April 24, 2024 **Initiating Coverage**

NMDC LIMITED

Mining & Shining...

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NMDC Limited (NMDC) is India's largest producer of iron ore. Operating under the Ministry of Steel, NMDC is a 'Navratna' public sector enterprise and owns and operates highly mechanized iron ore mines in Chhattisgarh and Karnataka. NMDC is one of the low-cost producers of iron ore in the world. With iron-ore production of around 45.1 million tonnes (MT) in FY24, at an average of 64% Fe, NMDC sells one of the best grade Iron ore globally. We believe with the onset of key structural changes in the economy and a decade long investment cycle triggered largely by the government capex is expected to continue and in comparison to its international counterparts, the domestic steel sector stands in a favorable position. It is projected that the domestic crude steel capacity will hit around 175 MT in FY24, boasting an estimated capacity utilization rate of approximately 82%. This translates to an anticipated iron ore requirement of roughly 282 MT in FY24E with NMDC commanding a ~16% market share.

We Initiate coverage on NMDC based on the following factors: 1) NMDC stands to capitalize on rising steel demand as India's steel industry doubles by 2030. 2) This PSE is poised to be a key beneficiary of a potential repeat of the 2003-2007 capex boom, given the resemblance of the current economic landscape to that of 2003-2008. 3) Aggressive mine capacity expansion to meet upcoming demand. 4) Abundant availability of high-quality ores for the next 40 years. We Initiate NMDC at 6.5x FY26E EV/EBITDA to arrive at a target price of ₹297. Over FY24E-26E we expect NMDC to clock a Revenue/EBITDA/PAT CAGR of 12.9%/18.8%/19.1% respectively.

An attractive play on upcoming steel demand in India

The Indian steel industry is set to double by 2030, with major players like Tata Steel and SAIL expanding their capacities. NMDC, a significant iron ore producer, stands to benefit from this growth as companies without iron ore integration seek to meet rising demand. With India's per capita steel consumption expected to double, the demand for iron ore is also projected to rise. As one of the top 10 global iron ore producers and the largest in India, NMDC is well-positioned to capitalize on this trend. Additionally, the government's focus on infrastructure development is driving steel demand, further boosting NMDC's prospects.

Key Financials	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Total Income (₹ mn)	116,992	153,701	259,648	176,669	212,781	248,828	271,408
EBITDA (₹ mn)	60,019	87,893	126,245	60,525	76,601	92,191	108,153
EBITDA margins (%)	51.3%	57.2%	48.6%	34.3%	36.0%	37.1%	39.8%
PAT (₹ mn)	36,300	62,769	94,289	56,039	60,645	74,786	85,959
Adj PAT (₹ mn)*	35,054	62,473	94,406	43,007	60,603	74,786	85,959
PAT margins (%)	31.0%	40.8%	36.3%	31.7%	28.5%	30.1%	31.7%
EPS (₹)	11.9	21.4	32.2	19.1	20.7	25.5	29.3
Adj EPS (₹)	11.4	21.3	32.2	14.7	20.7	25.5	29.3
P/E (₹)	6.7	6.3	5.0	5.8	11.4	9.2	8.0
P/BV (x)	0.9	1.3	2.6	1.4	2.4	1.9	1.5
EV/EBITDA (x)	3.8	4.1	3.3	4.3	7.9	6.2	4.8
Adj ROE (%)	12.7%	20.9%	52.4%	19.0%	23.6%	25.6%	26.0%
Adj ROCE (%)	20.0%	27.3%	64.0%	23.8%	25.7%	28.1%	28.8%

*Adj PAT excludes exceptional items

Rating	BUY
Current Market Price (₹)	235
12 M Price Target (₹)	297
Potential upside (%)	26

Stock Data	
Sector :	Industrial Minerals
FV (₹) :	1
Total Market Cap (₹ bn) :	687
Free Float Market Cap (₹ bn) :	268
52-Week High / Low (₹)	252 / 104
Sensex / Nifty	73,738 / 22,368
BSE Code / NSE Symbol	526371 / NMDC
Bloomberg :	NMDC IN

Shareholding Pattern

(%)	Mar-24	Dec-23	Sep-23	Jun-23
GOI	60.79	60.79	60.79	60.79
FPIs	12.60	9.91	8.32	6.98
Insurance	7.59	8.11	8.65	10.18
MFs	6.26	8.74	8.19	6.70
Others	12.76	12.45	14.05	15.35

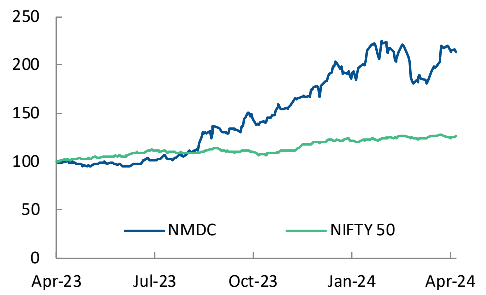
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
NMDC	15.4%	16.1%	55.5%	116.0%
Nifty 50	1.2%	5.3%	16.0%	25.9%

** To date / current date : April 23, 2024*

NMDC vs Nifty 50



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Bullish on the India's capex story- A repeat of 2003-07 capex boom likely

Analysis of peak returns in India's sectoral indices from 2003 to 2008 revealed that Capital Goods and Metals sectors outperformed traditional sectors like Banking and IT, attributed to an infrastructural boom. Similar trends are anticipated between 2023 and 2028, with early signs evident in 2024. The current economic landscape mirrors the period of 2003-2008, characterized by abundant liquidity, low inflation, declining NPAs, rising commodity prices, and active private investment in sectors such as steel, cement, and power. With the government's focus on infrastructure development over the next five years, NMDC is expected to benefit directly from increased capital expenditure. Iron ore production has seen notable growth, with FY24 projected to surpass FY23's record production. Government measures to boost iron ore production and availability include mining policy reforms, expediting mine auctions, improving ease of doing business, facilitating mining lease transfers, and incentivizing exploration activities.

Major Capacity additions on the cards

NMDC is undergoing significant capital expenditure (capex) projects aimed at enhancing its dispatch and sales capabilities, with a focus on bolstering ore production, improving product mix, and expanding mining capacities. Ambitious plans have been set to increase production capacity from 51.8 to 67 MT by FY26, and further to 100 MT by FY30, to meet growing demand in the Indian steel sector. Initiatives include the establishment of a 12 MT screening plant at Kirandul (Chhattisgarh), along with infrastructure enhancements at Bacheli (Chhattisgarh). Progress is underway for a 15 MT slurry pipeline and a 6 MT beneficiation plant, with capital expenditure budgets allocated for FY24 and FY25. Currently holding approximately 51 MT of Environment Clearance (EC) approvals, NMDC seeks to enhance capacities at Kirandul and Bacheli, with additional enhancements expected for the Kumaraswamy (Karnataka) mine. Applications for increased EC limits are pending approval, potentially raising the total EC to 56-60 MT. While incremental volume growth is anticipated in the coming years, expansion is expected to plateau post-FY26 until new capacities are operational. Plans are in place to enhance EC approvals at Kirandul and Bacheli over the next four to five years, paving the way for significant production increases, ultimately aiming for a total capacity of 100 MT.

Brief Overview

Incorporated in 1958 as a Government of India public enterprise, NMDC is India's largest producer of iron ore. Operating under the Ministry of Steel, NMDC is a 'Navratna' public sector enterprise and owns and operates highly mechanized iron ore mines in Chhattisgarh and Karnataka. NMDC is one of the low-cost producers of iron ore in the world. It also operates Asia's only mechanized diamond mine in India at Panna, Madhya Pradesh. With iron-ore production of around 45.1 MT in FY24, it contributed to around 16% of domestic production (excluding captive iron ore production). At an average of 64% Fe, NMDC sells one of the best grade Iron ore globally. The organization produces different variety of ores in terms of grade & size, to suit the requirement of its customers. NMDC is engaged in mining of iron ore which is crucial for the steel industry. NMDC produces around 40+ MT of iron ore from three mechanized mining complexes, two in Chhattisgarh and one in Karnataka which supply ore in the form of lumps and fines for production to various steel industries using blast furnace / Direct Reduced Iron (DRI route).

NMDC has also ventured into the mining of coal through the allocation of two coal blocks in Jharkhand on nomination basis by the Government of India. NMDC is planning to start Tokisud North Coal Mine in Jharkhand in 2023.

