports of iron ore to safeguard against any slowdown in demand from its top three customers (accounts for 70% of volume), 3) Iron ore prices now aligned with IBM prices with loading of 21%.

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Revenues	5,395	4,767	13.2	5,851	-7.8
Total Expenditure	3,401	2,869	18.6	3,689	-7.8
Operating profit	**1,994**	**1,898**	**5.0**	**2,162**	**-7.8**
Other Income	294	146	101.5	-9	NA
Interest	6	15	-59.6	12	-47.4
Depreciation	69	85	-18.5	93	-25.9
Exceptional income/(expense)	0	0	NA	1,237	NA
Reported PBT	2,212	1,944	13.8	3,286	-32.7
Adjusted PBT	**2,212**	**1,944**	**13.8**	**2,048**	**8.0**
Tax	551	476	15.7	1,008	-45.4
Reported PAT	1,661	1,468	13.2	2,277	-27.0
Adjusted PAT	**1,661**	**1,468**	**13.2**	**1,420**	**17.0**
Loss from Discontinued operations (after tax)	0	0	NA	0	NA
Share of Profit I (Loss) of Associates/JVs	-8	-26	NA	-5	NA
Minority interest (MI)	1	0	NA	0	NA
Reported PAT after MI	1,652	1,442	14.6	2,272	-27.3
Adjusted PAT after MI	**1,652**	**1,442**	**14.6**	**1,414**	**16.8**
Equity Cap (cr)	293	293		293	
Reported EPS (Rs.)	5.6	4.9	14.6	7.8	-27.3
Adjusted EPS (Rs.)	5.6	4.9	14.6	4.8	16.8
Margins (%)			**BPS**		**BPS**
OPM	37.0	39.8	-287.0	37.0	-0.1
Adjusted NPM	30.6	30.2	38.0	24.2	646.1
Tax rate	24.9	24.5	41.0	30.7	-578.2

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Iron ore production (million tonnes)	10.7	8.9	20.0	14.1	-24.2
Iron ore sales (million tonnes)	11.0	7.8	40.7	12.4	-11.6
Domestic iron realisation (Rs. /tonnne)	4,850	6,050	-19.8	4,663	4.0
Blended iron ore realisation (Rs. /tonnne)	4,915	6,111	-19.6	4,715	4.2
EBITDA/tonne (Rs. /tonne)	1,816	2,434	-25.4	1,742	4.2

Source: Company; 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 rangebound in Q3FY2023, have bottomed out and will increase as the COVID-19 situation improves in China. Moreover, we expect a 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.

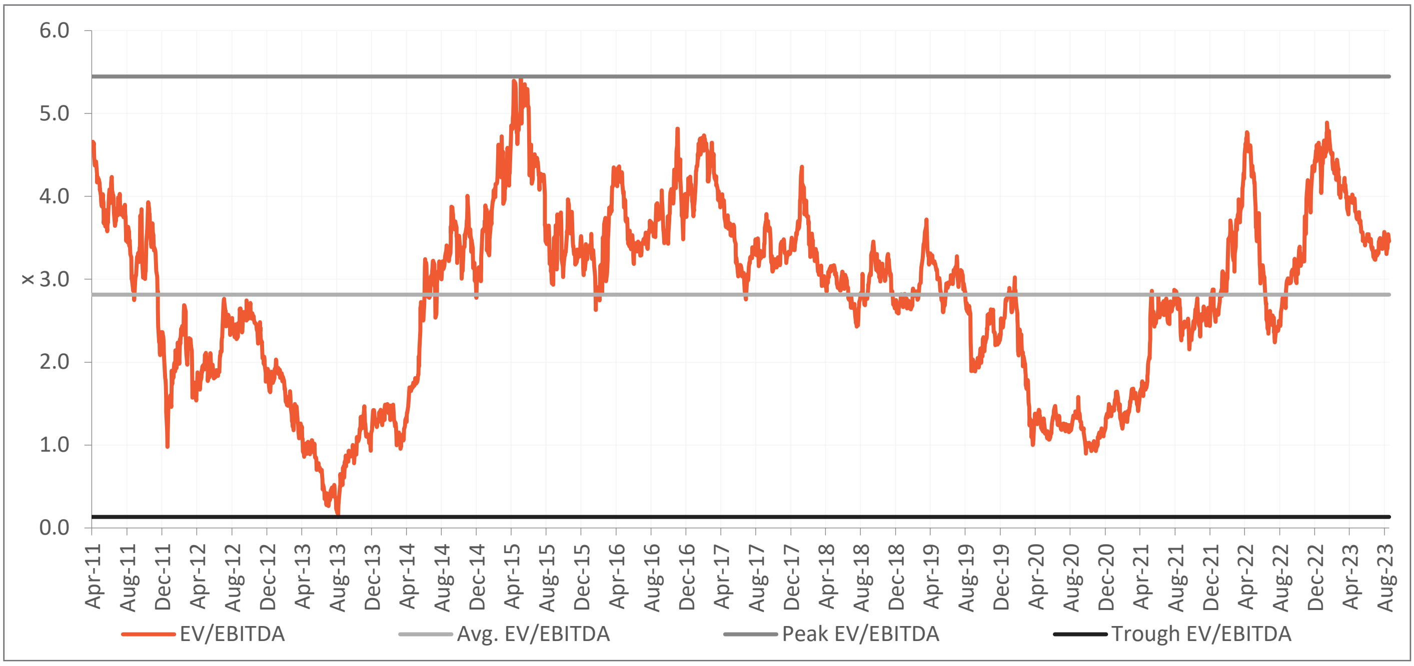
■ Company Outlook – Volume growth to drive growth over FY2024E-FY2025E

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 FY2022 highs, we believe they have bottomed out and expect it to remain range bound. 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. 135

Strong domestic steel demand bodes well for a rise in NMDC's volumes, which would be a 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 3.4x its FY2025E EV/EBITDA and 1.1x its FY25E P/BV is attractive, and the stock offers a healthy dividend yield of 6%. NMDC has a high cash level of Rs. 11200 crore which is 33% of its current market capitalisation and the same provide comfort to investors. Hence, we maintain a Buy rating on NMDC with a revised price target (PT) of Rs. 135.

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. High cash on the books also provide comfort to the investors.

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

Amitava Mukherjee	Chairman & Managing Director and Director Finance
Vishwanath Suresh	Director – Commercial
Dilip Kumar Mohanty	Director - Production

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	9.22
2	PPFAS Asset Management	1.83
3	Vanguard Group Inc/The	1.25
4	Aditya Birla Sun Life Asset Manage	1.04
5	Mirae Asset Global Investments Co	0.77
6	SBI Funds Management Ltd	0.51
7	Nippon Life India Asset Management	0.46
8	Kotak Mahindra Asset Management Co	0.45
9	POWER CORP OF CANADA	0.29
10	Dimensional Fund Advisors LP	0.28

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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Other registrations of 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.

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