

# NMDC LTD.

Industry	Metals
Bloomberg	NMDC IN
BSE CODE	526371

## Higher realization offset by lower volume....

### RATING NEUTRAL

CMP	107
Price Target	112
Potential Upside	5%

Rating Change	↔↔
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Estimate Change	↔↔
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Target Change	↔↔
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### Key Highlights

- NMDC is Navratna Public Sector Enterprise and is India's largest iron ore miner producing around 36mt (FY18) of iron ore. It has 3 fully mechanized mines viz., Bailadila Deposit-14/11C, Bailadila Deposit-5, 10/11A (Chhattisgarh) and Donimalai Iron ore mines (Karnataka). Company is also in the process of commissioning of 3mtpa steel plant.
- Lease expired on Donimalai mine, though lease has been extended but mines are not functioning currently due to high premium being charged by Karnataka Govt. for extending the lease. Management expects issue to resolve shortly.
- Production and sales volume for 1HFY19 was at 12.24mt (down 22%) and at 13.48mt (down 23%) respectively, average realization for 1HFY19 at Rs.3556/t (up 19%).

### 2Q FY19 Result Update

NMDC's 2QFY19 revenue came in at Rs.2438 crore (up 1% YoY and QoQ). Realization at Rs.3576/t was up 24% YoY and 1% QoQ, however strong YoY growth in realization was offset by lower volume at 6.71mt (down 19% YoY and 1% QoQ). EBITDA for the quarter came in at Rs.1259 crore (up 5% QoQ, down 12% QoQ). EBITDA/t came in at Rs.1878 crore (up 30% YoY due to higher realization and down 11% QoQ due to higher other expenses). Depreciation for the quarter was at Rs.68 crore (vs.Rs.62 crore in 2QFY18 and 1QFY19). Finance cost was at Rs.10 crore (vs. Rs.10 crore in 2QFY19 and Rs.11 crore in 1QFY19). PAT for the quarter came in at Rs.636 crore (down 25% YoY and 35% QoQ).

### View and Valuation

NMDC's 2QFY19 and 1HFY19 performance was impacted by lower volume in Karnataka in 1QFY19 due to increase in iron ore imports at cheaper prices and lower volume from Chhattisgarh in 2QFY19 due to monsoon. Though realization grew significantly in 1HFY19 but realization gains were offset by lower volume .Lease on Donimalai mine recently expired , though lease has been extended by Karnataka govt. for 20 years but on high premium charges, NMDC has not agreed to it and currently the mine is not functioning (since 3rd Nov'18). However, management expects to resolve the high premium issue shortly but if there is delay in resolution than volume growth would be hampered and if Karnataka govt. charges higher premium than NMDC's margin would come under pressure. Going ahead we expect robust demand for iron ore to continue led by strong demand from steel sector. However, we expect iron ore prices to ease off in FY19 from the current highs. Steel plant is expected to start production form Jun'19 onwards but will contribute meaningfully from FY21 onwards. Our FY19 Revenue/EBITDA estimates stand reduced by 2%/2% after considering the 2QFY19 result and we maintain our FY20 estimates. We believe all the positives are factored in at current prices and maintain our **NEUTRAL stance on the stock with a target price of Rs.112 (5.5x FY20e EV/EBITDA)**.

### Key Risks to our rating and target

- Sharp decline in international iron ore prices.
- Less than expected volume growth.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6456	8828	11615	11166	11691
EBITDA	2751	3602	5809	5809	5970
EBIT	2534	3406	5553	5532	5656
PAT	2713	2589	3806	3707	4019
EPS (Rs)	7	8	12	12	13
EPS growth (%)	-58%	20%	47%	-3%	8%
ROE (%)	9%	11%	16%	14%	14%
ROCE (%)	9%	15%	23%	21%	20%
BV	73	71	77	82	89
P/B (X)	1.3	1.9	1.5	1.3	1.2
P/E (x)	14.3	16.3	9.9	9.1	8.4

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## 2QFY19 Results

Issue at Donimalai mines a concern if not resolved shortly....

