

August 17, 2024

## Q1FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>253</b>		<b>276</b>	
Sales (Rs. bn)	233	274	248	287
% Chng.	(5.8)	(4.7)		
EBITDA (Rs. bn)	84	103	85	113
% Chng.	(1.5)	(8.7)		
EPS (Rs.)	22.5	26.9	22.9	29.5
% Chng.	(1.9)	(8.9)		

### Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	177	213	233	274
EBITDA (Rs. bn)	61	73	84	103
Margin (%)	34.3	34.2	35.8	37.6
PAT (Rs. m)	46	58	66	79
EPS (Rs.)	15.8	19.7	22.5	26.9
Gr. (%)	(50.6)	24.3	14.2	19.7
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	22.8	23.9	23.8	24.7
RoCE (%)	29.9	32.4	31.4	32.7
EV/Sales (x)	3.3	2.5	2.3	1.9
EV/EBITDA (x)	9.6	7.3	6.3	5.0
PE (x)	13.7	11.0	9.7	8.1
P/BV (x)	2.8	2.5	2.2	1.9

### Key Data

### NMDC.BO | NMDC IN

52-W High / Low	Rs.286 / Rs.114
Sensex / Nifty	80,437 / 24,541
Market Cap	Rs.637bn/ \$ 7,591m
Shares Outstanding	2,931m
3M Avg. Daily Value	Rs.2989.41m

### Shareholding Pattern (%)

Promoter's	60.79
Foreign	12.76
Domestic Institution	14.32
Public & Others	12.13
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(11.9)	(11.0)	85.5
Relative	(11.6)	(20.3)	50.8

**Tushar Chaudhari**

tusharchaudhari@plindia.com | 91-22-663222391

## Beat on better pricing and lower royalty

### Quick Pointers:

- FY25 and FY26 volume guidance maintained at ~50mt and ~54mt, respectively
- Karnataka mines would have net liability of ~Rs26bn, to be recovered from customers in case states raise demand as per recent Supreme Court judgement

**We cut our FY25/26E EBITDA by ~2%/9% on lower iron ore price assumptions. NMDC's Q1FY25 EBITDA grew 17% YoY to Rs23bn (+11% QoQ) on better realization. Volumes declined 8% YoY on production disruption due to conflict with employees on wage revision in May'24. Average realization improved 3% QoQ to Rs5,300/t as NMDC had announced two price hikes during Q1FY25. NMDC maintained its volume guidance at ~50/54mt in FY25E/FY26E. We factor in volumes at 47.2/52.7mt while cutting iron ore pricing assumption as NMDC has taken price cuts in the domestic market twice in Q2FY25 amid falling steel price scenario. NMDC is investing Rs500bn for augmenting mining capacities to ~100mtpa by FY31E along with evacuation infrastructure. NMDC is well placed to capitalize on strong volume growth in domestic steel markets over the next few years given its increased focus on mining business, which is expected to deliver ~9% CAGR over FY24-26E. We expect revenue/EBITDA/PAT growth of 13%/19%/17% over FY24-26E. At CMP, the stock is trading at 6.3x/5x EV of FY25E/FY26E EBITDA. We maintain 'Accumulate' rating with a revised TP of Rs253 (earlier Rs276) valuing at 6x EV of Mar'26E EBITDA.**

**Sharp fall in volumes affected by employee strike:** NMDC's Q1FY25 cons. revenue declined 17% QoQ to Rs54.1bn (flat YoY; PLe Rs54.5bn) due to sharp 19% QoQ fall in volumes, affected by employee strike during May'24. Average iron ore realization improved 3% QoQ at Rs5,300/t (+9% YoY; PLe Rs5,331/t) on price hikes undertaken by NMDC during Q1FY25.

