

Iron ore realisations surprise positively...

About the stock: Incorporated in 1958, NMDC is India's largest merchant iron ore miner.

- During FY22, NMDC's iron ore production volume was at ~42 million tonne (MT) while sales volume for FY22 was at ~41 MT
- NMDC is one of the lowest cost iron ore producers in the world

Q1FY23 Results: For the quarter, NMDC reported a better-than-expected performance, primarily on the back of higher-than-expected blended iron ore realisations. Iron ore realisations for Q1FY23 were at ₹ 6050/tonne, up 13% QoQ, higher than our expectation of ₹ 5350/tonne.

- For Q1FY23, NMDC reported iron ore sales volume of 7.8 MT, down 17% YoY and 36% QoQ, broadly in line with our estimate of 7.7 MT. For Q1FY23, NMDC reported topline of ₹ 4767 crore, down 27% YoY and 29% QoQ, higher than our estimate of ₹ 4022 crore
- EBITDA for the quarter was at ₹ 1900 crore, down 55% YoY, 29% QoQ, higher than our estimate of ₹ 1340 crore. EBITDA/tonne for the quarter was at ₹ 2436/tonne, up 11% QoQ but down 45% YoY, higher than our estimate of ₹ 1750/tonne. EBITDA margin for the quarter was at 39.9% compared to 64.1% in Q1FY22 and 40.1% in Q4FY21, higher than our estimate of 33.3%
- Ensuing PAT for the quarter was at ₹ 1470 crore, down 19% QoQ and 54% YoY, higher than our estimate of ₹ 1005 crore

What should investors do? NMDC's share price has given a return of ~27% over the last two years (from ~₹ 88 in August 2020 to ~₹ 112 levels in August 2022).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value NMDC at ₹ 135, based on SoTP valuation.

Key triggers for future price performance:

- The shareholders and creditors of NMDC have approved the demerger of the company's under-construction Nagarnar Steel Plant (NSP). Receipt of other key approvals/timelines for process remains a key monitorable
- Steel plant demerger and good dividend yield are the two key triggers for the near to medium term for the company

Alternate Stock Idea: In our metal sector coverage, we also like Jindal Stainless.

- Jindal Stainless (JSL) has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration
- BUY with a target price of ₹ 135

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22	CAGR(FY17-FY22 in %)	FY23E	FY24E	CAGR(FY22-FY24E in %)
Net Sales	11,615	12,153	11,699	15,370	25,882	24.0	17,485	18,943	-14.4
EBITDA	5,809	6,930	6,010	8,796	12,589	28.4	5,994	6,720	-26.9
EBITDA Margin (%)	50.0	57.0	51.4	57.2	48.6		34.3	35.5	
Adj PAT	3,806	4,643	3,611	6,253	9,399	29.4	4,447	4,946	-27.5
EPS (₹)	12.0	15.2	11.8	21.3	32.1		15.2	16.9	
EV/EBITDA (x)	5.3	4.5	5.6	3.3	2.3		5.0	4.5	
RoCE (%)	22.3	25.3	20.3	27.0	32.1		14.2	15.1	
RoE (%)	15.6	17.9	13.1	21.0	27.0		12.2	12.9	

Source: Company, ICICI Direct Research



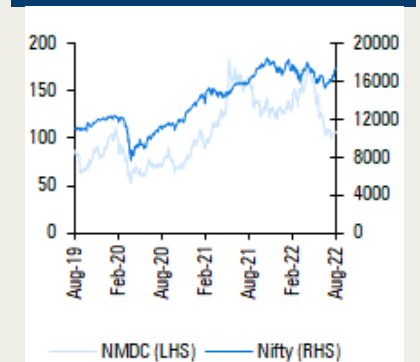
Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	32816 crore
Total Debt (FY19) (₹ Crore)	₹ 3483 crore
Cash & Cash Eq. (₹ Crore)	₹ 7940 crore
EV (₹ Crore)	₹ 28359 crore
52 week H/L	182 / 100
Equity capital	₹ 293.1 Crore
Face value	₹ 1

Shareholding Pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.8	60.8	60.8	60.8
FIs	6.8	5.3	6.9	5.9
DIs	21.9	21.8	21.8	22.1
Public	10.5	12.1	10.5	11.2
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

