

India
REDUCE (previously ADD)

Consensus ratings*: Buy 12 Hold 8 Sell 4

Current price:	Rs184
Target price:	Rs176
Previous target:	Rs207
Up/downside:	-4.3%
InCred Research / Consensus:	-10.4%
Reuters:	NMDC.BO
Bloomberg:	NMDC IN
Market cap:	US\$7,258m
	Rs539,525m
Average daily turnover:	US\$33.8m
	Rs2508.7m
Current shares o/s:	2,930.7m
Free float:	31.7%

*Source: Bloomberg

Key changes in this note

- FY22F EPS increased by 62.1%
- FY23F EPS increased by 31.6%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.1	36.0	126.9
Relative (%)	0.0	29.7	53.1

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

Analyst(s)
Shaily RUPARELIA

T (91) 22 4161 1556

E shaily.ruparelia@incredcapital.com

Satish KUMAR

T (91) 9004603998

E satish.kumar@incredcapital.com

NMDC

Downgrade to Reduce

- With the continued rise in steel production the supply chain scarcity is practically over. Hence steel prices (long and flat) have started to correct.
- Indian long steel maker profitability is low with headwinds of high iron ore prices and likely correction in long and flat steel prices.
- We expect iron ore prices to correct by Rs2,000-3,000/tonne in the next two quarters. NMDC realisations are set to fall. Downgrade stock to Reduce.

Iron ore faces declining steel price headwind

The Indian long steel price has corrected by 7% from the May 2021 peak. As we highlighted in our 17 May 2021 note, the supply chain scarcity appears to be over, hence global steel prices are on the downswing and inventory is rising. However, Indian iron ore prices are holding the fort, mainly driven by high exports of steel (two tonnes of iron ore produces one tonne each of steel, pellets, and iron ore). Falling steel price will lead to a correction in iron ore price, and as Indian steel export realisations fall so too will domestic prices. Iron ore demand is taking a hit as many long steel and sponge iron players are unviable at such high prices. We believe all the indicators point to iron ore prices falling. Assuming steel prices will correct, iron ore needs to fall by at least Rs2,000-3,000 per tonne to make sponge and tier-II steel makers viable. Note that tier-II steel makers are important as they supply 55-60% of India's total long steel demand.

Adjusted for quality NMDC lumps are costlier than Odisha ore

NMDC's lumps (50% premium to fines, 35% of sales) are of lower tumbler index (more brittle) than Odisha iron ore. Hence, over long distances ~25% of the ore breaks and becomes fine, which cannot be used in sponge iron furnaces. While users sell this fine, it fetches waste material value, making the landed cost of NMDC lumps higher (despite being 20% cheaper than Odisha lumps on headline prices). Hence a likely correction in Odisha lumps will force a similar correction in NMDC ores, in our view. We estimate NMDC realisations for FY22F will be Rs5,700/t, 20% below the current average realisation. We expect the stock to correct as iron ore prices fall.

We value NMDC at 4x FY23F EV/EBITDA, downgrade to Reduce

We value NMDC at 4x FY23F EV/EBITDA, in line with its current trading multiple, and downgrade the stock to Reduce. Risks 1) Continued strength in iron ore prices could lead to higher EPS, hence higher stock prices. 2) If the company sells its under-construction steel plant our fair value could have upside as cash will come into the balance sheet.

Financial Summary

	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue (Rsm)	116,992	153,701	205,363	184,947	143,614
Operating EBITDA (Rsm)	59,881	87,685	122,050	99,435	61,541
Net Profit (Rsm)	35,878	62,267	89,930	76,441	52,927
Core EPS (Rs)	11.9	20.8	30.7	26.1	18.1
Core EPS Growth	(20.0%)	74.6%	47.7%	(15.0%)	(30.8%)
FD Core P/E (x)	15.47	8.86	6.00	7.06	10.19
DPS (Rs)	5.3	2.0	5.5	7.8	5.4
Dividend Yield	3.34%	1.09%	2.99%	4.26%	2.96%
EV/EBITDA (x)	8.54	5.61	3.70	4.15	6.05
P/FCFE (x)	28.40	12.68	12.92	8.65	9.58
Net Gearing	(6.6%)	(12.9%)	(20.8%)	(27.4%)	(33.9%)
P/BV (x)	2.05	1.81	1.45	1.26	1.16
ROE	13.6%	21.7%	26.8%	19.1%	11.9%
% Change In Core EPS Estimates			62.1%	31.6%	
InCred Research/Consensus EPS (x)			1.16	1.16	0.89