**Lower royalty and better operating leverage aided EBITDA:** EBITDA grew 11% QoQ to Rs23.4bn (+17% YoY; PLe Rs18.3bn) aided by decline in stores and spare parts, other expenses and royalty along with better operating leverage. Other expenses declined 32% QoQ to Rs451/t, while royalty and cess declined 18% QoQ to Rs2,007/t as production was lower during Q1FY25. Consumption of stores & spare parts declined 38% QoQ to Rs146/t. Resultantly, EBITDA increased 38% QoQ to Rs2,321/t (+28% YoY; PLe Rs1,818/t). Reported PAT grew by 36% QoQ to Rs19.6bn (+18% YoY; PLe Rs13bn) aided by strong operating leverage and lower tax rate.

## Exhibit 1: Consolidated 1QFY25 Financial Performance (Rs bn)

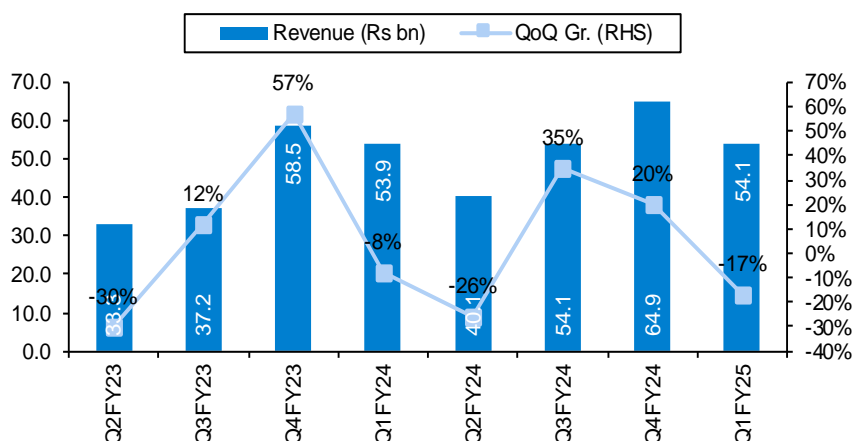
Y/e March	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)	FY24	FY25E	YoY gr. (%)
<b>Net Sales</b>	<b>54.1</b>	<b>53.9</b>	<b>0.4</b>	<b>64.9</b>	<b>(16.6)</b>	<b>213.1</b>	<b>233.2</b>	<b>9.4</b>
Raw Material	1.1	2.1	NA	(0.9)	(220.8)	5.8	6.8	16.6
<i>% of Net Sales</i>	<i>2.0</i>	<i>3.9</i>		<i>-1.4</i>		<i>2.7</i>	<i>2.9</i>	
Staff Costs	3.9	3.6	6.6	4.7	(17.1)	16.3	17.5	7.7
<i>% of Net Sales</i>	<i>7.2</i>	<i>6.8</i>		<i>7.2</i>		<i>7.6</i>	<i>7.5</i>	
Royalty & cess	20.2	23.2	(12.8)	30.7	(34.1)	92.1	98.2	6.6
<i>% of Net Sales</i>	<i>37.4</i>	<i>43.0</i>		<i>47.3</i>		<i>43.2</i>	<i>42.1</i>	
Freight & Selling Expenses	1.0	0.9	18.4	1.0	0.1	3.4	3.8	12.9
<i>% of Net Sales</i>	<i>1.9</i>	<i>1.6</i>		<i>1.6</i>		<i>1.6</i>	<i>1.6</i>	
Other Expenses	4.5	4.2	7.9	8.3	(45.5)	22.6	23.4	3.8
<i>% of Net Sales</i>	<i>8.4</i>	<i>7.8</i>		<i>12.9</i>		<i>10.6</i>	<i>10.0</i>	
Total Expenditure	30.7	34.0	(9.6)	43.9	(29.9)	140.2	149.7	6.8
<b>EBITDA</b>	<b>23.4</b>	<b>19.9</b>	<b>17.4</b>	<b>21.0</b>	<b>11.3</b>	<b>72.9</b>	<b>83.5</b>	<b>14.5</b>
<i>Margin (%)</i>	<i>43.2</i>	<i>37.0</i>		<i>32.4</i>		<i>34.2</i>	<i>35.8</i>	
Depreciation	0.7	0.7	6.5	1.1	(33.4)	3.5	4.2	20.4
Other income	3.6	2.9	24	4.2	(12.9)	13.7	12.4	(9.8)
<b>EBIT</b>	<b>26.3</b>	<b>22.2</b>	<b>18.6</b>	<b>24.1</b>	<b>9.2</b>	<b>83.1</b>	<b>91.7</b>	<b>10.3</b>
Interest	0.2	0.1	273.0	0.2	7.9	0.8	0.8	1.2
<b>PBT</b>	<b>26.1</b>	<b>22.1</b>	<b>17.9</b>	<b>23.9</b>	<b>9.2</b>	<b>82.3</b>	<b>90.9</b>	<b>10.4</b>
Extraordinary income/(expense)	-	-	NA	(0.3)	NA	(2.8)	-	NA
<b>PBT (After EO)</b>	<b>26.1</b>	<b>22.1</b>	<b>17.9</b>	<b>23.6</b>	<b>10.6</b>	<b>79.5</b>	<b>90.9</b>	<b>14.3</b>
Tax	6.4	5.5	16.9	9.4	(31.7)	23.8	25.0	5.0
<i>% PBT</i>	<i>24.7</i>	<i>24.9</i>		<i>40.0</i>		<i>29.9</i>	<i>27.5</i>	
<b>Reported PAT</b>	<b>19.6</b>	<b>16.6</b>	<b>18.2</b>	<b>14.2</b>	<b>38.7</b>	<b>55.7</b>	<b>65.9</b>	<b>18.2</b>
Profit from associates	0.1	(0.1)	NA	(0.1)	NA	(0.0)		NA
Minority interest	(0.0)	0.0	NA	(0.0)	NA	(0.0)		NA
<b>Profit after associates and MI</b>	<b>19.7</b>	<b>16.5</b>	<b>19.3</b>	<b>14.1</b>	<b>39.5</b>	<b>55.8</b>	<b>65.9</b>	<b>18.2</b>
<b>Adjusted PAT</b>	<b>19.6</b>	<b>16.7</b>	<b>17.5</b>	<b>14.4</b>	<b>35.9</b>	<b>57.7</b>	<b>65.9</b>	<b>14.1</b>

