

November 19, 2023

RESULT REPORT Q2 FY24 | Sector: Metals and Mining

NMDC Ltd

Prices bottomed out; all set to enter the expansion phase

Result Synopsis

NMDC's Q2FY24 earnings were above the consensus estimates on the back of strong operational performance. NMDC reported its best ever Q2 and H1 performance in terms of production and sales. With iron ore prices witnessing a major drop over the last few months, the company was still able to sustain its realizations over the Rs 4,000/t mark. The realization/t came in at Rs 4,145/t, reporting a major drop from Q1FY24, where the same was Rs 4,851/t. The company's EBITDA margins took a hit and fell to 38% and the management seems confident that the price pressures are over and the guided margins of over 40% are easily sustainable. The company incurred about Rs. 1,000 crores of capex during H1FY24 and with the current expansion phase and the upcoming aspirational plans, it seems to be on the right path for its 100mt target by 2030. During the current financial year, NMDC expects to incur Rs. 2,000 crores of capital expenditure in total and the company also maintained its production guidance of 47.0 to 49.0 mt. The capex for the current financial year focuses a lot on improving the company's evacuating lines in order to grow simultaneously on the production and the sales side

In terms of the operational performance, the company reported an iron ore production of 19.60 mt and registered iron ore sales of 20.55 mt recording their highest ever first half volumes. Q2 production volumes which came in at 8.85 mt, reported a rise of 25% YoY whereas the sales volumes for the quarter jumped 14% YoY.

We have re-rated NMDC as an ADD as we believe that the rising domestic iron ore demand in India is expected to remain strong and NMDC plays an important role in being the country's main iron ore supplier. Additionally, with the upcoming projects and the production growth guidance provided by the company, we see that NMDC will continue to dominate at the center stage in the iron-ore market in India. We value NMDC at 5x FY25E EV/EBITDA to arrive at our target price of Rs 186/sh.

Result Highlights

- Consolidated Revenue for the quarter stood at Rs 40,140 mn (vs our estimate of Rs 43,650 mn), down 26% QoQ & up 21% YoY.
- EBITDA Margins came in at 38% as compared to 42%/38% in Q1FY24/Q2FY23 respectively. Consolidated EBITDA stood at Rs 15,115 mn, down 34% QoQ and up 18% YoY.
- PAT stood at Rs 10,251 mn (vs consensus estimate of Rs 13,826 mn), down 38% on a QoQ basis and up 16% on a YoY basis.
- Average domestic realizations stood at Rs 4,146/t, a fall of by Rs 705/t as compared to Q1FY24 on the back of falling iron ore prices domestically and globally.

Exhibit 1: Actual vs Estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	40,140	43,650	40,930	-8%	-2%	High realizations help expand margins on the back of solid operational performance.
EBITDA	15,115	19,541	13,400	-23%	13%	
EBITDA Margin (%)	38%	45%	33%	-16%	15%	
PAT	10,251	13,826	12,410	-26%	-17%	

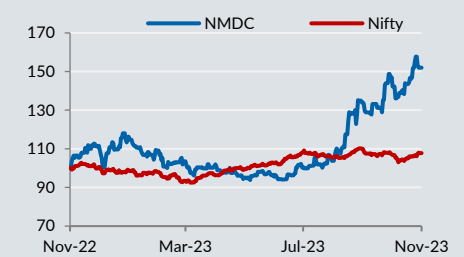
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 169
Target Price	: Rs 186
Potential Upside	: +10%

Stock data (as on Nov 17, 2023)

Nifty	19,732
52 Week h/l (Rs)	178 / 104
Market cap (Rs/USD mn)	494979 / 5946
Outstanding Shares (mn)	2,931
6m Avg t/o (Rs mn):	1,425
Div yield (%):	4.4
Bloomberg code:	NMDC IN
NSE code:	NMDC

Stock performance



	1M	3M	1Y
Absolute return	3.4%	46.6%	52.0%

Shareholding pattern (As of Sep'23 end)

Promoter	60.8%
FII+DII	26.1%
Others	13.2%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	REDUCE
Target Price	186	141

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	176,669	215,169	233,546
YoY Growth	(32.0%)	21.8%	8.5%
EBIDTA	68,208	80,857	93,823
EBITDA (%)	39%	38%	40%
PAT	55,384	57,181	66,605
EPS	19.11	19.51	22.73
ROCE	23.0%	20.8%	21.2%
ROE	24.5%	21.9%	22.2%

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Production Highlights

- The company's iron ore production stood at 8.850 mt for the quarter vs 7.108 mt during CPLY.
- Iron Ore sales stood at 9.571 mt vs 8.432 mt during CPLY.
- The company posted its best production figures for its Q2 and H1 during the FY24.

Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% qoq	% yoy
Revenue	47,671	33,285	37,200	58,514	53,947	40,140	-25.6%	20.6%
COGS	21,184	16,066	17,454	23,850	25,288	19,095	-24.5%	18.9%
Gross Profit	26,486	17,218	19,746	34,664	28,659	21,045	-26.6%	22.2%
GPM(%)	56%	52%	53%	59%	53%	52%	-1.3%	1.3%
Employee Costs	3,278	3,982	3,457	4,588	3,649	3,928	7.6%	-1.4%
Other Expenses	4,224	4,725	4,883	8,453	5,074	5,213	2.7%	10.3%
Other Income	1,460	4,263	2,048	-89	2,942	3,210	9.1%	-24.7%
EBITDA	20,444	12,775	13,454	21,535	22,877	15,115	-33.9%	18.3%
EBITDA %	43%	38%	36%	37%	42%	38%	-11.2%	-1.9%
Depreciation	849	742	837	934	692	888	28.3%	19.8%
Finance Costs	153	182	299	118	62	186	200.5%	2.3%
Exceptional Items	-	-	-	-12,373	-	-	NA	NA
PBT	19,441	11,851	12,317	32,856	22,123	14,041	-36.5%	18.5%
Tax	4,728	2,994	3,276	10,085	5,511	3,790	-31.2%	26.6%
PAT	14,714	8,858	9,041	22,771	16,612	10,251	-38.3%	15.7%

Source: Company, YES Sec

Exhibit 3: Operations Highlights

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% qoq	% yoy
Production (mt)	8.92	7.11	10.66	14.13	10.70	8.85	-17%	25%
Sales (mt)	7.80	8.43	9.58	12.41	10.98	9.57	-13%	14%
Realization/t	6,050.12	3,890.28	3,825.90	4,669.33	4,850.76	4,145.26	-15%	7%

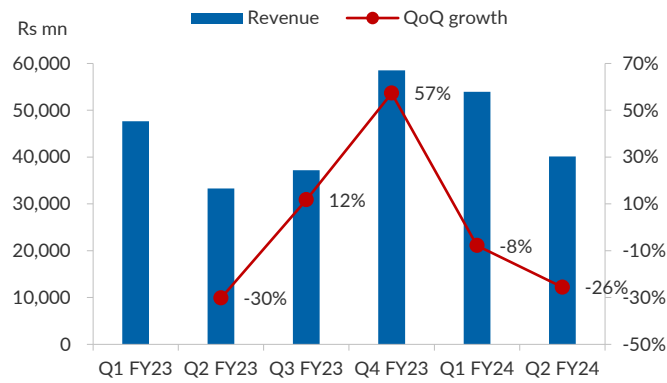
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Management Remarks:**
 - Q2FY24 was the best ever Q2 performance in terms of sales and production, the management expects the production to be in the range of 47.0 – 49.0 mt for FY24 (No change in guidance).
 - The company is planning to move to a foray of mining other minerals such as gold and diamonds and wants to have 15% of the total sales from other minerals. Work on the Gold mine in Australia has started and should be operational in another year and a half.
 - The company has no export plans as of now as the domestic realizations are still more than the exports due to the 30% duties in place.
 - The company has Rs 13,919 crores of cash balances on its balance sheet, however, the management is being conservative on using the amount for the upcoming larger capex plans.
- **Iron Ore Pricing:**
 - Iron Ore has been falling and the last price adjustment took place during early October. The management believes that the prices have bottomed out and expects that the iron ore price increase should follow now.
- **NMDC Steel Plant & Pricing:**
 - The blast furnace has been commissioned and the plant has started producing hot metal. The company expects to produce around 1.0 mt of steel in FY24. The plant will function at high utilization levels from the next year onwards.
 - On the NMDC Steel plant, the management sees that the plans for sale as of now are on hold and there is no clarity on the process due to the elections in the state.
 - NMDC pricing is currently at ~45% discount as compared to the imported iron ore pricing. On the exports front, the pricing is still not suitable as the domestic realizations are more than the exports realizations.
- **Capex Plans and Project Pipelines:**
 - The management targets Rs 2,000 crores this year and Rs 2,500 crores for the next financial year excluding the steel plant capex.
 - NMDC plans to expand the pellet plant of 2.0 mt capacity at the slurry pipeline by adding a 4.0 mt of module in order to expand its capacity to service the Steel Plant.
 - Capex incurred by NMDC up to Q2FY24 was ~Rs 1,000 crores.
 - In terms of the evacuation railway line – 100 km of the line is completed; the rest 25-30 km will be completed by the end of this financial year.
- **Volumes and Guidance:**
 - For FY25, the production would mostly be in the range of 51.0 – 52.0 mt. The next major phase of expansion will happen post FY25.
 - RINL, one of the customers for NMDC has shown great growth over the last year. NMDC has benefitted from the same. During H1FY23, they provided 2.7 mt and this number has gone up to 3.0 mt during H1FY24.
 - The final clearance for the 2.20 mt Kumaraswamy mine in Karnataka will also be received in the upcoming days.

