



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

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. 63,741 cr |
| 52-week high/low: | Rs. 220/104 |
| NSE volume: (No of shares) | 142.9 lakh |
| BSE code: | 526371 |
| NSE code: | NMDC |
| Free float: (No of shares) | 114.9 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 60.8 |
| FII | 8.3 |
| DII | 17.7 |
| Others | 13.2 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|------|------|-------|------|
| Absolute | 18.2 | 49.3 | 103.2 | 78.8 |
| Relative to Sensex | 14.6 | 39.9 | 94.2 | 61.2 |

Sharekhan Research, Bloomberg

Metal & Mining

Sharekhan code: NMDC

Reco/View: Buy

CMP: Rs. 218

Price Target: Rs. 245

Upgrade ↔ Maintain ↓ Downgrade

Summary

- Operational performance has been robust with an 18%/24% y-o-y growth in NMDC's iron ore production/sales volume to 31.8mt/32mt in 9MFY24. FY24 production guidance of 47-49 mt (23-28% y-o-y growth) seems achievable.
- Steep iron ore lump/fines price hike of 20%/26% over Sep-23 to Jan-24 reflects strength in international iron ore prices. Majority of benefit of price increase would be seen in Q3FY24.
- Q3FY24 earnings to be remain strong given volume growth (up 21% y-o-y) and better realisations. Volume tailwinds from strong domestic steel demand and margin recovery would drive a 19% PAT CAGR over FY23-26E. Moreover, demerger of the steel business will reduce capital intensity and should lead to re-rating as financial remain robust.
- We maintain a Buy rating on NMDC with a revised PT of Rs. 245. Valuation of 5.2x its FY26E EV/EBITDA is reasonable given strong earnings growth outlook and healthy dividend yield of ~4-5%. High cash of Rs. 14,000 crore or 22% of current market capitalisation provide comfort.

Earnings outlook remains strong and has further improved given a steep price hike (20%/26% for lump/fines over Sep'23-Jan-24) and robust iron ore sales volume (up 21% y-o-y in 9MFY24). We believe that the company is on track to achieve its production guidance of 47-49 mmt/>50mt for FY24/FY25 supported by likely higher supplies of 2mtpa/2.3mtpa from Bachelii/Kumaraswamy mines. We thus expect NMDC to clock 15%/19% EBITDA/PAT CAGR over FY23-26E along with high RoE of 23-24%. Valuation of 5.2x FY26E EV/EBITDA is reasonable, and stock offers healthy dividend yield of 4-5%. Hence, we maintain our Buy rating on NMDC with an increased PT of Rs. 245.

- Robust operational performance in Q3FY24:** Iron ore demand in India was robust during Q3FY24, led by strong demand from the steel sector, and the same is reflected in NMDC's strong iron ore sales volume growth of 21% y-o-y to 11.4 million tonnes. The high growth also reflects low base of last year. The company has maintained a strong momentum as company's cumulative production for 9MFY24 stood at 31.8 MT (18% y-o-y growth) while the sales reached 31.9 MT (growth 24% y-o-y). NMDC's management has given iron ore production guidance of 47-49 mt/>50mt for FY24E/FY25 and targets to reach 100 mt on next 5 years. We believe that strong volume growth momentum to sustain and expect strong iron ore volume CAGR of 13% over FY23-26E.
- Strong price hike momentum continues led by firm international iron ore price – bodes well for margin:** The company has taken price hike of Rs. 450/tonne in Q3FY24. Moreover, price hike of Rs. 300/tonne taken in Sep'23 was backed ended and thus full benefit of higher realisation would be seen in Q3FY24. The price hike momentum continues with additional price increase of Rs. 200/tonne in Jan'24 which is reflective of strength in international iron ore prices. The total price hike of Rs. 950/tonne over Sep'23 to Jan'24 translates into 20%/26% increase in NMDC's iron ore lump/fines price to Rs. 5,600/Rs. 4,910 per tonne (including Royalty, DMF, NMET). The price hike reflects rally in the international iron ore price, but domestic iron ore price is still at steep discount of 55% to international iron ore prices. Higher price bodes well for improvement in realisation/margin in H2FY24. We have modelled margin improvement of 6%/3% in FY25E/FY26E to Rs. 1,633/Rs. 1,677 per tonne.
- Expect robust 19% PAT CAGR over FY23-26E & RoE of 23-24%; high cash on books provides comfort:** Robust iron ore sales volume and recent recovery in iron ore prices re-enforces our confidence with respect to strong earnings performance by NMDC. We expect NMDC's EBITDA/PAT to clock 15%/19% CAGR over FY23-26E along with high RoE of 23-24%. Strong earnings growth outlook and higher cash in books (Rs. 13919 crore) would help sustain high dividend payout of >40% going forward.

