

July 13, 2020

## Muted steel demand to take toll on EBITDA/tonne....

The announcement of a nationwide lockdown in lieu of Covid-19 adversely impacted domestic steel demand in Q1FY20. During Q1FY20, domestic steel demand fell ~57% YoY. On account of muted demand, majority of steel companies had to operate at sub-optimal levels in April and May, 2020. Domestic steel companies increased their focus towards exports to compensate for muted domestic demand. Majority of steel companies operated at ~55-60% capacity utilisation levels in Q1FY20 while blended realisations declined by ~₹ 3500-4000/tonne depending on the export and product mix. The EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 7500/tonne (₹ 12531/tonne in Q4FY20 and ₹ 13158/tonne in Q1FY20). Domestic operations of JSW Steel are likely to report an EBITDA/tonne of ₹ 5250/tonne (₹ 8703/tonne in Q4FY20, ₹ 9936/tonne in Q1FY20).

## Base metal prices stay muted but rupee depreciation provides partial relief

During Q1FY21, average zinc prices on the LME were at US\$1970/tonne, down 28.6% YoY, 7.3% QoQ while average lead prices were at US\$1679/tonne, down 10.8% YoY, 8.9% QoQ. Similarly, average aluminium prices on the LME were at US\$1501/tonne, down 16.3% YoY, 11.2% QoQ while average copper prices on the LME were at US\$5366/tonne, down 12.2% YoY, 4.7% QoQ. The fall in base metal prices was partially compensated by ~4.8% QoQ, ~7.7% YoY depreciation of rupee compared to the US\$.

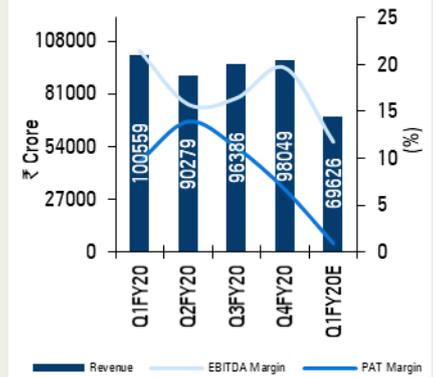
## Aggregate EBITDA margins to nosedive...

On account of Covid-19 related shutdowns and muted domestic demand, we expect Q1FY21E to be a washout quarter for the metal sector. We expect the aggregate topline of coverage companies to decline 30.8% YoY and 29.0% QoQ to ₹ 69626 crore. The aggregate EBITDA of the coverage universe is expected to decline 62.0% YoY and 57.4% QoQ to ₹ 8194 crore. The aggregate EBITDA margin of the coverage universe is likely to come in at 11.8% (down 970 bps YoY, 780 bps QoQ). The EBITDA/tonne of Coal India is likely to come in at ₹ 174/tonne with NMDC expected to report the same at ₹ 1100/tonne. We expect Novelis (Hindalco's subsidiary) to clock an EBITDA/tonne of US\$325/tonne.

| Company          | Revenue         |              |              | EBITDA         |              |              | PAT          |              |              |
|------------------|-----------------|--------------|--------------|----------------|--------------|--------------|--------------|--------------|--------------|
|                  | Q1FY21E         | YoY          | QoQ          | Q1FY21E        | YoY          | QoQ          | Q1FY21E      | YoY          | QoQ          |
| Coal India       | 19,986.8        | -19.9        | -27.5        | 2,098.6        | -68.3        | -68.8        | 1,439.4      | -68.9        | 0.1          |
| Graphite India   | 334.7           | -65.4        | -44.4        | -69.7          | PL           | NA           | -67.7        | PL           | LP           |
| Hindalco         | 7,546.3         | -25.0        | -24.6        | 802.5          | -29.7        | -44.8        | 39.3         | -76.5        | -89.6        |
| Hindustan Zinc   | 3,893.2         | -21.9        | -11.3        | 1,691.6        | -31.7        | -13.9        | 1,245.3      | -29.4        | -7.0         |
| JSW Steel        | 12,351.1        | -37.7        | -30.9        | 1,254.9        | -66.2        | -57.8        | -591.0       | PL           | PL           |
| NMDC             | 1,987.9         | -39.1        | -37.6        | 703.9          | -62.3        | -52.8        | 538.0        | -54.4        | -54.8        |
| Tata Steel       | 23,009.8        | -36.0        | -31.9        | 1,634.4        | -69.6        | -64.8        | -1,236.2     | -124.2       | -53.6        |
| Ratnamani Metals | 516.7           | -12.1        | -17.9        | 77.5           | -24.8        | -19.3        | 52.2         | -16.7        | -22.4        |
| <b>Total</b>     | <b>69,626.4</b> | <b>-30.8</b> | <b>-29.0</b> | <b>8,193.7</b> | <b>-62.0</b> | <b>-57.5</b> | <b>639.9</b> | <b>-95.5</b> | <b>-94.0</b> |

