

BSE SENSEX
31,643

S&P CNX
9,252

CMP: INR73

TP: INR123(+68%)

Buy



Stock Info

Bloomberg	NMDC IN
Equity Shares (m)	3,062
M.Cap.(INRb)/(USDb)	224.1 / 3
52-Week Range (INR)	140 / 62
1, 6, 12 Rel. Per (%)	-9/-8/-7
12M Avg Val (INR M)	733
Free float (%)	30.4

Financials Snapshot (INR b)

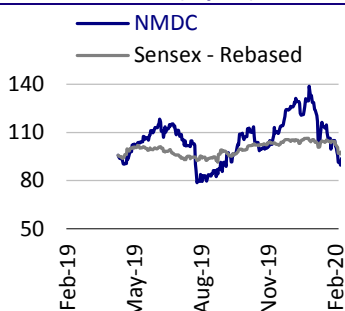
Y/E March	2020E	2021E	2022E
EBITDA	65.2	39.4	50.0
Adj. PAT	47.6	30.6	38.4
Adj. EPS (INR)	15.6	10.0	12.5
EPS Gr(%)	-0.3	-35.7	25.3
BV/Sh. (INR)	93.5	97.1	103.3
RoE (%)	17.5	10.5	12.5
RoCE (%)	16.8	10.1	12.1
P/E (x)	4.6	7.2	5.7
P/BV	0.8	0.7	0.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	69.7	72.3	72.3
DII	20.1	17.7	18.9
FII	6.0	6.0	3.9
Others	4.3	4.0	4.9

FII Includes depository receipts

Stock Performance (1-year)



Lower demand leads to sharp price cut

Near-term outlook muted; Maintain Buy on attractive valuation

According to industry sources, NMDC has sharply reduced prices for iron ore fines and lumps by INR400/t (~17%) starting 9th May'20.

Weak iron ore demand leads to consecutive price cuts: During Apr'20, NMDC's volumes declined 49% YoY to 1.38mt amid weak demand, which has led to the company cutting prices for both fines and lumps by INR400/t (~17%). Thus, prices of NMDC's iron ore fines/lumps now stand at INR1,960/INR2,250 per ton. This price reduction follows NMDC's earlier price cut of INR500/t in Apr'20.

Expect prices to recover in 2HFY21: We believe iron ore prices would remain subdued in 1HFY21 due to weak demand as most steel plants are operating at lower utilizations. However, we expect a recovery in iron ore prices in 2HFY21 in line with demand improvement and due to closure of the 6-month window for iron ore liquidation for Odisha merchant miners who lost their mines in the recent iron ore mine auction. As a result, we have factored in an increase of INR350/t (~15%) for 2HFY21, implying ~10% higher prices in FY21E over current prices. We further expect ~12% higher prices in FY22E over FY21E.

Expect volumes to decline ~9% YoY in FY21 to 28.5mt: During Apr'20, NMDC's volumes declined 49% YoY to 1.38mt due to lower demand. This in turn was due to lower utilization level of large steel plants and shutdown taken by secondary steel producers. Most secondary steel producers resumed operations in May'20 and large steel players have also indicated higher utilizations for the month. As a result, we expect lower volume decline in May-Jun'20 and factor in decline of ~35% YoY for 1QFY21. We have factored in ~9% decline in NMDC's volumes for FY21E to 28.5mt (Chhattisgarh – 22mt, down ~10% YoY; Karnataka – 6.5mt, down ~7% YoY). However, we expect volumes to recover ~11% YoY to 31.5mt in FY22E.

Lower volumes and prices to lead EBITDA decline of ~40% YoY: Due to lower iron ore prices, we expect NMDC's EBITDA/t to decline ~33% YoY to INR1,383/t. This coupled with ~9% lower volumes should lower NMDC's FY21E EBITDA by ~40% YoY to INR39.4b. We have cut our FY21E/FY22E estimates by 31%/29% to INR39.4b/INR50b.