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS. PRICED AS AT 30 JUN 2021

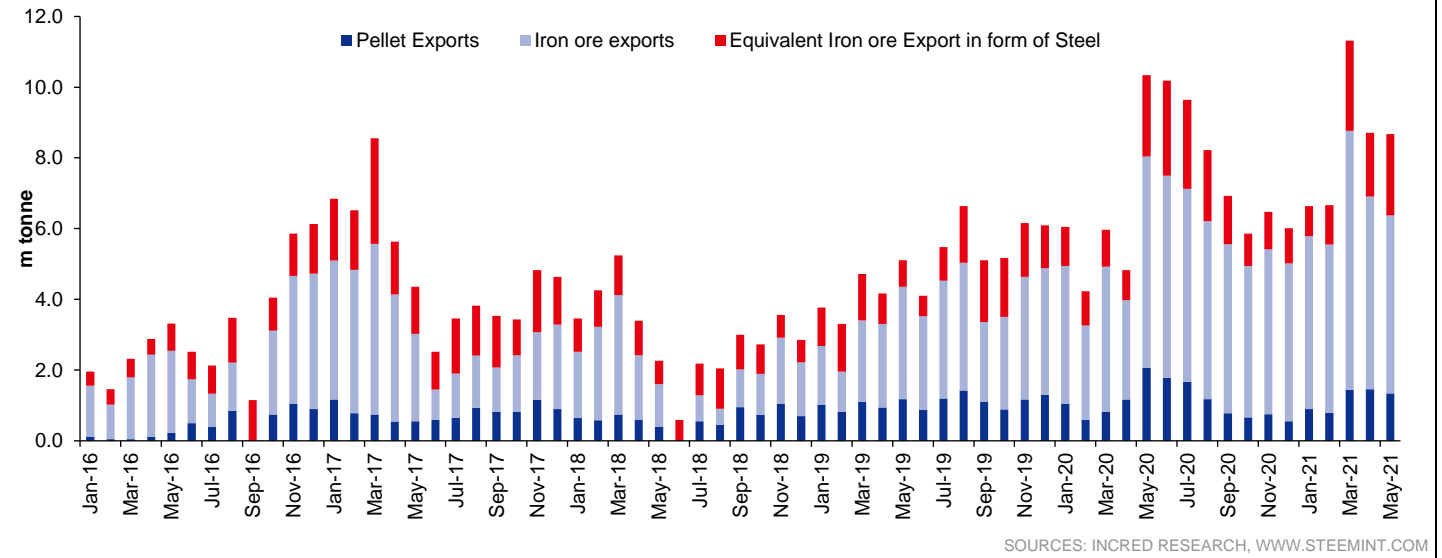
Downgrade to Reduce

Indian iron ore prices to fall

Indian iron ore exports touched 5-year high ▶

To calculate real iron ore exports from the country we have added pellet exports to iron ore exports and iron ore contained in steel exports. We have assumed two tonnes of iron ore makes one tonne of steel.

Figure 1: Indian iron ore exports are at an all-time high. We have accounted for iron ore, pellets and steel exports



Iron ore production is ramping up in India, but the pace of exports is leading to shortages ▶

Indian iron ore production is ramping up but the fear of shortages and sharp acceleration in exports is driving up prices.

