



TM

## NMDC Steel

27 February 2023

### Favorable risk-reward

#### COMPANY UPDATE

Industry

Metals &amp; Mining

We look at possible scenarios emerging for NMDC Steel. NMDC Steel was recently demerged from NMDC (BUY) at a ratio of 1:1 and trades at Rs 33/share currently. Valuation for NMDC Steel (NR) is interesting as a) the Government of India (GoI) is divesting its 50.79% stake in NMDC Steel (NR) through competitive bidding, b) GoI will transfer its 10% stake to NMDC (BUY), and c) this will trigger an open offer for 26% minority stake.

**Background:** NMDC Steel is a 3mt steel plant set up by NMDC and has been in the works for more than a decade. It is spread over 1930 acres and has the optionality to increase capacity to 6mt. According to the management a) major construction work is complete and Rs 210bn has already been spent with about Rs 20-25bn remaining to be spent b) the plant is expected to commission by April 2023 and production of 1mt is envisaged in the first year of operations.

We believe any potential acquirer would weigh the likely positives such as a) Long-term iron ore supply arrangement with NMDC at 135km b) port proximity of 300km and negatives such as a) lack of adequate captive power b) limited steel eco-system in the catchment area, and c) limited scalability optionality to 6mt based on the current configuration.

News reports indicate that JSW Steel (BUY), AMNS (NR), Jindal Steel & Power (NR) (JSP), Essar Steel (NR), and Adani Enterprises (NR) are the shortlisted bidders.

#### Analysis of key bidders:

**JSW Steel:** Has aggressive growth plans and has several projects under execution to raise its steelmaking capacity from 27mt to 37mt. However, its current net debt levels at Rs 70bn constrain its ability to bid beyond reasonable levels.

**AMNS:** Made an entry into India through its very aggressive bidding for erstwhile Essar Steel's plant at Hazira, Gujarat. Has outlined plans to increase its India steelmaking capacity by 75% to 15mt by 1HCY26. Marginal net debt of USD 2.2bn gives it significant leeway to go for aggressive bidding.

**Jindal Steel and Power:** Has reduced its net debt from Rs 455bn to Rs 72bn over the last 6 years through strong cash generation and divestment of non-core assets. It is currently expanding its steelmaking capacities at Angul, Odisha to raise its overall capacity to 15mt from 9mt by FY25 end. Low leverage makes JSP a serious bidder.

Essar Steel was forced to exit its India steelmaking business through the bankruptcy code proceedings and would make a fresh start. Adani Enterprises would likely be reassessing its overall business strategy in the wake of concerns over corporate governance and the cancellation of FPO at Adani Enterprises.

**Valuations:** We have made several assumptions with respect to currency rates, raw material prices, and steel prices and arrived at various scenarios (refer to exhibit 2). We believe, the plant would be profitable due to its proximity to raw materials and low manpower costs. Also, there is a historic benchmark of USD 1.1bn per 1mt of steelmaking capacity, which is the average for the 15mt of steelmaking capacities that changed hands during the NCLT auctions during FY17-19. The fact that NMDC would be retaining a 10% stake is no hindrance in our view. Vedanta (BUY) acquired Hindustan Zinc (BUY) in FY2002 and has been able to ramp up capacities by 5x, and GoI continued to retain its 29% stake. Hindustan Zinc (BUY) has since delivered 178x (incl. dividend) returns at a CAGR of 28% over the last 21 years.

**Rahul Jain**  
rahuljain@systematixgroup.in  
+91 22 6704 8066

**Shweta Dikshit**  
shwetadikshit@systematixgroup.in  
+91 22 6704 8042

**Exhibit 1: NMDC Steel**

No of shares	(Bn)	2.9	
Shares offered for sale	(%)	50.8	
No of shares offered	(Bn)	1.5	
Open offer required	(Bn)	0.8	
<b>Total shares to be acquired</b>		<b>2.25</b>	
<b>Shareholding post acquisition</b>			
Acquirer		2.25	77%
NMDC		0.29	10%
Public		0.39	13%

