# NMDC

| BSE SENSEX | S&P CNX |
|---|---|
| 44,655 | 13,109 |

एन एम डी सी
NMDC

**Stock Info**

| | |
|---|---|
| Bloomberg | NMDC IN |
| Equity Shares (m) | 3,062 |
| M.Cap.(INRb)/(USDb) | 260 / 3.4 |
| 52-Week Range (INR) | 140 / 62 |
| 1, 6, 12 Rel. Per (%) | -2/-14/-21 |
| 12M Avg Val (INR M) | 744 |
| Free float (%) | 30.4 |

**Financials & Valuations (INR b)**

| Y/E MARCH | 2020 | 2021E | 2022E |
|---|---|---|---|
| Sales | 117.0 | 130.4 | 152.6 |
| EBITDA | 62.2 | 68.6 | 76.5 |
| Adj. PAT | 46.9 | 50.6 | 56.6 |
| EBITDA Margin (%) | 53.2 | 52.6 | 50.1 |
| Cons. Adj. EPS (INR) | 15.3 | 16.5 | 18.5 |
| EPS Gr. (%) | -1.9 | 7.9 | 11.8 |
| BV/Sh. (INR) | 89.9 | 100.5 | 112.9 |
| **Ratios** | | | |
| Net D:E | -0.1 | -0.1 | -0.1 |
| RoE (%) | 17.5 | 17.4 | 17.3 |
| RoCE (%) | 15.5 | 16.7 | 16.8 |
| Payout (%) | 54.0 | 36.3 | 32.5 |
| **Valuations** | | | |
| P/E (x) | 6.5 | 6.0 | 5.4 |
| P/BV (x) | 1.1 | 1.0 | 0.9 |
| EV/EBITDA(x) | 4.6 | 3.9 | 3.5 |
| Div. Yield (%) | 5.3 | 6.0 | 6.0 |

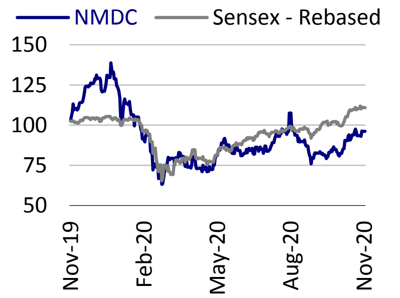
Note: Above nos. are consol.

**Shareholding pattern (%)**

| As On | Sep-20 | Jun-20 | Sep-19 |
|---|---|---|---|
| Promoter | 69.7 | 69.7 | 72.3 |
| DII | 20.5 | 20.4 | 17.9 |
| FII | 4.5 | 5.4 | 5.3 |
| Others | 5.4 | 4.6 | 4.6 |

FII Includes depository receipts

**Stock Performance (1-year)**




**CMP: INR99 TP: INR129 (+30%) Buy**

## Earnings outlook strengthens further

### Reiterate Buy on valuations despite risk of higher levies

**NMDC's volume outlook has strengthened further with the resumption of Donimalai mine expected by December-end. Strong volume trend (sales of 3.3mt in Nov'20, up 18% YoY), coupled with strong iron ore pricing (hike of INR500/t in Dec-20), should drive near-term earnings. Resumption of the Donimalai mine should drive 11% EBITDA growth in FY22E on the back of a 18% volume growth. We reiterate our Buy on NMDC with a TP of INR129/share on valuation support despite the risk of government levies.**

### Donimalai lease renewal with additional levy raises uncertainty on earnings

- The Ministry of Mines has approved the premium levy (22.5%) on Donimalai mine, temporarily over-riding the MMDR Act, 2015 to address the shortage of iron ore supply. However, the final premium would be decided by a committee that would review Mineral (Mining by Government Company) Rules, 2015.
- Earlier in Sep'20, the Karnataka government allowed NMDC to start the mine on the above terms. Post this approval, NMDC would be able to re-start operations that came to a halt in Nov'18. It would have to pay 22.5% of the IBM determined average sale price of iron ore.
- The Centre would constitute a committee to decide the premium payable by PSUs for future renewals. This implies that the renewal of 7mtpa Kumaraswamy mine, due in Oct'22, would be at a premium as decided by the Central government committee. The Chhattisgarh government could also demand a similar premium on mines, which were renewed in 2019, posing another risk.

