



India

ADD (previously HOLD)

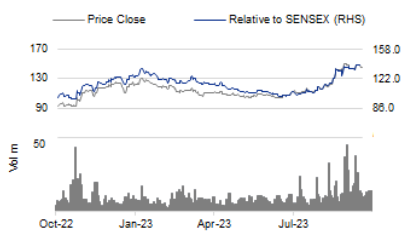
Consensus ratings*: Buy 16 Hold 2 Sell 3

Current price:	Rs146
Target price: ▲	Rs220
Previous target:	Rs176
Up/downside:	50.7%
InCred Research / Consensus:	52.5%
Reuters:	NMDC.BO
Bloomberg:	NMDC IN
Market cap:	US\$5,146m
	Rs428,455m
Average daily turnover:	US\$16.1m
	Rs1341.7m
Current shares o/s:	2,930.7m
Free float:	39.2%

*Source: Bloomberg

Key changes in this note

- ▶ We have valued NMDC at 4.6x Sep FY25F EV/EBITDA to arrive at our new target price of Rs220.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.9	36.6	53.5
Relative (%)	3.3	36.9	36.2

Major shareholders	% held
Promoter & Promoter Group	60.8
Life Insurance Corporation of India	9.2
Parag Parekh	1.9

Analyst(s)



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NMDC

Realization set to rise; upgrade to ADD

- Iron ore prices are rising & may stay above the above current levels. The uptrend is likely to result in higher FY24F/25F realization of ~Rs5,000-5,250/t.
- We estimate EPS of Rs22.4/Rs25.6 for FY24F/25F, respectively, and introduce FY26F EPS at Rs28.9/share.
- We value the stock at 4.6x Sep FY25F EV/EBITDA (10% discount to its mean) and upgrade our rating on it to ADD (from HOLD earlier) with a new target price of Rs220 (Rs176 earlier).

Indian iron ore prices to rise

Indian iron ore prices are witnessing an upward trend. Most merchant miners are not able to even export the iron (after a 30% export duty on iron ore grade above 58%), let alone sell in the domestic market. The crazy bidding, at premiums close to 100% of Indian Bureau of Mines' (IBM) prices, have rendered these players unviable even when it comes to captive usage or export of iron ore. While NMDC is likely to ramp up its production, it's not enough to meet the requirements of the market in sufficient quantity and, as a result, mine head inventory can decline from 135mt as of FY23-end to 77mt by FY26F. It is also important to note that nearly 60mt mine head inventory is unusable by most Indian furnaces because their grade is way below 58% Fe. A fall in mine head inventory and the resultant price rise will ultimately result in government intervention (may be by banning pellet exports), but for that to happen panic needs to set in first. Don't be surprised if Indian iron ore prices breach their FY22 highs. However, for our earnings calculations, we are assuming a 6% CAGR in realization (FY23-26F). Our FY26F realization assumption is 15% below FY22 realization of NMDC.

Upward volume trajectory

NMDC has received Environmental Clearance (EC) for an additional 3mt of production capacity. This year, if the operations commence this month, more than 2mt can be easily added. Additionally, a 2mt capacity upgrade project at Bacheli in Chhattisgarh is set to be commissioned this month, contributing 1.5mt. In the light of these developments, NMDC has given production range guidance of 47-49mt this year, potentially reaching 50mt, with the expectation of topping 50mt next year. We have estimated 45mt and 48mt of sales for FY24F and FY25F, respectively.

We upgrade our rating on NMDC to ADD; raise target price to Rs220

We estimate EPS of Rs22.4/Rs25.6/Rs28.9 for FY24F/25F/26F, respectively. For FY24F/25F, we have factored in a realization of Rs5,000/Rs5,250, respectively, because of higher iron ore prices followed by increased volume. We maintain our valuation of the stock at 4.6x Sep FY25F EV/EBITDA (10% discount to its mean) and upgrade our rating on it to ADD (from HOLD earlier) with a revised target price of Rs220 (Rs176 earlier). Downside risk: A drop in iron ore prices could result in a lower EPS and, as a result, a lower stock price.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	259,648	176,669	225,000	252,000	286,000
Operating EBITDA (Rsm)	126,253	60,561	82,993	93,311	107,136
Net Profit (Rsm)	94,428	55,224	65,727	74,938	84,794
Core EPS (Rs)	32.2	15.8	22.4	25.6	28.9
Core EPS Growth	55.0%	(51.0%)	42.1%	14.0%	13.2%
FD Core P/E (x)	4.54	7.76	6.52	5.72	5.05
DPS (Rs)	5.5	5.3	6.7	7.7	8.7
Dividend Yield	3.76%	3.63%	4.61%	5.25%	5.94%
EV/EBITDA (x)	2.83	5.83	3.64	2.74	1.91
P/FCFE (x)	45.09	6.69	6.56	8.01	6.89
Net Gearing	(34.4%)	(29.7%)	(43.4%)	(50.6%)	(56.2%)
P/BV (x)	2.40	1.92	1.59	1.33	1.12
ROE	39.6%	23.0%	26.7%	25.3%	24.1%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

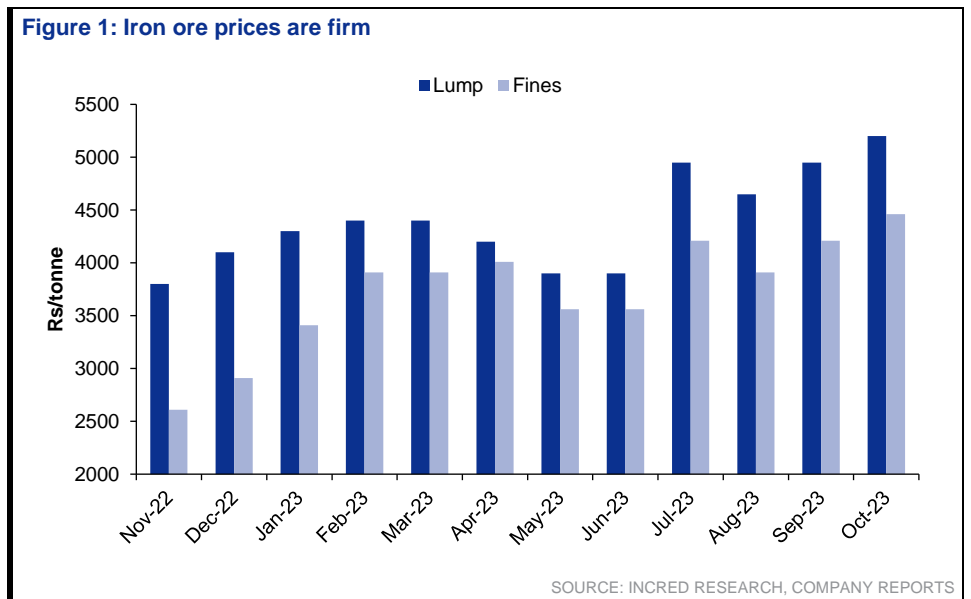
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Realization set to rise; upgrade to ADD

