

March 23, 2020 ^{Revised}

NMDC Limited: [ICRA]AAA (Stable) assigned

Summary of rating action

Instrument [^]	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture (NCD) Programme	5,000.00	[ICRA]AAA (Stable); assigned
Total	5,000.00	

[^]Instrument details are provided in Annexure-1

Rationale

The assigned rating takes into consideration NMDC Limited's (NMDC) status as the largest iron ore miner in India with its mines having adequate reserve of good quality ore and its strong capital structure and debt coverage indicators. The total reserves of its mines stood at 1,840 million tonnes (mt) as on April 1, 2019 with average Fe content of 63-65%. The company has environmental clearance (EC) approved capacity of 51.8 mt and reported average annual production of 32.6 mt during the past four fiscals. The rating also draws comfort from the company's *Navratna* status under the Ministry of Steel, Government of India (GoI), with the latter holding a 72.3% stake in the company as on December 31, 2019. Besides the sovereign ownership, the company's currently debt-free status and superior liquidity profile, supported by a healthy cash balance of about Rs. 3,928 crore as on September 30, 2019, impart it with a high degree of financial flexibility. Despite the proposed NCD issuance of Rs. 5,000 crore, which would be utilised to part-fund the ongoing capex for a steel plant, NMDC's capital structure is likely to remain comfortable owing to its strong net worth. The rating also favourably factors in NMDC's robust profitability owing to its low-cost mining operations and the high grade of its iron ore deposits, its healthy export presence and expected diversification of revenues arising from its three-million tonnes per annum (mtpa) steel plant at Nagarnar, Chhattisgarh, and coal mining operations in Jharkhand.

ICRA, however, factors in NMDC's exposure to project execution risks associated with the ongoing capex for a steel plant, which has faced significant delays and cost overrun. NMDC's ability to achieve a quick ramp up of the steel capacity, post commissioning, in a profitable manner would be critical, given that it has no track record in running a steel plant. The company's return on capital employed (RoCE) is likely to witness a moderation, post operationalisation of the steel plant, due to relatively lower margins involved and the highly capital-intensive nature of the steel manufacturing business. Nevertheless, ICRA expects NMDC's coverage indicators to remain consistent with the AAA rating, even if the profitability of the steel operations remains depressed in the near-to-medium term. The company also remains exposed to cyclicity inherent in the steel industry and to regulatory risks associated with the mining operations.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that NMDC's large sovereign ownership, strategic importance to the GoI and the company's established market position in India and abroad. Also, ICRA believes NMDC's capitalisation and coverage metrics are likely to remain strong despite the expected weakness in the global economy because of Coronavirus (CoVID-19) outbreak.

Key rating drivers and their description

Credit strengths

Status as the largest iron ore mining company in India – NMDC was incorporated in 1958 and is the largest iron ore miner in India with its mines having adequate reserve of good quality ore. Its total reserves stood at 1,840 mt as on April 1, 2019. During the past four fiscals, the company reported an average annual production of 32.6 mt, which is 17% of the total iron ore produced in India during that period. The company has seven iron ore mines in four different locations – Kirandul, Bachel (in Chhattisgarh), Donimalai and Kumarswami (in Karnataka) with existing EC approved capacity of 51.8 mtpa.

Significant sovereign ownership and strategic importance to the GoI – NMDC is a flagship company under the Ministry of Steel, with a *Navratna* status. The GoI has 72.3% ownership in NMDC as on December 31, 2019 and is also of strategic importance to the Government, given its status as the largest iron ore producer in India.

Debt-free status at present and superior liquidity profile – NMDC's financial risk profile has remained comfortable over the years as reflected by its debt-free status and superior liquidity profile. Despite regular dividend pay-outs, NMDC's unencumbered cash balance remained healthy, at about Rs. 3,928 crore as on September 30, 2019. While the proposed NCD issuance of Rs. 5,000 crore, which would be utilised towards part-funding of the ongoing capex for a steel plant, would increase the indebtedness, NMDC's capital structure is likely to remain comfortable owing to its strong net worth.

