

June 2, 2020

Company Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		HOLD	
Target Price	98		90	
Sales (Rs. m)	1,01,701	1,06,186	93,004	1,10,457
% Chng.	9.4	(3.9)		
EBITDA (Rs. m)	51,377	52,385	44,016	54,927
% Chng.	16.7	(4.6)		
EPS (Rs.)	12.5	12.7	10.8	13.2
% Chng.	16.6	(4.0)		

Key Financials - Standalone

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. m)	1,21,527	1,17,951	1,01,701	1,06,186
EBITDA (Rs. m)	69,300	63,460	51,377	52,385
Margin (%)	57.0	53.8	50.5	49.3
PAT (Rs. m)	46,433	46,223	38,412	38,872
EPS (Rs.)	15.2	15.1	12.5	12.7
Gr. (%)	23.6	(0.5)	(16.9)	1.2
DPS (Rs.)	5.5	5.3	5.5	6.0
Yield (%)	6.5	6.3	6.5	7.1
RoE (%)	18.5	17.2	13.4	12.6
RoCE (%)	26.0	22.3	16.5	15.7
EV/Sales (x)	1.8	1.9	2.2	2.2
EV/EBITDA (x)	3.1	3.5	4.4	4.4
PE (x)	5.6	5.6	6.7	6.7
P/BV (x)	1.0	0.9	0.9	0.8

Key Data

NMDC.BO | NMDC IN

52-W High / Low	Rs.140 / Rs.62
Sensex / Nifty	33,304 / 9,826
Market Cap	Rs.259bn / \$ 3,425m
Shares Outstanding	3,062m
3M Avg. Daily Value	Rs.1153.41m

Shareholding Pattern (%)

Promoter's	72.28
Foreign	5.98
Domestic Institution	17.62
Public & Others	4.12
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.9	(17.6)	(16.6)
Relative	6.2	0.9	(0.5)

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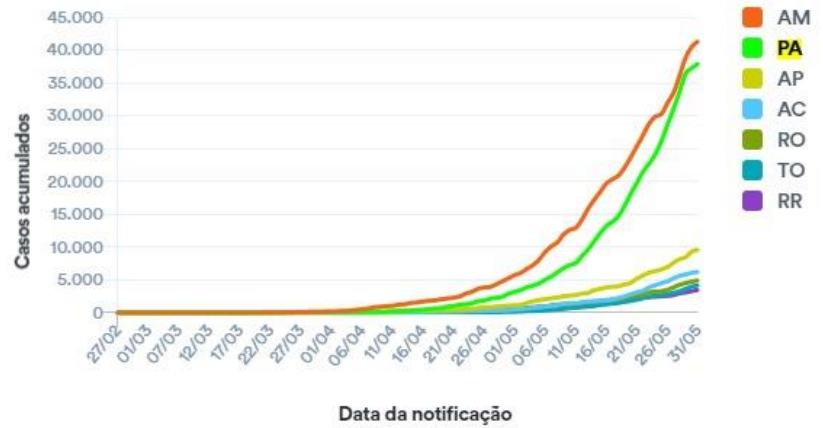
Global supply disruption to stay for long

Global iron ore prices shot up by ~18% in last couple of months due to strong revival in Chinese steel production, low iron ore inventory and supply disruption in Brazil on account of Covid-19 virus spread. Based on our channel checks in Brazil, supplies would remain under pressure for next couple of months due to shortage of labor on sporadic rise in virus spread. This is likely to impact 20mnt of supplies, equivalent to 5% of seaborne trade, in the current quarter. Going forward, recovery in Brazilian supplies would be contingent basis slowing of virus spread. Along with seasonally lean mining activity in Australia due to cyclones, global iron ore prices would sustain at current levels of US\$100/t. In the backdrop of strength in global prices and comfort on valuations, we upgrade NMDC to Accumulate with TP of Rs98 (earlier Rs90) based on EV/EBITDA of 5.0x (earlier 4.5x) FY22e.