Iron ore prices are on an upward trajectory ➤

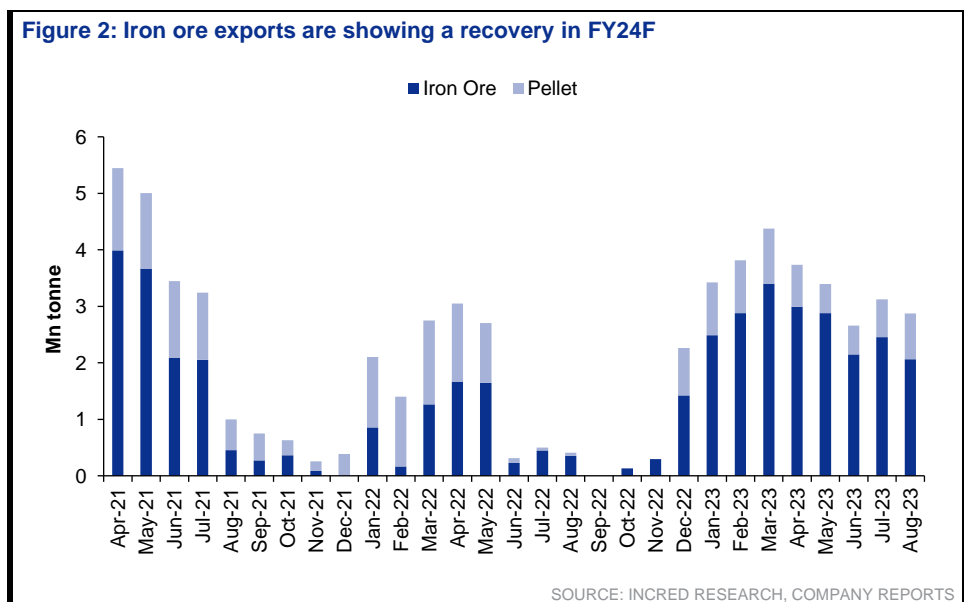
Indian iron ore prices are rising as iron ore is facing the problem of low investment in mining assets (as most merchant mines have failed to ramp up production). Also, iron ore exports are viable now (after the removal of export tax on pellets). Higher pellet and fines exports and a slow growth in production are leading to the price rise. Iron ore mines, which were won at a 100%+ premium to the IBM's (Indian Bureau of Mines) prices, were unviable from Day 1 and now they are being surrendered by the winning bidders. In our view, the lack of supply will keep the prices elevated. Hence, NMDC will face additional margin tailwinds.

Figure 1: Iron ore prices are firm



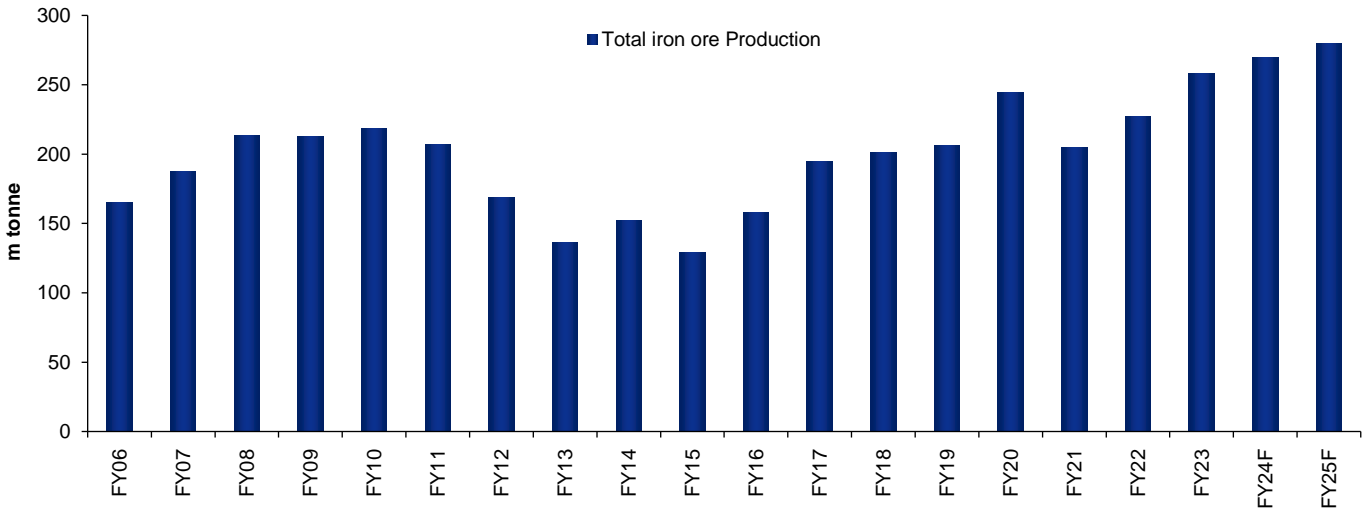
Iron exports are on the rise, and are expected to double in FY24F as against FY23; we have included pellet exports to iron ore exports in order to compute India's iron ore exports ➤

