

August 16, 2024

**RESULT REPORT Q1 FY25** | Sector: Metals and Mining

# NMDC Ltd

## Higher pricing aids margin expansion

### Result Synopsis

NMDC's Q1FY25 earnings were above the consensus estimates owing to higher realizations and higher margins as compared to Q4FY24 due to normalized royalty rates. The EBITDA margins came in at 43.2% vs 32.4% in Q4FY24. The realization/t for the quarter came in at Rs 5,304/t, reporting a rise of 3.5% from Q4FY24, where the same was Rs 5,125/t. NMDC incurred about Rs 2,100 crores of capex during FY24 and is expected to undertake ~Rs 2,200 crores on an annual basis for FY25E and FY26E. The capex is then expected to increase and reach peak levels of Rs 7,000-8,000 crores from FY27E onwards for the company which is on the path to doubling its mining capacities to 100 mtpa by FY2031.

On the operational front, the company reported an iron ore production of 9.189 mn tonnes for the quarter and sales of 10.043 mn tonnes. The production fell by over 30% QoQ whereas the sales saw a fall of ~20% on a QoQ basis.

### Our View

NMDC has been performing well on the operational front and had undertaken multiple price hikes since the start of the CY24. Owing to the monsoons and a seasonally weak demand period, a couple of price-cut initiatives have taken place which is expected to impact the realizations by ~Rs 1,000/t in Q2FY25. Over the course of the next year and a half, India is seeing new capacities of steel being ramped up which would require a great supply of iron ore. We see the iron ore market to remain tight for the near-term and expect some price recovery post the monsoons.

The global iron ore prices however are touching new lows owing to a poor demand for the mineral on a global level. We believe that the demand revival in China is still afar which can cause the global iron ore market to be under-pressure. Additionally, new mines coming up in the African regions will only heat up the oversupply situation for iron ore globally. We see such global cues can have a negative impact on the domestic pricing as well.

### Valuation

We maintain our ADD rating on NMDC, however we cut our EV multiple to 6.0x owing to the global headwinds the steel and iron ore industry are facing currently. We value NMDC at 6x FY26E EV/EBITDA to arrive at our revised target price of Rs 239/sh.

### Exhibit 1: Actual vs estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	54,142	57,326	54,829	(5.6%)	(1.3%)	Higher iron ore pricing helps margin expansion
EBITDA	23,399	22,116	20,046	5.8%	16.7%	
EBITDA (%)	43.22%	38.58%	36.56%	12.0%	18.2%	
PAT	19,708	16,626	16,794	18.5%	17.3%	

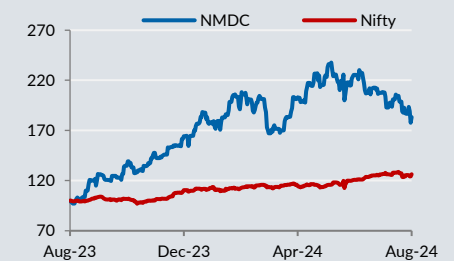
Source: YES Sec

Reco	: ADD
CMP	: Rs 217
Target Price	: Rs 239
Potential Upside	: +10%

### Stock data (as on Aug 16, 2024)

Nifty	24,541
52 Week h/l (Rs)	286 / 113
Market cap (Rs/USD mn)	618182 / 7367
Outstanding Shares (mn)	2,931
6m Avg t/o (Rs mn):	3,596
Div yield (%):	3.0
Bloomberg code:	NMDC IN
NSE code:	NMDC

### Stock performance



	1M	3M	1Y
Absolute return	-11.9%	-17.9%	85.5%

### Shareholding pattern (As of Jun'24 end)

Promoter	60.8%
FII+DII	27.1%
Others	12.1%

### Δ in estimates

FY26E	New	Old
EV multiple	6.0x	6.5x
EBITDA (mn)	99,135	107,280

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	239	283

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	213,078.5	222,751.9	264,845.0
YoY %	20.6	4.5	18.9
EBIDTA	72,928.3	86,166.5	99,134.5
% Margins	34.2	38.7	37.4
PAT	55,750.6	72,341.3	81,515.1
EPS	190.2	246.8	278.1
ROE (%)	21.7	25.0	25.0
ROCE (%)	25.5	27.1	27.8