Figure 2: Iron ore production increasing in Odisha and India

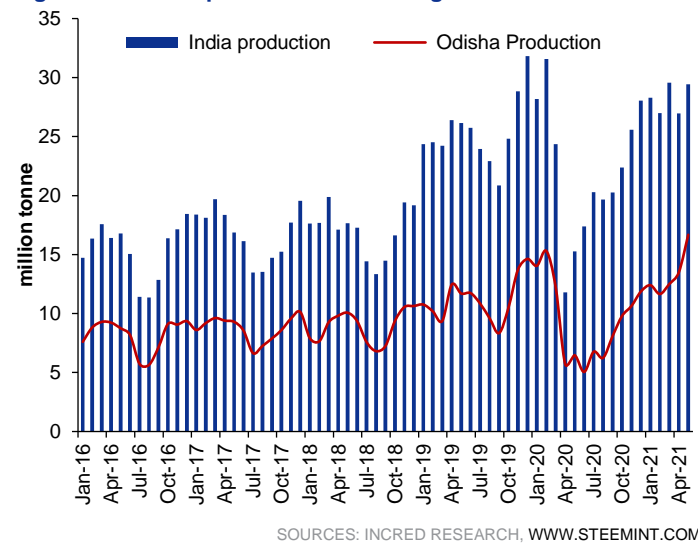
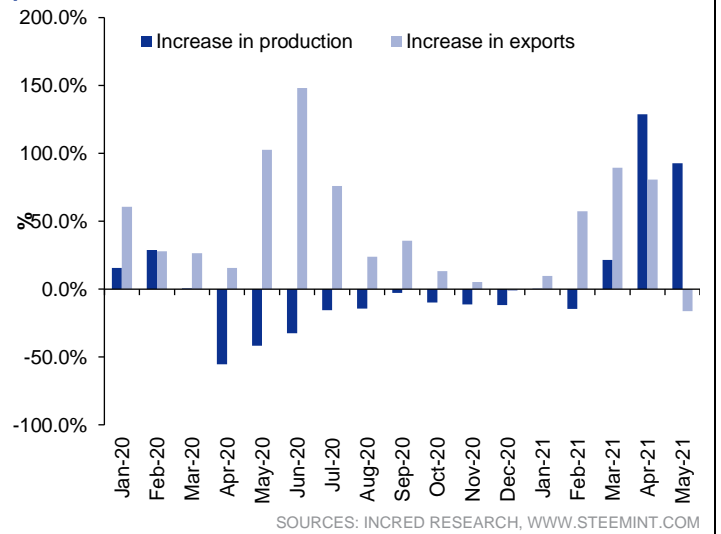


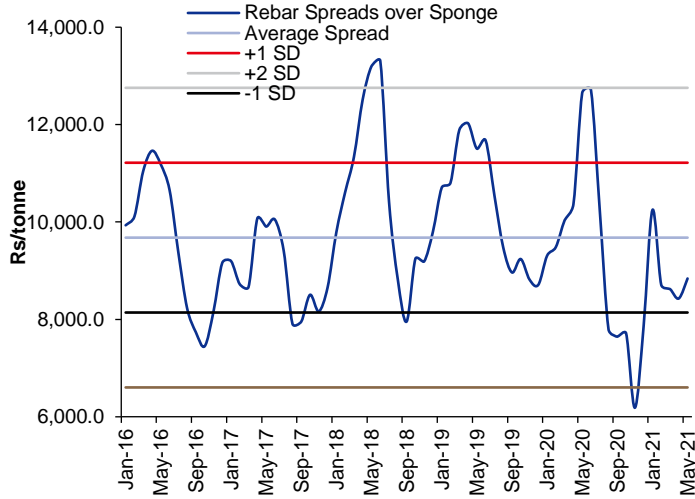
Figure 3: However, pace of exports is outpacing the increase in production



High iron prices are making customers unviable, neither long steel nor sponge units are viable now ▶

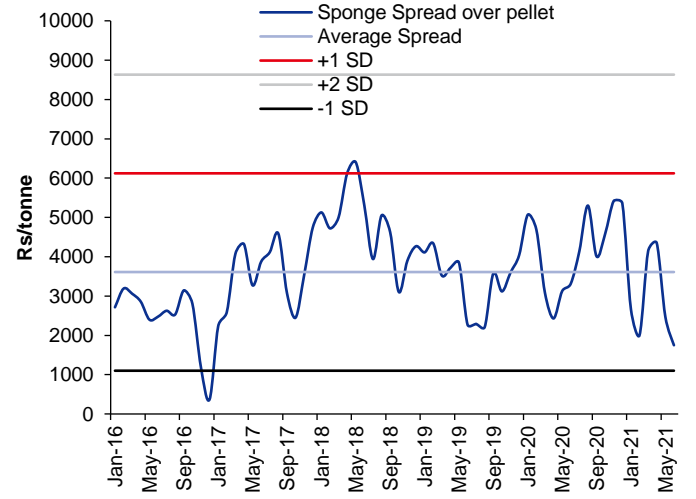
Sponge iron and long steel producers are becoming unviable as current prices of iron ore are high.