Figure 2: Iron ore exports are showing a recovery in FY24F



Domestic iron ore production is unlikely to be ramped up significantly ➤

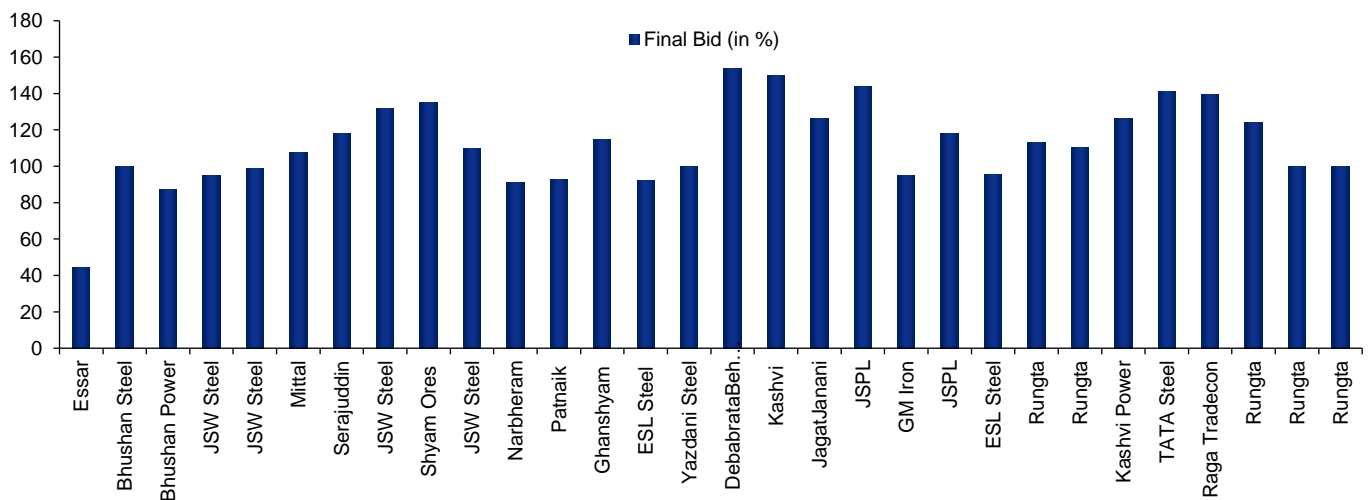
Figure 3: India's iron ore production is unlikely to be ramped up significantly



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Merchant miners had bid at a steep premium to IBM's iron prices in Odisha ➤

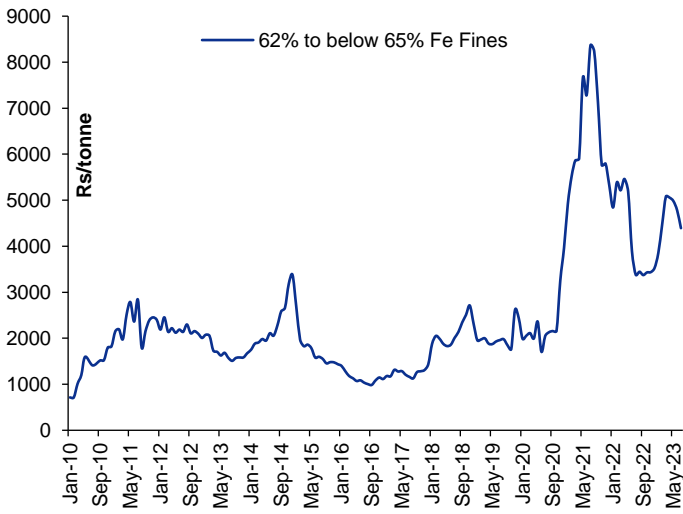
Figure 4: Odisha is the key Indian iron ore producing state; merchant mine ramp-up was key for production growth but the steep bidding rate made production unviable



SOURCE: INCRED RESEARCH, COMPANY REPORTS

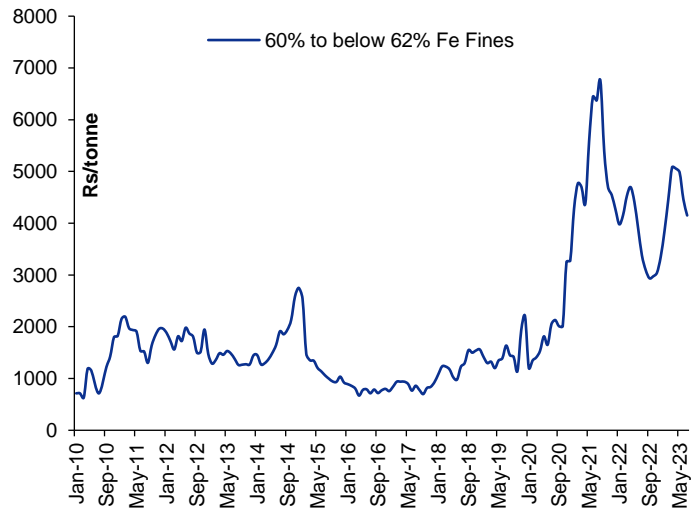
Indian Bureau of Mines' average Odisha iron ore price is strong ➔

Figure 5: Last 36 months' average price of 62-65% fines in Odisha at ~Rs4,774/t...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