NMDC operates four Iron Ore mechanized mines

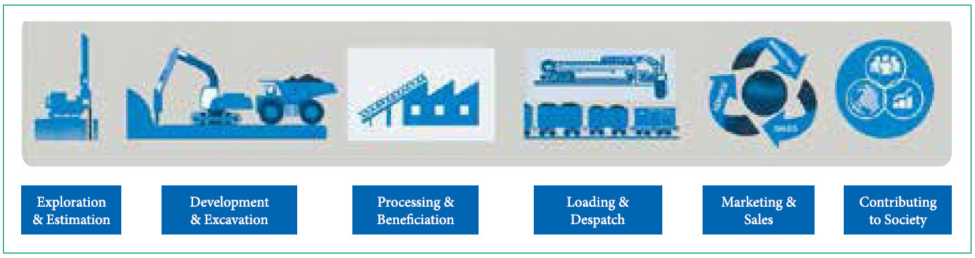
- Bailadila Iron Ore Mines – Kirandul Complex, Chhattisgarh,
- Bailadila Iron Ore Mines – Bacheli Complex Chhattisgarh,
- Donimalai Iron Ore Mines, Karnataka,
- Kumaraswamy Iron Ore Mine, Karnataka

	Name of Mining Lease	Area in Ha	ML Validity	Location
1	Bailadila Deposit - 11 (A, B & C)	874.92	10-09-2037	Chhattisgarh
2	Bailadila Deposit - 14	322.37	11-09-2035	Chhattisgarh
3	Bailadila Deposit - 14 NMZ	506.74	06-12-2035	Chhattisgarh
4	Bailadila Deposit - 5	540.05	10-09-2035	Chhattisgarh
5	Bailadila Deposit - 10	309.34	10-09-2035	Chhattisgarh
6	Donimalai Iron Ore Mines	597.54	03-11-2038	Karnataka
7	Kumaraswamy Iron Ore Mines	639.80	17-10-2042	Karnataka

Source: Company, LKP Research

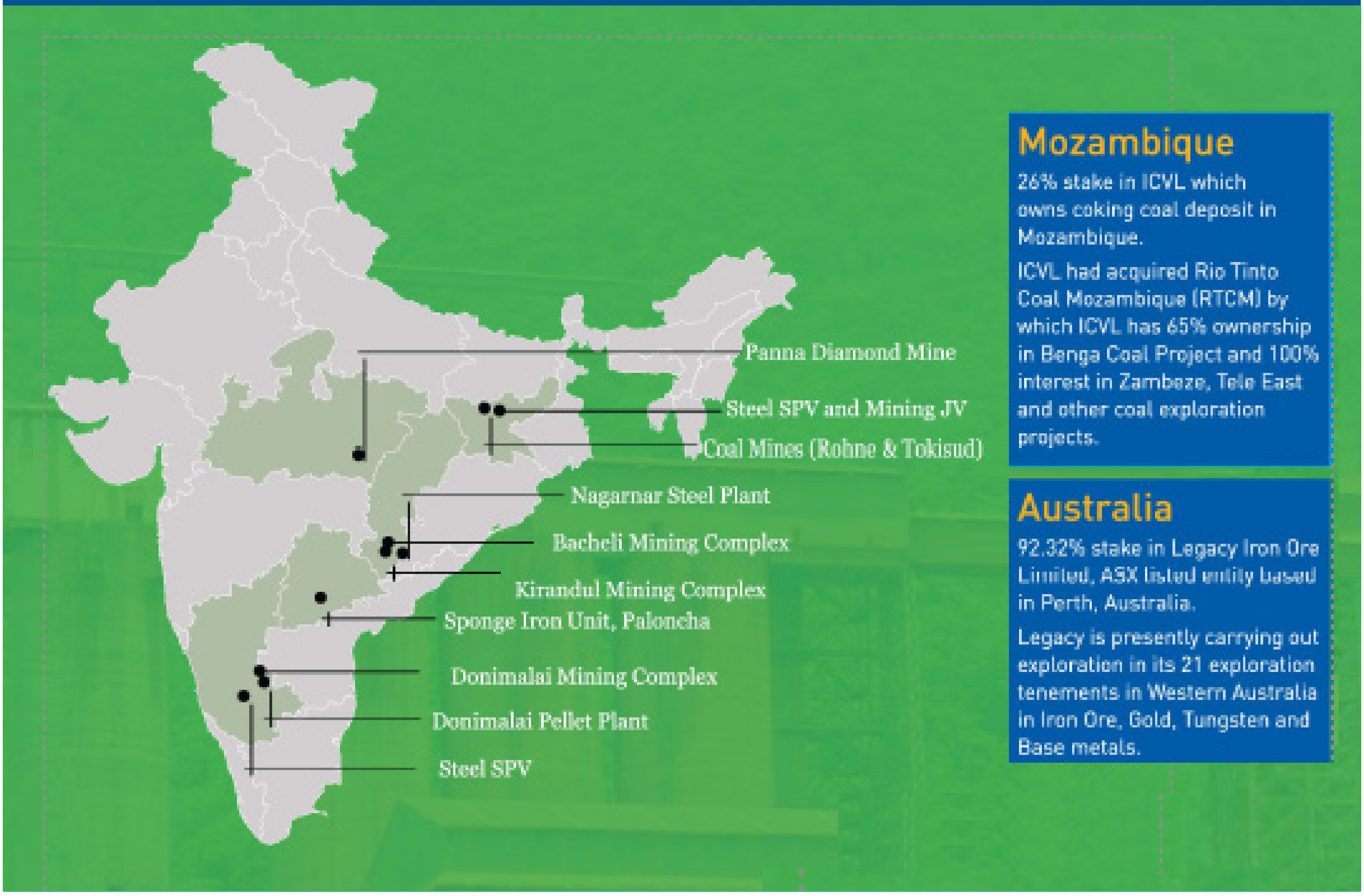
Other than Iron Ore, NMDC also produces diamond from its Majhgawan mine at Panna, Madhya Pradesh. NMDC currently produces around 45 MT of iron ore per annum and has a capacity of producing ~51 MT. With the current expansion plans in the pipeline, the company expects to reach a production capacity of ~67 MT over the next 2-3 years. The company has set a target of setting up a mining capacity of 100 MT by 2030 and looks to incur a capex of ₹1.7-₹2 bn on an annual basis from FY25 onwards to achieve the same.

Value Chain & Geographical Presence



NMDC's journey spans across six decades of excellence in the mining sector with a presence across the value chain of Iron Ore Exploration to Loading to Marketing & Sales. The company caters to the steel industry's diverse needs and is actively exploring forward integration into pellets and steel production.

Domestic Geographical Footprint & Growing Export Presence in Australia & Mozambique



Source: Company, LKP Research

Key Customers

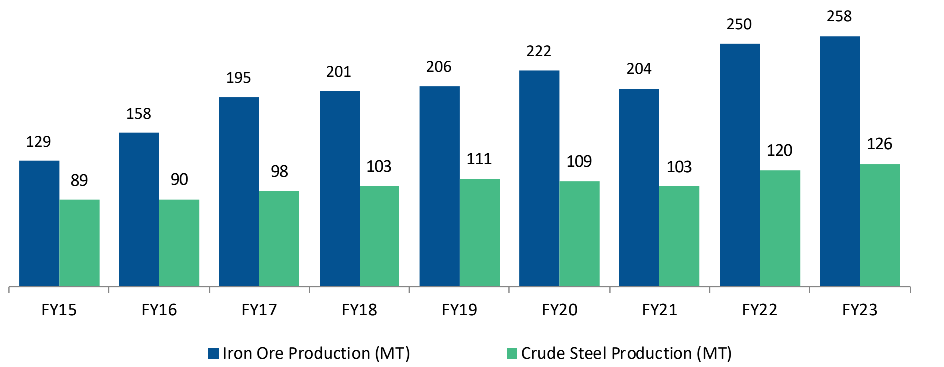
Rashtriya Ispat Nigam	KIOCL Ltd.	Arcelor Mittal Nippon Steel
JSW Steel Ltd Dolvi	Maa Mahamaya	Steel Exchange India Ltd.
Sunflag Iron & Steel Co.	Welspun Steel Ltd	Gallantt Metal Ltd, Gujarat
Jindal Steel and Power Ltd.,	Srikalahasthi Pipes Ltd.	Kalyani Steel Ltd.

Source: Company, LKP Research

An attractive play on upcoming steel demand in India

The Indian steel industry is poised to double by 2030 with a huge chunk of players carrying out capacity expansion plans and setting huge production targets. Big players like Tata Steel and SAIL have backward integration when it comes to iron ore. However, NMDC plays an important role where the companies without iron ore integration are setting their foot to capture the demand explosion expected in coming years in India. The Indian per capita consumption of steel is expected to double which means that the demand of iron ore is expected to rise to meet the production targets of steel. NMDC is one of the top 10 global iron ore producers and the biggest iron ore producer in India. Being the third largest energy consuming country in the world, there is always increased demand for power and electricity in the country, and hence the surge in demand for coal. Demand for steel is likely to grow by ~10% as the government's augmented focus on infrastructural development continues with increased construction of roads, railways, airports, etc. We see NMDC as a key beneficiary of surging demand for steel in India for the next decade.

Iron ore & Crude steel production



Source: IBEF, LKP Research

Bullish on the India's capex story- A repeat of 2003-07 capex boom likely

When we analyzed the trends of peak returns in India's sectoral indices during the period of 2003-08, we observed that sectors such as Capital Goods and Metals outperformed traditionally popular sectors like Banking and IT. This trend was attributed to India's infrastructural boom phase during that time. We anticipate a similar pattern to unfold between 2023 and 2028, as early signs of such a trend are already evident in 2024, with the above-mentioned sectors exhibiting strong performance.

