



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	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

Updated Aug 08, 2023

30.79

## High Risk

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

Source: Morningstar

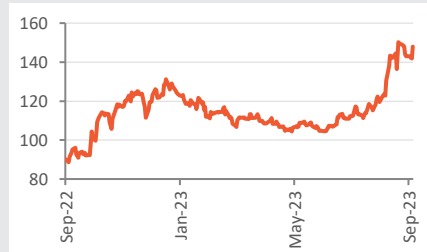
## Company details

Market cap:	Rs. 43,329 cr
52-week high/low:	Rs. 154 / 94
NSE volume: (No of shares)	100.9 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	19.7	41.3	32.5	64.1
Relative to Sensex	18.5	39.6	20.9	49.5

Sharekhan Research, Bloomberg

## NMDC Ltd

## Price hike &amp; strong volume growth improves earnings outlook

## Metal &amp; Mining

## Sharekhan code: NMDC

Reco/View: Buy



CMP: Rs. 148

Price Target: Rs. 175



Upgrade



Maintain



Downgrade

## Summary

- NMDC has taken a price hike of Rs. 300/per tonne (or 6.5%/7.7%) for iron ore lump/fines in September 2023, which reflects a recovery in international iron ore price.
- Operational performance is robust with 23%/32% y-o-y growth in iron ore production/sales volume in 5MFY24 and gives confidence on achievement of volume guidance of 47-49mt/>50mt for FY24E/FY25E. We model a strong 12% iron ore sales volume CAGR over FY23-26E. Long-term outlook is also encouraging with aspiration of 100mt in next five years.
- We have introduced our FY26 earnings estimate and expect a 15% PAT CAGR over FY23-26E with a potential earnings upgrade from likely faster-than-expected iron ore production ramp-up.
- We maintain a Buy rating on NMDC with a revised PT of Rs. 175. Valuation of 4.1x/1.3x its FY26E EV/EBITDA and P/BV, respectively, is attractive, and the stock offers a healthy dividend yield of ~5-6%. High cash of Rs11,200 crore or 26% of current market capitalisation provides comfort.

**NMDC Limited's (NMDC) operational performance has been very strong, with robust 23%/32% y-o-y growth in its iron ore production/sales volume in 5MFY24 and seems on track to achieve its guidance production guidance of 47-49mmt/>50mt for FY24/FY25. The recent commissioning of the Nagarnar steel plant further improves the iron ore sales volume growth outlook in H2FY24. Long-term volume growth also remains strong given NMDC's target to reach 100mt of iron ore production in the next five years. Additionally, the recent price hike of 7-8% in iron ore price (reflects a recovery in international iron ore prices) and benefit of operating leverage bodes well for margin. We thus expect NMDC to clock 12%/15% EBITDA/PAT CAGR over FY23-26E. Valuation of 4.6x/4.1x FY25E/FY26E EV/EBITDA is attractive and stock offers a healthy dividend yield of 5-6%. Hence, we maintain our Buy rating on NMDC with an increased PT of Rs175.**

- NMDC hiked domestic iron ore lumps/fines price by Rs300/tonne:** NMDC implemented iron ore price hike in September 2023 with a 6.5%/7.7% increase in iron ore lump/fines price to Rs4,950/Rs4,210 per tonne (including Royalty, D2MF, NMET) post price cut in August 2023. The price hike reflects a rally in the international iron ore price, but domestic iron ore price is still at a steep discount of 35% to import parity price versus a historical average of 20%. Thus, we see scope for further hikes in domestic iron ore prices and the same bodes well for the margin of NMDC.
- Robust operational performance in 5MFY24:** Iron ore demand in India is robust, led by strong demand from the steel sector, and the same is reflected in NMDC's strong iron ore sales volume growth of 32% y-o-y to 17.7 million tonnes in 5M FY24. The high growth also reflects the low base of last year. The recent commissioning of the Nagarnar Steel plant is expected to further support NMDC's iron ore sales volume in the coming quarters. NMDC's management has given iron ore production guidance of 47-49 mt/>50mt for FY24E/FY25 and targets to reach 100 mt in next five years. We expect strong volume growth momentum to sustain and expect strong iron ore volume growth of 20%/9%/8% y-o-y to 46mt/50mt/54mt in FY2024E/FY2025E/FY2026E.
- Earnings outlook remains strong over FY24-26; high dividend payout to sustain:** Robust iron ore sales volume and the recent recovery in iron ore prices re-enforce our confidence with respect to strong earnings performance by NMDC. We expect NMDC's EBITDA/PAT to clock 12%/15% CAGR over FY23-26E. Strong earnings growth outlook and higher cash in books (Rs11200 crore) would help sustain a high dividend payout of >40% going forward.

