

NMDC Limited

Industry Metals
Bloomberg NMDC IN
BSE CODE 526371

Delivered robust performance driven by strong realization, Donimalai mine still not operational....

RATING	NEUTRAL
CMP	97
Price Target	88
Potential Upside	-9%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	144/87
Mkt Capital (Rs Cr)	30642
Free float (%)	25%
Avg. Vol 1M (,000)	4550
No. of Shares (Cr.)	316
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ 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.
- ❑ NMDC's revenue for the quarter came in at RS.728 crore (up 49% YoY, flat QoQ) , primarily on account of higher realization.
- ❑ Production and sales volume for the quarter came in at 9.54mt (up 11% YoY and 81% QoQ) and sale volume came in at 8.70mt (up 8% YoY, 30% QoQ). Realization for the quarter came in at Rs.4157/t (up 38% YoY and 16% QoQ) on the back strong iron ore prices in domestic market.
- ❑ EBITDA for the quarter came in at Rs. 2154cr (up 78% YoY, 71% QoQ) and EBITDA margin expanded to 59% (vs. 49% in 3QFY19 and 52% in 2QFY19).
- ❑ Depreciation cost came in at Rs.69cr (vs. Rs.77cr in 3QFY19 and Rs.68cr in 2QFY19). Interest cost came in at Rs.9.62cr (vs. Rs.11cr in 3QFY18 and Rs.9.65cr in 2QFY19).
- ❑ PAT for the quarter stood at Rs.1577cr (up 79% YoY, 148% QoQ).

View and Valuation

NMDC's 3QFY19 revenue registered strong growth of 48% YoY to Rs.3649cr led by 38% YoY growth in realization and 8% volume growth. Volume loss due to Donimalai mine not being in operation from the start of Nov'18 has been slightly compensated by increase in volume from Kumaraswamy mine in Karnataka. However, Donimalai mine volume loss would impact significantly the FY19e and FY20e total volume, and the mine is still not operational. Going ahead iron ore demand is expected to remain robust driven by strong demand from domestic steel industry. However, iron ore prices have declined from the highs of 3QFY19 led by fall in steel prices. Steel plant is expected to start production from Jun'19 onwards but will contribute meaningfully from FY21 onwards. Our FY19 Revenue/PAT estimate stand increased by 4%/11% due to 3QFY19 numbers, however, we maintain our FY20 estimates. Lower than expected volume due to Donimalai mine issue and fall in iron ore prices leaves limited upside in terms of Revenue and PAT growth going ahead. We maintain our **NEUTRAL stance on the stock with unchanged target price of Rs.88 (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	11216	9351
EBITDA	2751	3602	5809	6122	4546
EBIT	2534	3406	5553	5845	4232
PAT	2713	2589	3806	4074	3071
EPS (Rs)	7	8	12	13	10
EPS growth	-58%	20%	47%	7%	-25%
ROE (%)	9%	11%	16%	15%	11%
ROCE (%)	9%	15%	23%	22%	15%
BV	73	71	77	83	87
P/B (X)	1.3	1.9	1.5	1.2	1.1
P/E (x)	14.3	16.3	9.9	7.5	10.0

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3QFY19 Results
strong performance on all fronts....

<i>Financials</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY17</i>	<i>FY18</i>	<i>YoY %</i>
<i>Net Sales</i>	2,469	3,883	2,422	2,438	3,649	47.8%	49.7%	8,828	11,615	31.6%
<i>Other Income</i>	111	170	125	131	136	22.5%	4.0%	909	520	-43%
<i>Total Income</i>	2,580	4,053	2,547	2,569	3,786	46.7%	47.4%	9,737	12,135	24.6%
<i>COGS</i>	35	(1)	39	146	(31)	-190.6%	-121.4%	368	249	-32.4%
<i>Staff Cost</i>	218	412	237	270	248	13.7%	-7.9%	886	1,046	18.2%
<i>Other Exp.</i>	381	635	244	393	388	2.0%	-1.2%	1,522	1,751	15.1%
<i>Expenditure</i>	1,259	1,982	998	1,179	1,495	18.7%	26.9%	5,226	5,806	11.1%
<i>EBITDA</i>	1,210	1,901	1,424	1,259	2,154	78.1%	71.1%	3,602	5,809	61.3%
<i>Depreciation</i>	77	70	62	68	69	-10.1%	2.8%	196	256	30.5%
<i>EBIT</i>	1,133	1,831	1,362	1,192	2,085	84.1%	74.9%	3,406	5,553	63.0%
<i>Interest</i>	11	8	11	10	10	-14.0%	-0.3%	21	37	78.7%
<i>PBT</i>	1,233	1,993	1,477	1,313	2,211	79.4%	68.4%	4,294	6,035	40.6%
<i>Excpt. Item</i>	(145)	1	-	-	-	-	-	-	(144)	-
<i>Tax</i>	491	887	501	677	635	29.3%	-6.2%	1,705	2,373	39.2%
<i>PAT</i>	887	1,106	975	636	1,577	77.8%	147.8%	2,589	3,806	47.0%