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## Result Highlights

- Consolidated revenue from operations stood at Rs 5,414 crores (vs consensus estimate of Rs 5,482 crores and our estimate of Rs 5,733 crores), down 16.6% QoQ and flat on a YoY basis.
  - Iron ore revenue stood at Rs 5,342 crores for the quarter.
- Absolute EBITDA stood at Rs 2,340 crores (vs consensus estimate of Rs 2,005 crores and our estimate of Rs 2,216 crores), up 11.3% QoQ and 17.4% crores. EBITDA margins stood at 43.2% vs 32.4% in Q4FY24 and 37.0% in Q1FY24.
- PAT stood at Rs 1,971 crores (vs consensus estimate of Rs 1,679 crores and our estimate of Rs 1,663 crores).
- Average realizations/t stood at Rs 5,304/t vs Rs 5,125/t in Q4FY24.

## Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% qoq	% yoy
Revenue from operations	53,947	40,140	54,099	64,893	54,142	(16.6%)	0.4%
Raw materials consumed	27	36	62	84	40	(52.2%)	50.4%
Consumption of stores and spares	1,305	1,164	1,213	2,846	1,432	(49.7%)	9.7%
Change in inventories	767	2,845	(739)	(3,807)	(413)	(89.1%)	(153.9%)
Royalties	23,189	15,050	23,211	30,690	20,228	(34.1%)	(12.8%)
Employee costs	3,649	3,928	3,984	4,695	3,890	(17.1%)	6.6%
Selling expenses	862	634	869	1,019	1,020	0.1%	18.4%
Other expenses	4,212	4,579	5,426	8,348	4,546	(45.5%)	7.9%
EBITDA	19,935	11,904	20,072	21,017	23,399	11.3%	17.4%
EBITDA %	37.0%	29.7%	37.1%	32.4%	43.2%	33.4%	17.0%
Other income	2,942	3,210	3,366	4,191	3,649	(12.9%)	24.0%
Depreciation and amortization	692	888	820	1,106	737	(33.4%)	6.5%
Finance costs	62	186	321	214	231	7.9%	273.0%
Exceptional items	-	-	2,523	299	-	(100.0%)	NA
Profit before tax	22,123	14,041	19,774	23,589	26,080	10.6%	17.9%
Taxes	5,511	3,790	5,073	9,430	6,444	(31.7%)	16.9%
Profit after tax	16,612	10,251	14,701	14,159	19,636	38.7%	18.2%
Share of profit/(loss)	(77)	11	120	(58)	57	(197.1%)	(174.0%)
Minority interest	12	(3)	(22)	(29)	(18)	(39.4%)	(250.9%)
Profit attributable to owners	16,522	10,262	14,839	14,127	19,708	39.5%	19.3%
EPS	5.64	3.50	5.06	4.82	6.72	39.5%	19.3%

Source: Company, YES Sec

## Exhibit 3: Consolidated Operational Performance

In million tonnes	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	% qoq	% yoy
<b>Consolidated performance</b>							
Production	10.703	8.856	12.223	13.240	9.189	(30.6%)	(14.1%)
Sales	10.975	9.571	11.394	12.541	10.073	(19.7%)	(8.2%)
Realization/t (Rs)	4,850.8	4,145.3	4,678.9	5,125.0	5,303.6	3.5%	9.3%

Source: Company, YES Sec

## KEY CONFERENCE CALL HIGHLIGHTS

### General business updates

- On the Supreme Court judgement, the company expects about Rs 144 crores in Chhattisgarh. However, in Karnataka the company expects to have a liability of approximately Rs 2,500 crores
  - The customer base has been stable in Karnataka for the last 20 years; hence the management expects to recover the liability relatively easily.
  - Karnataka has not been given a liability as per the ruling yet, but if there is a ruling, the liability will be the amount mentioned above and mostly recoverable.
- The diamond mine operating in the region of Panna shall attract a Rs 21 crore liability due to the Supreme Court Judgement.
- On prospective taxation- The company is awaiting on how the states will be levying the taxes and the same shall be informed once the situation gets clearer.
  - The management however sounded confident that the Supreme Court ruling should not impact the company as adversely as earlier expected.