Our Call

Valuation – Maintain a Buy on NMDC with a revised PT of Rs. 245: We have broadly maintained our FY24-25 earnings estimate, while raising the estimate for FY26 by 8% to reflect better margins. Strong domestic steel demand bodes well for volume growth, which would be the key earnings growth driver over FY24-26. Moreover, recent demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Valuation of 5.2x its FY2026E EV/EBITDA is reasonable and the stock offers a healthy dividend yield of 4-5%. NMDC has high cash of Rs. 13,919 crore (as of September 2023), which is 22% 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. 245 (higher multiple given robust growth outlook + rollover to FY26 earnings estimate).

Key Risks

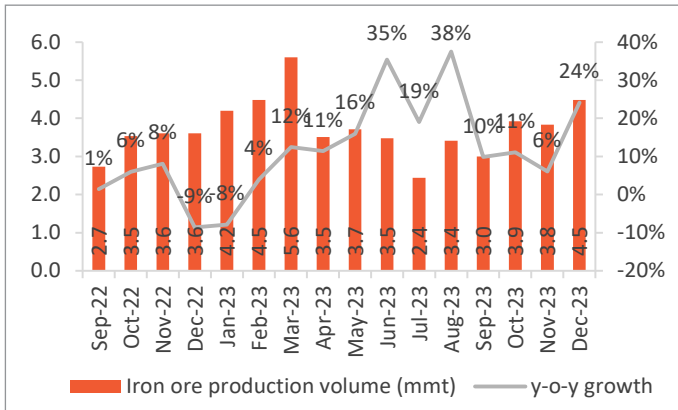
- Fall in domestic iron ore price and demand could impact the earnings outlook.
- Imposition of export tax on steel/iron ore/pellets could impact the sector's valuation.

Valuation (Consolidated)

| Particulars | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------|--------|--------|--------|--------|--------|
| Revenue | 25,965 | 17,667 | 21,842 | 23,627 | 25,533 |
| OPM (%) | 48.6 | 34.3 | 33.2 | 35.9 | 36.1 |
| Adjusted PAT | 9,429 | 4,365 | 5,751 | 6,793 | 7,350 |
| % y-o-y growth | 50.2 | -53.7 | 31.8 | 18.1 | 8.2 |
| Adjusted EPS (Rs.) | 32.2 | 14.9 | 19.6 | 23.2 | 25.1 |
| P/E (x) | 6.8 | 14.6 | 11.1 | 9.4 | 8.7 |
| P/B (x) | 3.5 | 2.8 | 2.4 | 2.1 | 1.8 |
| EV/EBITDA (x) | 4.5 | 9.3 | 7.3 | 5.9 | 5.2 |
| RoNW (%) | 39.4 | 21.5 | 23.6 | 24.2 | 22.7 |
| RoCE (%) | 44.2 | 25.0 | 26.2 | 26.8 | 25.4 |