- NMDC's prices at near 5-year high discount levels:** Post last cut of Rs400/t, NMDC's iron ore prices are at a discount of 50%/40% to global prices on East/West coast of India against the historical average of 43%/30%. Given the weak domestic steel demand and poor profitability of steel companies, it would take more than usual time for discounts to narrow down to historical averages. Hence, we expect prices to rise by ~28% to Rs2,500/t over next couple of months.
- Commencement of auctioned iron ore mines by steel players, unlikely to affect NMDC's volumes:** JSW Steel (JSTL) buys ~2.5mnt/year (~7.5% of NMDC's total volumes) from Chhattisgarh mines at its steel plant in Dolvi, Maharashtra. In last quarter, JSTL won four operational mines in Odisha with an annual production capacity of 29mnt. Street expects that JSTL would replace entire of Dolvi's iron ore requirement with captive ore produced from Odisha mines. However, we believe that JSTL would continue to procure NMDC ore due to its premium quality (with low alumina content) for blending with lower grade Odisha ore and meet DRI grade Lump requirement.
- Better placed to compete captive miners:** Merchant mining business in India is going to face significant headwinds due to auction of mines as steel producers have clear competitive edge on pricing. However, we believe that NMDC would be better off to other merchant miners in India due to its strong logistics network, superior ore grade and dedicated customers base (Arcelor/RINL/Exports MoU). Admittedly, volumes dedicated to JSTL's Dolvi plant could be volatile. Nevertheless, volumes in rest of the markets would remain steady due to strong logistics connectivity to key customers (dedicated KK railway lines and slurry pipeline) and competitive pricing.
- Upgrade to Accumulate:** In light of improved outlook on global prices, attractive valuations and stable operations, we upgrade NMDC to Accumulate with TP of Rs98. We believe that global iron ore supplies would remain under pressure, as it would take at least three years' time for Vale's impacted supplies to resume given the time consuming process involved in decommissioning of mining dams and implementing the dry process technology.

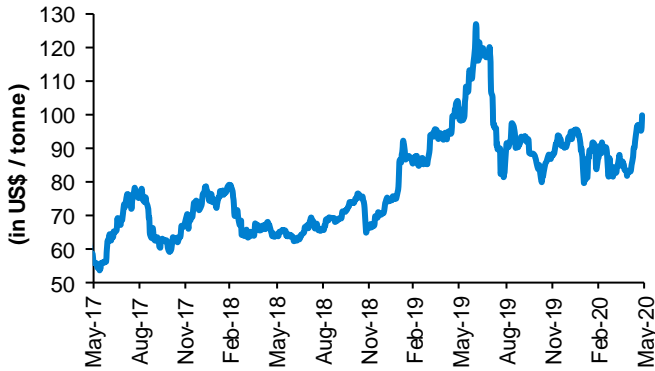
The State of Para in the northern region of Brazil houses ~60% of Vale's total iron ore output. Given the steep increase in cases in adjoining areas of Vale's northern system mines and heavy rains, production is expected to decline by ~20mnt in Q2CY20e. Moreover, the road to recovery in Q3 would be dependent on control over Covid-19 cases.

Exhibit 1: Sharp rise in COVID-19 cases in State of Para



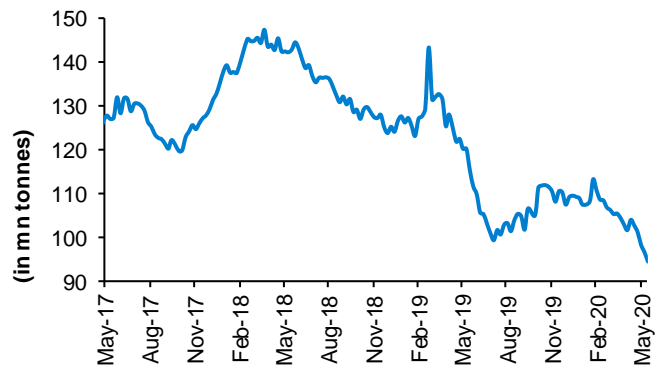
Source: Secretarias Estaduais de Saúde. Brasil, 2020

