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Q4FY23 result review and TP change

Metals

Target price: Rs118

Target price revision

Rs118 from Rs130

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	60.8	60.8	60.8
Institutional investors	25.7	26.8	26.6
MFs and others	4.6	4.4	5.9
FIs/Banks	0.1	1.2	1.1
Insurance Cos.	15.0	14.5	12.2
FII	6.0	6.7	7.4
Others	13.5	12.4	12.6

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	38.4	34.1	(4.3)
Environment	12.7	15.8	3.2
Social	26.7	28.5	1.8
Governance	75.5	57.8	(17.7)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

NMDC

ICICI Securities

ADD

Maintain

Rs105

Aiming for volume growth

NMDC's Q4FY23 EBITDA was in line with our estimates, and 7% ahead of street estimates. Key highlights: 1) Best-ever production and sales volume; 2) Chhattisgarh segment comprised 68% of total sales volume (Q4FY22: 69%; Q3FY23: 70%); 3) EBITDA margin rebounded QoQ to 37%; 4) FY23 end net cash stands at Rs66.3bn; 5) exceptional income of Rs12.4bn in FY23 aided EPS to Rs18.9/share and 6) Board has recommended second interim dividend of Rs2.85/share, taking the total FY23 dividend to Rs6.6/share.

Going ahead, despite price headwinds, we see the company focusing on adding volumes. While we consider the target of 46-50mnte production volume in FY24 as daunting, we believe NMDC is likely to gain from overall steel production growth in the country, expected at 6-7% in FY24E. We introduce FY25 estimates at this stage and roll-over the valuation to FY25E. Our revised TP works out to Rs118 (earlier Rs130) on an unchanged 5x FY25E EBITDA. Maintain ADD.

► **Performance rebounds QoQ on higher volume.** NMDC's Q4FY23 EBITDA was ahead of street estimates though in line with ours. Key highlights: 1) Sales volume at 12.5mnte (up 1.4% YoY; 30% QoQ) was the best ever; 2) sales volume in Chhattisgarh segment rose 27% QoQ owing to better offtake by pellet producers post the removal of export duty and AM/NS ramping up production while in Karnataka segment it was up 37% QoQ mainly due to higher sourcing by JSW Vijayanagar; 3) performance was boosted by the receipt of Rs9.6bn from Monitoring Committee towards 10% of the amount withheld for the period Jan'19 to Mar'22 and Rs2.8bn of core profit on strategic divestment of NINL; 4) blended realisation rose 21% QoQ at Rs4,696/te as the company raised the notified prices throughout the quarter; 5) royalty as a %age of revenue was 44.8% compared to 50.2% QoQ (Q3FY22: 40.3%) owing to higher production and consideration of IBM price for only Jan'23 (while price increased throughout the quarter); 6) EBITDA/te at Rs1,738 rose 45.6% QoQ mainly due to operating leverage benefits on higher sales volume. Going ahead, we expect EBITDA to decline due to price headwinds; however, the management has guided for production/sales volume of 46-50mnte in FY24 to offset the adverse impact of lower profitability.

► **Volume growth is key:** During Q4FY23 earnings call, management guided for production/sales volume of 46-50mnte in FY24; however, we have taken 44mnte/45mnte for FY24E/FY25E, respectively. We await the completion of key infrastructure projects such as doubling of KK line, slurry pipeline up to Vizag and ramp up of additional capacity at Kumaraswamy- critical for volume to reach 50mnte. While we understand that opportunity size is likely to expand as Nagarnar Steel Plant ramps-up production and pellet plants at Vizag commence production, logistics bottlenecks exist, not to mention the rake availability at a mere 50% of Bailadila sector capacity.