Healthy profitability owing to high-margin iron ore mining business – NMDC's operating profitability remained strong in the range of 50-60% during the last three fiscals. During 9M FY2020, the company reported an operating margin of 53% (57% in FY2019) and this was mainly on account of its low-cost mining operations (mining cost excluding taxes of about Rs. 770 per metric tonne) and the high-grade of its iron ore deposits. The average Fe grade of NMDC's Bailadila mines stood at 65% and that of Donimalai mines stood at 63%.

Good export presence and expected diversification of revenues from steel and coal mining business – Exports contributed 20% to NMDC's total sales during 9M FY2020. It supplies high grade iron ore fines and lumps to customers in Japan and South Korea. The company is currently setting up a three million tonnes per annum-integrated steel plant through the blast furnace-basic oxygen furnace (BF-BOF) route in Nagarnar, Chhattisgarh. Besides intermediate products like pig iron, the proposed product mix would comprise hot rolled (HR) plates and coils, high carbon steel and automotive steel. The plant is scheduled to be commissioned in FY2021. Apart from the steel plant, the company is planning to develop two coal blocks in Jharkhand. It has recently been awarded the Rohne coking coal block and the Tokisud coal block with a combined mining capacity of more than 10 mtpa. Both business interests would augment and diversify NMDC's revenue stream in the medium term.

Credit challenges

Delay in commissioning of steel plant, resulting in cost overrun – NMDC remains exposed to the project execution risk as it is yet to commission the steel plant at Nagarnar, which was earlier scheduled to be commissioned in May 2015. The delay resulted in the escalation of project cost from Rs. 15,525 crore to Rs. 23,140 crore. About 93% of the civil work, 90% of the structural erection and 76% of the equipment erection had been completed as on March 31, 2019. The company has incurred a capex of Rs. 16,468 crore till January 31, 2020, and the balance will be incurred in the current and next fiscal. The management is expecting to start steel production in Q4 FY2021. Given that NMDC has no track record in running a steel plant, its ability to achieve ramp up of the steel capacity in a timely and profitable manner would remain crucial.

Expected moderation in RoCE – NMDC's RoCE remained healthy at 60.9% in FY2019 owing to a healthy profitability from the iron ore mining business. However, going forward, a significant part of its capital would be deployed in the steel

manufacturing business, and given the relatively lower margins in the business, ICRA expects a moderation in NMDC's RoCE in the near term. Nonetheless, its debt coverage indicators would remain robust supported by healthy cash generation from the mining business.

Exposure to cyclical risk in steel sector– Iron ore is used as an input in the steel manufacturing process. NMDC, like other iron ore miners, remains exposed to the cyclical risk inherent in the steel sector. A prolonged downturn in steel industry might put a pressure on NMDC's production levels and impact its cashflows. ICRA also notes that a major part of the company's iron ore output is sold to three customers viz. Essar Steel, Rastriya Ispat Nigam Limited and JSW Steel Limited, thereby exposing it to sales concentration risk.

Exposure to regulatory risks related to mining business – NMDC remains exposed to the regulatory risks associated with the mining business. ICRA notes that the mining lease of Donimalai iron ore mine expired in November 2018 and the renewal of the lease (with EC capacity of seven mtpa) is currently pending with the Mines Tribunal, GoI. However, going forward, the risk of a timely renewal of the other mining leases is minimal given the amendment of the Mines and Mineral Regulation (Development) Act by the Central Government to make it mandatory for all the state governments to renew the mining leases of public sector companies for a period of 20 years on the expiry of a current lease.

Also, as per the Supreme Court (SC) guidelines, the company's entire sales in Karnataka are currently routed through a monitoring committee (MC) set up by the apex court. The MC retains 10% of the sales proceeds towards reclamation and rehabilitation plan (R&R plan). The R&R plan has been approved by the Central Empowered Committee (CEC) and the matter is pending with the SC for the release of 10% amount. The company has sizeable contingent liabilities in the form of claims pending for adjudication from various authorities, like claims of Rs. 1,207 crore by the Income Tax authority and Rs. 365 crore from the Government of Karnataka towards Forest Development Tax. Nonetheless, NMDC's past track record suggests that these contingent liabilities have not had a material financial impact on the company.