Exhibit 2: 62% Fe Iron ore prices touched US\$100/t mark



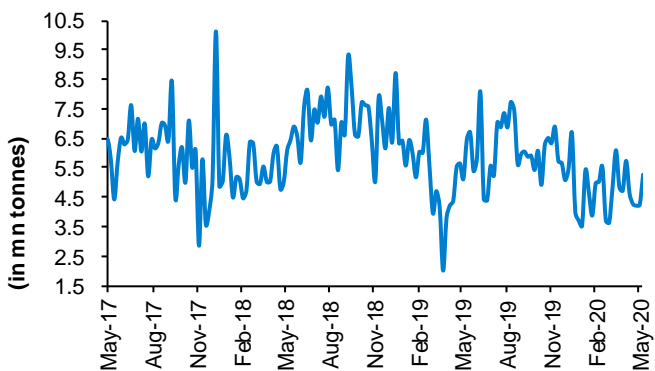
Source: Bloomberg, PL

Exhibit 3: China weekly iron ore inventory at lowest levels



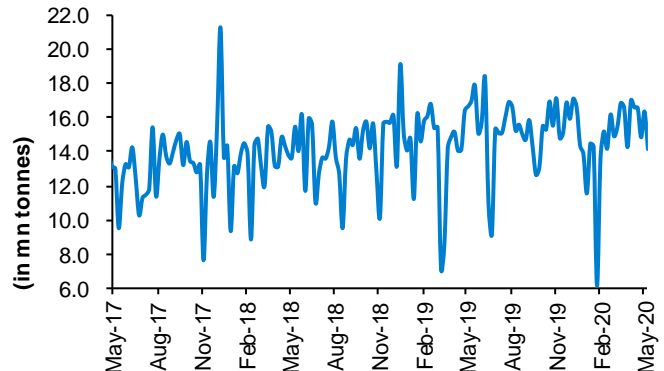
Source: Bloomberg, PL

Exhibit 4: Brazil weekly iron ore exports-Impacted by virus and rains



Source: Bloomberg, PL

Exhibit 5: Australia weekly iron ore exports-Constrained by capacity



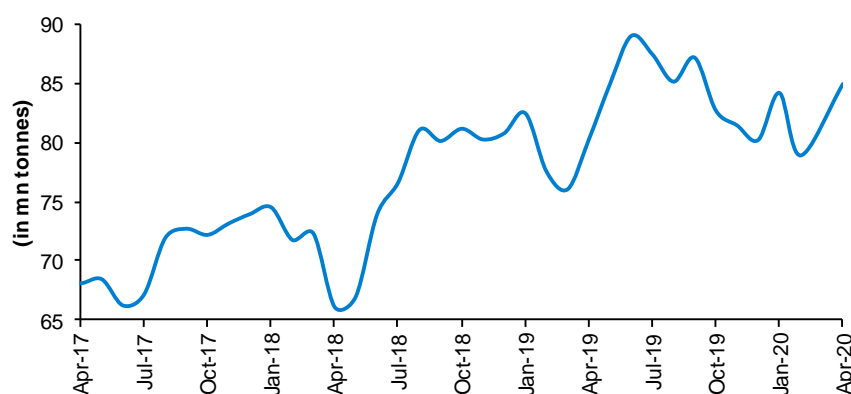
Source: Bloomberg, PL

China's steel production revived strongly and expected to maintain run-rate at last year's levels

China's iron ore imports rose ~19% YoY in Apr'20 to support the increase in steel production and replenish the inventory.

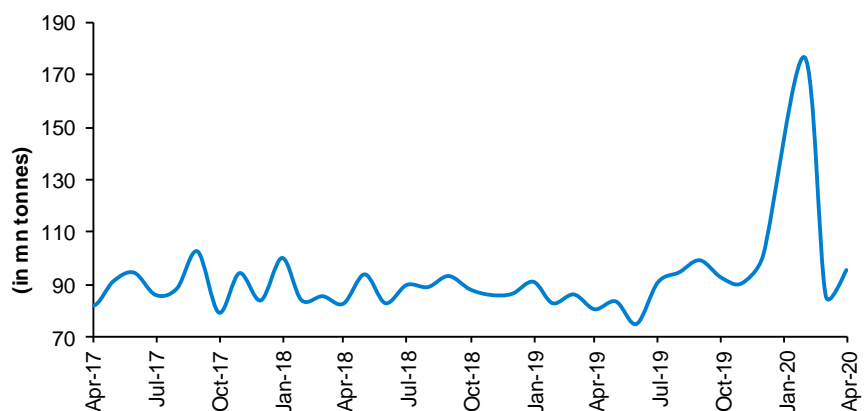
Supply disruption in Brazil and stable Chinese demand would help the iron ore average to sustain at US\$90-100 in CY20e. Brazil ore supplies are expected to further dwindle by 8% to 331mnt in CY20e. High cost supplies from Non-conventional sources would further fuel the strength in prices.

