

April 12, 2021

Strong quarter, aided by healthy realisation....

For Q4FY21E, we expect domestic steel companies to report a robust quarter, driven by higher steel prices. For the quarter, on a sequential basis we expect blended realisation of steel companies to be higher in the range of ₹ 5000-7000/tonne (for our coverage universe). Subsequently, on a QoQ basis, for our coverage universe, we expect EBITDA/tonne of steel companies to increase in the range of ₹ 3000-6000/tonne. For Q4FY21, EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 26000/tonne (₹ 20070/tonne in Q3FY21, ₹ 12531/tonne in Q4FY20). For Q4FY21, domestic operations of JSW Steel are likely to report an EBITDA/tonne of ₹ 19000/tonne (₹ 14444/tonne in Q3FY21, ₹ 8703/tonne in Q4FY20). SAIL's EBITDA/tonne for Q4FY21 is likely to come in at ₹ 15000/tonne (₹ 12235/tonne in Q3FY21). Even on the non-ferrous front, on a QoQ basis, zinc, lead and aluminium prices are up 5%, 6% and 9%, respectively, while on a YoY basis, zinc, lead and aluminium prices are up 29%, 9% and 24%, respectively. The uptick in base metal prices augurs well for the operating margins of non-ferrous players.

Base metal prices improve both QoQ, YoY...

In Q4FY21, base metal prices improved both QoQ as well as YoY. During the quarter, average zinc prices on the LME were at US\$2749/tonne, up 29% YoY & 5% YoY while average lead prices were at US\$2011/tonne, up 9% YoY, 6% QoQ. Similarly, during the quarter, average aluminium prices on LME were at US\$2096/tonne, up 24% YoY, 9% QoQ while average copper prices on the LME were at US\$8501/tonne, up 51% YoY, 18% QoQ.

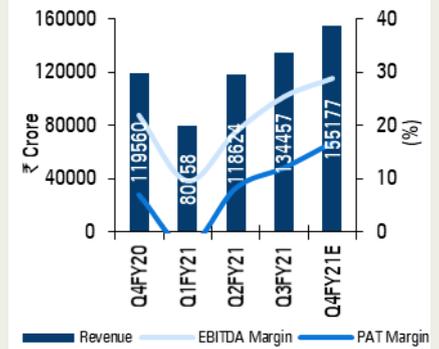
Aggregate EBITDA margins to increase QoQ as well as YoY...

We expect the aggregate topline of coverage companies to increase 30% YoY and 15% QoQ to ₹ 155177 crore. The aggregate EBITDA of the coverage universe is expected to increase 70% YoY and 30% QoQ to ₹ 44611 crore. The aggregate EBITDA margin of the coverage universe is likely to come in at 28.7% (up 780 bps YoY, 340 bps QoQ). The EBITDA/tonne of domestic miner Coal India is likely to come in at ₹ 350/tonne with NMDC expected to report the same at ₹ 3600/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$500/tonne (Novelis numbers inclusive of Aleris numbers).

| Company | Revenue | | | EBITDA | | | PAT | | |
|-------------------------|-----------------|-----------|-----------|---------------|-----------|-----------|---------------|------------|-----------|
| | Q4FY21E | YoY | QoQ | Q4FY21E | YoY | QoQ | Q4FY21E | YoY | QoQ |
| Coal India | 25,646 | -7 | 8 | 5,745 | -15 | 11 | 3,943 | -15 | 28 |
| Graphite India | 687 | 14 | 38 | 85 | LP | LP | 99 | LP | 330 |
| Hindalco | 13,340 | 33 | 17 | 1,724 | 18 | 13 | 439 | 16 | -11 |
| Hindustan Zinc | 6,435 | 47 | 7 | 3,594 | 83 | 10 | 2,353 | 76 | 7 |
| JSW Steel | 25,365 | 42 | 16 | 8,038 | 170 | 35 | 4,260 | 2,166 | 60 |
| NMDC | 6,133 | 92 | 41 | 3,996 | 168 | 44 | 3,031 | 762 | 44 |
| SAIL | 22,354 | 38 | 13 | 6,405 | -1 | 26 | 3,659 | 34 | 185 |
| Jindal Stainless | 3,606 | 17 | 1 | 478 | 115 | 1 | 181 | LP | 6 |
| Jindal Stainless Hisar | 3,202 | 43 | 2 | 392 | 115 | 1 | 276 | 156 | 2 |
| Tata Steel | 47,745 | 41 | 21 | 14,052 | 202 | 48 | 7,872 | LP | 97 |
| Ratnamani Metals & Tube | 664 | 6 | 51 | 104 | 8 | 30 | 75 | 11 | 25 |
| Total | 1,55,177 | 30 | 15 | 44,611 | 70 | 31 | 26,189 | 209 | 60 |

