

Cost pressure persists; margins fizzles out

In Q4FY22, Ferrous companies (except Tata Steel & JSPL) reported higher EBITDA (though EBITDA/t was lower except SAIL) QoQ, on account of higher volumes which was largely offset by increase in coal prices and flat to lower steel prices while Non-ferrous companies benefitted from increases in LME prices partially offset by higher operational cost and resulted further improvement in EBITDA QoQ. We observe that fall in inventory levels released working capital which helped in further debt reduction. Among ferrous companies, operating profits of SAIL reported above our estimates while JSW Steel and Tata Steel were in-line. JSPL missed estimates primarily due to lower than expected increase in realisation (despite higher average long product prices in Q4FY22) and higher CoP and one-offs provisions. In non-ferrous, Hindustan Zinc and Vedanta reported in-line numbers while HNDL (standalone) reported better than expected operating profits. In mining, NMDC's earnings (below estimate) were hit by lower iron ore prices, 22.5% additional premium and certain one-offs while Coal India earnings (better than expected) increased owing to higher prices and lower than expected employee expenses.

Ferrous: Higher coking coal prices and lower realisation hit earnings

In Q4FY22, all domestic steel producers posted lower margins (down 3,500-4,900/t QoQ), with maximum decrease for Tata followed by JSPL and JSW. SAIL bucked the trend and its EBITDA/t increased by Rs322/t QoQ due to normalisation of employee cost. EBITDA was hit primarily due to higher coking coal prices and lower realisation partially offset by higher volumes. Surprisingly, JSPL (70% long products in sales mix) and SAIL (50% long steel in sales mix) reported marginal increase in realisation by Rs809/t and Rs500/t respectively despite average TMT rebar prices were up by ~Rs4,900/t QoQ. Average HRC prices fell ~Rs1,200/t QoQ and with booking of exports at lower priced earlier, Tata and JSW's realisation fell by ~Rs1,360/t and ~Rs2,011/t respectively. Volumes increased by 14-18% QoQ with highest in JSW (up 28%) followed by SAIL (up 23%), Tata (up 17%) and JSPL (up 14%). Coking coal prices were higher QoQ which increased cost by average Rs2,250/t-Rs4250/t QoQ. During the quarter, net debt of companies was down with maximum reduction in Tata by Rs118.2bn QoQ, followed by JSW (down Rs96.6bn QoQ), SAIL (down Rs38.6bn QoQ) and JSPL (down Rs21bn QoQ).

Non-ferrous: Profitability improves on higher commodity prices

During the quarter, average base metal prices rose by 11-18% QoQ, with aluminium rising the most and Zinc, the least. Higher aluminium prices offset cost increase and Hindalco India delivered better than expected EBITDA. Novelis reported marginally lower than expected EBITDA due to supply disruption. Higher volume (up 2% QoQ) and higher zinc realisation (up 11.5% QoQ) enabled Hindustan Zinc to report in-line EBITDA. Vedanta reported in-line EBITDA driven by higher commodity prices partly offset by higher CoP in aluminium.

Margins to remain under pressure in Q1FY23

We reduce our numbers and target price for Tata Steel and Jindal Stainless after taking into account the impact of 15% export duty on steel products levied by the Government of India on 21st May 2022 (Refer Exhibit 1 & 2). This move led steel prices to fall by Rs5,000-5,5500/t in last 10 days. Despite the fall, average HRC price is expected to increase by ~Rs2,700/t QoQ and long product prices by ~Rs5,000/t QoQ in Q1FY23. Added to that, prices of auto contracts are expected to increase by Rs11,000-12,000/t (Benefit to Tata and JSW, consisting ~15% of volume). Offlate, coking coal prices have fallen (from USD530/t to USD442/t) and Q1FY23 average could be flat QoQ but due to average 1.5-2 months of lag period, we expect coking coal cost to increase further by USD100-125/t in Q1FY23 which will dent margins for steel companies. For non-ferrous, while average aluminium prices are expected to be lower QoQ, zinc should buck the trend. With higher CoP, the profitability for Hindalco should be lower sequentially while Hindustan Zinc should report higher EBITDA and Vedanta's earnings could be marginally down QoQ. We expect NMDC prices and volumes to decrease QoQ resulting in lower earnings while COAL volumes should remain nearly flat QoQ but e-auction volume should trend down.