Exhibit 6: China's monthly steel production



Source: NBS-China, PL

Exhibit 7: China monthly iron ore imports



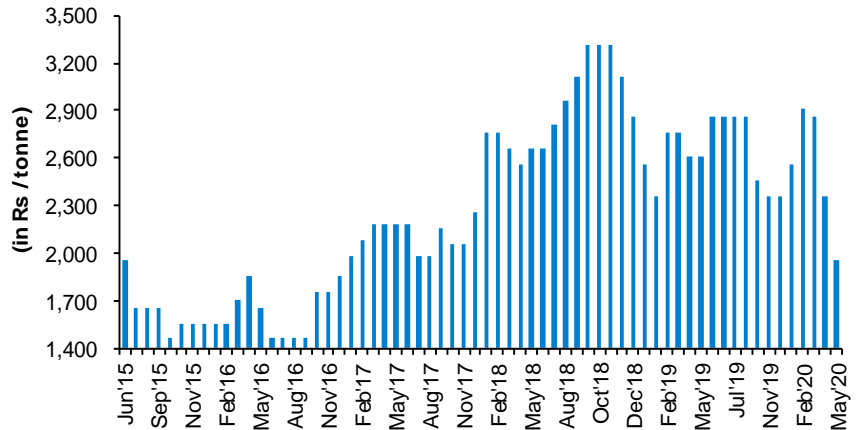
Source: Bloomberg, PL

Exhibit 8: Global iron ore supply-demand analysis

(mnt - wet basis)	CY17	CY18	CY19	CY20e
China imports	1,159	1,147	1,154	1,148
Ex-China imports	401	398	386	350
World Seaborne demand	1,560	1,545	1,540	1,498
Conventional supplies	1,422	1,450	1,435	1,409
Australia	875	892	895	900
Brazil	384	386	361	331
South Africa	66	63	65	58
Canada	41	48	52	55
CIS	28	31	38	40
Europe	28	30	24	25
Non-conventional supplies	138	95	105	89
Avg 62% Fe ore, CIF China \$ price	71	69	93	95

