

NMDC

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	215
12 month price target (INR)	286
52 Week High/Low	286/135
Market cap (INR bn/USD bn)	631/7.5
Free float (%)	30.4
Avg. daily value traded (INR mn)	2,450.2

SHAREHOLDING PATTERN

	June-24	Mar-24	Dec-23
Promoter	60.7%	60.7%	60.7%
FII	12.7%	12.6%	9.9%
DII	14.3%	14.1%	17.3%
Others	12.5%	11.96%	13.1%

FINANCIALS

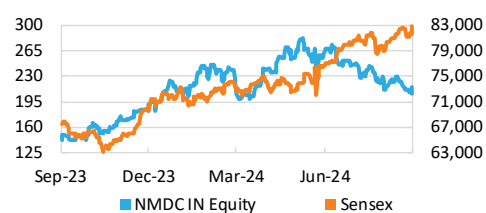
(INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	1,76,669	2,12,938	2,34,701	2,59,081
EBITDA	60,631	73,553	88,183	99,335
Adjusted profit	42,921	59,152	73,814	83,818
Diluted EPS (INR)	14.6	20.2	25.2	28.6
EPS growth (%)	(54.6)	37.8	24.8	13.6
RoAE (%)	27.5	23.6	26.7	25.7
P/E (x)	14.7	10.7	8.6	7.6
EV/EBITDA (x)	4.6	7.4	5.7	4.5
Dividend yield (%)	3.1	3.35	4.6	4.6

CHANGE IN ESTIMATES

Year to March	Revised estimates		% Revision	
	FY25E	FY26E	FY25E	FY26E
Revenue	2,34,701	2,59,081	0.0	0.0
EBITDA	88,919	1,00,090	0.0	0.0
Adjusted profit	74,384	84,435	0.0	0.0
Diluted EPS (INR)	25.4	28.8	0.0	0.0

PRICE PERFORMANCE



Global iron ore prices bottoming out

NMDC's stock has been under pressure amid falling iron ore prices along with lower volumes during Apr-Aug'24 due to labour strikes, heavy monsoons and a few logistics constraints. We believe global iron ore prices have bottomed out at ~USD90/t and reckon they shall recover and average USD105–110/t in FY25E/26E.

The probability of any major decline in NMDC's prices is very low as demand is set to improve. Besides a recovery in global iron ore prices, we forecast NMDC's iron ore volume shall recover in H2FY25 with a seasonally good second half along with absence of workers' strike, which hurt volumes in Q1FY25. Reiterate 'BUY' with an unchanged TP of INR286, valuing the stock at 10x FY26E PE.

Iron ore prices bottoming across the globe; expect short-term rally

We reckon global iron ore prices have bottomed out at ~USD90/t (CMP: USD93/t) and shall tend to move higher and cross USD100/t soon amid likely restocking demand before Golden week in China (October 1-7, 2024). **Approximately 130–140mt of supply (~5% of global production and ~10% of seaborne trade) has a CFR cost > USD90/t** while another 30–40mt is sitting at USD80–90/t cost; hence this shall lead to production cuts if prices fall below USD90/t. As we do not anticipate major steel production cuts globally, the above supply is necessary to meet the demand.

NMDC's price discount to imports narrows; price may sustain

NMDC has maintained and not revised its prices for September deliveries yet (the market has been awaiting a correction). We note that it has cut prices by INR1,000/t during July and August. Our calculation indicates that **NMDC's prices are trading at ~21% discount to landed cost of imports (same as it was in Jun-24)**. As demand for iron ore is still firm in India, NMDC is in no rush to cut prices. With an improvement in seasonality demand from October, NMDC may not cut prices or even if it cuts, it could be in the range of INR200–300/t only.

Hurt by monsoons, volume recovery to begin from Oct-24

During Apr-Aug'24, NMDC's iron ore sales volumes were down 7.5% YoY to 16.3mt, which was due to a labour strike as well as logistics constraints at Karnataka as well as Chhattisgarh mines. We expect ease of logistics constraints in H2FY25 and thus volume growth of ~13% in the rest of the months to reach 47mt (up 6% YoY). We factor in 8% volume CAGR over FY24–26 to 51.3mt at EBITDA/t of INR1,927 (at the CMP of iron ore, NMDC must be making INR1,800–1,900/t EBITDA).