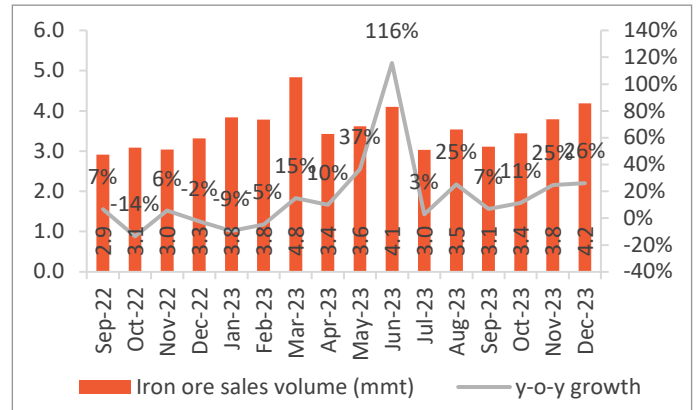
Source: Company; Sharekhan estimates

NMDC iron ore production – robust 18% y-o-y growth in 9MFY24



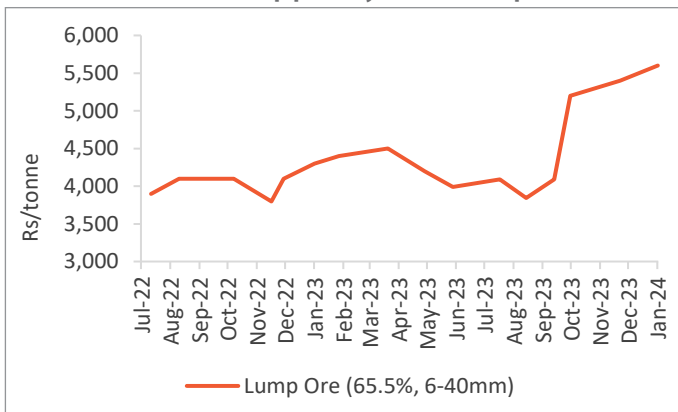
Source: Company, Sharekhan Research

NMDC iron ore sales volume – strong 24% y-o-y growth in 9MFY24



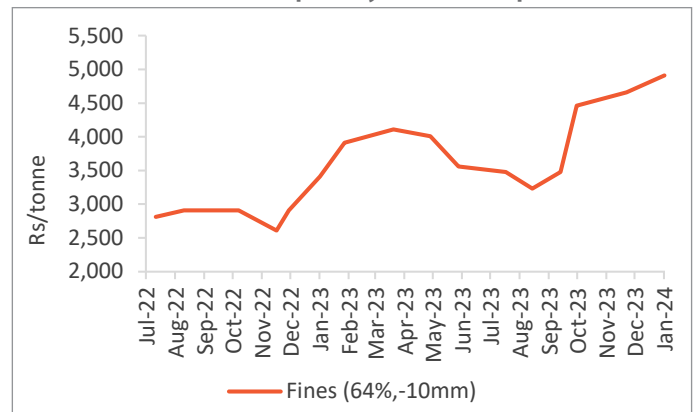
Source: Company, Sharekhan Research

NMDC hiked iron ore lump price by 20% over Sep'23-Jan'24



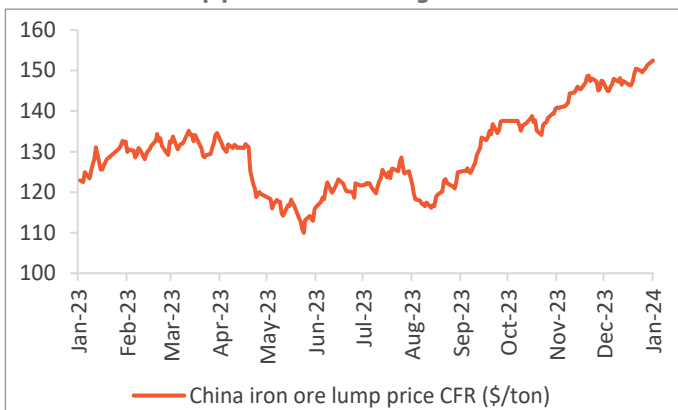
Source: Company, Sharekhan Research

NMDC hiked iron ore fines price by 26% over Sep'23-Jan'24