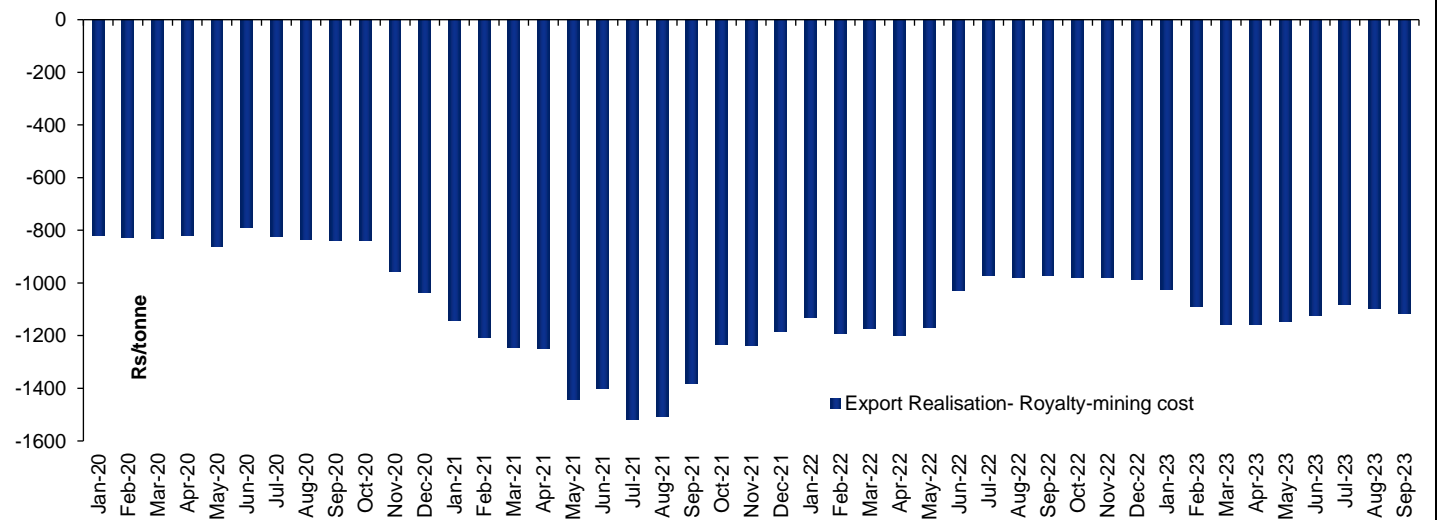
Figure 6: ...and last 36 months' average price of 60-62% fines in Odisha ~Rs4,146/t



SOURCE: INCRED RESEARCH, COMPANY REPORTS

At these prices, a merchant miner can't even export iron ore ➔

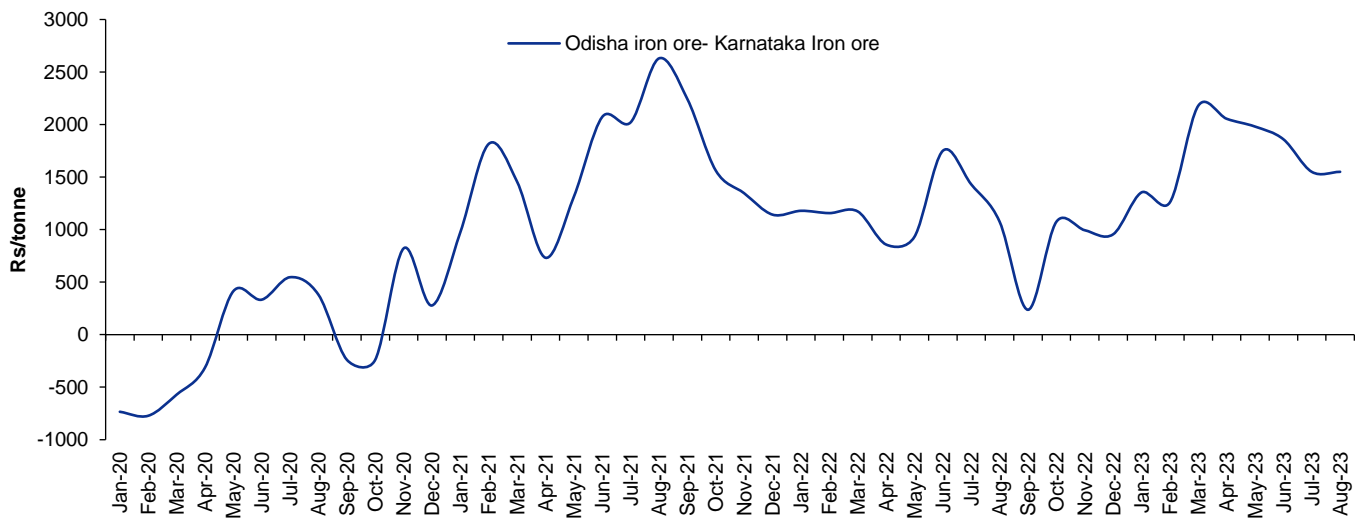
Figure 7: Assuming a merchant miner exports iron ore to China, the least loss in the last four years has been ~Rs800/t



SOURCE: INCRED RESEARCH, COMPANY REPORTS

For JSW Steel, high royalty on Odisha iron ore makes it unviable for captive usage ➤

Figure 8: Karnataka iron ore prices are always at a discount to Odisha prices set by IBM; hence, paying 110% of Odisha IBM price as royalty to bring iron ore to Karnataka doesn't make sense for JSW Steel



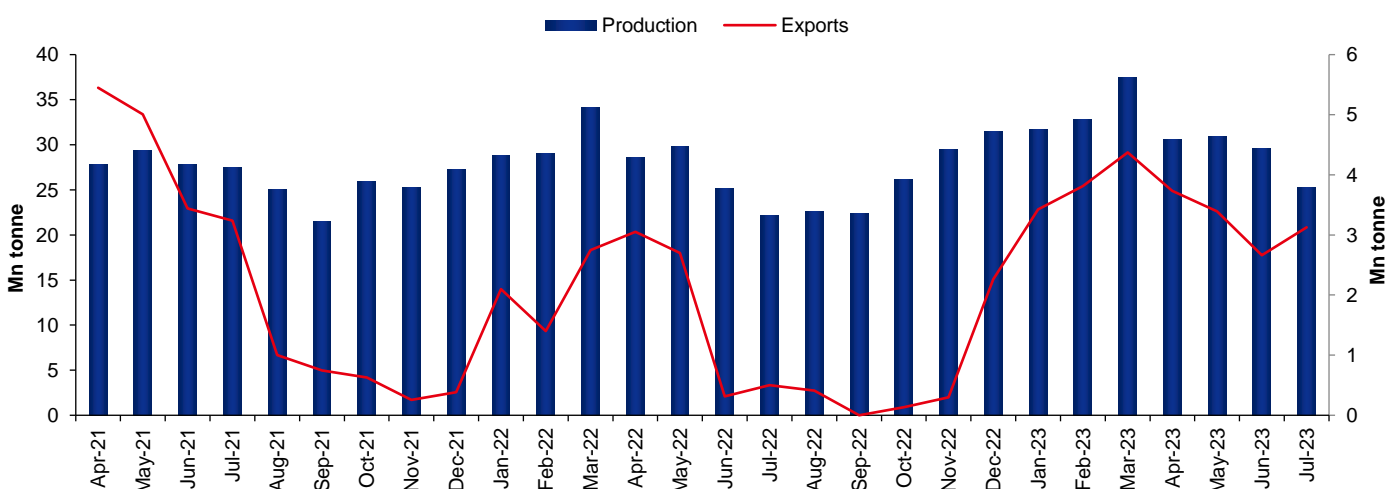
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Equilibrium economic analysis would have determined that as iron ore is in shortage, Karnataka iron ore prices should have gone up to make Odisha ore transpiration viable to Karnataka. However, please remember that JSW Steel is the only significant iron ore buyer in Karnataka. Hence, Karnataka is a buyers' market for iron ore.