When examining the current state of the Indian economy, parallels can be drawn with the period from 2003 to 2008. During this time, there was an abundance of liquidity, low inflation, a decline in non-performing assets (NPAs), rising commodity prices, active private investment from sectors like steel, cement, and power, positive global sentiment, and a robust real estate market. Interestingly, many of these same factors are evident in the current economic landscape as well.

With the government's continued focus on robust infrastructure development over the next five years, we anticipate NMDC to directly benefit from this surge in capital expenditure. India's iron ore production has seen a notable increase from 230 MT during the 11-month period of April to February in FY23 to 252 MT during the corresponding period in FY24, marking a growth of 9.6%. It is expected that iron ore production for the full fiscal year of FY24 will surpass the previous record of 258 MT achieved in FY23. The government has implemented various measures to boost iron ore production and availability. These measures include reforms in mining and mineral policies aimed at enhancing production, expediting the auction and operationalization of expired mines, improving the ease of doing business, ensuring smooth transfer of valid rights and approvals, providing incentives for commencing mining operations and dispatch, facilitating the transfer of mining leases, permitting captive mines to sell up to 50% of the minerals produced, and enhancing exploration activities, among others.

In this chart below we can find out how Capital Goods, Metals, Power & PSU Index outperformed other Indices owing to structural tailwinds triggered by the Government Capex followed by Private Capex and similar structural tailwinds are visible right now and we believe that there are more legs to it and we are not even half way through yet which is quite evident by looking at the returns from the respective indices until now.

Capital Goods (24x), Metals (12x), Oil & Gas (10x), PSU (7x) were among the best performing sector in the previous capex boom rally of 2003-08

Index	Peak Returns Jan'03-08	Peak Returns Jan'22-Apr'24
S&P Bse Sensex	7.3x	1.3x
S&P Bse Capital Goods	23.7x	2.1x
S&P Bse Bankex	7.9x	1.3x
S&P Bse Oil & Gas	10.3x	1.7x
S&P Bse Metal	11.7x	1.7x
S&P Bse Smallcap	15.9x	1.7x
S&P Bse Midcap	10.8x	1.8x
S&P Bse Power*	5.1x	2.1x
S&P Bse PSU	7.1x	2.4x

**S&P BSE Power Index peak returns are from Jan'05-08*
Source: Company, LKP Research

Major Capacity additions on the cards

NMDC is currently undertaking a series of capital expenditure (capex) projects aimed at enhancing its dispatch and sales capabilities. These projects are anticipated to bolster ore production, improve product mix, and augment mining capacities. The company has set ambitious plans to expand its production capacity from the current 51.8 to 67 MT by obtaining Environment Clearance (EC) approvals by FY26, with further aspirations to reach 100 MT by FY30 to meet the increasing demand for iron ore in the Indian steel sector. To achieve these goals, NMDC is implementing various initiatives, including the establishment of a 12 MT screening plant (SP-III) at Kirandul (Chhattisgarh), along with a downhill conveyor and a 2 MT screening line at Bacheli (Chhattisgarh). Progress on the construction of a 15 MT slurry pipeline from Bailadila to Nagarnar (Chhattisgarh) is underway, with most approvals already secured. Additionally, a 6 MT beneficiation plant is anticipated to commence operations by the end of FY25. For the fiscal years FY24 and FY25, NMDC has allocated capital expenditure budgets of ₹17.5-18 bn and ₹20-21 bn, respectively.

Currently, NMDC holds approximately 51 MT of EC approvals, distributed across its operations in Kirandul (~19 MT), Bacheli (~19 MT), and Karnataka (remainder). An additional 3 MT enhancement is expected for the Kumaraswamy mine. Furthermore, NMDC has applied for a 10% increase in EC limits for Deposit 5 and 11 at Bacheli, which could potentially raise the total EC to 56-60 MT upon receiving all necessary permissions. Although NMDC anticipates incremental volume growth over the next two to three years, volume expansion is projected to plateau post-FY26 until new capacities and plants become operational. The company aims to enhance EC at Kirandul to 30-35 MT and at Bacheli to 30 MT over the next four to five years. Subsequently, upon receiving incremental EC, NMDC is poised to experience a significant leap in production, ultimately reaching a total production capacity of 100 MT.

Key underlying opportunities for the Iron Ore Industry & NMDC

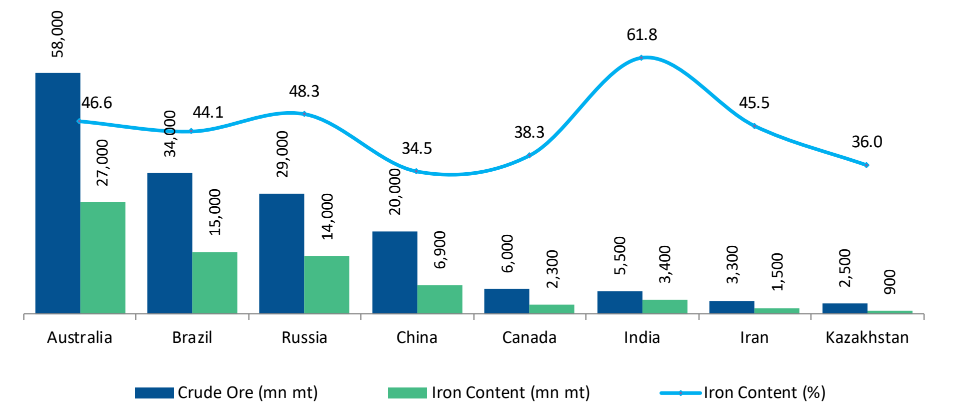
Availability of Reserves: The Indian subcontinent boasts abundant reserves of iron ore, with Hematite and Magnetite being the primary ores. Karnataka alone contributes a significant portion, accounting for 72% of India's Magnetite deposits. Hematite is particularly valued due to its higher grade compared to Magnetite. Indian hematite deposits are classified within the Precambrian Iron Ore Series, occurring in various forms such as massive, laminated, friable, and powdery. NMDC, a major mining company, holds reserves that can sustain operations for the next 40 years based on current mining rates.

Growing Domestic Demand: India stands as one of the world's largest producers and consumers of steel. The country's robust infrastructure development, urbanization, and industrialization are key drivers of steel demand, consequently spurring the demand for iron ore. The construction and infrastructure sectors account for more than 60% of the overall steel consumption. In FY23, cumulative production of crude steel reached 126 MT finished steel at 122 MT, with consumption of finished steel totalling 120 MT India aims for substantial growth in steel production, projecting an output of 500 MT by 2050, nearly quadrupling the current capacity. This ambitious growth plan presents a significant opportunity for the Indian iron ore industry to cater to the expanding domestic market. Iron ore consumption within the country is diversified, serving various industries including cement, sponge iron, electrodes, foundries, paints, among others.

Overview of Iron ore Industry

Iron ore is a crucial raw material for the worldwide steel industry. Its reserves are not evenly spread across the globe, with only a handful of countries holding the majority. Australia and Brazil stand out as the top two players, jointly possessing around 47% of global reserves. These nations are known for their high-quality iron ore deposits and have established extensive mining operations to extract and export this resource. India proudly stands as the fourth-largest iron ore producer globally, boasting substantial reserves and a robust mining sector. Its consistent iron ore production has been instrumental in fueling the growth of the domestic steel industry, thereby cementing its significance in the global iron and steel market. On a global scale, countries that produce iron ore often coincide with those with high steel demand. Apart from Australia and Brazil, the next three major iron ore producers are also among the world's largest steel producers, with China and India leading the pack. China's exponential growth in steel production during the 2000s drove a surge in global demand for steelmaking materials. This led to a remarkable increase in global iron ore exports, which escalated from half a billion tonnes in 2000 to 1.5 bn tonnes by 2016. Australia solidified its position as the primary supplier of steelmaking materials, with iron ore exports surging from approximately 150 MT to 800 MT during this period.

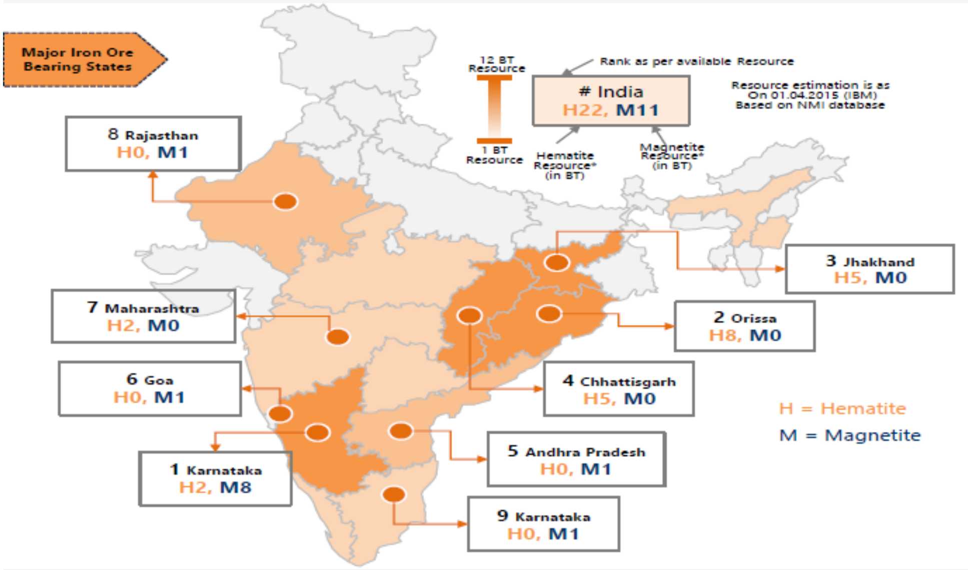
India currently boasts the highest quality reserves of iron ore with superior Fe content.



