NMDC Ltd — Aug 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline / Beat on Profitability **One-line:** Strong realizations and cost control offset volume declines, but the long-term thesis now hinges on management's ability to recover potential multi-billion rupee retrospective tax levies from a stagnant customer base.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	Volume miss (down 14% YoY) offset by realization beat (+9% YoY).	□
Earnings Quality	High	Growth driven by core domestic realizations and significant operational expense reduction (10% YoY).	□
Guidance Confidence	Neutral	50 MT target maintained despite 1 MT YTD shortfall; requires aggressive H2 catch-up.	□
Management Credibility	Strong	Transparent on tax liabilities and Steel Plant (NSL) bottleneck specifics.	□
Business Quality Signal	Stable	Core mining margins remain elite (51% EBITDA); Steel plant losses are narrowing.	□
Key Q&A Exchange	Q#1, 5, 8 (SC Tax)	Management insists retrospective mining taxes are recoverable from long-standing customers.	□
The Street's Primary Anxiety	Retrospective Tax	Analysts fear massive one-time hits from the SC ruling on mining levies.	□
Capital Cycle Stage	Investment	Significant capex in slurry pipelines and pellet plants (mid-2026 commissioning).	□
Margin Trajectory	Improving	EBITDA margins expanded to 51% (vs 42% YoY) due to pricing and expense control.	□
Pricing Power	Stable	Realizations followed market; two price cuts taken in Q2 FY25 to stay competitive.	□
FCF Conversion	Distorted	Cash trapped in □2,500 Cr receivable from NMDC Steel (NSL).	□
Competitive Moat	Stable	Lowest-cost producer in India; logistics (Bailadila) remains the primary moat.	□
Balance Sheet Strength	Strong	Net Cash position; manageable liabilities even if tax hit occurs.	□
Working Capital	Deteriorating	Receivables from NSL and monitoring committee remain high/ unresolved.	□
Mgmt Guidance Track Record	Reliable	Historically achieves 89-90% of EC capacity; 50MT is a stretch but possible.	□
Key Vulnerability	Regulatory/ Legal	Potential □2,500 Cr+ liability for Karnataka Forest Development Tax (FDT).	□
Management Tone	Confident	Posture was reassuring regarding the ability to pass through tax costs.	□

Sentiment: □Neutral

Key Takeaways * **Positives:** EBITDA margins surged to 51% as realization grew 9% YoY while total expenses fell 10%. NMDC Steel (NSL) has halved its losses and is approaching monthly EBITDA breakeven, with a clear path to 2-rig daily dispatches by mid-September. * **Negatives:** Production volumes fell 14% YoY due to extreme weather (254mm rain in 3 hours at Kirandul) and a "go-slow" in May. The Supreme Court ruling on retrospective mining taxes creates a potential □2,500 Cr overhang for Karnataka operations, though management claims this is recoverable from customers. * **The Street's Concern:** Analysts are skeptical about the ease of recovering decade-old tax dues from customers, even if they are "long-term." Management's response is that pricing contracts explicitly exclude new/retrospective levies, making them a pass-through. * **Forward Watchpoint:** Monitor the "September catch-up" in volumes and the transition to 2-rig dispatches at the steel plant; any delay here will jeopardize the FY25 profit breakeven target for NSL.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS *PPT primary source; Concall used for commentary.*