Because of all these reasons, iron ore production is not increasing and exports are rising from non-auctioned mines ➤

India's iron ore production is in line but the fear of shortage and a sharp acceleration in exports are driving up the prices.

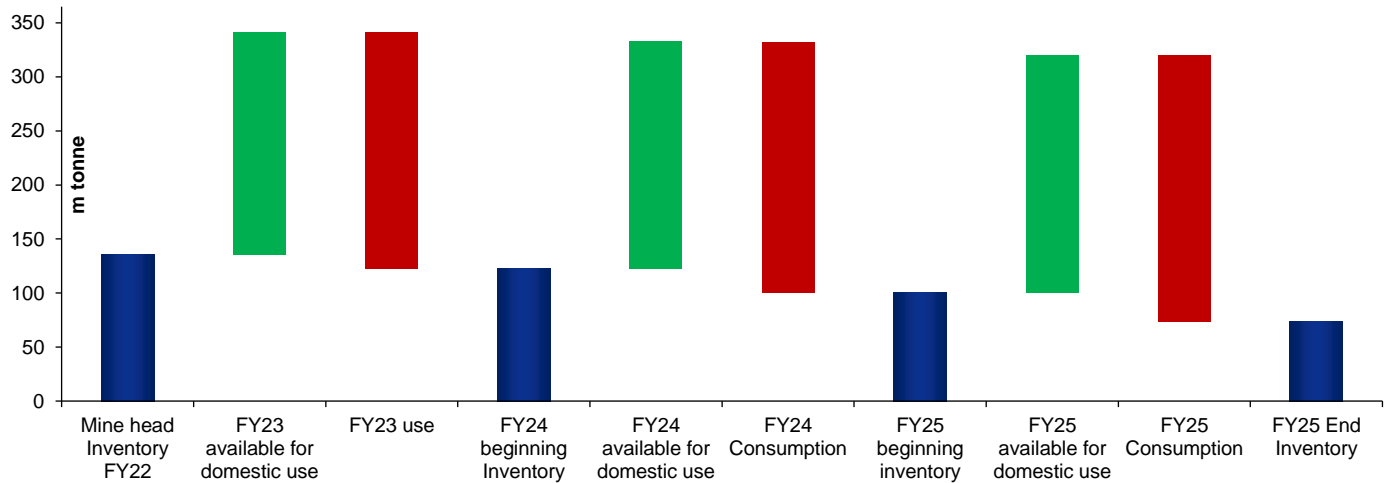
Figure 9: Iron ore production is in line, but the pace of exports is outpacing production



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Our iron ore demand supply analysis indicates that Mine head inventory will decline in coming months ➤

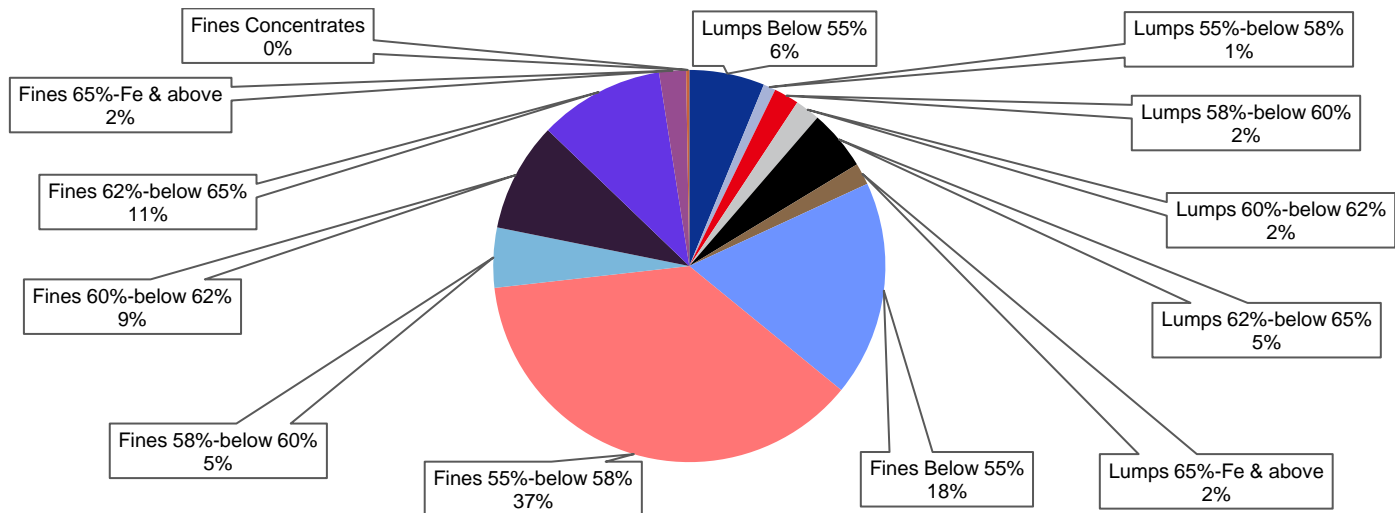
Figure 10: India's mine head inventory to keep falling for the next two years; please note that out of 140mt inventory at mine head, approximately 60mt is unusable