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

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME

| US\$/t | Q4FY21 | Q4FY20 | YoY % | Q3FY21 | QoQ % |
|--------|--------|--------|-------|--------|-------|
| Zinc | 2,749 | 2,124 | 29.4 | 2,628 | 4.6 |
| Lead | 2,011 | 1,843 | 9.1 | 1,902 | 5.7 |
| Alum. | 2,096 | 1,691 | 24.0 | 1,917 | 9.3 |
| Copper | 8,501 | 5,632 | 50.9 | 7,178 | 18.4 |

Source: Bloomberg, ICICI Direct Research,

| ₹/t | Q4FY21 | Q4FY20 | YoY % | Q3FY21 | QoQ % |
|--------|----------|----------|-------|----------|-------|
| Zinc | 2,00,438 | 1,53,742 | 30.4 | 1,93,858 | 3.4 |
| Lead | 1,46,616 | 1,33,379 | 9.9 | 1,40,327 | 4.5 |
| Alum. | 1,52,786 | 1,22,380 | 24.8 | 1,41,419 | 8.0 |
| Copper | 6,19,779 | 4,07,664 | 52.0 | 5,29,521 | 17.0 |

Source: Bloomberg, ICICI Direct Research,

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Exhibit 2: Company Specific Views – Metals and Mining