## Our Call

**Valuation – Maintain Buy on NMDC with a revised PT of Rs. 175:** We have introduced our FY26 earnings estimates in this report. Strong domestic steel demand bodes well for volume growth of NMDC, which would be the key earnings growth driver over FY24-26. Moreover, the recent demerger of the steel business will reduce the capital intensity and improve the dividend payout ratio. Moreover, valuation of 4.1x its FY2026E EV/EBITDA and 1.3x its FY26E P/BV is attractive, and the stock offers a healthy dividend yield of 6%. NMDC has high cash of Rs11200 crore (as of June 2023), which is 26% of its current market capitalisation, and the same provide comfort to investors. Hence, we maintain our Buy rating on NMDC with a revised price target (PT) of Rs. 175 (rollover of valuation multiple to September 2025 earnings estimate).

## Key Risks

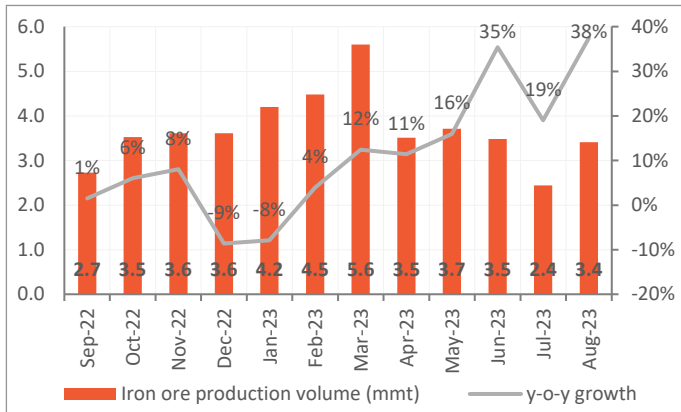
1) Fall in domestic iron ore price and demand could impact the earnings outlook. 2) The imposition of export tax on steel/iron ore/pellets could impact the sector's valuation.

## Valuation (Consolidated)

Particulars	Rs cr				
	FY22	FY23	FY24E	FY25E	FY26E
Revenue	25,965	17,667	20,922	22,227	23,993
OPM (%)	48.6	34.3	32.9	35.5	35.7
Adjusted PAT	9,429	4,365	5,460	6,172	6,608
% y-o-y growth	50.2	-53.7	25.1	13.0	7.1
Adjusted EPS (Rs.)	32.2	14.9	18.6	21.1	22.5
P/E (x)	4.6	9.9	7.9	7.0	6.6
P/B (x)	2.4	1.9	1.7	1.5	1.3
EV/EBITDA (x)	2.9	5.9	5.5	4.6	4.1
RoNW (%)	39.4	21.5	22.5	22.2	20.9
RoCE (%)	44.2	25.0	24.9	25.1	23.9
RoCE (%)	44.2	25.0	24.9	25.1	23.9