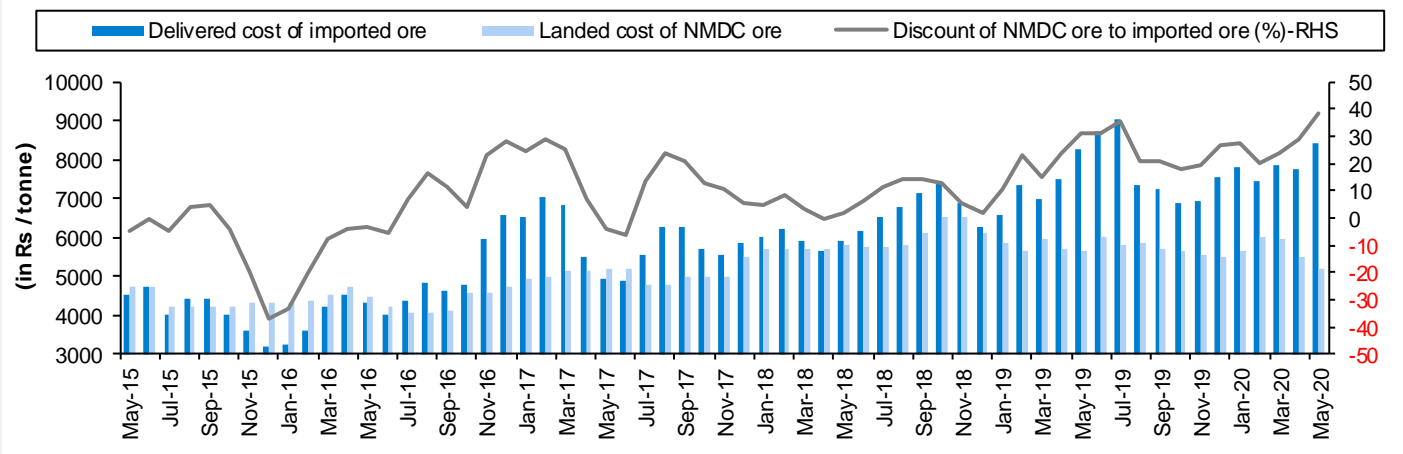
Source: Bloomberg, PL

Exhibit 9: NMDC iron ore fines prices at three and half year low



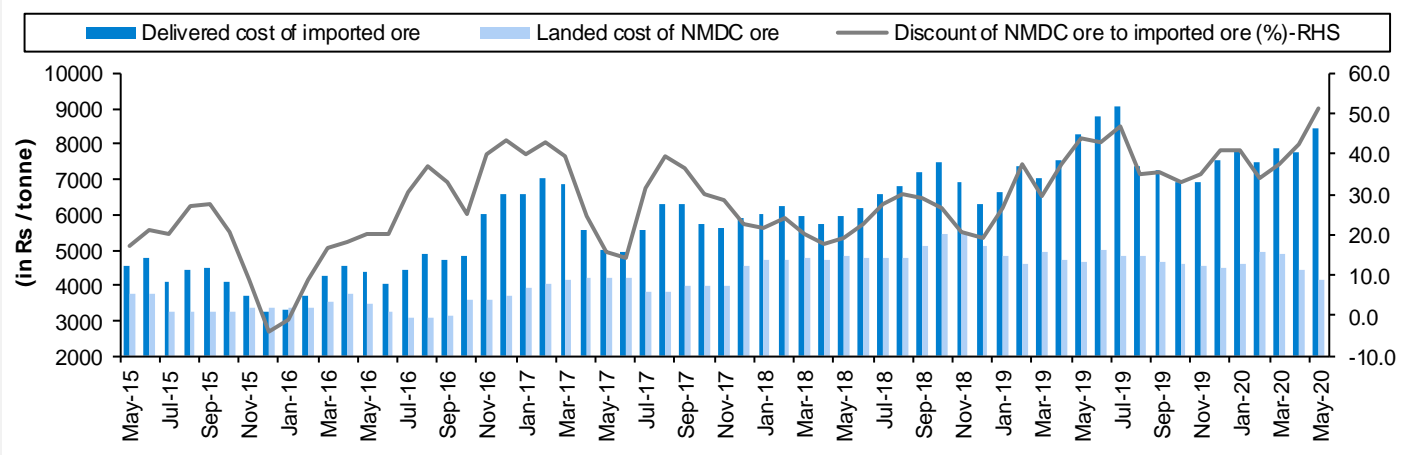
Source: Company, PL

Exhibit 10: Landed cost of NMDC's ore at 5-year discount to imported ore at JSW steel's Dolvi plant



Source: Company, PL

Exhibit 11: Landed cost of NMDC's ore at 5-year discount to imported ore at Vizag port

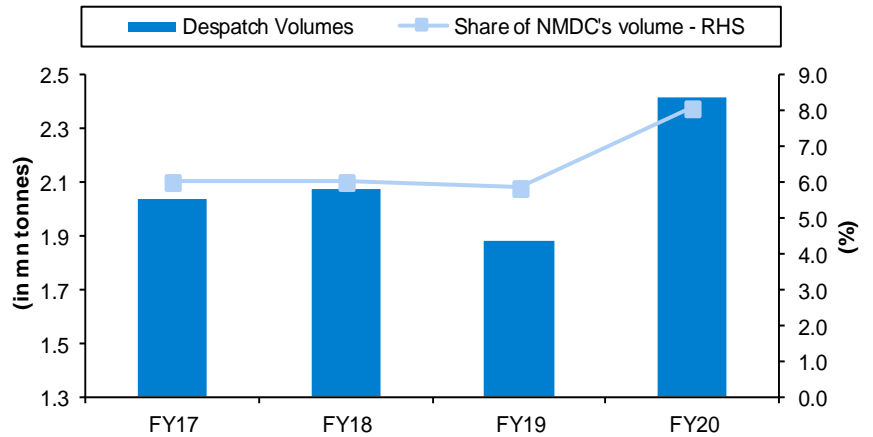


Source: Company, PL

NMDC's Chhattisgarh mines supplied 2.4mnt to JSW steel's Dolvi plant at Maharashtra. This equates to 7.5% of NMDC's total volumes. We believe that JSTL would continue to procure NMDC ore due to its premium quality (with low alumina content) for blending with lower grade Odisha ore and meet DRI grade Lump requirement NMDC dispatches to JSW Steel's Dolvi (Maharashtra) plant

