



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↓	Grey

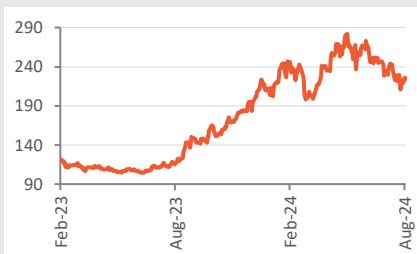
Company details

Market cap:	Rs. 66,232 cr
52-week high/low:	Rs. 286 / 114
NSE volume: (No of shares)	152.9 lakh
BSE code:	526371
NSE code:	NMDC
Free float: (No of shares)	114.9 cr

Shareholding (%)

Promoters	60.8
FII	12.8
DII	14.3
Others	12.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.4	-16.2	-5.4	86.9
Relative to Sensex	-4.1	-21.2	-16.2	62.7

Sharekhan Research, Bloomberg

NMDC Ltd

Price cuts to affect performance; Downgrade to hold

Metal & Mining

Sharekhan code: NMDC

Reco/View: Hold



CMP: Rs. 226

Price Target: Rs. 250



Upgrade



Maintain



Downgrade

Summary

- Consolidated PAT at Rs. 1,971 crore was up 19% y-o-y and led by a beat in EBITDA margins due to decrease in royalty payments.
- EBITDA/tonne rose 28% y-o-y to Rs. 2,323 and EBITDA of Rs. 2,340 crore was up 17% y-o-y. Revenue of Rs. 5,414 crore was almost flat y-o-y with a fall in volumes compensated by rise in realizations.
- Iron ore realizations are under pressure currently with the weak outlook of the steel sector. NMDC has taken two price cuts with a cumulative amount of Rs. 1000/tonne after the first quarter. Company has guided for a production volume of 50mt in FY25 and 54mt in FY26 from 45mt in FY24.
- NMDC will deliver good volume growth over the next few years in tandem with India's steel sector demand. But we downgrade the stock to Hold currently with a revised PT of Rs. 250 given the uncertain outlook on the pricing front. The stock trades at a 5.4x its FY26 EV/EBITDA.

Q1FY25 consolidated revenues at Rs. 5,414 crore (up 0.4% y-o-y; down 17% q-o-q) was below our estimate as sales volume was down 8% y-o-y and 20% q-o-q. This was due to heavy monsoons and slowdown in April-May. Blended realizations of Rs. 5,375/tonne increased 9% y-o-y and 4% q-o-q. However, they will fall significantly in Q2 as the company has taken price cuts. Operating profit of Rs. 2,340 crore (up 17% y-o-y and 11% q-o-q) was a huge beat as royalty decreased in the quarter. Consequently, EBITDA/tonne of Rs. 2,323 rose 28% y-o-y and 39% q-o-q. Adjusted PAT of Rs. 1,971 crore (up 19% y-o-y; up 38% q-o-q) was 7% above our estimate on stronger-than-expected margin.

Key positives

- EBITDA margin of 43.2% was up 626 bps y-o-y and 1083 bps q-o-q.

Key negatives

- Company has taken cumulative price cuts of Rs. 1000/tonne in Q2.

Management Commentary

- Company plans to achieve 50mt of iron ore production in FY25 and 54mt in FY26.
- Management has guided for a capex of ~Rs. 2,200 crores for FY25. In Q1, the spend was Rs. 384 crore.
- Price cuts totalling Rs. 1000/tonne have been implemented in Q2 due to pressure on iron ore prices.
- The SC judgment of allowing States to tax mineral rights is going to have a direct impact of Rs. 21 crore. There are two other matters similar to it in the States of Chhattisgarh and Karnataka, where the liability can be Rs. 144 crore and Rs. 2,500 crore respectively.

Revision in estimates – We have cut our FY25-26 earnings estimate to factor in lower iron ore realisations.

Our Call

Valuation – Downgrade to Hold with a revised PT of Rs. 250: Strong domestic steel demand bodes well for a rise in NMDC's volumes over the years. Also, the recent demerger of the steel business will reduce capital intensity for the company. However, the tepid outlook of the steel sector is putting a pressure on iron ore prices and it will have a negative impact on realizations and earnings. Already, the company has cut prices by Rs. 1000/tonne in Q2. Hence, we downgrade the stock to Hold with a revised PT of Rs. 250. At CMP, the stock trades at 5.4x its FY26 EV/EBITDA.

