

Industry  
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Metals  
NMDC IN  
526371

## Lower volume and higher cost on per ton basis hampered performance due to COVID -19 impact

### 4QFY20 Result Update

- NMDC reported a revenue of Rs. 3187 Cr. (vs our estimate of Rs. 3265 Cr.) de-grew by 12.5% YoY largely on account of reduced volumes on account of supply chain disruption due to COVID-19 for the last 10 days of March.
- Realization during the quarter stood at Rs. 3674/ton (up 3% QoQ and 4% YoY) on the back of twice price hike was taken management in the month of January. However, once it was also reduced Rs. 50/T in the month of February.
- Production volume are at 9.47 MT (down 10.6% YoY) and sales volumes are at 8.62 MT (down by 15.3% YoY) during the quarter.
- Increase in International iron ore prices simultaneously helps to rebound the domestic iron ore prices sustain realization during the quarter.
- EBITDA margin contracted by 10.6% YoY and 6.1% sequentially to 46.8% on account of higher manpower and other expenses on per ton basis.
- PAT during the quarter stood at Rs. 315 Cr. de-grew by 75.8% YoY due to higher tax rates and exceptional item in 4QFY20.
- PAT was lower by Rs. 795 Cr. on account of disputes settled under the scheme 'Vivad Se Vishwas' for which contingent liability was created in FY19. Settlement of dispute was done for which an amount of Rs 981 Cr. has been paid in full settlement of the disputes.
- An exceptional item during the quarter was Rs. 96 Cr. includes amortization of PPE of stamp duty and registration fees of Kumaraswamy Mine and Bailadila Mines.

### View and Valuation

Disruption in supply chain management due to lockdown impacted the sales volume in 4QFY20. However, increase in international iron ore prices sustain realization during the quarter. Increase in employee cost and other expenses reduced EBITDA margins and exceptional item on account of renewal of lease mines along with settlement of disputes hampered PAT growth. Management has opted for the reduced tax regime from FY20. We value our stock at Rs. 95 at 3.8x EV/EBITDA FY21E with Neutral stance.

### 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	FY20	FY21E
Net Sales	8828	11615	12153	11699	12957
EBITDA	3602	5809	6930	6010	7019
EBIT	3406	5553	6651	5716	6672
PAT	2589	3806	4642	3610	5119
EPS (Rs)	8	12	15	12	17
EPS growth (%)	20	47	26	-22	42
ROE (%)	11	16	18	13	17
ROCE (%)	15	23	26	21	22
BV	71.17	76.97	84.76	90	100
P/B (X)	1.87	1.54	1.23	0.95	0.85
P/E (x)	16.27	9.86	6.87	7.25	5.11

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## Revenue in line with estimates

### 4QFY20 Results

Fig in Rs Cr

FINANCIALS	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%	QoQ%	FY19	FY20	YoY%
Net Sales	3643	3264	2242	3006	3187	-12.5%	6.0%	12,153	11,699	-3.7%
Other Income	196	123	128	130	133	-32.0%	2.4%	588	514	-13%
Total Income	3839	3387	2369	3137	3320	-13.5%	5.9%	12,741	12,213	-4.1%
COGS	84	46	120	22	37	-55.2%	69.2%	238	226	-5.0%
Staff Cost	282	253	245	259	290	2.8%	12.0%	1,037	1,047	1.0%
Other Exp.	551	325	351	360	581	5.5%	61.3%	1,308	1,617	23.7%
Expenditure	1551	1397	1182	1415	1695	9.3%	19.8%	5,223	5,689	8.9%
EBITDA	2092	1867	1060	1591	1492	-28.7%	-6.3%	6,930	6,010	-13.3%
EBITDAmargin	57.4%	57.2%	47.3%	52.9%	46.8%	-18.5%	-11.6%	1	1	-9.9%
Depreciation	80	65	98	65	67	-16.1%	4.5%	279	294	5.6%
EBIT	2012	1802	963	1527	1424	-29.2%	-6.7%	6,651	5,716	-14.1%
Interest	10	12	10	10	-21	-308.3%	-318.5%	40	10	-75.5%
PBT	2198	1913	1080	1647	1579	-28.2%	-4.2%	7,199	6,220	-13.6%
Excpt. Item	0	0	0	0	-96	-	-	-	96	-
Tax	744	734	377	271	1131	52.1%	317.8%	2,557	2,513	-1.7%
PAT	1454	1179	703	1376	351	-75.8%	-74.5%	4,642	3,610	-22.2%

