Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update | Result Update

NMDC Ltd

Strong Q3; long-term growth story remain intact

Metal & Mining	Sharekhan code: NMDC

Reco/View: Buy ⇔	CMP: Rs. 247	Price Target: Rs. 290 ↑

↑ 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	Neutral	⇔	Neutral
RQ	Positive	⇔	Positive
RV	Positive	⇔	Positive

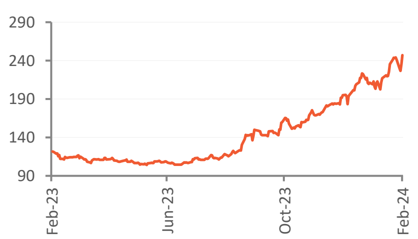
Company details

Market cap:	Rs. 72,371 cr
52-week high/low:	Rs. 253/104
NSE volume: (No of shares)	162.6 lakh
BSE code:	526371
NSE code:	NMDC
Free float: (No of shares)	114.9 cr

Shareholding (%)

Promoters	60.8
FII	9.9
DII	17.3
Others	12.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.1	46.2	110.7	103.1
Relative to Sensex	17.5	37.0	100.8	85.6

Sharekhan Research, Bloomberg

Summary

- Consolidated PAT at Rs. 1,672 crore (up 63% q-o-q) was 8% above our estimate, led by a beat in EBITDA margins, higher other income and rise in share of profit from associate/JVs.
- EBITDA/tonne rose 42% q-o-q to Rs. 1,762 and was 7% above our estimate led by higher iron ore realisations and lower cost. Iron ore sales volumes of 11.4 mt (up 19% q-o-q) was in line with our estimates.
- We believe near-term iron ore prices would stay rangebound and growth for NMDC would be largely driven by higher volumes (management guided 47 mt/51-52 mt for FY24/FY25).
- We maintain a Buy on NMDC with a revised PT of Rs. 290 given reasonable valuations of 5.8x/2.1x its FY26E EV/EBITDA and P/BV, respectively and the stock offers a healthy dividend yield of ~4%. High cash levels of ~Rs. 11,500 crore or 16% of current market capitalisation provide comfort.

Q3FY24 consolidated revenues at Rs. 5,410 crore (up 45% y-o-y; up 35% q-o-q) was 4% above our estimate of Rs. 5,187 crore led by to 4% beat in blended realisation at Rs. 4748/tonne (up 13% q-o-q) while sales volume at 11.4mt (up 19% q-o-q) was in-line with our estimate. Higher iron ore realisations and lower costs led to a 7% beat in EBITDA margin at Rs. 1762/tonne (up 42% q-o-q) and thus operating profit of Rs. 2007 crore (up 69% q-o-q) was 7% above our estimates as volumes were in line with expectations. Adjusted PAT of Rs. 1,672 crore (up 83% y-o-y; up 63% q-o-q) was 8% above our estimate on stronger-than-expected margin, higher other income and rise in share of profit from associate/JVs.

Key positives

- Beat of 7% in EBITDA/tonne to Rs. 1,762, up 42% q-o-q.
- Strong volume growth of 19% q-o-q.
- Company declared an interim dividend of Rs. 5.75/share, which implies 2% yield on CMP.

Key negatives

- Penalty & interest charges of Rs. 252 crore for violation of forest act in Donimalai iron ore mines and is shown as exceptional items.

Management Commentary

- The management plans to achieve 51-52 mt of iron production by FY25, which is expected to remain stable in FY26.
- NMDC Steel has already reached capacity utilisation of 45%, company will be able to breakeven once it achieves a capacity utilisation rate of 65% (~5000 tonnes /day) which management expects to achieve by Q1FY25.
- Company plans to incur a capex of ~Rs. 2100-2200 crores for FY25. Over next five years, Company plans to spend ~Rs. 30,000 crores (average of ~Rs. 5,000 crores per year) in capex. Company have adequate cash balance (~Rs. 11,500 crores) to fund their capex.
- Australian gold mine has started mining activity and currently doing waste mining (removing the top to reach the ore). So, within two months company will be able to generate cash flow from it.
- The company is redesigning its pellet plant which will increase the capacity from 2 million ton per plant to 6 million tonnes.

Revision in estimates – We maintain our FY24 earnings estimate and have increased our FY25-26 earnings estimate to factor higher iron ore realisations.

Our Call

Valuation – Maintain Buy on NMDC with a revised PT of Rs. 290: Strong domestic steel demand bodes well for a rise in NMDC's volumes, which would be a key earnings growth driver over FY24-26. Moreover, recent demerger of the steel business will reduce capital intensity and improve its dividend payout ratio. Valuation of 5.8x its FY2025E EV/EBITDA and 2.1x its FY25E P/BV is reasonable, and the stock offers a healthy dividend yield of ~4%. NMDC has a high cash level of ~Rs. 11,500 crore which is 16% of its current market capitalisation and the same provides comfort to investors. Hence, we maintain a Buy rating on NMDC with a revised price target (PT) of Rs. 290.