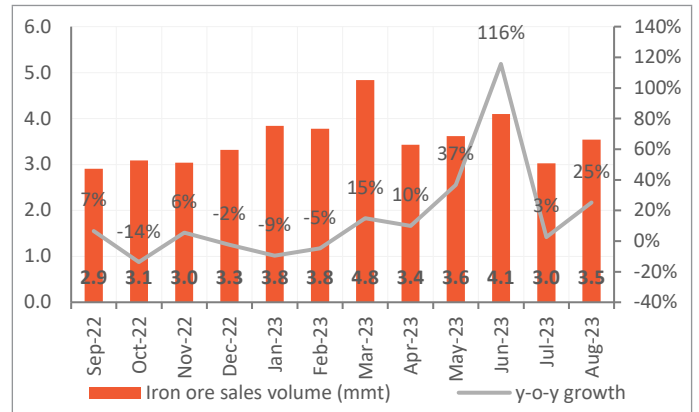
Source: Company; Sharekhan estimates

**NMDC iron ore production – robust 23% y-o-y growth in 5MFY24**



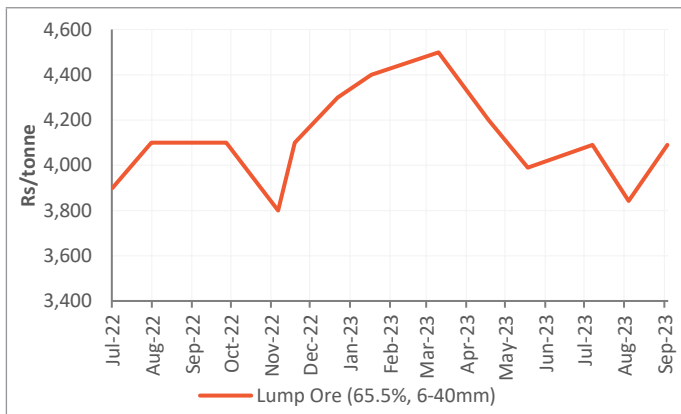
Source: Company, Sharekhan Research

**NMDC iron ore sales volume – strong 32% y-o-y growth in 5MFY24**



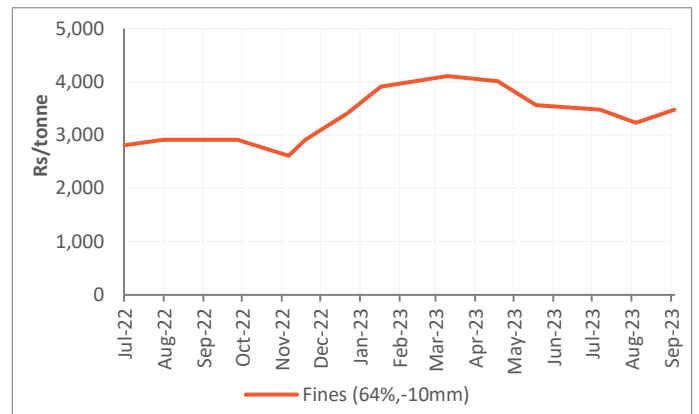
Source: Company, Sharekhan Research

**NMDC hiked iron ore lump price by 6.5% in Sep'23**



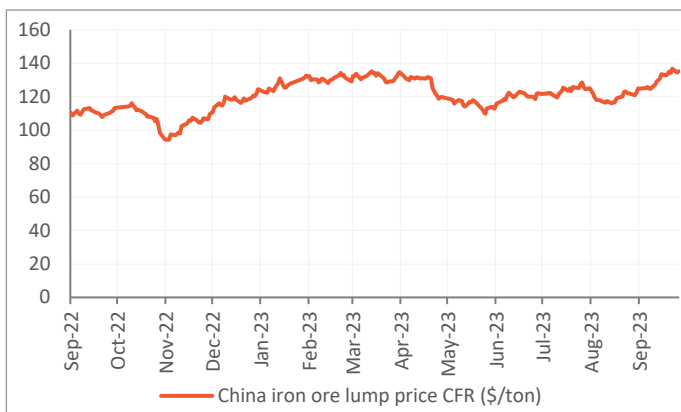
Source: Company, Sharekhan Research; We have adjusted NMDC's iron ore lump price for IBM prices loading of 21% for July-September 2023