### Operating Matrix

Vol./Realiz.	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%
Prod. (mt)	11.35	6.98	5.26	9.54	10.60	8.43	5.01	8.58	9.47	-10.7%
Sales (mt)	10.54	6.78	6.71	8.70	10.17	8.67	5.82	8.41	8.62	-15.3%
Realiz./t (Rs.)	3653	3536	3576	4157	3529	3705	3780	3557	3674	4.1%

EBITDA/Cost	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	YoY%
EBITDA/t(Rs.)	1804	2101	1878	2475	2057	2153	1823	1893	1731	-15.9%
Cost/t (Rs.)	1881	1473	1757	1718	1525	1611	2032	1683	1967	29.0%

### Volume de-grow led by COVID-19 impact on business operations

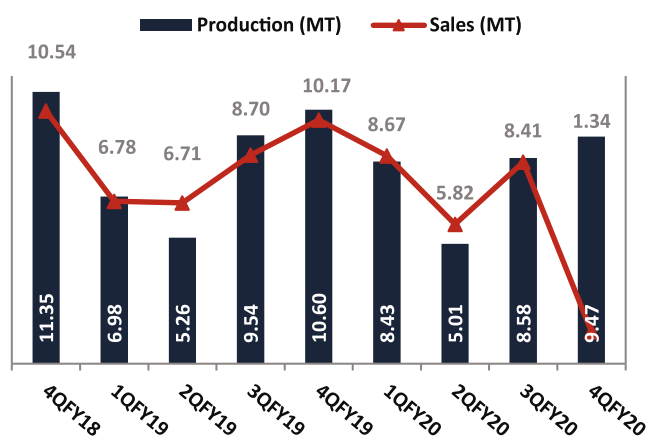
Production volumes and sales volume declined by 10.6% and 15.3% YoY at 9.47 MT and 8.62 MT based on disruption in supply chain management on account of COVID-19. The reduced prices of steel during 1HFY20 further took a rebound in 2HFY20 with twice the price hike in iron ore prices in the month of January. However, there was reduction in iron ore prices by Rs. 50/T in the same quarter, still realization in 4QFY20 was higher by 4% YoY based on increase in iron ore prices both Internationally as well as in the domestic market.

### Other Updates

Higher cost on the per ton basis due to lower volumes during the quarter hampered margins. Meanwhile, exceptional item on renewal of mines lease along with the settlement of disputes reduced PAT in 4QFY20.

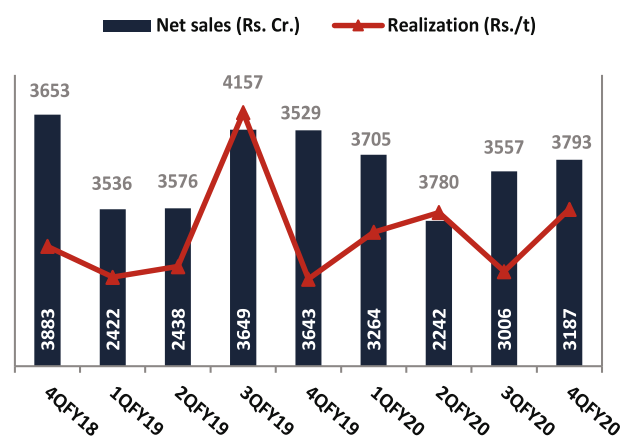
## Exhibit: Iron Ore Production and Sales Volume Trend

Sales Volume remain subdued during the quarter due to COVID impact..