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	2,421	2,469	3,883	2,422	2,438	0.7%	0.7%	8,828	11,615	31.6%
Other Income	110	111	170	125	131	19.2%	4.6%	909	520	-43%
Total Income	2,531	2,580	4,053	2,547	2,569	1.5%	0.9%	9,737	12,135	24.6%
COGS	188	35	(1)	39	146	-22.2%	269.9%	368	249	-32.4%
Staff Cost	212	218	412	237	270	26.9%	13.8%	886	1,046	18.2%
Other Exp.	331	381	635	244	393	18.6%	60.9%	1,522	1,751	15.1%
Expenditure	1,218	1,259	1,982	998	1,179	-3.3%	18.1%	5,226	5,806	11.1%
EBITDA	1,203	1,210	1,901	1,424	1,259	4.7%	-11.6%	3,602	5,809	61.3%
Depreciation	62	77	70	62	68	9.0%	9.6%	196	256	30.5%
EBIT	1,141	1,133	1,831	1,362	1,192	4.5%	-12.5%	3,406	5,553	63.0%
Interest	10	11	8	11	10	-5.1%	-10.7%	21	37	78.7%
PBT	1,241	1,233	1,993	1,477	1,313	5.8%	-11.1%	4,294	6,035	40.6%
Excpt. Item	-	(145)	1	-	-	-	-	-	(144)	-
Tax	396	491	887	501	677	70.7%	35.0%	1,705	2,373	39.2%
PAT	844	887	1,106	975	636	-24.6%	-34.7%	2,589	3,806	47.0%

## Operating Matrix

Vol./Realiz.	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %
Prod. (mt)	6.31	9.71	10.38	8.50	7.18	8.56	11.35	6.98	5.26	-26.7%
Sales (mt)	8.01	10.06	9.78	9.18	8.30	8.06	10.54	6.78	6.71	-19.2%
Realiz./t (Rs.)	2129	2456	2896	3068	2887	3014	3653	3536	3576	23.9%
EBITDA/Cost	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %
EBITDA/t(Rs.)	1030	1021	954	1628	1450	1501	1804	2101	1878	29.5%
Cost/t (Rs.)	1140	1463	1984	1466	1469	1563	1881	1473	1757	19.7%

## Volume significantly low in 2QFY18 and 1HFY19

Production volume for 2QFY19 and 1HFY19 was at 5.26mt (down 27% YoY, 25% QoQ) and 12.24mt (down 22%). Sales volume was at 6.71mt (down 19% YoY, 1% QoQ) in 2QFY19 and at 13.48mt (down 23%) for 1HFY19. 2QFY19 volumes got impacted by monsoon setting in and low volumes in 1QFY19 (primarily on account of increase in imports due to price difference between imported and domestic prices in Karnataka) led to fall in 1HFY19 volume.

## Strong growth in realization in 2QFY19, as well as in 1HFY19

Iron ore realization continues to hold strong and register robust growth. 2QFY19 realization came in at Rs.3576/t (up 24% YoY, 1% QoQ) on the back of increasing iron ore prices, however softening of prices in Karnataka in order to remain competitive with imports might have restricted the QoQ growth in realization. Realization in 1HFY19 has also registered robust growth of around 19% to Rs.3556/t. However, the increase in realization was offset by lower volume growth both in 2QFY19 and 1HFY19.