Key Risks

Rise in iron ore price and demand is an upside risk and vice versa.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	17,667	21,308	24,667	26,633
OPM (%)	34.3	34.2	35.8	35.9
Adjusted PAT	4,365	5,858	7,090	7,628
% y-o-y growth	-53.7	34.2	21.0	7.6
Adjusted EPS (Rs.)	14.9	20.0	24.2	26.0
P/E (x)	15.1	11.3	9.3	8.6
P/B (x)	2.9	2.6	2.2	1.9
EV/EBITDA (x)	9.6	7.7	6.1	5.4
RoNW (%)	21.5	24.3	25.5	23.7
RoCE (%)	25.0	24.9	25.6	24.2

Source: Company; Sharekhan estimates

Q1FY25 conference call highlights

- ♦ **Guidance:** Management plans to achieve 50 mt of iron ore production by FY25 and 54mt in FY26. It was 45mt in FY24.
- ♦ **Price realization:** Company has taken two price cuts in Q2 due to increase in pricing pressure. The weak outlook of the steel sector is contributing to this weakness. The cumulative cuts are of Rs. 1000/tonne.
- ♦ **Royalty:** It has fallen 13% y-o-y in tandem with the 14% drop in production. Royalty rate is directly related to the production of iron ore during the quarter.
- ♦ **Capex:** Company has incurred a capex of Rs. 384 crore in Q1. For FY25, the plan is to spend around Rs. 2,200 crore.
- ♦ **SC judgement:** With respect to the Supreme Court's decision to allow States to levy taxes, company is going to have a direct liability of Rs. 21 crore. There might be an additional liability of Rs. 144 crore from Chhattisgarh and Rs. 2,400-2,500 crore from Karnataka. Company believes it will be able to recover these dues from customers as majority of the customer base has remained the same over the years.

Results (Consolidated)

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Net Sales	5,414	5,395	0.4	6,489	-16.6
Total Expenditure	3,074	3,401	-9.6	4,388	-29.9
Operating profit	2,340	1,994	17.4	2,102	11.3
Other Income	365	294	24.0	419	-12.9
EBITDA	2,705	2,288	18.2	2,521	7.3
Interest	23	6	273.0	21	7.9
Depreciation	74	69	6.5	111	-33.4
Exceptional income/(expense)	0	0		-30	-100.0
Reported PBT	2,608	2,212	17.9	2,359	10.6
Adjusted PBT	2,608	2,212	17.9	2,389	9.2
Tax	644	551	16.9	943	-31.7
Reported PAT	1,964	1,661	18.2	1,416	38.7
Share of Profit I (Loss) of Associates/JVs	6	-8		-6	-197.1
Minority interest (MI)	-2	1		-3	-39.4
Adjusted PAT after MI	1,971	1,652	19.3	1,431	37.7
Equity Cap (cr)	293	293		293	
EPS (Rs)	6.7	5.6	19.3	4.9	37.7
Margins (%)			BPS		BPS
Adjusted OPM	43.2	37.0	626.4	32.4	1,083.1
Adjusted NPM	36.4	30.6	577.2	22.0	1,435.1
Tax rate	24.7	24.9	-20.3	40.0	-1,526.8

Source: Company; Sharekhan Research

Key operating metrics

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Iron ore production (million tonnes)	9.2	10.7	-14.1	13.2	-30.6
Iron ore sales (million tonnes)	10.1	11.0	-8.2	12.5	-19.7
Domestic iron realisation (Rs. /tonne)	5,304	4,850	9.4	5,331	-0.5
Blended iron ore realisation (Rs. /tonne)	5,375	4,915	9.3	5,174	3.9
EBITDA/tonne (Rs. /tonne)	2,323	1,816	27.9	1,676	38.6

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Weak Chinese demand putting a pressure on steel and iron ore prices

Iron ore prices have fallen 30% now in the last 6 months as a weak global outlook and in particular the Chinese real estate sector has affected the steel demand. Stimulus given by the Chinese government has shown no signs of propping up its domestic demand. Consequently, the weak steel demand is putting a pressure on the iron ore prices. Also, the SC ruling regarding the cess which can be levied by states makes for additional uncertainty.

