

India

HOLD (previously REDUCE)

Consensus ratings*: Buy 11 Hold 5 Sell 7	
Current price:	Rs120
Target price:	Rs117
Previous target:	Rs176
Up/downside:	-2.5%
InCred Research / Consensus:	-26.1%
Reuters:	NMDC.BO
Bloomberg:	NMDC IN
Market cap:	US\$4,499m
	Rs350,207m
Average daily turnover:	US\$18.8m
	Rs1465.9m
Current shares o/s:	2,930.7m
Free float:	31.7%
*Source: Bloomberg	

Key changes in this note

- FY23F EPS cut by 47.9%.
- FY24F EPS cut by 32.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(13.2)	(24.0)	(35.0)
Relative (%)	(15.6)	(22.3)	(37.2)

Major shareholders	% held
Promoter & Promoter Group	68.3
Life Insurance Corporation of India	13.5
Nippon Life India Trustee Ltd	2.3

Analyst(s)



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NMDC

Realization set to fall

- The Indian long-steel maker's profitability is low with headwinds such as the fall in iron ore prices and a correction in long and flat steel prices.
- We have cut our FY23F and FY24F EPS estimates by 47.9% and 32.7%, respectively, and introduce FY25F numbers.
- We now value the stock at 4x FY24F EV/EBITDA with a Hold rating (Reduce earlier) and a new target price of Rs117 (Rs176 earlier).

Iron ore prices decline; realization to fall

As highlighted in our earlier report, iron ore prices have corrected by ~Rs2,000/t since May 2022 (Link to the report). The price cuts have been driven by lower steel prices and the impact of increase in export duty. We believe that given the unviability of exports, the prices of iron ore fines may fall to Rs3,000/t and that of lumps to around Rs5,000/t. We believe the price decline will lead to lower realization. Hence, overall realization for NMDC shall fall to Rs4,650/t and Rs4,200/t for FY23F and FY24F, respectively. The company has also targeted sales volume of 46-47mt for FY23F. The incremental volume of 3mt would come from Kumaraswamy mine in Karnataka, provided the court rules in favour of NMDC, raising the production ceiling from 7mt to 10mt.

Steel plant demerger – positive catalyst

The steel plant demerger scheme has been filed with the MCA (ministry of corporate affairs), and NMDC expects to get approval in the next two to four months, depending on the approval process. The company highlighted that it would be supplying iron ore to the steel plant on a long-term contract basis, at market prices. We would view the steel plant demerger as a positive catalyst for the company as it would allow it to focus on iron ore mining operations. However, given the flat steel oversupply and transfer pricing from mining operations, we believe the steel business cannot make more than Rs5,000/t at sales of 1.5mt in FY24F. Assuming EV/EBITDA multiple of 5x, we have assigned a value of Rs75bn in our current valuation of the steel plant.

We value NMDC at 4x FY24F EV/EBITDA; upgrade to Hold

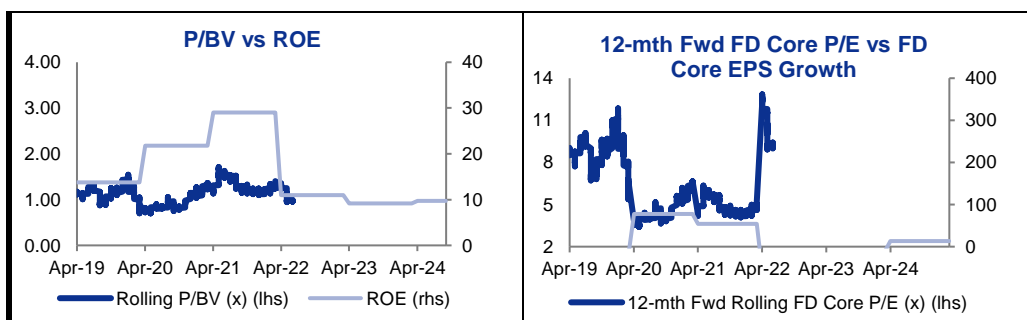
We have cut our EPS estimates for FY23F and FY24F by 47.9% and 32.7%, respectively, to factor in lower iron ore prices, and have introduced FY25F numbers. We continue to value the stock at 4x FY24F EV/EBITDA and upgrade our rating on it to Hold (from Reduce earlier) with a revised target price of Rs117 (Rs176 earlier). We have also assigned a valuation of Rs75bn for the steel plant in our numbers. Upside risk: Strength in iron ore prices could lead to higher EPS and hence, higher stock price. Downside risk: We have built in demerger of steel plant from FY24F in our valuation, and any delay in demerger will be a risk.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	153,701	258,817	174,307	167,662	182,120
Operating EBITDA (Rsm)	87,689	125,670	50,188	41,375	45,273
Net Profit (Rsm)	62,271	93,764	39,823	35,588	40,373
Core EPS (Rs)	20.8	32.0	13.6	12.1	13.8
Core EPS Growth	74.6%	53.9%	(57.5%)	(10.6%)	13.4%
FD Core P/E (x)	5.75	3.74	8.79	9.84	8.67
DPS (Rs)	7.8	5.5	4.1	3.7	4.2
Dividend Yield	7.56%	4.60%	3.43%	3.07%	3.48%
EV/EBITDA (x)	3.54	2.35	5.19	5.78	4.72
P/FCFE (x)	8.25	8.68	10.79	10.96	9.30
Net Gearing	(12.8%)	(12.8%)	(21.2%)	(25.2%)	(29.5%)
P/BV (x)	1.18	1.01	0.93	0.87	0.81
ROE	21.7%	29.0%	11.0%	9.1%	9.7%
% Change In Core EPS Estimates			(47.90%)	(32.76%)	
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	153,701	258,817	174,307	167,662	182,120
Gross Profit	152,325	265,788	169,511	162,554	176,701
Operating EBITDA	87,689	125,670	50,188	41,375	45,273
Depreciation And Amortisation	(2,285)	(2,869)	(3,082)	(3,127)	(3,394)
Operating EBIT	85,404	122,801	47,106	38,248	41,879
Financial Income/(Expense)	(168)	(391)			
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	3,516	7,183	7,979	10,987	13,966
Profit Before Tax (pre-EI)	88,751	129,594	55,085	49,235	55,844
Exceptional Items					
Pre-tax Profit	88,751	129,594	55,085	49,235	55,844
Taxation	(26,485)	(35,823)	(15,262)	(13,647)	(15,471)
Exceptional Income - post-tax					
Profit After Tax	62,267	93,771	39,823	35,588	40,373
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	4	(7)			
Net Profit	62,271	93,764	39,823	35,588	40,373
Recurring Net Profit	62,271	93,764	39,823	35,588	40,373
Fully Diluted Recurring Net Profit	62,271	93,764	39,823	35,588	40,373