Key Risks

Fall in domestic iron ore prices 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	FY26E
Revenue	25,965	17,667	21,842	24,667	26,633
OPM (%)	48.6	34.3	33.2	36.2	36.4
Adjusted PAT	9,429	4,365	5,751	7,127	7,703
% y-o-y growth	50.2	-53.7	31.8	23.9	8.1
Adjusted EPS (Rs.)	32.2	14.9	19.6	24.3	26.3
P/E (x)	7.7	16.6	12.6	10.2	9.4
P/B (x)	4.0	3.2	2.8	2.4	2.1
EV/EBITDA (x)	5.2	10.7	8.5	6.6	5.8
RoNW (%)	39.4	21.5	23.6	25.3	23.6
RoCE (%)	44.2	25.0	26.2	28.2	26.5

Source: Company; Sharekhan estimates

Robust Q3 as blended realisation beat expectation

Q3FY24 consolidated revenues at Rs. 5,410 crore (up 45% y-o-y; up 35% q-o-q) was 4% above our estimate of Rs. 5,187 crore led by to 4% beat in blended realisation at Rs. 4748/tonne (up 13% q-o-q) while sales volume at 11.4mt (up 19% q-o-q) was in-line with our estimate. Higher iron ore realisations and lower costs led to a 7% beat in EBITDA margin at Rs. 1762/tonne (up 42% q-o-q) and thus operating profit of Rs. 2007 crore (up 69% q-o-q) was 7% above our estimates as volumes were in line with expectations. Adjusted PAT of Rs. 1,672 crore (up 83% y-o-y; up 63% q-o-q) was 8% above our estimate on stronger-than-expected margin, higher other income and rise in share of profit from associate/JVs.

Q3FY24 conference call highlights

- **Guidance:** Management plans to achieve 51-52 mt of iron production by FY25, which is expected to remain stable in FY26.
- **NMDC Steel:** Production is currently in process of stabilization. In January, company did ~1,00,000 tonnes of production, which is a growth of 50-60% over month of December. Company has already reached capacity utilization of 45%, company will be able to breakeven once it achieves capacity utilization rate of 65% (~5000 tonnes/day) which management expects to achieve by Q1FY25. In Q3FY24, company generated Rs. 550 crore in revenue.
- **Capex:** Company has already incurred a capex of Rs. 1500 crores till 8th January and plans to spent Rs. 1750 – Rs. 1800 crore for FY24. Company plans to incur capex of ~Rs. 2100-2200 crores for FY25. Over next five years, Company plans to spend ~Rs. 30,000 crores (average of ~5000 crores per year) in capex. Company does not plans raise capital from market and have adequate cash balance to fund their capex. Company has net cash of Rs. 11500 crore.
- **Pallet Plant:** Company is redesigning its pellet plant, which will increase the capacity from 2 million ton per plant to 6 million ton.
- **Kumaraswamy mines** enhancement is expected to complete soon, if it comes online within a week than company will be able to achieve additional 1 million ton of production in FY24 and reach its FY24 target of 47 million tonnes comfortably.
- **Australian gold mine:** Company has started mining and is currently doing waste mining (removing the top to reach the ore). So, within two months, the company will be able to generate cash flow from it. Company plan to invested money on exploration of the terrain and start other mines within the next 18-24 months.

Results (Consolidated) Rs cr

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net Sales	5,410	3,720	45.4	4,014	34.8
Total Expenditure	3,403	2,579	31.9	2,824	20.5
Operating profit	**2,007**	**1,141**	**76.0**	**1,190**	**68.6**
Other Income	337	205	64.4	321	4.8
Interest	32	30	7.1	19	72.3
Depreciation	82	84	-2.0	89	-7.7
Exceptional income/(expense)	-252	0	NA	0	NA
Reported PBT	1,977	1,232	60.5	1,404	40.8
Adjusted PBT	**2,230**	**1,232**	**81.0**	**1,404**	**58.8**
Tax	507	328	54.8	379	33.9
Reported PAT	1,470	904	62.6	1,025	43.4
Adjusted PAT	**1,658**	**904**	**83.3**	**1,025**	**61.7**
Loss from Discontinued operations (after tax)	0	0		0	71.4
Share of Profit I (Loss) of Associates/JVs	12	10		1	961.1
Minority interest (MI)	-2	1		0	784.0
Reported PAT after MI	1,484	912	62.7	1,026	44.6
Adjusted PAT after MI	**1,672**	**912**	**83.2**	**1,026**	**62.9**
Equity Cap (cr)	293	293		293	
Reported EPS (Rs.)	5.1	3.1	62.7	3.5	44.6
Adjusted EPS (Rs.)	5.7	3.1	83.2	3.5	62.9
Margins (%)			**BPS**		**BPS**
Adjusted OPM	37.1	30.7	644.0	29.7	744.5
Adjusted NPM	30.9	24.5	637.5	25.6	533.0
Tax rate	25.7	26.6	-94.3	27.0	-133.8

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Iron ore production (million tonnes)	12.2	10.7	14.6	8.9	38.0
Iron ore sales (million tonnes)	11.4	9.6	18.9	9.6	19.0
Domestic iron realisation (Rs. /tonne)	5,331	3,821	39.5	4,146	28.6
Blended iron ore realisation (Rs. /tonne)	4,748	3,883	22.3	4,194	13.2
EBITDA/tonne (Rs. /tonne)	1,762	1,191	48.0	1,244	41.6

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.