**NMDC hiked iron ore fines price by 7.7% in Sep'23**



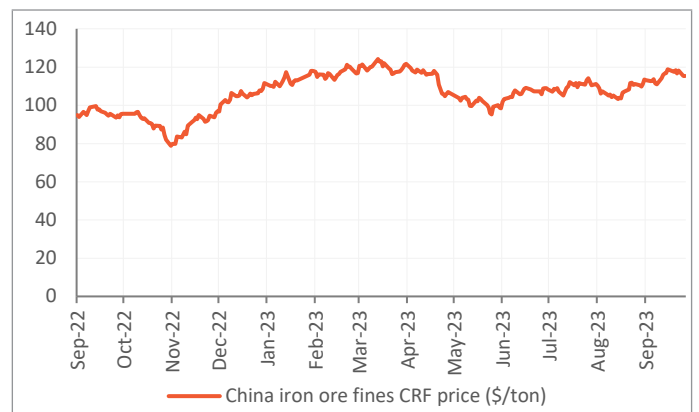
Source: Company, Sharekhan Research; We have adjusted NMDC's iron ore fines price for IBM prices loading of 21% for July-September 2023

**China iron ore price lump recovered in Sep 2023**



Source: Bloomberg; Sharekhan Research

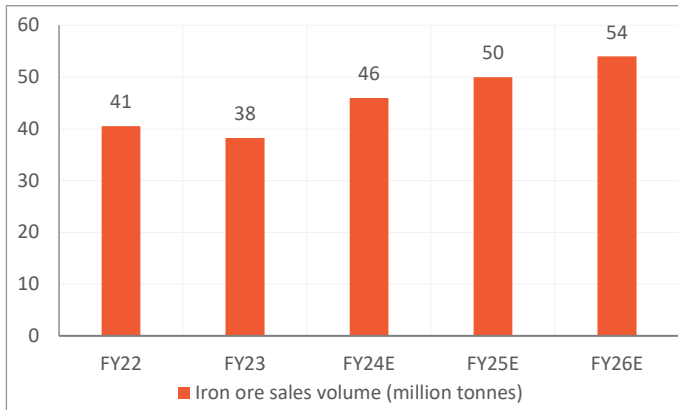
**China iron ore price fines rises in Sep 2023**