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	87,689	125,670	50,188	41,375	45,273
Cash Flow from Invt. & Assoc.					
Change In Working Capital	5,275	(15,993)	15,210	(4,280)	(1,313)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	3,830	6,868	2,032	2,312	
Other Operating Cashflow	1,554	3,497	8,200	11,207	14,186
Net Interest (Paid)/Received	(168)	(391)			
Tax Paid	(24,877)	(43,478)	(15,262)	(13,647)	(15,471)
Cashflow From Operations	73,304	76,173	60,368	36,967	42,674
Capex	(15,981)	(30,327)	(12,940)	(5,000)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(30,347)	(24,133)			
Other Investing Cashflow	2,412	4,198			
Cash Flow From Investing	(43,915)	(50,262)	(12,940)	(5,000)	(5,000)
Debt Raised/(repaid)	13,995	14,423	(14,962)		
Proceeds From Issue Of Shares					
Shares Repurchased	(17,006)				
Dividends Paid	(22,733)	(43,195)	(12,013)	(10,742)	(12,178)
Preferred Dividends					
Other Financing Cashflow	(166)	(389)			
Cash Flow From Financing	(25,911)	(29,161)	(26,975)	(10,742)	(12,178)
Total Cash Generated	3,478	(3,250)	20,453	21,225	25,496
Free Cashflow To Equity	43,383	40,334	32,466	31,967	37,674
Free Cashflow To Firm	29,557	26,302	47,428	31,967	37,674

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	58,060	79,402	99,855	121,079	146,576
Total Debtors	21,399	29,543	19,896	19,138	20,788
Inventories	9,217	21,649	14,580	14,024	15,234
Total Other Current Assets	16,805	27,157	21,248	21,248	21,248
Total Current Assets	105,481	157,751	155,579	175,489	203,845
Fixed Assets	202,466	222,657	232,515	234,388	235,994
Total Investments	9,849	9,874	9,849	9,849	9,849
Intangible Assets					
Total Other Non-Current Assets	50,054	56,637	51,833	49,521	49,521
Total Non-current Assets	262,368	289,169	294,196	293,758	295,364
Short-term Debt	14,718	18,166			
Current Portion of Long-Term Debt					
Total Creditors	3,603	9,672	6,514	6,266	6,806
Other Current Liabilities	35,702	41,478	37,222	31,876	32,882
Total Current Liabilities	54,023	69,316	43,736	38,142	39,688
Total Long-term Debt	5,284	16,741	19,945	19,945	19,945
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,503	1,503			
Total Non-current Liabilities	6,787	18,244	19,945	19,945	19,945
Total Provisions	9,479	10,920	9,650	9,650	9,650
Total Liabilities	70,288	98,480	73,330	67,737	69,283
Shareholders Equity	297,561	348,440	376,444	401,511	429,926
Minority Interests					
Total Equity	297,561	348,440	376,444	401,511	429,926

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	31.4%	68.4%	(32.7%)	(3.8%)	8.6%
Operating EBITDA Growth	46.4%	43.3%	(60.1%)	(17.6%)	9.4%
Operating EBITDA Margin	57.1%	48.6%	28.8%	24.7%	24.9%
Net Cash Per Share (Rs)	12.99	15.18	27.27	34.51	43.21
BVPS (Rs)	101.53	118.89	128.45	137.00	146.70
Gross Interest Cover	508.05	314.39			
Effective Tax Rate	29.8%	27.6%	27.7%	27.7%	27.7%
Net Dividend Payout Ratio	42.5%	17.2%	30.2%	30.2%	30.2%
Accounts Receivables Days	51.81	35.92	51.76	42.49	40.01
Inventory Days	2,181.92	(808.17)	1,378.49	1,022.01	985.28
Accounts Payables Days	776.91	(347.57)	615.87	456.61	440.20
ROIC (%)	23.5%	34.1%	11.1%	9.3%	10.1%
ROCE (%)	28.5%	35.0%	12.1%	9.4%	9.6%
Return On Average Assets	18.4%	23.1%	8.9%	7.7%	8.3%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

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Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.