MOTILAL OSWAL
FINANCIAL SERVICES

15 February 2024
3QFY24 Results Update | Sector: Metals

NMDC

Estimate changes	↑
TP change	↑
Rating change	↔

Bloomberg	NMDC IN
Equity Shares (m)	2931
M.Cap.(INRb)/(USDb)	723.7 / 8.7
52-Week Range (INR)	253 / 104
1, 6, 12 Rel. Per (%)	19/95/87
12M Avg Val (INR M)	2009

Financials & Valuations (INR b)

Y/E MARCH	2024E	2025E	2026E
Sales	214	243	267
Adj EBITDA	74	90	105
Adj. PAT	62	73	83
EBITDA Margin (%)	35	37	39
Cons. Adj. EPS (INR)	21	25	28
EPS Gr. (%)	26	18	14
BV/Sh. (INR)	90	104	121
Ratios			
Net D:E	-0.3	-0.3	-0.3
RoE (%)	25.3	25.7	25.1
RoCE (%)	31.9	32.4	31.9
Payout (%)	40.0	40.0	40.0
Valuations			
P/E (x)	11.6	9.9	8.7
P/BV (x)	2.7	2.4	2.0
EV/EBITDA(x)	8.6	6.9	5.7
Div. Yield (%)	3.3	4.1	4.6

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	60.8	60.8	60.8
DII	17.3	17.7	20.3
FII	9.9	8.3	6.6
Others	12.0	14.2	12.4

FII Includes depository receipts

CMP: INR247 **TP: INR280 (+13%)** **Buy**

Volume growth drives performance; outlook robust

NMDC on track to produce 50mt by FY25E

- Revenue grew 45% YoY to INR54b in 3QFY24, above our estimate of INR48.5b. Blended ASP stood at INR4,748/t, up 22% YoY and INR503/t higher than our estimate of INR4,245/t.
- EBITDA was up 76% YoY at INR20b, 36% above our estimate of INR14.7b. The beat was driven by higher volumes, higher realizations, lower freight cost, and other expenses, partially offset by higher royalty payment.
- Blended EBITDA/t stood at INR1,762/t, which was INR471/t higher than our estimate of INR1,291/t. APAT was up 84% YoY at INR16.8b (above our estimate of INR12.4b).
- NMDC 3QFY24 production stood at 12.2mt (up 15% YoY and 38% QoQ). Production from Chhattisgarh mines was up 12% YoY at 8.5mt and production from Karnataka mines stood at 3.7mt. NMDC 3QFY24 sales volume stood at 11.4mt (up 19% YoY and QoQ). Sales from Karnataka mines stood at 3.2mt. Chhattisgarh mines demonstrated substantial growth, up 22% YoY and 34% QoQ, to 8.2mt.
- In 9MFY24, revenue stood at INR148b (up 25% YoY); EBITDA stood at INR52b (up 33% YoY) and APAT stood at INR44b (up 31% YoY). NMDC posted the highest-ever 9M production and sales, which stood at 31.8mt and 31.9mt (up 19% and 24%), respectively.
- NMDC declared the first interim dividend of INR 5.75/share.

Highlights from the management commentary

- NMDC has kept its FY24E and FY25E target unchanged at 47mt and 50-51mt, respectively.
- Though FY25E target stands at 50-51mt, there is a possibility to increase the same to 53mt. Kumaraswamy mines that will contribute ~2mt and Kirandul Mine, which will contribute 1-2mt of production, will drive the incremental production.
- The current EC for all the mines is around 51mt and additional EC at the Kumaraswamy mine is expected to add another 3mt and NMDC has already applied for enhancement of EC limits by 10% for Deposit 5 and 11 at Bacheli.
- NMDC has earmarked a capex of INR17.5-18b for FY24 and INR20-21b for FY25. Capex is expected to jump in FY26.
- Net cash as on date stands at INR115b.

Valuations remain attractive; fundamentals are supportive

- Crude steel production in India is expected to grow ~8-9% in FY24 and as on Jan'24 (10months FY24), crude steel production stood at 118.4mt (up 12.9% YoY).
- All the major steel manufacturers in India are planning to double their capacity by FY30-31E. Strong steel demand from flagship government initiatives is expected to drive the need for iron ore.