Inexpensive valuations; reiterate 'BUY'

The stock has corrected ~10% in the last one month. At the CMP of INR215, the stock is trading at 7.6x FY26E PE and 4.5x FY26E EV/EBITDA; reiterate 'BUY' with an unchanged TP of INR286, valuing it at 10x FY26E P/E.

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Total operating income	1,76,669	2,12,938	2,34,701	2,59,081
Gross profit	1,75,366	2,07,506	2,28,813	2,52,629
Employee costs	15,265	16,194	17,814	19,061
Other expenses	16,050	18,181	20,083	22,880
EBITDA	60,631	73,553	88,183	99,335
Depreciation	3,354	3,371	3,438	3,541
Less: Interest expense	752	782	1,265	365
Add: Other income	7,479	13,555	15,202	16,628
Profit before tax	64,003	82,956	98,682	1,12,056
Prov for tax	21,082	23,804	24,868	28,238
Less: Other adjustment	12,373	(2,822)	0	0
Reported profit	55,294	56,330	73,814	83,818
Less: Excp.item (net)	(12,373)	2,822	0	0
Adjusted profit	42,921	59,152	73,814	83,818
Diluted shares o/s	2,931	2,931	2,931	2,931
Adjusted diluted EPS	15	20	25	29
DPS (INR)	6.6	7.3	10.0	10.0
Tax rate (%)	32.9	28.7	25.2	25.2

Important Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
EBITDA margin (%)	34.3	34.5	37.6	38.3
Net profit margin (%)	24.3	27.8	31.5	32.4
Revenue growth (% YoY)	(32.0)	20.8	10.2	10.4
EBITDA growth (% YoY)	(52.0)	21.3	19.9	12.6
Adj. profit growth (%)	(54.6)	37.8	24.8	13.6

Assumptions (%)

Year to March	FY23A	FY24A	FY25E	FY26E
GDP (YoY %)	7.2	6.7	6.0	6.2
Repo rate (%)	6.5	6.5	6.0	5.0
USD/INR (average)	81.0	82.8	84.0	82.0
Sales volume(mt)	38.2	44.3	47.0	51.3
Iron ore fines realisation(INR/t)	3,989.3	4,252.9	4,432.6	4,432.6
Iron ore lumps realisations(INR/t)	5,370.6	5,570.7	5,870.2	5,870.2
Cost(INR/t)	2,034.3	2,157.9	2,082.0	2,050.2
EBITDA(INR/t)	1,578.1	1,642.5	1,865.5	1,912.5

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted P/E (x)	14.7	10.7	8.6	7.6
Price/BV (x)	2.8	2.5	2.1	1.8
EV/EBITDA (x)	4.6	7.4	5.7	4.5
Dividend yield (%)	3.1	3.4	4.7	4.7

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Share capital	2,931	2,931	2,931	2,931
Reserves	2,20,392	2,51,127	2,95,634	3,50,145
Shareholders funds	2,23,323	2,54,058	2,98,565	3,53,076
Minority interest	0	0	0	0
Borrowings	21,274	33,585	8,585	3,585
Trade payables	4,258	3,725	4,106	4,532
Other liabs & prov	46,112	60,620	59,844	66,061
Total liabilities	2,96,469	3,53,491	3,72,603	4,28,757
Net block	23,855	24,991	36,553	48,012
Intangible assets	6,348	6,677	6,677	6,677
Capital WIP	19,617	32,305	42,305	57,305
Total fixed assets	49,821	63,973	85,535	1,11,994
Non current inv	8,867	9,917	9,917	9,917
Cash/cash equivalent	70,480	1,22,730	1,37,306	1,90,890
Sundry debtors	43,612	34,992	28,936	28,392
Loans & advances	7,051	7,244	7,244	7,244
Other assets	63,954	59,007	48,037	50,091
Total assets	2,96,469	3,53,491	3,72,603	4,28,757

Free Cash Flow (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Reported profit	76,366	80,120	98,682	1,12,056
Add: Depreciation	3,354	3,458	3,438	3,541
Interest (net of tax)	752	782	0	0
Others	(5,357)	(10,364)	0	0
Less: Changes in WC	(37,013)	18,636	16,632	30,532
Operating cash flow	17,517	74,394	93,884	1,17,891
Less: Capex	(12,509)	(18,338)	(25,000)	(30,000)
Free cash flow	5,009	56,056	68,884	87,891