### Valuation and view

- We expect NMDC to restart operations from the Donimalai mine by December-end and accordingly raise our FY21E/FY22E volume estimate by ~3%/16% to 31.3mt/37mt. However, incremental EBITDA contribution from Donimalai mine would be lower due to levy of 22.5% premium. We expect EBITDA to grow ~11% CAGR over FY20-22E despite a volume/realization CAGR of 8%/~5%.
- We see NMDC as a second order beneficiary of an improving domestic steel demand and prices. NMDC has raised prices by INR500/t for Dec-20 leading to cumulative hikes of INR2,250/t over last five months. We expect 2HFY21 EBITDA to ~60% higher YoY at INR50.8b on strong pricing.
- The government's proposal to levy a premium on NMDC on its mining leases has emerged as a key overhang on the stock. If a premium of 22.5% of revenue is levied on all of NMDC's mines, it poses a downside risk of ~25% to our FY22E EBITDA.
- We value the stock at INR129/share on a SoTP basis – 4x FY22E EV/EBITDA for its core iron ore mining business and ~25% book value for the Nagarnar plant. At the CMP, the stock is trading at 2.8x its core iron ore mining business. Reiterate **Buy** on strong earnings and valuation support.

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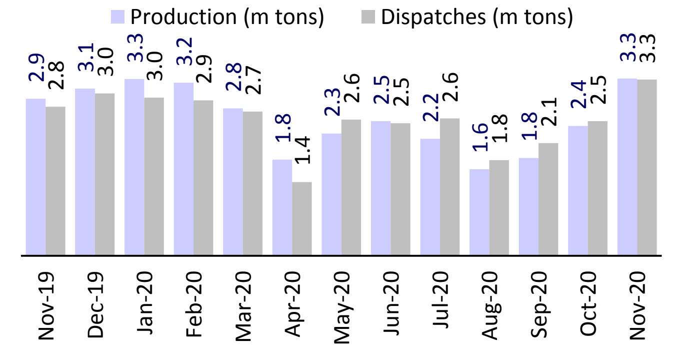
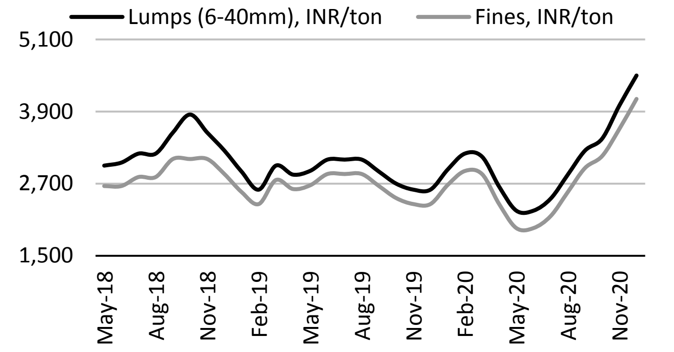
**Exhibit 1: Sales volumes rise by 18% YoY in Nov'20**