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Mine head inventory decline creates panic as most of the inventory cannot be used by Indian furnaces ➤

Figure 11: Almost 45% of India's mine head inventory is unusable because most the country's furnaces cannot handle below 58% fines and lumps - so effective Inventory at the beginning of FY23 was only 75mt



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Iron ore shortage may lead to export ban towards the end of FY25F ➤

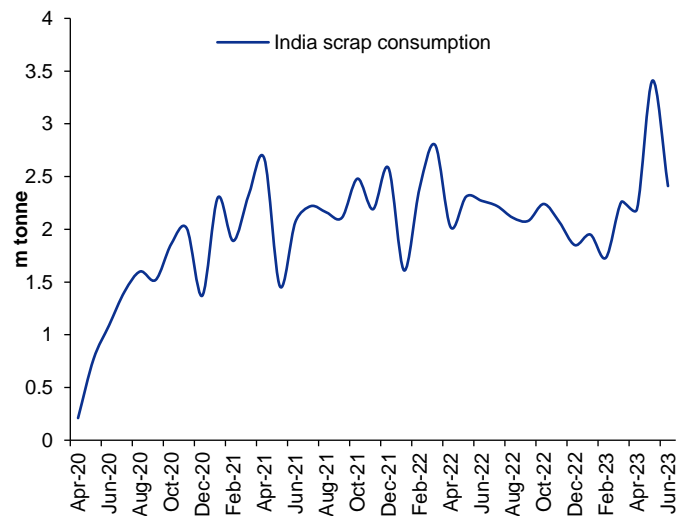
As of now, the Government of India has imposed only 30% export duty on iron ore grades above 58%, but pellet exports do not attract any duty. This is why India is still exporting a significant quantity of pellets. The government is usually lax in moving with policy decisions and so we don't think that unless there is a big hue and cry, it will move to change the duty structure to discourage exports.

India's scrap imports likely to rise from 2HFY25F ➤

When better quality iron ore is in short supply, for small furnaces in India the only option left is to buy scrap. Domestic scrap generation has been stagnant around 18mt. India's domestic scrap generation is dependent on ship-scraping activity, but the tightness in shipping industry is leading to a fall in domestic scrap

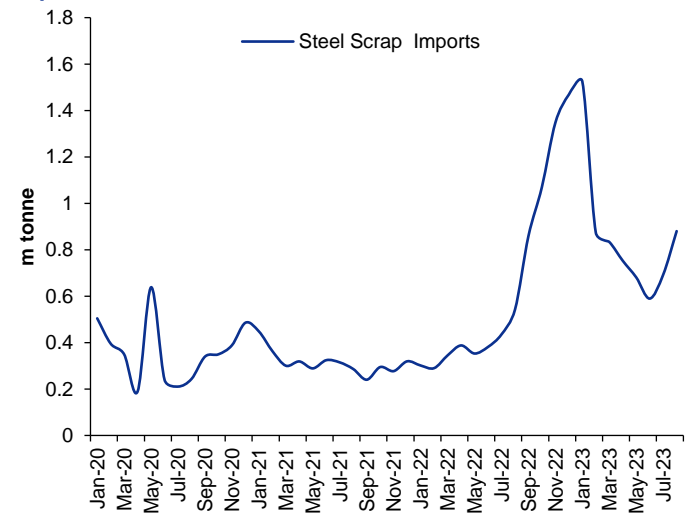
availability. India's scrap imports is bound to rise in 2HFY25F, which will exert some stress in the global market.

Figure 12: Over the last few years, India's scrap consumption has averaged around 2mt/month



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Imports remained around 0.7mt/month; it's also important to note that when iron ore is in shortage, scrap imports rise



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Revenue and valuation

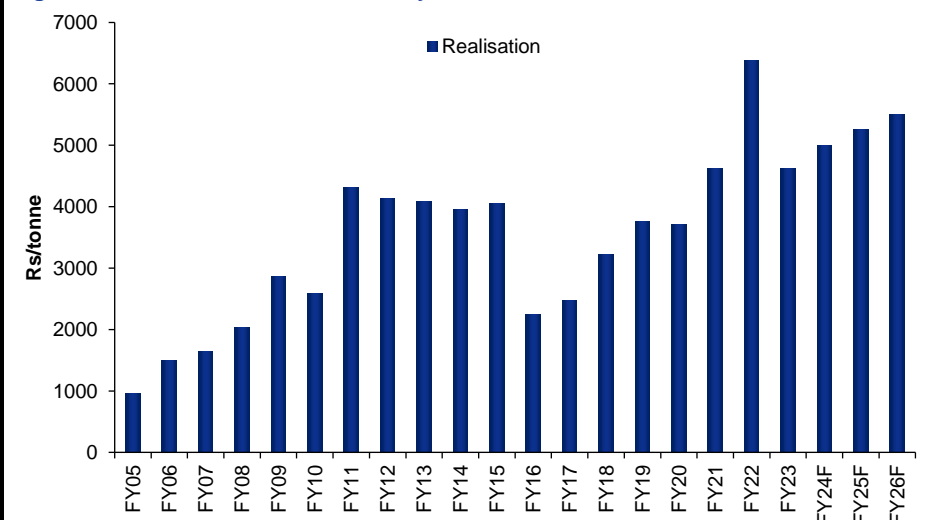
Volume likely to grow at a 11% CAGR over FY23-26F ➤

NMDC has received Environmental Clearance (EC) for an additional 3mt of production capacity. This year, if operations commence this month, more than 2 mt can be easily added. Additionally, a 2mt capacity upgrade project at Bacheli in Chhattisgarh is set to be commissioned this month, contributing 1.5mt. Considering these developments, NMDC has given production guidance in the range of 47-49mt for this year, potentially reaching 50mt, with the expectation of topping 50mt next year. However, we have estimated 45mt and 48mt production for FY24F and FY25F, respectively.