Key Ratios

Year to March	FY23A	FY24A	FY25E	FY26E
RoE (%)	27.5	23.6	26.7	25.7
RoCE (%)	29.3	31.4	33.6	33.8
Inventory days	49	46	34	24
Receivable days	76	67	50	40
Payable days	11	7	6	6
Working cap (% sales)	34.8	16.1	7.5	4.8
Gross debt/equity (x)	0.1	0.1	0	0
Net debt/equity (x)	(0.2)	(0.4)	(0.4)	(0.5)
Interest coverage (x)	76.1	89.7	67.0	262.4

Valuation Drivers

Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	(54.6)	37.8	24.8	13.6
RoE (%)	27.5	23.6	26.7	25.7
EBITDA growth (%)	(52.0)	21.3	19.9	12.6
Payout ratio (%)	34.9	37.7	39.7	34.9

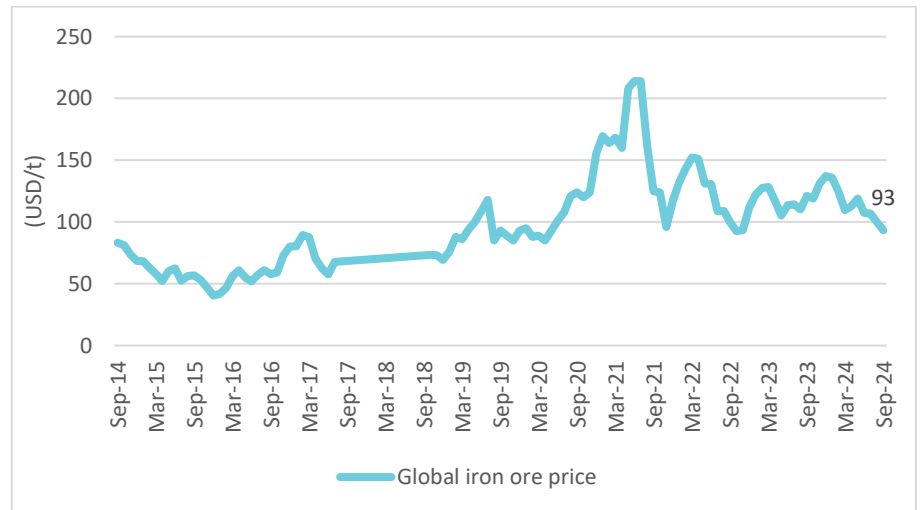
Expect global iron prices to rise and average at USD100–110/t

We observed that global iron ore prices have corrected by 7% MoM/23% YoY and 31% since the beginning of CY24 to USD90/t owing to sluggish end user demand in China. Steel mills in China faced significant financial challenges with many mills operating at a loss resulting in reduced purchasing of iron ore amid expectation of a further price drop. However, we believe the demand from China shall show some improvement owing to the onset of peak autumn season in September resulting into increased imports of iron ore.

Furthermore, as per BHP Billiton Analysis, **130–140mt of supply (~5% of global production and ~10% of seaborne trade) has a CFR cost >USD90/t. Another 30–40mt is sitting at USD80–90/t cost**; hence, that shall lead to production cuts if prices fall below USD90/t. As we do not anticipate major steel production cuts globally, the above supply is necessary to meet the demand.

Moreover, the low-cost supply from Rio Tinto’s Simandou project in Guinea is likely to start production from CY25-end and shall produce ~120mtpa at peak capacity, which shall help in replacing majority of high-cost mines, thereby reducing the world cost curve. We reckon global iron ore price shall be in the range of USD90–115/t for the next three years.