Figure 4: Rebar makers gross profits are at multi-year lows



SOURCES: INCRED RESEARCH, WWW.STEEMINT.COM

Figure 5: Sponge iron makers are bleeding

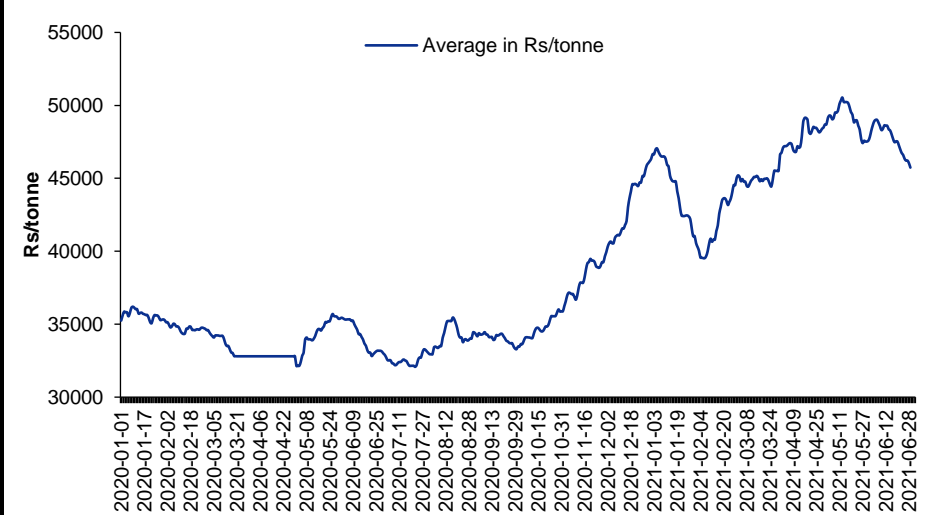


SOURCES: INCRED RESEARCH, WWW.STEEMINT.COM

Demand slowdown is apparent for steel makers ▶

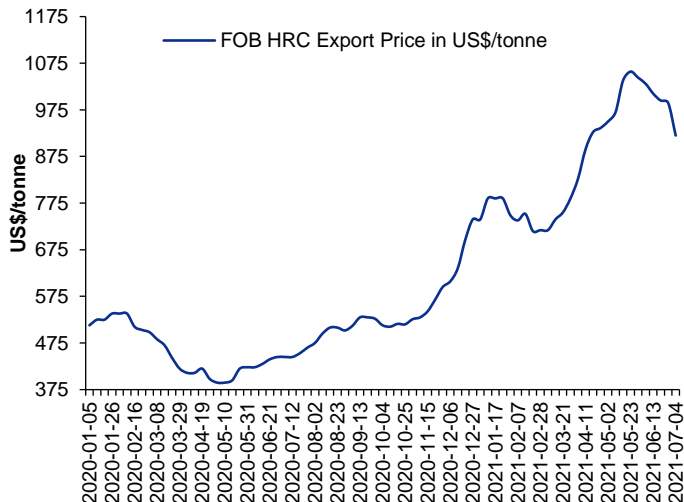
India's steel industry is slowing, resulting in higher inventories and price declines.

Figure 6: All-India average rebar prices are declining making survival tougher for iron ore customers



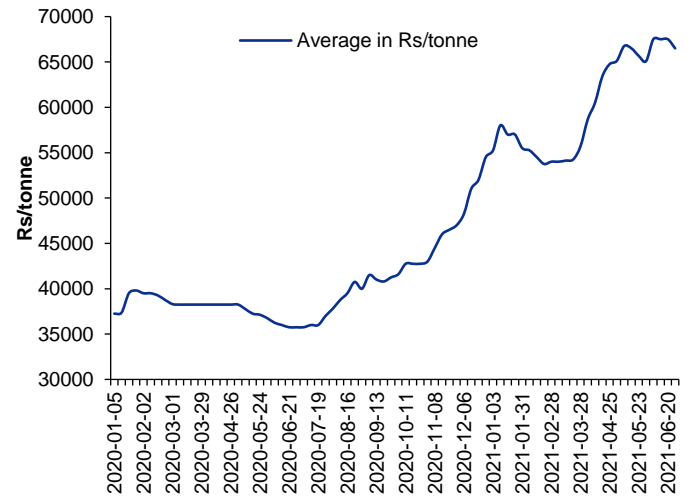
SOURCES: COMPANY REPORTS, INCRED RESEARCH

Figure 7: Indian HRC steel export prices have declined by US\$150 or ~14% from its peak



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Domestic flat steel price is still steady at Apr 2021 levels



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Global prices slid on Russia's imposition of 15% export duty ►