### NMDC Steel

- Production guidance for the company for FY25 – 1.8 to 2.0 mn tonnes. The company break evens at about 1.6 to 1.7 mn tonnes.
- NMDC Steel would require about 5.0 mn tonnes of iron ore at peak utilization.
  - NMDC becomes the preferred supplier due to being the closest iron ore source.
  - Out of the 50 mn tonnes that NMDC currently supplies, NMDC steel automatically becomes 10% of the company's order book.
- NMDC Steel plant to achieve 1.0 mn tonnes of production during the month of August 2024; exactly one year post the commissioning of the plant.
  - The management expects NMDC Steel to reach a run-rate of 150 kt by the end of Q2FY25.

### Capex and Projects

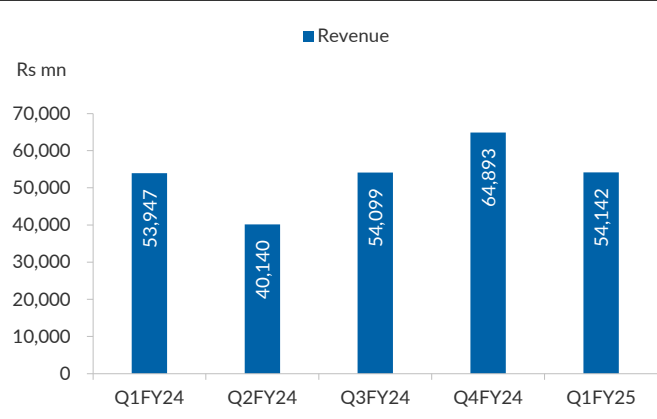
- Capex incurred by NMDC in FY24 was Rs 2,100 crores. The management targets Rs 2,200 crores of capex for FY25.
  - Up to August 2024, the company has spent ~Rs 300-400 crores on capex.
  - Slurry pipeline is currently in the works. The project includes beneficiation plant, slurry pipeline, and the pellet plant.
  - Pellet plant and beneficiation plant are currently on hold, but pipeline is proceeding as planned. The project should be completed and commissioned by mid CY26.

### Volumes and Guidance

- For FY25, the production guidance is of 50.0 mn tonnes. For FY26, NMDC expects a production of 53.0 - 54.0 mn tonnes.
  - Already applied for enhance EC for which public hearing has already been held.

