

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
40,345	11,913
<b>Bloomberg</b>	<b>NMDC IN</b>
Equity Shares (m)	3,062
M.Cap.(INRb)/(USD\$b)	317.8 / 4.4
52-Week Range (INR)	120 / 75
1, 6, 12 Rel. Per (%)	2/6/-21
12M Avg Val (INR M)	528
Free float (%)	27.7

**CMP: INR104 TP: INR126 (+21%)**
**Buy**
**Miss led by lower exports**
**Valuations attractive; Maintain Buy**

2QFY20 adj. EBITDA was down 39% QoQ to INR11.7b (11% below est. INR13.1b) on the back of lower export volumes at 0.52mt (v/s est. 0.7mt). The QoQ drop in EBITDA was led by lower overall volumes. PBT declined 40% QoQ to INR11.9b while Adj. PAT declined 40% QoQ to INR8.2b (14% miss).

- Production was down 41% QoQ (down 5% YoY) to 5mt, while sales declined 33% QoQ (down 13% YoY) to 5.8mt.
- Reported domestic realization declined INR25 QoQ to INR2,891/t on the back of price decline (INR200/t in Sep'19).
- For 1HFY20, adj. PAT was up 13% YoY to INR21.7b. Cash flow from operations post tax was down 53% YoY to INR5.2b on the back of WC deterioration. Capex for 1HFY20 stood at INR9.1b.

**Valuations attractive; Maintain Buy**

- Global iron ore prices have retreated in recent months and we expect this to lead to lower export price realization. On the domestic front, we expect prices to decline in 4QFY20 due to (a) an oversupplied market, (b) higher availability prior to mine lease expiry, and (c) some tapering off in global prices.
- Most packages of the steel plant are complete. We believe the company's steel plant would be valuable given the low-cost iron ore and economy of scale. Operations at Donimalai should eventually restart post clearances. We value the stock at 5x EV/EBITDA FY21 with TP of INR126/share. Maintain Buy.

**Financials & Valuations (INR b)**

Y/E Mar	2019	2020E	2021E
Net Sales	121.5	112.6	140.9
EBITDA	71.4	61.5	59.3
PAT	47.8	43.4	42.4
EPS (INR)	15.6	14.2	13.8
Gr. (%)	19.2	-9.3	-2.3
BV/Sh (INR)	84.8	91.0	97.0
RoE (%)	19.3	16.1	14.7
RoCE (%)	18.3	15.5	14.2
P/E (x)	6.7	7.3	7.5
P/BV (x)	1.2	1.1	1.1

Note: Above nos. are consol.

**Estimate change**

**TP change**

**Rating change**

**Quarterly Performance (Standalone) – INR m**

Y/E March	FY19				FY20				FY19	FY20E	FY20 vs Est	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Production (m tons)	7.0	5.3	9.5	10.6	8.4	5.0	8.0	8.4	32.4	30.9	5.9	-15
Sales (m tons)	6.8	6.7	8.7	10.2	8.7	5.8	8.0	8.4	32.4	30.9	5.9	-1
Avg Dom. NSR (USD/t)	53	52	58	49	51	50	49	46	57	53	54	-7
Avg Dom. NSR (INR/t)	3,573	3,635	4,185	3,418	3,593	3,508	3,498	3,231	3,703	3,457	3,733	-6
<b>Net Sales</b>	<b>24,220</b>	<b>24,379</b>	<b>36,494</b>	<b>36,433</b>	<b>32,637</b>	<b>22,418</b>	<b>29,622</b>	<b>27,969</b>	<b>121,527</b>	<b>112,646</b>	<b>24,416</b>	<b>-8</b>
<b>EBITDA</b>	<b>14,788</b>	<b>13,824</b>	<b>22,788</b>	<b>20,015</b>	<b>19,265</b>	<b>11,723</b>	<b>16,714</b>	<b>13,847</b>	<b>71,416</b>	<b>61,549</b>	<b>13,114</b>	<b>-11</b>
Change (YoY %)	-8.7	7.6	71.2	-3.9	30.3	-15.2	-26.7	-30.8	13.0	-13.8	-5.1	196
Interest	108	97	96	102	117	97	0	0	403	215	0	
Depreciation	616	675	694	804	648	976	835	856	2,789	3,314	814	20
Other Income	1,251	1,310	1,361	1,961	1,228	1,275	1,293	1,569	5,883	5,365	1,244	3
<b>PBT (before EO Item)</b>	<b>15,316</b>	<b>14,362</b>	<b>23,360</b>	<b>21,070</b>	<b>19,728</b>	<b>11,925</b>	<b>17,173</b>	<b>14,560</b>	<b>74,107</b>	<b>63,386</b>	<b>13,544</b>	<b>-12</b>
Extra-ordinary item	-550	-1,232	-1,245	906	-596	-1,121	-688	-688	-2,120	-3,092	-688	
<b>PBT (after EO Item)</b>	<b>14,766</b>	<b>13,131</b>	<b>22,115</b>	<b>21,976</b>	<b>19,132</b>	<b>10,805</b>	<b>16,486</b>	<b>13,873</b>	<b>71,987</b>	<b>60,294</b>	<b>12,856</b>	<b>-16</b>
Total Tax	5,013	6,767	6,347	7,438	7,337	3,771	4,293	3,640	25,565	19,041	3,386	11
% Tax	34.0	51.5	28.7	33.8	38.4	34.9	26.0	26.2	35.5	31.6	26.3	
<b>Reported PAT</b>	<b>9,753</b>	<b>6,364</b>	<b>15,768</b>	<b>14,538</b>	<b>11,794</b>	<b>7,034</b>	<b>12,192</b>	<b>10,233</b>	<b>46,422</b>	<b>41,253</b>	<b>9,470</b>	<b>-26</b>
<b>Adjusted PAT</b>	<b>9,877</b>	<b>9,262</b>	<b>15,064</b>	<b>13,587</b>	<b>13,498</b>	<b>8,159</b>	<b>11,750</b>	<b>9,962</b>	<b>47,789</b>	<b>43,368</b>	<b>9,468</b>	<b>-14</b>