Valuation and view: NMDC's aggressive price cut indicates weakness in iron ore demand. However, we expect NMDC to increase prices once demand normalizes. A favorable decision on Donimalai mine would increase NMDC's volumes by ~20%. The company has spent ~INR16.5b on the greenfield Nagarnar steel plant with guided commissioning in FY21E. We, however, remain skeptical on the commissioning of this plant, and thus, have not factored it into our earnings. We value the stock at INR123/share on SOTP basis – 5x FY22E EV/EBITDA for its core iron ore mining business and 50% book value for the Nagarnar plant (INR34/share). At CMP of INR72/share, the stock is ascribing only INR31/share (net of cash of INR8/share and 50% investment in steel plant of INR34/share to steel business) to its core business, implying 2x FY22E EV/EBITDA. Also, the stock provides dividend yield of ~9% at current prices. **Reiterate Buy.**

Exhibit 1: Key operating metrics

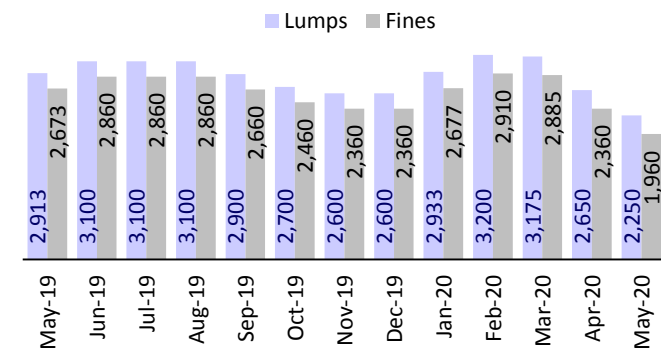
Key metrics	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Iron ore production - m tons	31.0	28.6	34.0	35.6	32.4	31.3	28.5	31.5
Iron ore sales volume - m tons	30.5	28.8	35.6	36.1	32.4	31.5	28.5	31.5
Blended realization - INR/t	4,049	2,239	2,479	3,220	3,756	3,773	3,057	3,322
Operating expenses - INR/t	1,383	1,025	1,217	1,468	1,549	1,700	1,675	1,734
EBITDA - INR/t	2,666	1,214	1,262	1,752	2,207	2,073	1,383	1,588

Source: MOFSL

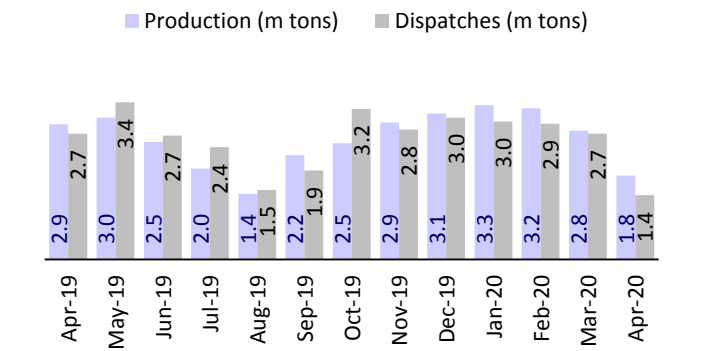
Exhibit 2: Target price calculations

Y/E March	2017	2018	2019	2020E	2021E	2022E
Iron ore						
EBITDA per ton (INR)	1,262	1,752	2,207	2,073	1,383	1,588
Volumes (m tons)	35.6	36.1	32.4	31.5	28.5	31.5
EBITDA	44,944	63,198	71,416	65,225	39,403	50,027
Target EV/EBITDA(x)						5.0
Target EV						2,50,137
Less: Net Debt	-52,893	-49,381	-42,436	-43,845	-34,631	-24,051
Add: Investment in Steel plant @50%	59,157	62,600	68,962	77,962	90,462	1,02,962
Equity Value						3,77,150
Target price (INR/share)						123