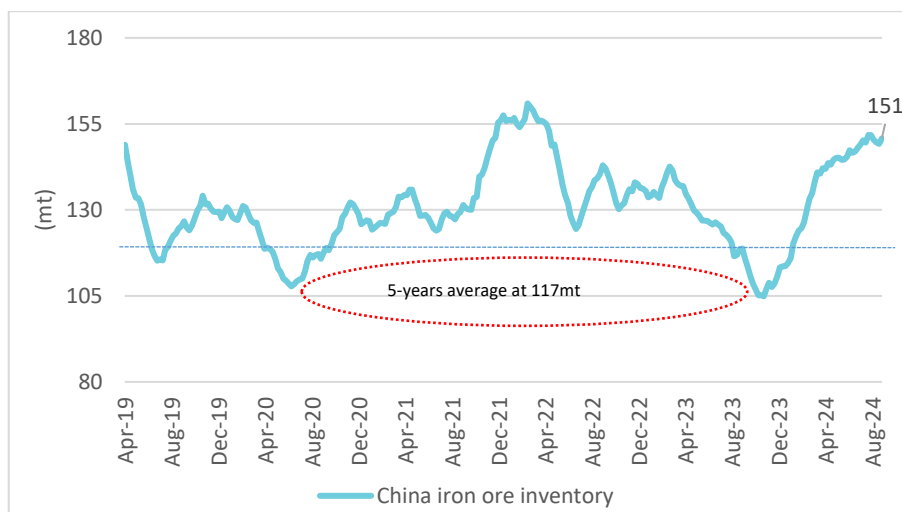
Exhibit 1: Global iron ore prices bottom out; to be range bound



Source: Bloomberg, Nuvama Research

Though we forecast global iron ore prices shall improve from current levels, it should be range bound due to continued high inventory at Chinese ports. Iron ore inventory at Chinese ports stood at ~151mt compared with 116mt in Jan-24 and 140mt in Aug-24. The seasonal restocking may help cushion a further correction in iron ore prices.

Exhibit 2: Inventory at Chinese ports remains high, restricting any major up move

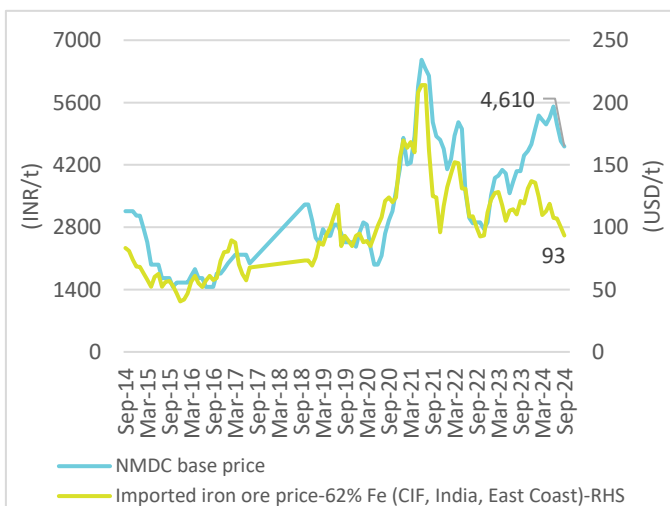


Source: Bloomberg, Nuvama Research

NMDC prices resilient and may not fall much

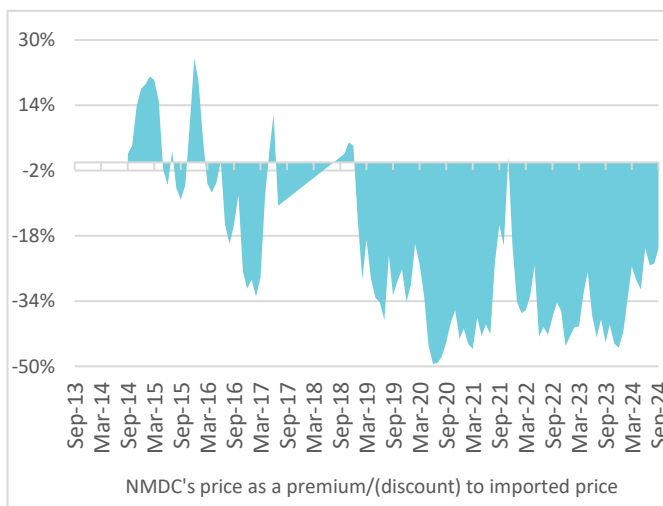
NMDC has maintained and not revised its prices for Sep-24 deliveries yet. We note that it has cut prices by INR1,000/t during July and August. Our calculation indicates that NMDC prices are trading at ~20% discount to landed cost of imports (same as it was in June-24). As demand of iron ore is still firm in India, NMDC is in no rush to cut prices. Supply has been hampered amid heavy monsoons from Aug-24. With an improvement in seasonality demand from Oct-24, NMDC may not cut prices or even if it cuts, that could be INR200–300/t only

