

August 17, 2024

Q1FY25 Result Update

Change in Estimates | Target | Reco

Change in Estimates

Rating	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Target Price	ACCUMULATE		ACCUMULATE	
	253		276	
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

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NMDC (NMDC IN)

Rating: ACCUMULATE | CMP: Rs217 | TP: Rs253

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

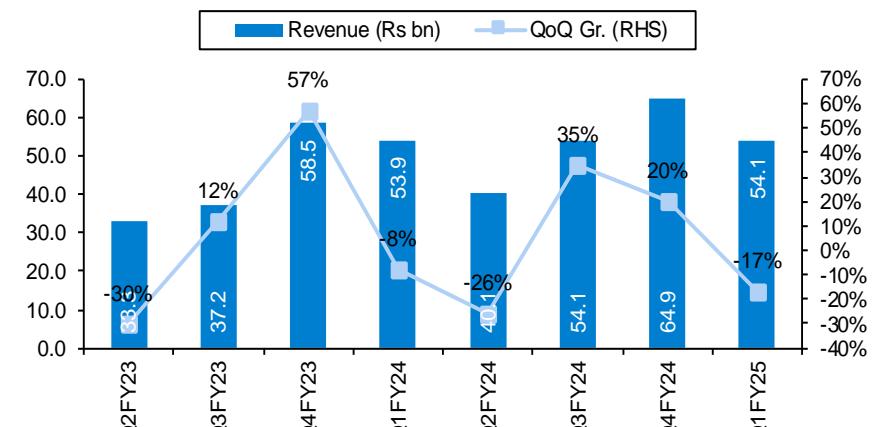
Source: Company, PL

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

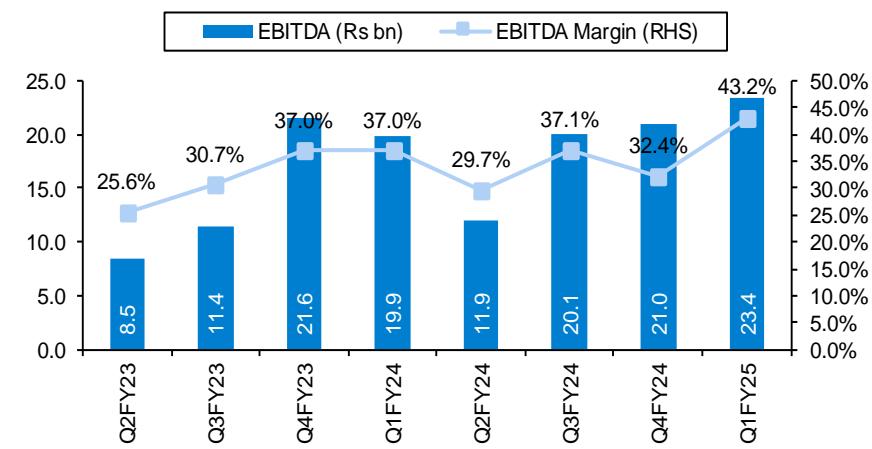
Source: Company, PL

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



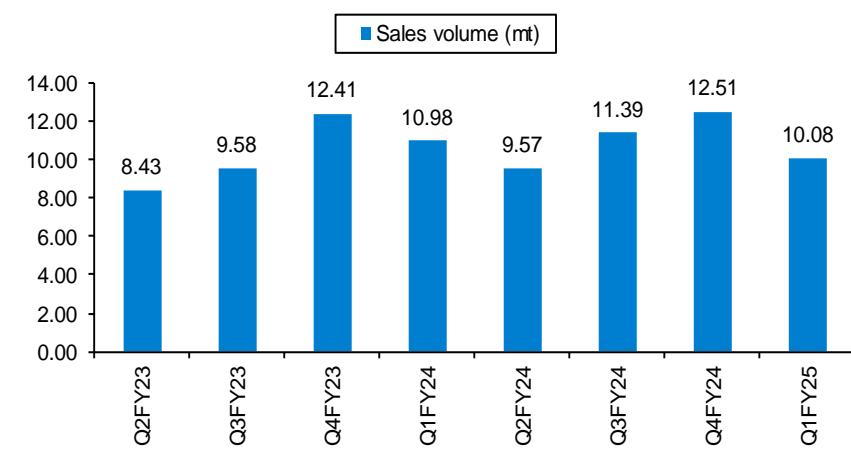
Source: Company, PL

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

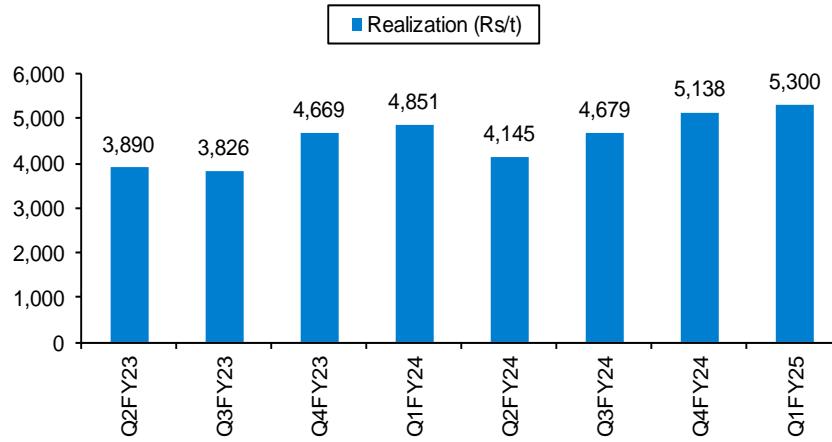


Source: Company, PL

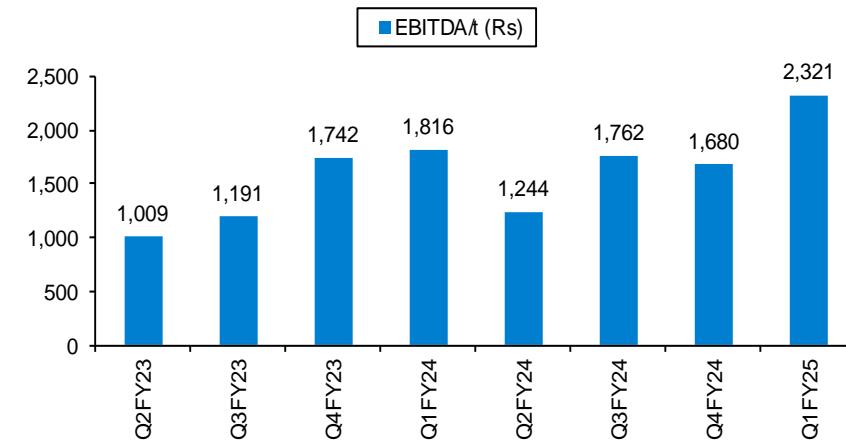
Exhibit 5: Sales volume declined 19% QoQ affected by employee strike



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
Net Revenues	177	213	233	274
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
EBITDA	61	73	84	103
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
EBIT	57	69	79	97
Margin (%)	32.4	32.6	34.0	35.4
Net Interest	1	1	1	1
Other Income	8	14	12	13
Profit Before Tax	76	80	91	109
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
Profit after tax	55	56	66	79
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	46	58	66	79
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)	-	-
Reported PAT	55	56	66	79
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
Equity Shares O/s (bn)	3	3	3	3
EPS (Rs)	15.8	19.7	22.5	26.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

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

Source: Company Data, PL Research

Cash Flow (Rs bn)					Key Financial Metrics				
Y/e Mar	FY23	FY24	FY25E	FY26E	Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	76	80	91	109	Per Share(Rs)				
Add. Depreciation	3	4	4	6	EPS	15.8	19.7	22.5	26.9
Add. Interest	1	1	1	1	CEPS	17.0	20.9	23.9	29.0
Less Financial Other Income	8	14	12	13	BVPS	77.2	87.6	101.1	117.0
Add. Other	(5)	(10)	(12)	(13)	FCF	2.0	18.9	6.1	11.7
Op. profit before WC changes	75	73	84	103	DPS	-	-	-	-