Liquidity position: Superior

NMDC's liquidity position remains **superior** supported by its healthy cash generation from the mining business. While the company does not have any debt on its books at present, the proposed NCD issuance of Rs. 5,000 crore to part-fund the ongoing capex would have a tenure of 10 years with annual interest payment and repayments starting from the 6th year onwards. Given the large cash balances of Rs. 3,928 crore as on September 30, 2019, unutilised fund-based facilities of Rs. 130 crore, and healthy cash generation from the mining business, ICRA expects the company to comfortably service these future interest and principal payments.

Rating sensitivities

Positive triggers – Not applicable

Negative triggers – Any prolonged weakening in the iron ore/steel prices resulting in a decline in NMDC's profitability would exert a negative pressure on NMDC's rating. Net debt-to-operating profit remaining above 0.5 times on a sustained basis could also result in a downward revision in the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Mining Entities Entities in the Ferrous Metals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financial risk profile of NMDC Limited. As on March 31, 2019, NMDC Limited had 8 subsidiaries, 6 joint venture companies and 5 associate companies. These are enlisted in Annexure-2.

About the company

NMDC was incorporated in 1958 and is currently under the administrative control of the Ministry of Steel, Govt. Mr. N. Bajindra Kumar, IAS, is the chairman and managing director of the company. NMDC is involved in the exploration of a wide range of minerals including iron ore, copper, rock phosphate, lime stone, dolomite, gypsum, bentonite, magnesite, diamond, tin, tungsten, graphite, beach sands, etc. and is also the largest iron ore producer in India. At present, it produces more than 30 million tonnes (mt) of iron ore from Bailadila Deposit-14/11C, Bailadila Deposit-5, 10/11A (Chhattisgarh) and Kumarswamy Iron Ore Mines (Karnataka).

As per the provisional financials for 9M FY2020, NMDC reported a profit after tax (PAT) Rs. 3255.0 crore on an operating income (OI) of Rs. 8511.9 crore compared to a PAT of Rs. 4637.5 crore on an OI of Rs. 12152.7 crore in FY2019.

Key financial indicators

Consolidated financials	FY2018	FY2019	9M FY2020 (Prov.)
Operating Income (Rs. crore)	11614.9	12152.7	8511.9
PAT (Rs. crore)	3803.2	4637.5	3255.0
OPBDIT/OI (%)	50.0%	57.0%	53.0%
RoCE (%)	58.0%	60.9%	-
Total Outside Liabilities/Tangible Net Worth (times)			
	0.2	0.1	-
Total Debt/OPBDIT (times)			
	0.1	0.1	-
Interest Coverage (times)			
	156.4	171.8	144.6
DSCR			
	112.3	118.1	-

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work-in-Progress); DSCR: Debt Service Coverage Ratio; Source: NMDC

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					23-Mar-2020			
1	Proposed NCD	Long term	5,000.00	-	[ICRA]AAA (Stable)	-	-	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed NCD	-	-	-	5,000.00	[ICRA]AAA (Stable); assigned

Source: NMDC

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
J&KMDC Ltd	95.86%	Full consolidation
NMDC Power Ltd	100%	Full consolidation
Legacy Iron Ore Ltd	78.56%	Full consolidation
Karnataka Vijaynagar Steel Ltd	100%	Full consolidation
NMDC Steel Ltd	100%	Full consolidation
Jharkhand Kolhan Steel Ltd	100%	Full consolidation
NMDC SABL*	100%	Full consolidation
Kopano-NMDC Minerals (Pty) Ltd	50%	Equity method
NMDC-CMDC Ltd	51%	Equity method
Jharkhand National Mineral Development Corporation Ltd	60%	Equity method
NMDC-SAIL Ltd [#]	51%	Equity method
Chhattisgarh Mining Ventures Ltd [#]	26%	Equity method
Bastar Railway Private Ltd	52%	Equity method
Krishnapatnam Railway Co. Ltd	6.40%	Equity method
International Coal Ventures Pvt. Ltd	25.94%	Equity method
Neelachal Ispat Nigam Ltd	12.87%	Equity method
Romelt-SAIL (India) Ltd*	25%	Equity method
Chhattisgarh Mega Steel Ltd	26%	Equity method

Source: NMDC; *Under closure; [#]Under the process of striking off

Corrigendum

The press release dated March 23, 2020 has been revised. The contact details of Mr. Jayanta Roy have been removed from the analyst contacts section.

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