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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

28 May 2025

NMDC

Earnings miss on high costs; better volumes can drive re-rating

NMDC reported 4QFY25 EBITDA of Rs 20.5bn (-2%/-14% YoY/QoQ), 16% below our estimate due to lower realizations, higher employee benefits expenses, and selling expenses. Higher selling and other expenses can be attributed to higher pellet exports, whereas employee benefits surged during the quarter due to actuarial valuations. Iron ore production and sales for the quarter were 13.3mt (flat YoY and QoQ), and 12.7mt (+1.3%/+6.1% YoY/QoQ), respectively. Realizations averaged Rs 5,007/t in 4Q, down 2.3%/6.6% YoY/QoQ, 7% below our estimate of Rs 5,389/t. EBITDA margin during the quarter was 29.3% compared to 36.1% in 3QFY25 and 32.4% in 4QFY24. Cost of production excl. selling expenses and royalty stood at Rs 1,492/t (+53.4%/+72.6% YoY/QoQ). Employee costs per ton increased to Rs 432/t this quarter versus Rs 368/t in 3QFY25.

FY25 performance: NMDC delivered sales of 44.4mt in FY25, 3% below our estimate and flat YoY. Revenue and EBITDA for the year were Rs 239bn (+12% YoY) and Rs 81bn (+12% YoY), respectively. EBITDA margin remained broadly flat in FY25. Realizations at Rs 5,135/t increased by 9% YoY in FY25. The company commenced pellet conversion from iron ore during the year and sold around 0.5mt pellets in the export market.

Valuation and view: NMDC reported flat production and sales during the year, behind its guidance of 47- 49 mt. As volume numbers have picked up in April, management aspires to deliver 55mt volumes this year, aligning 100% with its EC limit. We factor in 48mt/51.8mt volume sales in FY26/FY27 (versus 50.7mt/52.2mt earlier) while keeping realisations at the same level as FY25. The company has commenced pellet exports, which have notably contributed to the topline in 4Q. With Fe content of ~66-67%, NMDC expects to earn USD 30-40/t premium to global iron ore prices on its pellet export realisations. We factor in 2mt and 2.5mt pellet sales in FY26/FY27 versus management guidance of achieving 2.5-3mt pellet sales in FY26 itself. We revise our FY26/FY27 EBITDA estimates higher by 18%/24% on higher realisation assumptions and additional contribution from pellet export sales. We value NMDC at 5.7x FY27E EV/EBITDA with a revised target price of Rs 78/share, implying an upside of 9% from CMP. The company is progressing towards its 100mt capacity target with a revised estimated outlay of Rs 720bn versus Rs 500bn earlier. NMDC spent Rs 34bn in capex this year and expects over Rs 100bn in capex spending for the next two years.

Maintain HOLD.

Risks and re-rating levers: Weak global iron ore pricing is a key risk. Demonstration of superior volume growth can drive stock rerating.

Key highlights of the 4QFY25 earnings call

Guidance:

- NMDC aspires to achieve 55mt of iron ore production and sales in FY26, aligning with its full environmental clearance (EC) capacity.
- The company plans to ramp up pellet sales from 0.5mt in FY25 to 2.5–3mt in FY26, with a strategic shift toward high-grade (66–67%) DRI-grade pellets. This product mix upgrade is expected to enhance realizations, capturing a premium of USD 30-40/t. Increased pellet sales would result in a corresponding rise selling expenses, as per the management.

RESULT UPDATE

Sector: Metals

Rating: HOLD

CMP: Rs 71

Target Price: Rs 78

Stock Info

Sensex/Nifty	81,312/ 24,752
Bloomberg	NMDC IN
Equity shares (mn)	8,792
52-wk High/Low	Rs 92/60
Face value	Rs 1
M-Cap	Rs 623bn/USD 7.3bn

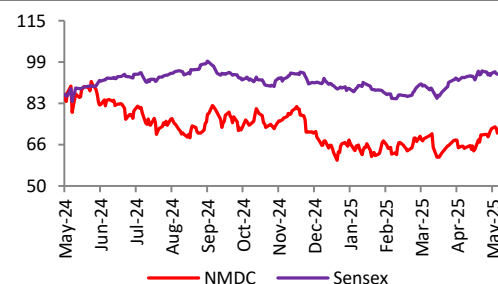
Financial Snapshot (Rs bn)