Top Picks: Tata Steel, Hindalco, Vedanta, Coal India

Please see Appendix for analyst certifications and all other important disclosures.

Q4FY22 Earnings Review

India I Metals & Mining

2 June 2022

NIFTY 50: 16523

BSE Sensex: 55381

Institutional Research

Stock price performance (%)*

Company Name	1 Mth	3 Mth	6 Mth	1 Yr
Coal India	7.2	15.6	27.1	32.7
Hindalco Industries	(14.9)	(28.4)	(2.3)	4.2
Hindustan Zinc	(3.7)	(0.6)	(6.0)	(5.2)
Jindal Steel & Power	(30.3)	(11.5)	6.7	(7.6)
Jindal Stainless	(38.2)	(41.7)	(28.6)	22.1
JSW Steel	(21.7)	(9.2)	(9.0)	(19.9)
NMDC	(21.3)	(11.7)	(6.3)	(30.6)
Tata Steel	(16.3)	(12.9)	(4.6)	(5.5)
Vedanta	(22.6)	(16.9)	(8.9)	15.3
SAIL	(21.0)	(20.7)	(25.5)	(39.6)
APL Apollo Tubes	(3.7)	15.9	9.6	51.5
Nifty 50	(3.4)	(1.6)	(3.1)	6.0

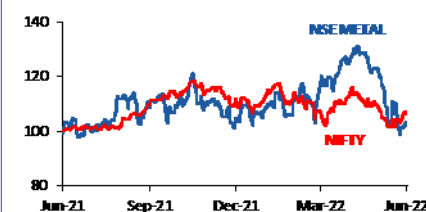
Source: Centrum Broking, *as on 1 June 2022

Rating and Target prices

Company Name	Rating	Price* (Rs)	TP (Rs)
Coal India	BUY	196	252
Hindalco	BUY	411	573
Hindustan Zinc	REDUCE	310	328
Jindal Steel & Power	BUY	376	483
Jindal Stainless	BUY	113	200
JSW Steel	ADD	570	625
NMDC Ltd	BUY	127	182
Tata Steel	BUY	1,063	1,492
Vedanta	BUY	316	507
SAIL	BUY	76	132
APL Apollo Tubes	ADD	985	994

Source: Centrum Broking, *as on 01 June 2022

Nifty 50 vs NSE Metal Index



Source: Bloomberg



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Metals & Mining

Tata Steel (Tata)

We reduce our FY23 EBITDA by 11% to Rs436bn to factor in hit of 15% export duty levied by the Gol on 21st May 2022 and higher coking coal prices. We keep our FY24 EBITDA unchanged. We arrive at a target price of Rs1,492 (earlier Rs1,586), valuing India business at 6.0x (earlier 6.5x) FY24E EV/EBITDA and Europe & Others at 4x FY24E EV/EBITDA. Reiterate BUY.

Exhibit 1: Change in Estimates

YE Mar (Rs mn)	FY23E		% change	FY24E		% change
	New	Old		New	Old	
Revenue	21,97,720	21,97,720	0.0	17,93,395	17,93,395	0.0
EBITDA	4,35,843	4,89,409	-10.9	3,98,069	3,98,069	0.0
EBITDA margin	19.8	22.3		22.2	22.2	
Adj. PAT	2,39,919	2,79,933	-14.3	2,03,080	2,03,080	0.0
Diluted EPS (Rs)	196	229	-14.3	166	166	0.0

Source: Company, Centrum Broking

Exhibit 2: Valuation

Particulars (Rs mn)	FY24E		
	EBITDA	Multiple (x)	EV/share
Tata Steel-India	3,34,097	6.0	20,04,581
Tata Steel-Europe	53,472	4.0	2,13,888
Others	10,500	4.0	42,000
Total EV			22,60,470
Average net debt			4,38,763
Mkt-cap			18,21,706
No. of shares			1,221
TP (Rs/share)			1,492

Source: Company, Centrum Broking

Jindal Stainless (JSL)