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- NMDC could face some headwinds in ramping up volume due to pending EC clearances across its mines. However, this may be offset by recent price hikes, which has strengthened its ASP.
- **We expect the volume challenges (due to pending EC clearances) to be more than offset by the improved outlook on ASP and lower mining costs. We have therefore increased our EBITDA estimates by 12.8%/14.2%/14.8% for FY24/FY25/FY26. NMDC trades at 5.7x FY26E EV/EBITDA and 2x FY26E P/B. We reiterate our BUY rating on NMDC with a revised TP of INR280.**

Consolidated Quarterly Performance (INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Iron ore Production (mt)	**8.9**	**7.1**	**10.7**	**14.1**	**10.7**	**8.9**	**12.2**	**13.4**	40.8	45.2		
Iron ore Sales (mt)	**7.8**	**8.4**	**9.6**	**12.4**	**11.0**	**9.6**	**11.4**	**13.2**	38.2	45.2		
Avg NSR (INR/t)	6,111	3,947	3,885	4,716	4,915	4,194	4,748	4,948	4,623	4,730		
Net Sales	**47.7**	**33.3**	**37.2**	**58.5**	**53.9**	**40.1**	**54.1**	**65.4**	**176.7**	**213.6**	**48.5**	**12**
Change (YoY %)	-26.8	-51.0	-36.7	-12.7	13.2	20.6	45.4	11.8	-31.7	20.9		
Change (QoQ %)	-28.9	-30.2	11.8	57.3	-7.8	-25.6	34.8	20.9				
EBITDA	**19.0**	**8.5**	**11.4**	**21.6**	**19.9**	**11.9**	**20.1**	**22.6**	**60.5**	**74.5**	**14.7**	**36**
Change (YoY %)	-54.5	-72.7	-56.3	-19.4	5.0	39.9	76.0	4.4	-51.9	23.1		
Change (QoQ %)	-29.2	-55.2	34.0	89.6	-7.8	-40.3	68.6	12.5				
EBITDA per ton (INR/t)	**2,434**	**1,009**	**1,191**	**1,743**	**1,816**	**1,244**	**1,762**	**1,708**	**1,584**	**1,650**	**1291**	**37**
Interest	0.2	0.2	0.3	0.1	0.1	0.2	0.3	0.2	0.8	0.8		
Depreciation	0.8	0.7	0.8	0.9	0.7	0.9	0.8	1.0	3.4	3.4		
Other Income	1.5	4.3	2.0	-0.1	2.9	3.2	3.4	3.2	7.7	12.7		
PBT (before EO Item)	**19.4**	**11.9**	**12.3**	**20.5**	**22.1**	**14.0**	**22.3**	**24.5**	**64.1**	**83.0**		
Extra-ordinary item	0.0	0.0	0.0	12.4	0.0	0.0	-2.5	0.0	12.4	-2.5		
PBT (after EO Item)	**19.4**	**11.9**	**12.3**	**32.9**	**22.1**	**14.0**	**19.8**	**24.5**	**76.5**	**80.5**		
Total Tax	4.7	3.0	3.3	10.1	5.5	3.8	5.1	6.1	21.1	20.5		
% Tax	24.3	25.3	26.6	30.7	24.9	27.0	25.7	25.0	27.6	25.5		
PAT before MI and Sh. of Asso.	**14.7**	**8.9**	**9.0**	**22.8**	**16.6**	**10.3**	**14.7**	**18.4**	**55.4**	**60.0**		
MI	0	0	0	0	0	0	0	0	0	0		
Sh. of Asso.	0	1	0	0	0	0	0	0	1	0		
PAT after MI and Sh. of Asso.	**14.5**	**9.7**	**9.1**	**22.7**	**16.5**	**10.3**	**14.8**	**18.4**	**56.0**	**60.0**		
Adjusted PAT	**14.5**	**9.7**	**9.1**	**15.7**	**16.5**	**10.3**	**16.8**	**18.4**	**49.0**	**61.9**	**12.4**	**36**
Change (YoY %)	-54.7	-58.5	-55.5	-13.3	14.3	5.6	83.6	17.0	-47.7	26.3		
Change (QoQ %)	-20.3	-32.7	-6.2	72.3	5.1	-37.9	63.2	9.8				