| Company | Write Up |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Tata Steel | On the back of strength in steel prices, we expect Tata Steel to report a healthy performance for Q4FY21. For the quarter, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 26000/tonne (compared to an EBITDA/tonne of ₹ 20070/tonne in Q3FY21 and ₹ 12531/tonne in Q4FY20). Standalone operations are expected to report steel sales volume of 3.3 million tonne (MT) while European operation steel sales are likely to come in at 2.5 MT. Additionally, Bhushan Steel is expected to report a sales volume of 1.2 MT. We expect European operations to report an EBITDA/tonne of US\$100/tonne. For Q4FY21, on a consolidated basis, the topline is expected to increase 41% YoY and 21% QoQ to ₹ 47745 crore. The consolidated EBITDA for Q4FY21 is expected to increase 48% QoQ and 202% YoY to ₹ 14052 crore. Consolidated EBITDA margins are likely to come in at 29.4% (vs. 23.9% in Q3FY21 and 13.8% in Q4FY20) |
| JSW Steel | On the back of strength in steel prices, we expect JSW Steel to report healthy performance for Q4FY21. For the quarter, we expect standalone sales volume to come in at 4.0 MT, up 8% YoY, 3% QoQ. For Q4FY21, we expect consolidated topline to come in at ₹ 25365 crore, up 42% YoY, 16% QoQ while consolidated EBITDA is likely to come in at ₹ 8038 crore, up 170% YoY, 35% QoQ. For Q4FY21, JSW Steel is likely to report EBITDA/tonne of ₹ 19000/tonne (₹ 8703/tonne in Q4FY20 and ₹ 14444/tonne in Q3FY21). Consolidated EBITDA margin for Q4FY21 is likely to come in at 31.7% (16.6% in Q4FY20, 27.2% in Q3FY21) |
| Hindustan Zinc | During Q4FY21, zinc prices witnessed a healthy uptick both QoQ, YoY. In dollar terms, LME zinc prices during the quarter were up 5% QoQ, 29% YoY to US\$2749/tonne. On the other hand, lead prices for Q4FY21 were at US\$2011/tonne, up 9% YoY, 6% QoQ. We expect zinc sales of ~192000 tonne (up 11% YoY, 5% QoQ), lead sales of ~54500 tonne (up 14% YoY, 3% QoQ) and silver sales of ~187500 kg (up 30% YoY, 2% QoQ). The topline is likely to increase 47% YoY, 7% QoQ to ₹ 6435 crore. EBITDA is likely to increase 83% YoY, 10% QoQ to ₹ 3594 crore while PAT is likely to increase 76% YoY, 7% QoQ to ₹ 2353 crore. We expect the EBITDA margin to come in at 55.8% (compared to 44.7% in Q4FY20 and 54.2% in Q3FY21) |
| Hindalco | For Q4FY21 we expect Hindalco's domestic operations (standalone operations + Utkal) to report aluminium sales volume of ~325000 tonnes (314000 in Q4FY20 and 315000 in Q3FY21) and copper sales of ~85000 tonnes (73000 tonnes in Q3FY21 and 86000 tonnes in Q4FY20). We expect Hindalco's domestic operations (standalone operations + Utkal) topline to come in at ₹ 13340 crore (up 33% YoY, 17% QoQ). Topline could have been higher but was restricted due to hedging ~58% of volume at lower LME price (US\$1716/t). EBITDA margin is likely to come in at 12.9% (13.4% in Q3FY21 and 14.5% in Q4FY20). The subsequent EBITDA of Hindalco's domestic operations (standalone operations + Utkal) is likely to come in at ₹ 1724 crore, up 18% YoY, 13% QoQ. Novelis is likely to report sales volume of 950 KT and EBITDA/tonne of US\$500/tonne |
| Coal India | For Q4FY21, Coal India (CIL) reported coal offtake of 165 million tonne (MT), flattish YoY, while up 6% QoQ. We expect consolidated topline to increase 8% QoQ but decline 7% YoY to ₹ 25646 crore. The consolidated EBITDA margin is likely to come in at 22.4% (vs. 21.8% in Q3FY21 and 24.4% in Q4FY20). We expect the company to clock an EBITDA/tonne of ₹ 350/tonne (vs. ₹ 335/tonne in Q3FY21 and ₹ 410/tonne in Q4FY20) |
| SAIL | For Q4FY21, we expect SAIL to report sales volume of 4.27 million tonnes (MT), up 14% YoY, 3% QoQ. Topline is expected to come in at ₹ 22354 crore, up 38% YoY, 13% QoQ. EBITDA is likely to come in at ₹ 6405 crore, up 26% QoQ. EBITDA/tonne for Q4FY21 is likely to come in at ₹ 15000/tonne compared to ₹ 12089/tonne in Q3FY21. During the quarter, there could be provision for employee wage revision, which could partially offset the gains due to increase in steel prices. Furthermore, Q4FY20 had one-off gains at the EBITDA level |
| NMDC | We expect NMDC to report a healthy performance for Q4FY21 on the back of improvement in blended iron ore realisation during the quarter. We expect NMDC to report sales volume of 11.1 MT for Q4FY21, up 32% YoY, 19% QoQ. Topline is expected to come in at ₹ 6133 crore, up 92% YoY, 41% QoQ. EBITDA is expected to come in at ₹ 3996 crore, up 168% YoY, 44% QoQ. EBITDA margin is likely to come in at 65.2% (46.8% in Q4FY20, 63.5% in Q3FY21). Ensuing PAT is likely to come in at ₹ 3031 crore, up 44% QoQ |