Y/E Mar	FY25	FY26E	FY27E
Sales	239.1	282.6	308.2
EBITDA	81.5	97.9	108.1
PAT	65.4	69.6	71.4
EPS (Rs)	7.4	7.9	8.1
PE (x)	9.5	9.0	8.7
EV/EBITDA (x)	6.9	5.7	5.2
RoE (%)	24%	22%	19%
RoCE (%)	26%	27%	24%
Dividend yield (%)	4.7%	2.2%	2.3%

Shareholding Pattern (%)

	Mar'25	Dec'24	Sep'24
Promoter	60.8	60.8	60.8
–Pledged	0	0.0	0.0
FII	11.72	12.1	12.6
DII	15.12	14.5	14.1
Others	12.4	12.6	12.5

Stock Performance (1-year)



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Project Updates

- NMDC has acquired 1,167 acres of land from RINL at a consideration of Rs 15bn. The asset is in proximity to the Gangavaram port in Vizag, Andhra Pradesh, and strategically fits in with NMDC's 100mt capacity target. Of the total land, around 1/3rd would be used to establish a green area, with another 250 to 300 acres would be used for setting up a blending yard, and approximately 200 to 300 acres would be used to set up a pellet plant at the terminating point of the Kirandul – Nagarnar slurry pipeline. Residual land would be used for future projects and expansions.
- KK line doubling – only two sections of around 20km and 31km are left, of the total 150km; expected to be completed by the end of FY26.
- NMDC is actively evaluating overseas assets and has established a Dubai office to coordinate opportunities, particularly in Africa. Gold mining operations at Legacy Iron Ore, previously loss-making, have now stabilized and are expected to turn profitable in FY26.

Capex progress

Of the Rs 720bn capex plan, around Rs 280bn is already sanctioned for various projects, with another Rs 120bn expected to be sanctioned by July. Projects worth Rs 80bn are already in progress. Two slurry pipeline projects (Nagarnar to Vizag and Kirandul to Bachel) at an estimated outlay of Rs 320bn are currently on the drawing board. The management expects to incur upwards of Rs 100bn capex in FY27 and FY28.

Trying index-based pricing mechanism

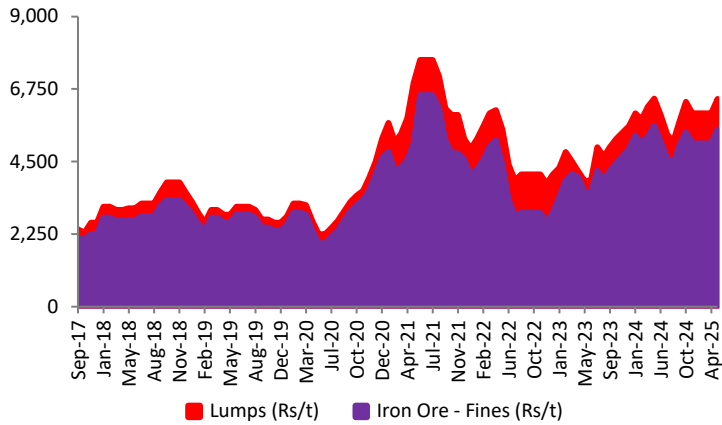
The company is currently trying and evaluating the implementation of an index-based pricing mechanism to enable more dynamic, data-driven revisions, as it expands its product portfolio with complex and blended products, and aims to expand sales beyond mine-heads to multiple depots. The management expects domestic capex to be funded through internal accruals, backed by strong cash flows, and might take a call on leveraging the balance sheet for overseas expansions, if opportunities emerge at a later stage.

Exhibit 1: Quarterly snapshot

(Rs bn)	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25
Net revenues	65	54	49	66	70
<i>YoY change (%)</i>					8%
<i>QoQ change (%)</i>					7%
Expenditure	44	31	35	42	50
EBITDA	21	23	14	24	21
<i>YoY change (%)</i>					-2%
<i>QoQ change (%)</i>					-14%
EBITDA Margin (%)	32	43	28	36	29
Adj. PAT	14	20	12	19	15
<i>YoY change (%)</i>					3%
<i>QoQ change (%)</i>					-22%