Exhibit 3: Gap between domestic and Iron ore prices widens



Source: Company, Bloomberg, Nuvama Research

Exhibit 4: NMDC fines at ~20% discount to imported price



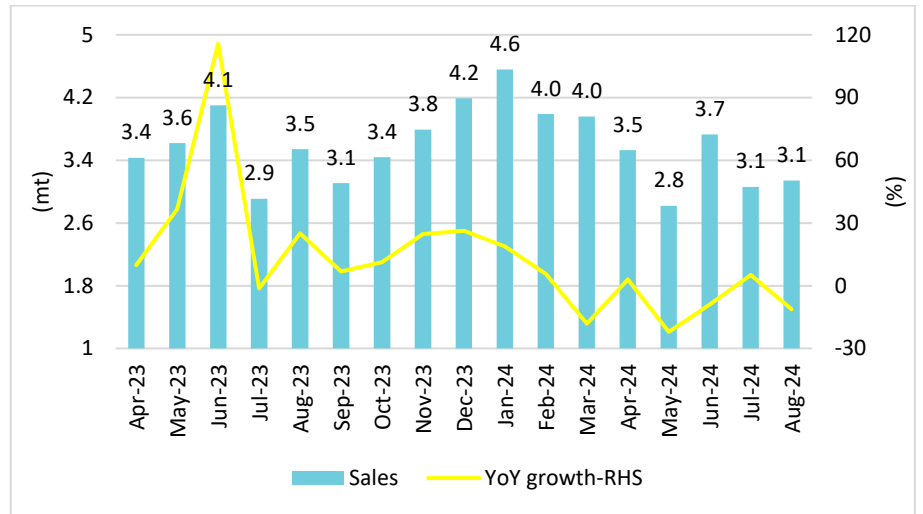
Source: Company, Bloomberg, Nuvama Research

Volume recovery expected in H2FY25

NMDC's iron ore production during Apr-Aug'24 stood at 14.4mt, down 13% YoY while its offtake reported a decline of 8% YoY to 16.3mt. The decline was primarily due to the volume disruption in Q1FY25 amid the wage hike negotiation in May-24 and logistics issues, further supported by weak volumes in Q2FY25 owing to the onset of monsoons. With the arrival of seasonally strong quarters and absence of any further workers strike and easing of logistics constraints in H2FY25, we believe NMDC's volumes shall recover in H2FY25. We anticipate a volume growth of ~13%

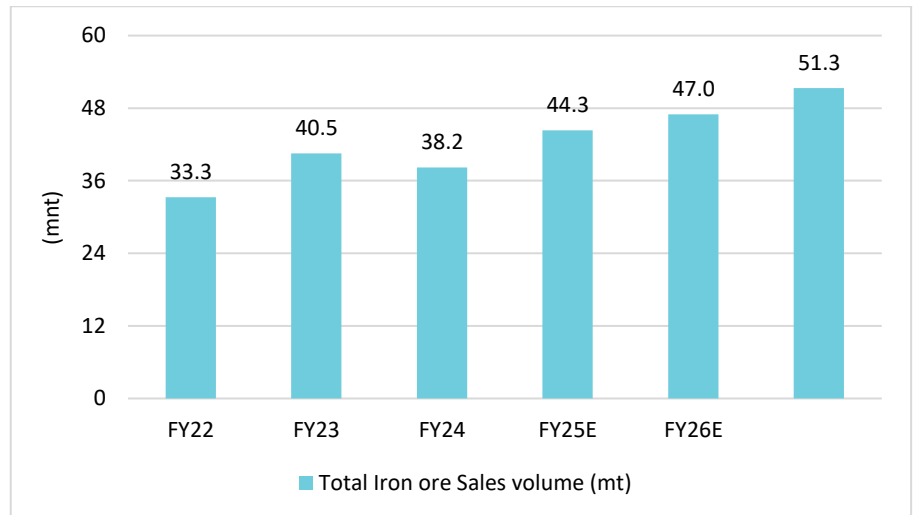
YoY in the rest of the months to reach 47mt (up 6% YoY). We factor in 8% volume CAGR over FY24–26 to 51.3mt.

