

Industry
Bloomberg
BSE CODE

Metals
NMDC IN
526371

Strong volume growth due to low base, approvals still required to commission Donimalai....

RATING	NEUTRAL
CMP	105
Price Target	110
Potential Upside	5%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	124/86
Mkt Capital (Rs Cr)	33110
Free float (%)	25%
Avg. Vol 1M (,000)	5294
No. of Shares (Crs)	306
Promoters Pledged %	0%

1QFY20 Result Update

- NMDC revenue for 1QFY20 came in at Rs.3264cr (up 34.8% YoY), driven by 28% YoY volume growth and 4.8% realization growth.
- Iron ore production volume in the quarter was at 8.43mt (up 20.8% YoY), Chhattisgarh volume for the quarter was at 6.07mt (up 24.4% YoY) and Karnataka volume came in at 2.35mt (up 12.5% YoY).
- Iron ore sales in the quarter was at 8.67mt (up 27.9% YoY), Karnataka volume for the quarter came in at 2.10mt (2.4x 1QFY19) and Chhattisgarh volume grew by 11.3% YoY to 6.57mt.
- Blended realization in the quarter grew to Rs.3705/t (up 4.8% YoY and 5.0% QoQ).
- 1QFY20 EBITDA stood at Rs.1867cr (up 31.1% YoY), and EBITDA margin for the quarter came in at 57.2% (vs. 58.8% in 1QFY19). Fall in margin was primarily on account of higher selling expenses in the quarter.
- Depreciation in the quarter was at Rs.65cr (vs. Rs.62cr in 1QFY19 and Rs.80cr in 4QFY19). Other income fell by 2% YoY to Rs.123cr in the quarter.
- PAT grew by 21% YoY to Rs.1179cr and effective tax rate for the quarter was at 38.4% (vs. 33.9% in 1QFY19 and 33.8% in 4QFY19).
- Karnataka high court ruled in favour of NMDC in Donimalai case. However, several approvals are still required to start operations at the mine. NMDC has requested the state govt. to consider the execution of Lease Deed of Donimalai mine, and the response for the same is still awaited.

View and Valuation

Karnataka high court ruling in favour of NMDC in Donimalai mine case is a big positive. However, there are still several approvals that company needs to take before commissioning the operations at mine. Management has not given any clear timeline of commissioning Donimalai. The Donimalai mine will add additional volume of 0.5mt/month as and when the mine is operational. International iron ore prices have started to come off on the back of significant fall in steel prices globally. Going ahead domestic iron ore prices are also expected to correct in line with fall in steel prices and fall in international iron ore prices. Furthermore, steel plant commissioning has been further delayed due to delay in couple of outsourced contracts like RM handling, conveyor belt and civil work. Our FY20 Revenue/PAT estimate stand increased by 6%/6% due to 1QFY20 numbers but we maintain our FY21 estimates. We will revise our estimates once the Donimalai mine is operational. We continue to maintain our **NEUTRAL stance on the stock with an unchanged target price of Rs.110 (5.5x FY21e EV/EBITDA).**

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8828	11615	12153	11621	10446
EBITDA	3602	5809	6930	6323	5455
EBIT	3406	5553	6651	6009	5099
PAT	2589	3806	4642	4158	3806
EPS (Rs)	8	12	15	14	12
EPS growth (%)	20%	47%	26%	-10%	0%
ROE (%)	11%	16%	18%	15%	13%
ROCE (%)	15%	23%	26%	21%	17%
BV	71	77	85	92	98
P/B (X)	1.9	1.5	1.2	1.1	1.1
P/E (x)	16.3	9.9	6.9	7.7	8.4

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Realization still holding strong, but falling steel prices will put pressure going ahead....

1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,422	2,438	3,649	3,643	3,264	34.8%	-10.4%	11,615	12,153	4.6%
Other Income	125	131	136	196	123	-1.9%	-37.4%	520	588	13%
Total Income	2,547	2,569	3,786	3,839	3,387	33.0%	-11.8%	12,135	12,741	5.0%
COGS	39	146	(31)	84	46	17.8%	-44.4%	249	238	-4.6%
Staff Cost	237	270	248	282	253	6.9%	-10.2%	1,046	1,037	-0.9%
Other Exp.	244	393	388	551	325	33.2%	-40.9%	1,751	1,576	-10.0%
Expenditure	998	1,179	1,495	1,551	1,397	40.0%	-9.9%	5,806	5,223	-10.0%
EBITDA	1,424	1,259	2,154	2,092	1,867	31.1%	-10.8%	5,809	6,930	19.3%
EBITDAMargin	58.8%	51.7%	59.0%	57.4%	57.2%	-2.7%	-0.4%	50.0%	57.0%	14.0%
Depreciation	62	68	69	80	65	5.2%	-19.4%	256	279	8.9%
EBIT	1,362	1,192	2,085	2,012	1,802	32.3%	-10.4%	5,553	6,651	19.8%
Interest	11	10	10	10	12	8.5%	14.6%	37	40	8.7%
PBT	1,477	1,313	2,211	2,198	1,913	29.6%	-12.9%	6,035	7,199	19.3%
Excpt. Item	-	-	-	-	-	-	-	(144)	-	-
Tax	501	677	635	744	734	46.4%	-1.4%	2,373	2,557	7.7%
PAT	975	636	1,577	1,454	1,179	20.9%	-18.9%	3,806	4,642	22.0%

