

Performs well...

About the stock: NMDC is India's largest merchant iron ore miner having a mining capacity of ~51 million tonnes (MT).

- During FY21, NMDC's iron ore production volume was at ~34 MT while sales volume for FY21 was at ~33 MT.
- NMDC is one of the lowest cost iron ore producer in the world.

Q1FY22 Results: NMDC reported a healthy set of numbers in Q1FY22.

- For the quarter, NMDC reported sales volume of 9.4 million tonnes (MT), up 51% YoY but down 15% QoQ, broadly in line with our estimate of 9.6 MT. For Q1FY22, NMDC reported a topline of ₹ 6512 crore, up 236% YoY, down 5% QoQ
- EBITDA for the quarter was at ₹ 4178 crore (up 453% YoY but down 2% QoQ), higher than our estimate of ₹ 3589 crore. EBITDA/tonne for Q1FY22 was at ₹ 4421/tonne, higher than our estimate of ₹ 3750/tonne (EBITDA/tonne of ₹ 3825/tonne in Q4FY21 and ₹ 1203/tonne in Q1FY21)
- Ensuing PAT for the quarter was at ₹ 3193 crore (up 499% YoY & 13% QoQ), higher than our estimate of 2704 crore

What should investors do? NMDC's share price has given a return of ~76% over the last 12 months (from ~₹ 95 in August 2020 to ~₹ 167 levels in August 2021).

- We maintain our BUY rating on the stock

Target Price and Valuation: We value NMDC at ₹ 210, based on SoTP valuation

Key triggers for future price performance:

- NMDC is targeting commissioning of the Nagarnar steel plant during H2FY22. NMDC is targeting the subsequent demerger of steel plant also during H2FY22
- For FY22E, NMDC has given a volume guidance of 44 MT
- NMDC has chalked out a capex plan of ₹ 3750 crore for FY22E. Of this ~₹ 2150 crore would be spent on the upcoming steel plant

Alternate Stock Idea: In our metal sector coverage, we also like Tata Steel.

- India's share in Tata Steel's overall consolidated production capacity has risen from 29% in 2010 to 57% in 2020 and is likely to reach 73% by 2030
- BUY with a target price of ₹ 1750



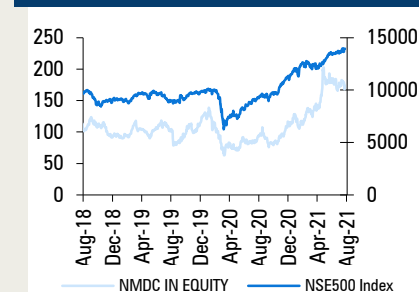
Particulars

Particular	Amount
Market Capitalization	₹ 48912 crore
Total Debt (FY21)	₹ 1995 crore
Cash and Investments (FY21)	₹ 5806 crore
EV	₹ 45101 crore
52 week H/L	213 / 76
Equity capital	₹ 293.1 crore
Face value	₹ 1

Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	70	70	68	68
FIIs	4	4	5	5
DIIIs	20	20	21	20
Others	5	5	6	7
Total	100	100	100	100

Price Chart



Key Risks

- Lower than expected sales volume
- Any steep correction in iron ore prices

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Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	CAGR(FY16-FY21 in %)	FY22E	FY23E	CAGR(FY21-FY23E in %)
Net Sales	11,615	12,153	11,699	15,370	18.9	22,428	18,229	8.9
EBITDA	5,809	6,930	6,010	8,796	22.5	10,156	8,088	-4.1
EBITDA Margin (%)	50.0	57.0	51.4	57.2		45.3	44.4	
Adj PAT	3,806	4,643	3,611	6,253	15.6	7,230	5,700	-4.5
EPS (₹)	12.0	15.2	11.8	21.3		24.7	19.5	
EV/EBITDA (x)	8.2	7.0	8.5	5.1		4.3	4.9	
RoCE (%)	22.3	25.3	20.3	27.0		24.9	17.2	
RoE (%)	15.6	17.9	13.1	21.0		20.5	14.6	

