NMDC Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline (Earnings) / Beat (Volumes) **One-line:** NMDC is successfully pivoting to a volume-driven growth model (42MT record) to offset the structural margin compression from new 22.5% royalty premiums, while the NISP steel demerger remains the solitary near-term re-rating catalyst.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Beat (Volume) / Inline (PAT)	Record FY22 production (42.19 MT) and Q4 sales (12.29 MT).	□
Earnings Quality	Moderate (Impacted by Provisions)	PAT impacted by □110 Cr PF trust loss and □140 Cr CSR spike in Q4.	□
Guidance Confidence	Strong	FY23 target of 46-47 MT is mathematically feasible given Bacheli capacity expansion.	□
Management Credibility	Strong	Delivered on demerger filing timelines; transparent about NISP technical setbacks.	□
Business Quality Signal	Stable	High-grade ore (62-65% Fe) remains resilient despite global price volatility.	□
Key Q&A Exchange	Q2: NISP Setback	Mgmt admitted a major 11KV motor burnout at the oxygen plant.	□
The Street's Primary Anxiety	Pricing Correction	Concern over the 50% export duty impact on domestic ore pricing.	□
Capital Cycle Stage	Harvesting (Mining)	Core mining FCF is funding the final □2,000 Cr of steel CAPEX.	□
Margin Trajectory	Deteriorating	EBITDA margin compressed from 63% to 45% YoY due to statutory royalties.	□
Pricing Power	Stable	High-grade niche protects NMDC from low-grade (58% Fe) oversupply.	□
FCF Conversion & Quality	Strong	□7,752 Cr cash post-dividends; Receivables to improve post-direct auctions.	□
Competitive Moat Signals	Widening	Gaining ~25% realization boost in Karnataka by bypassing Monitoring Committee.	□
Balance Sheet Strength	Strong	Net cash position remains robust at □7,816 Cr (May-end).	□
Working Capital Eff.	Improving	Dismantling of Monitoring Committee auctions will reduce DSO significantly.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting volume targets; transparent on project delays.	□
Key Vulnerability	Price-Statutory Gap	Declining realizations vs. fixed 22.5% premium royalty on renewed mines.	□
Management Tone	Confident & Practical	Pragmatic about market-driven pricing while aggressive on physical growth.	□

Key Takeaways: * **Positives:** NMDC achieved its best-ever physical performance in 64 years, with FY22 production up 24% YoY to 42.19 MT. A massive structural gain is imminent in Karnataka (30% of sales) as the dismantling of the Monitoring Committee mechanism allows NMDC to retain ~25% of sales value previously lost to SPV/ECL retentions and fees. * **Negatives:** The 22.5% additional royalty is now a permanent EBITDA drag (₹5,084 Cr in FY22). Margin pressure was exacerbated in Q4 by a ₹110 Cr one-off loss from PF trust investments (IL&FS/DHFL) and a technical failure (oxygen plant motor) delaying the NISP steel plant ramp-up. * **The Street's Anxiety:** Analysts are worried that the 50% export duty on iron ore will flood the domestic market. Management countered that NMDC's high-grade ore does not compete with the low-grade (sub-58%) material typically exported, providing a buffer against the pricing collapse seen in lower grades. * **Forward Watchpoint:** The June 7 Creditors' Meeting is the final major hurdle for the NISP demerger. Any delay here would push the value-unlocking listing beyond the current Q2 FY23 expectation.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Q4	YoY Change	QoQ Change	Trend	Mgmt Commentary
Iron Ore Production (LT)	138.59	↑ 12.6%	↑ 30.1%	↑	Best-ever physical performance; Q4 peak.
Iron Ore Sales (LT)	122.85	↑ 10.8%	↑ 24.8%	↑	Volume-led growth; 100% domestic.
Avg. Sales Realization (₹/T)	5,364	↓ 12.6%	↓ 10.3%	↓	Pricing cooling from record FY21 highs.
Revenue (₹Cr)	6,702	↓ 2.1%	↑ 14.1%	→	Volume gains offset by realization drop.
EBITDA (₹Cr)	3,017	↓ 30.3%	↑ 9.1%	↓	Impacted by ₹1,384 Cr premium royalty.
EBITDA Margin %	45.0%	↓ 1800 bps	↓ 200 bps	↓	Compression due to ad-valorem royalty.
PAT (₹Cr)	1,815	↓ 36.0%	↓ 11.5%	↓	Impacted by PF trust loss & CSR spike.
ROCE (%)	31.0%	↓ 2300 bps	N/A	↓	FY22 annual vs FY21 (54%).
Cash Flow (CFO/PAT)	0.94	N/A	N/A	→	Strong conversion; FY22 PAT ₹9,398 Cr.
Net Cash (₹Cr)	7,752	↓ 1.1%	↓ 13.9%	→	Post-dividend payout of ₹14.74/share.
Employee Cost (₹Cr)	417.0	↑ 61.3%	↑ 36.3%	↓	Includes ₹110 Cr PF trust investment loss.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Iron Ore	6,589	↓ 3.2%	45%	↓	In-line	Domestic shift completed; exports zero.
Pellet & Other	113	↑ 175%	Breakeven	↑	Below	Pellet plant loss reduced to ₹2 Cr.
Panna Diamond	N/A	N/A	(₹61 Cr Loss)	↓	Below	Mine remain closed due to clearances.