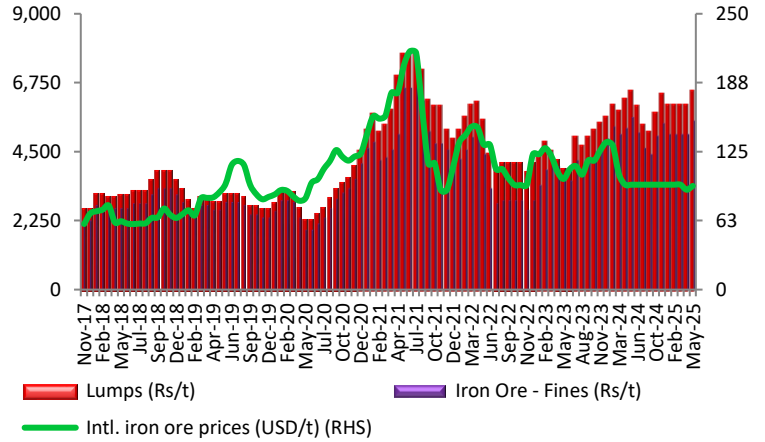
Source: Systematix Institutional Research

Exhibit 2: NMDC's realisation trend for lumps and fines



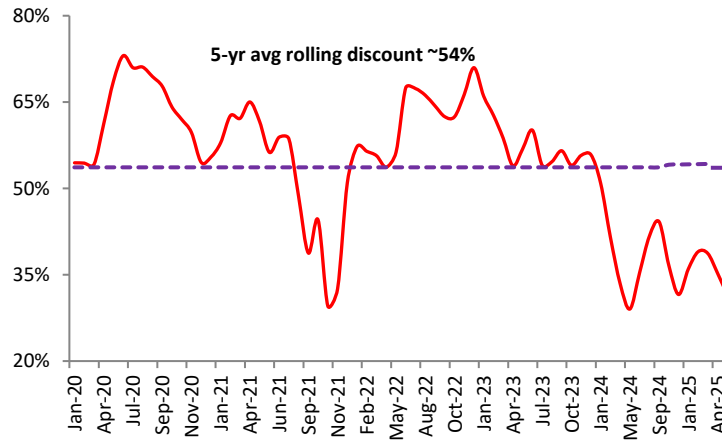
Source: Company, Systematix Institutional Research

Exhibit 3: Comparison with benchmark iron ore prices



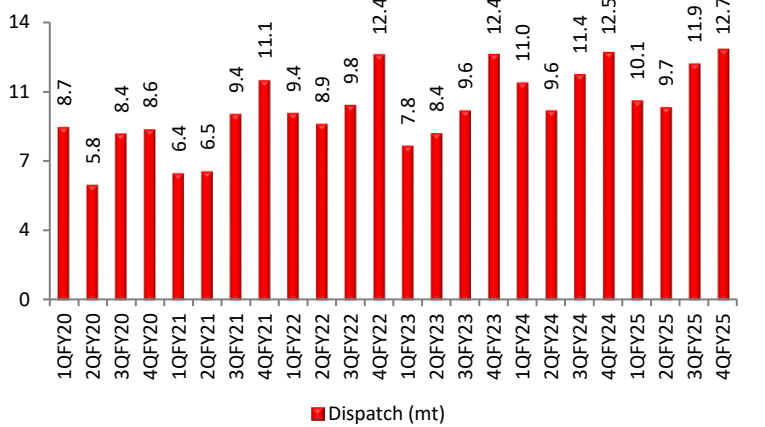
Source: Company, Systematix Institutional Research

Exhibit 4: Discount to international prices has contracted recently



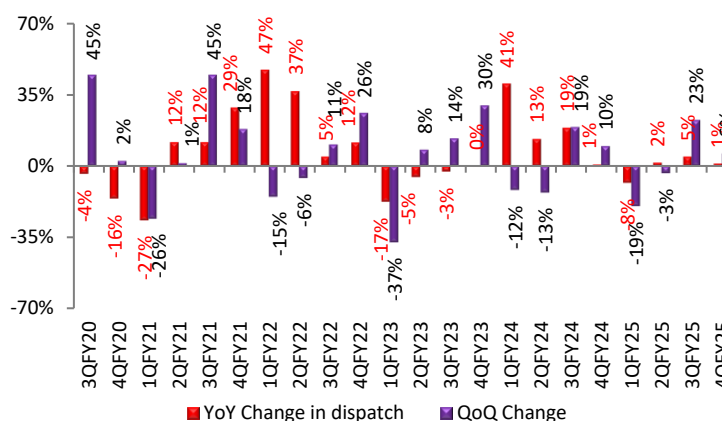
Source: Company, Systematix Institutional Research