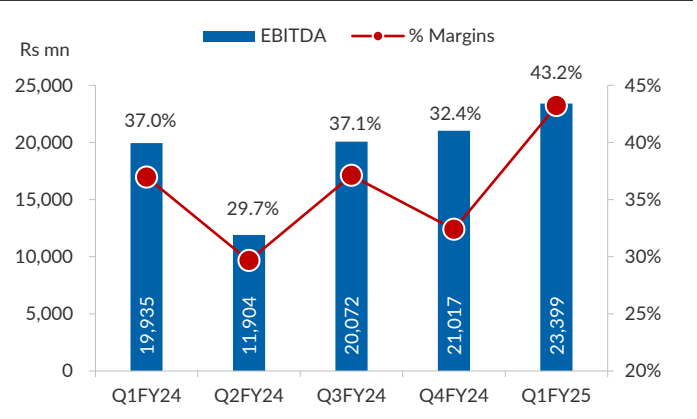
## QUARTERLY TRENDS

**Exhibit 4: Revenue fell ~16.6% QoQ**



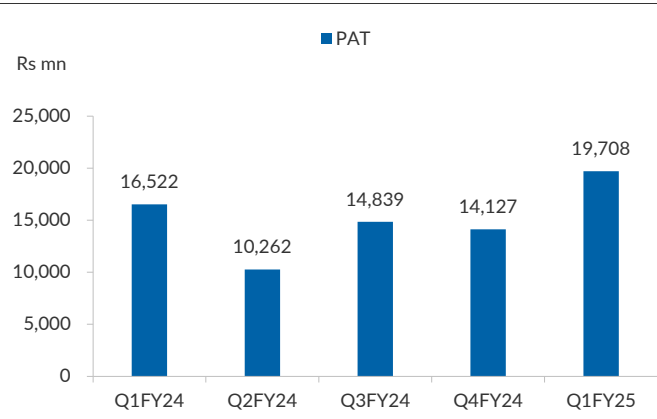
Source: Company, YES Sec

**Exhibit 5: EBITDA continues to remain strong**



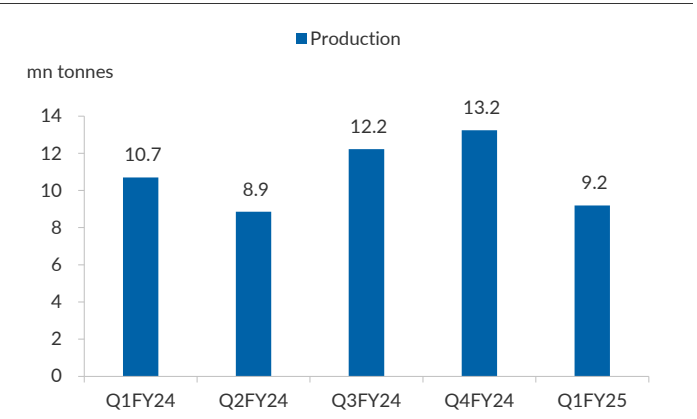
Source: Company, YES Sec

**Exhibit 6: PAT continues to remain steady...**



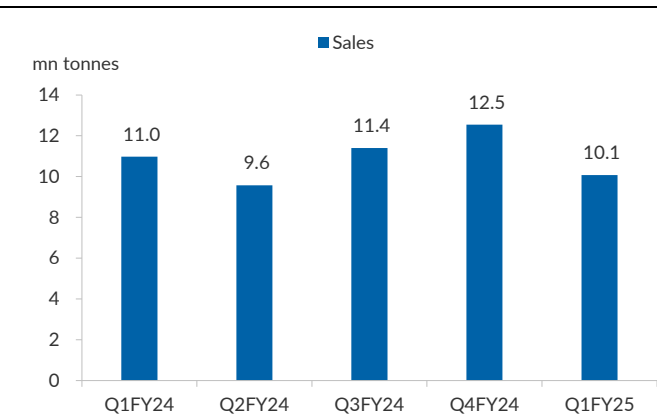
Source: Company, YES Sec

**Exhibit 7: Production over the quarters**



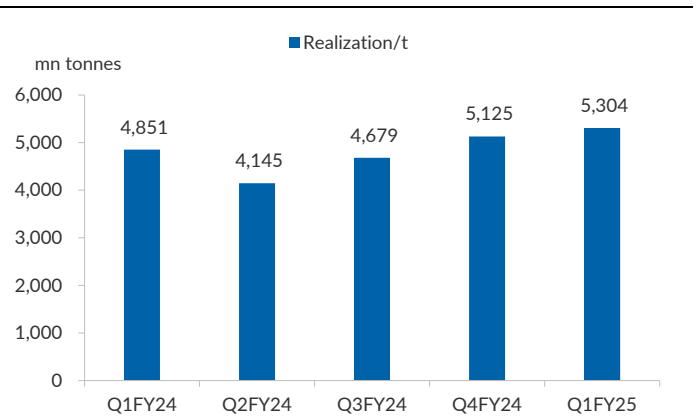
Source: Company, YES Sec

**Exhibit 8: Sales trend**



Source: Company, YES Sec

**Exhibit 9: Average realization/t**



Source: Company, YES Sec

## FINANCIALS OVERVIEW

**Exhibit 10: Income Statement**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	153,701	259,648	176,669	213,079	222,752	264,845
Cost of goods sold	31,070	93,309	78,554	97,945	92,825	111,826
Employee cost	10,852	13,371	15,306	16,255	16,535	19,863
Selling expenses	6,953	2,277	2,630	3,385	4,393	5,297
Other expenses	16,933	24,447	19,654	22,566	22,833	28,724
EBITDA	87,893	126,245	60,525	72,928	86,166	99,135
% margin	57.2%	48.6%	34.3%	34.2%	38.7%	37.4%
Depreciation	2,285	2,877	3,362	3,507	3,564	4,238
Other income	3,516	7,185	7,682	13,709	14,416	14,416
Finance costs	168	391	752	782	726	626
Exceptional items	-	-	(12,373)	2,822	-	-
Profit before tax	88,955	130,162	76,466	79,527	96,292	108,687
Taxes	26,485	35,751	21,082	23,804	24,023	27,172
Profit after tax	62,770	94,287	56,015	55,751	72,341	81,515
EPS	21.4	32.2	19.1	19.0	24.7	27.8

Source: Company, YES Sec

**Exhibit 11: Balance Sheet**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Assets</b>						
Net Block	33,139	30,246	23,813	24,779	33,215	40,977
CWIP	171,065	13,283	19,916	32,305	40,305	48,305
Non-current Assets	263,296	91,941	123,994	141,125	154,157	176,065
Inventory	9,217	21,252	26,606	27,670	34,332	41,360
Receivables	21,399	41,905	43,612	35,089	27,463	32,652
Cash & Bank	58,618	79,775	70,978	123,637	134,369	135,355