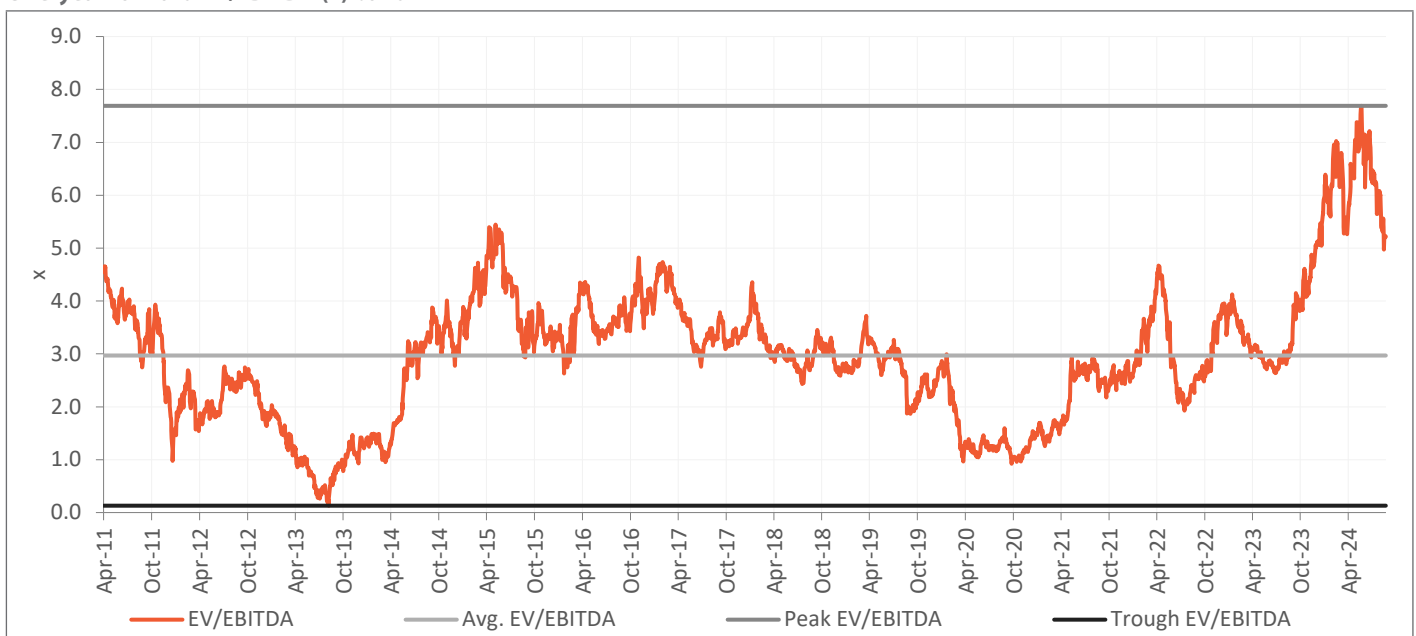
■ Company Outlook – Volumes to drive growth over but falling price realization a concern

We expect the iron ore demand to mirror the strong steel growth in the country. Company will grow its volumes at a 8% CAGR over FY24-26. However, the weak steel sector demand is putting a pricing pressure on iron ore prices. Company has already implemented price cuts of Rs. 1000/tonne. This weak pricing environment can have a significant impact on the company's earnings.

■ Valuation – Downgrade to Hold with a revised PT of Rs. 250

Strong domestic steel demand bodes well for a rise in NMDC's volumes over the years. Also, the recent demerger of the steel business will reduce capital intensity for the company. However, the tepid outlook of the steel sector is putting a pressure on iron ore prices and it will have a negative impact on realizations and earnings. Already, the company has cut prices by Rs. 1000/tonne in Q2. Hence, we downgrade the stock to Hold with a revised PT of Rs. 250. At CMP, the stock trades at 5.4x its FY26 EV/EBITDA.

One-year forward EV/EBITDA (x) band



Source: Sharekhan Research

About company

NMDC, a government-owned company, is India's largest iron ore producer. NMDC is operating four iron ore mechanised mines viz., Bailadila Iron Ore Mines – Kirandul Complex (Dep-14, 14 NMZ, 11B and 11C), Bailadila Iron Ore Mine – Bacheli Complex (Dep-5,10 and 11A) in Chhattisgarh, Donimalai Iron Ore Mine and Kumaraswamy Iron Ore Mine in Karnataka. The company also produces and sells diamonds, sponge iron, and wind power.

Investment theme

The strong growth expected in iron ore volumes will drive the growth of the company. The huge infrastructure push of the government and a thriving real estate sector will aid the company. However, the pricing of this industry is hugely dependent on China and with weak Chinese demand, steel and iron ore prices are under pressure.

Key Risks

Rise in iron ore price and demand is an upside risk and vice versa.

Additional Data

Key management personnel

Amitava Mukherjee	Chairman & Managing Director and Director Finance
Vishwanath Suresh	Director – Commercial
Vinay Kumar	Director – Technical

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.56
2	PPFAS Asset Management	1.66
3	Vanguard Group Inc/The	1.60
4	BlackRock Inc	1.32
5	SBI Funds Management Ltd	0.98
6	Aditya Birla Sun Life Asset Manage	0.71
7	Dimensional Fund Advisors LP	0.55
8	Edelweiss Asset Management Ltd	0.44
9	WisdomTree Inc	0.41
10	UTI Asset Management Co Ltd	0.38

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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