Exhibit 5: Dispatch volumes trend higher sequentially



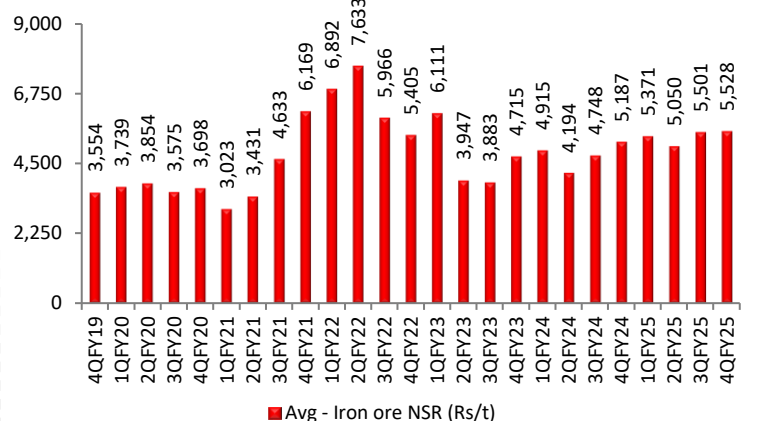
Source: Company, Systematix Institutional Research

Exhibit 6: YoY/QoQ change in quarterly dispatch volumes



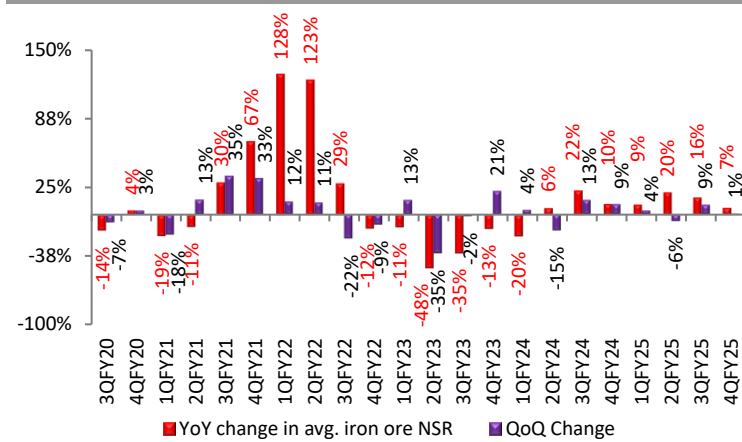
Source: Company, Systematix Institutional Research

Exhibit 7: Quarterly average NSR trend



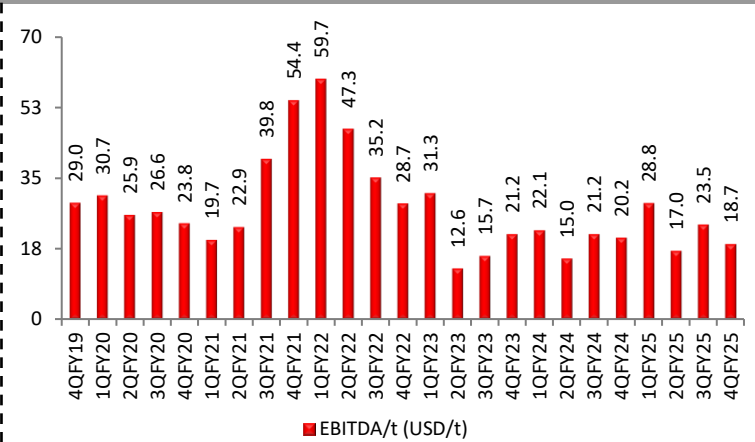
Source: Company, Systematix Institutional Research

Exhibit 8: YoY/QoQ change in quarterly average NSR



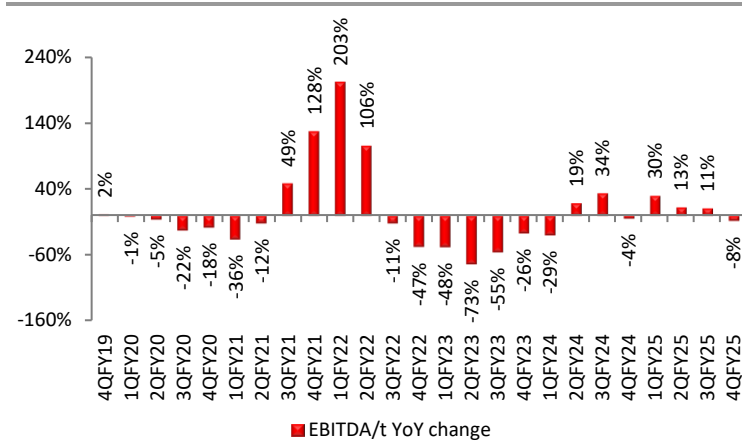
Source: Company, Systematix Institutional Research