Market Cap	Rs308bn/US\$3.7bn
Reuters/Bloomberg	NMDC.BO/NMDC IN
Shares Outstanding (mn)	2,930.6
52-week Range (Rs)	131/72
Free Float (%)	39.2
FII (%)	7.4
Daily Volume (US\$/'000)	11,166
Absolute Return 3m (%)	(6.2)
Absolute Return 12m (%)	19.9
Sensex Return 3m (%)	4.2
Sensex Return 12m (%)	15.9

Year to March	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	2,59,648	1,76,669	1,85,259	1,85,098
EBITDA(Rs mn)	1,26,309	60,630	56,385	55,060
Net Income (Rs mn)	94,483	55,293	41,809	40,691
EPS (Rs)	32.24	18.87	14.27	13.88
P/E (x)	3.3	5.6	7.4	7.6
CEPS (Rs)	3.2	5.2	6.7	6.8
EV/E (x)	1.9	4.0	4.3	4.3
Dividend Yield	14.0	6.3	5.1	4.9
RoCE (%)	50.7	30.5	24.9	21.9
RoE (%)	39.6	27.5	17.7	15.6

Please refer to important disclosures at the end of this report

- **Outlook: Volume growth may partially offset price headwinds.** We believe volume growth is key for maintaining earnings growth as price headwinds prevail, exacerbated by the sharp dip in global iron ore price. Hence, we would keep a close tab on production target of 50mnte for FY24. We maintain ADD rating on the stock with a revised TP of Rs118 (earlier Rs130) on an unchanged 5x FY25E EBITDA as we roll-over valuations to FY25E.

Table 1: Q4FY23 result review*(Rs mn.)*

	Q4FY23	Q4FY22	% Chg YoY	Q3FY23	% Chg QoQ
Net sales/Income from operations	58,514	67,853	(13.8)	37,200	57.3
Raw Material Consumed	47	319	(85.4)	268	(82.7)
Stock Adjustment	(4,249)	(3,833)	10.8	(2,917)	45.7
Stores & Spares	1,811	1,422		1,413	
Gross Margin	60,905	69,945	(12.9)	38,435	58.5
Gross Margin (%)	104.1%	103.1%		103.3%	
Employee cost	4,579	4,645	(1.4)	3,449	32.8
Selling expenses including freight	972	880	10.5	770	26.2
Royalties	26,241	27,015	(2.9)	18,689	40.4
Other expenditure	7,459	10,143	(26.5)	4,094	82.2
EBITDA	21,654	27,263	(20.6)	11,434	89.4
Margin (%)	37.0%	40.2%		30.7%	
Other Income	(120)	3,326	(103.6)	1,879	(106.4)
Depreciation	932	1,115	(16.4)	836	11.4
EBIT	20,602	29,474	(30.1)	12,476	65.1
Interest	118	252	(53.2)	299	(60.7)
PBT	20,485	29,222	(29.9)	12,177	68.2
Tax expense:	10,085	10,601	(4.9)	3,276	207.8
PAT	22,773	18,620	22.3	8,901	155.8
Production (mnte)	14.12	13.86	1.9	10.66	32.4
Sales Volume (mnte)	12.46	12.28	1.4	9.58	30.1
Realisation (Rs/te)	4,696	5,524	(15.0)	3,883	20.9
EBITDA (Rs/te)	1,738	2,219	(21.7)	1,194	45.6