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

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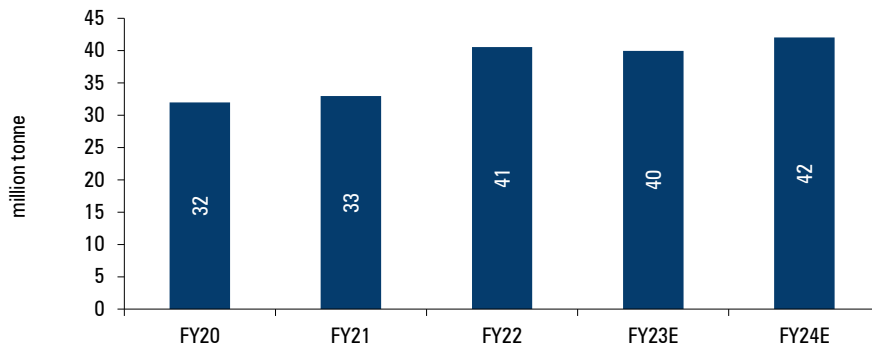
Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	4,767	4,022	6,512	-27%	6,702	-29%	Total operating income came in higher than our estimate
Other Income	146	250	144	1%	333	-56%	
Total Operating Expense	2,867	2,682	2,335	23%	4,018	-29%	
EBITDA	1,900	1,340	4,178	-55%	2,684	-29%	EBITDA came in higher than our estimate
EBITDA Margin (%)	39.9	33.3	64.2	-2429 bps	40.1	-19 bps	EBITDA margin came in higher than our estimate
Depreciation	85	125	55	54%	111	-24%	
Interest	15	30	3	411%	25	-39%	
Exceptional Items	0	0	0	NA	0	NA	
PBT	1,946	1,435	4,264	-54%	2,880	-32%	
Tax Outgo	476	431	1,071	-56%	1,065	-55%	
Reported PAT	1,470	1,005	3,193	-54%	1,815	-19%	PAT came in higher than our estimate
Key Metrics							
Iron ore sales volume (MT)	7.8	7.7	9.4	-17%	12.3	-36%	Iron ore sales volume came in broadly in line with our estimate
EBITDA/tonne	2,436	1,750	4,421	-45%	2,185	11%	EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

Financial Story in charts

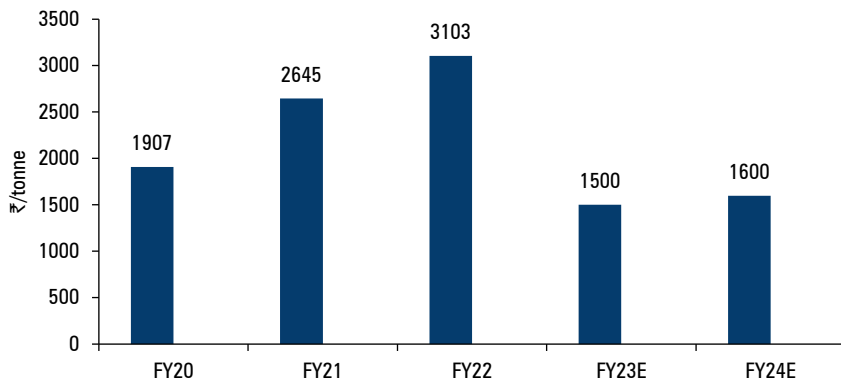
Exhibit 2: Trend in sales volume (in MT)