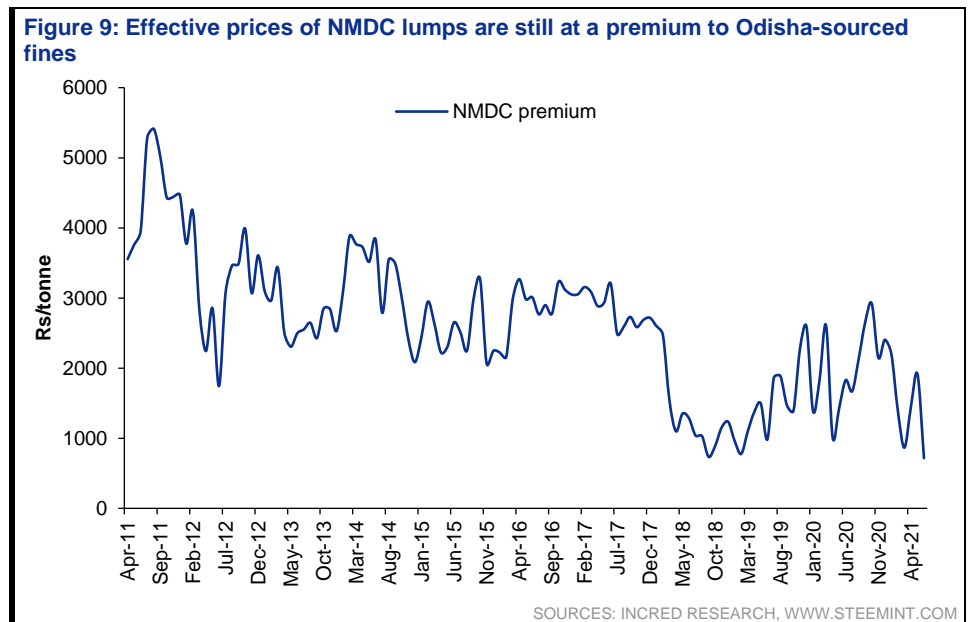
Russia has announced a 15% export duty on steel exports. We believe this action is a shade late as global supply chain shortages are over. Hence, to book more cargo Russian exporters have reduced prices and everyone else has had to follow suit. As of now Russia is booking cargo to South East Asia at an FOB price of US\$850-860/t. Indian export prices will likely fall to the same level in the coming weeks.

Fall in HRC likely to lead to a larger fall in long steel prices ►

Long and flat steel prices move in sync. We believe the fall in flat steel prices will lead to a greater fall in long steel prices, making small steel makers even more unviable. According to industry sources, plants are cutting down production.

NMDC's effective prices are higher than average Indian fine and lump prices ►

NMDC lumps have a low tumbler index (level of ore breakage during transportation), hence NMDC's prices are usually lower than Odisha lump prices. However, effective landed prices of NMDC lumps are usually higher than Odisha lumps, in our view.



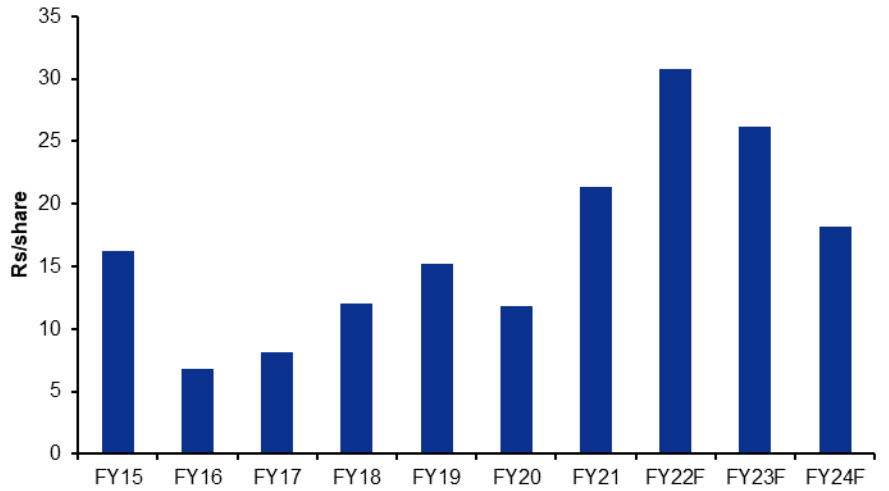
Current state of long steel makers and sponge makers demands that Indian lump should fall by Rs2,000/t ►

We believe Indian long steel prices will fall, and domestic sponge iron ore prices should fall at least by Rs2,000/t. Consequently, we expect a correction of at least Rs1,500/t in NMDC iron ore prices.