Source: Company, PL

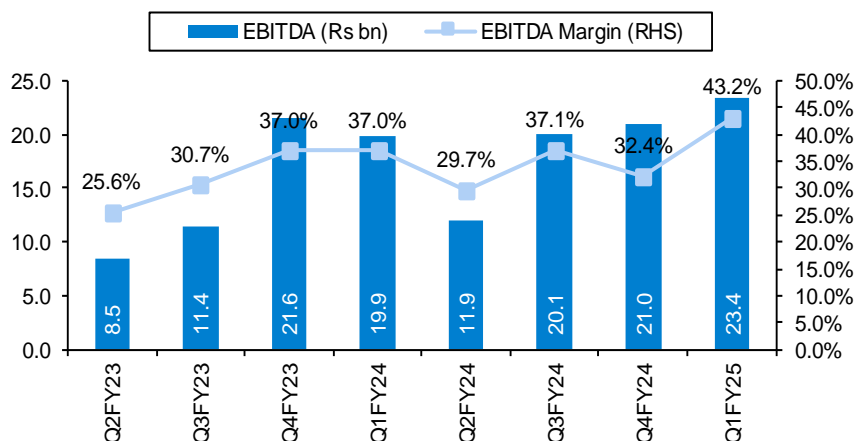
## Exhibit 2: Operating matrix

Particulars	1QFY25	1QFY24	YoY gr. (%)	4QFY24	QoQ gr. (%)	FY24	FY25E	YoY gr. (%)
Sales volume (mt)	10.08	10.98	(8.2)	12.51	(19.4)	44.5	47.2	6.2
Realization/t (Rs)	5,300	4,851	9.3	5,138	3.2	4,736	4,966	4.9
EBITDA/t (Rs)	2,321	1,816	27.8	1,680	38.2	1,641	1,770	7.9