Source: Company data, I-Sec research

Q4FY23 concall: Key takeaways

- **Volume guidance for FY24.** Management is targeting 46-50mnte of volume in FY24. The enhancement in production is dependent on i) enhanced efficiency, ii) normal monsoons and iii) capacity enhancement of Kumaraswamy mines from 7mnte to 10mnte. By mid FY24, enhanced capacity is likely to come on board.
- **Capex.** FY24- Rs20bn and FY25 onwards Rs30bn pa (on journey towards 100mtpa capacity). This will be further enhanced to Rs50bn p.a. Key projects currently on are: i) Pellet plant of Rs12bn, ii) laying of slurry pipeline ~Rs11bn, iii) beneficiation plant of Rs9bn, iv) SP3 plant in Kirandaul at Rs30bn, v) capacity enhancement in deposit 14 and 11C at Kirandaul at Rs11bn, vi) SP2 at Karnataka of ~Rs10bn (already sanctioned and clearance received).
- **Production in Q1FY24.** NMDC sold 5.5mnte in Mar'23 (best ever) and also Apr'23 was also the best ever. In May'23, production and sales have been much better compared to prior years. Hence, management expects Q1FY24 to be one of the best quarters in terms of volume.
- Domestic demand is sufficient to meet the increased production requirement.
- **Steel plant-** Nearly Rs25.4bn shown as non-current assets (inter corporate outstanding). The appointed date of divestment was 1/4/21 and the actual demerger took place on 13/10/22. In this intervening period, the company spent Rs25.4bn on steel plant which is being shown as non-current assets. However, management mentioned that once the plant starts making money, NMDC would receive this amount, irrespective of whether the plant is divested or not.
- Steel plant is expected to commission by June-end. All auxiliary equipment has been commissioned.
- **Capital work in progress.** All the opex related to steel plant is booked in CWIP. Coal purchased for steel plant is also accounted under CWIP. Steel plant capex till date Rs229.3bn.
- **Exports.** Domestic realisation is always higher than exports, adjusting for royalty, freight and duties. For instance, at the current level of domestic prices, exports make sense only if global prices are above US\$130/te (current level: US\$105/te).
- NMDC maintained its prices despite headwinds.
- In next 3-4 years, NMDC is planning two more slurry pipeline: 1) Nagarnar to Vizag and 2) Nagarnar to Raipur.
- Kumaraswamy mine was renewed in Oct'22. Hence, additional 22% royalty on sales is applicable.
- **Receipt of Rs9.6bn from Monitoring Committee.** Apart from receiving Rs9.6bn already from the Monitoring Committee, NMDC still has outstanding amount of Rs19bn to be received from the Monitoring Committee (for prior period between Jan'12 to Jan'19). This is non-taxable, hence, the company has already provided for this amount as a part of the expected credit loss every quarter. Furthermore, the cash balance is expected to increase as the amount of Rs9.6bn was received post Mar'22 and hence, is not reflected in the balance sheet as of now.

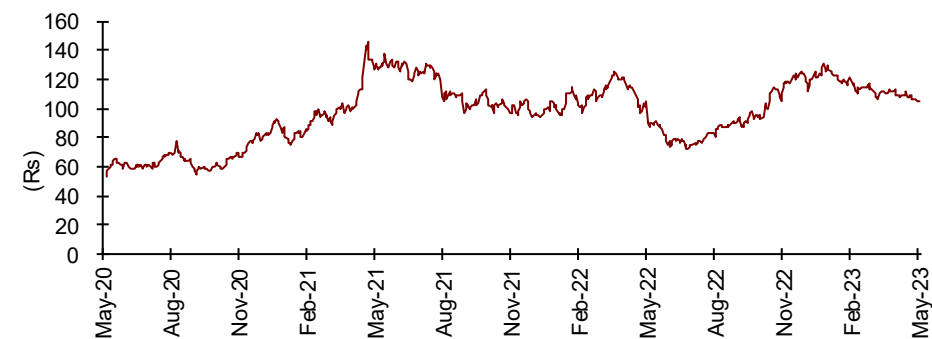
Valuations and key risks

We maintain ADD rating on the stock. However, we have lowered our TP to Rs118/share (earlier Rs130), factoring in FY25E EBITDA which is lower due to our assumption of a decline in iron ore prices. Our valuation multiple of 5x (unchanged) is slightly above ten-year mean, taking cognisance of improving return ratios post the demerger of steel plant.

Key risks

Lower than expected sales volumes and sharp correction in iron ore prices are the key downside risks to our call. The recent imposition of export duty doesn't augur well for NMDC. On the other hand, extensive covid easing in China followed by stimulus measures and removal of export duty on pellets are the key upside risks.

