NMDC Ltd — Feb 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Weak Miss **One-line:** NMDC is trading high-margin "excess" profits for a high-volume utility profile as realizations plummeted 35% YoY, though a clear timeline for the steel plant demerger listing and an aggressive 50 MT volume target for FY24 provide a floor for the thesis.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	PAT down 57% YoY; EBITDA margins compressed to 36% from 47% CPLY.	□
Earnings Quality	High (Core driven)	Results reflect pure commodity price correction and volume stabilization.	□
Guidance Confidence	Neutral	FY24 target of 50 MT requires a 25%+ jump; contingent on railway rake availability.	□
Management Credibility	Neutral	Tracking of steel plant listing and demerger is finally nearing completion (Feb-end target).	□
Business Quality Signal	Stable	"Best ever" Q3 production (106.6 LT) proves geological/ operational moat remains intact.	□
Key Q&A Exchange	Q11: 50 MT Volume Target	Management expects 10 MT growth in FY24 via Kumaraswamy expansion and Bailadila line.	□
The Street's Primary Anxiety	Cash Utilization & Steel Stake	Anxiety over □8,713 Cr cash being used to buy back 10% of the steel plant from Govt.	□
Capital Cycle Stage	Investment	Heavy spend on Slurry Pipeline and Screening Plants (CY24 completion).	□
Margin / Return Ratio Trajectory	Deteriorating	EBITDA/ton fell from □2,808 to □1,389 YoY due to price cooling.	□
Pricing Power	Eroding	Domestic prices now shadowing international cooling; export duties removal yet to bridge gap.	□
FCF Conversion & Quality	Weak	High inventory build (10.8 LT this qtr) and sequential rise in royalties.	□
Competitive Moat Signals	Stable	Remains the lowest-cost iron ore producer in India with massive reserves.	□
Balance Sheet Strength	Strong	Net cash of □6,318 Cr (after short-term debt).	□
Working Capital Efficiency	Deteriorating	Significant gap between Production (106.6 LT) and Sales (95.8 LT).	□
Mgmt Guidance Track Record	Mixed	Consistently delivering on production but struggling with logistics/evacuation.	□
Key Vulnerability / Red Flag	Rake Availability	Management admits 50 MT target is at the mercy of Railway rake supply.	□
Management Tone	Guarded but Optimistic	Bullish on volume/exports; non-committal on cash utilization/buybacks.	□

Key Takeaways (Positives & Negatives): * **Positives:** NMDC achieved its best-ever Q3 production (106.6 LT), proving operational robustness. The Nagarnar Steel Plant (NSL) demerger is in the final lap with listing expected by Feb-end 2023. Management has set a bold 50 MT sales target for FY24, supported by the doubling of the KK railway line and a shift toward exports ($120/t international price makes exports viable again). * **Negatives:** Financials are under severe pressure from price corrections; Revenue and PAT fell 37% and 57% YoY respectively. EBITDA margins have structural pressure from the "Premium Royalty" regime established in prior quarters. Working capital is dragging as the company produced ~11 LT more than it sold this quarter, leading to inventory bloat. * **Forward-looking Watchpoint:** The "Cash Drain" risk. Management confirmed NMDC will buy a 10% stake in the demerged steel plant from the Government. The valuation of this transaction is the single largest risk to the cash-rich balance sheet in FY24.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr (FY23 Q3)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Production Volume (LT)	106.63	0.1% ↑	50.0% ↑	→	Best ever Q3 production; operational efficiency high.
Sales Volume (LT)	95.80	-2.7% ↓	13.6% ↑	↓	Volume growth hampered by railway rake availability.
Realization/Ton (□)	3,821	-35.4% ↓	-1.8% ↓	↓	Driven by global price correction; Lump prices at □3,840.
Opex/Ton (□)	2,431	11.2% ↑	22.1% ↓	↓	Higher royalty due to ad-valorem production basis.
Revenue (□Cr)	3,720	-36.7% ↓	11.8% ↑	↓	Price correction outweighed record volumes.
EBITDA (□Cr)	1,331	-51.9% ↓	4.0% ↑	↓	Margin at 36% vs 47% YoY.
PAT (□Cr)	890	-56.6% ↓	-8.4% ↓	↓	Impacted by lack of one-off gains present in Q2 (NINL).
Net Debt / (Cash) (□ Cr)	(6,318)	First Entry	First Entry	□	Gross Cash: □8,713 Cr; Debt: □2,395 Cr.
Inventory Build (LT)	10.83	32.5% ↑	N/A	□	Production exceeded Sales; evacuation is the bottleneck.
CFO/PAT Ratio	1.15x	N/A	N/A	□	Healthy conversion despite inventory buildup.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (%)	Trend	vs Company Avg	Key Development
Iron Ore	3,661	-37.1%	36.3%	↓	In-line	Core driver; 98% of revenue.
Pellets/ Other	59	-2.7%	Negative	↓	Below Avg	□58 Cr loss in 9M; needs 60% utilization to break even.