Earnings and valuations

We expect iron ore volume growth of 5% CAGR for FY22-24F ➤

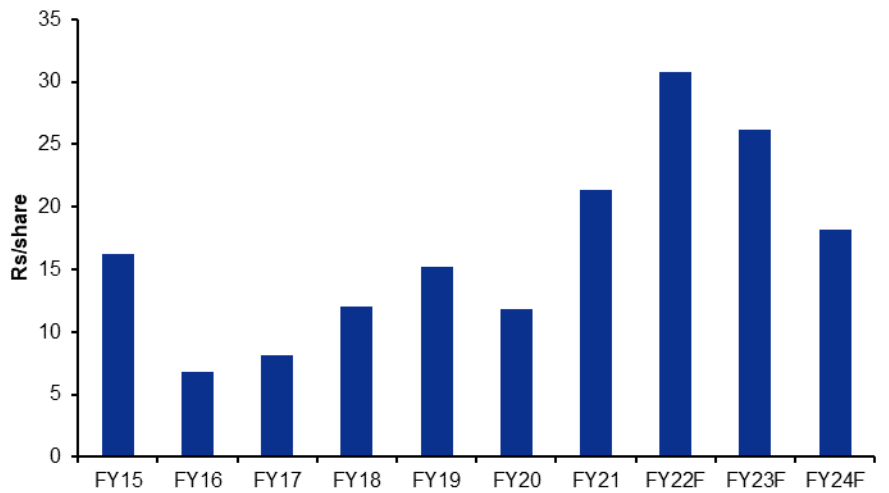
Figure 10: Expect NMDC's iron ore sales to grow by 5% CAGR over next 3 years



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

EPS is likely to decline 4.0% CAGR over FY22-24F ➤

Figure 11: EPS to decline 4.0% CAGR over FY22-FY24F



SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

We value NMDC at 4x FY23F EV/EBITDA to arrive at TP of Rs176, downgrade to Reduce ►

Figure 12: NMDC currently trades near +1SD – 7.53x 1-year forward EV/EBITDA

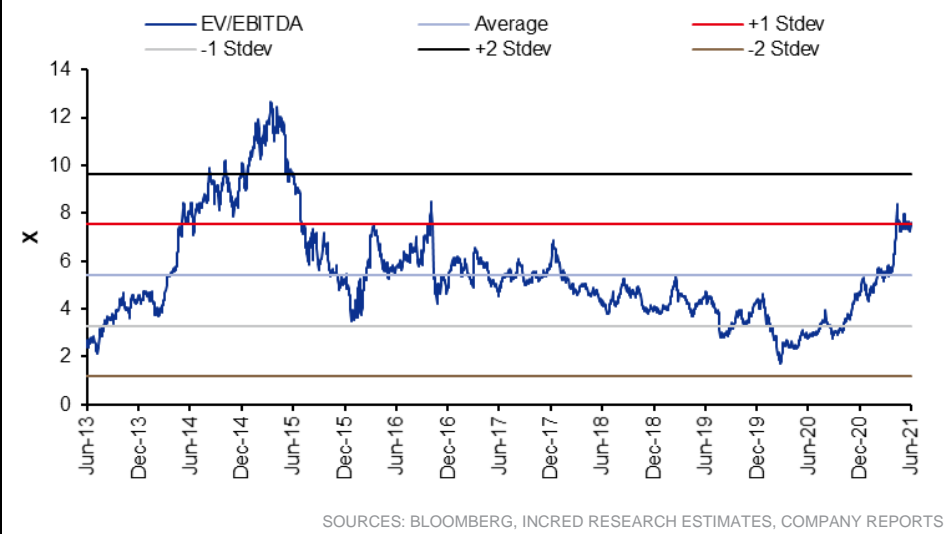


Figure 13: We value NMDC at 4x FY23F EV/EBITDA to arrive at our TP of Rs176

Iron ore FY23F EBITDA	Rs m	99,655
One-year forward multiple	x	4.0
End FY23F EV	Rs m	3,98,621
End FY23F net debt	Rs m	-1,16,837
End FY23F equity value	Rs m	5,15,458
End FY23F equity value	Rs/share	176

SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Earnings revisions and peer comparisons

Figure 14: We increase our EPS estimates by 62.1% for FY22F and 31.6% for FY23F

Rs m	Old Estimates		New Estimates		Change (%)	
	FY22F	FY23F	FY22F	FY23F	FY22F	FY23F
Volume (mt)						
Sales Volume	38.0	42.0	36.0	38.5	(5.2)	(8.3)
Key changes						
Revenue	2,11,616	2,69,296	2,05,363	1,84,947	(3.0)	(31.3)
Blended Realisations (Rs/t)	5,569	6,412	5,700	4,800	2.4	(25.1)
EBITDA (Rs/t)	2,112	2,123	3,394	2,586	60.7	21.8
EBITDA	80,260	89,157	1,22,265	99,655	52.3	11.8
PAT	55,614	58,272	90,145	76,661	62.1	31.6
EPS (Rs/share)	19.0	19.9	30.8	26.2	62.1	31.6