Operating Matrix

Vol./Realiz.	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
Prod. (mt)	8.50	7.18	8.56	11.35	6.98	5.26	9.54	10.60	8.43	20.8%
Sales (mt)	9.18	8.30	8.06	10.54	6.78	6.71	8.70	10.17	8.67	27.9%
Realiz./t (Rs.)	3068	2887	3014	3653	3536	3576	4157	3529	3705	4.8%

EBITDA/Cost	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %
EBITDA/t(Rs.)	1628	1450	1501	1804	2101	1878	2475	2057	2153	2.5%
Cost/t (Rs.)	1466	1469	1563	1881	1473	1757	1718	1525	1611	9.4%

Strong volume growth due to low base

NMDC's 1QFY20 production volume came in at 8.43mt (up 20.8% YoY) and sales volume was at 8.67mt (up 27.9% YoY). 1QFY19 volume were lower particularly in Karnataka as major customer had opted for cheaper imports due to price differential leading to lower base for 1QFY20. Chhattisgarh production volume grew by 24.4% YoY to 6.07mt with 30.8% growth at Bacheli to 3.32mt and 17.5% growth at Kirandul to 2.76mt, Karnataka volume was at 2.35mt (up 49.7%) all of it from KIOM and no volume from Donimalai. High growth in sales volume was driven by 3.71x sales from KIOM at 2.10mt and Chhattisgarh sales grew by 11.3% to 6.57mt.

Realization still strong, falling steel price will put pressure

Blended realization in the quarter came in at Rs.3705/t (up 4.8% YoY and 5.0% QoQ). Realization over last six quarters have managed to sustain over Rs.3500/t with even touching the high of Rs.4157/t in 3QFY19, primarily driven by strong steel prices. However, domestic steel prices in last two months have seen significant fall with average Aug'19 HRC prices around Rs.36750/t vs. Rs.40800/t in May'19 and international iron ore prices have also seen substantial fall in Aug'19. In line with fall in both steel prices and international iron ore prices, NMDC's realization is also likely to fall from the current level going ahead.

Operations yet to begin at Donimalai, Steel plant further delayed

In Donimalai case Karnataka High Court has ruled in favour of NMDC regarding the demand of state govt. to levy 80% premium on the produce from the mine. However, operations are yet to begin at the mine as there are several approvals that company need to take before commissioning the mine. Management has not given out any clear timeline of when Donimalai mine will be operational. NMDC has Environmental and Forest Clearance for the mine till 2027 however it will have to take fresh approval to extend it to 2037. Furthermore, State govt. still has the option to take the case to Supreme Court. Commissioning of steel plant has been further delayed due to delay in couple of outsourced contracts for RM handling, Conveyor belt and Civil work, earlier it was expected to commission in 4QFY20 and now at earliest it will commission by 1QFY21 but management has not given any concrete guidance on it.