Source: MOFSL, Company

Exhibit 3: Monthly pricing trend

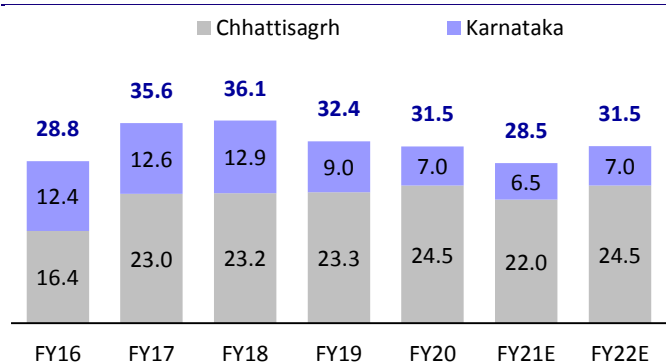
Source: Company

Exhibit 4: Monthly volume trend

Source: Company

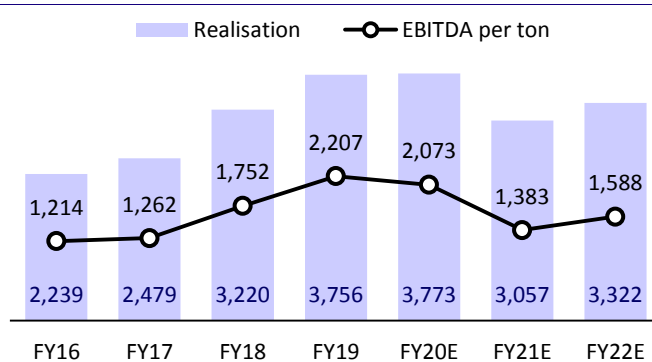
Story in Charts

Exhibit 5: Volumes to decline ~9% YoY in FY21E



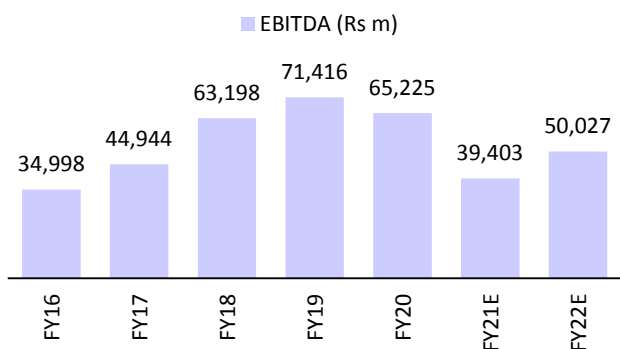
Source: Company, MOFSL

Exhibit 6: EBITDA/t to decline ~33% YoY on lower prices...



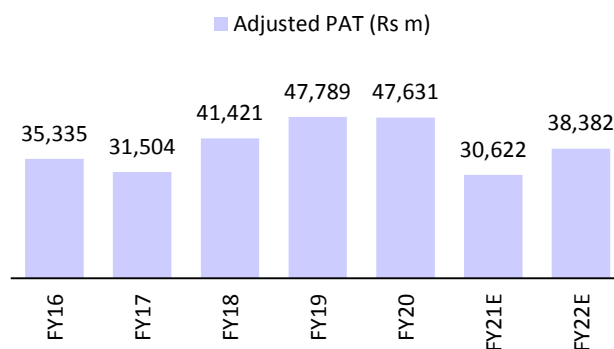
Source: Company, MOFSL

Exhibit 7: ...thus, EBITDA should decline ~40% YoY...