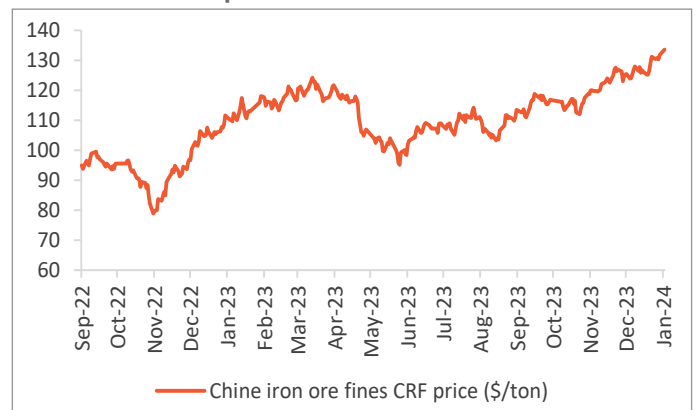
Source: Company, Sharekhan Research

China iron ore lump price remain strong



Source: Bloomberg, Sharekhan Research

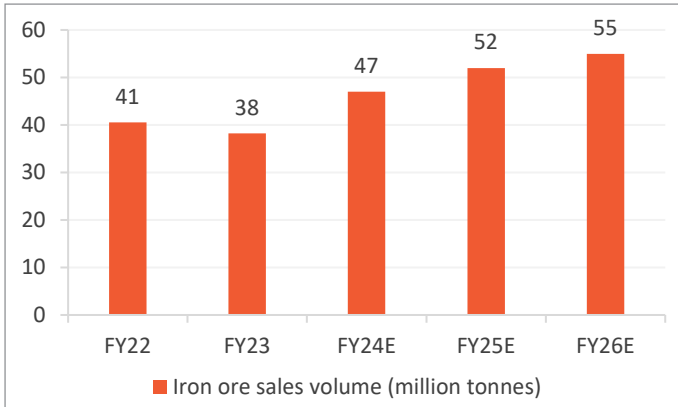
China iron ore fines price robust



Source: Bloomberg, Sharekhan Research

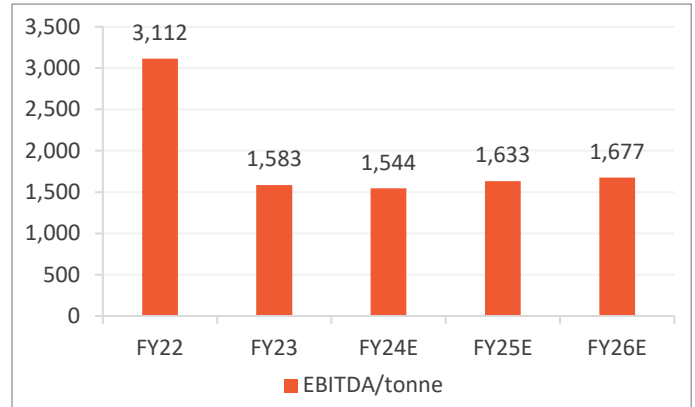
Financials in charts

Iron ore sales volume grow strongly over FY23-FY26E



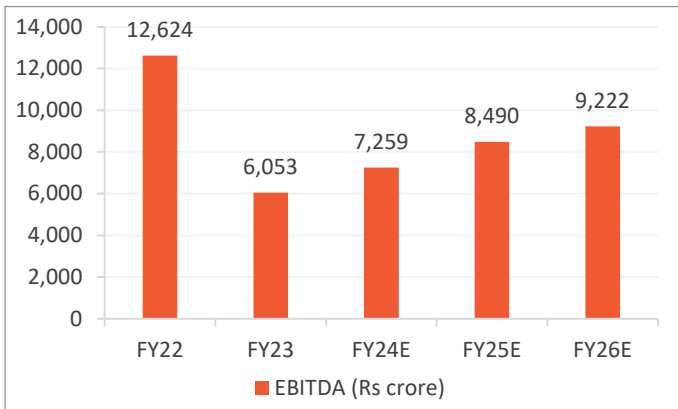
Source: Company, Sharekhan Research

Unit EBITDA margin to improve over FY25E-26E



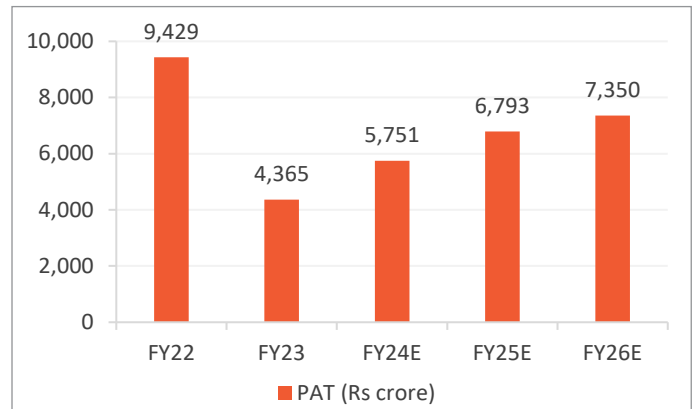
Source: Company, Sharekhan Research