Source: Company, Systematix Institutional Research

**Exhibit 2: Proforma Financials - NMDC Steel**

		<b>FY24</b>	<b>FY25</b>	<b>FY26</b>	<b>FY27</b>	<b>FY28</b>	<b>FY29</b>	<b>FY30</b>
USD:INR		82.0	83.0	84.0	85.0	86.0	87.0	88.0
<b>Sales volumes</b>	<b>(Mt)</b>	<b>1.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
NSR	(USD/t)	650.0	663.0	676.3	689.8	703.6	717.7	732.0
RM	(USD/t)	394.8	396.7	398.6	400.6	402.6	404.7	406.8
Iron Ore	(USD/t)	94.8	96.7	98.6	100.6	102.6	104.7	106.8
Coking coal	(USD/t)	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Others	(USD/t)	150.0	100.0	105.0	110.3	115.8	121.6	127.6
EBITDA/t	(USD/t)	105.2	166.3	172.6	178.9	185.2	191.4	197.6
EBITDA	(USD mn)	105.2	498.9	517.8	536.8	1,111.1	1,148.5	1,185.6
EBITDA	(Rs bn)	8.6	41.4	43.5	45.6	95.6	99.9	104.3
Depreciation	(Rs bn)	11.0	11.0	11.0	11.0	20.0	20.0	20.0
Interest	(Rs bn)	5.0	2.5	-	-	9.0	4.5	-
PBT	(Rs bn)	(7.4)	27.9	32.5	34.6	66.5	75.4	84.3
Tax	(Rs bn)	(1.8)	5.1	8.1	8.7	16.6	18.8	21.1
PAT	(Rs bn)	(5.5)	22.8	24.4	26.0	49.9	56.5	63.2
EPS	(Rs)		7.8	8.3	8.9	17.0	19.3	21.6
CEPS	(Rs)	1.9	11.5	12.1	12.6	23.9	26.1	28.4
BV	(Rs)	61.4	72.9	85.0	97.6	121.5	147.6	176.0
NPV	(Rs)	61.76						
Discount rate @ 14%								
<b>NPV after adding terminal value</b>								
Terminal value @ 8X PE		-	-	-	-	-	-	172.6
Terminal value	(Rs)	68.98						
<b>Total Value</b>	<b>(Rs)</b>	<b>130.74</b>						
Implied CAGR at CMP		22%						

Source: Company, Systematix Institutional Research

**Exhibit 3: Cash flow statement**

(Rs bn)	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Cash from operations	10.5	36.3	35.4	37.0	78.9	81.1	83.3
Maintenance capex	(1.6)	(5.0)	(5.0)	(5.1)	(10.3)	(10.4)	(10.6)
WC	-	-	-	-	(30.0)	-	-
Cash from investing	-	-	-	-	(180.6)	-	-
Opening cash	(50.0)	(41.2)	(9.9)	20.5	52.3	(89.7)	(19.0)
Change in cash	8.8	31.3	30.3	31.9	(142.0)	70.6	72.7
closing cash	(41.2)	(9.9)	20.5	52.3	(89.7)	(19.0)	53.7

Source: Company, Systematix Institutional Research

**Exhibit 4: Key ratios and financial metrics**

		FY24	FY25	FY26	FY27	FY28	FY29	FY30
<b>Valuation</b>								
<b>Scenario 1 - EV at Stock price = 30</b>	(Rs bn)	137.9	112.9	87.9	87.9	177.9	132.9	87.9
EV/EBITDA		16.0	2.7	2.0	1.9	1.9	1.3	0.8
P/B		0.5	0.4	0.4	0.3	0.2	0.2	0.2
PE		-	3.9	3.6	3.4	1.8	1.6	1.4
<b>Scenario 2 - EV at Stock price = 50</b>	(Rs bn)	196.5	171.5	146.5	146.5	236.5	191.5	146.5
EV/EBITDA		22.8	4.1	3.4	3.2	2.5	1.9	1.4
P/B		0.8	0.7	0.6	0.5	0.4	0.3	0.3
PE		-	6.4	6.0	5.6	2.9	2.6	2.3

Source: Company, Systematix Institutional Research

**Exhibit 5: NMDC Steel Plant**



Source: Google Maps

## Institutional Equities Team

<b>Nikhil Khandelwal</b>	<b>Managing Director</b>	<b>+91-22-6704 8001</b>	<b>nikhil@systematixgroup.in</b>
--------------------------	--------------------------	-------------------------	----------------------------------

### Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Girija Ray	Cement	+91-22-6704 8098	girijaray@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Rahul Jain	Metals & Mining	+91-22-6704 8066	rahuljain@systematixgroup.in
Rakesh Kumar	Banking, Insurance	+91-22-6704 8041	rakeshkumar@systematixgroup.in
Sudeep Anand	Oil & Gas , Telecom, Logistics	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Aniket Shah	Banking, Insurance	+91-22-6704 8034	aniketshah@systematixgroup.in
Bezaad Deboo	Pharmaceuticals and Healthcare	+91-22-6704 8046	bezaaddeboo@systematixgroup.in
Chetan Mahadik	Consumer Staples & Discretionary	+91-22-6704 8091	chetanmahadik@systematixgroup.in
Hena Vora	NBFCs & Diversified Financials	+91-22-6704 8045	henavora@systematixgroup.in
Poorvi Banka	Auto, Auto Ancillaries	+91-22-6704 8063	poorvibanka@systematixgroup.in
Pranay Shah	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Prathmesh Kamath	Oil & Gas , Telecom, Logistics	+91-22-6704 8022	prathmeshkamath@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Shraddha Kapadia	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8019	shraddhakapadia@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Varun Gajaria	Midcaps	+91-22-6704 8081	varungajaria@systematixgroup.in

### Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Nirbhay Kumar Singh	Sales	+91-22-6704 8061	nirbhaysingh@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Shivang Agrawal	Sales	+91-22-6704 8068	shivangagrawal@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

### Corporate Access

Pearl Pillay	Sr. Associate	+91-22-6704 8088	pearlpillay@systematixgroup.in
--------------	---------------	------------------	--------------------------------

### Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

### Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

I, **Rahul Jain, Shweta Dikshit**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

## II. ISSUER SPECIFIC REGULATORY DISCLOSURES, unless specifically mentioned in point no. 9 below:

- The research analyst(s), SSSIL, associates or relatives do not have any financial interest in the company(ies) covered in this report.
- The research analyst(s), SSSIL, associates or relatives collectively do not hold more than 1% of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
- The research analyst(s), SSSIL, associates or relatives did not have any other material conflict of interest at the time of publication of this research report.
- The research analyst, SSSIL and its associates have not received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in this report in the past twelve months.
- The research analyst, SSSIL or its associates have not managed or co-managed a private or public offering of securities for the company(ies) covered in this report in the previous twelve months.
- SSSIL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party in connection with this research report.
- The research analyst has not served as an officer, director or employee of the company(ies) covered in this research report.
- The research analyst and SSSIL have not been engaged in market making activity for the company(ies) covered in this research report.
- Details of SSSIL, research analyst and its associates pertaining to the companies covered in this research report:

Sr. No.	Particulars	Yes / No.
1	Whether compensation was received from the company(ies) covered in the research report in the past 12 months for investment banking transaction by SSSIL.	No
2	Whether research analyst, SSSIL or its associates and relatives collectively hold more than 1% of the company(ies) covered in the research report.	No
3	Whether compensation has been received by SSSIL or its associates from the company(ies) covered in the research report.	No
4	Whether SSSIL or its affiliates have managed or co-managed a private or public offering of securities for the company(ies) covered in the research report in the previous twelve months.	No
5	Whether research analyst, SSSIL or associates have received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in the research report in the last twelve months.	No

- There is no material disciplinary action taken by any regulatory authority that impacts the equity research analysis activities.

## STOCK RATINGS

**BUY (B):** The stock's total return is expected to exceed 15% over the next 12 months.

**HOLD (H):** The stock's total return is expected to be within -15% to +15% over the next 12 months.

**SELL (S):** The stock's total return is expected to give negative returns of more than 15% over the next 12 months.

**NOT RATED (NR):** The analyst has no recommendation on the stock under review.

## INDUSTRY VIEWS

**ATTRACTIVE (AT):** Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.

**NEUTRAL (NL):** Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.

**CAUTIOUS (CS):** Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

## III. DISCLAIMER

The information and opinions contained herein have been compiled or arrived at based on the information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy completeness or correctness.

This document is for information purposes only. This report is based on information that we consider reliable; we do not represent that it is accurate or complete and one should exercise due caution while acting on it. Description of any company(ies) or its/their securities mentioned herein are not complete and this document is not and should not be construed as an offer or solicitation of an offer to buy or sell any securities or other financial instruments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments are also subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject to SSSIL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially USA, the same may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United States (to U.S. persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. Any unauthorized use, duplication, redistribution or

disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

SSSIL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, SSSIL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that they cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by SSSIL; however, compensation may relate to the revenues of the Systematix Group as a whole, of which investment banking, sales and trading are a part. Research analysts and sales persons of SSSIL may provide important inputs to its affiliated company(ies).

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations which could have an adverse effect on their value or price or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk. SSSIL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on the basis of this report including but not restricted to fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

SSSIL and its affiliates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell, the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential material conflict of interest with respect to any recommendation and related information and opinions. The views expressed are those of the analyst and the company may or may not subscribe to the views expressed therein.

SSSIL, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall SSSIL, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The company accepts no liability whatsoever for the actions of third parties. The report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of the company, the company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the company shall be at your own risk and the company shall have no liability arising out of, or in connection with, any such referenced website.

SSSIL will not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall SSSIL be liable for any damages, including without limitation, direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by SSSIL through this presentation.

**SSSIL or any of its other group companies or associates will not be responsible for any decisions taken on the basis of this report. Investors are advised to consult their investment and tax consultants before taking any investment decisions based on this report.**



**Systematix Shares and Stocks (India) Limited:**

**Registered and Corporate address:** The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 34600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | Investment Advisor SEBI Reg. No. INA000010414 | AMFI : ARN - 64917