Operating Matrix

<i>Vol./Realiz.</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>
<i>Prod. (mt)</i>	9.71	10.38	8.50	7.18	8.56	11.35	6.98	5.26	9.54	11.5%
<i>Sales (mt)</i>	10.06	9.78	9.18	8.30	8.06	10.54	6.78	6.71	8.70	8.0%
<i>Realiz./t (Rs.)</i>	2456	2896	3068	2887	3014	3653	3536	3576	4157	37.9%

<i>EBITDA/Cost</i>	<i>3QFY17</i>	<i>4QFY17</i>	<i>1QFY18</i>	<i>2QFY18</i>	<i>3QFY18</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>YoY %</i>
<i>EBITDA/t(Rs.)</i>	1021	954	1628	1450	1501	1804	2101	1878	2475	64.9%
<i>Cost/t (Rs.)</i>	1463	1984	1466	1469	1563	1881	1473	1757	1718	9.9%

Volume improved on yearly and sequential basis as well

NMDC's 3QFY19 production and sales volume came in at 9.54mt (11% YoY, 81% QoQ) and sales volume came in at 8.70mt (up 8% YoY, 30% QoQ). QoQ volume growth have been aided by disruptions due to monsoon getting behind and increased contribution from Kumaraswamy mine in Karnataka which have slightly reduced the impact to Donimalai mine not being in operation.

Realization continued its robust trend in 3QFY19

Iron ore realization for the quarter came in at Rs.4157/t (up 38% YoY, 16% QoQ), realization continued its upward trajectory in 3QFY19 on the back of substantial increase in iron ore prices. However, iron prices since have declined by 27% from the high of Rs. 4620/t in Sep-Oct'18 to Rs.3370/t in Jan'19, fall in steel prices have been the primary reason for correction in iron ore prices. Going ahead we expect realization to fall from the level seen in last 3-4 quarters.

Donimalai mine still not operational

Lease of Donimalai mine expired on 3rd Nov'18 and since the mine has not been functioning. Though the Karnataka Govt. has already extended the lease for 20 years but the mine is not operational yet because Karnataka govt. is now asking for 80% premium on average sale value. NMDC has moved to Karnataka high court for direction on the matter as there was no response from Karnataka. Outcome of High Court is still awaited and meanwhile there has been significant loss of volume in FY19 and the same is expected for FY20 until the mine comes back into operation.

Other updates

Other expenses for 9MFY19 includes Rs.130cr. for enabling facilities for doubling of railway line between Kirandul and Jagdalpur and railway line between Jagdalpur and Ambagaon, required for augmentation of evacuation capacity of Bailadila sector. Rs. 175cr is included in 9MFY19 other expenses for expected credit loss and Rs.36 crore has been provided for mine closure obligation. Company's board recently (8th Jan'19) approved buyback of 10.2cr shares at Rs.98/share for an aggregate consideration of Rs.1000cr. The process of buyback is in process.

Exhibit: Iron Ore Production and Sales Volume Trend
pick up in volume as monsoon led disruptions gets behind and increased contribution from KIOM mine also helped....