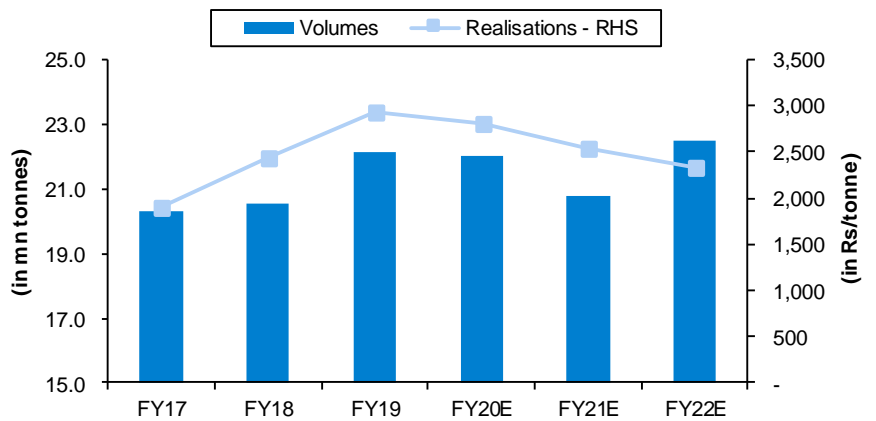
Limited decline in FY21e volumes due to stable demand from domestic steel producers (because of strong steel exports).

Volumes in Karnataka operations remained impacted due to closure of Donimalai mines. However, increase in mining capacity by 2mnt to 10mnt would help increase volumes in FY22e