Source: Company, ICICI Direct Research

| Hindustan Zinc Sales volume trend | | | | |
|-----------------------------------|-------|---------|--------|--------|
| Sales | unit | Q4FY21E | Q4FY20 | Q3FY21 |
| Zinc | Tonne | 191813 | 173000 | 182000 |
| Lead | Tonne | 54575 | 48000 | 53000 |
| Silver | Kg | 187500 | 144000 | 183000 |

Source: Company, ICICI Direct Research,

| JSW Steel: Sales Volume; EBITDA/tonne.... | | | | | |
|-------------------------------------------|---------|--------|------|--------|-----|
| | Q4FY21E | Q4FY20 | YoY | Q3FY21 | QoQ |
| Sales Vol. | 4.0 | 3.7 | 8% | 3.9 | 3% |
| EBITDA/t | 19000 | 8703 | 118% | 14444 | 32% |

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

| Tata Steel: Sales Volume; EBITDA/tonne.... | | | | | |
|--------------------------------------------|---------|--------|-------|--------|-----|
| | Q4FY21E | Q4FY20 | YoY | Q3FY21 | QoQ |
| Sales Vol. | | | | | |
| India Stand. | 3.3 | 3.0 | 11% | 3.3 | 1% |
| Europe Op. | 2.5 | 2.4 | 4% | 2.1 | 19% |
| EBITDA/t | | | | | |
| India Stand. | 26000 | 12531 | 107% | 20070 | 30% |
| Europe | 100 | 4 | 2400% | -46 | NA |

Source: Company, ICICI Direct Research, Sales volume in MT, Indian EBITDA/tonne in ₹/tonne, *. Europe EBITDA/tonne in US\$ /tonne. Tata Steel's sales volume and EBITDA/tonne is for the Standalone operations.

Exhibit 3: Company Specific Views – Metals and Mining

Ratnama ni Metals & Tubes We expect Ratnamani to report a steady Q4FY21 performance. Topline is likely to increase 6% YoY, 51% QoQ to ₹ 664 crore while EBITDA is likely to increase 30% QoQ, 8% YoY to ₹ 104 crore. We expect the EBITDA margin to come in at 15.7% (EBITDA margin of 18.1% in Q3FY21 and 15.3% in Q4FY20). Ensuing PAT is likely to come in at ₹ 75 crore (up 11% YoY, 25% QoQ)

Graphite India For Q4FY21E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 85% (41% in Q4FY20 and 65% in Q3FY21). For the quarter we expect consolidated topline to come in at ₹ 687 crore (up 14% YoY, 38% QoQ). We expect the company to report consolidated EBITDA of ₹ 85 crore and consolidated net profit of ₹ 99 crore

Jindal Stainless For Q4FY21, we expect Jindal Stainless to report sales volume of 250000 tonnes (up 13% YoY, flattish QoQ). Consolidated topline is expected to come in at ₹ 3606 crore (up 17% YoY, 1% QoQ). Consolidated EBITDA is likely to come in at ₹ 478 crore (up 1% QoQ, 115% YoY). Consolidated EBITDA margin is likely to come in at 13.3% (13.2% in Q3FY21, 7.2% in Q4FY20). EBITDA/tonne (standalone) is likely to come in at ₹ 18000/tonne (₹ 17729/tonne in Q3FY21, ₹ 10015/tonne in Q4FY20). Ensuing consolidated PAT is likely to come in at ₹ 181 crore (up 6% QoQ)

Jindal Stainless Hisar For Q4FY21, we expect Jindal Stainless Hisar to report sales volume of 190000 tonnes (up 9% YoY, flattish QoQ). Consolidated topline is expected to come in at ₹ 3202 crore (up 43% YoY, 2% QoQ). Consolidated EBITDA is likely to come in at ₹ 392 crore (up 1% QoQ, 115% YoY). Consolidated EBITDA margin is likely to come in at 12.2% (12.3% in Q3FY21 and 8.1% in Q4FY20). EBITDA/tonne (standalone) is likely to come in at ₹ 18500/tonne (₹ 18335/tonne in Q3FY21, ₹ 11668/tonne in Q4FY20). Ensuing consolidated PAT is likely to come in at ₹ 276 crore (up 156% YoY, 2% QoQ)