Concall Highlights

- Production increased by 21% YoY to 8.43mt and sale increased by 28% YoY to 8.67mt, export in 1QFY20 was at 0.6mt vs. zero export in 1QFY19 and export revenue in the quarter was at Rs.365cr.
- In 1QFY20 prices remained stable both in Chhattisgarh and Karnataka and the entire growth was driven by volume growth.
- Considering the robust expansion plans of key customers like JSW Steel, ESSAR, RINL management is confident of future demand of iron ore.
- In FY19 iron ore sale to JSW, ESSAR and Vizag Steel were 6.82mt, 6.54mt and 8.42mt respectively. Sales to these three mounted to 2/3rd of the total volume.
- In Donimalai case, Karnataka high court has ruled in favour of NMDC but company still need to take Environmental and forest clearance (company has EC and FC approval till 2027 but to extend it to 2037 the approval for additional 10 years need to be taken) and several other approvals to start operations at Donimalai. No clear timeline of commencing operations yet.
- In Chhattisgarh Deposit 11 lease has already been renewed to 2030, and other mines are expiring in FY21, company has already applied for renewal of rest of the mines.
- Update on steel plant – Due to delay in couple of outsourced agreements relating to RM handling, conveyor belt and civil work management has not committed to any clear timeline of commissioning of plant as of now ,however, it may commission towards the end of 1QFY21 (vs. 4QFY20 earlier). Cumulatively Rs.15700cr (85% of the contractual payments) has been spent on steel plant and around additional Rs.2300 required for commissioning the plant and Rs.1000cr is required for forex and price variation clause.
- On doubling of railway line company out of 140KM(dividend in three 50km phases) project from Kirandul to Jagdalpur, the 1st phase is complete and the second will be 50% done by end of FY20, the 3rd phase is running slow with only 5KM operational as of now. Total capex for this project is Rs.1200cr and as of now company has spent around Rs.650cr on the project. Management maintained its volume guidance of 32mt (excl Donimalai) in FY20.
- Company currently has Rs.4450cr of cash. FY20 capex is expected to be around Rs.3000cr (out of which Rs.2000cr is for steel plant).

Exhibit: Iron Ore Production and Sales Volume Trend

low base of 1QFY19 helped to post strong volume growth in the quarter....

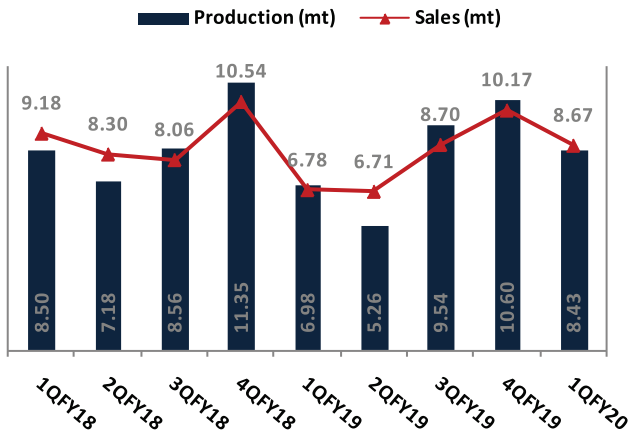


Exhibit: Net sales and Realization Trend

Realization continue to hold strong, but, falling steel and international iron ore prices will put pressure....

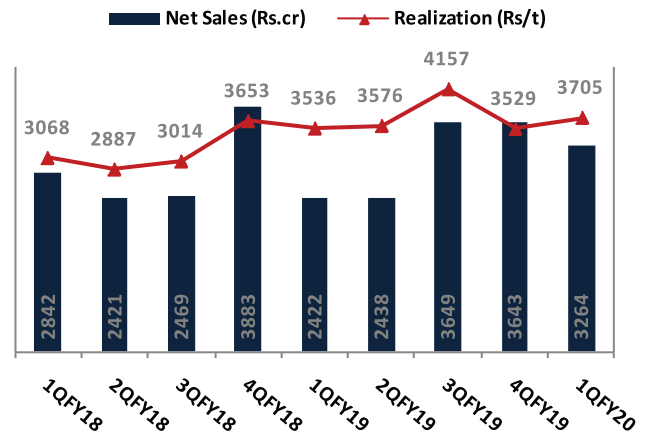


Exhibit: EBITDA and EBITDA Margin Trend

Margin continues to remain in the range of 57%-59%....

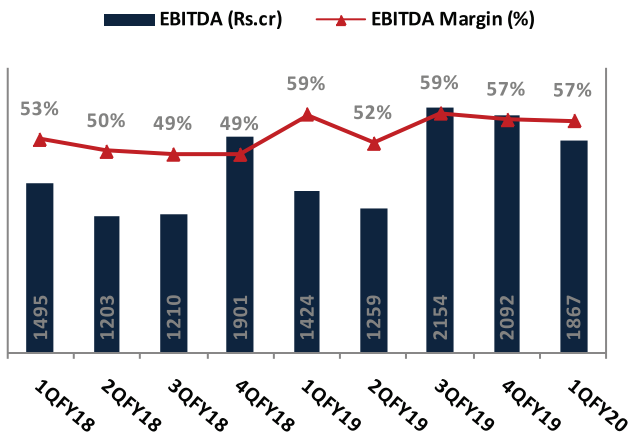


Exhibit: PAT and PAT Margin Trend

Higher effective tax rate led to fall in PAT margin....