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**Exhibit 1: Operating metrics**

	FY17				FY18				FY19				FY20	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Production - m tons	7.63	6.31	9.71	10.38	8.50	7.18	8.56	11.35	6.98	5.26	9.54	10.59	8.43	5.01
Sales volume - m tons	7.78	8.01	10.06	9.77	9.18	8.30	8.06	10.54	6.78	6.71	8.70	10.17	8.67	5.82
By markets														
Exports	0.75	0.53	0.78	0.68	0.74	0.52	0.53	0.81	0.00	0.00	0.66	0.52	0.60	0.52
Domestic	7.03	7.49	9.27	9.10	8.45	7.77	7.53	9.73	6.78	6.71	8.04	9.65	8.07	5.30
Blended realization - INR/t	2,212	2,170	2,484	2,938	3,094	2,919	3,064	3,685	3,573	3,635	4,193	3,583	3,765	3,854
Published prices - INR/t														
Lumps	1,967	1,700	2,100	2,325	2,425	2,283	2,400	3,067	3,017	3,317	3,550	2,833	2,954	3,033
Fines	1,660	1,460	1,793	2,085	2,185	2,043	2,127	2,727	2,660	2,910	3,027	2,560	2,714	2,793
EBITDA/t	1,050	1,030	1,415	1,463	1,765	1,549	1,652	1,976	2,182	2,061	2,618	1,968	2,222	2,016
Operating cost (ex-roy) - INR/t	754	926	685	923	793	951	769	986	734	1,073	747	959	872	1,236

Source: MOFSL, Company

**Exhibit 2: Target price derivation**

Y/E March	2016	2017	2018	2019	2020E	2021E
<b>Iron ore</b>						
EBITDA per ton (INR)	1,214	1,262	1,752	2,207	1,993	1,881
Volumes (m tons)	28.8	35.6	36.1	32.4	30.9	31.5
<b>Steel</b>						
EBITDA per ton (INR)						5,000
Volumes (m tons)						1.0
<b>EBITDA</b>	<b>34,998</b>	<b>44,944</b>	<b>63,198</b>	<b>71,416</b>	<b>61,549</b>	<b>64,272</b>
Target EV/EBITDA(x)						5.0
Target EV						321,358
Less: Net Debt	-132,666	-52,893	-49,381	-42,436	-38,405	-34,146
Add: 50% CWIP	48,614	59,157	62,600	68,962	81,962	29,462
Equity Value						384,966
<b>Target price (INR/share)</b>						<b>126</b>