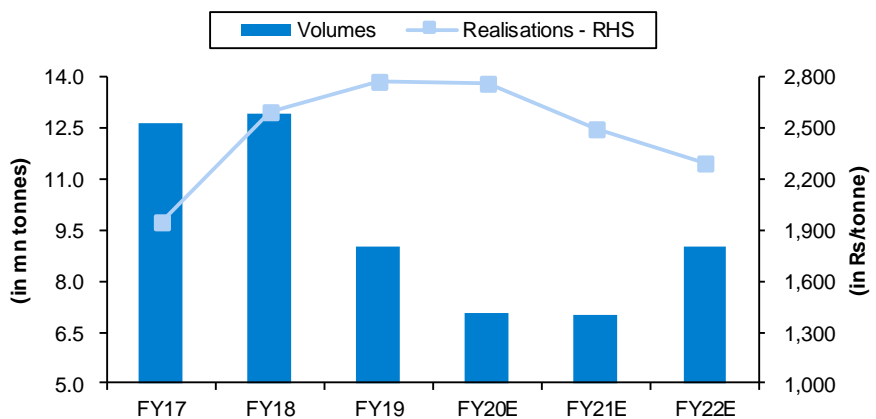
Source: Company, PL

Exhibit 12: NMDC's Chhattisgarh operation's domestic vols and realisations



Source: Company, PL

Exhibit 13: NMDC's Karnataka operation's domestic vols and realisations



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	1,21,527	1,17,951	1,01,701	1,06,186
YoY gr. (%)	4.6	(2.9)	(13.8)	4.4
Cost of Goods Sold	2,378	2,424	2,315	2,677
Gross Profit	1,19,149	1,15,526	99,386	1,03,509
Margin (%)	98.0	97.9	97.7	97.5
Employee Cost	10,368	10,419	11,043	11,693
Other Expenses	35,800	35,658	31,386	33,201
EBITDA	69,300	63,460	51,377	52,385
YoY gr. (%)	19.3	(8.4)	(19.0)	2.0
Margin (%)	57.0	53.8	50.5	49.3
Depreciation and Amortization	2,789	3,013	3,258	3,428
EBIT	66,511	60,446	48,119	48,957
Margin (%)	54.7	51.2	47.3	46.1
Net Interest	403	295	254	265
Other Income	5,883	5,600	4,972	4,777
Profit Before Tax	71,990	65,751	52,836	53,469
Margin (%)	59.2	55.7	52.0	50.4
Total Tax	25,565	29,335	14,424	14,597
Effective tax rate (%)	35.5	44.6	27.3	27.3
Profit after tax	46,425	36,416	38,412	38,872
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	46,433	46,223	38,412	38,872
YoY gr. (%)	19.6	(0.5)	(16.9)	1.2
Margin (%)	38.2	39.2	37.8	36.6
Extra Ord. Income / (Exp)	(9)	(9,807)	-	-
Reported PAT	46,425	36,416	38,412	38,872
YoY gr. (%)	22.0	(21.6)	5.5	1.2
Margin (%)	38.2	30.9	37.8	36.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	46,425	36,416	38,412	38,872
Equity Shares O/s (m)	3,062	3,062	3,062	3,062
EPS (Rs)	15.2	15.1	12.5	12.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	36,964	38,864	40,914	42,964
Tangibles	36,964	38,864	40,914	42,964
Intangibles	-	-	-	-
Acc: Dep / Amortization	9,757	12,620	15,878	19,306
Tangibles	9,757	12,620	15,878	19,306
Intangibles	-	-	-	-
Net fixed assets	27,207	26,244	25,036	23,658
Tangibles	27,207	26,244	25,036	23,658
Intangibles	-	-	-	-
Capital Work In Progress	1,37,925	1,67,195	1,92,230	2,19,322
Goodwill	-	-	-	-
Non-Current Investments	17,358	17,410	17,461	17,513
Net Deferred tax assets	5,827	3,592	3,063	2,529
Other Non-Current Assets	29,863	30,281	30,831	31,431
Current Assets				
Investments	-	-	-	-
Inventories	6,662	6,075	5,367	5,707
Trade receivables	14,245	14,314	15,011	15,837
Cash & Bank Balance	46,077	40,411	37,823	32,383
Other Current Assets	8,641	5,813	5,813	5,813
Total Assets	2,97,820	3,15,380	3,36,710	3,58,297
Equity				
Equity Share Capital	3,062	3,062	3,062	3,062
Other Equity	2,56,453	2,73,342	2,94,914	3,15,414
Total Network	2,59,515	2,76,404	2,97,976	3,18,476
Non-Current Liabilities				
Long Term borrowings	3,642	3,642	3,642	3,642
Provisions	7,684	8,204	8,754	9,354
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	2,027	1,941	1,792	1,916
Other current liabilities	24,952	25,190	24,547	24,909
Total Equity & Liabilities	2,97,820	3,15,380	3,36,711	3,58,297

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	71,984	65,751	52,836	53,469
Add. Depreciation	2,789	3,013	3,258	3,428
Add. Interest	(2,144)	(3,879)	(3,198)	(2,970)
Less Financial Other Income	5,883	5,600	4,972	4,777
Add. Other	2,493	1,890	1,045	1,238
Op. profit before WC changes	75,122	66,775	53,941	55,165
Net Changes-WC	(8,629)	(4,486)	(1,907)	(2,000)
Direct tax	(26,024)	(27,100)	(13,896)	(14,062)
Net cash from Op. activities	40,469	35,190	38,139	39,103
Capital expenditures	(19,972)	(25,208)	(27,085)	(29,142)
Interest / Dividend Income	4,925	3,879	3,198	2,970
Others	7,851	-	-	-
Net Cash from Invst. activities	(7,197)	(21,329)	(23,887)	(26,172)
Issue of share cap. / premium	(10,067)	-	-	-
Debt changes	(1,359)	-	-	-
Dividend paid	(21,321)	(19,527)	(16,840)	(18,371)
Interest paid	(401)	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(33,149)	(19,527)	(16,840)	(18,371)
Net change in cash	124	(5,666)	(2,589)	(5,440)
Free Cash Flow	20,497	9,982	11,054	9,961