Source: MOFSL

**Exhibit 2: NMDC raises price by INR500/t for Dec-20**




Source: MOFSL

**Exhibit 3: Donimalai's EBITDA/t ~40%/55% lower than that of Kumaraswamy/Chhattisgarh mines**

| | Mine | | |
|---|---|---|---|
| **INR/t** | **Donimalai mine** | **Kumaraswamy** | **Chhattisgarh** |
| **Gross realization** | | | |
| Base price (FY22 estimate) (1:2 lumps: fines mix) | 3,200 | 3,200 | 3,200 |
| Royalty, DMF and NMET contribution at 19.8% | 634 | 634 | 634 |
| Payable by customer | 3,834 | 3,834 | 3,834 |
| **Less: Deductions** | | | |
| Royalty and other levies payable to the government | 634 | 634 | 634 |
| Retention by Monitoring Committee (20%) | 640 | 640 | - |
| Premium payable at 22.5% | 720 | - | - |
| **Total deductions** | **1,994** | **1,274** | **634** |
| Net realization to NMDC | 1,840 | 2,560 | 3,200 |
| Average cost per tonne | 750 | 750 | 750 |
| EBITDA/t | 1,090 | 1,810 | 2,450 |

Source: MOFSL

**Exhibit 4: Change in estimates**

| | Revised | | Old | | Change (%) | |
|---|---|---|---|---|---|---|
| **INR m** | **FY21E** | **FY22E** | **FY21E** | **FY22E** | **FY21E** | **FY22E** |
| Iron ore volumes - mt | 31.3 | 37.0 | 30.5 | 32.0 | 2.6 | 15.6 |
| Blended iron ore realization (INR/t) | 4,168 | 4,124 | 3,817 | 3,835 | 9.2 | 7.5 |
| EBITDA/t - INR | 2,193 | 2,066 | 1,946 | 1,993 | 12.7 | 3.7 |
| EBITDA | 68,648 | 76,452 | 59,356 | 63,761 | 15.7 | 19.9 |
| Adjusted PAT | 50,607 | 56,600 | 43,731 | 47,209 | 15.7 | 19.9 |
| Target price (INR/share) | | 129 | | 109 | | 18.2 |

Source: MOFSL

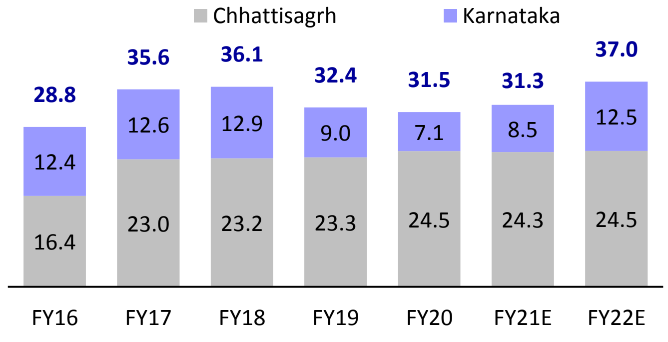
**Exhibit 5: Target price derivation**

| **Y/E March** | **FY17** | **FY18** | **FY19** | **FY20** | **FY21E** | **FY22E** |
|---|---|---|---|---|---|---|
| **Iron ore** | | | | | | |
| EBITDA per tonne (INR) | 1,262 | 1,752 | 2,207 | 1,974 | 2,193 | 2,066 |
| Volumes (mt) | 35.6 | 36.1 | 32.4 | 31.5 | 31.3 | 37.0 |
| **EBITDA** | **44,944** | **63,198** | **71,416** | **62,203** | **68,648** | **76,452** |
| Target EV/EBITDA (x) | | | | | | 4.0 |
| Target EV | | | | | | 3,05,809 |
| Less: Net debt | | | | -18,268 | -35,951 | -39,477 |
| Add: Nagarnar Steel Plant at 25% of BV | | | | 38,679 | 41,351 | 48,851 |
| Equity value | | | | | | 3,94,138 |
| **Target price (INR/share)** | | | | | | **129** |