We reduce our FY23 EBITDA by 14% to Rs19.6bn to factor in hit of 15% export duty levied by the Gol on 21st May 2022. Our number factors in EBITDA/t of Rs17,882 in FY23E and Rs17,439 in FY24E. We keep our FY24 EBITDA unchanged. We also factor in additional capex of Rs15bn in each of FY23 and FY24 assuming the new 2mtpa Blast furnace will be housed under JSL unlike earlier planned under its Associate company, Jindal United Steel Corporation (JUSCO). We also reduce target EV/EBITDA multiple to 5x from 5.5x earlier. With above changes, our target price is reduced to Rs200 (earlier Rs272), valuing at 5.0x FY24E EV/EBITDA. Reiterate BUY

Exhibit 3: Change in estimates

YE Mar (Rs mn)	FY23E		% change	FY24E		% change
	New	Old		New	Old	
Revenue	2,15,146	2,18,289	-1.4	2,66,031	2,66,031	0.0
EBITDA	19,613	22,748	-13.8	26,809	26,809	0.0
EBITDA margin	9.1	10.4		10.1	10.1	
Adj. PAT	9,753	12,095	-19.4	14,928	14,921	0.0
Diluted EPS (Rs)	19.6	24.0	-18.6	29.4	29.4	0.0

Source: Company, Centrum Broking

Exhibit 4: Valuation

Particulars (Rs mn)	FY24E
EBITDA	26,809
Multiple (x)	5.0
Enterprise Value	1,34,044
Average Net debt*	28,816
Implied Market-cap	1,05,228
No. of shares (mn)	526
Target price (per share)	200

Source: Company, Centrum Broking

Exhibit 5: Actual v/s estimates

Companies	Revenues (Rs mn)			EBIDTA (Rs mn)			Adj Net Profits (Rs mn)		
	Q4FY22	Q4FY22E	variance(%)	Q4FY22	Q4FY22E	variance(%)	Q4FY22	Q4FY22E	variance(%)
Coal India	327,068	311,554	5.0	124,682	92,149	35.3	101,043	64,695	56.2
Hindalco (incl Utkal Alumina)	196,340	194,931	0.7	40,510	38,664	4.8	20,757	19,476	6.6
Hindustan Zinc	87,970	86,339	1.9	49,630	48,358	2.6	29,290	29,790	-1.7
Jindal Steel & Power	143,395	138,214	3.7	30,702	37,046	-17.1	19,335	20,322	-4.9
Jindal Stainless	65,635	60,635	8.2	8,416	7,477	12.6	7,499	4,577	63.8
JSW Steel	468,950	442,423	6.0	91,840	91,448	0.4	39,750	41,251	-3.6
NMDC Ltd	67,022	69,852	-4.1	26,843	32,952	-18.5	18,153	25,348	-28.4
Tata Steel	693,235	669,069	3.6	158,910	161,160	-1.4	100,305	102,853	-2.5
Vedanta	398,220	376,030	5.9	136,330	139,245	-2.1	61,350	69,250	-11.4
SAIL	307,581	315,086	-2.4	43,313	39,348	10.1	24,078	21,512	11.9
APL Apollo Tubes	42,147	43,438	-3.0	2,661	2,593	2.6	1,630	1,560	4.5