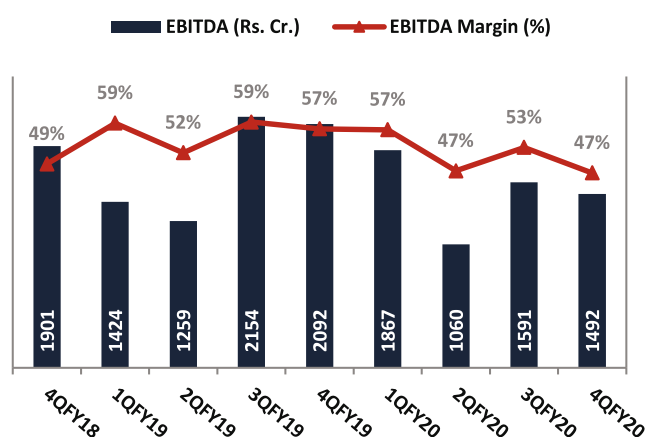
## Exhibit: Net sales and Realization Trend

Realization continue to hold strong despite lower sales volume..



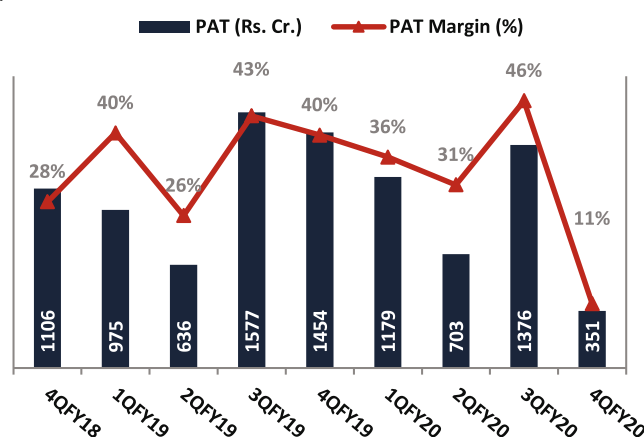
## Exhibit: EBITDA and EBITDA Margin Trend

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



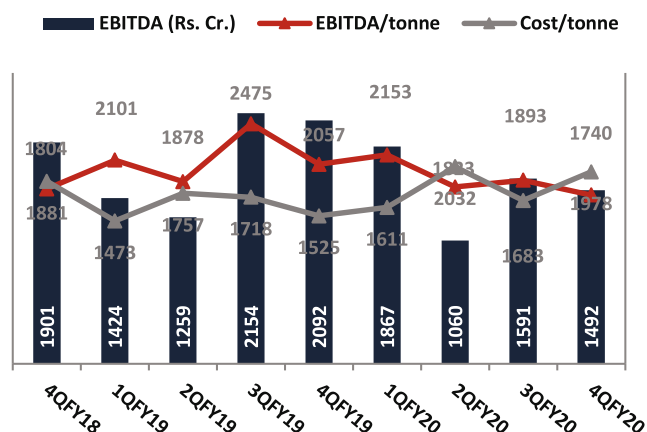
## Exhibit: PAT and PAT Margin Trend

An exceptional item during the quarter impacted PAT during the quarter..



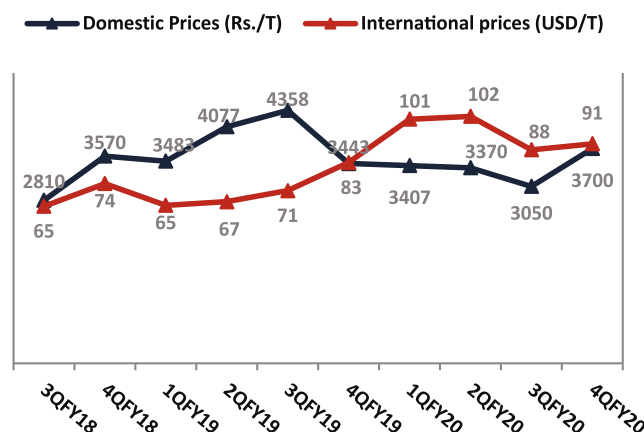
## Exhibit: EBITDA/t and Cost/t Trend

Higher cost of material on per ton basis reduced EBITDA in 4QFY20...



## Exhibit: Iron Ore Price Trend

International iron ore prices could rebound from 4QFY20.