We assume sales volumes of 40 MT for FY23E and 42 MT for FY24E

Source: Company, ICICI Direct Research

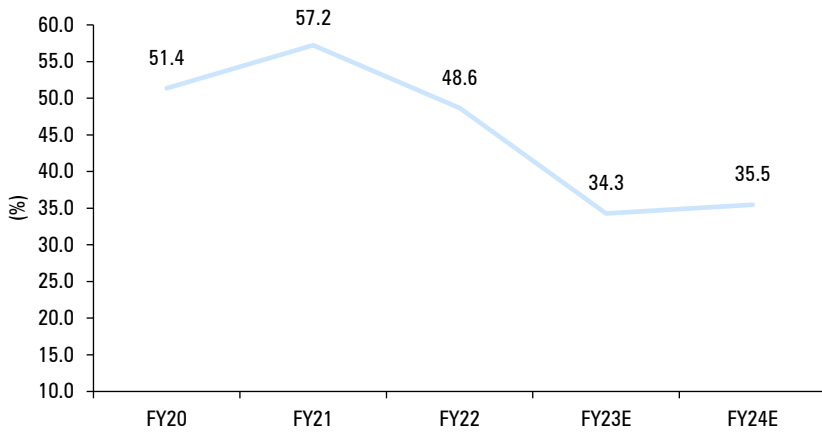
Exhibit 3: Trend in EBITDA/tonne margins level (in ₹/tonne)



We model EBITDA/tonne of ₹ 1500/tonne for FY23E and ₹ 1600/tonne for FY24E

Source: Company, ICICI Direct Research

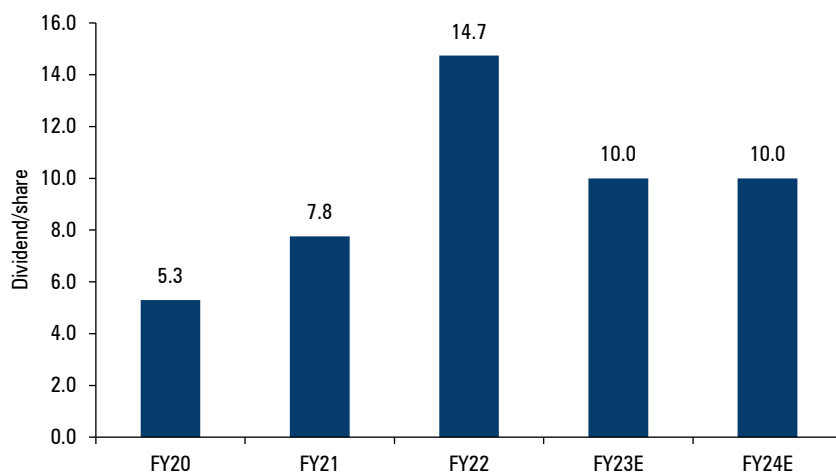
Exhibit 4: Trend in EBITDA margin (in %)



Over the next couple of years, we expect NMDC's EBITDA margin to hover at ~34-35% level, The decline in EBITDA margins was on account of higher royalty outgo

Source: Company, ICICI Direct Research

Exhibit 5: Dividend per share ...



NMDC historically has paid good dividend with a healthy dividend yield. Going forward, we assume dividend/share of ₹ 10/ share each for both FY23E and FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Matrix

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	11,699	-3.7	11.8	-22.2	9.5	5.6	13.1	20.3
FY21	15,370	31.4	21.3	80.9	5.2	3.3	21.0	27.0
FY22	25,882	68.4	32.1	50.3	3.5	2.3	27.0	32.1
FY23E	17,485	-32.4	15.2	-52.7	7.4	5.0	12.2	14.2
FY24E	18,943	8.3	16.9	11.2	6.6	4.5	12.9	15.1

Source: Company, ICICI Direct Research

Exhibit 7: Valuation (SoTP Based)

Particulars	Units	Mar-24E
EBITDA (FY24E)	₹ crore	6,720
Multiple	x	4.5
EV	₹ crore	30240
Net Cash and Cash Equivalents (FY24E)	₹ crore	2856
Equity value (Core)	₹ crore	33,095
Steel Plant Value (Valued at 35% of CWIP as on Mar'22)	in crore	6403
Derived Market Cap (Based on SoTP Valuation)	in crore	39499
No. of Equity Shares	in crore	293
Target price of NMDC	in ₹/share	135
CMP of NMDC	in ₹/share	111
Upside (%)	in %	22%

