

Industry
Bloomberg
BSE CODE

Metals
NMDC IN
526371

Mining capacity expansion will drive growth going ahead

RATING	BUY
CMP	116
Price Target	142
Potential Upside	22%
Rating Change	↑
Estimate Change	↑
Target Change	↔

STOCK INFO	
52wk Range H/L	139/74
Mkt Capital (Rs Cr)	34461
Free float (%)	25%
Avg. Vol 1M (,000)	9774
No. of Shares (Crs)	306
Promoters Pledged %	0%

3QFY20 Result Update

- NMDC reported a revenue of Rs. 3006 Cr. (vs our estimate of Rs. 2995 Cr.) de-grew by 17.6% YoY largely on account of reduced volumes as well as realization by 3.4% YoY and 14.4% YoY respectively.
- Fall in volumes and realization in 3QFY20 was on account of prolonged monsoon and decrease in iron ore prices.
- Realization during the quarter stood at Rs. 3557/ton (down 2.23% QoQ and 6% YoY) on the back of fall in domestic iron ore prices (down 24.13% YoY and 10.8% QoQ).
- Production volume are at 8.58 MT (down 9.8% YoY) and sales volumes are at 8.41 MT (down by 3.4% YoY) during the quarter.
- Domestic iron ore prices (particularly Chhattisgarh and Karnataka E-Auction) remained muted on QoQ basis and declined by 24.1% YoY.
- EBITDA margin contracted by 610 BPS YoY to 52.9% on account of fall in realization due to lower iron ore prices.
- PAT during the quarter stood at Rs. 1377 Cr. de-grew by 12.7% YoY despite reduced taxes.
- Management expects Donimalai mine case to be resolved in the next 3-4 quarters. State has been willing to extend mining lease but with a premium; however, NMDC Donimalai case is now before Mines Tribunal.
- Karnataka CM has written to the centre regarding NMDC's Donimalia requesting for premium to be imposed on renewal of mines in Karnataka. There is a scope for Karnataka government to impose a premium on Donimalai Mine renewal.

View and Valuation

Fall in production as well as sales volumes in 3QFY20 was 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 with the uncertainty with respect to payment made to the Karnataka government. However, Chhattisgarh mine lease tenure is extended for the next 20 years whose lease tenure will end in 4QFY20 and at Kumaraswamy mine, Karnataka expanding the mining capacity to 10 MTPA is also approved. Ministry of coal has allocated two coal mines in Jharkhand state which is exclusively for coal assets in India to provide linkage to steel and power sector. Twice the price hike taken by the management in Jan-2020 will help to sustain margins at certain level. We maintain the price of Rs. 142 (5.2x FY21E EV/EBITDA) with positive stance to BUY.

Key Risks to our rating and target

- Decline in international iron ore prices.
- Premium charged by Karnataka government on Donimalai mine renewal.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8828	11615	12153	11740	13046
EBITDA	3602	5809	6930	6177	7041
EBIT	3406	5553	6651	5813	6596
PAT	2589	3806	4642	4719	5317
EPS (Rs)	8	12	15	15	17
EPS growth (%)	20	47	26	2	13
ROE (%)	11	16	18	16	17
ROCE (%)	15	23	26	20	21
BV	71.17	76.97	84.76	93.54	104.29
P/B (X)	1.87	1.54	1.23	1.24	1.36
P/E (x)	16.27	9.86	6.87	7.55	8.18

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Revenue in line with estimates

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	3649	3643	3264	2242	3006	-17.6%	34.1%	11,615	12,153	4.6%
Other Income	136	196	123	128	130	-4.4%	2.1%	520	588	13%
Total Income	3786	3839	3387	2369	3137	-17.1%	32.4%	12,135	12,741	5.0%
COGS	-31	84	46	120	22	-170.8%	-81.5%	249	238	-4.6%
Staff Cost	248	282	253	245	259	4.2%	5.6%	1,046	1,037	-0.9%
Other Exp.	388	551	325	351	360	-7.2%	2.6%	1,751	1,576	-10.0%
Expenditure	1495	1551	1397	1182	1415	-5.4%	19.8%	5,806	5,223	-10.0%
EBITDA	2154	2092	1867	1060	1591	-26.1%	50.1%	5,809	6,930	19.3%
EBITDAMargin	59.0%	57.4%	57.2%	47.3%	52.9%	-10.3%	11.9%	1	1	14.0%
Depreciation	69	80	65	98	65	-6.9%	-33.8%	256	279	8.9%
EBIT	2085	2012	1802	963	1527	-26.8%	58.6%	5,553	6,651	19.8%
Interest	10	10	12	10	10	1.5%	0.4%	37	40	8.7%
PBT	2211	2198	1913	1080	1647	-25.5%	52.5%	6,035	7,199	19.3%
Excpt. Item	0	0	0	0	0	-	-	(144)	0	-
Tax	635	744	734	377	271	-57.4%	-28.2%	2,373	2,557	7.7%
PAT	1577	1454	1179	703	1376	-12.7%	95.7%	3,806	4,642	22.0%