Exhibit 9: Quarterly EBITDA/t



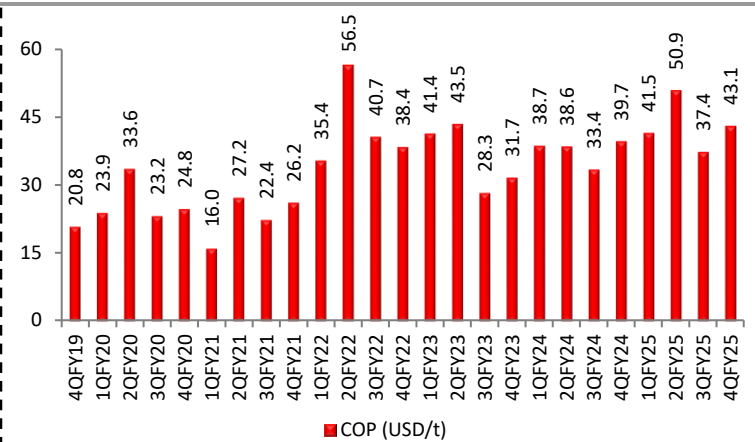
Source: Company, Systematix Institutional Research

Exhibit 10: YoY change in quarterly EBITDA/t



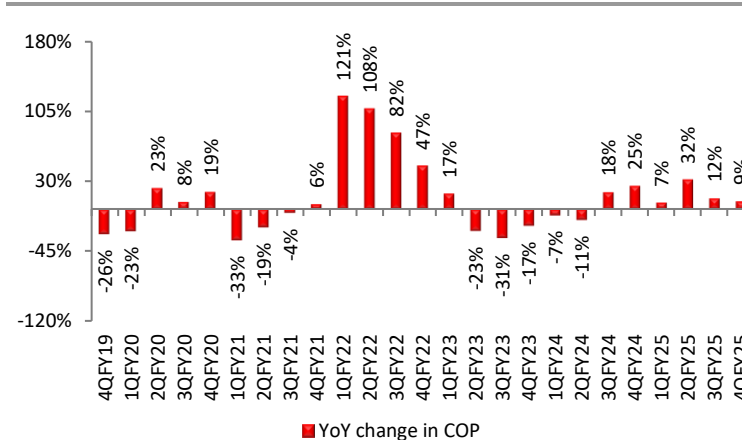
Source: Company, Systematix Institutional Research

Exhibit 11: Cost of production



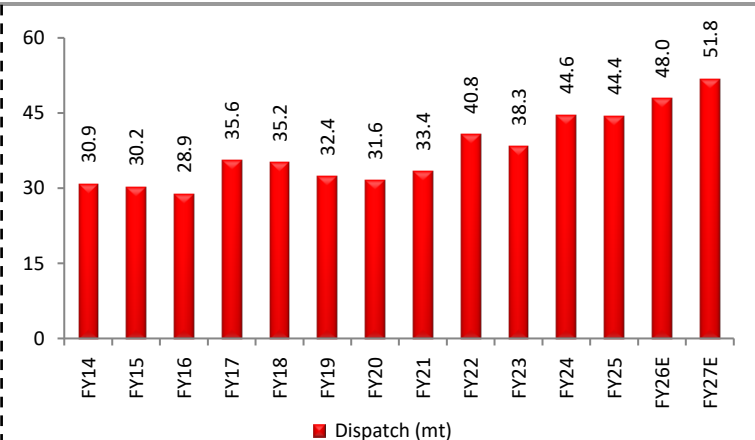
Source: Company, Systematix Institutional Research