EBITDA to clock 15% CAGR over FY23-FY26E



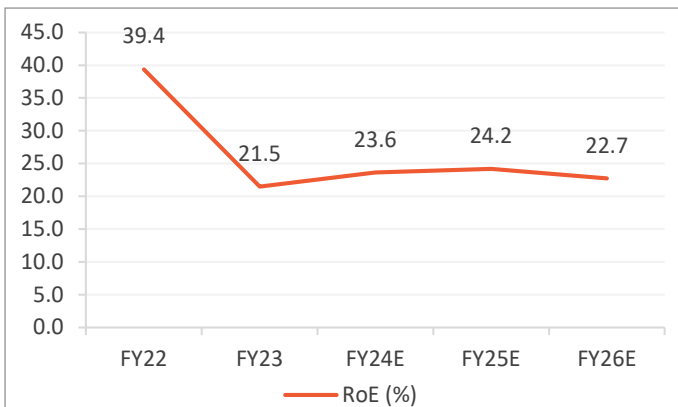
Source: Company, Sharekhan Research

PAT to clock 19% CAGR over FY23-FY26E



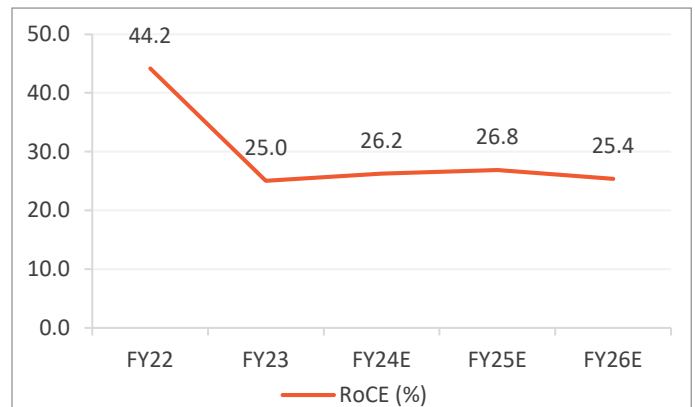
Source: Company, Sharekhan Research

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 would increase with expectation of recovery in Chinese economy. Moreover, we expect pick-up in infrastructure/real estate activities in China. Overall, this will support demand and iron ore prices in India. 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.