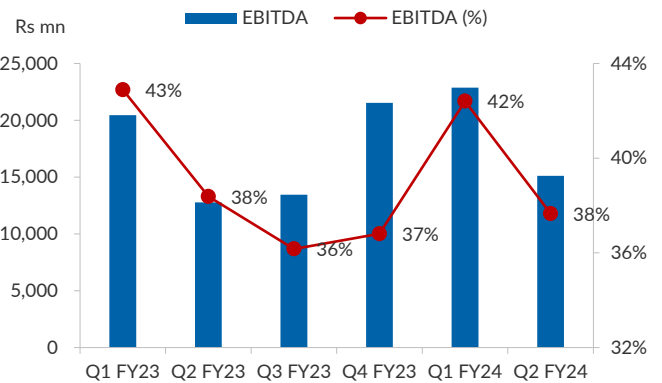
QUARTERLY TRENDS

Exhibit 4: Revenue decreased by 25.6% QoQ...



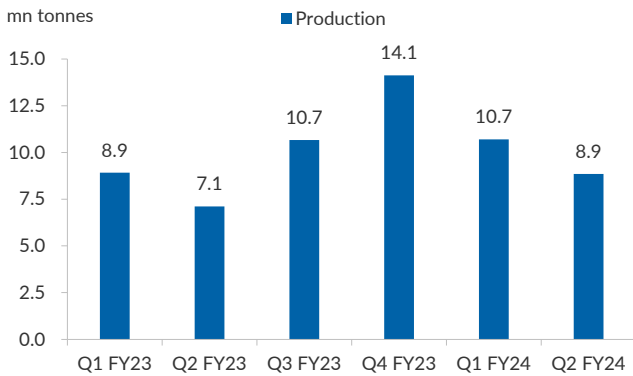
Source: Company, YES Sec

Exhibit 5: EBITDA margins came in at 38%...



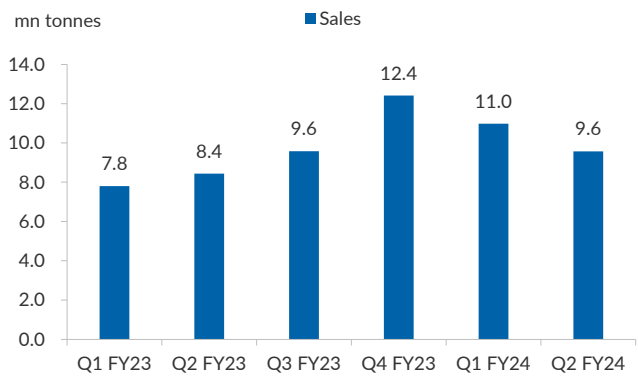
Source: Company, YES Sec

Exhibit 6: Production Highlights



Source: Company, YES Sec

Exhibit 7: Sales Highlights



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Income Statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	116,149	121,527	116,992	153,701	259,648	176,669	215,169	233,546	254,163
COGS	24,682	23,510	24,368	32,178	93,309	78,554	101,155	99,958	108,782
Employee Cost	10,492	10,394	10,494	10,852	13,371	15,306	17,558	18,684	19,825
Other Expenses	22,947	18,379	22,111	22,777	26,724	22,284	23,711	29,193	31,262
Total Expenditure	58,121	52,283	56,973	65,808	133,403	116,144	142,424	147,835	159,869
Other Income	5,232.2	5,889.6	5,143.6	3,516.0	7,185.2	7,682.2	8,111.6	8,111.6	8,111.6
EBITDA	63,260	75,134	65,163	91,409	133,430	68,208	80,857	93,823	102,406
EBITDA (%)	54.5%	61.8%	55.7%	59.5%	51.4%	38.6%	37.6%	40.2%	40.3%
Depreciation	2,566	2,790	2,949	2,285	2,877	3,362	3,732	4,671	5,083
EBIT	60,694	72,343	62,214	89,123	130,553	64,846	77,125	89,152	97,323
EBIT (%)	52.3%	59.5%	53.2%	58.0%	50.3%	36.7%	35.8%	38.2%	38.3%
Interest	371	403	99	168	391	752	537	346	174
Exceptional Items	(1,443)	-	964	-	-	(12,373)	-	-	-
PBT	61,766	71,940	61,150	88,955	130,162	76,466	76,588	88,807	97,149
Tax	23,733	25,565	25,127	26,485	35,751	21,082	19,407	22,202	24,287
PAT	38,032	46,375	36,023	62,471	94,411	55,384	57,181	66,605	72,862
EPS	12.04	15.08	11.67	21.42	32.17	19.11	19.51	22.73	24.86