Highlights from the management commentary

Guidance

- NMDC has maintained its FY24 guidance largely unchanged at 47 mt. The company is currently awaiting approval for the enhancement of the Kumaraswamy mine. If it gets the approval for the same in the next few days, 47 mt would be comfortably achieved. If not, it would still attempt to clock this volume number.
- NMDC is targeting 1mt of production from the Kumaraswamy mines once the enhanced approval is received.
- NMDC FY25 guidance stands at 50-51mt, with a possibility to increase the same to 53-55mt. The incremental production will be driven by Kumaraswamy mines, which will contribute ~2mt and Kirandul Mine, which will contribute 1-2mt of production.
- Post FY25, NMDC's volume is expected to remain largely stable until FY28E. After this period, there will be a sharp increase in volumes as all ongoing capex projects are completed.

Capex and mine developments

- NMDC has earmarked capex of INR17.5-18b for FY24 and INR20-21b for FY25.
- Capex is expected to jump in FY26.
- 15mt slurry pipeline from Bailadila to Nagarnar is progressing well with almost all the approvals received.
- The Beneficiation plant and pellet plant are expected to come on stream by the end of FY25.
- The Tokisud North coal mine is under CBA and once the requisite permissions are received, it would take 16-18 months for the mine to come on stream (expected to come on stream in FY26). No such permissions are required for the Rohne coal mine.
- The 12mt Screening Plant-III at Kirandul has been delayed.
- The 2mt Screening Plant at Bacheli is gradually ramping up, which will help enhance the production going forward.

Environment Clearance

- Currently, NMDC has EC for 51mt (~19mt at Kirandul, ~18.8mt at Bacheli, and the rest at Karnataka).
- NMDC is expected to enhance the EC at Kirandul to 30-35mt over the next four to five years. Similarly, Bacheli too is expected to reach 30mt over the next four to five years.
- NMDC has submitted an application to increase EC limits by 10% for Deposit 5 and 11 at Bacheli.

Other highlights:

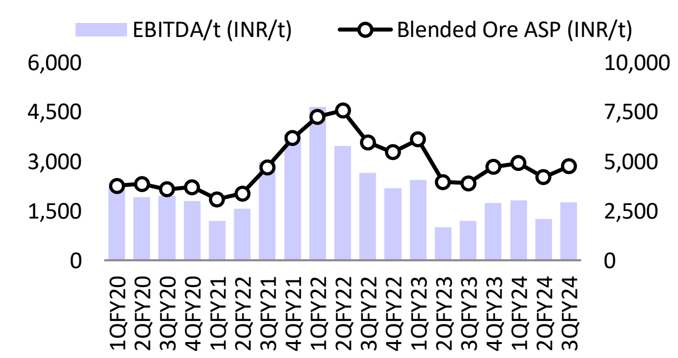
- NMDC will not engage in the exploration of rare earth minerals and will not engage in domestic auction route for lithium. Rather, it will explore international geographies for lithium mining.
- Even though the capex is expected to jump going forward, the entire capex funding will be done through internal sources.

- Dividend payout is expected to remain at ~40%.
- JSW contributes ~28% of the total volumes, AM/NS at ~18% and RINL at ~15%.
- Net cash as on date stands at INR115b.
- Flagship projects by government such as Har Ghar Jal, PM Awas Yojana, SagarMala Project are expected to have incremental demand of ~100mt of steel over the next four to five years.
- Domestic demand for steel is expected to remain robust over the next decade.
- Currently, domestic market fares better than the export market (considering 30% duty on high grade iron ore along with 21-22% royalty and INR1,500-1,700/t of freight and shipping, which are levied on export prices).

NMDC Steel:

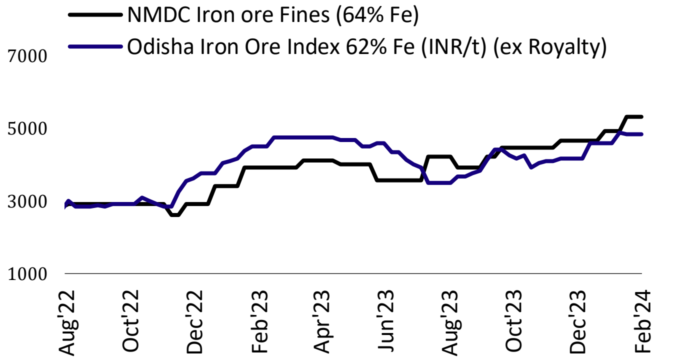
- NMDC Steel clocked a production of ~100kt in Jan'24, up from ~60kt in Dec'23.
- Production for the first four months stood at ~200kt.
- NMDC Steel is expected to increase the production to 150-160kt over the next few months, post which, the losses would substantially reduce.
- Once NMDC Steel achieves 65-70% of the production, it will turn breakeven.
- Currently, the rake availability at the plant is a major concern, which the company is trying to resolve.
- Over the last four months, NMDC has dispatched INR5.6b worth of ore to NMDC Steel.