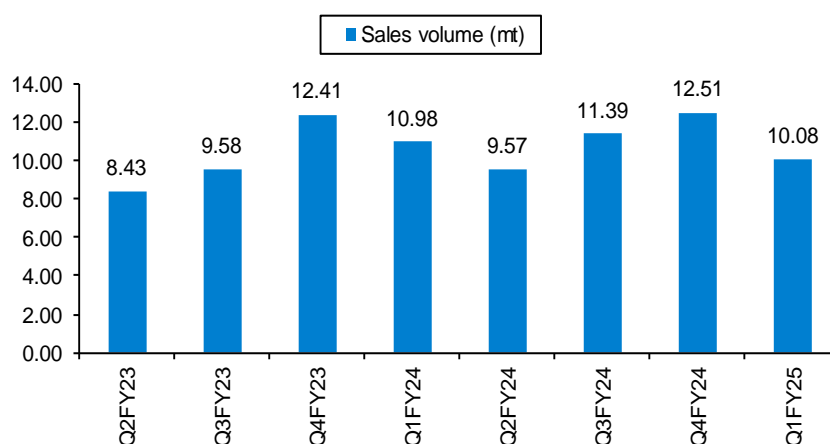
Source: Company, PL

**Exhibit 3: Revenue declined 17% QoQ on lower iron ore volumes**


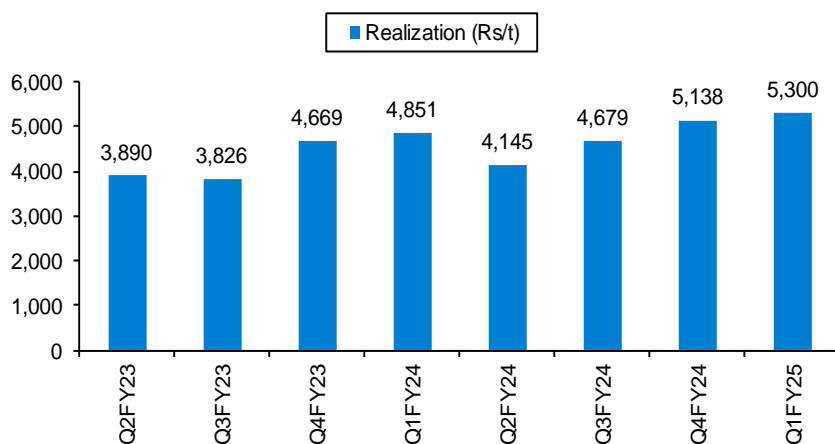
Source: Company, PL

**Exhibit 4: EBITDA grew 11% QoQ due to better operating leverage**


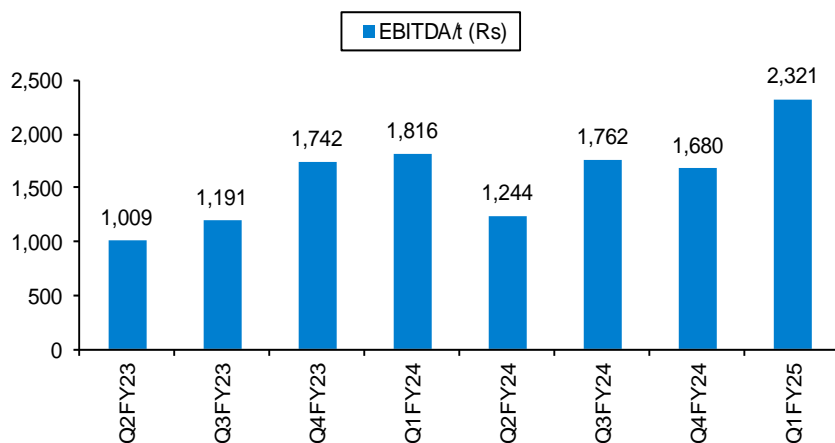
Source: Company, PL

**Exhibit 5: Sales volume declined 19% QoQ affected by employee strike**


Source: Company, PL

**Exhibit 6: Realization grew 3% QoQ on price hikes**


Source: Company, PL

**Exhibit 7: EBITDA/t grew sharp 38% QoQ led by lower operating costs**


Source: Company, PL

## Conference Call Highlights

- Capex till Aug'24 stood at Rs4bn, and for FY25, it is expected to be Rs22bn.
- FY25 and FY26 production guidance is maintained at ~50mt and ~54mt, respectively.
- The recent SC judgement would have negligible impact on NMDC as its Karnataka mines have net liability of Rs26bn, which will have to be recovered from existing customers in case states demand.
- NMDC Steel (NSL) is expected to achieve quarterly and annual breakeven by the end of Q3 and FY25, respectively.
- NSL produced 346kt in Q1FY25 at a monthly run rate of ~120kt and is likely to achieve 150kt by end Sep'24. Jul production was affected due to maintenance shutdown.
- NSL made a repayment of Rs1bn to NMDC out of outstanding Rs25bn pre-demerger expenses.
- 73km out of 131km of slurry pipeline has been completed, and NMDC is expected to fast-track the same post monsoon.
- As per the market study conducted by NMDC, lumps demand is expected to decline by 20-25% by FY35.
- NMDC incurred losses of Rs120mn, Rs210mn and Rs30mn on Panna, pellet and sponge iron plants, respectively.
- Royalty for Q1 was down by 13% YoY on account of lower production (-14%) during the quarter.

## Financials

### Income Statement (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>177</b>	<b>213</b>	<b>233</b>	<b>274</b>
YoY gr. (%)	(31.7)	20.6	9.4	17.3
Cost of Goods Sold	(5)	(1)	0	-
Gross Profit	182	214	234	274
Margin (%)	102.8	100.4	100.2	100.0
Employee Cost	15	16	18	19
Other Expenses	106	125	133	152
<b>EBITDA</b>	<b>61</b>	<b>73</b>	<b>84</b>	<b>103</b>