Exhibit 9: Balance Sheet

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Block	36,766	39,238	42,283	44,800	55,533	38,750	60,267	83,622	111,580
Accumulated Depreciation	5,270	7,253	9,744	11,661	25,287	14,937	19,240	23,911	28,994
Net Block	31,496	31,985	32,539	33,139	30,246	23,813	41,027	59,710	82,585
CWIP	125,451	138,189	155,002	171,065	13,283	19,916	25,890	28,479	31,327
Inventory	5,717	6,662	7,235	9,217	21,252	26,606	31,871	30,124	29,803
Receivables	14,727	14,245	22,237	21,399	29,543	26,560	29,475	31,993	34,817
Cash & Bank	54,610	46,194	24,375	58,618	79,775	70,978	73,685	78,468	84,499
Total Assets	286,913	298,912	312,944	369,298	249,123	282,477	321,131	360,660	404,469
Share Capital	3,164	3,062	3,062	2,931	2,931	2,931	2,931	2,931	2,931
Reserves	241,010	257,378	273,669	295,910	177,252	223,278	257,617	297,612	341,360
Non-current Liabilities	7,141	7,685	8,338	16,269	12,486	14,113	14,113	14,113	14,113
Current Liabilities	35,449	30,648	27,795	54,053	56,321	42,014	46,327	45,863	45,923
Total Equity & Liabilities	286,913	298,912	312,944	369,298	249,123	282,477	321,131	360,660	404,469

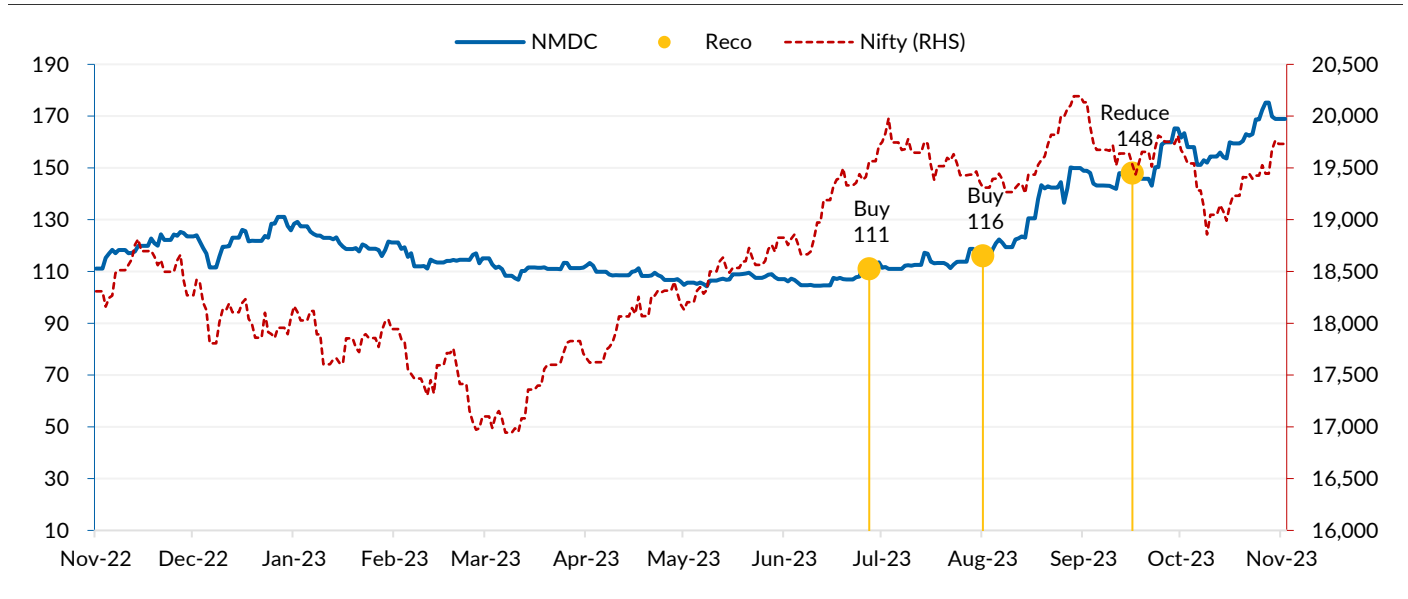
Exhibit 10: Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	61,766	71,940	61,150	88,955	130,162	76,466	76,588	88,807	97,149
Add: Non-cash charges	4,118	3,126	3,777	3,896	5,837	329	4,269	5,016	5,257
Profit before Working Capital Changes	65,884	75,067	64,927	92,851	135,999	76,795	80,857	93,823	102,406
Working Capital Changes	(8,438)	(9,028)	(20,872)	4,498	(23,075)	(31,454)	(6,873)	(12,939)	(10,994)
Cash flow from Operations	57,446	66,038	44,056	97,349	112,924	45,341	73,984	80,885	91,412
Taxes Paid	(23,683)	(26,023)	(22,796)	(24,687)	(43,506)	(20,685)	(19,407)	(22,202)	(24,287)
Net Cash flow from Operating Activities	33,763	40,015	21,260	72,661	69,418	24,656	54,577	58,683	67,125
Capex	(20,578)	(20,060)	(24,035)	(16,221)	(11,983)	(14,013)	(21,517)	(23,355)	(27,958)
Other Investments	1,929	12,167	20,907	(26,942)	(20,156)	14,446	(5,975)	(2,589)	(2,848)
Net Cash flow from Investing Activities	(18,649)	(7,892)	(3,128)	(43,163)	(32,139)	433	(27,492)	(25,944)	(30,806)
Proceeds/(Repayment) from borrowings	5,001	(1,359)	2,014	14,289	14,889	(13,765)	(1,000)	(1,000)	(1,000)
Other financial activities	(20,573)	(30,651)	(19,547)	(40,202)	(44,052)	(752)	(23,378)	(26,956)	(29,287)
Net Cash flow from Financing Activities	(15,572)	(32,010)	(17,533)	(25,913)	(40,669)	(25,365)	(24,378)	(27,956)	(30,287)
Opening Cash Balance	802	344	457	1,056	4,641	1,206	930	3,637	8,420
Net Change in Cash	(458)	113	599	3,585	(3,389)	(276)	2,707	4,783	6,031
Ending Cash Balance	344	457	1,056	4,641	1,206	930	3,637	8,420	14,452