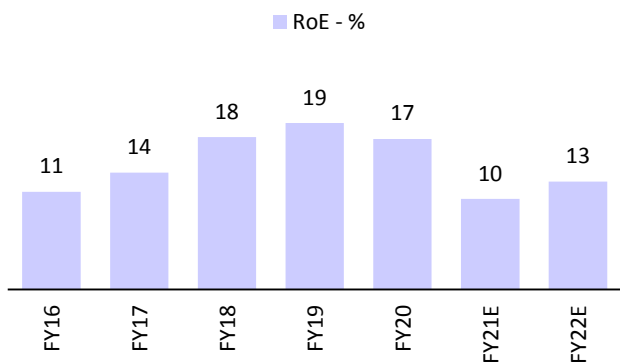
Source: Company, MOFSL

Exhibit 8: ...and Adj. PAT should decline ~36% YoY in FY21E



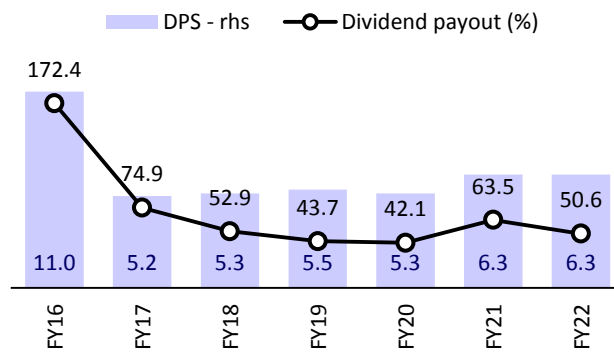
Source: Company, MOFSL

Exhibit 9: RoE to decline on lower profitability



Source: MOFSL

Exhibit 10: Dividend yield of ~9%



Source: MOFSL

Financials and Valuations

Income Statement (Consolidated)

Y/E March	2017	2018	2019	2020E	2021E	2022E
Net sales	88,294	1,16,149	1,21,527	1,18,728	87,127	1,04,652
Total Expenses	43,350	52,951	50,110	53,503	47,724	54,625
Iron ore cost (INR/ton)	1217	1468	1549	1700	1675	1734
EBITDA	44,944	63,198	71,416	65,225	39,403	50,027
% of Net Sales	50.9	54.4	58.8	54.9	45.2	47.8
EBITDA per ton ore	1,262	1,752	2,207	2,073	1,383	1,588
Deprn. & Amortization	1,962	2,560	2,789	3,073	3,105	3,355
EBIT	42,982	60,638	68,628	62,152	36,298	46,672
Net Interest	371	371	403	410	390	390
Other income	9,088	5,197	5,883	5,107	5,031	5,031
PBT before EO	52,070	65,464	74,107	66,849	40,938	51,313
EO income	-8,933	-5,309	-2,120	-2,228		
PBT after EO	43,137	60,155	71,987	64,622	40,938	51,313
Tax	17,038	22,093	25,565	18,578	10,316	12,931
Rate (%)	39.5	36.7	35.5	28.7	25.2	25.2
Reported PAT	26,099	38,062	46,422	46,044	30,622	38,382
Adjusted PAT	31,504	41,421	47,789	47,631	30,622	38,382
Change (%)	-10.8	31.5	15.4	-0.3	-35.7	25.3

Balance Sheet

Y/E March	2017	2018	2019	2020E	2021E	2022E
Share Capital	3,164	3,164	3,062	3,062	3,062	3,062
Reserves	2,22,026	2,40,374	2,56,453	2,83,109	2,94,294	3,13,239
Share holders funds	2,25,189	2,43,538	2,59,515	2,86,171	2,97,356	3,16,301
Loans		5,001	3,642	3,642	3,642	3,642
Defferred tax liability (net)	6,112	7,141	7,684	9,304	9,304	9,304
Capital Employed	2,31,301	2,55,680	2,70,841	2,99,116	3,10,301	3,29,246
Gross Block	39,724	49,473	52,752	56,752	61,752	66,752
Less: Accum. Deprn.	20,196	22,756	25,545	28,618	31,724	35,079
Net Fixed Assets	19,528	26,717	27,207	28,134	30,029	31,673
Capital WIP	1,18,314	1,25,199	1,37,925	1,55,925	1,80,925	2,05,925
Investments	7,270	7,865	9,393	9,393	9,393	9,393
Curr. Assets	1,11,909	1,26,311	1,23,295	1,32,568	1,17,293	1,10,074
Inventories	5,400	5,717	6,662	6,506	4,774	5,734
Sundry Debtors	10,435	14,727	14,245	16,264	11,935	14,336
Cash and Bank	52,893	54,382	46,077	47,487	38,273	27,692
Loans and Advances	43,181	51,484	56,311	62,311	62,311	62,311
Curr. Liability & Prov.	25,719	30,411	26,979	26,903	27,339	27,819
Sundry Creditors	1,988	1,595	2,027	1,952	2,387	2,867
Other Liabilities & prov.	23,731	28,815	24,952	24,952	24,952	24,952
Net Current Assets	86,190	95,900	96,316	1,05,664	89,955	82,255
Application of Funds	2,31,301	2,55,680	2,70,841	2,99,116	3,10,301	3,29,246