Metric	Current Qtr (Q1 FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume (MT)	9.19	↓ 14.1%	↓ 30.6%	↓	Driven by May "go-slow" and extreme rainfall in Kirandul (254mm in 3 hrs).
Sales Volume (MT)	10.07	↓ 8.2%	↓ 19.7%	↓	Sales outperformed production due to inventory liquidation.
Realization/MT (□)	5,304	↑ 9.3%	↑ 3.5%	↑	Growth driven by realization/pricing increases (Volume was a detractor).
Revenue (□Cr)	5,378	→ 0.3%	↓ 16.9%	↓	Flat YoY as higher pricing perfectly offset volume declines.
EBITDA (□Cr)	2,725	↑ 19.7%	↑ 6.7%	↑	Exceptional margin expansion due to 10% reduction in total expenses.
EBITDA Margin %	51.0%	↑ 900 bps	↑ 1200 bps	↑	Expansion driven by lower royalty/levies and operational efficiency.
PBT (□Cr)	2,628	↑ 19.4%	↑ 7.9%	↑	Benefited from 26-32% growth in other/interest income.
Net Debt / (Cash) (□Cr)	(Net Cash)	First entry	First entry	→	Strong balance sheet; no specific debt figure in PPT.
Utilization (%)	68.6%	↓ 11%	↓ 30%	↓	Calculated vs 53.6 MTPA EC capacity (Q1 usually lower due to monsoon).
Operational Exp (□ Cr)	1,132	↑ 4.9%	↓ 35.0%	↑	Managed costs well despite inflationary environment.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Iron Ore	5,342	→ 0%	~51%	→	Inline	Core driver; 100% of profitability.
Pellet & Others	36	↓ 54%	Negative	↓	Below	Lost □57 Cr total (Panna: □21 Cr, Pellet: □12 Cr, Sponge: □3 Cr).
NMDC Steel (NSL)*	N/A	N/A	Narrowing	↑	N/A	Hot metal 1.5 MT in year 1; losses halved YoY.
**NSL is a separate listed entity but managed/supported by NMDC.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Volume	50 MT Production for FY25.	Needs 13.6 MT/qtr for rest of year (Historical Q1-Q4 avg is ~11 MT).	Delivered 45 MT in FY24 (Goal was higher).	**High** (Weather/ logistics).
Guidance	NSL Breakeven	Monthly breakeven in Q2; Annual breakeven FY25.	Needs 150 KT/month production (Current run-rate 120 KT).	Improved: Losses halved since commissioning.	**Medium** (Dispatch rigs).
Guidance	Capex Plan	□2,200 Cr for FY25.	Needs □1,800 Cr spend in remaining 7 months.	Spent □384 Cr by Aug; pickup expected in H2.	**Low**.
Strategy	SC Tax Recovery	100% pass-through to customers for retrospective dues.	N/A	New claim; hinges on contract legalities.	**High** (Customer pushback).
Strategy	Slurry Pipeline	Commissioning by mid-calendar year 2026.	58km remaining to be laid.	Delayed from Dec '25 to mid-'26 due to fuel-type redesign.	**Medium**.

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Pramod Dangi, Unifi	SC Tax	Financials	"Is there any demand on us as of today... how the recovery part will work?"	Management identified a □21 Cr liability for Panna and an estimated □2,500 Cr gross for Karnataka (FDT), which they intend to recover from existing customers. This signals a potential □2,500 Cr working capital drag or legal overhang if customers contest the retrospective pass-through.	None	4.0	Quantified liability
2	4.0	Kirtan Mehta, BOB Cap	NSL Run-rate	Overview	"Were we able to deliver on [the 120 KT monthly run rate] during the last quarter?"	Management confirmed 120 KT was reached in May/June but July dipped due to maintenance and machine damage. Reaching the 150 KT breakeven target depends entirely on upgrading to 2-rig daily dispatches by mid-September.	None	4.5	Specific timeline
3	3.5	Shweta Dixit, Systematix	Future Levies	Macro	"Can there be additional levies that can be imposed which can be incorporated in the current	Management declined to speculate on future state government actions following the SC ruling. This	Future state moves	2.0	Properly hedged

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
					royalty structure?"	leaves a significant "unknown-unknown" regarding the long-term tax floor for the mining sector.			
4	4.5	Pallav Agarwal, Antique	NSL Dues	Financials	"When do we expect this INR2,200 crores of money coming back to NMDC?"	NSL paid □100 Cr last month, the first payment since operations began; full liquidation is targeted within 12 months. This is a critical liquidity trigger for NMDC's own capex funding.	None	3.5	Directional
5	4.0	Pallav Agarwal, Antique	Monitoring Comm.	Financials	"Receiveable from the Karnataka Monitoring Committee... close to INR900,000 crores [sic - □1,890 Cr]?"	A review petition is pending in the Supreme Court for □1,890 Cr after a March rejection; tax has already been paid on this. Success here would be a pure cash windfall with no P&L impact.	None	4.0	Legal status clear
6	4.0	Shashikant, State Street	NSL Sale	Strategy	"Will [the sale of NSL] have any impact on your financials?"	Management clarified that Bailadila will remain the preferred source for NSL regardless of ownership due to logistics (131km distance). This de-risks the	None	5.0	Logically sound