Current Assets	105,996	169,536	175,528	215,476	220,352	235,912
<b>Total Assets</b>	<b>369,298</b>	<b>261,485</b>	<b>299,529</b>	<b>356,610</b>	<b>374,510</b>	<b>411,978</b>
<b>Equity and Liabilities</b>						
Share Capital	2,931	2,931	2,931	2,931	2,931	2,931
Reserves	295,910	177,252	223,278	253,628	286,149	322,831
Non-current Liabilities	16,269	12,486	14,113	15,833	15,833	15,833
Current Liabilities	54,053	68,682	59,066	84,048	69,426	70,213
<b>Total Equity and Liabilities</b>	<b>369,298</b>	<b>261,485</b>	<b>299,529</b>	<b>356,610</b>	<b>374,510</b>	<b>411,978</b>

Source: Company, YES Sec

**Exhibit 12: Cash Flow Statement**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	88,955	130,162	76,466	79,527	96,292	108,687
Profit before working capital changes	92,851	135,999	75,207	73,490	100,582	113,550
Working capital changes	4,498	(23,075)	(36,146)	18,567	1,244	(8,788)
Cash flow from operations	97,349	112,924	39,061	92,058	101,826	104,762
Taxes paid	(24,687)	(43,506)	(20,685)	(18,110)	(24,023)	(27,172)
<b>Net cash flow from operating activities</b>	<b>72,661</b>	<b>69,418</b>	<b>18,376</b>	<b>73,948</b>	<b>77,803</b>	<b>77,590</b>
Capex	(16,221)	(11,983)	(12,472)	(18,471)	(12,000)	(12,000)
Other investments	(26,942)	(20,156)	14,495	(42,293)	(4,596)	(14,146)
<b>Net cash flow from investing activities</b>	<b>(43,163)</b>	<b>(32,139)</b>	<b>2,023</b>	<b>(60,764)</b>	<b>(16,596)</b>	<b>(26,146)</b>
Proceeds/(repayment) from borrowings	1,429	344	(907)	1,235	(1,000)	(500)
Other financial activities	(27,342)	(41,013)	(19,767)	(14,255)	(49,474)	(49,959)
<b>Net cash flow from financing activities</b>	<b>(25,913)</b>	<b>(40,669)</b>	<b>(20,674)</b>	<b>(13,020)</b>	<b>(50,474)</b>	<b>(50,459)</b>
Opening cash balance	1,056	4,641	1,206	930	1,094	3,548
Net change in cash	3,585	(3,389)	(276)	164	10,733	986
<b>Ending cash balance</b>	<b>4,641</b>	<b>1,206</b>	<b>930</b>	<b>1,094</b>	<b>11,827</b>	<b>4,534</b>