Source: Companies, Centrum Broking

Exhibit 6: Financial Summary

Companies	Revenues (Rs mn)					Adj EBIDTA (Rs mn)					Adj Net Profits (Rs mn)				
	Q4FY22	Q3FY22	Q4FY21	QoQ (%)	YoY (%)	Q4FY22	Q3FY22	Q4FY21	QoQ (%)	YoY (%)	Q4FY22	Q3FY22	Q4FY21	QoQ (%)	YoY (%)
Coal India	327,068	284,335	267,001	15.0	22.5	124,682	73,855	79,745	68.8	56.4	101,043	51,165	61,813	97.5	63.5
Hindalco (incl Utkal Alumina)	196,340	184,980	144,770	6.1	35.6	40,510	35,000	18,480	15.7	119.2	20,757	17,340	6,300	19.7	229.5
Hindustan Zinc	87,970	79,900	69,470	10.1	26.6	49,630	43,700	38,750	13.6	28.1	29,290	27,010	24,810	8.4	18.1
Jindal Steel & Power	143,395	125,249	105,937	14	35	30,702	33,102	49,636	-7	-38	19,335	16,167	29,337	19.6	-34.1
Jindal Stainless	65,635	56,700	39,136	15.8	67.7	8,416	7,968	5,422	5.6	55.2	7,499	4,418	2,392	69.7	213.5
JSW Steel	468,950	380,710	269,340	23.2	74.1	91,840	91,320	84,400	0.6	8.8	39,750	43,570	42,740	-8.8	-7.0
NMDC Ltd	67,022	58,738	68,476	14.1	-2.1	26,843	26,124	42,423	2.8	-36.7	18,153	20,498	31,791	-11.4	-42.9
Tata Steel	693,235	607,831	500,284	14.1	38.6	158,910	158,900	139,330	0.0	14.1	100,305	97,661	76,353	2.7	31.4
Vedanta	398,220	340,970	282,060	16.8	41.2	136,330	107,420	90,370	26.9	50.9	61,350	42,010	70,190	46.0	-12.6
SAIL	307,581	252,459	232,860	21.8	32.1	43,313	34,104	61,529	27.0	-29.6	24,078	18,070	36,102	33.2	-33.3
APL Apollo Tubes	42,147	32,304	25,870	30.5	62.9	2,661	2,023	2,065	31.6	28.9	1,630	1,156	1,192	41.0	36.7

Source: Company, Centrum Broking

Exhibit 7: Deleveraging on

Net Debt (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	QoQ (%)	YoY (%)
JSW Steel	5,26,150	5,49,890	5,53,940	6,63,120	5,66,500	-14.6	7.7
SAIL	3,76,770	3,25,850	2,47,020	2,11,470	1,72,840	-18.3	-54.1
Tata Steel	8,24,690	8,02,790	7,51,650	6,78,690	5,60,490	-17.4	-32.0
Jindal Steel & Power	2,21,460	1,52,270	1,11,640	1,09,810	88,760	-19.2	-59.9
Hindalco	4,74,190	5,19,130	4,80,110	4,37,330	3,90,960	-10.6	-17.6
Hindustan Zinc	(1,51,300)	(1,72,490)	(1,91,030)	(1,42,270)	(1,79,660)	26.3	18.7
Jindal Stainless	30,650	28,218	29,500	31,550	29,270	-7.2	-4.5
Vedanta	244,150	202,610	203,900	275,780	209,770	-23.9	-14.1
APL Apollo Tubes	1,736	1,600	1,300	1,600	2,041	27.6	17.6