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>Share Capital</b>	<b>396</b>	<b>396</b>	<b>396</b>	<b>316</b>	<b>316</b>	<b>306</b>	<b>306</b>	<b>306</b>
Reserves	29,592	31,935	28,721	22,203	24,037	25,645	27,227	30,300
<b>Networth</b>	<b>29,988</b>	<b>32,332</b>	<b>29,118</b>	<b>22,519</b>	<b>24,354</b>	<b>25,952</b>	<b>27,533</b>	<b>30,606</b>
Debt	-	-	1,497	-	500	364	566	364
Other Non Cur Liab	148	149	353	611	714	768	833	828
<b>Total Capital Employed</b>	<b>29,988</b>	<b>32,332</b>	<b>30,615</b>	<b>22,519</b>	<b>24,854</b>	<b>26,316</b>	<b>28,099</b>	<b>30,970</b>
Net Fixed Assets (incl CWIP)	6,639	9,044	11,641	13,784	15,192	16,513	18,518	20,932
Non Cur Investments	250	562	695	727	786	939	986	986
Other Non Cur Asst	5	5	1,221	2,060	2,626	2,986	3,075	3,075
Non Curr Assets	7,616	10,580	13,907	17,117	19,770	21,818	23,842	26,256
<b>Inventory</b>	<b>681</b>	<b>692</b>	<b>622</b>	<b>540</b>	<b>572</b>	<b>666</b>	<b>724</b>	<b>806</b>
<b>Debtors</b>	<b>1,448</b>	<b>1,752</b>	<b>796</b>	<b>1,044</b>	<b>1,473</b>	<b>1,425</b>	<b>2,224</b>	<b>2,478</b>
<b>Cash &amp; Bank</b>	<b>18,657</b>	<b>18,443</b>	<b>14,764</b>	<b>5,289</b>	<b>5,438</b>	<b>4,608</b>	<b>2,392</b>	<b>2,332</b>
Other Curr Assets	726	1,008	189	179	307	413	1,161	1,294
Curr Assets	23,861	23,890	18,765	8,585	8,839	7,964	7,302	7,803
Creditors	186	227	324	199	160	203	226	251
Provisons (both)	13	632	423	917	742	810	1,050	872
Other Curr Liab	1,153	1,141	350	837	967	787	544	606
Curr Liabilities	1,341	1,990	1,703	2,572	3,041	2,698	2,211	2,261
<b>Net Curr Assets</b>	<b>22,520</b>	<b>21,900</b>	<b>17,061</b>	<b>6,013</b>	<b>5,798</b>	<b>5,266</b>	<b>5,091</b>	<b>5,542</b>
<b>Total Assets</b>	<b>31,477</b>	<b>34,470</b>	<b>32,671</b>	<b>25,702</b>	<b>28,609</b>	<b>29,782</b>	<b>31,144</b>	<b>34,059</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>Revenue from Operation</b>	<b>12,058</b>	<b>12,356</b>	<b>6,456</b>	<b>8,828</b>	<b>11,615</b>	<b>12,153</b>	<b>11,699</b>	<b>13,039</b>
Change (%)	13%	2%	-48%	37%	32%	5%	-4%	11%
Other Income	2,095	2,265	1,809	909	520	588	514	210
<b>EBITDA</b>	<b>7,773</b>	<b>7,778</b>	<b>2,751</b>	<b>3,602</b>	<b>5,809</b>	<b>6,930</b>	<b>6,010</b>	<b>7,083</b>
Change (%)	5%	0%	-65%	31%	61%	19%	-13%	18%
Margin (%)	64%	63%	43%	41%	50%	57%	51%	54%
Depr & Amor.	150	162	217	196	256	279	294	436
<b>EBIT</b>	<b>7,623</b>	<b>7,616</b>	<b>2,534</b>	<b>3,406</b>	<b>5,553</b>	<b>6,651</b>	<b>5,716</b>	<b>6,647</b>
Int. & other fin. Cost	2	-	66	21	37	40	10	40
<b>EBT</b>	<b>9,715</b>	<b>9,882</b>	<b>4,278</b>	<b>4,294</b>	<b>6,035</b>	<b>7,199</b>	<b>6,220</b>	<b>6,816</b>
Exp Item	(45)	113	185	-	(144)	-	96	0
Tax	3,340	3,346	1,380	1,705	2,373	2,557	2,513	1,716
<b>Minority Int &amp; P/L share of Ass.</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Reported PAT</b>	<b>6,421</b>	<b>6,422</b>	<b>2,713</b>	<b>2,589</b>	<b>3,806</b>	<b>4,642</b>	<b>3,610</b>	<b>5,101</b>
Adjusted PAT	6,421	6,422	2,690	2,522	3,854	4,642	3,535	5,101
Change (%)	1%	0%	-58%	-5%	47%	22%	-22%	41%
Margin(%)	53%	52%	42%	29%	33%	38%	31%	39%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	21.41%	19.86%	9.32%	11.50%	15.63%	17.89%	13.11%	16.67%
ROCE	25.42%	23.56%	8.70%	15.12%	22.80%	25.63%	20.76%	21.72%
Asset Turnover	0.38	0.36	0.20	0.34	0.41	0.41	0.38	0.38
Debtor Days	44	52	45	43	46	43	69	69
Inv Days	21	20	35	22	18	20	23	23
Payable Days	6	7	18	8	5	6	7	7
Int Coverage	4120.4	0.00	38.63	164.05	149.67	164.96	578.51	164.85
P/E	8.61	8.03	14.32	16.27	9.86	6.87	6.76	4.78
Price / Book Value	1.84	1.59	1.33	1.87	1.54	1.23	0.89	0.80
EV/EBITDA	4.71	4.26	8.75	10.22	5.53	3.94	3.66	3.11
FCF per Share	3.7	3.5	-2.7	-0.6	4.2	6.7	-1.1	7.2
Div Yield	9%	6%	13%	3%	4%	5%	7%	6.9%