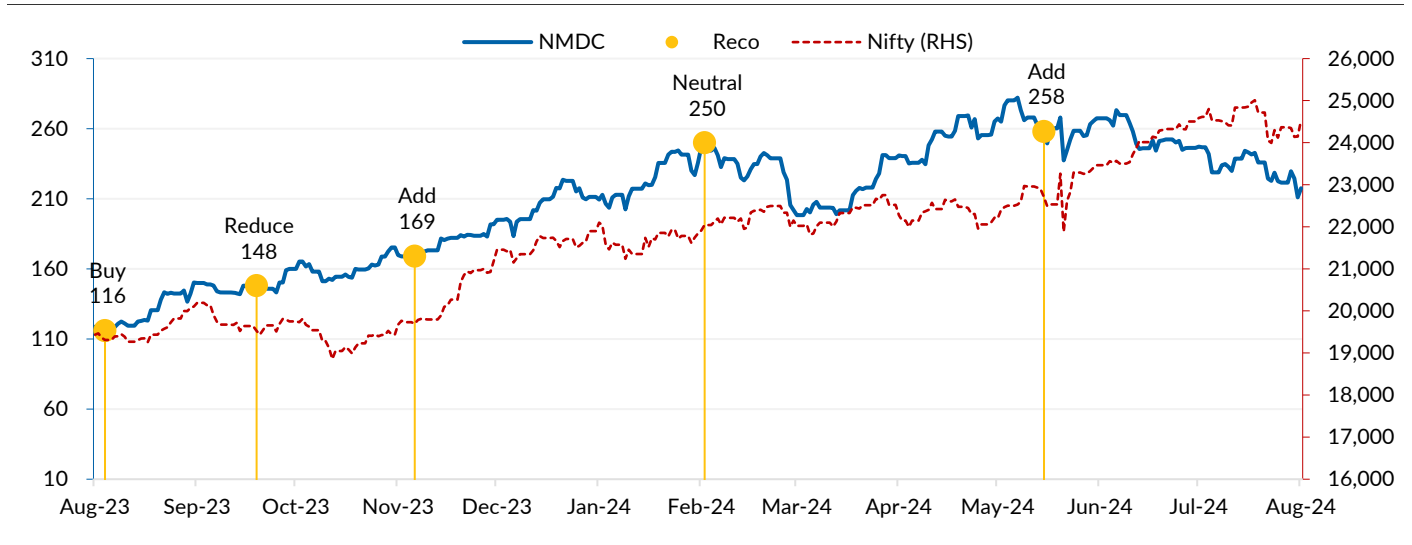
Source: Company, YES Sec

**Exhibit 13: Key Ratios**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Growth (%)</b>						
Revenues	31.4	68.9	(32.0)	20.6	4.5	18.9
EBITDA	46.4	43.6	(52.1)	20.5	18.2	15.0
EBIT	50.0	44.1	(53.7)	21.4	19.0	14.9
PAT	73.4	51.1	(41.3)	0.6	29.7	12.8
<b>Profitability (%)</b>						
EBIDTA Margins	57.2	48.6	34.3	34.2	38.7	37.4
EBIT Margins	55.7	47.5	32.4	32.6	37.1	35.8
PAT Margins	40.8	36.3	31.7	26.2	32.5	30.8
ROE	21.0	52.3	24.7	21.7	25.0	25.0
ROCE	27.2	64.0	23.8	25.5	27.1	27.8
<b>Per Share Data (Rs)</b>						
EPS	21.4	32.2	19.1	19.0	24.7	27.8
BVPS	102.0	61.5	77.2	87.6	98.7	111.2
<b>Valuations (x)</b>						
P/E	4.5	3.6	5.5	13.6	10.4	9.3
P/BV	1.0	1.9	1.4	2.9	2.6	2.3

Source: Company, YES Sec

**Recommendation Tracker**



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