Source: Company, Centrum Broking *SAIL is gross debt

Exhibit 8: Key Financial snapshot

	Q4FY21	Q3FY22	Q4FY22	QoQ (%)	YoY(%)
X-change rate (INR/USD)	72.9	75.0	75.2	0.3	3.2
JSW Steel (standalone)					
Sales volume (mt)	4.06	4.00	5.11	27.8	25.9
Derived Realization (Rs/t)	52,586	67,020	65,010	(3.0)	23.6
EBITDA/t (Rs)	19,756	16,993	13,517	(20.5)	(31.6)
EBITDA/t (USD)	271	227	180	(20.7)	(33.7)
Jindal Steel & Power (standalone)					
Steel sales volume (mt)	1.91	1.82	2.08	14.3	8.9
Derived Realization (Rs/t)	54,606	65,686	66,494	1.2	21.8
EBITDA/t (Rs)	25,568	17,404	13,589	(21.9)	(46.9)
EBITDA/t (USD)	351	232	181	(22.1)	(48.5)
Tata Steel (standalone)					
Sales volume (mt)	4.50	4.25	4.97	16.8	10.4
Derived Realization (Rs/t)	59,902	74,338	72,978	(1.8)	21.8
EBITDA/t (Rs)	26,054	28,630	23,690	(17.3)	(9.1)
EBITDA/t (USD)	357	382	315	(17.5)	(11.9)
Tata Steel Europe					
Sales volume (mt)	2.5	2.2	2.4	11.1	(2.8)
EBITDA/t (USD)	66	182	241	32.6	263.4
SAIL					
Sales volume (mt)	4.4	3.8	4.7	22.6	8.2
Derived Realization (Rs/t)	48,768	59,040	59,540	0.8	22.1
EBITDA/t (Rs)	14,145	8,881	9,204	3.6	(34.9)
EBITDA/t (USD)	194	118	122	3.4	(36.9)
Coal India					
Sales volume (mt)	165	171	181	6.2	9.8
FSA	133	145	150	3.8	13.0
E-auction	29	26	28	6.6	(4.4)
Blended Realization (Rs/t)	1,486	1,524	1,659	8.9	11.6
FSA	1,392	1,370	1,474	7.6	5.9
E-auction	1,752	1,947	2,434	25.0	38.9
EBITDA/t (Rs)	484	433	689	59.0	42.4
NMDC					
Iron ore volume (mt)	11.1	9.8	12.3	24.8	10.8
Blended realization (Rs/t)	6,138	5,914	5,431	(8.2)	(11.5)
EBITDA/t (Rs)	3,825	2,654	2,185	(17.7)	(42.9)
Hindalco					
Aluminium sales volume (000 t)	329	325	336	3.4	2.1
Aluminium incl Utkal Alumina- EBITDA/t (USD)	759	1,385	1,603	15.7	111.2
Copper sales volume (000 t)	107	110	105	(4.5)	(1.9)
Copper-EBITDA/t (USD)	413	473	490	3.7	18.7
Novelis					
Aluminium volume (mt)	0.98	0.93	0.99	6.1	0.4
EBITDA/t (USD)	514	544	437	(19.7)	(15.0)
EBITDA (USD mn)	505	506	431	(14.8)	(14.7)

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	Q4FY21	Q3FY22	Q4FY22	QoQ (%)	YoY(%)
Hindustan Zinc					
Volumes (000 t)					
Mined metal	288	252	295	17.1	2.4
Refined zinc	198	212	214	0.9	8.1
Refined lead	62	47	49	4.3	(21.0)
Silver (t)	203	173	162	(6.4)	(20.2)
Vedanta					
EBITDA (Rs mn)	90,380	108,640	136,930	26.0	51.5
Zinc India	38,460	43,840	49,630	13.2	29.0
International Zinc	2,010	3,670	4,670	27.2	132.3
Oil & gas	10,690	14,920	20,520	37.5	92.0
Iron ore	7,930	4,100	5,490	33.9	(30.8)
Steel	3,090	1,670	2,390	43.1	(22.7)
Copper	(710)	140	160	14.3	(122.5)
Aluminium	27,400	37,470	52,180	39.3	90.4
Power	1,510	2,830	1,890	(33.2)	25.2
EBITDA (ex-Hindustan Zinc)	51,920	64,800	87,300	34.7	68.1
Jindal Stainless					
Volumes (kt)	255	248	269	8.7	5.5
EBITDA/t (Rs)	20,438	29,855	28,278	(5.3)	38.4
APL Apollo Tubes					
Sales volumes (000 tonnes)	435	403	552	37.0	26.7
EBITDA/t (Rs)	4,742	5,024	4,823	(4.0)	1.7

Source: Company, Centrum Broking

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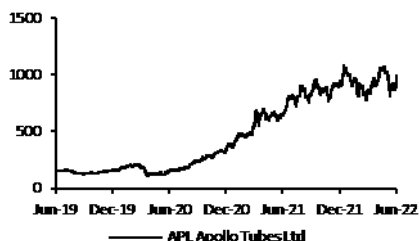
Buy – The stock is expected to return above 15%.

Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5-+5% returns.

Sell – The stock is expected to deliver <-5% returns.

Apollo Tubes



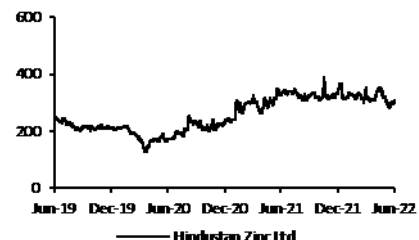
Hindalco



Vedanta



Hindustan Zinc



Jindal Stainless



JSPL



JSW Steel



Tata Steel



SAIL



Coal India



NMDC



Source: Bloomberg

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