Source: Company, ICICI Direct Research, Hindalco results are Hindalco Standalone + Uttal

### Topline & Profitability (Coverage Universe)



### Movement of base metal prices on LME

| US\$/t | Q1FY21 | Q1FY20 | YoY %  | Q4FY20 | QoQ %  |
|--------|--------|--------|--------|--------|--------|
| Zinc   | 1,970  | 2,759  | (28.6) | 2,124  | (7.3)  |
| Lead   | 1,679  | 1,883  | (10.8) | 1,843  | (8.9)  |
| Alum.  | 1,501  | 1,794  | (16.3) | 1,691  | (11.2) |
| Copper | 5,366  | 6,111  | (12.2) | 5,632  | (4.7)  |

Source: Bloomberg, ICICI Direct Research,

| ₹/t    | Q1FY21  | Q1FY20  | YoY %  | Q4FY20  | QoQ % |
|--------|---------|---------|--------|---------|-------|
| Zinc   | 149,496 | 194,448 | (23.1) | 153,738 | (2.8) |
| Lead   | 127,443 | 132,762 | (4.0)  | 133,399 | (4.5) |
| Alum.  | 113,920 | 126,454 | (9.9)  | 122,397 | (6.9) |
| Copper | 407,215 | 430,767 | (5.5)  | 407,651 | (0.1) |

Source: Bloomberg, ICICI Direct Research,

### Top Pick

Ratnamani Metals & Tubes

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Exhibit 2: Company Specific Views – Metals and Mining