Price chart



Source: Bloomberg

Financial summary

Table 2: Profit and loss statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	2,59,648	1,76,669	1,85,259	1,85,098
Operating Expenses	1,33,339	1,16,038	1,28,874	1,30,038
EBITDA	1,26,309	60,630	56,385	55,060
% margins	48.6%	34.3%	30.4%	29.7%
Depreciation & Amortization	2,869	3,354	3,847	4,341
Gross Interest	391	752	752	752
Other Income	7,183	7,479	7,072	7,318
Recurring PBT	1,30,234	64,003	58,858	57,284
Add: Extra ordinaries	-	12,373	-	-
Less: Taxes	35,751	21,082	17,049	16,593
Net Income (Reported)	94,483	55,293	41,809	40,691
Recurring Net Income	94,483	55,293	41,809	40,691

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	1,56,789	1,57,676	1,54,454	1,59,416
of which cash & cash eqv.	79,394	70,480	71,256	75,394
Total Current Liabilities	38,353	37,814	37,792	37,946
Net Current Assets	1,18,436	1,19,863	1,16,662	1,21,470
Investments	49,366	71,988	71,988	71,988
Net Fixed Assets	23,899	23,786	26,188	28,098
Capital Work-in-Progress	12,985	19,617	38,367	57,117
Other non-current assets	4,489	6,348	6,348	6,348
Total Assets	2,09,173	2,41,603	2,66,250	2,91,717
Liabilities				
Borrowings	17,940	4,175	4,175	4,175
Deferred Tax Liability	-	-	-	-
Other long term liabilities	12,481	14,106	14,106	14,106
Minority Interest	-	-	-	-
Equity Share Capital	2,931	2,931	2,931	2,931
Reserves & Surplus	1,75,822	2,20,392	2,45,039	2,70,506
Net Worth	1,78,753	2,23,323	2,47,970	2,73,437
Total Liabilities	2,09,173	2,41,603	2,66,250	2,91,717

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	76,394	65,323	42,561	37,044
WC Changes	(15,678)	9,202	3,977	(670)
Capital Commitments	(30,474)	(14,049)	(25,000)	(25,000)
Free Cashflow	45,920	51,274	17,561	12,044
Cashflow from Investing Activities	(50,658)	1,514	(17,928)	(12,682)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	(23)	-	-
Inc (Dec) in Borrowings	14,423	(13,601)	-	-
Dividend paid	(43,195)	(10,993)	(15,642)	(15,224)
Others	-	-	-	-
Interest paid	(391)	(750)	-	-
Financing Cashflow	(29,163)	(25,366)	(15,642)	(15,224)
Chg. in Cash	(3,427)	41,471	776	9,137

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS(Basic Recurring)	32.2	18.9	14.3	13.9
Diluted Recurring EPS	32.2	18.9	14.3	13.9
Recurring Cash EPS	33.2	20.0	15.6	15.4
Dividend per share (DPS)	14.7	6.6	5.3	5.2
Book Value per share (BV)	61.0	76.2	84.6	93.3
Growth Ratios (%)				
Operating Income	68.9%	-32.0%	4.9%	-0.1%
EBITDA	43.7%	-52.0%	-7.0%	-2.4%
Recurring Net Income	51.2%	-41.5%	-24.4%	-2.7%
Valuation Ratios (x)				
P/E	3.3	5.6	7.4	7.6
P/CEPS	3.2	5.2	6.7	6.8
P/BV	1.7	1.4	1.2	1.1
EV / Sales	0.9	1.4	1.3	1.3
EV / EBITDA	1.9	4.0	4.3	4.3
EV / FCF	5.4	4.7	13.7	19.6
Operating Ratios (%)				
Gross Margin	102.5	99.3	95.5	95.5
Other Income / PBT	5.5	11.7	12.0	12.8
Effective Tax Rate	27.5	27.6	29.0	29.0
Asset Turnover (x)	1.0	0.8	0.7	0.7
Debtor (days)	35.8	58.0	52.1	52.1
Inventory (days)	21.4	49.4	48.7	45.6
Creditor (days)	371.6	317.4	187.5	187.7
Net D/E Ratio (x)	(34.4)	(29.7)	(27.1)	(26.0)
Profitability Ratios (%)				
Recurring Net Income Margins	36.4	31.3	22.6	22.0
RoCE	50.7	30.5	24.9	21.9
RoNW	39.6	27.5	17.7	15.6
Dividend Yield	14.0	6.3	5.1	4.9
EBITDA Margins	48.6	34.3	30.4	29.7

Source: Company data, I-Sec research

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