Operating Matrix

Vol./Realiz.	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
Prod. (mt)	8.56	11.35	6.98	5.26	9.54	10.60	8.43	5.01	8.58	-10.0%
Sales (mt)	8.06	10.54	6.78	6.71	8.70	10.17	8.67	5.82	8.41	-3.4%
Realiz./t (Rs.)	3014	3653	3536	3576	4157	3529	3705	3780	3557	-14.4%

EBITDA/Cost	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %
EBITDA/t(Rs.)	1501	1804	2101	1878	2475	2057	2153	1823	1893	-23.5%
Cost/t (Rs.)	1563	1881	1473	1757	1718	1525	1611	2032	1683	-2.0%

Volume de-grow led by prolonged monsoon and challenging environment

Production volumes and sales volume declined by 9.8% and 3.4% YoY at 8.58 MT and 8.41 MT based on prolonged monsoon and the steel demand remain subdued due to slowdown in infrastructure and automobile sector. The reduced prices of steel during 1HFY20 further dragged the demand however; some improvement could be seen in 3QFY20. Government interventions of not approving the lease mining and charging premium with NMDC hold the mining at Donimalai mine at Karnataka. Meanwhile extension of mining capacity at Kumaraswamy mine, Karnataka from 7 MTPA to 10 MTPA will boost the volume for coming quarters. Chhittigarh mine lease tenure also extended to 20 years which was about to end in 4QFY20.

Fall in Realization led by reduced Domestic Iron ore prices

Realization during the quarter stood at Rs. 3557/ton (down 6% QoQ and 14.4% YoY) on the back of fall in domestic iron ore prices (down 9.4% QoQ and 30% YoY). International iron ore prices were declined to USD 88/T (down 13.5% QoQ and up 23% YoY). The reduced international prices of iron ore will create pressure on pricing going ahead but the price hike taken by management twice in the month of Jan-2020 will help to sustain margins.

Exhibit: Iron Ore Production and Sales Volume Trend

Volume growth remains muted during the quarter...