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Volume	50 MT in FY24	Needs ~12.5 MT per quarter; current avg is 9.5 MT.	Mixed on evacuation.	High (Railways)
Guidance	Capex	□1,500 - □1,600 Cr (FY24)	Excluding Steel Plant; focus on Slurry/Screening.	Reliable.	Low
Strategy	Logistics	KK Line Doubling Completion	Final 20-25% balance work remaining.	Delayed vs FY22.	Medium
Strategy	Capital Allocation	10% Stake in NSL	Price to be "market-determined" post-listing.	New development.	High (Leakage)
Macro	Exports	Resuming Exports	Target Q4 FY23 end for first shipments.	Previously paused.	Medium

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	4.5	S. Nevatia / Kotak	Logistics	Business Overview	What projects are solving the current logistics bottlenecks to allow volume growth?	Management highlighted the doubling of the KK line (75% done) and the 135km slurry pipeline to increase capacity to 70-75 MT. Successful execution would de-link NMDC from railway dependency, but completion is not expected until CY24.	Specific timelines for Vizag-Jagdalpur section.	4.0	Clear timeline given
2	4.0	S. Nevatia / Kotak	Demand	Business Overview	Will captive production by large steel companies shrink NMDC's addressable market?	Management argues that while captives are growing, NSL (Nagarnar) and AMNS expansions provide dedicated demand offtake. This suggests NMDC is pivoting toward long-term supply linkages to mitigate merchant market volatility.	Detailed secondary sector growth rates.	3.5	Directional
4	5.0	A. Kejriwal / Nuvama	Steel Plant	Capex and Allocation	What is the status of the 10% stake purchase in the steel plant by NMDC?	Management confirmed they will buy the 10% stake from the Government at a market-determined price post-listing. This	The exact pricing formula.	3.0	Deflected — key signal

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						confirms a significant cash outflow in FY24, potentially reducing the dividend pool.			
8	4.0	M. Farooq / Pearl	Capital Allocation	Capex and Allocation	Why is ₹8,000 Cr cash being held instead of higher dividends or buybacks?	Management noted the interim dividend was declared and future options remain open, but refused to commit to a buyback. The retention of cash is likely tied to the upcoming 10% stake purchase and slurry pipeline capex.	Refusal to discuss buyback.	2.0	Evasive on cash
11	4.5	K. Mehta / BOB Cap	Volume Guidance	Management Outlook	What is the target for FY24 production and sales?	Management set a 50 MT target for FY24, a ~10 MT increase, driven by Kumaraswamy (7 to 10 MT) and Bailadila expansions. This is the most aggressive growth guidance in recent years and serves as the primary re-rating trigger.	None.	4.0	Quantified target
13	4.0	V. Singh / Phillip	Logistics	Business Overview	How can you hit 50 MT if the slurry pipeline and railway doubling	Management is banking on increasing rake loading from 15-16 per day to double that via	Contingency plan if rakes fail.	2.5	Vague on execution

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
					aren't fully ready?	ongoing railway discussions. This makes the 50 MT target highly sensitive to Indian Railways' operational priorities (e.g., coal vs. ore).			

PATTERN FLAGS & SENTIMENT

Analysts are fixated on the **"Evacuation Gap"** and **"Cash Leakage."** Multiple questions focused on why production is hitting records while sales lag, highlighting deep skepticism about Indian Railways' ability to support NMDC’s 50 MT ambition. Management’s posture was confident on production but defensive regarding cash, particularly the 10% stake purchase in the steel plant, which analysts clearly view as a sub-optimal use of capital.

Analyst Sentiment Verdict: Skeptical but intrigued by the 50 MT target. The primary friction point is the lack of a buyback despite massive cash reserves, compounded by the news of buying a 10% stake in NSL. Credibility is "on watch"—if NMDC misses the 50 MT target or overpays for the NSL stake, the "PSU discount" will likely widen.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Cash Utilization	High Dividend/ Buyback potential	10% Stake Purchase in NSL	Cash is being earmarked for a mandatory purchase of Govt stake rather than being returned to shareholders.	Negative for Dividend Yield thesis.
Logistics	Doubling to solve all issues	Rake availability is the bottleneck	Even with doubled lines, the lack of physical rakes limits sales to ~16 per day.	Miss on 50 MT target.

5. WHAT CHANGED vs PRIOR QUARTER

Tracking changes from Q1 FY23 (Prior Context) to Q3 FY23.

What Changed	Q1 FY23	Q3 FY23	Direction
EBITDA Margin	43%	36%	↓ Deteriorating
Realization/Ton	□6,050	□3,821	↓ Deteriorating
Sales Volume	7.8 MT	9.6 MT	↑ Improving
Steel Plant Status	"In progress"	Listing by Feb 2023	↑ Improving
Export Strategy	Duties limited options	Exports viable at $120/T	↑ Improving
Capital Allocation	General investment	10% stake purchase confirmed	□Risk Addition
Inventory Status	11.2 LT build	10.8 LT build	→ Stable/Weak

STOP HERE.