Exhibit 1: EBITDA/t and ASP improved QoQ, both move in co-relation to each other



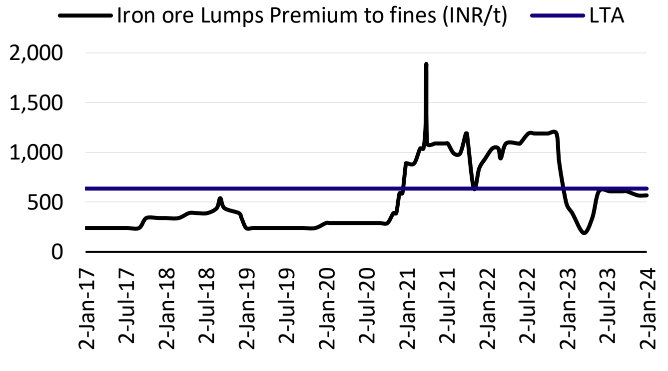
Source: MOFSL, Company

Exhibit 2: NMDC iron ore prices have linkages to Odisha Iron ore Fines



Source: MOFSL, SteelMint

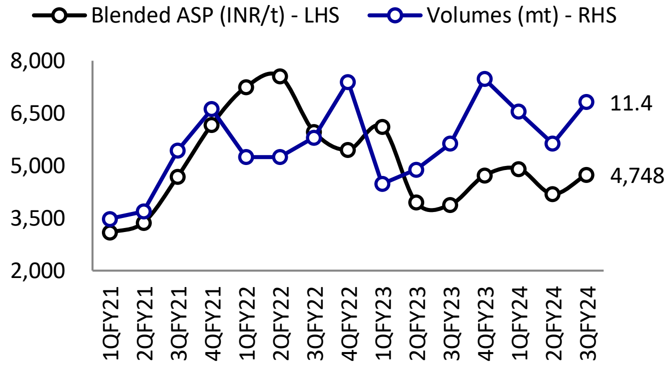
Exhibit 3: Premium for lumps have remained near its LTA



Source: MOFSL, Company

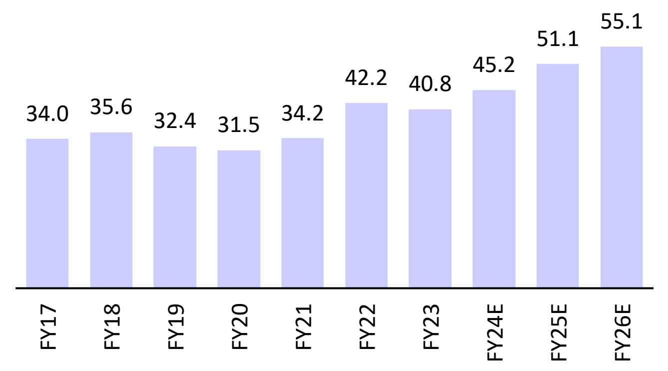
Note: The prices are adjusted to royalty, DMF and NMET