## Operations currently shut at Donimalai mine in Karnataka

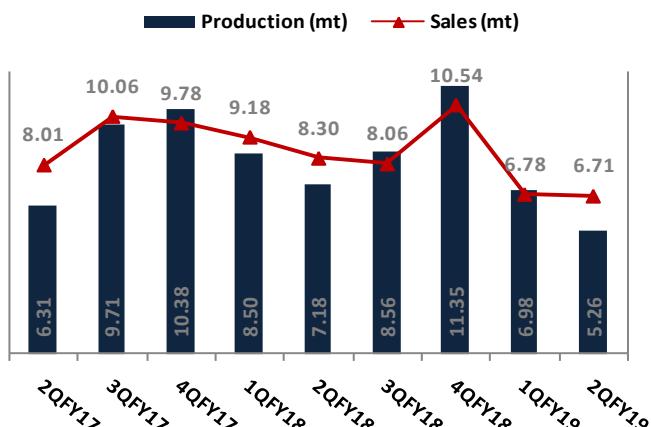
Lease of Donimalai mine expired on 3rd Nov'18 and since has not been functioning. Though the Karnataka Govt. has already extended the lease for 20 years but the mine is not operational yet because of the disagreement on high premium that Govt. is charging on extending the lease. Management is having discussions with Govt. and expects that the high premium issue would be resolved shortly. However, delay in resolving the issue would eventually lead to reduction in overall production of FY19 which management expects to be around 36mt, and if in case high premium are charged than company's margin would come under pressure.

## Steel plant update and other highlights

Management expects steel plant of 3mt of capacity to start production from 1QFY20 and currently procurement action for requirement of various raw material, spares, consumables and raw material handling activities are taken care off. In the quarter other expenses included Rs.77.45 crore for doubling of railway line, Rs.103 crore on account of expected credit loss (ECL) and Rs.19.77 crore towards mine closure obligations.

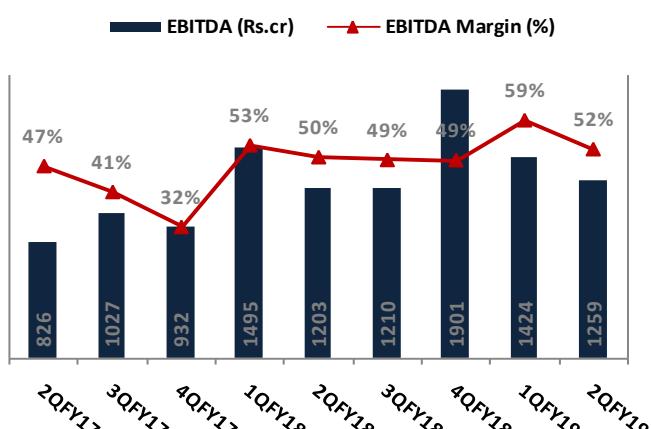
### Exhibit: Iron Ore Production and Sales Volume Trend

lower production in Chhattisgarh due to monsoon led to significantly lower volume....



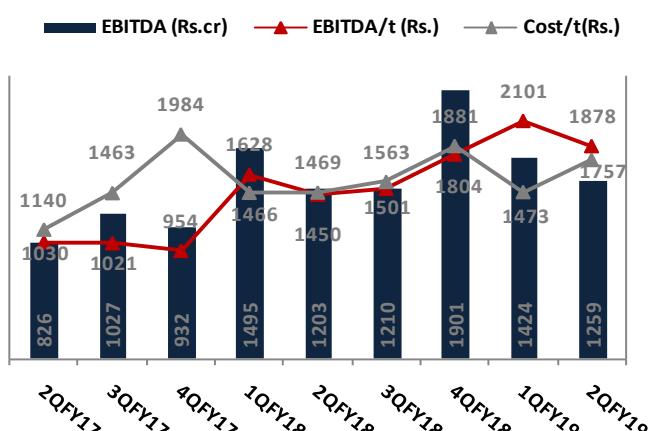
### Exhibit: EBITDA and EBITDA Margin Trend

lower volume and higher other expenses led to fall in EBITDA margin even after flat realization QoQ....