Source: MOFSL, Company

## Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Net Sales</b>	<b>120,582</b>	<b>123,564</b>	<b>64,556</b>	<b>88,294</b>	<b>116,149</b>	<b>112,744</b>	<b>114,970</b>	<b>120,723</b>
Change (%)	12.6	2.5	-47.8	36.8	31.5	27.7	2.0	5.0
<b>EBITDA</b>	<b>81,604</b>	<b>81,369</b>	<b>34,998</b>	<b>44,944</b>	<b>63,198</b>	<b>63,114</b>	<b>65,501</b>	<b>68,985</b>
EBITDA Margin (%)	67.7	65.9	54.2	50.9	54.4	56.0	57.0	57.1
Depreciation	1,504	1,622	2,078	1,962	2,560	2,489	2,687	2,966
<b>EBIT</b>	<b>80,100</b>	<b>79,747</b>	<b>32,920</b>	<b>42,982</b>	<b>60,638</b>	<b>60,625</b>	<b>62,815</b>	<b>66,020</b>
Interest	0	0	0	0	371	403	215	0
Other Income	20,945	23,200	17,744	9,088	5,197	5,883	5,365	5,290
Extraordinary items	455	0	-1,848	-8,933	-5,309	-2,120	-3,092	-2,750
<b>PBT</b>	<b>101,500</b>	<b>102,946</b>	<b>48,816</b>	<b>43,137</b>	<b>60,155</b>	<b>71,987</b>	<b>60,294</b>	<b>55,537</b>
Tax	33,391	33,460	14,769	17,038	22,093	25,565	19,041	15,155
Tax Rate (%)	32.9	32.5	30.3	39.5	36.7	35.5	31.6	27.3
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>68,110</b>	<b>69,487</b>	<b>34,047</b>	<b>26,099</b>	<b>38,062</b>	<b>46,422</b>	<b>41,253</b>	<b>40,382</b>
<b>Adjusted PAT</b>	<b>67,804</b>	<b>69,487</b>	<b>35,335</b>	<b>31,504</b>	<b>41,421</b>	<b>47,789</b>	<b>43,368</b>	<b>42,382</b>
Change (%)	2.3	2.5	-49.1	-10.8	31.5	15.4	-9.3	-2.3

Balance Sheet							(INR Million)	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Share Capital	3,965	3,965	3,965	3,164	3,164	3,062	3,062	3,062
Reserves	295,918	319,353	297,146	222,026	240,374	256,453	275,660	293,997
<b>Net Worth</b>	<b>299,883</b>	<b>323,317</b>	<b>301,110</b>	<b>225,189</b>	<b>243,538</b>	<b>259,515</b>	<b>278,722</b>	<b>297,059</b>
Debt	0	0	14,970	0	5,001	3,642	3,642	3,642
Deferred Tax	1,073	984	1,222	6,112	7,141	7,684	7,684	7,684
<b>Total Capital Employed</b>	<b>300,956</b>	<b>324,301</b>	<b>317,302</b>	<b>231,301</b>	<b>255,680</b>	<b>270,841</b>	<b>290,048</b>	<b>308,385</b>
Gross Fixed Assets	28,506	29,446	37,304	39,724	49,473	52,752	56,752	186,752
Less: Acc Depreciation	14,883	16,109	18,234	20,196	22,756	25,545	28,859	35,133
<b>Net Fixed Assets</b>	<b>13,623</b>	<b>13,337</b>	<b>19,070</b>	<b>19,528</b>	<b>26,717</b>	<b>27,207</b>	<b>27,893</b>	<b>151,619</b>
Capital WIP	52,769	77,100	97,229	118,314	125,199	137,925	163,925	58,925
Investments	2,504	5,619	6,954	7,270	7,865	9,393	9,393	9,393
<b>Current Assets</b>	<b>245,874</b>	<b>248,642</b>	<b>210,203</b>	<b>111,909</b>	<b>126,311</b>	<b>123,295</b>	<b>119,961</b>	<b>121,119</b>
Inventory	6,812	6,919	6,370	5,400	5,717	6,662	6,172	7,720
Debtors	14,484	17,523	18,961	10,435	14,727	14,245	15,431	19,300
Cash & Bank	186,572	184,431	147,636	52,893	54,382	46,077	42,046	37,788
Loans & Adv, Others	38,005	39,768	37,237	43,181	51,484	56,311	56,311	56,311
<b>Curr Liabs &amp; Provns</b>	<b>13,814</b>	<b>20,397</b>	<b>16,154</b>	<b>25,719</b>	<b>30,411</b>	<b>26,979</b>	<b>31,124</b>	<b>32,672</b>
Curr. Liabilities	11,092	2,263	3,244	1,988	1,595	2,027	6,172	7,720
Provisions	2,722	18,134	12,909	23,731	28,815	24,952	24,952	24,952
<b>Net Current Assets</b>	<b>232,060</b>	<b>228,245</b>	<b>194,050</b>	<b>86,190</b>	<b>95,900</b>	<b>96,316</b>	<b>88,837</b>	<b>88,448</b>
<b>Total Assets</b>	<b>300,956</b>	<b>324,301</b>	<b>317,302</b>	<b>231,301</b>	<b>255,680</b>	<b>270,841</b>	<b>290,048</b>	<b>308,385</b>