Exhibit 4: Sales volumes and blended ASP move in tandem



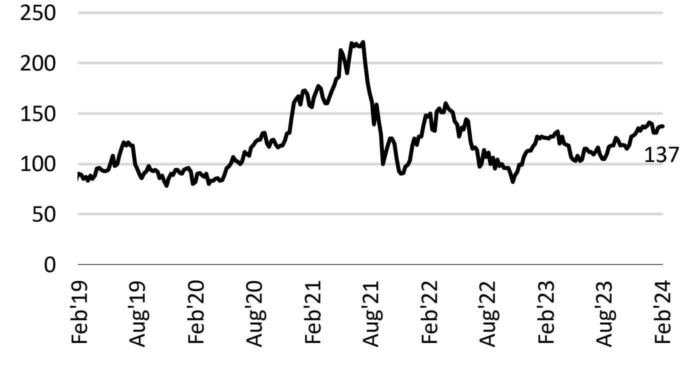
Source: MOFSL, Company

Exhibit 5: Production is expected to bounce back and cross 50mt in FY25E



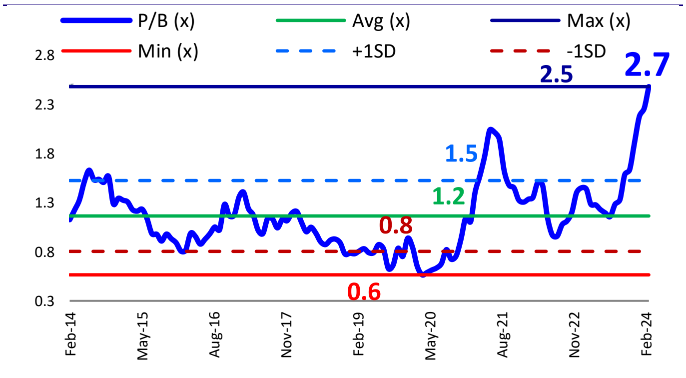
Source: MOFSL, Company

Exhibit 6: International iron ore prices (USD/t) have firmed up in 3QFY24



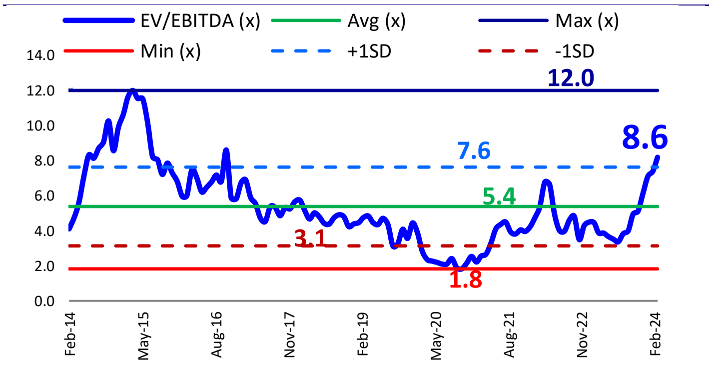
Source: MOFSL, SteelMint

Exhibit 7: P/B is currently above Max



Source: MOFSL, Company data

Exhibit 8: EV/EBITDA above +1SD



Source: MOFSL, Company data

Exhibit 9: Key assumptions and summary of changes to our estimates

	UoM	FY24E			FY25E			FY26E		
		New	Old	% change	New	Old	% change	New	Old	% change
Iron ore Volumes - mt	mt	45.2	46.5	-2.9	51.1	53.0	-3.5	55.1	57.0	-3.4
Blended ASP (INR/t)	INR/t	4,730	4,420	7.0	4,759	4,370	8.9	4,851	4,440	9.2
Revenue	INRb	214	206	3.9	243	232	5.0	267	253	5.6
EBITDA/t - INR	INR/t	1,650	1,419	16.2	1,760	1,486	18.4	1,897	1,597	18.7
EBITDA	INR b	74	66	12.8	90	79	14.2	105	91	14.8
Adj PAT	"	62	55	13.3	73	63	15.8	83	72	15.6

Exhibit 10: Calculation of the target price

Y/E March	UoM	FY26E
Iron ore		
Volumes	mt	55.1
EBITDA	INR/t	1,897
EBITDA	**INR m**	**1,04,535**
Target EV/EBITDA(x)	x	6.5
Target EV	INR m	6,84,599
Add: Net Cash	INR m	1,24,286
Equity Value	INR m	8,08,885
Share o/s	Mn	2,931
Target price (INR/share)	**INR/sh**	**280**