Overall realization to increase significantly over FY23 ➤

We are building in a 6% CAGR in realization over FY23. However, please note that Indian iron ore prices are in an upward trajectory and so the overall realization growth can be much higher than our estimate.

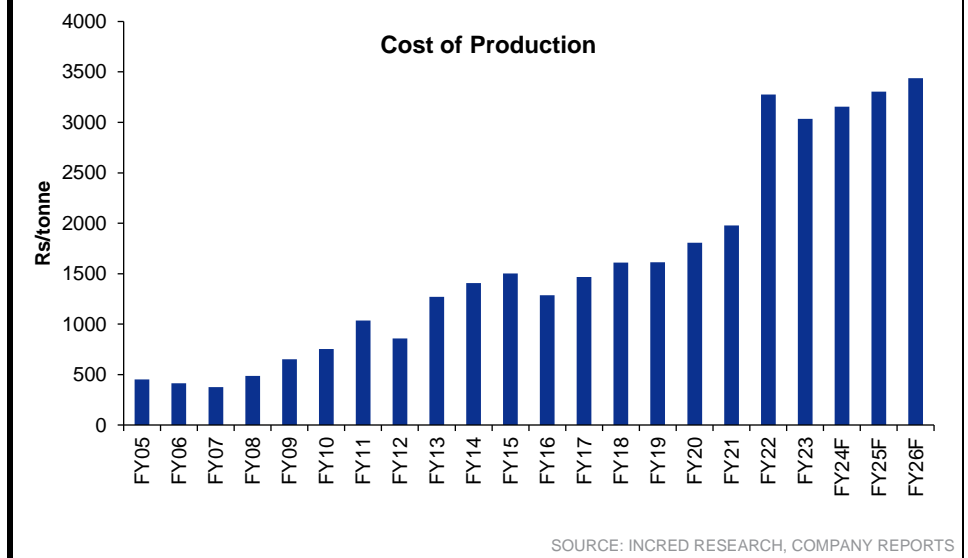
Figure 14: Overall realization to rise by at least a 6% CAGR



SOURCES: INCRED RESEARCH, COMPANY REPORTS

We don't expect a significant rise in overall costs, as the major rise in mining cost is behind us ➤

Figure 15: Major cost inflation is behind us; we expect the cost of production to remain around FY22 level



We value NMDC at 4.6x Sep FY25F EV/EBITDA to arrive at a target price of Rs220; upgrade our rating to ADD from HOLD ➤

Iron ore prices are rising and are expected to stay above the current level; this upward trajectory is expected to result in increased realization. We value NMDC at 4.6x Sep FY25F EV/EBITDA, resulting in a higher target price of Rs220 as against Rs176 previously. The target price has increased due to rising iron ore prices. We have upgraded our rating on the stock to ADD from HOLD earlier.

Figure 16: NMDC currently trades near its 10-year average mean of 5x, but we have valued it at 4.6x (10% discount to its mean)

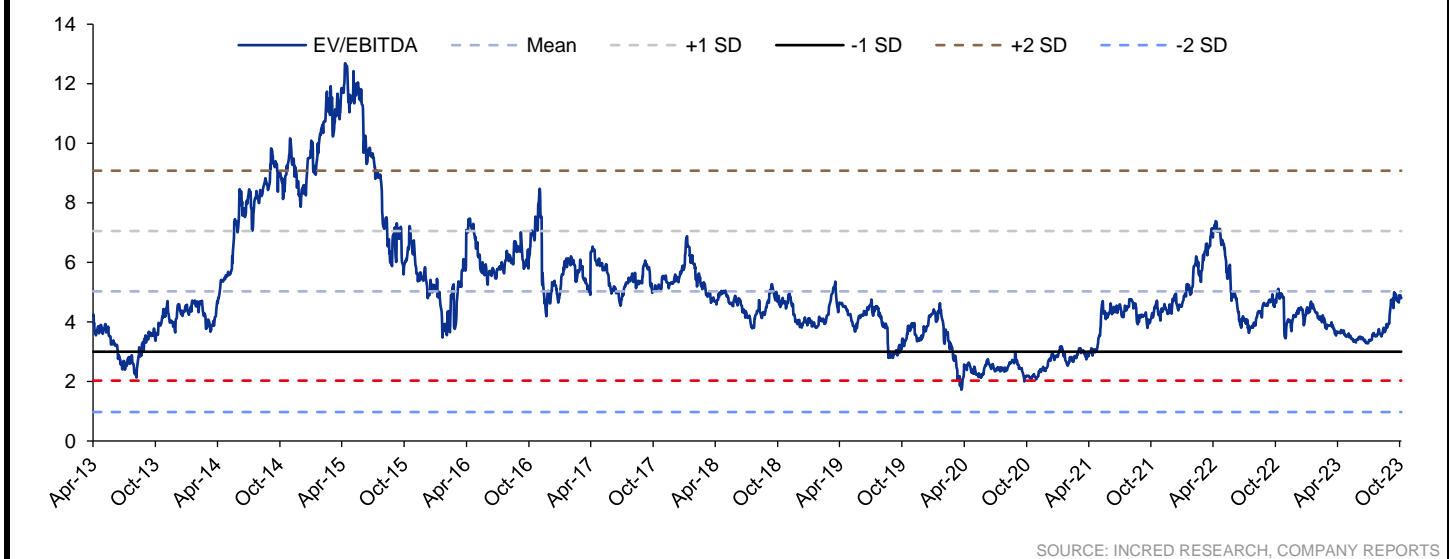
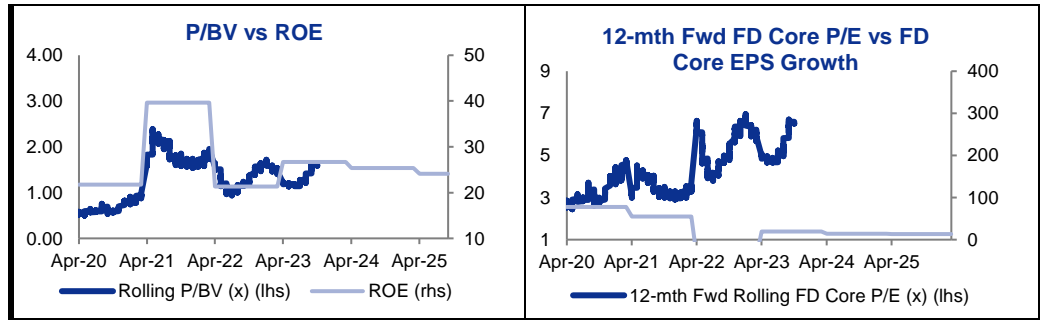