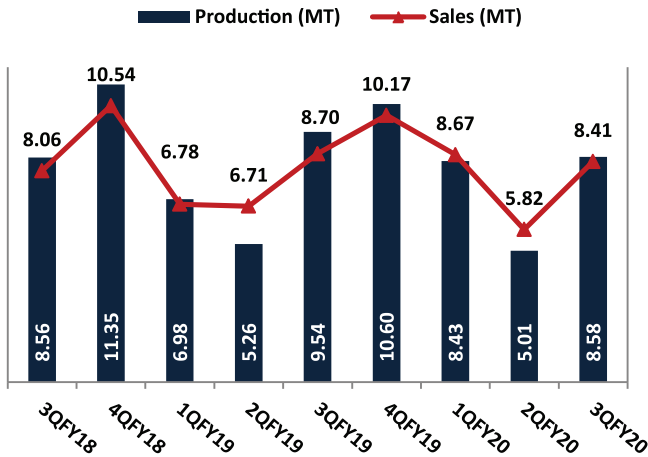


Exhibit: Net sales and Realization Trend

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

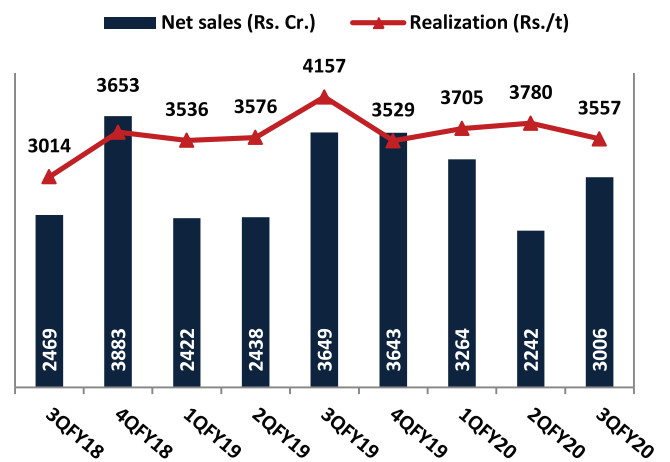


Exhibit: EBITDA and EBITDA Margin Trend

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

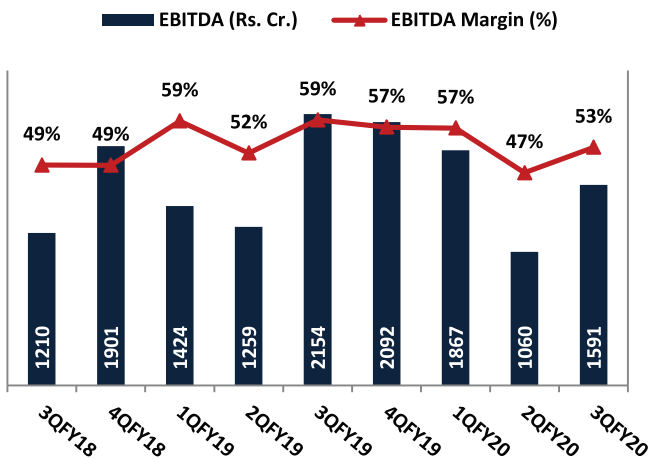


Exhibit: PAT and PAT Margin Trend

Reduced tax rates helps PAT growth YoY..

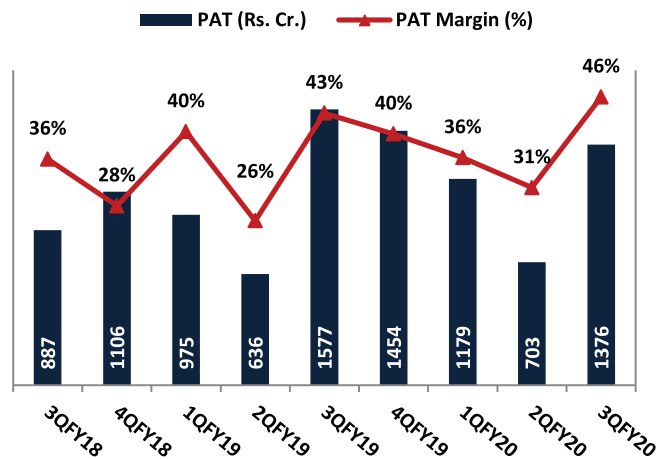


Exhibit: EBITDA/t and Cost/t Trend

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

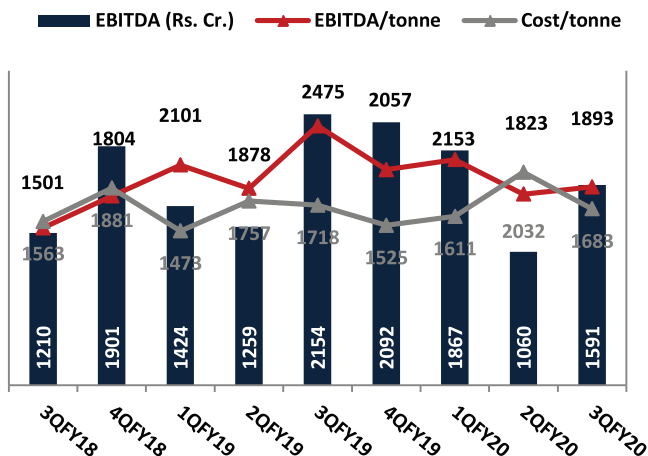
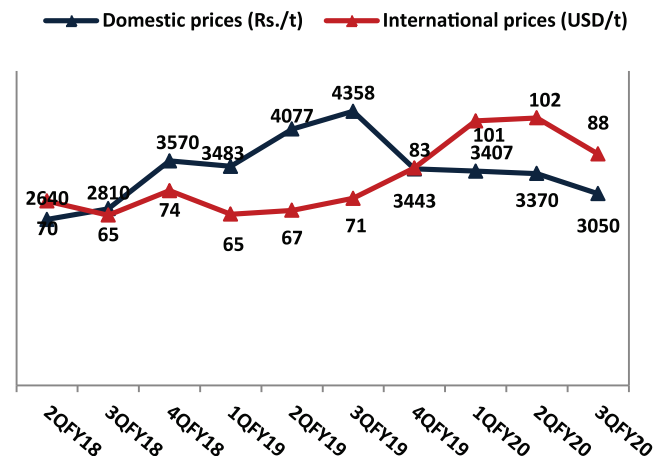