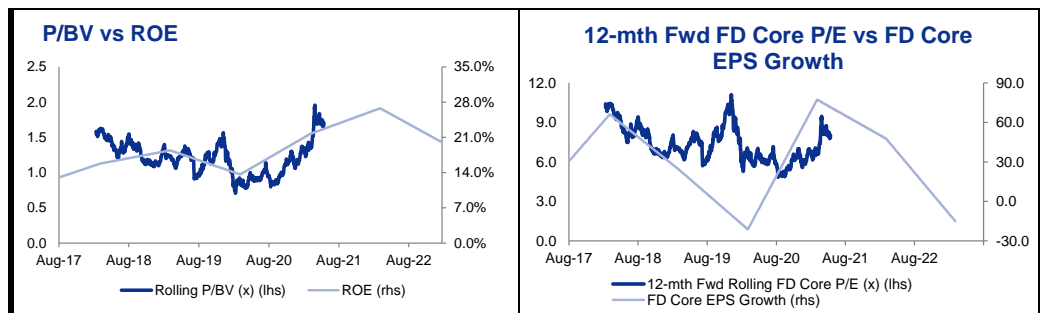
SOURCES: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: Average trading multiple of global peers is 5.2x EV/EBITDA

Company	Bloomberg Ticker	CMP (LC)	TP (LC)	EV Market cap (US\$ m)	EV/EBITDA (x)		P/BV (x)		P/E (x)		RoE (%)		RoCE (%)		
					CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	
Indian Company															
NMDC Ltd	NMDC IN	184	176	6,731	7,258	5.7	3.7	1.8	1.4	8.8	6.0	21.7	26.8	28.5	34.3
Global Companies															
BHP Group Ltd	BHP AU	49	NA	1,87,425	1,69,489	5.1	5.8	3.3	3.2	9.5	11.7	20.3	20.3	12.4	12.4
Rio Tinto Ltd	RIO AU	127	NA	1,43,842	1,38,216	4.5	5.7	2.7	2.6	7.8	10.8	28.4	28.4	17.7	17.7
Vale SA	VALE3 BZ	112	NA	1,16,933	1,18,420	3.3	4.1	2.0	1.8	5.3	7.3	43.1	43.1	29.1	29.1
Glencore Plc	GLEN LN	309	NA	89,677	56,933	5.1	5.5	1.3	1.3	9.4	11.6	11.2	11.2	3.0	3.0
Anglo American Plc	AAL LN	2873	NA	62,542	49,612	3.7	4.3	1.5	1.3	7.1	8.3	9.4	9.4	7.2	7.2
Fortescue Metals Group Ltd	FMG AU	23	NA	53,960	53,826	3.9	5.7	3.1	3.1	6.3	10.0	46.3	46.3	32.5	32.5
Kumba Iron Ore Ltd	KIO SJ	64059	NA	13,906	14,414	3.7	5.2	4.0	4.0	7.4	10.9	54.8	54.8	45.6	45.6
Global Average						4.2	5.2	2.5	2.5	7.6	10.1	30.5	30.5	21.1	21.1
Median						4.2	5.3	2.3	2.2	7.6	10.4	25.1	27.6	23.1	23.4

SOURCES: INCRED RESEARCH ESTIMATES, BLOOMBERG, PRICED AS AT 30 JUN 2021

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Net Revenues	116,992	153,701	205,363	184,947	143,614
Gross Profit	114,734	152,325	202,157	181,518	139,963
Operating EBITDA	59,881	87,685	122,050	99,435	61,541
Depreciation And Amortisation	(2,944)	(2,285)	(2,466)	(2,479)	(2,682)
Operating EBIT	56,937	85,400	119,584	96,956	58,859
Financial Income/(Expense)	(99)	(168)			
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,138	3,516	8,563	11,985	16,602
Profit Before Tax (pre-EI)	61,976	88,747	128,147	108,941	75,461
Exceptional Items	(964)				
Pre-tax Profit	61,012	88,747	128,147	108,941	75,461
Taxation	(25,126)	(26,485)	(38,217)	(32,500)	(22,534)
Exceptional Income - post-tax					
Profit After Tax	35,886	62,263	89,930	76,441	52,927
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	(8)	4			
Net Profit	35,878	62,267	89,930	76,441	52,927
Recurring Net Profit	36,445	62,267	89,930	76,441	52,927
Fully Diluted Recurring Net Profit	36,445	62,267	89,930	76,441	52,927