Exhibit 12: YoY change in CoP



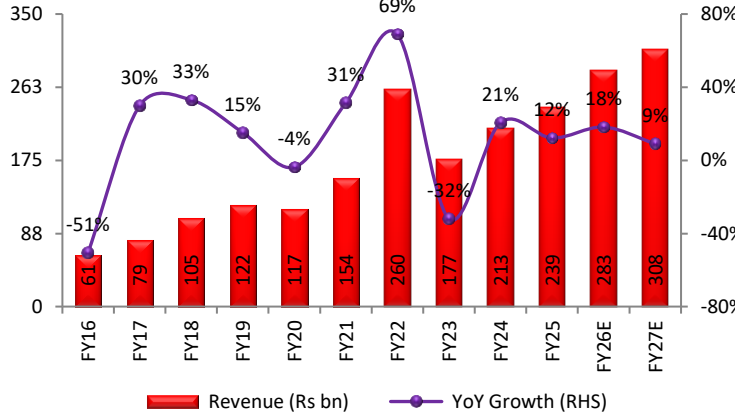
Source: Company, Systematix Institutional Research

Exhibit 13: Annual dispatch expected to pick up



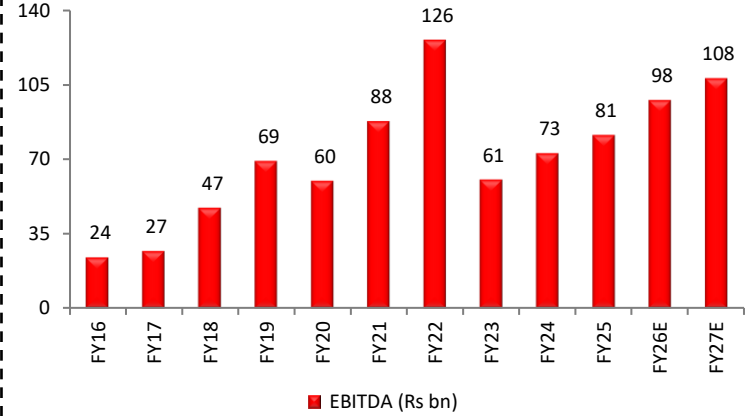
Source: Company, Systematix Institutional Research

Exhibit 14: Revenue growth in line with volumes



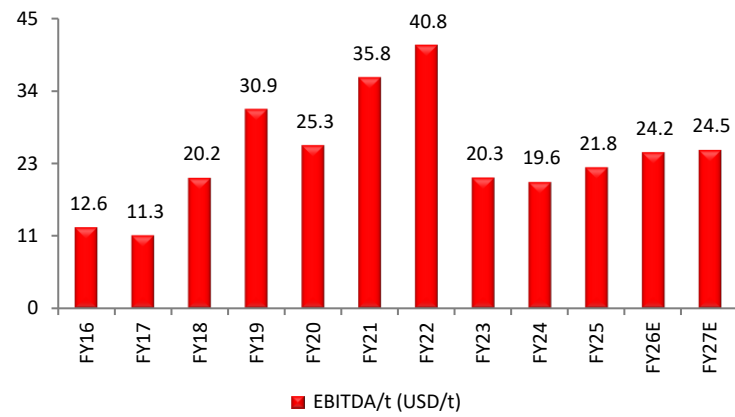
Source: Company, Systematix Institutional Research

Exhibit 15: EBITDA trend



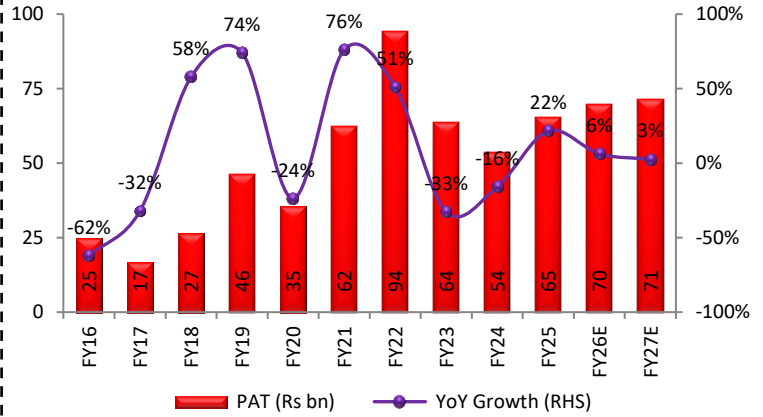
Source: Company, Systematix Institutional Research