YoY gr. (%)	(51.9)	20.5	14.5	23.2
Margin (%)	34.3	34.2	35.8	37.6
Depreciation and Amortization	3	4	4	6
<b>EBIT</b>	<b>57</b>	<b>69</b>	<b>79</b>	<b>97</b>
Margin (%)	32.4	32.6	34.0	35.4
Net Interest	1	1	1	1
Other Income	8	14	12	13
<b>Profit Before Tax</b>	<b>76</b>	<b>80</b>	<b>91</b>	<b>109</b>
Margin (%)	43.3	37.3	39.0	39.8
Total Tax	21	24	25	30
Effective tax rate (%)	27.6	29.9	27.5	27.5
<b>Profit after tax</b>	<b>55</b>	<b>56</b>	<b>66</b>	<b>79</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>46</b>	<b>58</b>	<b>66</b>	<b>79</b>
YoY gr. (%)	(50.6)	24.3	14.2	19.7
Margin (%)	26.3	27.1	28.3	28.8
Extra Ord. Income / (Exp)	9	(2)	-	-
<b>Reported PAT</b>	<b>55</b>	<b>56</b>	<b>66</b>	<b>79</b>
YoY gr. (%)	(41.1)	0.6	18.2	19.7
Margin (%)	31.3	26.2	28.3	28.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	55	56	66	79
<b>Equity Shares O/s (bn)</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>EPS (Rs)</b>	<b>15.8</b>	<b>19.7</b>	<b>22.5</b>	<b>26.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>55</b>	<b>60</b>	<b>80</b>	<b>120</b>
Tangibles	55	60	80	120
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>23</b>	<b>27</b>	<b>31</b>	<b>37</b>
Tangibles	23	27	31	37
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>32</b>	<b>34</b>	<b>50</b>	<b>84</b>
Tangibles	32	34	50	84
Intangibles	-	-	-	-
Capital Work In Progress	20	32	34	44
Goodwill	-	-	-	-
Non-Current Investments	9	10	10	10
Net Deferred tax assets	3	3	3	3
Other Non-Current Assets	60	63	63	63
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	27	28	32	34
Trade receivables	44	35	32	30
Cash & Bank Balance	71	124	127	141
Other Current Assets	-	-	-	-
<b>Total Assets</b>	<b>297</b>	<b>354</b>	<b>376</b>	<b>434</b>
<b>Equity</b>				
Equity Share Capital	3	3	3	3
Other Equity	223	254	293	340
<b>Total Network</b>	<b>226</b>	<b>257</b>	<b>296</b>	<b>343</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	14	16	16	16
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	58	81	64	75
Other current liabilities	1	3	3	3
<b>Total Equity &amp; Liabilities</b>	<b>297</b>	<b>354</b>	<b>376</b>	<b>434</b>