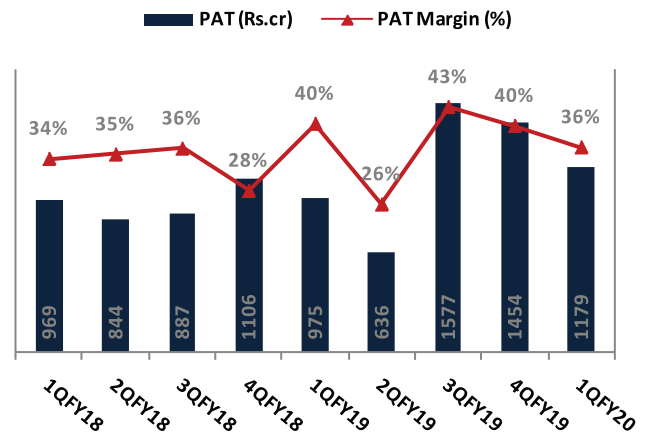


Exhibit: EBITDA/t and Cost/t Trend

Higher realization both on yearly and sequential basis led to higher EBITDA/t....

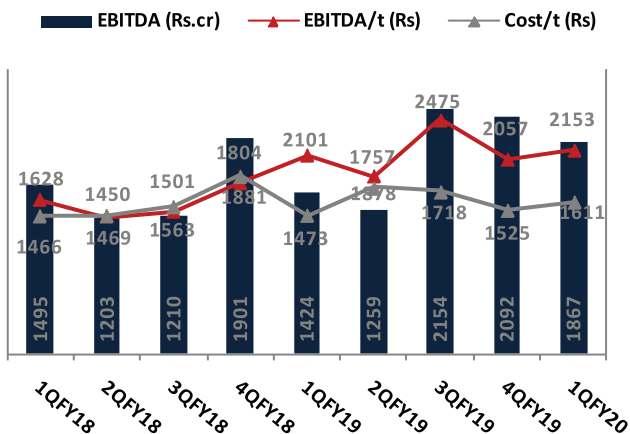
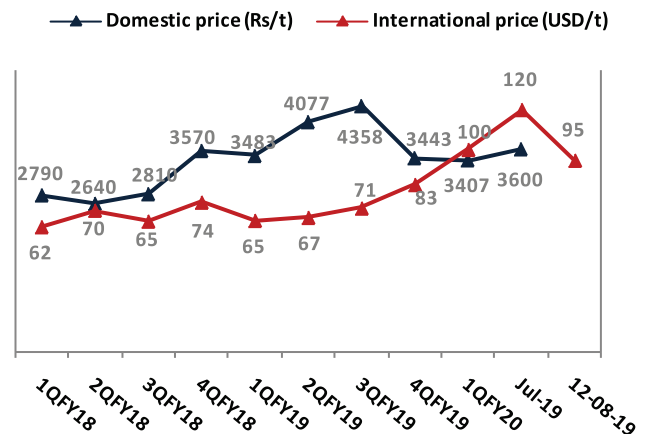


Exhibit: Iron Ore Price Trend

International prices have seen significant fall in Aug'19....



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	396	396	396	316	316	306	306	306
Reserves	29,592	31,935	28,721	22,203	24,037	25,645	27,775	29,553
Networth	29,988	32,332	29,118	22,519	24,354	25,952	28,081	29,859
Debt	-	-	1,497	-	500	364	364	364
Other Non Cur Liab	148	149	353	611	714	768	655	655
Total Capital Employed	29,988	32,332	30,615	22,519	24,854	26,316	28,445	30,223
Net Fixed Assets (incl CWIP)	6,639	9,044	11,641	13,784	15,192	16,513	18,941	21,059
Non Cur Investments	250	562	695	727	786	939	1,804	1,543
Other Non Cur Asst	5	5	1,221	2,060	2,626	2,986	2,867	2,885
Non Curr Assets	7,616	10,580	13,907	17,117	19,770	21,818	24,991	26,866
Inventory	681	692	622	540	572	666	572	514
Debtors	1,448	1,752	796	1,044	1,473	1,425	1,474	1,325
Cash & Bank	18,657	18,443	14,764	5,289	5,438	4,608	3,762	3,700
Other Curr Assets	726	1,008	189	179	307	413	307	276
Curr Assets	23,861	23,890	18,765	8,585	8,839	7,964	7,164	6,759
Creditors	186	227	324	199	160	203	160	143
Provisons (both)	13	632	423	917	742	810	695	691
Other Curr Liab	1,153	1,141	350	837	967	787	967	870
Curr Liabilities	1,341	1,990	1,703	2,572	3,041	2,698	3,055	2,746
Net Curr Assets	22,520	21,900	17,061	6,013	5,798	5,266	4,109	4,013
Total Assets	31,477	34,470	32,671	25,702	28,609	29,782	32,156	33,625