Exhibit 5: Volume recovery likely in H2FY25



Source: Company, Nuvama Research

Exhibit 6: Volume to grow at 8% CAGR over FY24–26E



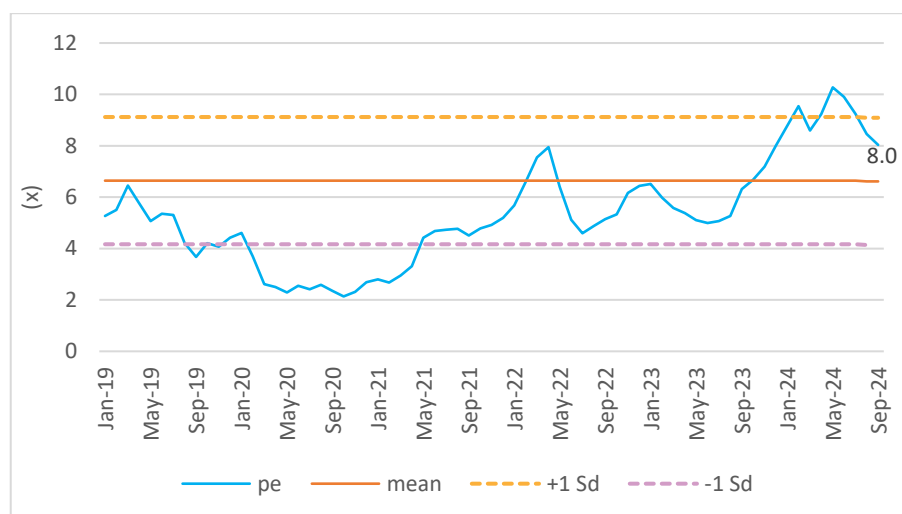
Source: Company, Nuvama Research

Exhibit 7: Valuation

Particulars	FY26E
EPS (INR)	28.6
P/E (x)	10.0
Target Price/share (INR)	286

Source: Company, Nuvama Research

Exhibit 8: P/E trading above five-year average (now a pure iron ore play)



Source: Company, Nuvama Research

Exhibit 9: International iron ore producers trading at higher P/E value compared with NMDC

Iron-ore	Yr ending	Market cap (USD mn)	1-yr fwd P/E	2-yr fwd P/E	1-yr fwd EV/EBITDA	2-yr fwd EV/EBITDA
BHP Billiton	06/2024	1,31,443	10.1	10.8	5.0	5.2
CVRD	12/2023	46,111	4.8	4.6	3.4	3.4
Rio Tinto	12/2023	1,05,059	8.6	8.6	4.6	4.5
Anglo American	12/2023	33,178	13.4	11.9	5.3	5.1
Kumba	12/2023	6,133	6.4	6.8	3.1	3.3
FMG	06/2024	34,240	8.3	10.4	4.3	4.8
Average			8.6	8.9	4.3	4.4

Source: Company, Nuvama Research

Exhibit 10: Key assumption

Assumptions	FY22	FY23	FY24	FY25E	FY26E
Average exchange rate (USD/INR)	74.5	81.0	82.8	84.0	82.0
Total Iron ore Sales volume (mt)	40.5	38.2	44.3	47.0	51.3
Sales volume-Chhattisgarh	29.0	26.7	31.3	32.1	35.5
-Karnataka	11.5	11.5	13.0	14.9	15.8
Domestic Iron ore fines- volumes	26.4	24.8	28.9	30.5	33.4
Domestic Iron ore lumps-volumes	14.2	13.4	15.6	16.4	18.0
Exports volumes	0.0	0.0	0.0	0.0	0.0
Domestic Iron ore fines- realisation incl royalty (INR/t)	5,587	3,989	4,253	4,433	4,433
Domestic Iron ore lumps realisation incl royalty (INR/t)	7,620	5,371	5,571	5,870	5,870
Cost per tonne- ex royalty, export duty and railway freight (INR/t)	2,053	2,034	2,158	2,066	2,035
EBITDA/t- Iron ore (INR)	3,101	1,578	1,643	1,881	1,927

Source: Company, Nuvama Research

Company Description

NMDC Limited is the largest merchant iron ore miner in India with capacity of 54mtpa. It is also engaged in the production and sale of diamond, sponge iron and wind power. The company proposes to diversify into other commodities, such as steel-making raw materials (coking coal, manganese ore, nickel), fertiliser raw materials (rock phosphate potash), and thermal coal.