Exhibit: Iron Ore Price Trend

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	28,336	31,668
Networth	29,988	32,332	29,118	22,519	24,354	25,952	28,642	31,974
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	29,006	32,338
Net Fixed Assets (incl CWIP)	6,639	9,044	11,641	13,784	15,192	16,513	18,622	20,651
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	24,672	26,458
Inventory	681	692	622	540	572	666	578	642
Debtors	1,448	1,752	796	1,044	1,473	1,425	1,489	1,654
Cash & Bank	18,657	18,443	14,764	5,289	5,438	4,608	4,638	6,145
Other Curr Assets	726	1,008	189	179	307	413	311	345
Curr Assets	23,861	23,890	18,765	8,585	8,839	7,964	8,075	9,965
Creditors	186	227	324	199	160	203	161	179
Provisons (both)	13	632	423	917	742	810	695	700
Other Curr Liab	1,153	1,141	350	837	967	787	977	1,086
Curr Liabilities	1,341	1,990	1,703	2,572	3,041	2,698	3,086	3,429
Net Curr Assets	22,520	21,900	17,061	6,013	5,798	5,266	4,989	6,536
Total Assets	31,477	34,470	32,671	25,702	28,609	29,782	32,748	36,423

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	11,740	13,046
Change (%)	13%	2%	-48%	37%	32%	5%	-3%	11%
Other Income	2,095	2,265	1,809	909	520	588	533	553
EBITDA	7,773	7,778	2,751	3,602	5,809	6,930	6,177	7,095
Change (%)	5%	0%	-65%	31%	61%	19%	-11%	15%
Margin (%)	64%	63%	43%	41%	50%	57%	53%	54%
Depr & Amor.	150	162	217	196	256	279	364	445
EBIT	7,623	7,616	2,534	3,406	5,553	6,651	5,813	6,650
Int. & other fin. Cost	2	-	66	21	37	40	40	40
EBT	9,715	9,882	4,278	4,294	6,035	7,199	6,306	7,163
Exp Item	(45)	113	185	-	(144)	-	0	0
Tax	3,340	3,346	1,380	1,705	2,373	2,557	1,587	1,803
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	4,719	5,360
Adjusted PAT	6,421	6,422	2,690	2,522	3,854	4,642	4,720	5,360
Change (%)	1%	0%	-58%	-5%	47%	22%	2%	14%
Margin(%)	53%	52%	42%	29%	33%	38%	40%	41%

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%	16.47%	16.76%
ROCE	25.42%	23.56%	8.70%	15.12%	22.80%	25.63%	20.29%	20.80%
Asset Turnover	0.38	0.36	0.20	0.34	0.41	0.41	0.36	0.36
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	144.17	164.94
P/E	8.61	8.03	14.32	16.27	9.86	6.87	7.55	8.11
Price / Book Value	1.84	1.59	1.33	1.87	1.54	1.23	1.24	1.36
EV/EBITDA	4.71	4.26	8.75	10.22	5.53	3.94	5.01	5.26
FCF per Share	3.7	3.5	-2.7	-0.6	4.2	6.7	9.7	10.8
Div Yield	9%	6%	13%	3%	4%	5%	5%	3.9%

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	6,306	7,163
(inc)/Dec in Working Capital	(588)	(739)	419	(467)	(868)	(863)	313	(57)
Non Cash Op Exp	(1,887)	(1,991)	(947)	(104)	413	313	405	485
Int Paid (+)	2	-	66	21	37	40	40	40
Tax Paid	3,340	3,346	1,380	1,705	2,373	2,557	1,587	1,803
others								
CF from Op. Activities	3,721	4,007	1,862	2,134	3,381	4,047	5,437	5,789
(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	2,963	3,315
(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	30	1,507
Add: Opening Balance	4,306	5,681	189	34	70	26	4,608	4,638
Closing Balance	5,681	7,926	34	71	26	38	4,638	6,145

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