Source: MOFSL, Company

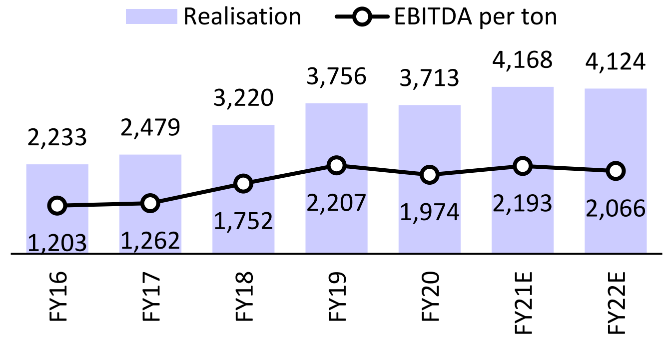
# Story in Charts

### Exhibit 6: Volumes to grow at 8% CAGR over FY20-22E



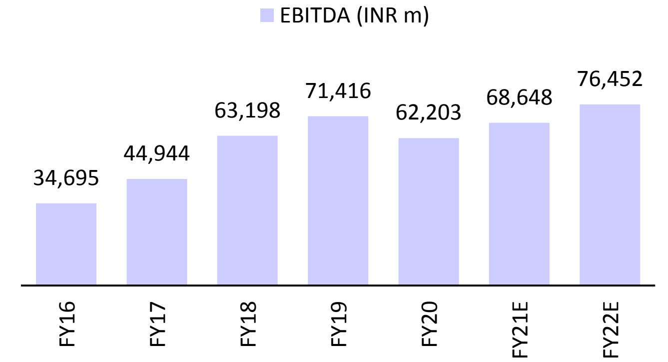

Source: Company, MOFSL

### Exhibit 7: EBITDA/t to remain strong on higher prices



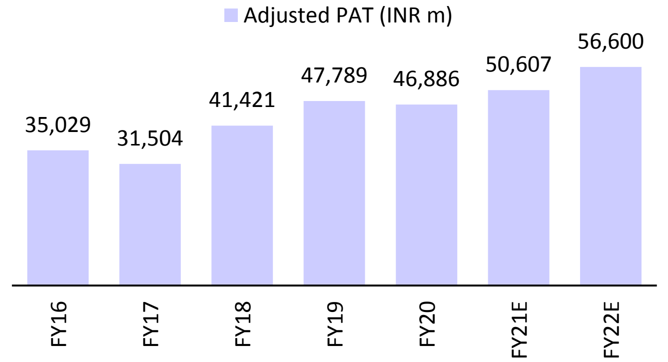

Source: Company, MOFSL

### Exhibit 8: EBITDA to grow ~11% CAGR over FY20-22E



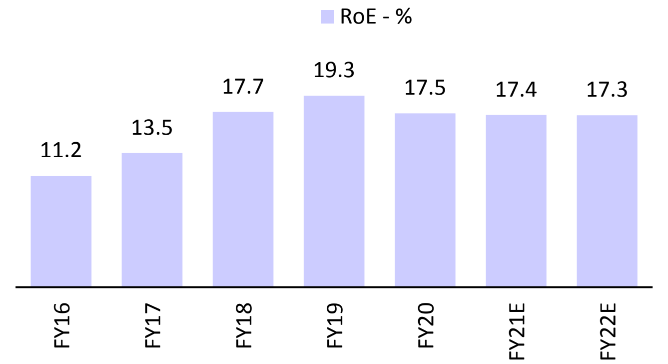

Source: Company, MOFSL

### Exhibit 9: PAT to grow ~10% CAGR over FY20-22E



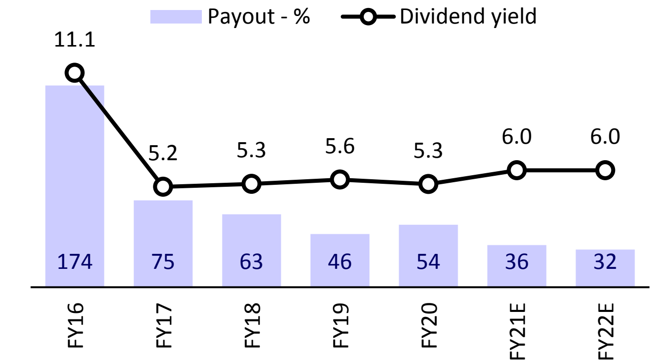

Source: Company, MOFSL

### Exhibit 10: RoE to decline over FY20-22E




Source: MOFSL

### Exhibit 11: Dividend yield of ~6%




Source: MOFSL

# Financials and Valuations

**Income Statement** (INR m)

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|---|---|---|
| **Net sales** | **1,23,564** | **64,556** | **88,294** | **1,16,149** | **1,21,527** | **1,16,992** | **1,30,444** | **1,52,577** |
| Change (%) | 2.5 | -47.8 | 36.8 | 31.5 | 4.6 | -3.7 | 11.5 | 17.0 |
| **EBITDA** | **81,369** | **34,998** | **44,944** | **63,198** | **71,416** | **62,203** | **68,648** | **76,452** |
| % of Net Sales | 65.9 | 54.2 | 50.9 | 54.4 | 58.8 | 53.2 | 52.6 | 50.1 |