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	12,058	12,356	6,456	8,828	11,615	12,153	11,621	10,446
Change (%)	13%	2%	-48%	37%	32%	5%	-4%	-10%
Other Income	2,095	2,265	1,809	909	520	588	527	518
EBITDA	7,773	7,778	2,751	3,602	5,809	6,930	6,323	5,455
Change (%)	5%	0%	-65%	31%	61%	19%	-9%	-14%
Margin (%)	64%	63%	43%	41%	50%	57%	54%	52%
Depr & Amor.	150	162	217	196	256	279	314	356
EBIT	7,623	7,616	2,534	3,406	5,553	6,651	6,009	5,099
Int. & other fin. Cost	2	-	66	21	37	40	40	40
EBT	9,715	9,882	4,278	4,294	6,035	7,199	6,495	5,577
Exp Item	(45)	113	185	-	(144)	-	-	-
Tax	3,340	3,346	1,380	1,705	2,373	2,557	2,338	1,771
Minority Int & P/L share of Ass.	-	-	-	-	-	(0)	-	-
Reported PAT	6,421	6,422	2,713	2,589	3,806	4,642	4,158	3,806
Adjusted PAT	6,421	6,422	2,690	2,522	3,854	4,642	4,158	3,806
Change (%)	1%	0%	-58%	-5%	47%	22%	-10%	-8%
Margin(%)	53%	52%	42%	29%	33%	38%	36%	36%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	21%	20%	9%	11%	16%	18%	15%	13%
ROCE	25%	24%	9%	15%	23%	26%	21%	17%
Asset Turnover	0.38	0.36	0.20	0.34	0.41	0.41	0.36	0.31
Debtor Days	44	52	45	43	46	43	46	46
Inv Days	21	20	35	22	18	20	18	18
Payable Days	6	7	18	8	5	6	5	5
Int Coverage	4,120	-	38.6	164.0	149.7	165.0	149.0	126.5
P/E	8.6	8.0	14.3	16.3	9.9	6.9	7.7	8.4
Price / Book Value	1.8	1.6	1.3	1.9	1.5	1.2	1.1	1.1
EV/EBITDA	4.7	4.3	8.8	10.2	5.5	3.9	4.5	5.2
FCF per Share	3.7	3.5	(2.7)	(0.6)	4.2	6.7	6.8	5.7
Div Yield	9.0%	5.6%	12.6%	3.1%	4.5%	5.3%	5.3%	5.3%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	9,761	9,769	4,092	4,294	6,179	7,199	6,495	5,577
(inc)/Dec in Working Capital	(588)	(739)	419	(467)	(868)	(863)	317	17
Non Cash Op Exp	(1,887)	(1,991)	(947)	(104)	413	313	354	396
Int Paid (+)	2	-	66	21	37	40	40	40
Tax Paid	3,340	3,346	1,380	1,705	2,373	2,557	2,338	1,771
others								
CF from Op. Activities	3,721	4,007	1,862	2,134	3,381	4,047	4,829	4,220
(inc)/Dec in FA & CWIP	(2,249)	(2,614)	(2,932)	(2,315)	(2,052)	(1,997)	(2,742)	(2,473)
Free Cashflow	1,472	1,393	(1,070)	(181)	1,329	2,050	2,087	1,746
(Pur)/Sale of Inv	(1)	(312)	(133)	(32)	(59)	(153)	-	-
others								
CF from Inv. Activities	3,455	1,687	4,276	5,152	(1,869)	(739)	(3,606)	(2,213)
inc/(dec) in NW	-	-	-	-	-	(1,007)	-	-
inc/(dec) in Debt	-	-	1,497	(1,497)	(2,392)	(2,132)	-	-
Int. Paid	-	-	(65)	(21)	(37)	(40)	(40)	(40)
Div Paid (inc tax)	(5,798)	(3,449)	(5,988)	(1,461)	500	(136)	(2,028)	(2,028)
others								
CF from Fin. Activities	(5,801)	(3,449)	(6,291)	(7,249)	(1,557)	(3,296)	(2,068)	(2,068)
Inc(Dec) in Cash	1,375	2,245	(154)	37	(44)	12	(846)	(62)
Add: Opening Balance	4,306	5,681	189	34	70	26	4,608	3,762
Closing Balance	5,681	7,926	34	71	26	38	3,762	3,700

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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