---

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Feasibility	Historical Delivery	Risk Flag
Guidance	Volume (FY23)	46–47 MT	Needs 10% growth; feasible via Bacheli 5th line.	Reliable	Moderate
Guidance	NISP Listing	Listing by Q2 FY23	4-5 months post-June 7 meeting.	On Track	Moderate
Strategy	Karnataka Rev	~25% Realization Boost	Post-SC order on Monitoring Committee.	Delivered	Low
Capex	Total FY23	□3,500 Cr	□1,500 Cr for NISP; □1,000 Cr Slurry Pipeline.	Back-ended	High
Strategy	Steel Exit	"Never again" steel	Clear pivot to pure mining.	First entry	Low
Balance	Cash Balance	Stabilize at □7,000 Cr+	High FCF from mining supports this.	Strong	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Cred.	Verdict
1	4.5	Prashanth / Dolat	Export Duty	Outlook	"What radically different steps are being taken to protect margins after the duty hike?"	Mgmt stated the 50% duty is "academic" for NMDC as high-grade ore (64% Fe) does not compete with the low-grade exports. This preserves pricing power for NMDC's core products despite domestic oversupply fears.	None	4.0	Clear logic
2	4.0	Amit Dixit / Edelweiss	Receivables	Financials	"Why has inventory and trade receivables gone up so sharply?"	Mgmt attributed □1,700 Cr to Monitoring Committee delays and □1,294 Cr to RINL (now bill-discounted). Receivables will structuraly decline as NMDC moves to direct customer auctions.	None	5.0	Quantified
3	3.5	Siddharth / Voyager	Demerger	Strategy	"When exactly will the demerger and steel plant commissioning happen?"	Creditors' meeting is June 7; listing expected in 4-5 months. BHEL motor burnout delayed coke pushing by weeks but blast furnace lighting is slated for Aug/Sept.	None	4.0	Timeline given
4	3.0	Rajesh Bhandari	Grades	Business	"How much of the 47MT production will be high-grade (64%+)?"	Bacheli and Kirandul (15-16 MT) are ultra-high grade; most others are 62-63% Fe. High grade ensures a captive market among major private steelmakers who cannot use low-grade fines.	None	3.5	Directional
5	4.0	Saket Kapoor	Employee Cost	Financials	"Why did employee	□110 Cr was a one-time reimbursement for	None	5.0	Specific

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Cred.	Verdict
					expenses jump 50% YoY?"	PF trust losses in IL&FS/DHFL/ RelCap. Normalized FY23 employee costs will settle around □1,200 Cr.			
6	4.0	Ritesh Shah / Investec	NISP CAPEX	Capex	"What is the remaining CAPEX for the steel plant and how is it funded?"	Cumulative spend is □20,420 Cr against an estimate of □22,000 Cr. The balance □1,600 Cr is funded via a □4,400 Cr SBI credit line (□1,144 Cr already drawn).	None	5.0	Quantified
7	3.5	Rashi Chopra / Citi	Demand	Outlook	"Can the market absorb 47 MT without a pricing collapse?"	Mgmt noted that 70% of sales go to three majors (JSW, AMNS, RINL) whose expansion plans exceed NMDC's incremental supply. Demand is not an issue; pricing will follow market dynamics.	None	4.0	Directional
8	4.0	Vikas Singh / PhillipCap	SPV Costs	Financials	"Will we still pay the 10% SPV retention in Karnataka post-direct auction?"	Mgmt expects to stop the 10% contribution as current SPV corpus is already humongous. This adds ~□10/ton to realizations if the Supreme Court agrees.	None	3.0	Consistent

PATTERN FLAGS & SENTIMENT * **Theme 1: The "Karnataka Windfall":** A dominant theme was the financial impact of moving away from the Monitoring Committee. Analysts focused on the "retention of value" (20% previously kept by the committee and 5% in fees). Management was extremely confident, signaling this as a major EBITDA tailwind that offsets general pricing pressure. * **Theme 2: NISP Technical Snafus:** Friction occurred over the NISP timeline. The revelation of the BHEL motor burnout was a negative surprise, but management's transparency about the repair status (at Bhopal BHEL works) and the use of nitrogen tankers as a workaround mitigated hostility. * **Analyst Sentiment Verdict:** Generally supportive but cautious on pricing. Analysts are clearly modeling NMDC as a "pure-play miner" and were relieved by the categorical "No" to future steel CAPEX. The credibility of the Director (Finance) was bolstered by detailed quantification of one-off costs (PF trust, CSR).

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Q (Q3 FY22)	This Q (Q4 FY22)	Direction
Realization	□5,914/T	□5,364/T	↓
Karnataka Status	Monitoring Committee restricted	Direct Auctions permitted	↑ (Execution)
NISP Debt	Zero on NMDC books	□1,144 Cr drawn (on NISP books)	↑ (Clarity)
One-off Costs	Nil reported	□110 Cr PF loss / □140 Cr CSR spike	↓ (Earnings Quality)
Steel Plant Delay	Commissioning slated for May	Aug/Sept (Motor burnout issue)	↓ (Execution)
Volume Target	44-45 MT (FY22)	46-47 MT (FY23 Guidance)	↑ (Growth)
Cash Position	□9,000 Cr (Jan-end)	□7,752 Cr (March-end)	↓ (Post-dividend)