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						captive-to-merchant transition for the iron ore volumes.			
7	3.5	Kamlesh Jain, Lotus	Pricing	Financials	"Doesn't it make sense that we should stick to that particular old regime [exclusive of royalty]?"	Management argued that all-inclusive pricing is the industry standard (Odisha) and has zero net effect on NMDC since taxes are still remitted separately. This indicates no plans to revert the pricing structure despite tax volatility.	None	3.0	Consistent
8	4.0	Saket Kapoor, Kapoor & Co	Pricing Outlook	Financials	"What kind of... variations are we expecting in our realization for this quarter?"	After two price cuts totaling □1,000/ton in Q2, realizations are expected to drop from □5,304 to ~□4,304. This confirms a significant margin compression is coming in Q2 FY25.	None	4.5	Quantified drop
9	3.0	Saket Kapoor, Kapoor & Co	Loss-making units	Overview	"Losses on the Pellet and Other Minerals category... closer at INR57 crores?"	Losses were attributed to Panna (□21 Cr), Pellets (□12 Cr), and non-operational Sponge units (□3 Cr). Management is "taking	Turnaround time	2.0	Vague

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
						steps" but offered no specific timeline for these minor segments to turn profitable.			
10	3.0	Abhishek Poddar, HDFC MF	Policy Change	Macro	"What if the MMDR Act is amended... to limit the state's ability?"	Management refused to speculate on hypothetical central government legislative responses. This highlights the high degree of regulatory uncertainty currently baked into the stock.	Hypotheticals	1.0	Evasive (rightly)
11	4.0	Kirtan Mehta, BOB Cap	Slurry Pipeline	Capex	"Update on the status of the slurry pipeline... time line for delivery?"	73km of 131km laid; commissioning pushed to mid-2026 due to redesign for dual-fuel arrangements. This 6-month delay impacts the long-term logistics cost-reduction thesis.	None	4.0	Clear delay signal
12	3.5	Tushar Chaudhari, PL	Capacity	Overview	"For FY '26, how much should be our capacity?"	Capacity is 53.6 MTPA; management believes 54 MTPA is achievable in FY26 using 5-star mine automatic EC extensions. This sets the ceiling for volume growth	None	4.0	Verifiable

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
						over the next 24 months.			

PATTERN FLAGS & SENTIMENT * **The Retrospective Tax Anxiety:** Analysts repeatedly probed the ₹2,500 Cr Karnataka FDT liability. Management remained steadfast that these costs are "recoverable" because customers are long-term and contracts are clear. However, the legal and operational friction of collecting billions from steel mills for ore consumed 15 years ago remains the primary unresolved overhang. * **NSL Execution:** Management's tone regarding the steel plant has shifted from "commissioning" to "efficiency." The focus on "rig-dispatch" as the final hurdle suggests they have solved the metallurgical issues and are now tackling basic logistics. * **Analyst Sentiment Verdict:** Analysts were **skeptical but appreciative** of the transparency. Friction was highest regarding the ₹1,000/ton price cut in Q2 and the feasibility of the 50MT target. Credibility remains stable as management provided specific, quantified liabilities rather than dodging the SC judgment's impact.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (PPT) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Slurry Pipeline | Commissioning (Implicitly 2025) | Mid-2026 Completion | ~6 month delay due to redesign. | Delayed logistics cost savings. | | Volume | 50 MT Target | Currently 1 MT+ shortfall | Requires record H2 performance to hit. | High risk of a 5-10% volume miss. |

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — treat as baseline quarter.

What Changed	Prior Quarter	This Quarter	Direction
SC Mining Tax Ruling	Not applicable	Potential ₹2,500 Cr gross liability for Karnataka.	↓ (Overhang)
Realization/Pricing	Not applicable	Q1 realization peaked at ₹5,304/T; Q2 guided down.	↓ (Normalization)
NSL Cash Flow	Not applicable	First ₹100 Cr repayment received from Steel Plant.	↑ (Positive)
Slurry Pipeline Timeline	Not applicable	Commissioning delayed to mid-2026.	↓ (Execution Delay)
EBITDA Margin	Not applicable	Expanded to 51% (Record levels).	↑ (Improving)

IMPLIED RUN-RATE CHECK: To hit the 50 MT production target, NMDC must produce ~13.6 MT per quarter for the next three quarters. Historically, NMDC has only crossed 13 MT in Q4. Hitting this target requires zero operational disruptions and an exceptionally dry Q2/Q3, which is **high risk** given the slow start.

EARNINGS QUALITY CHECK: CFO-to-PAT ratio was not provided in the Q1 snapshot, but the ₹2,500 Cr receivable from NSL and the ₹1,890 Cr pending from the monitoring committee indicate that a significant portion of "historical profit" remains un-monetized on the balance sheet.