Exhibit 16: EBITDA/t



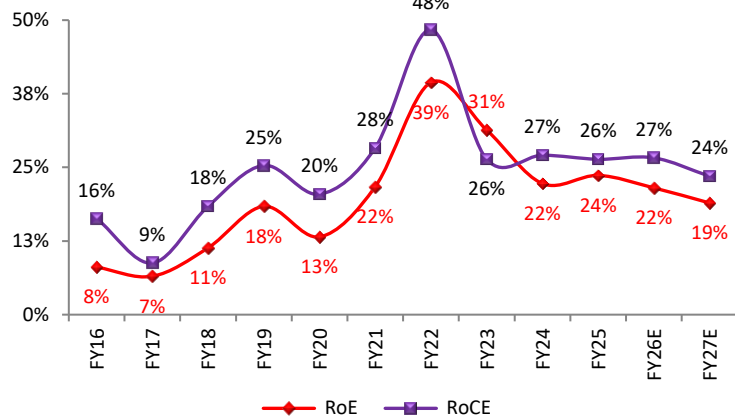
Source: Company, Systematix Institutional Research

Exhibit 17: Profit after tax



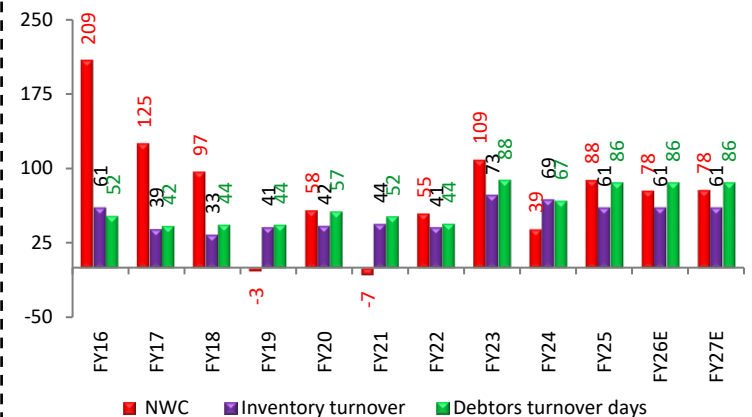
Source: Company, Systematix Institutional Research

Exhibit 18: RoE and RoCE trend

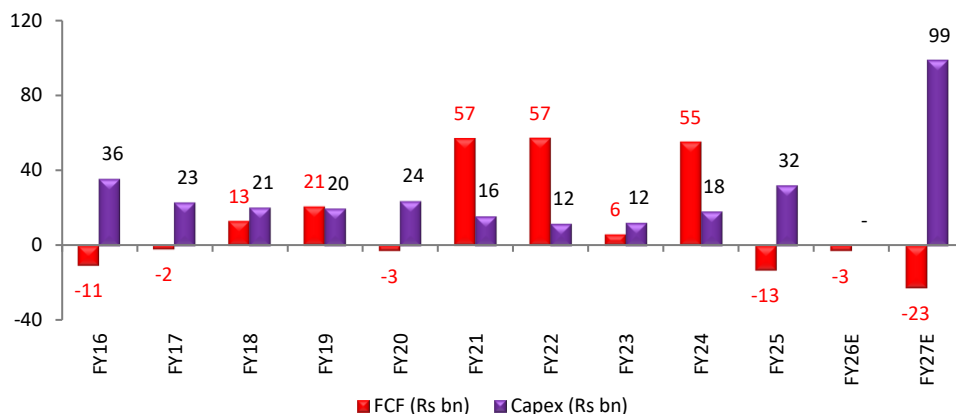


Source: Company, Systematix Institutional Research

Exhibit 19: Working capital cycle



Source: Company, Systematix Institutional Research

Exhibit 20: FCF turns negative with rising capex

Source: Company, Systematix Institutional Research

Exhibit 21: Key assumptions

	FY22	FY23	FY24	FY25	FY26E	FY27E
Iron ore production volume (mt)	41	38	45	44	48	52
Iron ore sales volume (mt)	41	38	45	44	48	52
Avg. iron ore realization (USD/t)	79	48	54	64	64	63
Avg. iron ore realization (Rs/t) (Incl. Royalty)	5,875	3,781	4,543	5,368	5,359	5,359
EBITDA/tonne (Rs/t)	3,096	1,582	1,634	1,834	2,041	2,087
EBITDA/tonne (USD/t)	42	20	20	22	24	25
Cost/tonne (USD/t)	37	28	35	42	39	39

Source: Systematix Institutional Research

Exhibit 22: NMDC Valuation: EV/EBITDA method (FY27E)

