

Industry
Bloomberg
BSE CODE

Metals
NMDC IN
526371

RATING	NEUTRAL
CMP	100
Price Target	88
Potential Upside	-12%
Rating Change	↔
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	120/75
Mkt Capital (Rs Cr)	30465
Free float (%)	25%
Avg. Vol 1M (,000)	7358
No. of Shares (Cr)	306
Promoters Pledged %	0%

Volumes decline along with uncertainty of approvals for Donimalai mine

2QFY20 Result Update

- NMDC reported a revenue of Rs. 2242 Cr. (Vs our estimate of Rs. 2251 Cr.) de-grew by 8% YoY largely on account of reduced volumes by 13.3% YoY due to prolonged monsoon. However, realization grew by 5.7% YoY.
- Realization during the quarter stood at Rs. 3780/ton (up 2% QoQ and 5.7% YoY) on the back of higher domestic iron ore prices (up by 6% YoY).
- Production volume are at 5.01 MT (down 5% YoY) and sales volumes are at 5.82 MT (down by 13% YoY) during the quarter.
- Domestic iron ore prices (particularly Chhattisgarh and Karnataka E-Auction) remained flat on QoQ basis and declined by 17% YoY.
- EBITDA margin contracted by 440 BPS YoY to 47.3% on account of higher selling and royalty expense in 2QFY20.
- Depreciation during the quarter was at Rs. 98 Cr (vs Rs. 65 Cr. in 1QFY20) will further reduce profitability.
- PAT during the quarter stood at Rs. 703 Cr. grew by 10.5% YoY based on reduced taxes and higher other income.
- High court ruling in favor of NMDC still certain approvals pending for operations at Donimalai mine impacting the volumes.

View and Valuation

NMDC reported reduced production as well as sales volumes in 2QFY20 due to prolonged monsoon. Demand from steel companies still remains uncertain based on slowdown in automobile and construction sector. Donimalai mine in Karnataka is still not approved by Karnataka government after the high court ruling in favor of NMDC and management has filled the approval for Chhattisgarh mine lease from its government. Management is confident for approval of extending the lease period for Chhattisgarh mine whose lease tenure will end in 4FY20. Margins are under pressure with the decline in the international iron ore prices. PAT level sustained on the back of reduced taxes and higher other income. We maintain NEUTRAL stance with the target price of Rs. 88 (4x FY21E EV/EBITDA).

Key Risks to our rating and target

- 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	11312	10516
EBITDA	3602	5809	6930	5920	5308
EBIT	3406	5553	6651	5639	4975
PAT	2589	3806	4642	4625	4152
EPS (Rs)	8	12	15	15	14
EPS growth (%)	20	47	26	0	-10
ROE (%)	11	16	18	16	14
ROCE (%)	15	23	26	20	16
BV	71.17	76.97	84.76	93.24	100.18
P/B (X)	1.87	1.54	1.23	0.95	0.89
P/E (x)	16.27	9.86	6.87	5.87	6.54

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Revenue in line with estimates

2QFY20 Results

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2438	3649	3643	3264	2242	-8.0%	-31.3%	11,615	12,153	4.6%
Other Income	131	136	196	123	128	-2.6%	3.8%	520	588	13%
Total Income	2569	3786	3839	3387	2369	-7.8%	-30.0%	12,135	12,741	5.0%
COGS	146	-31	84	46	120	-18.0%	157.5%	249	238	-4.6%
Staff Cost	270	248	282	253	245	-9.1%	-3.2%	1,046	1,037	-0.9%
Other Exp.	393	388	551	325	351	-10.7%	7.8%	1,751	1,576	-10.0%
Expenditure	1179	1495	1551	1397	1182	0.3%	-15.4%	5,806	5,223	-10.0%
EBITDA	1259	2154	2092	1867	1060	-15.8%	-43.2%	5,809	6,930	19.3%
EBITDAmargin	51.7%	59.0%	57.4%	57.2%	47.3%	-8.5%	-17.3%	50.0%	57.0%	14.0%
Depreciation	68	69	80	65	98	44.5%	50.6%	256	279	8.9%
EBIT	1192	2085	2012	1802	963	-19.2%	-46.6%	5,553	6,651	19.8%
Interest	10	10	10	12	10	0.7%	-17.1%	37	40	8.7%
PBT	1313	2211	2198	1913	1080	-17.7%	-43.5%	6,035	7,199	19.3%
Excpt. Item	0	0	0	0	0	-	-	(144)	-	-
Tax	677	635	744	734	377	-44.3%	-48.6%	2,373	2,557	7.7%
PAT	636	1577	1454	1179	703	10.5%	-40.4%	3,806	4,642	22.0%