| EBITDA per ton ore | 2,666 | 1,214 | 1,262 | 1,752 | 2,207 | 1,974 | 2,193 | 2,066 |
| Depn. & Amortization | 1,622 | 2,078 | 1,962 | 2,560 | 2,789 | 2,869 | 2,869 | 3,119 |
| **EBIT** | **79,747** | **32,920** | **42,982** | **60,638** | **68,628** | **59,334** | **65,780** | **73,333** |
| Net Interest | | | | 371 | 403 | 99 | 403 | 781 |
| Other income | 23,200 | 17,744 | 9,088 | 5,197 | 5,883 | 5,138 | 3,576 | 3,934 |
| **PBT before EO** | **1,02,946** | **50,664** | **52,070** | **65,464** | **74,107** | **64,373** | **68,953** | **76,487** |
| EO income | | -1,848 | -8,933 | -5,309 | -2,120 | -10,778 | | |
| **PBT after EO** | **1,02,946** | **48,816** | **43,137** | **60,155** | **71,987** | **53,596** | **68,953** | **76,487** |
| Tax | 33,460 | 14,769 | 17,038 | 22,093 | 25,565 | 17,413 | 18,346 | 19,887 |
| Rate (%) | 32.5 | 30.3 | 39.5 | 36.7 | 35.5 | 32.5 | 26.6 | 26.0 |
| **Reported PAT** | **69,487** | **34,047** | **26,099** | **38,062** | **46,422** | **36,183** | **50,607** | **56,600** |
| **Adjusted PAT** | **69,487** | **35,335** | **31,504** | **41,421** | **47,789** | **46,886** | **50,607** | **56,600** |
| Change (%) | 2.5 | -49.1 | -10.8 | 31.5 | 15.4 | -1.9 | 7.9 | 11.8 |