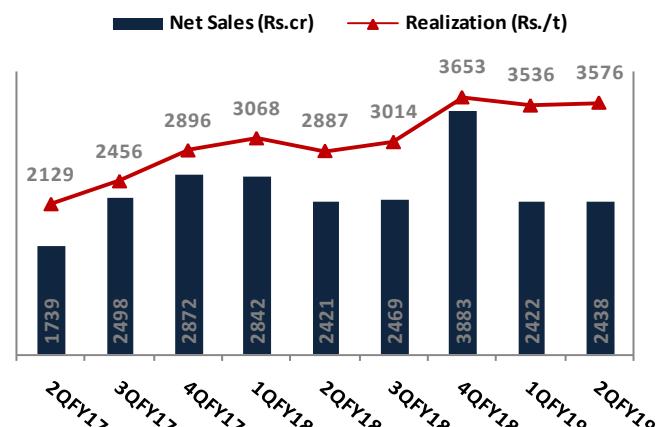
### Exhibit: EBITDA/t and Cost/t Trend

EBITDA/t high YoY, however down QoQ due to higher other expenses , employee cost and lower volume....



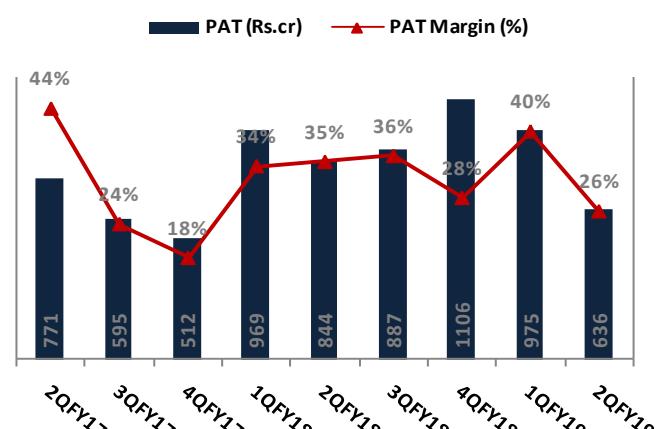
### Exhibit: Net sales and Realization Trend

robust YoY growth in realization, however QoQ might have been flat due to lower prices in Karnataka....



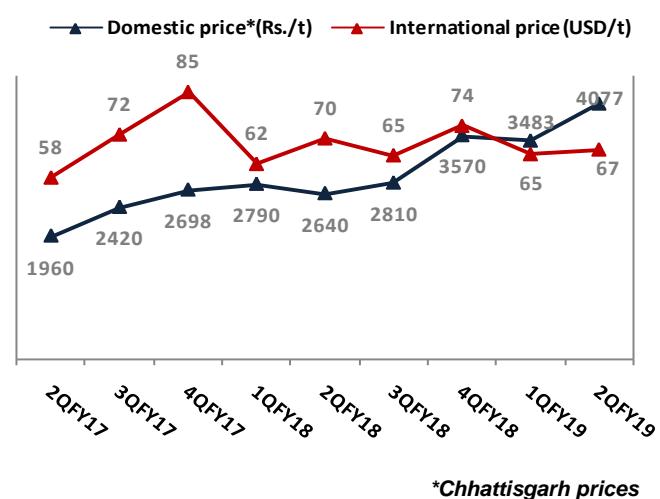
### Exhibit: PAT and PAT Margin Trend

PAT margin significantly lower due to higher effective tax rate ....



### Exhibit: Iron Ore Price Trend

domestic prices had increased significantly QoQ as compare to increase in international prices....