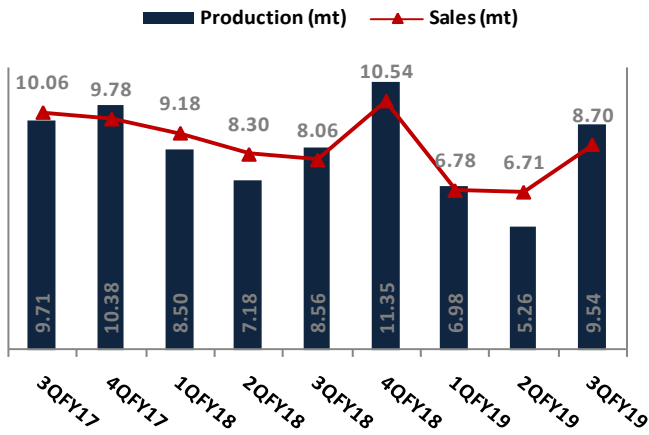


Exhibit: Net sales and Realization Trend
strong iron ore prices in 3QFY19 led to robust sales growth and uptrend in realization as well....

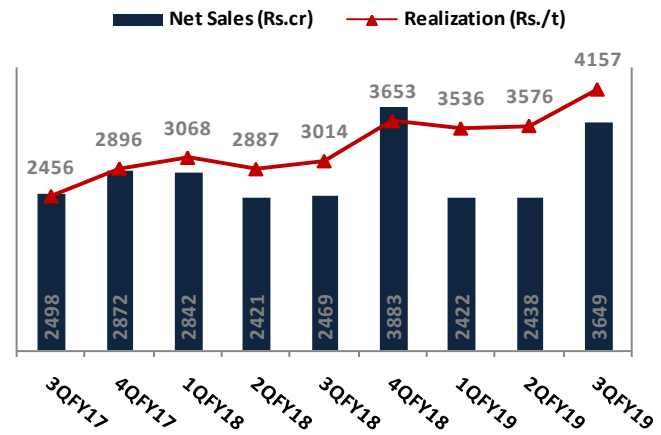


Exhibit: EBITDA and EBITDA Margin Trend
strong realization helped EBITDA and EBITDA margin to register strong growth on YoY and QoQ basis....

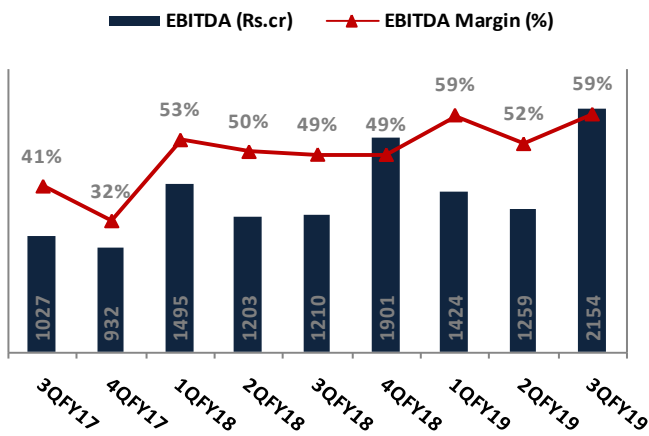


Exhibit: PAT and PAT Margin Trend
lower tax rate led to further expansion in margins at PAT level as compare to margins at EBITDA level....

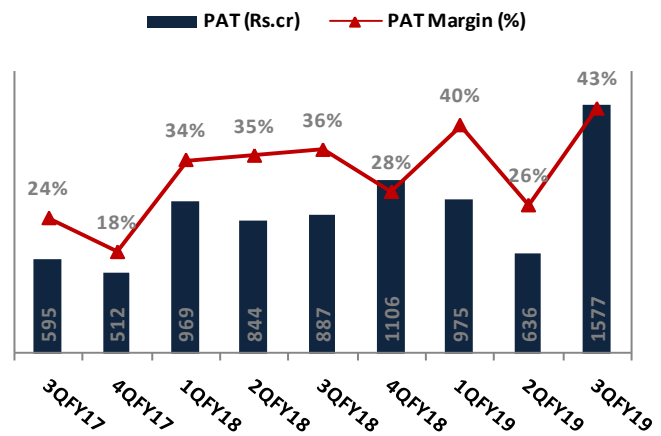


Exhibit: EBITDA/t and Cost/t Trend
higher realization and improvement in volume led to significant increase in EBITDA/t as Cost/t remained flat....