Source: IBEF, LKP Research

India has 7th largest iron ore reserves in the world and No.1 in over 60% Fe content- India possesses significant iron ore reserves, making it one of the world's key players in the Iron ore Industry. These reserves are spread across Odisha (significant share), Jharkhand, Chhattisgarh, Karnataka, and Goa and vary in quality, with some high-grade deposits suitable for export and others serving domestic steel production.

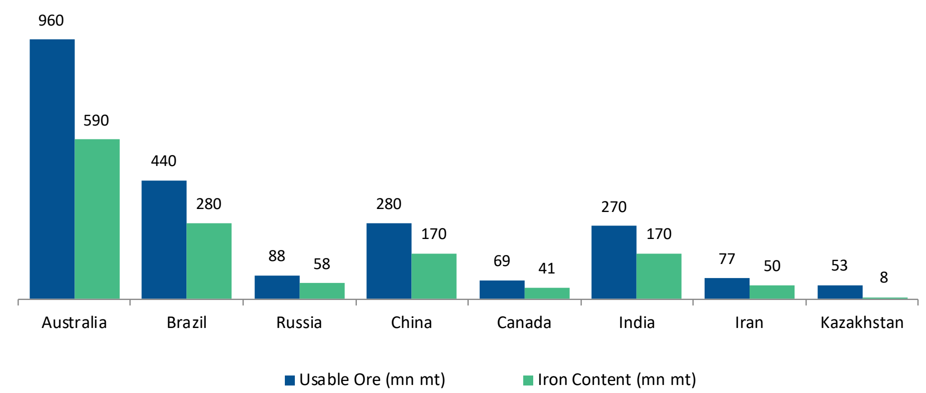
India's Iron Ore Reserves



Source: Industry, LKP Research

The majority of iron ore produced in certain countries serves their domestic steel industry, while only lower quality iron ore is exported, often unsuitable for the steel plants within those countries. Conversely, India boasts the world's premier quality iron ore, with approximately 62% of its ore content comprising iron. This high-grade ore facilitates more cost-effective and efficient iron production for Indian miners. Consequently, NMDC stands to gain a competitive edge, prompting Indian steel producers to predominantly source their iron ore domestically, capitalizing on the superior quality available within the country.

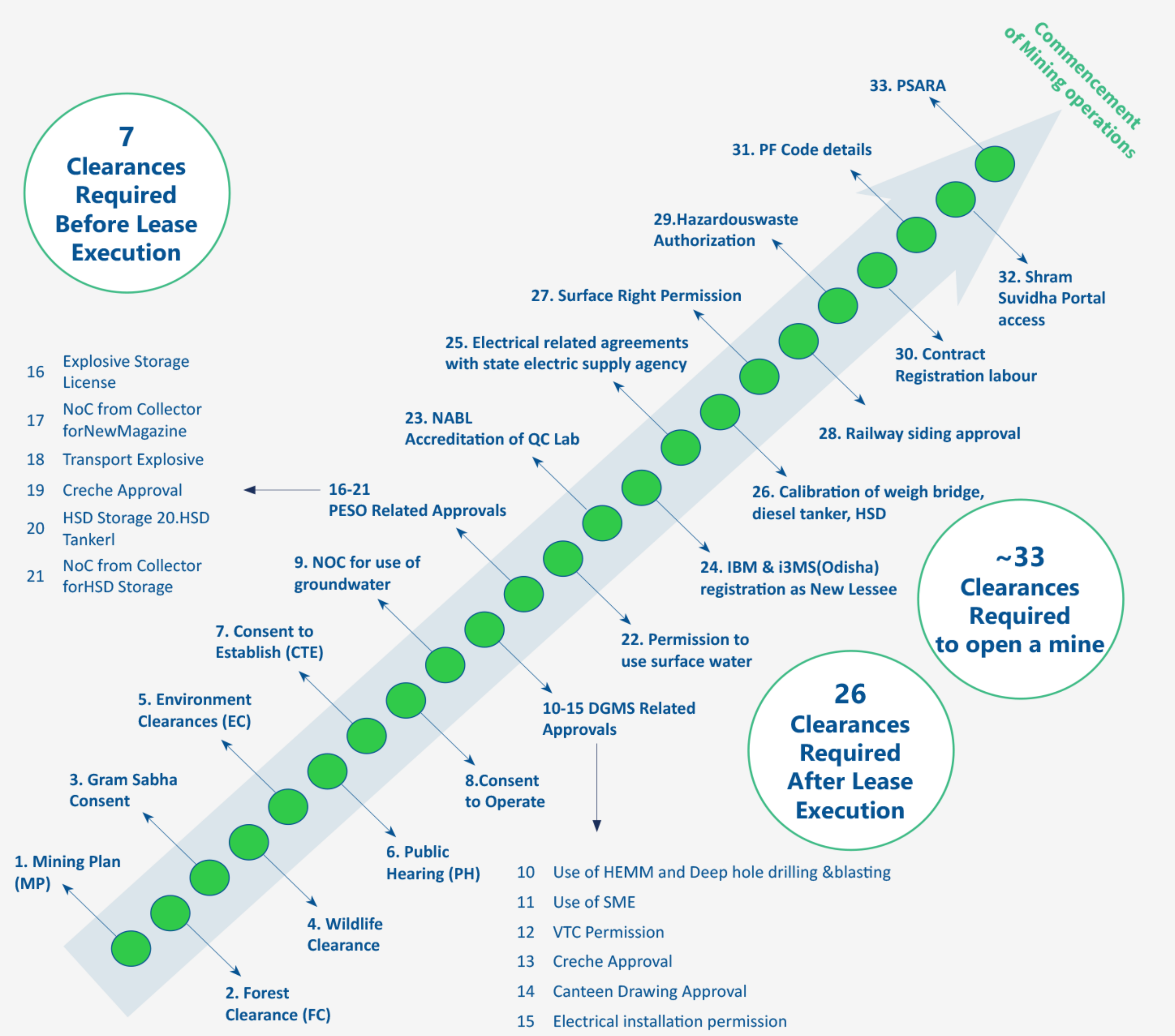
Global Iron Ore Production Picture



Source: IBEF, LKP Research

India requires 33 clearances to open a mine- Establishing a mine in India entails navigating through a complex web of regulations and obtaining approval from as many as 33 distinct government authorities and agencies. These approvals cover a wide array of critical aspects, including environmental compliance, safety standards, land acquisition procedures, and operational requirements. Due to the multiplicity of clearances required, the process is often characterized by delays and administrative challenges, which pose significant hurdles for prospective mine operators. Streamlining this regulatory framework has emerged as a priority for the government, aimed at facilitating the ease of doing business within the mining sector and fostering sustainable development.

Clearances required for commencement of a mine



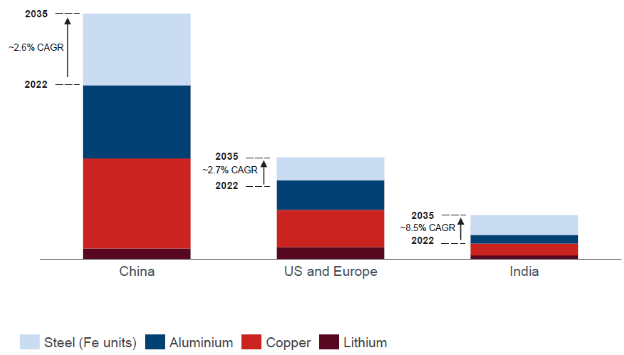
Source: Company, LKP Research

Key tailwinds in the Steel Sector

Iron Ore demand is majorly dependent on the steel industry. China imports nearly 85% of its iron ore needs mainly from Australia and Brazil as China lacks good high quality iron ore required for steel production. China is one of the top consumers of the iron ore industry riding back on the high steel manufacturing production capacities in the country. Roughly 98% of the iron ore produced globally is used by the steel sector to produce steel which in turn has applications across industries like construction, transport, energy etc. The global demand of iron ore will mostly depend on the global demand of steel and the pricing of steel will be dependent on the pricing of iron ore. So, both the sectors will move in tandem with each other.