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
EBITDA	59,881	87,685	122,050	99,435	61,541
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(21,433)	4,498	(30,292)	2,942	3,202
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	4,417	3,828	1,703	(1,736)	2,260
Other Operating Cashflow	811	1,506	8,778	12,205	16,827
Net Interest (Paid)/Received	(99)	(168)			
Tax Paid	(23,047)	(24,687)	(38,217)	(32,500)	(22,534)
Cashflow From Operations	20,529	72,661	64,022	80,346	61,297
Capex	(23,990)	(16,221)	(7,981)	(18,000)	(5,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	17,155	(29,359)			
Other Investing Cashflow	4,062	2,417			
Cash Flow From Investing	(2,773)	(43,163)	(7,981)	(18,000)	(5,000)
Debt Raised/(repaid)	2,091	13,994	(14,289)		
Proceeds From Issue Of Shares					
Shares Repurchased		(17,006)			
Dividends Paid	(19,525)	(22,733)	(16,119)	(22,998)	(15,946)
Preferred Dividends					
Other Financing Cashflow	(97)	(168)			
Cash Flow From Financing	(17,531)	(25,913)	(30,408)	(22,998)	(15,946)
Total Cash Generated	225	3,585	25,634	39,348	40,351
Free Cashflow To Equity	19,848	43,492	41,753	62,346	56,297
Free Cashflow To Firm	17,856	29,666	56,042	62,346	56,297

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Total Cash And Equivalents	23,923	58,618	83,145	122,493	162,844
Total Debtors	22,237	21,399	28,592	25,749	19,995
Inventories	7,235	9,217	12,315	11,091	8,612
Total Other Current Assets	19,622	16,768	21,731	23,694	23,694
Total Current Assets	73,017	106,002	145,783	183,027	215,145
Fixed Assets	185,179	210,913	216,428	231,949	234,267
Total Investments	9,856	8,749	9,856	9,856	9,856
Intangible Assets					
Total Other Non-Current Assets	43,387	43,634	40,761	42,546	40,286
Total Non-current Assets	238,422	263,296	267,045	284,351	284,408
Short-term Debt		5,464			
Current Portion of Long-Term Debt					
Total Creditors	2,256	3,608	4,820	4,341	3,371
Other Current Liabilities	19,855	37,404	21,154	22,471	18,410
Total Current Liabilities	22,110	46,476	25,974	26,812	21,781
Total Long-term Debt	5,656	14,480	5,656	5,656	5,656
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	55	47			
Total Non-current Liabilities	5,711	14,527	5,656	5,656	5,656
Total Provisions	8,279	9,454	8,331	8,380	8,380
Total Liabilities	36,100	70,457	39,961	40,848	35,817
Shareholders Equity	275,340	298,841	372,867	426,530	463,736
Minority Interests					
Total Equity	275,340	298,841	372,867	426,530	463,736

Key Ratios					
	Mar-20A	Mar-21A	Mar-22F	Mar-23F	Mar-24F
Revenue Growth	(3.7%)	31.4%	33.6%	(9.9%)	(22.3%)
Operating EBITDA Growth	(13.4%)	46.4%	39.2%	(18.5%)	(38.1%)
Operating EBITDA Margin	51.2%	57.0%	59.4%	53.8%	42.9%
Net Cash Per Share (Rs)	5.97	13.20	26.44	39.87	53.64
BVPS (Rs)	89.92	101.97	127.23	145.54	158.24
Gross Interest Cover	576.28	508.03			
Effective Tax Rate	41.2%	29.8%	29.8%	29.8%	29.9%
Net Dividend Payout Ratio	51.2%	9.4%	17.9%	30.1%	30.1%
Accounts Receivables Days	56.91	51.81	44.43	53.62	58.13
Inventory Days	1,123.19	2,181.92	1,225.69	1,245.83	984.79
Accounts Payables Days	346.16	777.60	479.76	487.64	385.47
ROIC (%)	15.6%	23.5%	32.2%	23.2%	13.4%
ROCE (%)	20.9%	28.5%	34.3%	23.9%	13.1%
Return On Average Assets	12.1%	18.3%	23.0%	17.4%	10.9%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **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** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **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** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – 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 2020 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of January 30, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

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.