Operating Matrix

Vol./Realiz.	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %
Prod. (mt)	7.18	8.56	11.35	6.98	5.26	9.54	10.60	8.43	5.01	-4.9%
Sales (mt)	8.30	8.06	10.54	6.78	6.71	8.70	10.17	8.67	5.82	-13.3%
Realiz./t (Rs.)	2887	3014	3653	3536	3576	4157	3529	3705	3780	5.7%

EBITDA/Cost	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %
EBITDA/t(Rs.)	1450	1501	1804	2101	1878	2475	2057	2153	1823	-2.9%
Cost/t (Rs.)	1469	1563	1881	1473	1757	1718	1525	1611	2032	15.6%

Volume de-grow led by prolonged monsoon and challenging environment

Production volumes and sales volume declined by 5% and 13% YoY at 5.01 MT and 5.82 MT based on monsoon and the demand of steel subdued with the slowdown in infrastructure and automobile sector. The reduced prices of steel also pulled the demand. Government interventions of not approving the lease mining and charging premium with NMDC hold the mining at Donimalai mine at Karnataka. Management is confident for the approval of lease from Chhattisgarh government whose lease tenure is going to end by 4QFY20.

Realization growth with the growth in Domestic Iron prices

Realization during the quarter stood at Rs. 3780/ton (up 2% QoQ and 5.7% YoY) on the back of higher domestic iron ore prices (up by 6% YoY). International iron ore prices were flat at USD 102/T. The reduced international prices of iron ore will create pressure on pricing going ahead as for Oct. 19 the prices came down at UDS 88 per ton.

Exhibit: Iron Ore Production and Sales Volume Trend

Volume growth remains muted during the quarter...

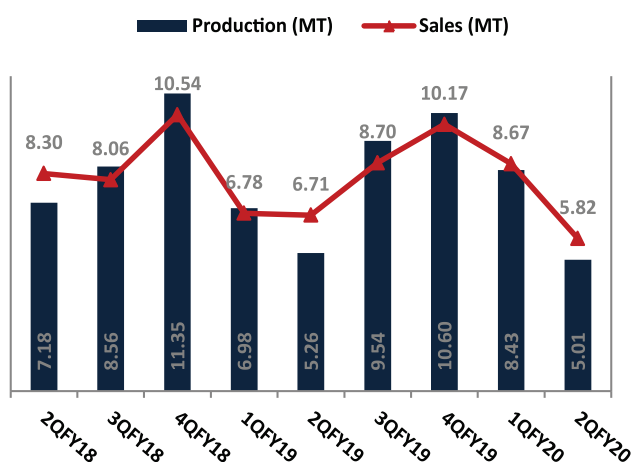


Exhibit: Net sales and Realization Trend

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

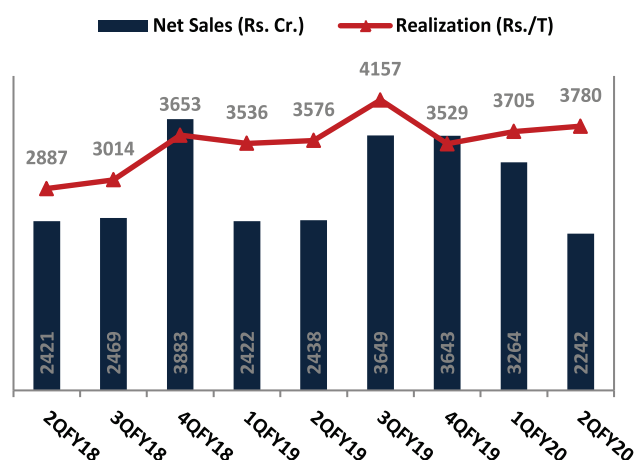


Exhibit: EBITDA and EBITDA Margin Trend

Fall in margins with the reduced volumes during the quarter...