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
<b>PBT</b>	<b>9,761</b>	<b>9,769</b>	<b>4,092</b>	<b>4,294</b>	<b>6,179</b>	<b>7,199</b>	<b>6,220</b>	<b>6,816</b>
(inc)/Dec in Working Capital	(588)	(739)	419	(467)	(868)	(863)	(1,948)	(518)
Non Cash Op Exp	(1,887)	(1,991)	(947)	(104)	413	313	208	477
Int Paid (+)	2	-	66	21	37	40	10	40
Tax Paid	3,340	3,346	1,380	1,705	2,373	2,557	2,513	1,716
others								
<b>CF from Op. Activities</b>	<b>3,721</b>	<b>4,007</b>	<b>1,862</b>	<b>2,134</b>	<b>3,381</b>	<b>4,047</b>	<b>1,967</b>	<b>5,060</b>
(inc)/Dec in FA & CWIP	(2,249)	(2,614)	(2,932)	(2,315)	(2,052)	(1,997)	(2,299)	(2,850)
Free Cashflow	1,472	1,393	(1,070)	(181)	1,329	2,050	(332)	2,210
(Pur)/Sale of Inv	(1)	(312)	(133)	(32)	(59)	(153)	-	-
others								
<b>CF from Inv. Activities</b>	<b>3,455</b>	<b>1,687</b>	<b>4,276</b>	<b>5,152</b>	<b>(1,869)</b>	<b>(739)</b>	<b>(2,345)</b>	<b>(2,850)</b>
inc/(dec) in NW	-	-	-	-	-	(1,007)	-	-
inc/(dec) in Debt	-	-	1,497	(1,497)	(2,392)	(2,132)	-	-
Int. Paid	-	-	(65)	(21)	(37)	(40)	(10)	(40)
Div Paid (inc tax)	(5,798)	(3,449)	(5,988)	(1,461)	500	(136)	(2,028)	(2,028)
others								
<b>CF from Fin. Activities</b>	<b>(5,801)</b>	<b>(3,449)</b>	<b>(6,291)</b>	<b>(7,249)</b>	<b>(1,557)</b>	<b>(3,296)</b>	<b>(1,837)</b>	<b>(2,270)</b>
Inc(Dec) in Cash	1,375	2,245	(154)	37	(44)	12	(2,215)	(60)
Add: Opening Balance	4,306	5,681	189	34	70	26	4,608	2,392
<b>Closing Balance</b>	<b>5,681</b>	<b>7,926</b>	<b>34</b>	<b>71</b>	<b>26</b>	<b>38</b>	<b>2,392</b>	<b>2,332</b>

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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](http://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](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.: 033-40541700.

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