Source: Company, ICICI Direct Research

Key takeaways from conference call

- NMDC is targeting commissioning of the Nagarnar steel plant during H2FY22. The company is targeting the subsequent demerger of the steel plant also during H2FY22
- In FY21, NMDC reported iron ore production volume of ~34 MT. Going ahead, on account of additional 7 MT volume from Donimalai mines and incremental ~2-3 MT volume from the existing mines, the company expects its overall iron ore volume to increase to ~44 MT in FY22E
- For FY22E, NMDC has given a capex guidance of ₹ 3750 crore. Majority of this capex (i.e. ~₹ 2150 crore) would be spend on the Nagarnar steel plant. NMDC also expects to incur capex to the tune of ~₹ 250-300 crore for the slurry pipeline and a capex of ₹ 200 crore for setting up a third screening plant in Kirandul
- NMDC reported a healthy EBITDA margin of 64.2% in Q1FY22 as additional premium was not levied on the opening stock inventory of 5.1 MT
- Going forward, NMDC expects the EBITDA margin to settle in the range of ~42-50%, which would take into account the impact of additional higher premium
- Out of total sales of 9.4 MT in Q1FY22, lumps were about 35% while balance 65% were fines. In general, lumps contribute ~30% to NMDC's overall volume while fines contribute the balance 75%
- The upcoming steel plant is likely to have a finished steel output of ~2.7 MT. In terms of product profile, the plant would have flat products only

Peer comparison

Exhibit 1: Peer Comparison

Company	CMP		TP	Mcap (₹)	Topline(in ₹ crore)			EBITDA (in ₹crore)			Adj. PAT(in ₹ crore)			P/E(x)			EV/EBITDA(x)		
	(₹)	(₹)			Rating	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	143	160	Hold	88145	90026	104536	112001	18,574	20,734	22,081	12,702	15,473	17,067	7.1	5.7	5.2	4.1	3.9	3.9
NMDC	167	210	Buy	52077	15370	22428	18229	8,796	10,156	8,088	6,253	7,230	5,700	8.3	7.2	9.2	5.5	4.6	5.3

Source: Company, ICICI Direct Research

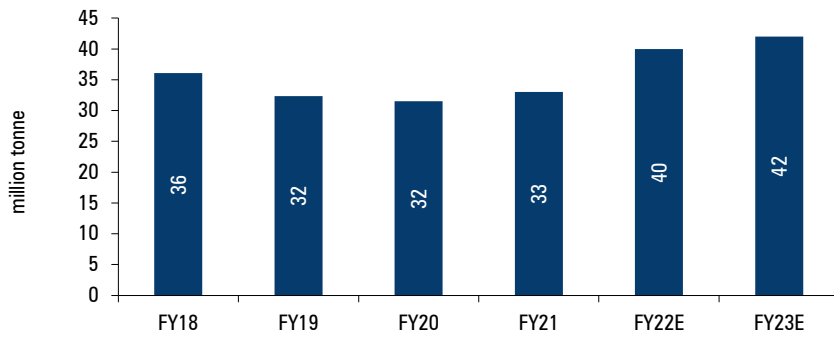
Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	6,512	7,218	1,938	236%	6,848	-5%	Topline came in lower than our estimates
Other Income	144	90	72	100%	85	70%	
Total Operating Expense	2,334	3,629	1,183	97%	2,608	-10%	
EBITDA	4,178	3,589	755	453%	4,240	-1%	EBITDA came in higher than our estimates
EBITDA Margin (%)	64.2	49.7	39.0	2520 bps	61.9	224 bps	EBITDA margin came in higher than our estimates
Depreciation	55	60	57	-3%	57	-3%	
Interest	3	5	9	-67%	0	NA	
Exceptional Items	0	0	0	NA	0	NA	
PBT	4,264	3,614	761	460%	4,268	0%	
Tax Outgo	1,071	910	228	370%	1,434	-25%	
Reported PAT	3,193	2,704	533	499%	2,834	13%	PAT came in higher than our estimates
Key Metrics							
Iron ore sales volume (MT)	9.4	9.6	8.6	9%	11.1	-15%	Sales volume came broadly in line with our estimates
EBITDA/tonne	4,421	3,750	1,203	267%	3,825	16%	EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Financial Story in charts