EU Sanctions on Russian steel exports to benefit India: In 2023, the EU and the UK imported around 30 MT of steel from non-EU nations — the largest being China (15%), India (13%), Turkey (12%) and Korea (12%). EU sanctions on Russian exports are scheduled to take effect in 2024. Following the initial ban on finished steel from Russia, a ban on billet imports will take effect in April. The EU imported 4-5 MT a year of Russian steel prior to the Russian invasion of Ukraine but has since turned to China and India for that supply; these nations provided about 10 MT in 2023.

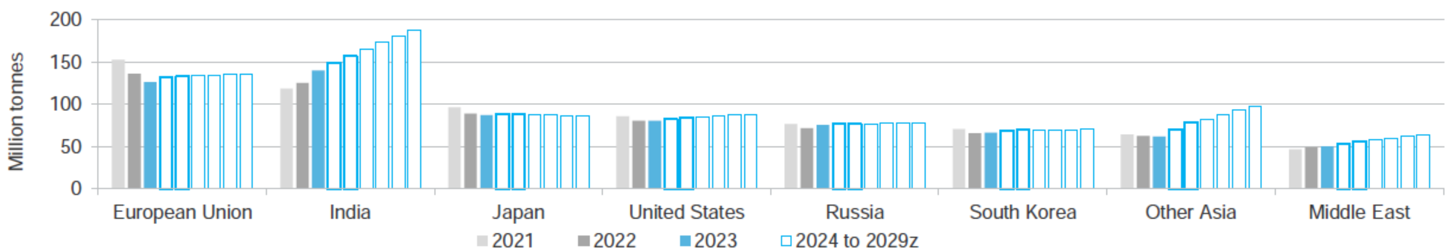
Indian Steel demand is expected to grow 3x more than US, Europe & China by 2035



Surging Indian demand and the continued expansion of Western demand will complement Chinese growth.

Source: Department of Industry Science and Resources (DISR), LKP Research

Annual Steel Production Outlook is the highest for India between 2024-2029

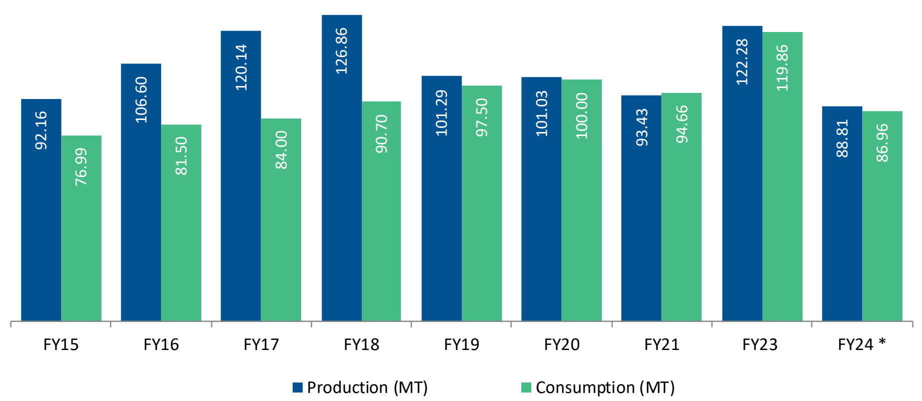


Source: Department of Industry Science and Resources (DISR), LKP Research

India is expected to lead the world in Steel Production by 2029

Indian steel output expanded rapidly in 2023, to reach 140 MT, a rise of 12% YoY. This was driven by rising demand from strong levels of construction activity in all three sectors (residential, infrastructure and commercial). India's economic outlook remains healthy, with the demand for steel expected to maintain its high growth momentum - driven by the manufacturing and construction sectors. India's manufacturing PMI strengthened in February, with steady growth reported in output, new orders and foreign sales. Indian Government data from late 2023 indicate a pipeline of over 1700 projects in road transport, railways, energy and water, with an anticipated completion cost of around US$360 bn. India is projected to record some of the strongest growth in steel output globally over the outlook period. Substantial steel production capacity is expected to be added over the next few years, with the Government aiming to double steel capacity to 300 MT by 2030.

Finished steel production and consumption



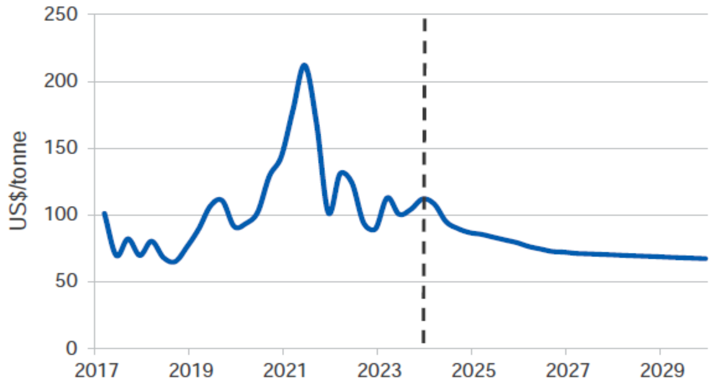
Source: IBEF, LKP Research

Global Iron Ore Pricing Outlook

The pricing of iron ore holds significant sway in determining steel spreads and serves as a crucial benchmark for steel pricing. Market dynamics, including investor sentiment, speculation, and macroeconomic factors, exert influence on iron ore pricing. Traders, producers, and consumers of iron ore actively engage in these markets to mitigate price risks and ensure future supply.

Iron ore prices have experienced bouts of strength in recent months, on the back of positive market sentiment following a series of Chinese government measures to support China's economy. After falling to a low of around US$98 a tonne in mid-2023, the benchmark iron ore spot price (basis 62% Fe fines CFR Qingdao) recovered to average over US$125 a tonne in January-February 2024. A rally in iron ore prices through the December quarter 2023 and early 2024 came despite weakness in Chinese steel production (down 13.5% and 6.9% year-on-year in December and January respectively). From an estimated average price of around US$105 a tonne in 2023, the benchmark iron ore price is projected to steadily fall to an average of about US$68 a tonne in real terms by 2029 However, these declines are not expected to result in significant impact on NMDC as domestic production and consumption is expected to remain strong going ahead.

Global Iron Ore Price Outlook



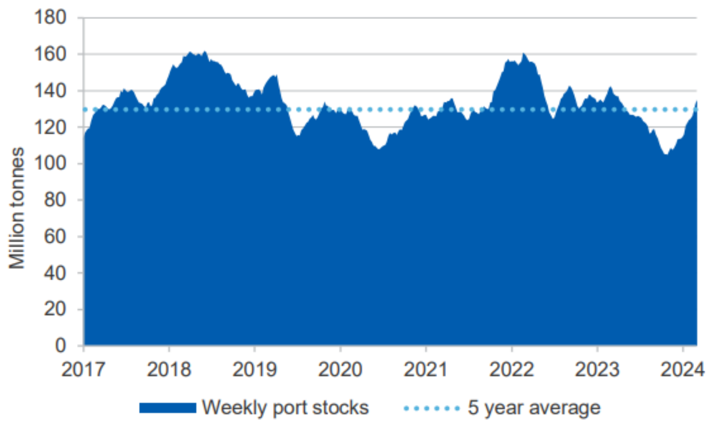
Source: Department of Industry Science and Resources (DISR), LKP Research

In mid-November, China experienced a dip in portside iron ore inventories, falling approximately 20% below historical averages. However, subsequent restocking efforts by mills have replenished inventories to levels in line with historical norms. This resurgence may be attributed in part to cyclical factors, as mills ramp up production ahead of the peak construction season following the Chinese New Year. Despite this inventory recovery, iron ore prices have plummeted to seven-month lows in early-March. This decline reflects mounting concerns over China's subdued growth outlook, particularly within its property sector. Additionally, the rapid accumulation of iron ore inventories amid sluggish steel output in early 2024 has exerted further downward pressure on prices. Notably, China's iron ore imports surged by 6.6% to a record 1,180 MT in 2023, despite flat steel production. This uptick included increased imports from countries such as Brazil, South Africa, and Canada, while Australian exports to China saw a modest 1.5% rise in 2023.

