NMDC Ltd — Feb 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Beat (Volume) / Inline (Earnings) **One-line:** NMDC is entering a transformative "harvesting" phase as record iron ore volumes coincide with the final stages of the Nagarnar Steel Plant (NISP) demerger, though statutory royalty premiums are now a structural drag on margins.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Record 9M production/sales; Q3 volumes up 11% YoY.	□
Earnings Quality	High (Core driven)	Volume growth offset realization cooling; NINL windfall pending.	□
Guidance Confidence	Strong	Concrete demerger filing; steel plant heating started.	□
Management Credibility	Strong	Met demerger filing timelines; delivering record output.	□
Business Quality Signal	Improving	Transitioning to a pure-play miner with zero future steel intent.	□
Key Q&A Exchange	Q4: Commissioning Rationale	Mgmt justified commissioning now to prevent asset decay.	□
The Street's Primary Anxiety	Demerger Listing Timelines	Fear of capital being trapped in the steel entity indefinitely.	□
Capital Cycle Stage	Harvesting (Mining) / Investment (Steel)	Mining FCF is high; Steel CAPEX is peaking/ ending.	□
Margin / Return Ratio Trajectory	Deteriorating	Margin hit by 22.5% premium royalty (□1,307 Cr in Q3).	□
Pricing Power	Stable	Domestic prices decoupled from global; □350 hike taken.	□
FCF Conversion & Quality	Strong	Cash balance at □9,000 Cr (Jan-end) despite high CAPEX.	□
Competitive Moat Signals	Stable	High-grade Bailadila ore remains the domestic benchmark.	□
Balance Sheet Strength	Strong	Net Cash of ~□9,000 Cr; debt being moved to steel entity.	□
Working Capital Efficiency	Stable	No major red flags in inventory/receivables mentioned.	□
Mgmt Guidance Track Record	Reliable	Historically conservative on volumes; now hitting peaks.	□
Key Vulnerability / Red Flag	Royalty Drag	Statutory premiums significantly dilute mining profitability.	□
Management Tone	Confident & Decisive	Assertive on "never again" regarding steel investments.	□

Key Takeaways (Positives & Negatives): * **Positives:** * **Volume Breakthrough:** Best-ever 9M physical performance in 60 years; production up 30% YoY. * **Structural De-risking:** Demerger is officially with the MCA; management confirmed a firm "no" to future steel ventures, refocusing on core mining. * **Windfall Gains:** NINL sale expected to yield □400–500 Cr profit plus □80 Cr loan recovery in upcoming quarters. * **Negatives:** * **Royalty Headwinds:** The 22.5% additional royalty on renewed mines is now fully visible, compressing EBITDA margins from 66% (CPLY) to 47%. * **Realization Volatility:** Q3 average realization fell 21% QoQ (□5,914 vs □7,443) as domestic prices cooled from H1 peaks. * **Forward Watchpoint:** The Ministry of Corporate Affairs (MCA) decision on the "creditors' meeting waiver" will determine if value unlocking happens in April or June 2022.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production (LT)	106.49	↑ 11%	↑ 21%	↑	Record volume; growth from Chhattisgarh.
Sales (LT)	98.45	↑ 6%	↑ 10%	↑	Domestic demand robust; exports at zero.
Avg Realization (□/T)	5,914	↑ 27%	↓ 21%	↓	Realization cooling; Volume-driven growth.
Revenue (□Cr)	5,874	↑ 35%	↓ 14%	↓	Volume beat offset by lower QoQ pricing.
EBITDA (□Cr)	2,765	↓ 4%	↓ 14%	↓	Impacted by □1,307 Cr premium royalty.
EBITDA Margin %	47%	↓ 1900 bps	→ 0 bps	→	Margin stable QoQ but down YoY on royalty.
PAT (□Cr)	2,050	↓ 3%	↓ 12%	↓	Resilient despite higher statutory levies.
ROCE (%)	63%	↑ 3000 bps	N/A	↑	9M non-annualized; mining efficiency high.
Net Cash (□Cr)	9,000	First Entry	↑ 50%	↑	Cash jumped from □6,000 Cr (Dec) to □9,000 Cr (Feb).
Opex/unit (□/T)	1,043	↓ 7%	↓ 22%	↑	Lower operating costs helping margins.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□Cr)	YoY Growth	Margin (EBIT)	Trend	vs Company Avg	Key Development
Iron Ore	5,822	35%	~47%	→	In-line	100% domestic sales now.
Pellet/ Other	52	N/A	Breakeven	↑	Below Avg	Donimalai plant broke even in 9M.