## Financial Details

## Balance Sheet

<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Share Capital</b>	<b>396</b>	<b>396</b>	<b>396</b>	<b>396</b>	<b>316</b>	<b>316</b>	<b>316</b>	<b>316</b>
Reserves	27,114	29,592	31,935	28,721	22,203	24,037	25,732	27,739
<b>Networth</b>	<b>27,511</b>	<b>29,988</b>	<b>32,332</b>	<b>29,118</b>	<b>22,519</b>	<b>24,354</b>	<b>26,049</b>	<b>28,055</b>
<b>Debt</b>	-	-	-	1,497	-	500	-	-
Other Non Cur Liab	148	148	149	353	611	714	655	655
<b>Total Capital Employed</b>	<b>27,511</b>	<b>29,988</b>	<b>32,332</b>	<b>30,615</b>	<b>22,519</b>	<b>24,354</b>	<b>26,049</b>	<b>28,055</b>
Net Fixed Assets (incl CWIP)	4,501	6,639	9,044	11,641	13,784	15,192	18,309	21,011
Non Cur Investments	250	250	562	695	727	786	1,458	1,595
Other Non Cur Asst	5	5	5	1,221	2,060	2,626	2,346	2,378
Non Curr Assets	5,301	7,616	10,580	13,907	17,117	19,770	22,961	26,008
<b>Inventory</b>	<b>637</b>	<b>681</b>	<b>692</b>	<b>622</b>	<b>540</b>	<b>572</b>	<b>550</b>	<b>575</b>
<b>Debtors</b>	<b>1,082</b>	<b>1,448</b>	<b>1,752</b>	<b>796</b>	<b>1,044</b>	<b>1,473</b>	<b>1,416</b>	<b>1,482</b>
<b>Cash &amp; Bank</b>	<b>21,026</b>	<b>18,657</b>	<b>18,443</b>	<b>14,764</b>	<b>5,289</b>	<b>5,438</b>	<b>3,687</b>	<b>2,670</b>
Other Curr Assets	790	726	1,008	189	179	307	295	309
Curr Assets	25,593	23,861	23,890	18,765	8,585	8,839	7,027	6,142
Creditors	161	186	227	324	199	160	153	161
Provisons (both)	1,873	13	632	423	917	742	387	405
Other Curr Liab	1,215	1,153	1,141	350	837	967	929	973
Curr Liabilities	3,236	1,341	1,990	1,703	2,572	3,041	3,284	3,439
<b>Net Curr Assets</b>	<b>22,357</b>	<b>22,520</b>	<b>21,900</b>	<b>17,061</b>	<b>6,013</b>	<b>5,798</b>	<b>3,743</b>	<b>2,703</b>
<b>Total Assets</b>	<b>30,894</b>	<b>31,477</b>	<b>34,470</b>	<b>32,671</b>	<b>25,702</b>	<b>28,609</b>	<b>29,988</b>	<b>32,150</b>

## Income Statement

<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<b>Revenue from Operation</b>	<b>10,704</b>	<b>12,058</b>	<b>12,356</b>	<b>6,456</b>	<b>8,828</b>	<b>11,615</b>	<b>11,166</b>	<b>11,691</b>
Change (%)	-5%	13%	2%	-48%	37%	32%	-4%	5%
Other Income	2,239	2,095	2,265	1,809	909	520	502	364
<b>EBITDA</b>	<b>7,375</b>	<b>7,773</b>	<b>7,778</b>	<b>2,751</b>	<b>3,602</b>	<b>5,809</b>	<b>5,809</b>	<b>5,970</b>
Change (%)	-17%	5%	0%	-65%	31%	61%	0%	3%
Margin (%)	69%	64%	63%	43%	41%	50%	52%	51%
Depr & Amor.	139	150	162	217	196	256	277	315
<b>EBIT</b>	<b>7,237</b>	<b>7,623</b>	<b>7,616</b>	<b>2,534</b>	<b>3,406</b>	<b>5,553</b>	<b>5,532</b>	<b>5,656</b>
Int. & other fin. Cost	13	2	-	66	21	37	21	21
<b>EBT</b>	<b>9,462</b>	<b>9,715</b>	<b>9,882</b>	<b>4,278</b>	<b>4,294</b>	<b>6,035</b>	<b>6,013</b>	<b>5,999</b>
Exp Item	-	(45)	113	185	-	(144)	-	-
Tax	3,122	3,340	3,346	1,380	1,705	2,373	2,306	1,980
<b>Minority Int &amp; P/L share of Ass.</b>	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>6,341</b>	<b>6,421</b>	<b>6,422</b>	<b>2,713</b>	<b>2,589</b>	<b>3,806</b>	<b>3,707</b>	<b>4,019</b>
Adjusted PAT	6,341	6,421	6,422	2,690	2,522	3,854	3,731	4,019
Change (%)	-13%	1%	0%	-58%	-5%	47%	-3%	8%
Margin(%)	59%	53%	52%	42%	29%	33%	33%	34%