Iron ore price, monthly

Notes: China import Iron ore fines 62% Fe spot (CFR Tianjin port)
Source: Bloomberg (2024) China import prices

China's weekly iron ore port stocks



Source: Bloomberg (2024)

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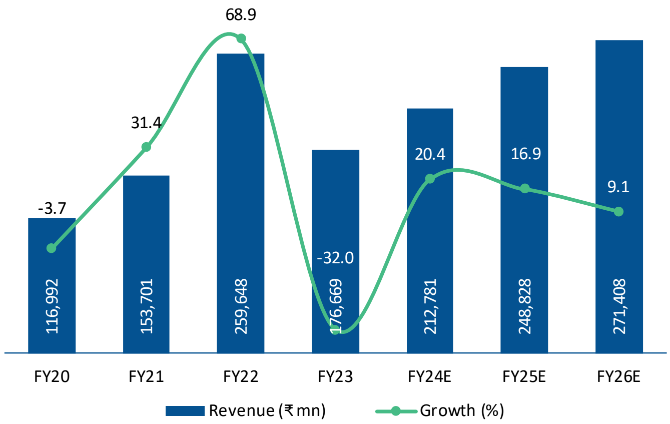
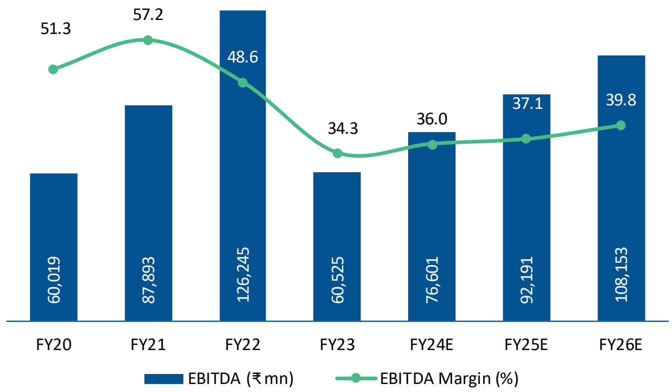
Story in Charts

Revenue Vs Revenue Growth



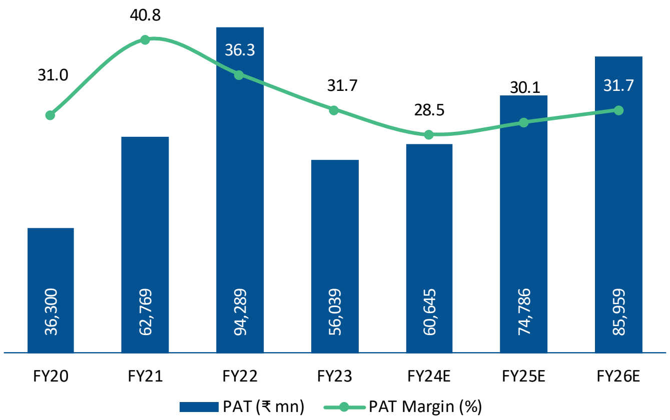
Source: Company, LKP Research

EBITDA Vs EBITDA Margin



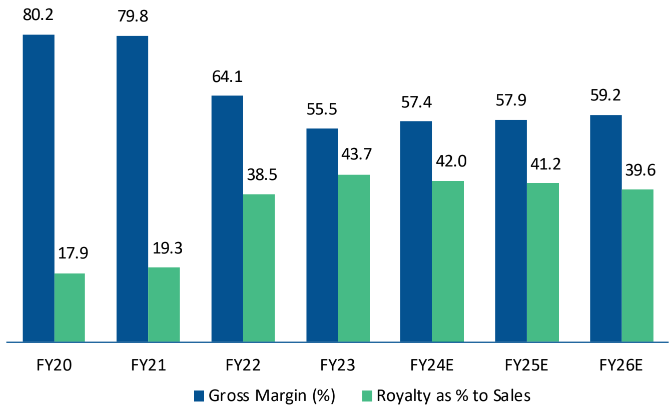
Source: Company, LKP Research

PAT Vs PAT Margin



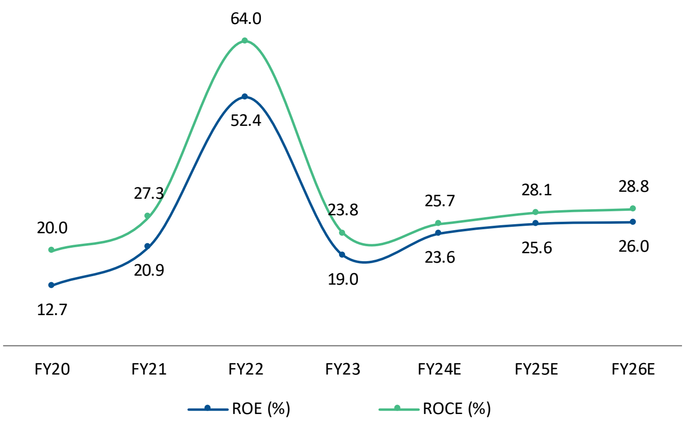
Source: Company, LKP Research

Gross Margin & Royalty as % to Sales Trend



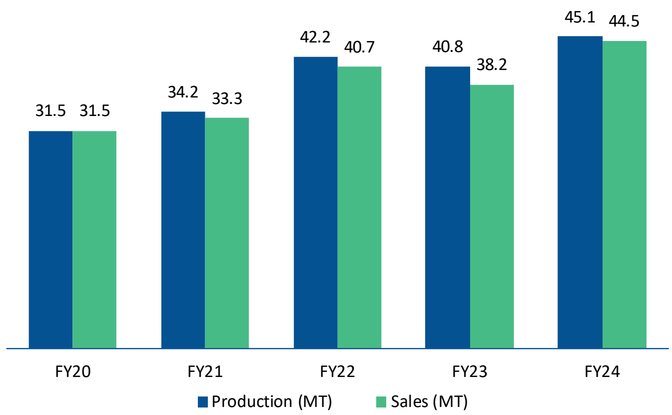
Source: Company, LKP Research

ROE vs ROCE



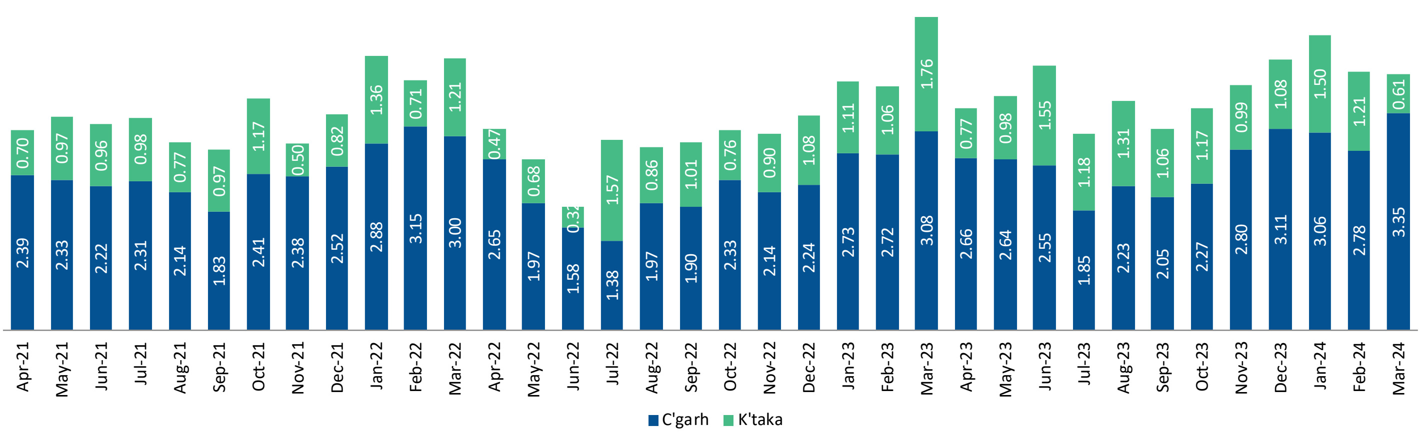
Source: Company, LKP Research

Annual Production vs Sales Trend



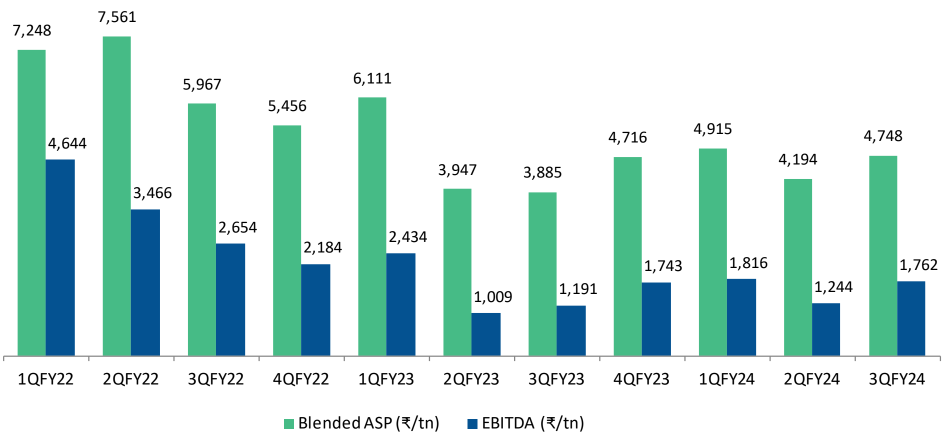
Source: Company, LKP Research

Sales Volume mix between Karnataka & Chattisgarh (in MT)