	Discount (%)	Particulars (Rs bn)	Multiple (x)	Ent. value (Rs bn)	Per share (Rs)
EBITDA		108.1	5.7	620	71
Net cash (Current)		63	1.00	63	7
Target price per share				78	

Source: Systematix Institutional Research

Exhibit 23: Revised estimates

(Rs bn)	Previous		Revised		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	260	268	283	308	9%	15%
EBITDA	83	87	98	108	18%	24%
PAT	56	56	70	71	24%	28%
Avg. iron ore realization (USD/t)	61	63	64	63	4%	0%
Iron ore sales volume (mt)	50.7	52.2	48.0	51.8	-5%	-1%

Source: Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs bn)	FY23	FY24	FY25	FY26E	FY27E
Net Sales	177	213	239	283	308
Expenditure	116	140	158	185	200
EBITDA	61	73	81	98	108
Depreciation	3	4	4	6	10
EBIT	57	69	77	92	98
Interest and other income	7	13	14	5	1
Exceptionals	(12)	3	-	-	-
PBT	76	80	91	97	99
Taxes	21	24	26	27	28
Adj. PAT	64	54	65	70	71
No of shares	2,931	2,931	8,792	8,792	8,792
Adj. EPS	21.7	18.3	7.4	7.9	8.1

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY23	FY24	FY25	FY26E	FY27E
Equity capital	3	3	9	9	9
Reserves and surplus	223	254	288	341	395
Net worth	226	257	297	350	404
Debt	21	34	38	48	58
Other liabilities	23	33	35	35	35
Total liabilities and equity	300	357	410	487	583
Inventories	27	28	26	34	36
Debtors	44	35	77	49	51
Cash and bank	71	124	101	106	107
Loans and advances	5	3	3	3	3
Total current assets	176	213	234	218	222
Net block	30	25	26	62	92
CWIP	20	32	47	104	167
Investments	9	10	10	10	10
Current liabilities	59	84	97	111	123
Provisions	14	16	16	16	16
Net deferred tax	3	3	3	3	(7)
Other assets	21	33	39	42	42
Total assets	300	357	410	487	583

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY23	FY24	FY25	FY26E	FY27E
PBT	76	80	91	97	99
Add: Depreciation	3	4	4	6	10
Add: Interest	(5)	(10)	(12)	(5)	(1)
Less: taxes paid	(21)	(18)	(25)	(27)	(28)
Add: Other adjustments	1	1	2	0	0
Less: WC changes	(36)	19	(43)	25	(1)
Total OCF	18	74	19	96	79
OCF w/o WC changes	55	55	62	71	80
Capital expenditure	(12)	(18)	(32)	(99)	(102)
Change in investments	0	(0)	(0)	-	-
Interest/Dividend Recd	6	10	12	5	1
Total ICF	2	(61)	3	(94)	(101)
Free Cash Flows	6	55	(13)	(3)	(23)
Dividend payment	(11)	(25)	(25)	(17)	(17)
Change in borrowings	(1)	(0)	(2)	-	-
Buyback	-	-	-	-	-
Total Financing CF	(21)	(13)	(22)	3	23
Net change in cash	(0)	0	(0)	5	1
Opening cash & CE	1	1	1	1	6
Closing cash & CE	1	1	1	6	7

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25	FY26E	FY27E
YoY growth in Revenue	-32%	21%	12%	18%	9%
YoY growth in EBITDA	-52%	20%	12%	20%	10%
YoY growth in Net income	-33%	-16%	22%	6%	3%
EBITDA margin	34%	34%	34%	35%	35%
PAT margin	36%	25%	27%	25%	23%
ROE	31%	22%	24%	22%	19%
ROCE	26%	27%	26%	27%	24%
Net debt to equity (x)	(0.22)	(0.35)	(0.21)	(0.17)	(0.12)
Per share numbers (Rs)					
Reported earnings	21.7	18.3	7.4	7.9	8.1
Dividend	6.6	6.6	3.3	1.6	1.6
Free cash	2.0	18.9	(1.5)	(0.3)	(2.6)
Book value	77	88	34	40	46
Valuations (x)					
P/E	3.3	3.9	9.5	9.0	8.7
EV/EBITDA	9.3	7.7	6.9	5.7	5.2
EV to sales	3.2	2.6	2.3	2.0	1.8
P/B	2.8	2.4	2.1	1.8	1.5

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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