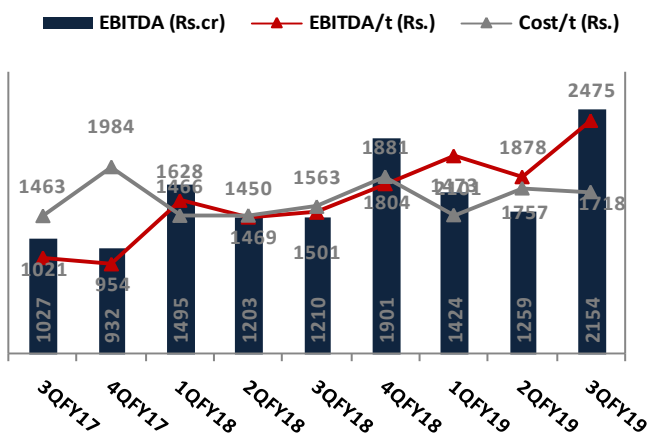
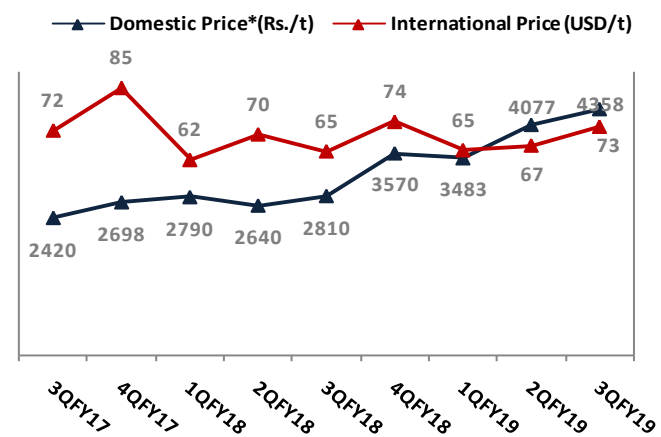


Exhibit: Iron Ore Price Trend
average iron ore prices remained strong in 3QFY19, however prices have declined recently....



*Chhattisgarh prices

Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	396	396	396	396	316	316	316	316
Reserves	27,114	29,592	31,935	28,721	22,203	24,037	26,099	27,158
Networth	27,511	29,988	32,332	29,118	22,519	24,354	26,415	27,474
Debt	-	-	-	1,497	-	500	-	-
Other Non Cur Liab	148	148	149	353	611	714	655	655
Total Capital Employed	27,511	29,988	32,332	30,615	22,519	24,854	26,415	27,474
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	786	786
Other Non Cur Asst	5	5	5	1,221	2,060	2,626	2,345	2,383
Non Curr Assets	5,301	7,616	10,580	13,907	17,117	19,770	22,289	25,204
Inventory	637	681	692	622	540	572	552	460
Debtors	1,082	1,448	1,752	796	1,044	1,473	1,422	1,186
Cash & Bank	21,026	18,657	18,443	14,764	5,289	5,438	4,630	2,779
Other Curr Assets	790	726	1,008	189	179	307	297	247
Curr Assets	25,593	23,861	23,890	18,765	8,585	8,839	8,081	5,676
Creditors	161	186	227	324	199	160	154	128
Provisions (both)	1,873	13	632	423	917	742	389	324
Other Curr Liab	1,215	1,153	1,141	350	837	967	934	778
Curr Liabilities	3,236	1,341	1,990	1,703	2,572	3,041	3,299	2,751
Net Curr Assets	22,357	22,520	21,900	17,061	6,013	5,798	4,782	2,925
Total Assets	30,894	31,477	34,470	32,671	25,702	28,609	30,370	30,880