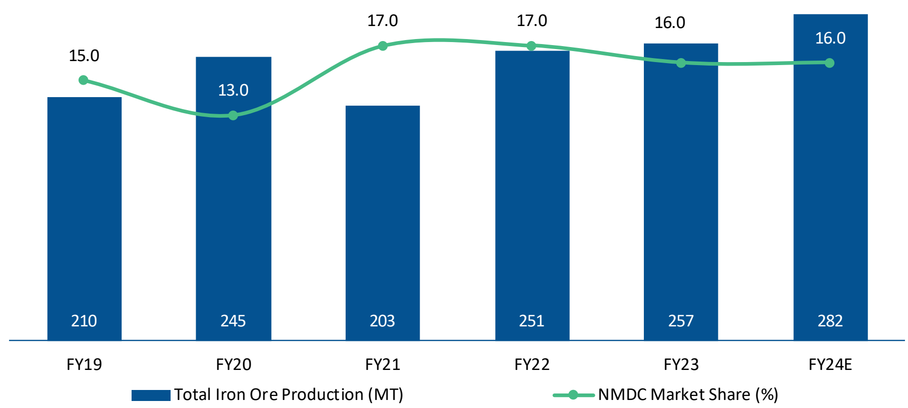
Source: Company, LKP Research

Quarterly EBITDA & Blended Average Selling Price (ASP)



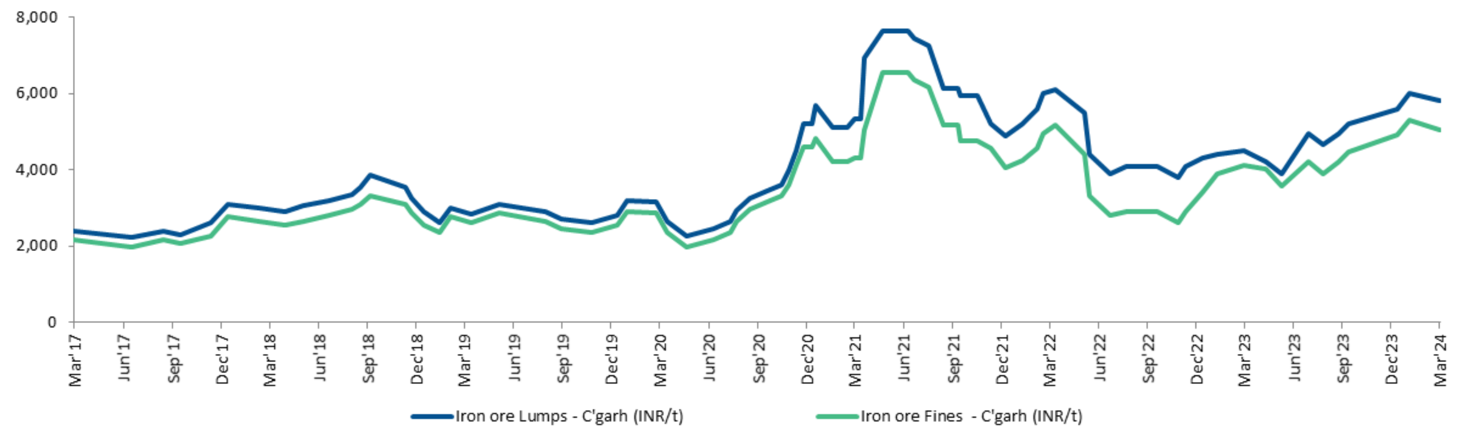
Source: Company, LKP Research

NMDC Market Share to remain resilient



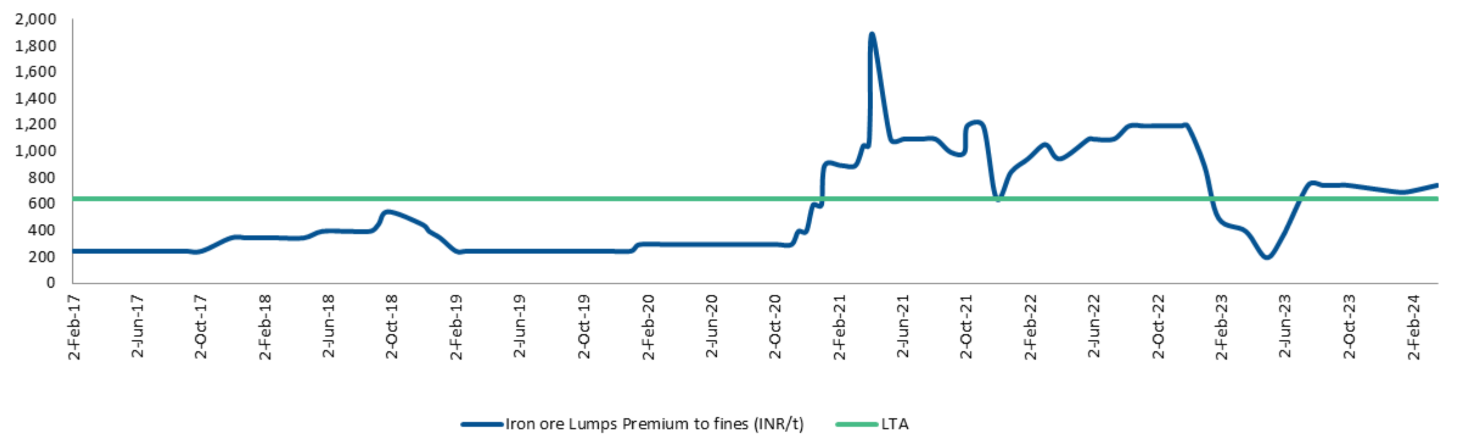
Source: Company, LKP Research

Domestic Iron Ore Fines & Lumps Prices remain resilient even after recent fall in Global Prices



Source: Company, LKP Research

Iron Ore Lumps Premium to Fines in comparison to Long Term Average (LTA)



Source: Company, LKP Research

Valuations & View

NMDC Limited (NMDC) is India's largest producer of iron ore. Operating under the Ministry of Steel, NMDC is a 'Navratna' public sector enterprise and owns and operates highly mechanized iron ore mines in Chhattisgarh and Karnataka. NMDC is one of the low-cost producers of iron ore in the world. With iron-ore production of around 45.1 MT in FY24, at an average of 64% Fe, NMDC sells one of the best grade Iron ore globally.

We believe with the onset of key structural changes in the economy and a decade long investment cycle triggered largely by the government capex is expected to continue and In comparison to its international counterparts, the domestic steel sector stands in a favorable position. It is projected that the domestic crude steel capacity will hit around 175 MT in FY24, boasting an estimated capacity utilization rate of approximately 82%. This translates to an anticipated iron ore requirement of roughly 282 MT in FY24E with NMDC commanding a ~16% market share.

We Initiate coverage on NMDC based on the following factors: 1) NMDC stands to capitalize on rising steel demand as India's steel industry doubles by 2030. 2) This PSE is poised to be a key beneficiary of a potential repeat of the 2003-07 capex boom, given the resemblance of the current economic landscape to that of 2003-2008. 3) Aggressive mine capacity expansion to meet upcoming demand. 4) Abundant availability of high-quality ores for the next 40 years. We Initiate NMDC at 6.5x FY26E EV/EBITDA to arrive at a target price of ₹297. Over FY24E-26E we expect NMDC to clock a Revenue/EBITDA/PAT CAGR of 12.9%/18.8%/19.1% respectively.

Key Risks

- **Client Concentration risk**: Currently, ~80% of the firm's revenue comes from only four of the company's major clients with JSW Steel and ArcelorMittal accounting for ~50% of the total revenue.
- **Competition risk**: Heightened competition from steel giants such as Tata Steel, SAIL, and JSW Steel arises from their strategic backward integration initiatives. To date, ~105 iron ore blocks have been auctioned since FY16, with around ~57 blocks auctioned in FY23 & FY24P. Among these, approximately 30 mines are currently operational. As the remaining captive mines become operational, the supply of iron ore is expected to rise, intensifying competition for NMDC.
- **Increase in Electric Arc Furnace (EAF) Capacities:** With the expectations to produce greener steel going up, steel production through the EAF route is inevitable. Such a scenario poses a challenge for the iron ore industry and NMDC in general as the main raw material of iron ore gets substituted with steel scrap (recycled steel) nevertheless it's a far-fetched risk as the required quantity of scrap is not available domestically.
- **Geopolitical and Domestic Policy risks:** Concerns about access to capital, political instability, ability to access and replace reserves, permitting risks and commodity price risks are some of the geopolitical and policy risks for NMDC.

