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Steel companies' EBITDA/tonne likely to soften QoQ

On the back of elevated coking coal prices, sequentially, EBITDA/tonne of steel companies is likely to witness a softening trend in Q3FY22E. During the quarter while blended steel realisation is expected to sequentially increase merely ~₹ 1000/tonne QoQ, on the other hand coking coal costs are expected to witness a sharp uptick of ~US\$80-100/tonne QoQ. Within our coverage universe, higher coking coal cost are expected to lead to a sequential dip in EBITDA/tonne in the range of ~₹ 3000-6000/tonne QoQ, wherein SAIL's EBITDA/tonne would be most impacted while Tata Steel's EBITDA/tonne would be least impacted. For Q3FY22E, EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 27500/tonne (₹ 30739/tonne in Q2FY22). For Q3FY22E, standalone operations of JSW Steel are likely to post an EBITDA/tonne of ₹ 18000/tonne (₹ 22884/tonne in Q2FY22). SAIL's EBITDA/tonne for Q3FY22E is likely to come in at ₹ 10500/tonne (₹ 16434/tonne in Q2FY22). On the volume front, for Q3FY22 steel companies' volumes are likely to be flattish QoQ, on the back of tepid domestic demand sequentially and lower exports. On the non-ferrous front, on a QoQ basis, in US dollar terms, zinc, aluminium and copper prices are up 12%, 4% and 3%, respectively, while on a YoY basis, zinc, aluminium and copper prices are up 28%, 44% and 35%, respectively.

Majority of base metal prices improve sequentially...

In Q3FY22E, base metal prices (except lead) improved both QoQ, YoY. During the quarter, average zinc prices on LME were at US\$3356/tonne, up 28% YoY, 12% QoQ, while average lead prices were at US\$2326/tonne, up 22% YoY but down 0.3% QoQ. In the quarter, average aluminium prices on LME were at US\$2754/tonne, up 44% YoY, 4% QoQ while average copper prices on LME were at US\$9704/tonne, up 35% YoY, 3% QoQ.

Aggregate EBITDA, EBITDA margins likely to soften QoQ...

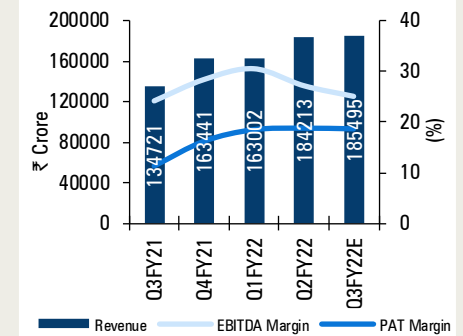
For Q3FY22E, we expect the aggregate topline of coverage companies to increase 38% YoY, 1% QoQ to ₹ 185495 crore. Aggregate EBITDA of the coverage universe is expected to be up 43% YoY but down 7% QoQ to ₹ 46412 crore. The aggregate EBITDA margin of coverage universe is likely to come in at 25% (up 90 bps YoY but down 211 bps QoQ). The EBITDA/tonne of domestic miners in Coal India is likely to come in at ₹ 350/tonne with NMDC expected to report the same at ₹ 2500/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$550/tonne (Novelis numbers inclusive of Aleris numbers).

Exhibit 1: Estimates for Q3FY22E: (Metals and Mining) (₹ Crore)

Company	Revenue			EBITDA			PAT		
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ
Coal India	27,765	17	19	6,090	18	54	4,239	37	45
Graphite India	765	53	11	166	LP	52	177	668	38
Hindalco	16,565	45	-5	3,253	113	-10	1,529	209	-16
JSW Steel	33,358	53	3	9,270	56	-11	5,440	104	-24
NMDC	6,282	44	-8	2,480	-10	-20	1,880	-11	-20
SAIL	25,337	28	-6	4,190	-17	-40	2,125	66	-51
Jindal Stainless	5,006	40	0	740	56	-1	408	140	-1
Jindal Stainless Hisar	3,696	17	-1	558	44	-2	482	78	-3
Tata Steel	59,280	41	-2	15,956	67	-3	9,676	155	-23
Ratnamani Metals & Tube	872	98	22	142	77	28	99	64	37
Total	1,85,495	38	1	46,412	43	-7	28,253	84	-19

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

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME.

US\$/t	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %
Zinc	3,356	2,628	27.7	2,991	12.2
Lead	2,326	1,902	22.3	2,332	(0.3)
Alum.	2,754	1,917	43.6	2,646	4.1
Copper	9,704	7,178	35.2	9,382	3.4

Source: Bloomberg, ICICI Direct Research,

₹/tonne	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %
Zinc	2,51,589	1,93,858	29.8	2,21,558	13.6
Lead	1,74,336	1,40,327	24.2	1,72,783	0.9
Alum.	2,06,423	1,41,419	46.0	1,96,011	5.3
Copper	7,27,423	5,29,521	37.4	6,95,084	4.7

Source: Bloomberg, ICICI Direct Research,

Top Picks

Hindalco
Jindal Stainless
Jindal Stainless Hisar

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Exhibit 2: Company Specific Views – Metals and Mining