| Company                  | Remarks   |
|--------------------------|---|
| Tata Steel               | For Q1FY21, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 7500/tonne (vs. EBITDA/tonne of ₹ 12531/tonne in Q4FY20, ₹ 13158/tonne in Q1FY20). Indian operations (standalone) are expected to report steel sale of 2.1 million tonne (MT) while European operation steel sales are likely to come in at 1.94 MT. Additionally, Bhushan Steel is expected to report a sales volume of 0.65 MT. We expect European operations to report a negative EBITDA/tonne of US\$25/tonne. On a consolidated basis, the topline is expected to decline 36.0% YoY, 31.9% QoQ to ₹ 23010 crore. The consolidated EBITDA is expected to decline 69.6% YoY and 64.8% QoQ to ₹ 1634 crore. Consolidated EBITDA margins are likely to come in at 7.1% (vs. 15.0% in Q1FY20 and 13.8% in Q4FY20) |
| JSW Steel                | On account of Covid-19 related shutdowns, we expect JSW Steel's sales volume to decline 25.8% QoQ, 27.7% YoY to 2.7 MT. For Q1FY21, we expect JSW Steel to report a consolidated topline of ₹ 12351 crore, down 37.7% YoY, 30.9% QoQ, while EBITDA is likely to come in at ₹ 1255 crore, down 66.2% YoY, 57.8% QoQ. We expect JSW Steel to report EBITDA/tonne of ₹ 5250/tonne (₹ 9936/tonne in Q1FY20, ₹ 8703/tonne in Q4FY20). Consolidated EBITDA margin is likely to come in at 10.2% (18.8% in Q1FY20, 16.6% in Q4FY20)  |
| Hindustan Zinc           | On the back of Covid-19 related shutdown, we expect zinc, lead and silver volumes to be lower YoY. In dollar terms, LME zinc prices during the quarter were down 28.6% YoY, 7.3% QoQ to US\$1970/tonne while lead prices were down 10.8% YoY, 8.9% QoQ to US\$1679/tonne. We expect zinc sales of ~162500 tonne (down 3.0% YoY, 6.1% QoQ), lead sales of ~42500 tonne (down 15.0% YoY, 11.5% QoQ) and silver sales of ~120000 kg (down 22.6% YoY, 16.7% QoQ). The topline is likely to decline 21.9% YoY, 11.3% QoQ to ₹ 3893 crore, EBITDA is likely to decline 31.7% YoY, 13.9% QoQ to ₹1692 crore while PAT is likely to decline 29.4% YoY, 7.0% QoQ to ₹ 1245 crore. We expect the EBITDA margin to come in at 43.4% (vs. 49.7% in Q1FY20, 44.7% in Q4FY20)   |
| Hindalco                 | For Q1FY21E, we expect Hindalco's domestic operations to report aluminium sales volume of ~305000 tonnes (314000 in Q4FY20, 320000 in Q1FY20) and copper sales of ~47250 tonnes (82000 tonnes in Q1FY20, 86000 tonnes in Q4FY20). Copper volumes are likely to be impacted by Covid-19 related disruptions. We expect topline to come in at ₹ 7546 crore (down 25.0% YoY, 24.6% QoQ). EBITDA is likely to come in at ₹ 802 crore (down 29.7% YoY, 44.5% QoQ). Novelis is likely to report sales volume of 700 KT and EBITDA/tonne of US\$325/tonne  |
| Coal India               | For Q4FY21, Coal India reported coal offtake of 120.6 million tonne (MT), down 21.2% YoY. We expect the topline to decline 19.9% YoY to ₹ 19987 crore. The EBITDA margin is likely to come in at 10.5% (vs. 24.4% in Q4FY20, 26.5% in Q1FY20). We expect the company to clock an EBITDA/tonne of ₹ 174/tonne (vs. ₹ 432/tonne in Q1FY20 and ₹ 410/tonne in Q4FY20)  |
| NMDC                     | We expect NMDC to report sales volume of 6.4 MT for Q1FY21, down 26.4% YoY, 25.6% QoQ. Topline is expected to come in at ₹ 1988 crore, down 39.1% YoY, 37.6% QoQ. EBITDA is expected to come in at ₹ 704 crore, down 62.3% YoY, 52.7% QoQ. The subsequent EBITDA margin is likely to come in at 35.4% (57.2% in Q1FY20, 46.7% in Q4FY20)  |
| Ratnamani Metals & Tubes | For Q1FY21E, we expect Ratnamani's stainless steel segment to report sales volumes of ~4550 tonne (down 31.5% QoQ, 0.6% YoY) and carbon steel segment to report sales volume of ~50750 tonne (down 16.3% QoQ, but up 8.3% YoY). Ratnamani's topline is likely to decline 12.1% YoY, 17.9% QoQ to ₹ 517 crore while EBITDA is likely to decline 24.8% YoY, 19.3% QoQ to ₹ 77 crore. We expect EBITDA margins to come in at ~15.0% (EBITDA margin of 17.5% in Q1FY20, 15.3% in Q4FY20). Ensuing PAT is likely to come in at ₹ 52 crore (down 16.7% YoY, 22.4% QoQ)  |
| Graphite                 | For Q1FY21E, we expect Graphite India (GIL) to report a muted performance on account of Covid-19 related concerns leading to muted demand from the user industry. During the quarter, global, domestic demand of graphite electrodes was impacted by partial closure of steel capacities, lower steel production and destocking of electrode inventory at customer end at a slower pace than anticipated, thereby impacting GIL's performance. For Q1FY21E, we expect Graphite India to report capacity utilisation of 30% (75% in Q1FY20, 41% in Q4FY20). For the quarter, we expect Graphite India to report a consolidated topline of ₹ 335 crore (down 65.4% YoY, 44.4% QoQ). We expect the company to report consolidated EBITDA loss of ₹ 70 crore and consolidated net loss of ₹ 68 crore          |

Source: Company, ICICI Direct Research

| Hindustan Zinc Sales volume trend |       |         |        |        |
|-----------------------------------|-------|---------|--------|--------|
| Sales                             | unit  | Q1FY21E | Q1FY20 | Q4FY20 |
| Zinc                              | Tonne | 162500  | 167500 | 173000 |
| Lead                              | Tonne | 42500   | 50000  | 48000  |
| Silver                            | Kg    | 120000  | 155000 | 144000 |

Source: Company, ICICI Direct Research,

| JSW Steel: Sales Volume; EBITDA/tonne.... |         |        |        |        |        |
|---|---------|--------|--------|--------|--------|
|   | Q1FY21E | Q1FY20 | YoY    | Q4FY20 | QoQ    |
| Sales Vol.                                | 2.7     | 3.8    | -27.7% | 3.7    | -25.8% |
| EBITDA/t                                  | 5250    | 9936   | -47.2% | 8703   | -39.7% |