Profit and Loss Statement

(₹ mn)	FY20	FY21	FY22	FY23	FY 24E	FY 25E	FY 26E
Revenue from Operations	**116,992**	**153,701**	**259,648**	**176,669**	**212,781**	**248,828**	**271,408**
Raw Material Cost (Incl. Royalty)	23,221	31,070	93,309	78,554	90,645	104,757	110,752
Employee Cost	10,494	10,852	13,371	15,306	18,299	20,902	21,150
Other Exp	23,259	23,886	26,724	22,284	27,236	30,979	31,352
EBITDA	**60,019**	**87,893**	**126,245**	**60,525**	**76,601**	**92,191**	**108,153**
EBITDA Margin (%)	*51.3%*	*57.2%*	*48.6%*	*34.3%*	*36.0%*	*37.1%*	*39.8%*
Depreciation	2,949	2,285	2,877	3,362	6,333	5,448	7,775
EBIT	**57,070**	**85,607**	**123,367**	**57,164**	**70,268**	**86,743**	**100,378**
EBIT Margin (%)	*48.8%*	*55.7%*	*47.5%*	*32.4%*	*33.0%*	*34.9%*	*37.0%*
Other Income	5,144	3,516	7,185	7,682	11,703	13,686	14,927
Interest	99	168	391	752	733	713	694
Exceptional items	964	-	-	12,373	-	-	-
Adj PBT	**62,115**	**88,955**	**130,162**	**64,093**	**81,238**	**99,715**	**114,612**
PBT Margin (%)	*53.1%*	*57.9%*	*50.1%*	*36.3%*	*38.2%*	*40.1%*	*42.2%*
Reported PBT	61150	88955	130162	76466	81238	99715	114612
Tax	25,127	26,485	35,751	21,082	20,634	24,929	28,653
Adj PAT (before MI & Sh.of Associates)	**36,988**	**62,471**	**94,411**	**43,011**	**60,603**	**74,786**	**85,959**
Minority Income & Sh.of Associates	282	295	(117)	659	42	-	-
Reported PAT(after MI & Sh,of Associates)	36,305	62,766	94,294	56,043	60,645	74,786	85,959
Adj PAT Margins (%)	*32%*	*41%*	*36%*	*24%*	*28%*	*30%*	*32%*
Reported PAT Margins (%)	*31%*	*41%*	*36%*	*32%*	*29%*	*30%*	*32%*

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Equity and Liabilities							
Equity Share Capital	**3,062**	**2,931**	**2,931**	**2,931**	**2,931**	**2,931**	**2,931**
Reserves & Surplus	273,669	295,910	177,252	223,278	283,881	358,667	444,626
Non-controlling interest	81	135	135	142	142	142	142
Total Networth	**276,811**	**298,976**	**180,317**	**226,351**	**286,954**	**361,740**	**447,699**
Long term Borrowings	-	5,464	-	-	-	-	-
Deferred tax liability	-	-	-	-	-	-	-
Provisions	8,280	9,454	10,925	12,560	12,909	13,087	14,490
Other Non-Current liabilities	58	47	1,561	1,553	2,128	2,304	2,875
Total non-current liab and provs	**8,338**	**14,965**	**12,486**	**14,113**	**15,037**	**15,390**	**17,365**
Current Liabilities							
Short term Borrowings	5,656	14,480	17,925	4,160	4,055	3,945	3,835
Trade Payables	2,259	3,608	6,648	4,259	5,320	5,530	6,221
Provisions	2,228	986	151	1,239	1,419	1,843	2,300
Other financial liabilities	12,200	17,760	5,218	8,969	9,183	12,661	7,611
Other current liabilities	5,453	18,522	26,379	23,387	21,278	17,621	13,800
Total current liab and provs	**27,795**	**55,357**	**56,321**	**42,014**	**41,254**	**41,599**	**33,767**
Total Equity & Liabilities	**312,944**	**369,298**	**249,123**	**282,477**	**343,244**	**418,730**	**498,831**
Assets							
Gross block	**42,283**	**44,800**	**43,137**	**38,758**	**70,927**	**92,159**	**115,003**
Depreciation	9,744	11,661	12,891	14,945	21,278	26,726	34,501
Net block	32,539	33,139	30,246	23,813	49,649	65,433	80,502
Capital WIP	155,002	171,065	13,283	19,916	19,920	26,440	17,262
Total Fixed Assets	**187,541**	**204,204**	**43,529**	**43,729**	**69,569**	**91,873**	**97,764**
Investments	9,101	8,749	8,950	9,347	10,907	14,470	21,042
Loans	2,244	2,592	408	626	620	731	783
Intangible assets	5,782	6,639	6,346	8,163	12,767	14,745	18,401
Income tax assets	3,971	4,083	5,689	2,975	5,444	5,855	6,075
Other Non current Assets	35,100	37,029	27,019	59,565	54,493	54,261	55,962
Total Non-Current Assets	**243,738**	**263,296**	**91,941**	**124,405**	**153,800**	**181,934**	**200,028**
Current Assets							
Inventories	7,235	9,217	21,252	26,606	32,508	38,015	41,465
Trade Receivables	22,237	21,399	29,543	26,560	30,735	35,251	38,449
Cash & Bank Balances	24,375	58,618	79,775	70,978	86,018	119,016	173,695
Other financial assets	7,946	5,497	14,837	16,126	20,096	22,809	22,809
Other current assets	7,406	11,265	11,767	17,796	20,087	21,704	22,385
Total current Assets	**69,200**	**105,996**	**157,174**	**158,066**	**189,445**	**236,796**	**298,804**
Assets held for sale	**7**	**6**	**8**	**7**	**-**	**-**	**-**
Total Assets	**312,944**	**369,298**	**249,123**	**282,477**	**343,244**	**418,730**	**498,831**

Key Ratios

YE Mar	FY20	FY21	FY22	FY23	FY 24E	FY 25E	FY 26E
Per Share Data (Rs)							
Adj. EPS	11.9	21.4	32.2	19.1	20.7	25.5	29.3
CEPS	12.4	22.1	33.2	15.8	22.8	27.4	32.0
BVPS	90.4	102.0	61.5	77.2	97.9	123.4	152.8
Growth Ratios(%)							
Revenue	-3.7%	31.4%	68.9%	-32.0%	20.4%	16.9%	9.1%
EBITDA	-13.3%	46.4%	43.6%	-52.1%	26.6%	20.4%	17.3%
EBIT	-14.1%	50.0%	44.1%	-53.7%	22.9%	23.4%	15.7%
PAT	-21.4%	72.9%	50.2%	-40.6%	8.2%	23.3%	14.9%
Valuation Ratios (X)							
PE	6.7	6.3	5.0	5.8	11.4	9.2	8.0
P/CEPS	6.4	6.1	4.9	7.0	10.3	8.6	7.3
P/BV	0.9	1.3	2.6	1.4	2.4	1.9	1.5
EV/Sales	1.9	2.3	1.6	1.5	2.9	2.3	1.9
EV/EBITDA	3.8	4.1	3.3	4.3	7.9	6.2	4.8
Operating Ratios (Days)							
Inventory days	22.3	21.6	29.5	54.2	55.0	55.0	55.0
Receivable Days	68.4	50.1	41.0	54.1	52.0	51.0	51.0
Payables day	7.0	8.5	9.2	8.7	9.0	8.0	9.0
Debt to Equity (x)	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Performance Ratios (%)							
AROA (%)	11.2%	16.9%	37.9%	15.2%	17.7%	17.9%	17.2%
AROE (%)	12.7%	20.9%	52.4%	19.0%	23.6%	25.6%	26.0%
AROCE (%)	20.0%	27.3%	64.0%	23.8%	25.7%	28.1%	28.8%
Asset Turnover(x)	2.9	3.5	5.9	4.3	3.0	2.7	2.4
Inventory Turnover(x)	16.2	16.7	12.2	6.6	6.5	6.5	6.5

Cash Flow

(₹ mn)	FY 20	FY 21	FY22	FY23	FY 24E	FY 25E	FY 26E
PBT	61,150	88,955	130,162	76,466	81,238	99,715	114,612
Adjustments	3,788	3,891	5,846	339	22,011	27,439	35,194
Operating CF before WC changes	64,938	92,846	136,008	76,805	103,249	127,155	149,806
Changes in working capital	-8,438	-9,029	-20,872	4,498	-23,074	-31,455	-19,512
Tax paid	-22,796	-24,687	-43,506	-20,685	-20,634	-24,929	-28,653
Cash flow from operations (a)	**21,270**	**72,656**	**69,429**	**24,665**	**63,103**	**78,506**	**104,350**
Capital expenditure	-24,035	-16,221	-11,983	-14,013	-25,836	-15,784	-15,070
Other investing activities	20,907	-26,942	-20,156	14,446	-	-	-
Cash flow from investing (b)	**-3,128**	**-43,163**	**-32,139**	**433**	**-25,836**	**-15,784**	**-15,070**
Free cash flow (a+b)	**18,143**	**29,493**	**37,290**	**25,098**	**37,267**	**62,722**	**89,280**
Dividends Paid	-19,525	-22,733	-43,195	-10,993	-23,029	-28,419	-32,664
Other financing activities	1,992	-3,180	2,527	-14,372	-211	-1,306	-1,937
Cash flow from financing (c)	**-17,533**	**-25,913**	**-40,669**	**-25,365**	**-23,240**	**-29,724**	**-34,602**
Net chng in cash (a+b+c)	**610**	**3,580**	**-3,379**	**-267**	**14,027**	**32,998**	**54,679**
Cash & Cash equivalents at the beginning of the year	470	1,080	4,660	1,281	1,014	15,041	48,039
Closing cash & cash equivalents	1,080	4,660	1,281	1,014	15,041	48,039	102,718
Cash & Bank Balance	24,375	58,618	79,775	70,978	70,978	70,978	70,978
Closing Cash & Bank Balance	**25,454**	**63,278**	**81,056**	**71,991**	**86,018**	**119,016**	**173,695**

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