Source: Bloomberg; Sharekhan Research

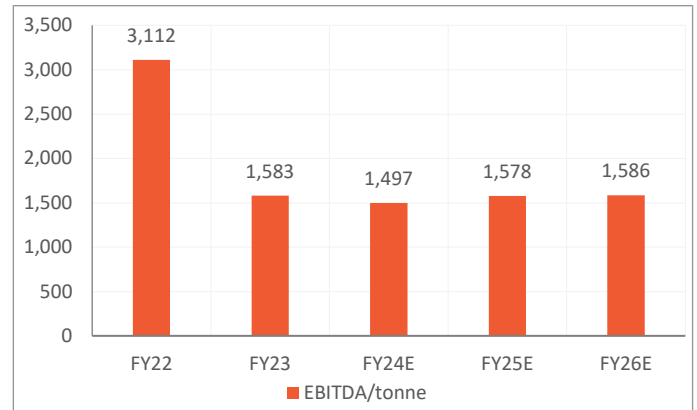
## Financials in charts

### Iron ore sales volume grow strongly over FY23-FY26E



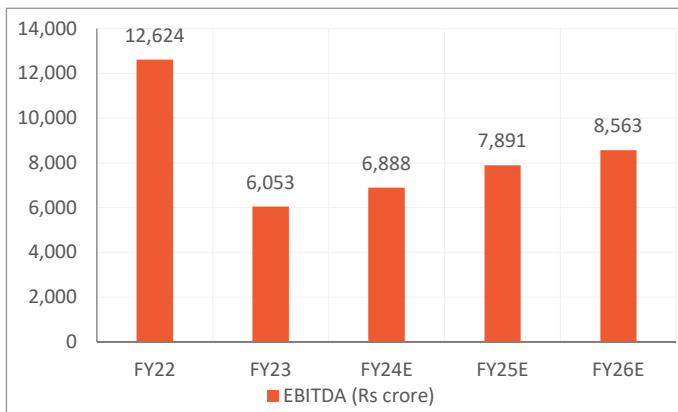
Source: Company, Sharekhan Research

### Unit EBITDA margin to remain resilient



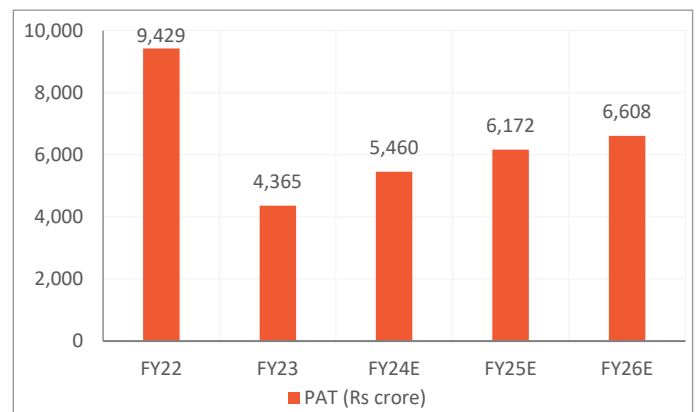
Source: Company, Sharekhan Research

### EBITDA to clock 12% CAGR over FY23-FY26E



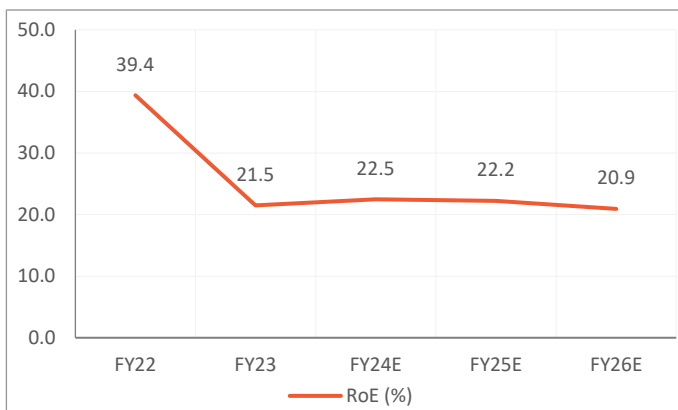
Source: Company, Sharekhan Research

### PAT to clock 15% CAGR over FY23-FY26E



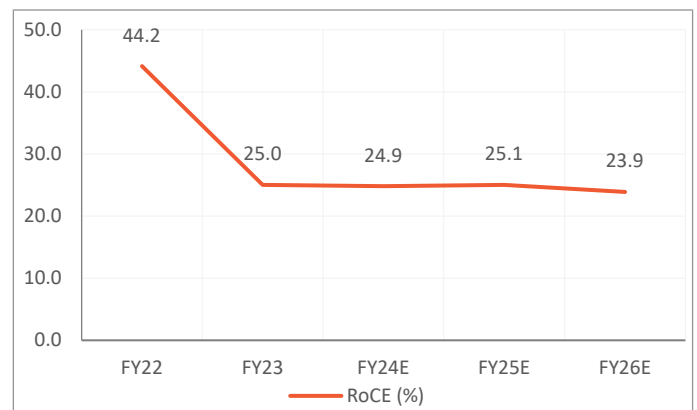
Source: Company, Sharekhan Research

### RoE trend



Source: Company, Sharekhan Research

### RoCE trend



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 range-bound 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 the 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.