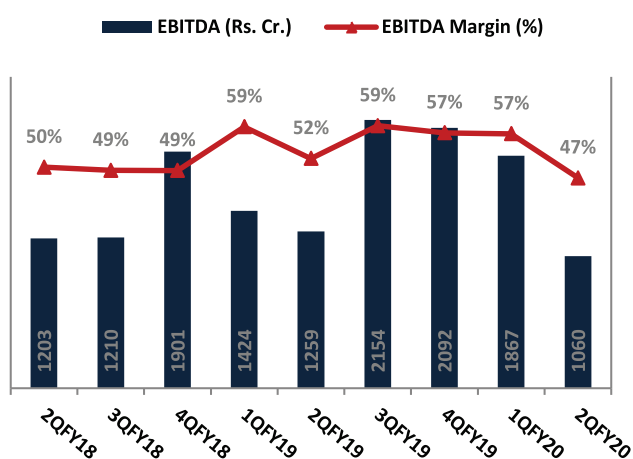


Exhibit: PAT and PAT Margin Trend

Reduced tax rates helps PAT growth YoY..

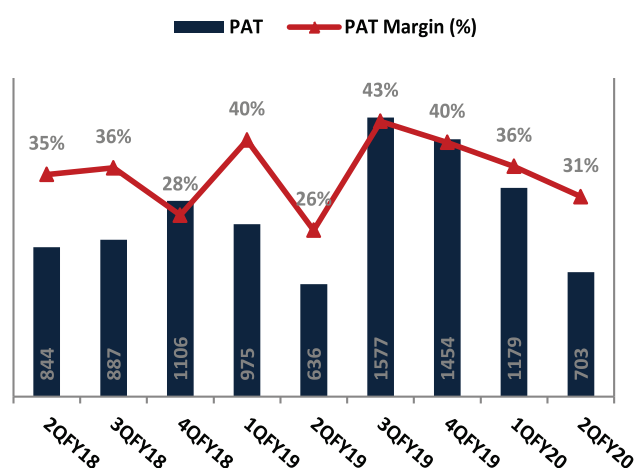


Exhibit: EBITDA/t and Cost/t Trend

Higher cost of material on per ton basis reduced EBITDA in 2QFY20...

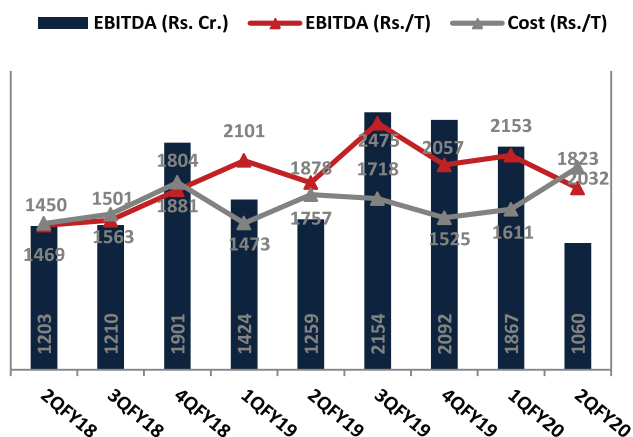
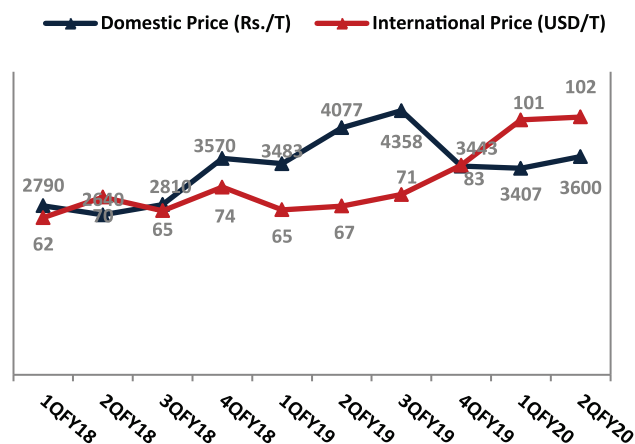


Exhibit: Iron Ore Price Trend

International iron ore prices fall will create pricing pressure going ahead..