**Balance Sheet** (INR m)

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|---|---|---|
| Share Capital | 3,965 | 3,965 | 3,164 | 3,164 | 3,062 | 3,062 | 3,062 | 3,062 |
| Reserves | 3,19,353 | 2,97,146 | 2,22,026 | 2,40,374 | 2,56,453 | 2,72,278 | 3,04,513 | 3,42,742 |
| **Shareholders' funds** | **3,23,317** | **3,01,110** | **2,25,189** | **2,43,538** | **2,59,515** | **2,75,340** | **3,07,575** | **3,45,804** |
| Loans | | **14,970** | | **5,001** | **3,642** | **5,656** | **5,656** | **5,656** |
| Long-term Provisions | 984 | 1,222 | 6,112 | 7,141 | 7,684 | 8,334 | 8,334 | 8,334 |
| **Capital Employed** | **3,24,301** | **3,17,302** | **2,31,301** | **2,55,680** | **2,70,841** | **2,89,329** | **3,21,565** | **3,59,794** |
| Gross Block | 29,446 | 37,304 | 39,724 | 49,473 | 52,752 | 58,878 | 63,878 | 68,878 |
| Less: Accum. Deprn. | 16,109 | 18,234 | 20,196 | 22,756 | 25,545 | 28,414 | 31,283 | 34,402 |
| **Net Fixed Assets** | **13,337** | **19,070** | **19,528** | **26,717** | **27,207** | **30,464** | **32,595** | **34,476** |
| Capital WIP | 77,100 | 97,229 | 1,18,314 | 1,25,199 | 1,37,925 | 1,54,716 | 1,65,406 | 1,95,406 |
| Investments | 5,619 | 6,954 | 7,270 | 7,865 | 9,393 | 9,856 | 9,856 | 9,856 |
| **Curr. Assets** | **2,48,642** | **2,10,203** | **1,11,909** | **1,26,311** | **1,23,295** | **1,16,397** | **1,36,058** | **1,42,830** |
| Inventories | 6,919 | 6,370 | 5,400 | 5,717 | 6,662 | 7,235 | 8,220 | 9,614 |
| Sundry Debtors | 17,523 | 18,961 | 10,435 | 14,727 | 14,245 | 22,237 | 23,230 | 25,081 |
| Cash and Bank | 1,84,431 | 1,47,636 | 52,893 | 54,382 | 46,077 | 23,923 | 41,607 | 45,133 |
| Loans and Advances | 39,768 | 37,237 | 43,181 | 51,484 | 56,311 | 63,002 | 63,002 | 63,002 |
| **Curr. Liability & Prov.** | **20,397** | **16,154** | **25,719** | **30,411** | **26,979** | **22,103** | **22,349** | **22,774** |
| Sundry Creditors | 2,263 | 3,244 | 1,988 | 1,595 | 2,027 | 2,256 | 2,502 | 2,926 |
| Other Liabilities & prov. | 18,134 | 12,909 | 23,731 | 28,815 | 24,952 | 19,848 | 19,848 | 19,848 |
| **Net Current Assets** | **2,28,245** | **1,94,050** | **86,190** | **95,900** | **96,316** | **94,294** | **1,13,709** | **1,20,056** |
| **Application of Funds** | **3,24,301** | **3,17,302** | **2,31,301** | **2,55,680** | **2,70,841** | **2,89,329** | **3,21,565** | **3,59,794** |

# Financials and Valuations

## Ratios

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|---|---|---|
| **Basic (INR)** | | | | | | | | |
| **EPS** | **17.5** | **8.9** | **10.0** | **13.1** | **15.6** | **15.3** | **16.5** | **18.5** |
| Cash EPS | 17.9 | 9.4 | 10.6 | 13.9 | 16.5 | 16.2 | 17.5 | 19.5 |
| BV/Share | 81.5 | 75.9 | 71.2 | 77.0 | 84.8 | 89.9 | 100.5 | 112.9 |
| DPS | 8.6 | 11.0 | 5.2 | 5.3 | 5.5 | 5.3 | 6.0 | 6.0 |
| Payout (%) | 42.2 | 172.4 | 74.9 | 62.9 | 45.9 | 54.0 | 36.3 | 32.5 |
| **Valuation (x) CMP at INR 84.3** | | | | | | | | |
| P/E | | | | | 6.9 | 7.0 | 6.0 | 5.4 |
| Cash P/E | | | | | 6.5 | 6.6 | 5.7 | 5.1 |
| P/BV | | | | | 1.3 | 1.2 | 1.0 | 0.9 |
| EV/EBITDA | | | | | 4.0 | 5.0 | 3.9 | 3.5 |
| Dividend Yield (%) | | | | | 5.2 | 4.9 | 6.0 | 6.0 |
| **Return Ratios (%)** | | | | | | | | |
| EBITDA Margins | 65.9 | 54.2 | 50.9 | 54.4 | 58.8 | 53.2 | 52.6 | 50.1 |
| Net Profit Margins | 56.2 | 54.7 | 35.7 | 35.7 | 39.3 | 40.1 | 38.8 | 37.1 |
| RoE | 22.3 | 11.3 | 13.5 | 17.7 | 19.3 | 17.5 | 17.4 | 17.3 |
| RoCE | 22.2 | 11.0 | 11.5 | 17.1 | 18.3 | 15.5 | 16.7 | 16.8 |
| RoIC | 92.6 | 37.4 | 44.0 | 63.4 | 60.8 | 44.9 | 47.0 | 50.7 |
| **Working Capital Ratios** | | | | | | | | |
| Fixed Asset Turnover (x) | 4.2 | 1.7 | 2.2 | 2.3 | 2.3 | 2.0 | 2.0 | 2.2 |
| Asset Turnover (x) | 0.4 | 0.2 | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Debtor (Days) | 52 | 50 | 43 | 46 | 43 | 69 | 65 | 60 |
| Inventory (Days) | 20 | 20 | 22 | 18 | 20 | 23 | 23 | 23 |
| Creditors (Days) | 7 | 20 | 8 | 5 | 6 | 7 | 7 | 7 |
| **Leverage Ratio (x)** | | | | | | | | |
| Current Ratio | 12.2 | 13.0 | 4.4 | 4.2 | 4.6 | 5.3 | 6.1 | 6.3 |
| Debt/Equity | -0.6 | -0.4 | -0.2 | -0.2 | -0.2 | -0.1 | -0.1 | -0.1 |