Source: Company Data, PL Research

## Cash Flow (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	76	80	91	109
Add. Depreciation	3	4	4	6
Add. Interest	1	1	1	1
Less Financial Other Income	8	14	12	13
Add. Other	(5)	(10)	(12)	(13)
Op. profit before WC changes	75	73	84	103
Net Changes-WC	(36)	19	(19)	11
Direct tax	(21)	(18)	(25)	(30)
<b>Net cash from Op. activities</b>	<b>18</b>	<b>74</b>	<b>40</b>	<b>84</b>
Capital expenditures	(12)	(18)	(22)	(50)
Interest / Dividend Income	6	10	12	13
Others	9	(52)	-	-
<b>Net Cash from Invt. activities</b>	<b>2</b>	<b>(61)</b>	<b>(10)</b>	<b>(37)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(9)	12	-	-
Dividend paid	(11)	(25)	(26)	(32)
Interest paid	(1)	(1)	(1)	(1)
Others	0	1	-	-
<b>Net cash from Fin. activities</b>	<b>(21)</b>	<b>(13)</b>	<b>(27)</b>	<b>(33)</b>
<b>Net change in cash</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>14</b>
Free Cash Flow	6	55	18	34

Source: Company Data, PL Research

## Quarterly Financials (Rs bn)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Net Revenue</b>	<b>40</b>	<b>54</b>	<b>65</b>	<b>54</b>
YoY gr. (%)	20.6	45.4	10.9	0.4
Raw Material Expenses	4	1	(1)	1
Gross Profit	36	54	66	53
Margin (%)	89.9	99.0	101.4	98.0
<b>EBITDA</b>	<b>12</b>	<b>20</b>	<b>21</b>	<b>23</b>
YoY gr. (%)	39.9	76.0	(2.8)	17.4
Margin (%)	29.7	37.1	32.4	43.2
Depreciation / Depletion	1	1	1	1
<b>EBIT</b>	<b>11</b>	<b>19</b>	<b>20</b>	<b>23</b>
Margin (%)	27.4	35.6	30.7	41.9
Net Interest	-	-	-	-
Other Income	3	3	4	4
<b>Profit before Tax</b>	<b>14</b>	<b>20</b>	<b>24</b>	<b>26</b>
Margin (%)	35.0	36.6	36.4	48.2
Total Tax	4	5	9	6
Effective tax rate (%)	27.0	25.7	40.0	24.7
<b>Profit after Tax</b>	<b>10</b>	<b>15</b>	<b>14</b>	<b>20</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>10</b>	<b>17</b>	<b>14</b>	<b>20</b>
YoY gr. (%)	15.7	83.3	1.0	18.2
Margin (%)	25.5	30.6	22.1	36.3
Extra Ord. Income / (Exp)	-	(2)	-	-
<b>Reported PAT</b>	<b>10</b>	<b>15</b>	<b>14</b>	<b>20</b>
YoY gr. (%)	15.7	62.6	(37.8)	18.2
Margin (%)	25.5	27.2	21.8	36.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>10</b>	<b>15</b>	<b>14</b>	<b>20</b>
Avg. Shares O/s (bn)	4	4	4	4
<b>EPS (Rs)</b>	<b>2.6</b>	<b>4.2</b>	<b>3.6</b>	<b>5.0</b>