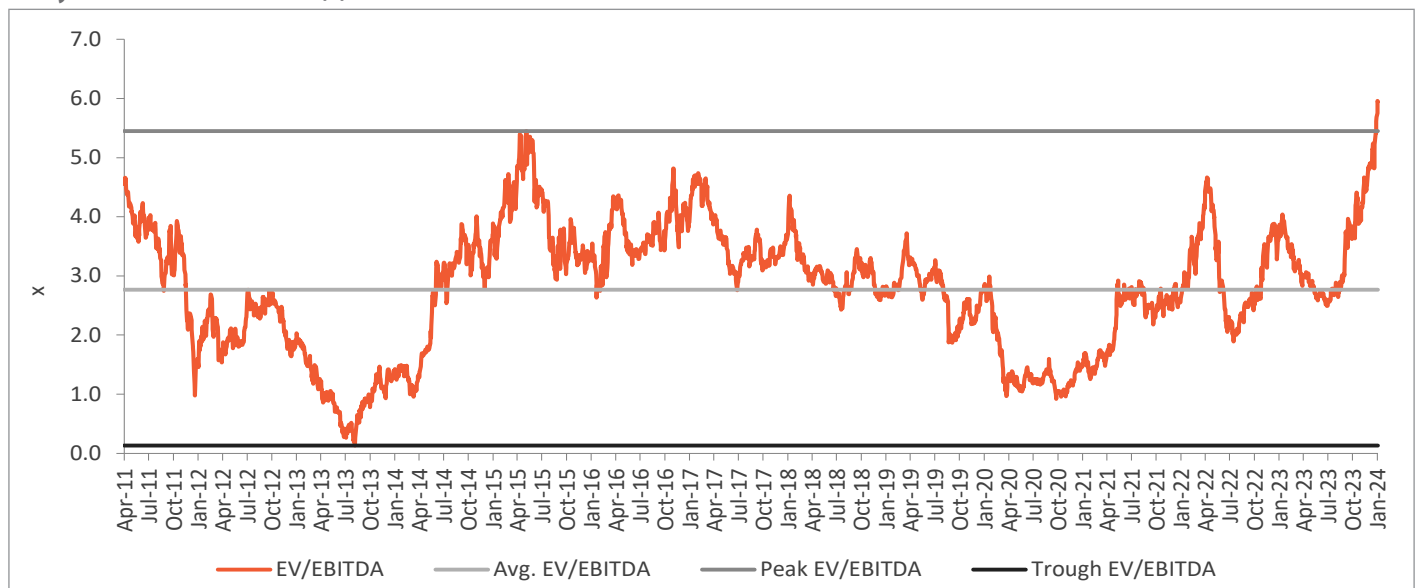
■ Company outlook - Volume growth to drive growth over FY2024E-FY2026E

We expect a 13% iron ore sales volume CAGR for FY2023-FY2026E, driven by China reopening and reversal of export duties. Moreover, iron ore prices have also recovered and NMDC has also implemented Rs. 950/tonne price hike over September 2023 to January 2024. We expect a Revenue/EBITDA/PAT CAGR of 13%/15%/19% over FY2023-FY2026E.

■ Valuation - Maintain Buy on NMDC with a revised PT of Rs. 245

We have broadly maintained our FY24-25 earnings estimate, while raising the estimate for FY26 by 8% to reflect better margins. Strong domestic steel demand bodes well for volume growth, which would be the key earnings growth driver over FY24-26. Moreover, recent demerger of the steel business will reduce capital intensity and improve dividend payout ratio. Valuation of 5.2x its FY2026E EV/EBITDA is reasonable and the stock offers a healthy dividend yield of 4-5%. NMDC has high cash of Rs. 13,919 crore (as of September 2023), which is 22% of its current market capitalisation and the same provide comfort to investors. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 245 (higher multiple given robust growth outlook + rollover to FY26 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

Reopening of China economy and capacity expansion by domestic steel companies bodes well for volume/earnings growth of NMDC over FY24-26. 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

Top 10 shareholders

| Sr. No. | Holder Name | Holding (%) |
|---------|------------------------------------|-------------|
| 1 | Life Insurance Corp of India | 7.5 |
| 2 | PPFAS Asset Management | 1.8 |
| 3 | Vanguard Group Inc/The | 1.5 |
| 4 | Mirae Asset Global Investments Co | 1.1 |
| 5 | Quant Money Managers Ltd | 1.1 |
| 6 | SBI Funds Management Ltd | 0.9 |
| 7 | Aditya Birla Sun Life Asset Manage | 0.8 |
| 8 | Nippon Life India Asset Management | 0.5 |
| 9 | Kotak Mahindra Asset Management Co | 0.4 |
| 10 | Dimensional Fund Advisors LP | 0.4 |

Source: Bloomberg

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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

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