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20E
Net Revenue	32,637	22,418	30,064	33,408
YoY gr. (%)	34.8	(8.0)	(17.6)	(8.3)
Raw Material Expenses	465	1,197	221	858
Gross Profit	32,173	21,221	29,842	32,551
Margin (%)	98.6	94.7	99.3	97.4
EBITDA	18,668	10,602	15,914	17,488
YoY gr. (%)	31.1	(15.8)	(26.1)	(9.3)
Margin (%)	57.2	47.3	52.9	52.3
Depreciation / Depletion	648	976	646	820
EBIT	18,021	9,626	15,269	16,668
Margin (%)	55.2	42.9	50.8	49.9
Net Interest	117	97	98	100
Other Income	1,228	1,275	1,302	1,800
Profit before Tax	19,132	10,805	16,473	18,368
Margin (%)	58.6	48.2	54.8	55.0
Total Tax	7,337	3,771	2,707	-
Effective tax rate (%)	38.4	34.9	16.4	-
Profit after Tax	11,794	7,034	13,766	18,368
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	11,794	7,034	13,766	13,739
YoY gr. (%)	20.9	10.5	(12.7)	2.1
Margin (%)	36.1	31.4	45.8	41.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,794	7,034	13,766	18,368
YoY gr. (%)	20.9	10.5	(12.7)	26.3
Margin (%)	36.1	31.4	45.8	55.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,794	7,034	13,766	18,368
Avg. Shares O/s (m)	3,164	3,164	3,164	3,164
EPS (Rs)	3.7	2.2	4.4	4.3

Source: Company Data, PL Research

Key Financial Metrics

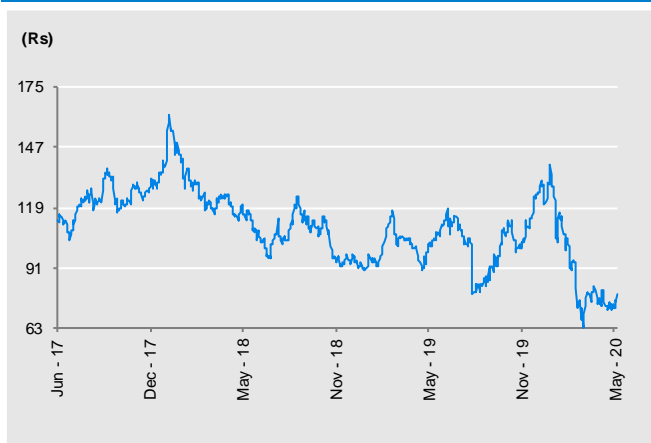
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	15.2	15.1	12.5	12.7
CEPS	16.1	16.1	13.6	13.8
BVPS	84.8	90.3	97.3	104.0
FCF	6.7	3.3	3.6	3.3
DPS	5.5	5.3	5.5	6.0
Return Ratio(%)				
RoCE	26.0	22.3	16.5	15.7
ROIC	20.4	14.5	13.8	12.7
RoE	18.5	17.2	13.4	12.6
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	57	57	67	67
Valuation(x)				
PER	5.6	5.6	6.7	6.7
P/B	1.0	0.9	0.9	0.8
P/CEPS	5.3	5.3	6.2	6.1
EV/EBITDA	3.1	3.5	4.4	4.4
EV/Sales	1.8	1.9	2.2	2.2
Dividend Yield (%)	6.5	6.3	6.5	7.1

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Total Volume (mt)	32	32	30	34
Realization/t (Rs.)	3,670	3,650	3,355	3,092
EBITDA/t (Rs)	2,142	2,011	1,713	1,541

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	20-Apr-20	Hold	90	80
2	07-Feb-20	Reduce	105	116
3	03-Jan-20	Reduce	105	129
4	11-Nov-19	Reduce	93	104
5	04-Oct-19	Reduce	90	97
6	03-Oct-19	Reduce	97	97
7	16-Aug-19	Reduce	107	104
8	04-Jul-19	Reduce	112	117

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,340	1,137
2	Ambuja Cement	BUY	190	172
3	Coal India	Accumulate	195	149
4	Heidelberg Cement India	Accumulate	175	147
5	Hindalco Industries	BUY	170	118
6	Hindustan Zinc	Accumulate	195	169
7	Jindal Steel & Power	BUY	150	109
8	JK Lakshmi Cement	BUY	340	206
9	JSW Steel	Reduce	140	166
10	NMDC	Hold	90	80
11	Shree Cement	Hold	16,900	18,733
12	Steel Authority of India	Reduce	25	28
13	Tata Steel	Reduce	242	293
14	The Ramco Cements	Reduce	725	810
15	Ultratech Cement	BUY	4,350	3,546

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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