Investment Theme

We see iron ore prices bottoms out and expect a marginal increase in iron ore prices in 2HFY25. That said, we believe additional volumes from Chhattisgarh and Karnataka sector from FY25 would spur sales volume growth. We expect DPS of INR10 each for FY25E and FY26E.

Key Risks

- Lower-than-expected volume amid logistics constraints
- Deflation in global iron ore prices
- Competition in domestic market from Odisha-based miners
- Any imposition of duty/additional royalty on iron ore

Additional Data

Management

CMD	Amitava Mukherjee
Director - Financial	Amitava Mukherjee
Director - Production	Dilip Kumar Mohanty
Director - Technical	Mr Vinay kumar

Holdings – Top 10*

	% Holding		% Holding
LIC of India	6.56	SBI MF	0.98
Nippon India Li	0.30	DSP investment	0.55
ABSL AMC	0.71	Blackrock Inc	1.32
Vanguard Group	1.15		
Kotak Mahindra	0.31		

*Latest public data

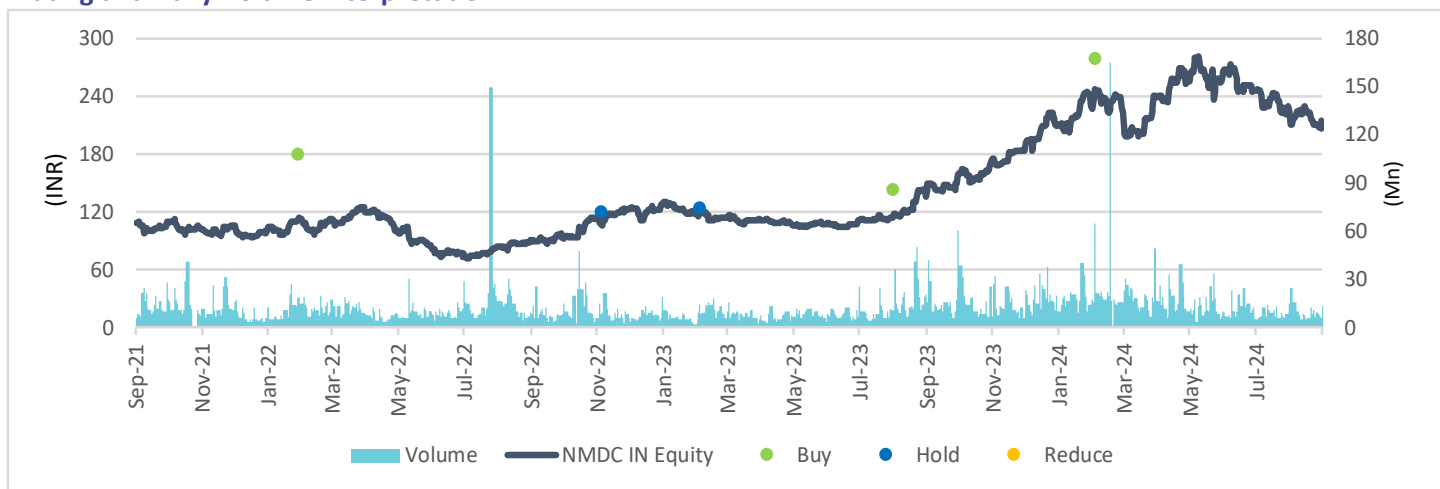
Recent Company Research

Date	Title	Price	Reco
16-Aug-24	Higher prices shovel up EBITDA; <i>Result Update</i>	217	Buy
29-May-24	Cost spike drags EBITDA; recovery likely; <i>Result Update</i>	259	Buy
15-Feb-24	Blend of higher volume and prices; <i>Result Update</i>	245	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
03-Sep-24	Coal India	Volume dips; e-auction price falls too; <i>Company Update</i>
23-Aug-24	Coal India	Growth peaking out; <i>Company Update</i>
16-Aug-24	Metals & Mining	Retrospective cess impact tolerable; <i>Sector Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	217
Hold	<15% and >-5%	62
Reduce	<-5%	27

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