## Cash Flow Statement (INR m)

| Y/E March | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---|---|---|---|---|---|---|---|
| Pre-tax profit | 1,02,946 | 48,816 | 43,137 | 60,155 | 71,987 | 53,596 | 68,953 | 76,487 |
| Depreciation | 1,622 | 2,078 | 1,962 | 2,560 | 2,789 | 2,944 | 2,869 | 3,119 |
| (Inc)/Dec in Wkg. Cap. | -11,975 | 93 | 13,117 | -8,676 | -8,629 | -21,434 | -1,731 | -2,822 |
| Tax paid | -30,314 | -17,373 | -18,942 | -23,432 | -26,024 | -23,047 | -18,346 | -19,887 |
| Other operating activities | -7,655 | -4,455 | 406 | 3,205 | 346 | 8,545 | | |
| **CF from Op. Activity** | **54,624** | **29,159** | **39,679** | **33,812** | **40,469** | **20,604** | **51,745** | **56,897** |
| (Inc)/Dec in FA + CWIP | -24,331 | -20,242 | -23,505 | -20,524 | -19,972 | -23,990 | -15,690 | -35,000 |
| (Pur)/Sale of Investments | -3,116 | -1,335 | -316 | -2,523 | 7,661 | 17,155 | | |
| Others | | | | 6,294 | (3,504) | (18,316) | - | - |
| **CF from Inv. Activity** | **-27,447** | **-21,576** | **-23,821** | **-16,753** | **-15,816** | **-25,151** | **-15,690** | **-35,000** |
| Equity raised/(repaid) | | | -76,078 | | -10,067 | | | |
| Debt raised/(repaid) | | 14,970 | -14,970 | 5,001 | -1,359 | 2,014 | | |
| Dividend (incl. tax) | -29,318 | -58,694 | -19,553 | -23,923 | -21,321 | -19,525 | -18,371 | -18,371 |
| Other financing activities | | | | 3,721 | 190 | 77 | - | - |
| **CF from Fin. Activity** | **-29,318** | **-44,379** | **-1,10,601** | **-15,570** | **-32,959** | **-17,531** | **-18,371** | **-18,371** |
| **(Inc)/Dec in Cash** | **-2,141** | **-36,796** | **-94,743** | **1,490** | **-8,305** | **-22,079** | **17,684** | **3,526** |
| Add: opening Balance | 1,86,572 | 1,84,431 | 1,47,636 | 52,893 | 54,382 | 46,077 | 23,923 | 41,607 |
| **Closing Balance** | **1,84,431** | **1,47,636** | **52,893** | **54,382** | **46,077** | **23,923** | **41,607** | **45,133** |

# NOTES

| 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 |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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