Company	Remarks
Tata Steel	For Q3FY22E, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 27500/tonne (compared to an EBITDA/tonne of ₹ 30739/tonne in Q2FY22). Higher coking coal costs are likely to increase operating costs during Q3FY22E, thereby sequentially impacting EBITDA/tonne. For Q3FY22E, Tata Steel's standalone operations is expected to report steel sales volume of 4.2 million tonne (MT) while European operation steel sales are likely to come in at 2.2 MT. For Q3FY22E, we expect European operations to report a EBITDA/tonne of US\$200/tonne (EBITDA/tonne of US\$211/tonne in Q2FY22). For Q3FY22E, on a consolidated basis, the topline is expected to increase 41% YoY but down 2% QoQ to ₹ 59280 crore. Consolidated EBITDA for Q3FY22E is expected to increase 67% YoY but down 3% QoQ to ₹15956 crore. Consolidated EBITDA margins for Q3FY22E are likely to come in at 26.9%
JSW Steel	For Q3FY22E, we expect JSW Steel's standalone sales volume to come in at 3.9 MT, up 3% QoQ but flattish YoY. For the quarter, we expect JSW Steel to report a consolidated topline of ₹33358 crore, up 53% YoY, 3% QoQ. Consolidated EBITDA is likely to come in at ₹ 9270 crore, up 56% YoY but down 11% QoQ. For Q3FY22E, for standalone operations JSW Steel is likely to report an EBITDA/tonne of ₹18000/tonne (₹ 14444/tonne in Q3FY21 and ₹ 22884/tonne in Q2FY22). During Q3FY22E, on the cost front, higher coking coal costs and start-up cost at Dolvi is likely to weigh in. Consolidated EBITDA margin for Q3FY22E is likely to come in at 27.8% (27.2% in Q3FY21 and 32.0% in Q2FY22). The ensuing consolidated PAT for Q3FY22E is likely to come in at ₹5440 crore, up 104% YoY but down 24% QoQ
SAIL	For Q3FY22E, we expect SAIL's performance to be adversely impacted on account of higher coking coal costs. For the quarter, we expect SAIL to report sales volume of 4.0 MT, down 5% YoY and 7% QoQ. Topline is expected to come in at ₹ 25337 crore, up 28% YoY but down 6% QoQ. EBITDA is likely to come in at ₹4190 crore, down 17% YoY and 40% QoQ. EBITDA/tonne for Q3FY22E is likely to come in at ₹10500/tonne compared to ₹ 16434/tonne in Q2FY22. Ensuig PAT is likely to come in at ₹ 2125 crore, up 66% YoY but down 51% QoQ
Hindalco	For Q3FY22E, we expect Hindalco's domestic operations (standalone operations + Utkal) to report aluminium sales volume of ~330000 tonnes (315000 in Q3FY21 and 338000 in Q2FY22) and copper volumes of ~100000 tonnes (73000 tonnes in Q3FY21 and 110000 tonnes in Q2FY22). We expect Hindalco's domestic operations (standalone operations + Utkal) topline to come in at ₹ 16565 crore (up 45% YoY but down 5% QoQ). EBITDA margin is likely to come it at 19.6% (13.4% in Q3FY21 and 20.7% in Q2FY22). The subsequent EBITDA of Hindalco's domestic operations (standalone operations + Utkal) is likely to come in at ₹ 3253 crore, up 113% YoY but down 10% QoQ. Novelis is likely to report sales volume of 950 KT and EBITDA/tonne of US\$550/tonne
Jindal Stainless	For Q3FY22E, we expect Jindal Stainless (JSL) to report sales volume of 250000 tonnes (flattish YoY but down 3% QoQ). Consolidated topline is expected to come in at ₹ 5006 crore (up 40% YoY but flattish QoQ). Consolidated EBITDA is likely to come in at ₹ 740 crore (up 56% YoY but down 1% QoQ). Consolidated EBITDA margin is likely to come in at 14.8% (13.2% in Q3FY21 and 14.9% in Q2FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 28000/tonne (₹ 17745/tonne in Q3FY21, ₹ 27685/tonne in Q2FY22). Consolidated PAT is likely to come in at ₹ 408 crore (up 140% YoY but down 1% QoQ)
Jindal Stainless Hisar	For Q3FY22E, we expect Jindal Stainless Hisar (JSHL) to report sales volume of 182500 tonnes (down 4% YoY and 3% QoQ). Consolidated topline is expected to come in at ₹ 3696 crore (up 17% YoY but down 1% QoQ). Consolidated EBITDA is likely to come in at ₹ 558 crore (up 44% YoY but down 2% QoQ). Consolidated EBITDA margin is likely to come in at 15.1% (12.3% in Q3FY21 and 15.1% in Q2FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 27000/tonne (₹ 18335/tonne in Q3FY21, ₹ 26636/tonne in Q2FY22). Consolidated PAT is likely to come in at ₹ 482 crore (up 78% YoY but down 3% QoQ)
Ratnamani Metals & Tubes	We expect Ratnamani to report steady performance for Q3FY22E. Ratnamani's topline is likely to increase 98% YoY and 22% QoQ to ₹ 872 crore while EBITDA is likely to increase 77% YoY and 28% QoQ to ₹ 142 crore. For Q3FY22E, RMTL is likely to report an EBITDA margin of 16.3% (18.1% in Q3FY21 and 15.6% in Q2FY22). Ensuig PAT for the quarter is likely to come in at ₹ 99 crore, up 64% YoY and 37% QoQ

Source: Company, ICICI Direct Research

JSW Steel: Sales Volume; EBITDA/tonne...