Figure 17: We have valued NMDC at 4.6x Sep FY25F EV/EBITDA (10% discount to its mean) to arrive at our new target price of Rs220

Valuation		
Iron Ore FY25F EBITDA	Rs m	1,00,293
1- year forward multiple	x	4.6
Sept FY25F EV	Rs m	4,57,336
Sept FY25F net debt	Rs m	-1,88,612
Sept FY25F equity value	Rs m	6,45,947
Sept FY25E equity value	Rs/share	220
1-year Forward Price Target	Rs/share	220.00

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	259,648	176,669	225,000	252,000	286,000
Gross Profit	266,207	175,366	223,650	250,560	284,440
Operating EBITDA	126,253	60,561	82,993	93,311	107,136
Depreciation And Amortisation	(2,869)	(3,354)	(3,381)	(3,982)	(4,296)
Operating EBIT	123,384	57,207	79,612	89,328	102,840
Financial Income/(Expense)	(391)	(752)			
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	7,185	7,479	11,010	13,990	14,065
Profit Before Tax (pre-EI)	130,179	63,933	90,623	103,319	116,905
Exceptional Items		12,373			
Pre-tax Profit	130,179	76,306	90,623	103,319	116,905
Taxation	(35,751)	(21,082)	(24,896)	(28,381)	(32,111)
Exceptional Income - post-tax					
Profit After Tax	94,428	55,224	65,727	74,938	84,794
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	94,428	55,224	65,727	74,938	84,794
Recurring Net Profit	94,428	46,269	65,727	74,938	84,794
Fully Diluted Recurring Net Profit	94,428	46,269	65,727	74,938	84,794

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	126,253	60,561	82,993	93,311	107,136
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(46,825)	20,062	(1,771)	(5,495)	(6,939)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	6,868	1,661	17,957	(32)	(34)
Other Operating Cashflow	2,914	15,327	11,080	14,060	14,134
Net Interest (Paid)/Received	(391)	(752)			
Tax Paid	(43,478)	(20,685)	(24,896)	(28,381)	(32,111)
Cashflow From Operations	45,341	76,173	85,362	73,463	82,187
Capex	(30,327)	(14,049)	(20,000)	(20,000)	(20,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(24,133)	9,980			
Other Investing Cashflow	4,198	5,583			
Cash Flow From Investing	(50,262)	1,514	(20,000)	(20,000)	(20,000)
Debt Raised/(repaid)	14,423	(13,623)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(43,195)	(10,993)	(19,739)	(22,502)	(25,459)
Preferred Dividends					
Other Financing Cashflow	(389)	(750)			
Cash Flow From Financing	(29,161)	(25,366)	(19,739)	(22,502)	(25,459)
Total Cash Generated	(34,082)	52,321	45,623	30,961	36,728
Free Cashflow To Equity	9,502	64,064	65,362	53,463	62,187
Free Cashflow To Firm	(4,530)	78,439	65,362	53,463	62,187

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	79,394	70,480	120,947	166,907	218,635
Total Debtors	29,543	26,560	33,826	37,885	42,997
Inventories	21,252	26,606	33,884	37,950	43,071
Total Other Current Assets	26,636	33,962	33,962	33,962	33,962
Total Current Assets	156,825	157,609	222,620	276,705	338,665
Fixed Assets	36,802	43,403	54,198	55,216	55,920
Total Investments	9,873	8,867	9,849	9,849	9,849
Intangible Assets					
Total Other Non-Current Assets	44,026	69,538	51,582	51,613	51,647
Total Non-current Assets	90,701	121,808	115,629	116,678	117,416
Short-term Debt	17,925	4,160	4,160	4,160	4,160
Current Portion of Long-Term Debt					
Total Creditors	6,645	4,258	5,422	6,073	6,892
Other Current Liabilities	31,723	33,571	45,179	47,159	49,632
Total Current Liabilities	56,293	41,988	54,761	57,392	60,685
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,561	1,550	1,550	1,550	1,550
Total Non-current Liabilities	1,561	1,550	1,550	1,550	1,550
Total Provisions	10,920	12,556	12,556	12,556	12,556
Total Liabilities	68,774	56,094	68,867	71,497	74,791
Shareholders Equity	178,753	223,323	269,381	321,886	381,290
Minority Interests					
Total Equity	178,753	223,323	269,381	321,886	381,290

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	68.9%	(32.0%)	27.4%	12.0%	13.5%
Operating EBITDA Growth	44.0%	(52.0%)	37.0%	12.4%	14.8%
Operating EBITDA Margin	48.6%	34.3%	36.9%	37.0%	37.5%
Net Cash Per Share (Rs)	20.97	22.63	39.85	55.53	73.18
BVPS (Rs)	60.99	76.20	91.92	109.83	130.10
Gross Interest Cover	315.88	76.04			
Effective Tax Rate	27.5%	27.6%	27.5%	27.5%	27.5%
Net Dividend Payout Ratio	17.1%	36.3%	30.0%	30.0%	30.0%
Accounts Receivables Days	35.81	57.95	48.98	51.93	51.61
Inventory Days	(847.78)	6,701.50	8,177.37	9,104.06	9,478.44
Accounts Payables Days	(285.11)	1,526.61	1,308.59	1,456.88	1,516.79
ROIC (%)	34.3%	34.6%	35.6%	41.3%	45.7%
ROCE (%)	48.0%	27.0%	31.8%	29.8%	28.9%
Return On Average Assets	30.8%	16.5%	21.3%	20.5%	20.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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