Exhibit 11: Key Ratios

Y/e 31 Mar	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)									
Total Sales	31.6%	4.6%	(3.7%)	31.4%	68.9%	(32.0%)	21.8%	8.5%	8.8%
EBITDA	40.4%	18.8%	(13.3%)	40.3%	46.0%	(48.9%)	18.5%	16.0%	9.1%
EBIT	40.9%	19.2%	(14.0%)	43.3%	46.5%	(50.3%)	18.9%	15.6%	9.2%
PAT	47.2%	21.9%	(22.3%)	73.4%	51.1%	(41.3%)	3.2%	16.5%	9.4%
Profitability (%)									
GP Margins	78.8%	80.7%	79.2%	79.1%	64.1%	55.5%	53.0%	57.2%	57.2%
EBIDTA Margins	54.5%	61.8%	55.7%	59.5%	51.4%	38.6%	37.6%	40.2%	40.3%
EBIT Margins	52.3%	59.5%	53.2%	58.0%	50.3%	36.7%	35.8%	38.2%	38.3%
PAT Margins	32.7%	38.2%	30.8%	40.6%	36.4%	31.3%	26.6%	28.5%	28.7%
ROCE	15.1%	17.3%	12.6%	19.8%	49.0%	23.0%	20.8%	21.2%	20.3%
ROE	15.6%	17.8%	13.0%	20.9%	52.4%	24.5%	21.9%	22.2%	21.2%
Per Share Data (Rs)									
EPS	12.0	15.1	11.7	21.4	32.2	19.1	19.5	22.7	24.9
BVPS	77.2	85.1	90.4	102.0	61.5	77.2	89.0	102.6	117.5
Valuations (x)									
P/E	7.1	5.0	4.9	4.5	3.6	5.5	8.7	7.4	6.8
P/BV	1.1	0.9	0.6	1.0	1.9	1.9	1.9	1.6	1.4
EV/EBIDTA	4.3	3.1	2.8	3.3	2.7	6.4	6.1	5.2	4.7
Market Cap/Sales	2.3	1.9	1.5	1.8	1.3	2.5	2.3	2.1	1.9

Recommendation Tracker



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Name of the Research Analyst : Manav Gogia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

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