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	10,704	12,058	12,356	6,456	8,828	11,615	11,216	9,351
Change (%)	-5%	13%	2%	-48%	37%	32%	-3%	-17%
Other Income	2,239	2,095	2,265	1,809	909	520	556	389
EBITDA	7,375	7,773	7,778	2,751	3,602	5,809	6,122	4,546
Change (%)	-17%	5%	0%	-65%	31%	61%	5%	-26%
Margin (%)	69%	64%	63%	43%	41%	50%	55%	49%
Depr & Amor.	139	150	162	217	196	256	277	315
EBIT	7,237	7,623	7,616	2,534	3,406	5,553	5,845	4,232
Int. & other fin. Cost	13	2	-	66	21	37	37	37
EBT	9,462	9,715	9,882	4,278	4,294	6,035	6,363	4,583
Exp Item	-	(45)	113	185	-	(144)	-	-
Tax	3,122	3,340	3,346	1,380	1,705	2,373	2,289	1,513
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	6,341	6,421	6,422	2,713	2,589	3,806	4,074	3,071
Adjusted PAT	6,341	6,421	6,422	2,690	2,522	3,854	4,110	3,071
Change (%)	-13%	1%	0%	-58%	-5%	47%	7%	-25%
Margin(%)	59%	53%	52%	42%	29%	33%	36%	33%

Financial Details
Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<i>ROE</i>	23%	21%	20%	9%	11%	16%	15%	11%
<i>ROCE</i>	26%	25%	24%	9%	15%	23%	22%	15%
<i>Asset Turnover</i>	0.35	0.38	0.36	0.20	0.34	0.41	0.37	0.30
<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	#DIV/0!	38.6	164.0	149.7	157.5	114.1
<i>P/E</i>	8.6	8.6	8.0	14.3	16.3	9.9	7.5	10.0
<i>Price / Book Value</i>	2.0	1.8	1.6	1.3	1.9	1.5	1.2	1.1
<i>EV/EBITDA</i>	4.5	4.7	4.3	8.8	10.2	5.5	4.2	6.1
<i>FCF per Share</i>	2.8	3.7	3.5	(2.7)	(0.6)	4.2	6.0	0.6
<i>Div Yield</i>	4%	9%	6%	13%	3%	4%	5%	5%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	9,462	9,761	9,769	4,092	4,294	6,179	6,363	4,583
<i>(inc)/Dec in Working Capital</i>	(231)	(588)	(739)	419	(467)	(868)	915	(217)
<i>Non Cash Op Exp</i>	(2,057)	(1,887)	(1,991)	(947)	(104)	413	314	352
<i>Int Paid (+)</i>	13	2	-	66	21	37	37	37
<i>Tax Paid</i>	3,122	3,340	3,346	1,380	1,705	2,373	2,289	1,513
<i>others</i>								
CF from Op. Activities	3,087	3,721	4,007	1,862	2,134	3,381	5,303	3,206
<i>(inc)/Dec in FA & CWIP</i>	(1,959)	(2,249)	(2,614)	(2,932)	(2,315)	(2,052)	(3,395)	(3,016)
<i>Free Cashflow</i>	1,128	1,472	1,393	(1,070)	(181)	1,329	1,908	190
<i>(Pur)/Sale of Inv</i>	(2)	(1)	(312)	(133)	(32)	(59)	-	-
<i>others</i>								
CF from Inv. Activities	669	3,455	1,687	4,276	5,152	(1,869)	(3,562)	(3,008)
<i>inc/(dec) in NW</i>	-	-	-	-	-	-	-	-
<i>inc/(dec) in Debt</i>	-	-	-	1,497	(1,497)	(2,392)	-	-
<i>Int. Paid</i>	(13)	(2)	-	-	(7,540)	-	-	-
<i>Div Paid (inc tax)</i>	(2,534)	(5,798)	(3,449)	(5,988)	(1,461)	500	(2,012)	(2,012)
<i>others</i>								
CF from Fin. Activities	(2,548)	(5,801)	(3,449)	(6,291)	(7,249)	(1,557)	(2,549)	(2,049)
<i>Inc(Dec) in Cash</i>	1,208	1,375	2,245	(154)	37	(44)	(808)	(1,851)
<i>Add: Opening Balance</i>	3,098	4,306	5,681	189	34	70	5,438	4,630
Closing Balance	4,306	5,681	7,926	34	71	26	4,630	2,779

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Analyst's ownership of the stocks mentioned in the Report	NIL
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