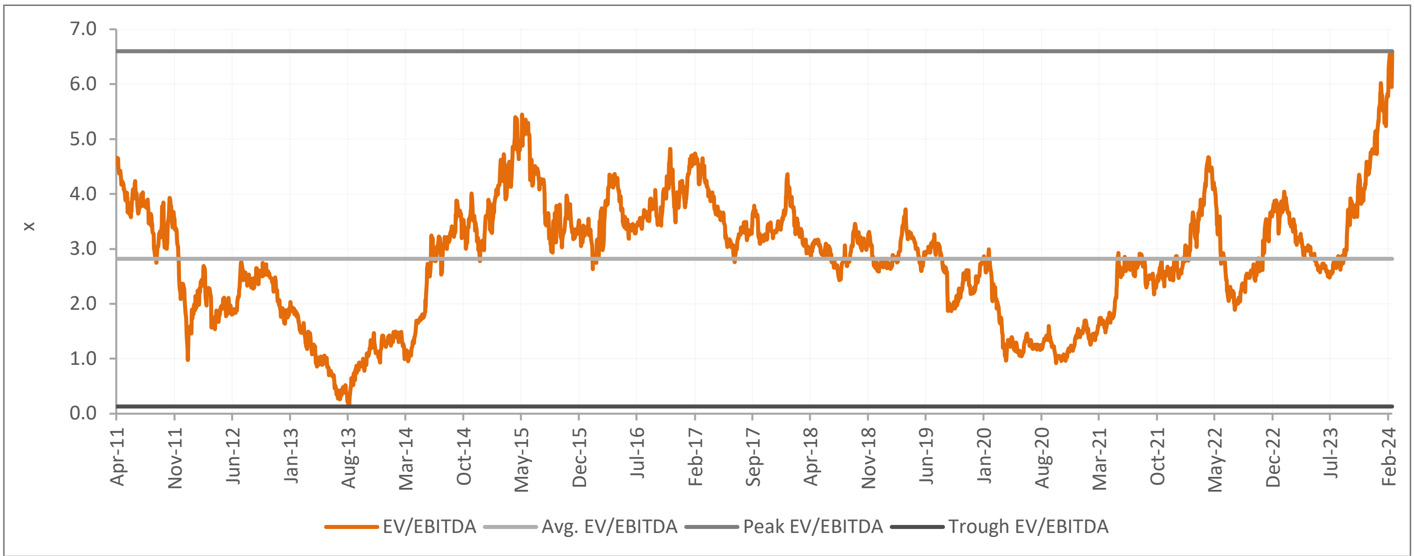
■ Company Outlook – Volume growth to drive growth over FY2024E-FY2026E

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 a Rs. 1350-1400/tonne price hike over September 2023 to January 2024. We expect a Revenue/EBITDA/PAT CAGR of 15%/17%/21% over FY2023-FY2026E.

■ Valuation – Maintain Buy on NMDC with a revised PT of Rs. 290

Strong domestic steel demand bodes well for a rise in NMDC's volumes, which would be a key earnings growth driver over FY24-26. Moreover, recent demerger of the steel business will reduce capital intensity and improve its dividend payout ratio. Valuation of 5.8x its FY2025E EV/EBITDA and 2.1x its FY25E P/BV is reasonable, and the stock offers a healthy dividend yield of ~4%. NMDC has a high cash level of ~Rs. 11,500 crore which is 16% of its current market capitalisation and the same provides comfort to investors. Hence, we maintain a Buy rating on NMDC with a revised price target (PT) of Rs. 290.

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	6.86
2	PPFAS Asset Management	1.83
3	Vanguard Group Inc/The	1.53
4	Mirae Asset Global Investments Co	1.13
5	Quant Money Managers Ltd	1.07
6	Aditya Birla Sun Life Asset Manage	0.89
7	SBI Funds Management Ltd	0.77
8	Kotak Mahindra Asset Management Co	0.52
9	Nippon Life India Asset Management	0.47
10	Dimensional Fund Advisors LP	0.43

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

This information/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 information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/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 information/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 recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 might have dealt or traded directly or indirectly in securities of the company and that all 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 either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might 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. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has 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 Ltd 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.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.