Source: Company Data, PL Research

## Key Financial Metrics

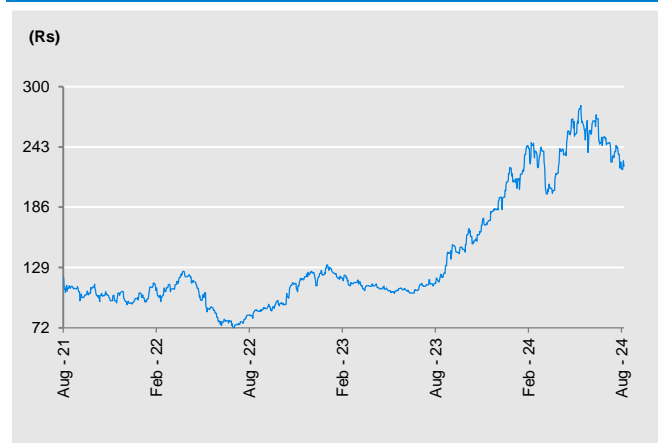
Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	15.8	19.7	22.5	26.9
CEPS	17.0	20.9	23.9	29.0
BVPS	77.2	87.6	101.1	117.0
FCF	2.0	18.9	6.1	11.7
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	29.9	32.4	31.4	32.7
ROIC	28.4	36.6	34.7	36.0
RoE	22.8	23.9	23.8	24.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	26	(32)	-	(15)
<b>Valuation(x)</b>				
PER	13.7	11.0	9.7	8.1
P/B	2.8	2.5	2.2	1.9
P/CEPS	12.8	10.4	9.1	7.5
EV/EBITDA	9.6	7.3	6.3	5.0
EV/Sales	3.3	2.5	2.3	1.9
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales volume (mt)	38.2	44.5	47.2	52.7
Realisation/t (Rs)	4,622	4,794	4,942	5,188
EBITDA/ton (Rs)	1,584	1,641	1,770	1,952

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-24	Accumulate	276	252
2	30-May-24	Accumulate	279	258
3	12-Apr-24	Accumulate	253	241
4	15-Feb-24	BUY	261	247
5	05-Jan-24	BUY	261	224
6	18-Nov-23	Accumulate	176	169
7	07-Oct-23	Accumulate	147	146
8	28-Aug-23	Accumulate	136	119

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	3,707	2,591
2	Ambuja Cement	Accumulate	701	664
3	Dalmia Bharat	Accumulate	2,067	1,817
4	Hindalco Industries	BUY	749	621
5	Jindal Stainless	Accumulate	836	736
6	Jindal Steel & Power	Hold	978	972
7	JSW Steel	Accumulate	1,022	890
8	National Aluminium Co.	Sell	142	199
9	NMDC	Accumulate	276	252
10	Nuvoco Vistas Corporation	Accumulate	374	338
11	Shree Cement	Accumulate	27,524	24,143
12	Steel Authority of India	Sell	112	129
13	Tata Steel	Accumulate	175	163
14	Ultratech Cement	Accumulate	11,848	11,275

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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### Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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