Net Changes-WC	(36)	19	(19)	11	Return Ratio(%)				
Direct tax	(21)	(18)	(25)	(30)	RoCE	29.9	32.4	31.4	32.7
Net cash from Op. activities	18	74	40	84	ROIC	28.4	36.6	34.7	36.0
Capital expenditures	(12)	(18)	(22)	(50)	RoE	22.8	23.9	23.8	24.7
Interest / Dividend Income	6	10	12	13	Balance Sheet				
Others	9	(52)	-	-	Net Debt : Equity (x)	(0.3)	(0.4)	(0.4)	(0.4)
Net Cash from Inv. activities	2	(61)	(10)	(37)	Net Working Capital (Days)	26	(32)	-	(15)
Issue of share cap. / premium	-	-	-	-	Valuation(x)				
Debt changes	(9)	12	-	-	PER	13.7	11.0	9.7	8.1
Dividend paid	(11)	(25)	(26)	(32)	P/B	2.8	2.5	2.2	1.9
Interest paid	(1)	(1)	(1)	(1)	P/CEPS	12.8	10.4	9.1	7.5
Others	0	1	-	-	EV/EBITDA	9.6	7.3	6.3	5.0
Net cash from Fin. activities	(21)	(13)	(27)	(33)	EV/Sales	3.3	2.5	2.3	1.9
Net change in cash	0	0	3	14	Dividend Yield (%)	-	-	-	-
Free Cash Flow	6	55	18	34					

Source: Company Data, PL Research

Quarterly Financials (Rs bn)					Key Operating Metrics				
Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenue	40	54	65	54	Sales volume (mt)	38.2	44.5	47.2	52.7
YoY gr. (%)	20.6	45.4	10.9	0.4	Realisation/t (Rs)	4,622	4,794	4,942	5,188
Raw Material Expenses	4	1	(1)	1	EBITDA/ton (Rs)	1,584	1,641	1,770	1,952
Gross Profit	36	54	66	53					
Margin (%)	89.9	99.0	101.4	98.0	Source: Company Data, PL Research				
EBITDA	12	20	21	23					
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					
EBIT	11	19	20	23					
Margin (%)	27.4	35.6	30.7	41.9					
Net Interest	-	-	-	-					
Other Income	3	3	4	4					
Profit before Tax	14	20	24	26					
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					
Profit after Tax	10	15	14	20					
Minority interest	-	-	-	-					
Share Profit from Associates	-	-	-	-					
Adjusted PAT	10	17	14	20					
YoY gr. (%)	15.7	83.3	1.0	18.2					
Margin (%)	25.5	30.6	22.1	36.3					
Extra Ord. Income / (Exp)	-	(2)	-	-					
Reported PAT	10	15	14	20					
YoY gr. (%)	15.7	62.6	(37.8)	18.2					
Margin (%)	25.5	27.2	21.8	36.3					
Other Comprehensive Income	-	-	-	-					
Total Comprehensive Income	10	15	14	20					
Avg. Shares O/s (bn)	4	4	4	4					
EPS (Rs)	2.6	4.2	3.6	5.0					

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)

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

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