Source: Company, ICICI Direct Research

Exhibit 4: ICICI Direct coverage universe (Metals and Mining)

| | CMP | | TP | M Cap | EPS (₹) | | | P/E (x) | | | EV/EBITDA (x) | | | ROCE(%) | | | ROE(%) | | |
|------------------------|------|------|------|--------|---------|--------|-------|---------|-------|-------|---------------|-------|-------|---------|-------|-------|--------|-------|-------|
| | (₹) | (₹) | | | Rating | (₹ Cr) | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E |
| Coal India | 129 | 140 | Hold | 80416 | 20.3 | 21.0 | 22.7 | 6.5 | 6.3 | 5.9 | 3.7 | 4.1 | 4.3 | 39.6 | 35.6 | 33.0 | 33.6 | 30.3 | 28.2 |
| Hindalco | 361 | 390 | Buy | 81119 | 31.9 | 35.1 | 40.4 | 10.4 | 9.4 | 8.2 | 7.2 | 6.7 | 5.9 | 9.2 | 9.7 | 10.5 | 11.1 | 11.0 | 11.3 |
| Hind Zinc | 308 | 290 | Hold | 130414 | 18.7 | 23.6 | 27.2 | 15.0 | 12.0 | 10.4 | 9.2 | 7.0 | 5.8 | 27.3 | 30.4 | 30.1 | 25.1 | 27.5 | 26.9 |
| JSW Steel | 620 | 400 | Hold | 150013 | 29.9 | 37.3 | 43.3 | 12.7 | 10.2 | 8.8 | 8.2 | 6.7 | 5.8 | 11.9 | 13.7 | 14.8 | 16.6 | 17.2 | 16.7 |
| NMDC | 145 | 125 | Hold | 35318 | 17.1 | 11.9 | 3.7 | 6.6 | 9.5 | 8.2 | 4.7 | 5.6 | 5.0 | 21.4 | 13.2 | 14.0 | 16.7 | 10.9 | 11.9 |
| Ratnamani | 2015 | 1900 | Buy | 7820 | 49.4 | 64.5 | 79.2 | 32.9 | 25.2 | 20.5 | 22.6 | 16.8 | 13.9 | 16.2 | 19.6 | 21.6 | 12.3 | 14.1 | 15.8 |
| Graphite Ind. | 672 | 825 | Buy | 13132 | 3.0 | 55.0 | 84.0 | 224.0 | 12.6 | 8.2 | NA | 9.1 | 4.6 | -5.4 | 19.0 | 25.2 | 1.3 | 19.3 | 23.4 |
| Tata Steel | 899 | 750 | Hold | 107597 | 62.7 | 80.0 | 82.1 | 11.1 | 8.7 | 8.5 | 6.4 | 5.4 | 5.1 | 9.4 | 10.5 | 10.2 | 9.2 | 10.2 | 9.0 |
| Jindal Stainless | 79 | 90 | Buy | 3861 | 2.8 | 7.1 | 9.2 | 26.6 | 10.5 | 8.1 | 6.7 | 5.1 | 4.5 | 10.7 | 14.9 | 16.4 | 4.8 | 10.9 | 12.4 |
| Jindal Stainless Hisar | 137 | 170 | Buy | 3242 | 13.0 | 18.0 | 21.0 | 10.9 | 7.6 | 6.6 | 6.3 | 5.2 | 4.6 | 11.6 | 13.7 | 14.0 | 11.4 | 14.0 | 13.8 |

Source: Company, ICICI Direct Research

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Sell: < -15%



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