Financials and valuation

Income Statement (Consolidated)										(INR b)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Net sales	**88**	**116**	**122**	**117**	**154**	**259**	**177**	**214**	**243**	**267**
Change (%)	37.1	31.5	4.6	-3.7	31.4	68.4	-31.7	20.9	13.9	9.9
Total Expenses	43	53	50	55	66	133	116	139	153	163
EBITDA	**45**	**63**	**71**	**62**	**88**	**126**	**61**	**74**	**90**	**105**
% of Net Sales	50.9	54.4	58.8	53.2	57.2	48.6	34.3	34.9	37.0	39.1
EBITDA/t	**1,262**	**1,752**	**2,207**	**1,974**	**2,669**	**3,138**	**1,584**	**1,650**	**1,760**	**1,897**
Depn. & Amortization	2	3	3	3	2	3	3	3	4	5
EBIT	**43**	**61**	**69**	**59**	**86**	**123**	**57**	**71**	**86**	**99**
Net Interest	0	0	0	0	0	0	1	1	1	1
Other income	9	5	6	5	3	7	8	13	13	12
PBT before EO	**52**	**65**	**74**	**64**	**89**	**130**	**64**	**83**	**97**	**111**
EO income	(9)	(5)	(2)	(11)	-	-	12	(3)	-	-
PBT after EO	**43**	**60**	**72**	**54**	**89**	**130**	**76**	**80**	**97**	**111**
Tax	17	22	26	17	26	36	21	20	24	28
Rate (%)	39.7	36.7	35.5	32.5	29.8	27.6	27.6	25.5	25.0	25.0
PAT before MI and Sh. of Asso.	**26**	**38**	**46**	**36**	**63**	**94**	**55**	**60**	**73**	**83**
MI	0	0	(0)	(0)	(0)	(0)	0	(0)	-	-
Sh. of Asso.	(0)	0	(0)	(0)	0	(0)	1	0	-	-
PAT after MI and Sh. of Asso.	**25**	**38**	**46**	**36**	**63**	**94**	**56**	**60**	**73**	**83**
Adjusted PAT	**31**	**41**	**48**	**47**	**63**	**94**	**49**	**62**	**73**	**83**
Change (%)	-4.3	34.3	14.8	-2.0	34.6	49.3	-47.7	26.3	17.9	13.6

Balance Sheet (Consolidated)										(INR b)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	3	3	3	3	3	3	3	3	3	3
Reserves	222	240	256	272	295	177	223	259	303	353
Share holders funds	**225**	**244**	**260**	**275**	**298**	**180**	**226**	**262**	**306**	**356**
Loans	**0**	**5**	**4**	**6**	**20**	**18**	**4**	**4**	**4**	**4**
Long-term Provisions	6	7	8	8	9	12	14	14	14	14
Capital Employed	**231**	**256**	**271**	**289**	**327**	**211**	**245**	**281**	**324**	**374**
Gross Block	40	49	53	59	62	70	54	71	91	114
Less: Accum. Deprn.	20	23	26	28	31	34	22	25	29	35
Net Fixed Assets	**20**	**27**	**27**	**30**	**32**	**37**	**32**	**46**	**62**	**79**
Capital WIP	118	125	138	155	171	13	20	20	20	20
Investments	7	8	9	10	10	9	9	9	9	9
Curr. Assets	**112**	**126**	**123**	**116**	**156**	**190**	**221**	**244**	**273**	**306**
Inventories	5	6	7	7	9	21	27	32	37	40
Sundry Debtors	10	15	14	22	21	30	27	32	37	40
Cash and Bank	53	54	46	24	58	80	71	83	103	128
Loans and Advances	43	51	56	63	67	60	97	97	97	97
Curr. Liability & Prov.	**26**	**30**	**27**	**22**	**41**	**38**	**38**	**39**	**39**	**40**
Sundry Creditors	2	2	2	2	4	7	4	5	6	6
Other Liabilities & prov.	24	29	25	20	37	32	34	34	34	34
Net Current Assets	**86**	**96**	**96**	**94**	**115**	**152**	**183**	**205**	**233**	**266**
Application of Funds	**231**	**256**	**271**	**289**	**327**	**211**	**245**	**281**	**324**	**374**