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Total Operating Income	15370	25882	17485	18943	
Growth (%)	31	68	-32	8	
Total Operating Expenditure	6574	13293	11491	12223	
EBITDA	8796	12589	5994	6720	
Growth (%)	46	43	-52	12	
Depreciation	228	287	348	388	
Interest	17	39	58	66	
Other Income	350	718	588	602	
PBT	8901	12981	6176	6869	
Exceptional Item	0	0	0	0	
Total Tax	2648	3582	1729	1923	
PAT	6253	9399	4447	4946	
Growth (%)	73	50	-53	11	
EPS (₹)	21.3	32.1	15.2	16.9	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after Tax	6,253	9,399	4,447	4,946	
Add: Depreciation	228	287	348	388	
(Inc)/dec in Current Assets	168	-3,629	180	351	
Inc/(dec) in CL and Provisions	683	541	-132	144	
Others	0	0	0	0	
CF from operating activities	7,331	6,599	4,842	5,828	
(Inc)/dec in Investments	1	-3	0	0	
(Inc)/dec in Fixed Assets	-1,956	-3,033	-3,500	-3,000	
Others	640	1,392	50	50	
CF from investing activities	-1,316	-1,643	-3,450	-2,950	
Issue/(Buy back) of Equity	-13	0	0	0	
Inc/(dec) in loan funds	1,429	1,489	0	0	
Dividend paid & dividend tax	-2,274	-4,320	-2,931	-2,931	
Inc/(dec) in Share Cap	-1,743	9	-9	0	
Others	0	0	0	0	
CF from financing activities	-2,602	-2,822	-2,940	-2,931	
Net Cash flow	3,414	2,134	-1,547	-53	
Opening Cash	2,392	5,806	7,940	6,392	
Closing Cash	5,806	7,940	6,392	6,339	

Source: Company, ICICI Direct Research

Exhibit 10 : Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Liabilities					
Equity Capital	293	293	293	293	
Reserve and Surplus	29,463	34,551	36,058	38,073	
Total Shareholders funds	29,756	34,844	36,351	38,366	
Total Debt	1,994	3,483	3,483	3,483	
Deferred Tax Liability	0	0	0	0	
Others	1,851	2,640	2,690	2,740	
Total Liabilities	33,601	40,968	42,525	44,589	
Assets					
Gross Block	6,313	7,401	8,696	9,696	
Less: Acc Depreciation	3,143	3,430	3,778	4,166	
Net Block	3,170	3,971	4,918	5,530	
Capital WIP	17,077	18,295	20,500	22,500	
Total Fixed Assets	20,247	22,266	25,418	28,030	
Investments	985	987	987	987	
Inventory	922	2,165	2,156	2,076	
Debtors	2,140	2,954	3,114	2,595	
Loans and Advances	4,597	4,951	4,371	4,736	
Other Current Assets	1,681	2,898	3,147	3,031	
Cash	5,806	7,940	6,392	6,339	
Total Current Assets	15,145	20,907	19,180	18,777	
Current Liabilities	360	967	719	830	
Provisions	2,823	2,757	2,874	2,906	
Current Liabilities & Prov	3,183	3,725	3,593	3,737	
Net Current Assets	11,962	17,183	15,587	15,040	
Others Assets	408	532	532	532	
Application of Funds	33,601	40,968	42,525	44,589	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹)					
EPS	21.3	32.1	15.2	16.9	
Cash EPS	20.5	30.6	15.2	16.9	
BV	101.5	118.9	124.0	130.9	
DPS	7.8	14.7	10.0	10.0	
Cash Per Share (Incl Invst)	13.0	15.2	9.9	9.7	
Operating Ratios (%)					
EBITDA Margin	57.2	48.6	34.3	35.5	
PBT / Total Op. income	57.9	50.2	35.3	36.3	
PAT Margin	40.7	36.3	25.4	26.1	
Inventory days	22	31	45	40	
Debtor days	51	42	65	50	
Creditor days	9	14	15	16	
Return Ratios (%)					
RoE	21.0	27.0	12.2	12.9	
RoCE	27.0	32.1	14.2	15.1	
RoIC	34.3	41.8	17.4	18.3	
Valuation Ratios (x)					
P/E	5.2	3.5	7.4	6.6	
EV / EBITDA	3.3	2.3	5.0	4.5	
EV / Net Sales	1.9	1.1	1.7	1.6	
Market Cap / Sales	2.1	1.3	1.9	1.7	
Price to Book Value	1.1	0.9	0.9	0.9	
Solvency Ratios					
Debt/EBITDA	0.2	0.3	0.6	0.5	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	4.8	5.6	5.3	5.0	
Quick Ratio	4.5	5.0	4.7	4.5	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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