Financials and Valuations

Ratios

Y/E March	2017	2018	2019	2020E	2021E	2022E
Basic (INR)						
EPS	10.0	13.1	15.6	15.6	10.0	12.5
Cash EPS	10.6	13.9	16.5	16.6	11.0	13.6
BV/Share	71.2	77.0	84.8	93.5	97.1	103.3
DPS	5.2	5.3	5.5	5.3	6.3	6.3
Payout (%)	74.9	52.9	43.7	42.1	63.5	50.6
Valuation (x)						
P/E	7.2	5.5	4.6	4.6	7.2	5.7
Cash P/E	6.8	5.2	4.4	4.3	6.5	5.3
P/BV	1.0	0.9	0.8	0.8	0.7	0.7
EV/EBITDA	3.9	2.8	2.5	2.7	4.7	3.9
Dividend Yield (%)	7.2	7.4	7.7	7.3	8.8	8.8
Return Ratios (%)						
EBITDA Margins	50.9	54.4	58.8	54.9	45.2	47.8
Net Profit Margins	35.7	35.7	39.3	40.1	35.1	36.7
RoE	13.5	17.7	19.3	17.5	10.5	12.5
RoCE	11.5	17.1	18.3	16.8	10.1	12.1
RoIC	44.0	63.4	60.8	54.1	32.3	41.6
Working Capital Ratios						
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.1	1.4	1.6
Asset Turnover (x)	0.4	0.5	0.4	0.4	0.3	0.3
Debtor (Days)	43	46	43	50	50	50
Inventory (Days)	22	18	20	20	20	20
Creditors (Days)	8	5	6	6	10	10
Leverage Ratio (x)						
Current Ratio	4.4	4.2	4.6	4.9	4.3	4.0
Debt/Equity	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1

E: MOFSL Estimates

Cash Flow Statement

Y/E March	2017	2018	2019	2020E	2021E	2022E
(INR M)						
Pre-tax profit	43,137	60,155	71,987	64,622	40,938	51,313
Depreciation	1,962	2,560	2,789	3,073	3,105	3,355
(Inc)/Dec in Wkg. Cap.	13,117	-8,221	-8,721	-7,939	6,496	-2,881
Tax paid	-18,942	-23,057	-27,660	-16,958	-10,316	-12,931
Other operating activities	406	2,774	-9,923			
CF from Op. Activity	39,679	34,211	28,471	42,798	40,223	38,856
(Inc)/Dec in FA + CWIP	-23,505	-16,635	-16,004	-22,000	-30,000	-30,000
(Pur)/Sale of Investments	-316	-595	-1,529			
CF from Inv. Activity	-23,821	-17,229	-17,533	-22,000	-30,000	-30,000
Equity raised/(repaid)	-76,078		-102			
Debt raised/(repaid)	-14,970	5,001	-1,359			
Dividend (incl. tax)	-19,553	-20,122	-20,282	-19,388	-19,437	-19,437
CF from Fin. Activity	-1,10,601	-15,493	-22,147	-19,388	-19,437	-19,437
(Inc)/Dec in Cash	-94,743	1,489	-11,208	1,410	-9,214	-10,581
Add: opening Balance	1,47,636	52,893	54,382	46,077	47,487	38,273
Closing Balance	52,893	54,382	46,077	47,487	38,273	27,692

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

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