	Q3FY22E	Q3FY21	YoY	Q2FY22	QoQ
Sales Vol.	3.9	3.9	0%	3.8	3%
EBITDA/t	18000	14444	25%	22884	-21%

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

Tata Steel: Sales Volume; EBITDA/tonne...

	Q3FY22E	Q3FY21	YoY	Q2FY22	QoQ
Sales Vol.					
India Stand.	4.2	4.5	-5%	4.4	-4%
Europe Op.	2.1	2.1	0%	2.1	-2%
EBITDA/t					
India Stand.	27500	20238	36%	30739	-11%
Europe	200	-46	LP	211	-5%

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

Graphite India	<p>For Q3FY22E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 83% (65% in Q3FY21 and 81% in Q2FY22). For the quarter, we expect Graphite India to report a consolidated topline of ₹ 765 crore (up 53% YoY and 11% QoQ). We expect GIL to report consolidated EBITDA of ₹ 166 crore (up 52% QoQ) and a consolidated net profit of ₹ 177 crore (up 38% QoQ)</p>
Coal India	<p>For Q3FY22E, Coal India (CIL) reported coal offtake of 174 million tonne (MT), up 13% YoY and 18% QoQ. For the quarter, we expect CIL's consolidated topline to increase 17% YoY and 19% QoQ to ₹ 27765 crore. Consolidated EBITDA margin is likely to come in at 21.9% for Q3FY22E compared to 21.8% in Q3FY21 and 16.9% in Q2FY22. For Q3FY22E, we expect Coal India to clock an EBITDA/tonne of ₹ 350/tonne compared to ₹ 335/tonne in Q3FY21 and ₹ 267/tonne in Q2FY22]</p>
NMDC	<p>For Q3FY22E, on the back of price cuts under taken during the quarter, we expect NMDC's blended realisation to decline ~16% QoQ. For Q3FY22E, we expect NMDC to report sales volume of 9.9 MT up 6% YoY and 10% QoQ. Topline is expected to come in at ₹ 6282 crore, up 44% YoY but down 8% QoQ. EBITDA is expected to come in at ₹ 2480 crore, down 10% YoY and 20% QoQ. EBITDA margin is likely to come in at 39.5% (63.5% in Q3FY21 and 45.8% in Q2FY22). Ensuing PAT for Q3FY22E is likely to come at ₹ 1880 crore, down 11% YoY, 20% QoQ</p>

Source: Company, ICICI Direct Research

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

	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	156	160	Hold	94725	20.6	25.1	27.7	7.3	6.0	5.5	4.2	4.1	4.1	42.3	41.7	39.8	34.8	36.7	35.5	
Hindalco	493	600	Buy	102437	25.5	58.3	59.8	17.3	7.6	7.4	8.3	5.3	4.8	8.8	14.8	14.5	8.5	17.6	15.5	
NMDC	139	175	Buy	43109	21.3	34.7	20.6	6.3	3.9	6.5	4.1	2.6	4.1	27.0	35.1	18.7	21.0	28.6	15.4	
JSW Steel	672	725	Hold	162896	32.9	82.5	66.4	19.9	8.0	9.9	10.4	5.6	6.4	13.8	22.1	15.3	17.0	30.0	19.5	
Ratnamani	1951	2450	Buy	9173	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2	
Graphite Ind.	507	650	Buy	8346	-1.6	31.3	62.7	NA	14.7	7.3	NA	9.2	3.8	-5.4	12.1	23.1	-0.7	12.4	21.2	
Tata Steel	1158	1400	Buy	143653	77.1	293.3	181.7	15.2	4.0	6.4	7.3	3.4	4.5	13.1	30.1	18.8	12.4	32.7	16.7	
Jindal Stainless Jindal	195	250	Buy	8671	8.6	26.2	22.7	19.3	6.3	7.3	7.8	4.9	5.7	16.0	25.2	18.1	13.0	29.1	20.1	
Jindal Stainless Hisar	370	488	Buy	7545	29.5	63.9	58.9	10.4	4.8	5.2	7.7	4.2	4.0	18.6	26.7	20.9	23.2	32.4	22.5	
Vardhman Special Steel	267	340	Buy	976	10.9	24.9	29.5	23.2	10.2	8.6	11.1	6.4	5.6	13.7	21.2	21.1	9.6	18.5	18.3	
Tata Metaliks	870	1300	Buy	2822	69.9	88.9	101.2	13.0	10.2	9.0	6.9	5.9	4.6	24.6	24.9	23.0	17.0	18.1	17.1	

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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