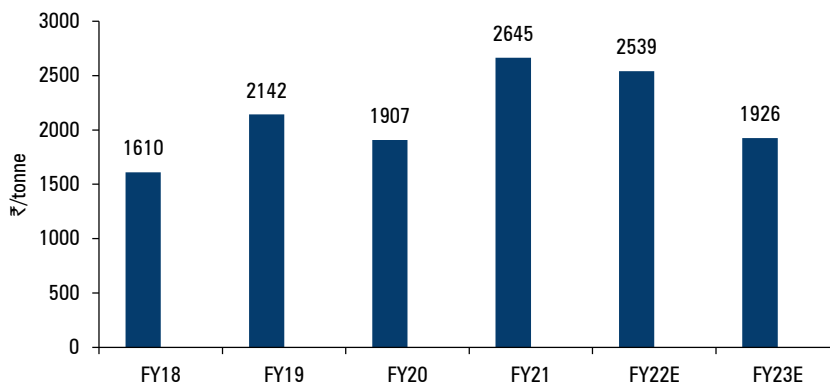
Exhibit 3: Trend in sales volume



We assume sales volumes of 40 MT for FY22E and 42 MT for FY23E

Source: Company, ICICI Direct Research

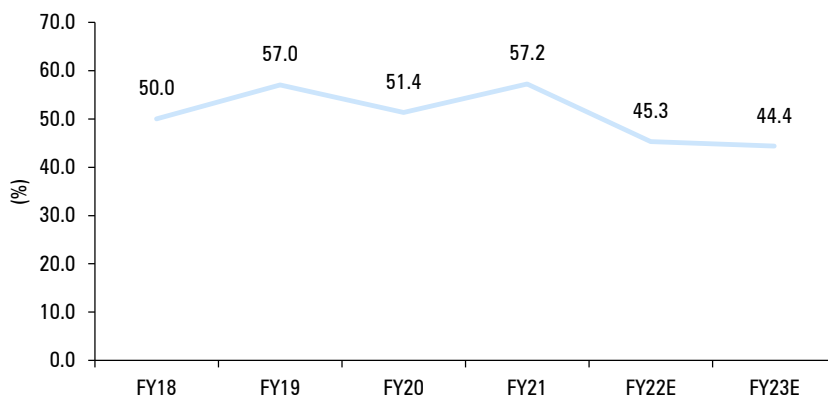
Exhibit 4: Trend in EBITDA/tonne margins level



We model EBITDA/tonne of ₹ 2539/tonne for FY22E and ₹ 1926/tonne for FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in EBITDA margin (in %)



Over the next couple of years, we expect EBITDA margin to hover in the ~44-45% range

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	11,615	31.6	12.0	47.0	13.9	8.2	15.6	22.3
FY19	12,153	4.6	15.2	26.0	11.0	7.0	17.9	25.3
FY20	11,699	-3.7	11.8	-22.2	14.2	8.5	13.1	20.3
FY21	15,370	31.4	21.3	80.9	7.8	5.1	21.0	27.0
FY22E	22,428	45.9	24.7	15.6	6.8	4.3	20.5	24.9
FY23E	18,229	-18.7	19.5	-21.2	8.6	4.9	14.6	17.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	11699	15370	22428	18229
Growth (%)	-4	31	46	-19
Total Operating Expenditure	5689	6574	12271	10141
EBITDA	6010	8796	10156	8088
Growth (%)	-13	46	15	-20
Depreciation	294	228	892	1012
Interest	10	17	70	134
Other Income	514	350	480	636
PBT	6220	8901	9674	7578
Exceptional Item	96	0	0	0
Total Tax	2513	2648	2444	1878
PAT	3611	6253	7230	5700
Growth (%)	-22	73	16	-21
EPS (₹)	11.8	21.3	24.7	19.5