## Financials and Valuations

<b>Ratios</b>								
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>17.1</b>	<b>17.5</b>	<b>8.9</b>	<b>10.0</b>	<b>13.1</b>	<b>15.6</b>	<b>14.2</b>	<b>13.8</b>
Cash EPS	17.5	17.9	9.4	10.6	13.9	16.5	15.2	15.9
Book Value	75.6	81.5	75.9	71.2	77.0	84.8	91.0	97.0
DPS	8.5	8.6	11.0	5.2	5.3	5.3	6.0	6.0
Payout (incl. Div. Tax.)	57.9	42.2	172.4	74.9	52.9	41.9	53.4	54.6
<b>Valuation(x)</b>								
P/E	6.1	5.9	11.7	10.4	7.9	6.7	7.3	7.5
Cash P/E	5.9	5.8	11.0	9.8	7.5	6.3	6.8	6.5
Price / Book Value	1.4	1.3	1.4	1.5	1.4	1.2	1.1	1.1
EV/Sales	1.9	1.8	4.3	3.1	2.4	2.3	2.5	2.0
EV/EBITDA	2.8	2.8	8.0	6.1	4.4	3.9	4.5	4.8
Dividend Yield (%)	8.2	8.2	10.6	5.0	5.1	5.1	5.8	5.8
EV/ton	3	3	3	3	3	3	3	3
<b>Profitability Ratios (%)</b>								
RoE	23.6	22.3	11.3	13.5	17.7	19.3	16.1	14.7
RoCE	23.5	22.2	11.0	11.5	17.1	18.3	15.5	14.2
RoIC	119.2	92.6	37.4	44.0	63.4	60.8	52.4	27.8
<b>Turnover Ratios (%)</b>								
Asset Turnover (x)	0.4	0.4	0.2	0.4	0.5	0.4	0.4	0.5
Debtors (No. of Days)	44	52	50	43	46	43	50	50
<b>Leverage Ratios (%)</b>								
Net Debt/Equity (x)	-0.6	-0.6	-0.4	-0.2	-0.2	-0.2	-0.1	-0.1
<b>Cash Flow Statement</b>							<b>(INR Million)</b>	
Y/E Mar	2014	2015	2016	2017	2018	2019	2020E	2021E
Adjusted EBITDA	81,604	81,369	34,998	44,944	63,198	71,416	61,549	59,272
Non cash opr. exp (inc)	21,400	23,200	15,896	155	-483	3,360	2,059	2,540
(Inc)/Dec in Wkg. Cap.	-27,095	-11,975	93	13,117	-8,221	-8,721	3,448	-3,869
Tax Paid	-33,391	-30,314	-17,373	-18,942	-23,057	-25,565	-19,041	-15,155
Other operating activities	-3,880	-7,655	-4,455	406	2,774	-9,923	0	0
<b>CF from Op. Activity</b>	<b>38,639</b>	<b>54,624</b>	<b>29,159</b>	<b>39,679</b>	<b>34,211</b>	<b>30,566</b>	<b>48,015</b>	<b>42,787</b>
(Inc)/Dec in FA & CWIP	-22,888	-24,331	-20,242	-23,505	-16,635	-16,004	-30,000	-25,000
<b>Free cash flows</b>	<b>15,751</b>	<b>30,293</b>	<b>8,918</b>	<b>16,174</b>	<b>17,577</b>	<b>14,562</b>	<b>18,015</b>	<b>17,787</b>
(Pur)/Sale of Invt	-7	-3,116	-1,335	-316	-595	-1,529	0	0
Others	0	0	0	0	0	0	0	0
<b>CF from Inv. Activity</b>	<b>-22,895</b>	<b>-27,447</b>	<b>-21,576</b>	<b>-23,821</b>	<b>-17,229</b>	<b>-17,533</b>	<b>-30,000</b>	<b>-25,000</b>
Inc/(Dec) in Net Worth	0	0	0	-76,078	0	-102	0	0
Inc / (Dec) in Debt	0	0	14,970	-14,970	5,001	-1,359	0	0
Interest Paid	0	0	0	0	0	0	0	0
Divd Paid (incl Tax) & Others	-39,429	-29,318	-58,694	-19,553	-20,122	-19,474	-22,046	-22,046
<b>CF from Fin. Activity</b>	<b>-39,429</b>	<b>-29,318</b>	<b>-43,724</b>	<b>-110,601</b>	<b>-15,122</b>	<b>-20,935</b>	<b>-22,046</b>	<b>-22,046</b>
<b>Inc/(Dec) in Cash</b>	<b>-23,685</b>	<b>-2,141</b>	<b>-36,141</b>	<b>-94,743</b>	<b>1,860</b>	<b>-7,902</b>	<b>-4,031</b>	<b>-4,259</b>
Add: Opening Balance	210,258	186,572	184,431	147,636	52,893	54,382	46,077	42,046
<b>Closing Balance</b>	<b>186,572</b>	<b>184,431</b>	<b>148,290</b>	<b>52,893</b>	<b>54,753</b>	<b>46,480</b>	<b>42,046</b>	<b>37,788</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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