Financials and valuation

Key Ratios										
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Basic (INR)										
EPS	**9.8**	**13.1**	**15.5**	**15.2**	**21.4**	**32.0**	**16.7**	**21.1**	**24.9**	**28.3**
Cash EPS	10.4	13.9	16.5	16.2	22.2	33.0	17.9	22.3	26.4	30.1
BV/Share	71.2	77.0	84.8	89.9	101.5	61.5	77.2	89.5	104.5	121.5
DPS	5.2	5.3	5.5	5.3	7.8	14.7	6.6	8.2	10.0	11.3
Payout (%)	56.4	62.9	45.9	54.0	36.4	46.0	19.8	40.0	40.0	40.0
Valuation (x)										
P/E	25.2	18.8	15.8	16.1	11.5	7.7	14.7	11.6	9.9	8.7
Cash P/E	23.7	17.7	14.9	15.2	11.1	7.5	13.8	11.0	9.3	8.2
P/BV	3.5	3.2	2.9	2.7	2.4	4.0	3.2	2.7	2.4	2.0
EV/Sales	8.2	6.3	5.8	6.3	4.4	2.5	3.7	3.0	2.6	2.2
EV/EBITDA	16.1	11.5	10.0	11.8	7.8	5.2	10.8	8.6	6.9	5.7
Dividend Yield (%)	2.1	2.2	2.2	2.2	3.2	6.0	2.7	3.3	4.1	4.6
Return Ratios (%)										
EBITDA Margins	50.9	54.4	58.8	53.2	57.2	48.6	34.3	34.9	37.0	39.1
Net Profit Margins	35.0	35.7	39.2	39.9	40.9	36.2	27.8	29.0	30.0	31.0
RoE	13.3	17.7	19.2	17.5	22.4	39.3	24.1	25.3	25.7	25.1
RoCE	19.0	27.0	28.3	23.0	28.9	48.4	28.5	31.9	32.4	31.9
RoIC	72.7	100.2	94.2	66.6	90.6	124.8	45.2	45.4	47.4	48.5
Working Capital Ratios										
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.0	2.5	3.7	3.3	3.0	2.7	2.4
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.5	1.2	0.7	0.8	0.7	0.7
Debtor (Days)	43	46	43	69	51	42	55	55	55	55
Inventory (Days)	22	18	20	23	22	30	55	55	55	55
Creditors (Days)	8	5	6	7	9	9	9	9	9	9
Growth (%)										
Sales	37.1	31.5	4.6	-3.7	31.4	68.4	-31.7	20.9	13.9	9.9
EBITDA	40.6	40.6	13.0	-12.9	41.4	43.0	-51.9	23.1	20.8	16.2
PAT	-4.3	34.3	14.8	-2.0	34.6	49.3	-47.7	26.3	17.9	13.6
Leverage Ratio (x)										
Current Ratio	4.4	4.2	4.6	5.3	3.8	5.0	5.8	6.3	6.9	7.6
Debt/Equity	-0.2	-0.2	-0.2	-0.1	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3

Cash Flow Statement										(INR b)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Pre-tax profit	43	60	72	54	89	130	76	80	97	111
Depreciation	2	3	3	3	2	3	3	3	4	5
(Inc)/Dec in Wkg. Cap.	13	-9	-8	-21	5	-23	-31	-10	-8	-7
Tax paid	-19	-23	-26	-23	-25	-44	-21	-20	-24	-28
Other operating activities	-18	3	0	8	2	3	-3	1	1	1
CF from Op. Activity	**21**	**34**	**41**	**21**	**73**	**69**	**25**	**54**	**70**	**82**
(Inc)/Dec in FA + CWIP	-24	-21	-20	-24	-16	-12	-14	-18	-20	-23
(Pur)/Sale of Investments	0	-2	7	17	1	-24	9			
Others	76	4	5	4	-28	4	6			
CF from Inv. Activity	**52**	**-19**	**-8**	**-3**	**-43**	**-32**	**0**	**-18**	**-20**	**-23**
Equity raised/(repaid)	-76		-10		-17					
Interest paid	0	0	0	0	0	0	-1	-1	-1	-1
Debt raised/(repaid)	-15	5	-1	2	14	3	-14			
Dividend (incl. tax)	-15	-24	-21	-20	-23	-43	-11	-24	-29	-33
Other financing activities	33	4	0	0	0	-1	0			
CF from Fin. Activity	**-72**	**-16**	**-33**	**-18**	**-26**	**-41**	**-25**	**-25**	**-30**	**-34**
(Inc)/Dec in Cash	**0**	**0**	**0**	**1**	**4**	**-3**	**0**	**12**	**20**	**26**
Add: opening Balance	0	1	0	0	1	5	1	1	13	33
Closing cash balance	1	0	0	1	5	1	1	13	33	58
Bank Balance	52	54	46	23	53	79	70	70	70	70
Closing cash balance (incl bank balance)	**53**	**54**	**46**	**24**	**58**	**80**	**71**	**83**	**103**	**128**

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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