---

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume (FY22)	44–45 MT	Needs ~16 MT in Q4; FY21 Q4 was 12.3 MT.	Delivering records	High (Aggressive)
Guidance	Volume (FY23)	47–50 MT	Requires ~10% growth on record base.	New entry	Moderate
Guidance	Demerger Listing	Completion by April-June	2-3 months post-MCA approval.	On schedule	Low
Guidance	Capex Plan	□2,500–3,000 Cr (FY22)	Needs ~□1,000-1,400 Cr spend in Q4.	Spends back-ended	Moderate
Strategy	Steel Exit	"Never say never, but a resounding No."	N/A	First clear pivot	Low
Macro	Domestic Pricing	Isolated from global duty	□350 hike taken in Jan/Feb.	Consistent logic	Moderate
Balance	Cash Commitment	□3,700 Cr outflow soon	Includes dividends and advance tax.	Dividend declared	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Rahul Jain / Systematix	Demerger Timeline	Strategy	When exactly will the steel plant list?	Mgmt confirmed filing with MCA and seeks meeting waiver to finish by April. Accelerated listing removes the steel CAPEX overhang from the mining valuation earlier than expected.	None	4.0	Specific timeline given
1a	4.0	Rahul Jain / Systematix	NISP Commissioning	Capex	When will we see actual steel production?	Coke oven heating has started (irreversible); hot metal expected in May/June, finished products by July 2022. Operational status is critical to attract potential divestment bidders for the demerged entity.	None	5.0	Specific timeline given
2	4.0	Pinakin / JP Morgan	Debt Transfer	Financials	Will NMDC be left with intercompany loans to the steel plant?	No debt remains on NMDC's books as CAPEX post-April 2021 is funded via NCDs and SBI loans sitting on the steel entity. This ensures NMDC's balance sheet remains "clean" post-demerger for mining expansion.	None	5.0	Specific and quantified
2a	3.5	Pinakin / JP Morgan	Ore Supply	Strategy	Will the steel plant get	NMDC will supply ore at "market prices"	None	4.0	Directional with evidence

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					subsidized ore?	on the date of dispatch via a 10-year long-term agreement. Prevents value leakage from the mining business to the new steel entity.			
3	3.0	Prashant Kumar / Dolat	Export Strategy	Business	Why not export with global prices spiking?	Netback calculations (30% duty + □1,350 freight) make exports less lucrative than domestic sales even at $180/ton. Confirms NMDC is captive to domestic cycles but avoids high export logistics costs.	None	4.5	Specific logic provided
4	4.0	Vishal Chandak / Motilal	Mgmt Strategy	Governance	Why rush to commission if it's being sold?	Commissioning is necessary to prove the asset works and to prevent vendors from walking away from testing obligations. Protects the valuation of the steel entity during the divestment process.	None	4.5	Specific logic provided
5	3.5	Vishal Chandak / Motilal	Logistics	Capex	Update on the KK Line doubling?	85km out of 131km commissioned; the remaining 30km (Kirandul-Gidam) to finish by Dec 2022. Eases the primary bottleneck for	None	4.0	Specific timeline given

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						shipping ore from the high-grade Chhattisgarh mines.			
6	3.0	Saket Kapoor	Pellet Plant	Business	When will the Donimalai pellet plant contribute?	Plant has broken even at 10-20% utilization; second pressure filter replacement in 3-4 months will ramp up throughput. Represents a marginal but improving high-margin segment.	None	3.5	Directiona with evidence
7	2.5	Kamlesh Bagmar / PL	Expansion	Capex	Is there land for steel expansion?	2,000 acres used; expansion to 6MT possible with "rearrangement" of existing plants like Lime/ Dolo. Suggests future growth for the steel entity is possible but not easy.	None	3.0	Vague bu consisten
8	4.0	Sumangal Nevatia / Kotak	Cash Usage	Financials	What is the committed cash outflow?	Out of 9,000 Cr cash, 3,700 Cr is committed for dividends and tax. Clarifies that the "high" cash balance is temporary and will revert to normal levels post-payouts.	None	5.0	Specific and quantified

PATTERN FLAGS & SENTIMENT * **Theme 1: The "Clean Break" Anxiety:** Analysts were hyper-focused on ensuring NMDC is not left holding any "bags" (debt, loans, or subsidized supply contracts) post-demerger. Management was extremely firm in stating that debt belongs to the steel entity and ore will be sold at market prices, which appeared to satisfy the room. * **Theme 2: Commissioning Logic:** There was skepticism about why NMDC is spending management bandwidth on commissioning a plant it intends to exit. Management's response—that an uncommissioned plant is a "dead asset" with expiring vendor warranties—was logically sound and shifted the tone to "valuation protection." * **Analyst Sentiment Verdict: Optimistic but Vigilant.** Analysts are clearly modeling NMDC as a pure-play miner. The credibility of the Director (Finance) was high, particularly on debt and cash disclosures. The only friction point remains the aggressive 44-45 MT volume target for FY22, which requires a record-shattering Q4.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-------|----------------------------|-------------------|-----------------|----------------| | Steel Listing | "Demerger on schedule" | 2-3 months *post* demerger for listing. | Listing might drift into H2 FY23. | Delayed liquidity for shareholders in the new entity. | | Volume | 44-45 MT for FY22 | Needs ~16 MT in Q4. | Historical Q4 avg is ~12-13 MT. | Moderate risk of a volume miss in Q4 report. |

---

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Demerger Status	In-process internal	Filed with MCA	↑ (Execution)
NISP Status	Construction	Commissioning started	↑ (De-risking)
Dividend Yield	N/A	□14.45 YTD	↑ (Returns)
Mining Margins	60%+	47% (Royalty impact)	↓ (Statutory)
Strategic Focus	Diversified	Pure-play Mining	↑ (Quality)