Source: Company, ICICI Direct Research, Sales volume in MT, EBITDA/tonne in ₹/tonne.

| Tata Steel: Sales Volume; EBITDA/tonne.... |         |         |        |         |         |
|--|---------|---------|--------|---------|---------|
|  | Q1FY21E | Q1FY20  | YoY    | Q4FY20  | QoQ     |
| <b>Sales Vol.</b>                          |         |         |        |         |         |
| India                                      | 2.0     | 3.0     | -33.3% | 3.0     | -33.3%  |
| Europe                                     | 1.94    | 2.3     | -15.7% | 2.4     | -19.2%  |
| <b>EBITDA/t</b>                            |         |         |        |         |         |
| India                                      | 7500.0  | 13158.0 | -43%   | 12531.0 | -40.1%  |
| Europe                                     | -25.0   | 4.0     | -725%  | 4.0     | -725.0% |

Source: Company, ICICI Direct Research, Sales volume in MT, Indian and Bhushan EBITDA/tonne in ₹/tonne, \*- Europe EBITDA/tonne in US\$/tonne.

Exhibit 3: ICICI Direct coverage universe (Metals and Mining)

|                | CMP  |      | TP   | M Cap | EPS (₹) |        |      | P/E (x) |       |      | EV/EBITDA (x) |       |      | ROCE(%) |       |      | ROE(%) |       |      |
|----------------|------|------|------|-------|---------|--------|------|---------|-------|------|---------------|-------|------|---------|-------|------|--------|-------|------|
|                | (₹)  | (₹)  |      |       | Rating  | (₹ Cr) | FY20 | FY21E   | FY22E | FY20 | FY21E         | FY22E | FY20 | FY21E   | FY22E | FY20 | FY21E  | FY22E | FY20 |
| Coal India     | 130  | 150  | Hold | 80976 | 27.1    | 22.2   | 22.9 | 5.0     | 6.1   | 5.9  | 2.8           | 4.4   | 4.5  | 55.5    | 40.2  | 40.1 | 51.9   | 39.0  | 36.9 |
| Hindalco       | 168  | 160  | Hold | 37425 | 18.2    | 8.5    | 20.4 | 8.3     | 17.9  | 7.5  | 4.9           | 6.9   | 5.1  | 7.8     | 4.8   | 7.2  | 7.0    | 3.0   | 6.7  |
| Hind Zinc      | 193  | 200  | Buy  | 81654 | 16.1    | 13.0   | 19.0 | 10.4    | 12.9  | 8.8  | 5.5           | 6.3   | 3.8  | 20.8    | 19.4  | 24.8 | 16.9   | 15.0  | 19.2 |
| JSW Steel      | 197  | 190  | Hold | 47570 | 20.0    | 1.0    | 20.0 | 9.1     | 302.5 | 8.7  | 8.3           | 12.1  | 6.4  | 7.2     | 3.7   | 9.7  | 12.7   | 0.4   | 11.7 |
| NMDC           | 85   | 90   | Hold | 26149 | 11.8    | 9.4    | 10.8 | 7.2     | 9.1   | 7.9  | 4.2           | 6.3   | 4.7  | 20.3    | 11.6  | 12.9 | 13.1   | 9.1   | 9.9  |
| Ratnamani      | 1027 | 1200 | Buy  | 4798  | 65.8    | 49.5   | 66.0 | 15.2    | 20.2  | 15.1 | 11.1          | 14.3  | 10.1 | 22.2    | 14.8  | 19.8 | 18.0   | 12.3  | 14.4 |
| Graphite India | 178  | 200  | Hold | 3473  | 2.0     | 24.0   | 33.0 | 85.1    | 8.3   | 5.9  | -21.8         | 2.8   | 1.5  | -2.6    | 9.2   | 13.3 | 1.0    | 9.5   | 12.6 |
| Tata Steel     | 340  | 350  | Hold | 40946 | 41.4    | -16.3  | 46.9 | 7.9     | NA    | 7.0  | 8.5           | 12.0  | 5.7  | 5.0     | 2.4   | 8.2  | 6.4    | -2.6  | 6.6  |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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