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	28,242	30,366
Networth	29,988	32,332	29,118	22,519	24,354	25,952	28,548	30,672
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	28,912	31,036
Net Fixed Assets (incl CWIP)	6,639	9,044	11,641	13,784	15,192	16,513	18,705	20,846
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	24,755	26,654
Inventory	681	692	622	540	572	666	557	518
Debtors	1,448	1,752	796	1,044	1,473	1,425	1,434	1,333
Cash & Bank	18,657	18,443	14,764	5,289	5,438	4,608	4,474	4,723
Other Curr Assets	726	1,008	189	179	307	413	299	278
Curr Assets	23,861	23,890	18,765	8,585	8,839	7,964	7,786	7,802
Creditors	186	227	324	199	160	203	155	144
Provisons (both)	13	632	423	917	742	810	694	691
Other Curr Liab	1,153	1,141	350	837	967	787	942	875
Curr Liabilities	1,341	1,990	1,703	2,572	3,041	2,698	2,973	2,764
Net Curr Assets	22,520	21,900	17,061	6,013	5,798	5,266	4,813	5,038
Total Assets	31,477	34,470	32,671	25,702	28,609	29,782	32,541	34,456

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	11,312	10,516
Change (%)	13%	2%	-48%	37%	32%	5%	-7%	-7%
Other Income	2,095	2,265	1,809	909	520	588	582	614
EBITDA	7,773	7,778	2,751	3,602	5,809	6,930	5,920	5,308
Change (%)	5%	0%	-65%	31%	61%	19%	-15%	-10%
Margin (%)	64%	63%	43%	41%	50%	57%	52%	50%
Depr & Amor.	150	162	217	196	256	279	281	332
EBIT	7,623	7,616	2,534	3,406	5,553	6,651	5,639	4,975
Int. & other fin. Cost	2	-	66	21	37	40	40	40
EBT	9,715	9,882	4,278	4,294	6,035	7,199	6,180	5,549
Exp Item	(45)	113	185	-	(144)	-	0	0
Tax	3,340	3,346	1,380	1,705	2,373	2,557	1,556	1,397
Minority Int & P/L share of Ass.	0	0	0	0	0	0	0	0
Reported PAT	6,421	6,422	2,713	2,589	3,806	4,642	4,625	4,152
Adjusted PAT	6,421	6,422	2,690	2,522	3,854	4,642	4,625	4,152
Change (%)	1%	0%	-58%	-5%	47%	22%	0%	-10%
Margin(%)	53%	52%	42%	29%	33%	38%	41%	39%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	21.41%	19.86%	9.32%	11.50%	15.63%	17.89%	16.20%	13.54%
ROCE	25.42%	23.56%	8.70%	15.12%	22.80%	25.63%	19.75%	16.22%
Asset Turnover	0.38	0.36	0.20	0.34	0.41	0.41	0.35	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	4120.4	0.00	38.63	164.05	149.67	164.96	139.85	123.40
P/E	8.61	8.03	14.32	16.27	9.86	6.87	5.87	6.54
Price / Book Value	1.84	1.59	1.33	1.87	1.54	1.23	0.95	0.89
EV/EBITDA	4.71	4.26	8.75	10.22	5.53	3.94	3.83	4.23
FCF per Share	3.7	3.5	-2.7	-0.6	4.2	6.7	9.1	6.7
Div Yield	9%	6%	13%	3%	4%	5%	6%	6.2%

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	6,180	5,549
(inc)/Dec in Working Capital	(588)	(739)	419	(467)	(868)	(863)	326	6
Non Cash Op Exp	(1,887)	(1,991)	(947)	(104)	413	313	322	372
Int Paid (+)	2	-	66	21	37	40	40	40
Tax Paid	3,340	3,346	1,380	1,705	2,373	2,557	1,556	1,397
others								
CF from Op. Activities	3,721	4,007	1,862	2,134	3,381	4,047	5,272	4,531
(inc)/Dec in FA & CWIP	(2,249)	(2,614)	(2,932)	(2,315)	(2,052)	(1,997)	(2,473)	(2,473)
Free Cashflow	1,472	1,393	(1,070)	(181)	1,329	2,050	2,799	2,057
(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)	(3,338)	(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	(134)	250
Add: Opening Balance	4,306	5,681	189	34	70	26	4,608	4,474
Closing Balance	5,681	7,926	34	71	26	38	4,474	4,724

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