## Financial Details

## Key Ratios

<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<i>ROE</i>	23%	21%	20%	9%	11%	16%	14%	14%
<i>ROCE</i>	26%	25%	24%	9%	15%	23%	21%	20%
<i>Asset Turnover</i>	0.35	0.38	0.36	0.20	0.34	0.41	0.37	0.36
<i>Debtor Days</i>	37	44	52	45	43	46	46	46
<i>Inv Days</i>	22	21	20	35	22	18	18	18
<i>Payable Days</i>	5	6	7	18	8	5	5	5
<i>Int Coverage</i>	548	4,120	-	38.6	164.0	149.7	266.5	272.4
<i>P/E</i>	8.6	8.6	8.0	14.3	16.3	9.9	9.1	8.4
<i>Price / Book Value</i>	2.0	1.8	1.6	1.3	1.9	1.5	1.3	1.2
<i>EV/EBITDA</i>	4.5	4.7	4.3	8.8	10.2	5.5	5.2	5.2
<i>FCF per Share</i>	2.8	3.7	3.5	(2.7)	(0.6)	5.4	4.7	3.6
<i>Div Yield</i>	4%	9%	6%	13%	3%	4%	5%	5%

## Cash Flow Statement

<b>Y/E March</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>
<i>PBT</i>	9,462	9,761	9,769	4,092	4,294	6,035	6,013	5,999
<i>(inc)/Dec in Working Capital</i>	(231)	(588)	(739)	419	(467)	(719)	869	(207)
<i>Non Cash Op Exp</i>	(2,057)	(1,887)	(1,991)	(947)	(104)	437	298	336
<i>Int Paid (+)</i>	13	2	-	66	21	37	21	21
<i>Tax Paid</i>	3,122	3,340	3,346	1,380	1,705	2,373	2,306	1,980
<i>others</i>								
<i>CF from Op. Activities</i>	3,087	3,721	4,007	1,862	2,134	3,380	4,874	4,148
<i>(inc)/Dec in FA &amp; CWIP</i>	(1,959)	(2,249)	(2,614)	(2,932)	(2,315)	(1,663)	(3,395)	(3,016)
<i>Free Cashflow</i>	1,128	1,472	1,393	(1,070)	(181)	1,717	1,479	1,131
<i>(Pur)/Sale of Inv</i>	(2)	(1)	(312)	(133)	(32)	-	-	-
<i>others</i>								
<i>CF from Inv. Activities</i>	669	3,455	1,687	4,276	5,152	(1,723)	(4,092)	(3,132)
<i>inc/(dec) in NW</i>	-	-	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	-	-	-	1,497	(1,497)	-	-	-
<i>Int. Paid</i>	(13)	(2)	-	-	(7,540)	-	-	-
<i>Div Paid (inc tax)</i>	(2,534)	(5,798)	(3,449)	(5,988)	(1,461)	(2,012)	(2,012)	(2,012)
<i>others</i>								
<i>CF from Fin. Activities</i>	(2,548)	(5,801)	(3,449)	(6,291)	(7,249)	(1,549)	(2,533)	(2,033)
<i>Inc(Dec) in Cash</i>	1,208	1,375	2,245	(154)	37	108	(1,751)	(1,017)
<i>Add: Opening Balance</i>	3,098	4,306	5,681	189	34	5,289	5,438	3,687
<b><i>Closing Balance</i></b>	<b>4,306</b>	<b>5,681</b>	<b>7,926</b>	<b>34</b>	<b>71</b>	<b>5,397</b>	<b>3,687</b>	<b>2,670</b>

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