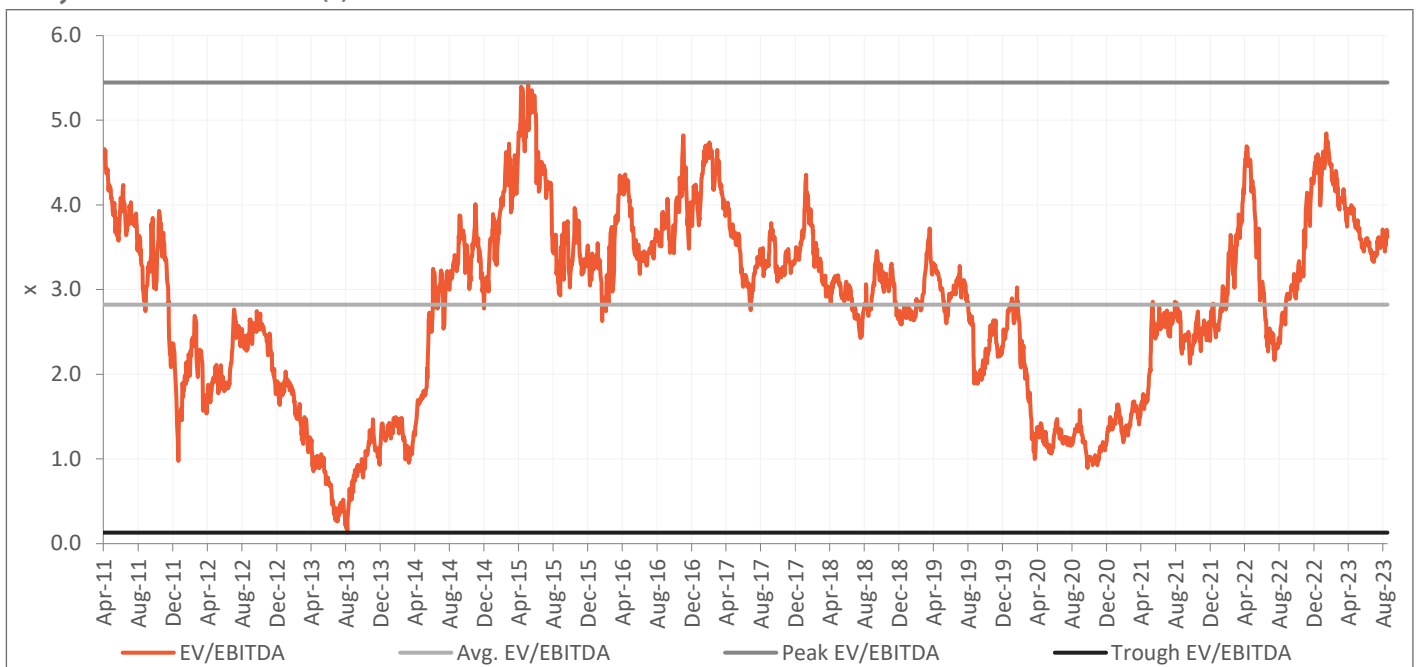
### ■ Company Outlook – Volume growth to drive growth over FY2024E-FY2026E

We expect a 12% iron ore sales volume CAGR for FY2023-FY2026E, driven by domestic steel demand, China’s reopening and reversal of export duties. Although iron ore prices have also recovered and NMDC has also implemented Rs300/tonne price hike in September 2023. We expect a Revenue/EBITDA/PAT CAGR of 11%/12%/15% over FY2023-FY2026E.

### ■ Valuation – Maintain Buy on NMDC with a revised PT of Rs. 175

We have introduced our FY26 earnings estimates in this report. Strong domestic steel demand bodes well for volume growth of NMDC, which would be the key earnings growth driver over FY24-26. Moreover, the recent demerger of the steel business will reduce the capital intensity and improve the dividend payout ratio. Moreover, valuation of 4.1x its FY2026E EV/EBITDA and 1.3x its FY26E P/BV is attractive, and the stock offers a healthy dividend yield of 6%. NMDC has high cash of Rs11200 crore (as of June 2023), which is 26% of its current market capitalisation, and the same provide comfort to investors. Hence, we maintain our Buy rating on NMDC with a revised price target (PT) of Rs. 175 (rollover of valuation multiple to September 2025 earnings estimate).

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

The reopening of China's economy and capacity expansion by domestic steel companies bodes well for the volume/earnings growth of NMDC over FY24-25. Moreover, the 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 provides 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	1.51
4	SBI Funds Management Ltd	0.94
5	Aditya Birla Sun Life Asset Manage	0.93
6	Mirae Asset Global Investments Co	0.82
7	Nippon Life India Asset Management	0.63
8	Kotak Mahindra Asset Management Co	0.48
9	UTI Asset Management Co Ltd	0.32
10	Dimensional Fund Advisors LP	0.3

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

<b>Right Sector</b>	
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.
<b>Right Quality</b>	
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
<b>Right Valuation</b>	
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

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