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	3,611	6,253	7,230	5,700
Add: Depreciation	294	228	892	1,012
(Inc)/dec in Current Assets	-1,712	168	-1,252	616
Inc/(dec) in CL and Provisions	-179	683	503	-191
Others	0	0	0	0
CF from operating activities	2,015	7,331	7,373	7,137
(Inc)/dec in Investments	-46	1	0	0
(Inc)/dec in Fixed Assets	-2,299	-1,956	-3,700	-2,000
Others	-57	640	50	50
CF from investing activities	-2,403	-1,316	-3,650	-1,950
Issue/(Buy back) of Equity	0	-13	0	0
Inc/(dec) in loan funds	201	1,429	0	0
Dividend paid & dividend tax	-1,952	-2,274	-1,758	-1,758
Inc/(dec) in Share Cap	-76	-1,743	0	0
Others	0	0	0	0
CF from financing activities	-1,827	-2,602	-1,758	-1,758
Net Cash flow	-2,215	3,414	1,964	3,429
Opening Cash	4,608	2,392	5,806	7,770
Closing Cash	2,392	5,806	7,770	11,199

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	306	293	293	293
Reserve and Surplus	27,228	29,463	34,934	38,876
Total Shareholders funds	27,534	29,756	35,227	39,169
Total Debt	566	1,994	1,994	1,994
Deferred Tax Liability	0	0	0	0
Others	544	1,851	1,901	1,951
Total Liabilities	28,643	33,601	39,123	43,115
Assets				
Net Block	3,046	3,170	20,055	21,043
Capital WIP	15,472	17,077	3,000	3,000
Total Fixed Assets	18,518	20,247	23,054	24,042
Investments	986	985	985	985
Inventory	724	922	1,352	1,099
Debtors	2,224	2,140	3,072	2,497
Loans and Advances	4,369	4,597	4,486	4,557
Other Current Assets	1,535	1,681	1,682	1,823
Cash	2,392	5,806	7,770	11,199
Total Current Assets	11,243	15,145	18,362	21,175
Current Liabilities	226	360	614	499
Provisions	2,275	2,823	3,072	2,997
Current Liabilities & Prov	2,501	3,183	3,687	3,496
Net Current Assets	8,743	11,962	14,675	17,679
Others Assets	397	408	408	408
Application of Funds	28,643	33,601	39,123	43,115

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	11.8	21.3	24.7	19.5
Cash EPS	12.3	20.5	25.7	21.2
BV	89.9	101.5	120.2	133.7
DPS	5.3	7.8	6.0	6.0
Cash Per Share (Incl Invst)	6.0	13.0	19.7	31.4
Operating Ratios (%)				
EBITDA Margin	51.4	57.2	45.3	44.4
PBT / Total Op. income	53.2	57.9	43.1	41.6
PAT Margin	30.9	40.7	32.2	31.3
Inventory days	23	22	22	22
Debtor days	69	51	50	50
Creditor days	7	9	10	10
Return Ratios (%)				
RoE	13.1	21.0	20.5	14.6
RoCE	20.3	27.0	24.9	17.2
RoIC	23.1	34.3	32.5	24.4
Valuation Ratios (x)				
P/E	14.2	7.8	6.8	8.6
EV / EBITDA	8.5	5.1	4.3	4.9
EV / Net Sales	4.4	2.9	1.9	2.2
Market Cap / Sales	4.5	3.2	2.2	2.7
Price to Book Value	1.9	1.6	1.4	1.2
Solvency Ratios				
Debt/EBITDA	0.1	0.2	0.2	0.2
Debt / Equity	0.0	0.1	0.1	0.1
Current Ratio	4.5	4.8	5.0	6.1
Quick Ratio	4.2	4.5	4.6	5.7

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)		(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	143	160	Hold	88145	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	440	525	Buy	99065	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
JSW Steel	761	850	Buy	184108	32.9	87.7	71.6	22.7	8.5	10.4	11.5	6.1	6.8	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	167	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2080	2400	Buy	9696	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	667	825	Buy	13031	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1519	1750	Buy	182809	77.1	260.2	179.9	18.9	5.6	8.1	8.4	4.0	4.9	13.1	29.5	20.2	12.4	30.5	17.5
Sail	134	160	Buy	55549	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

Source: Company, ICICI Direct Research

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Sell: < -15%



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