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Steel companies' EBITDA/tonne likely to soften QoQ...

On the back of higher coking coal prices, sequentially, EBITDA/tonne of steel companies is likely to witness a softening trend in Q4FY22E. During the quarter, blended steel realisation is expected to be up sequentially by ~₹ 1000-3000/tonne, driven by back-ended price hikes and strong export market. However, on the cost side, coking coal costs for the quarter are expected to be higher by ~US\$40-50/tonne sequentially. Hence for our coverage universe, higher coking coal cost is expected to lead to a sequential dip in EBITDA/tonne in the range of ~₹ 1000-3000/tonne QoQ. For Q4FY22E, EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 25500/tonne (₹ 28631/tonne in Q3FY22). For Q4FY22E, standalone operations of JSW Steel are likely to post an EBITDA/tonne of ₹ 14000/tonne (₹ 16993/tonne in Q3FY22). SAIL's EBITDA/tonne for Q4FY22E is likely to come in at ₹ 7800/tonne (₹ 8859/tonne in Q3FY22). Steel players are likely to report higher sales volume sequentially. For Q4FY22E, Tata Steel's standalone operations are expected to report sales volume of 5 MT (up 17% QoQ), JSW Steel's standalone operations are expected to report sales volume of 4.9 MT (up 23% QoQ). SAIL's sales volume for Q4FY22E is expected to come in at 4.5 MT (up 17% QoQ).

Majority of base metal prices improve sequentially...

In Q4FY22E, base metal prices (except lead) improved both QoQ, YoY. During the quarter, average zinc prices on LME were at US\$3738/tonne, up 36% YoY, 11% QoQ, while average lead prices were at US\$2325/tonne, up 16% YoY and flattish QoQ. In the quarter, average aluminium prices on LME were at US\$3262/tonne, up 56% YoY, 18% QoQ while average copper prices on LME were at US\$9997/tonne, up 18% YoY, 3% QoQ.

For Q4FY22E, aggregate EBITDA to increase both QoQ, YoY

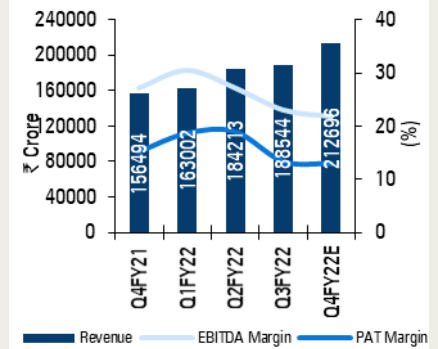
For Q4FY22E, we expect the aggregate topline of coverage companies to increase 36% YoY, 13% QoQ to ₹ 212696 crore. Aggregate EBITDA of the coverage universe is expected to be up 9% YoY, 7% QoQ to ₹ 46117 crore. The aggregate EBITDA margin of the coverage universe is likely to come in at 21.7% (down 546 bps YoY, 127 bps QoQ). The decline in aggregate EBITDA margins was on account of rising input costs. The EBITDA/tonne of domestic miners in Coal India is likely to come in at ₹ 475/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\$475/tonne.

Exhibit 1: Estimates for Q4FY22E: (Metals and Mining) (₹ crore)

Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Coal India	31,080	16	9	8,555	34	25	6,020	31	32			
Graphite India	1,014	80	15	197	152	44	189	196	43			
Hindalco	19,235	33	4	3,972	111	5	2,075	218	20			
JSW Steel	45,325	68	19	8,610	2	-6	4,242	1	-6			
NMDC	6,956	2	18	3,120	-26	20	2,391	-16	17			
SAIL	30,375	30	20	3,510	-43	3	1,710	-50	12			
Jindal Stainless	6,056	55	7	804	48	1	453	55	3			
Jindal Stainless Hisar	4,032	30	-3	572	41	1	518	48	1			
Tata Steel	67,710	35	11	16,632	17	5	9,808	37	2			
Ratnamani Metals & Tube	913	31	-2	146	-8	12	100	-8	13			
Total	2,12,696	36	13	46,117	9	7	27,506	16	9			

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

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME.

US\$/t	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %
Zinc	3,738	2,749	36.0	3,356	11.4
Lead	2,325	2,011	15.6	2,326	(0.0)
Alum.	3,262	2,096	55.6	2,754	18.5
Copper	9,997	8,501	17.6	9,704	3.0

Source: Bloomberg, ICICI Direct Research,

₹/tonne	Q4FY22	Q4FY21	YoY %	Q3FY22	QoQ %
Zinc	2,81,256	2,00,438	40.3	2,51,589	11.8
Lead	1,74,960	1,46,616	19.3	1,74,336	0.4
Alum.	2,45,410	1,52,786	60.6	2,06,423	18.9
Copper	7,52,144	6,19,779	21.4	7,27,423	3.4

Source: Bloomberg, ICICI Direct Research,

Top Picks

Hindalco
Jindal Stainless
Jindal Stainless Hisar

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Exhibit 2: Company Specific Views – Metals and Mining

Company	Remarks
Tata Steel	For Q4FY22E, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 25500/tonne (compared to an EBITDA/tonne of ₹ 28631/tonne in Q3FY22). Higher coking coal costs are likely to increase operating costs during Q4FY22E thereby resulting in a sequential decline in EBITDA/tonne. For Q4FY22E, Tata Steel's standalone operations is expected to report steel sales volume of 5.0 million tonne (MT), up 17% QoQ, while European operation steel sales are likely to come in at 2.36 MT, up 9% QoQ. For Q4FY22E, we expect European operations to report an EBITDA/tonne of US\$200/tonne (EBITDA/tonne of US\$182/tonne in Q3FY22). For Q4FY22E, on a consolidated basis, the topline is expected to increase 35% YoY and 11% QoQ to ₹ 67710 crore. Consolidated EBITDA for Q4FY22E is expected to increase 17% YoY and 5% QoQ to ₹16632 crore. Consolidated EBITDA margins for Q4FY22E are likely to come in at 24.6% compared to 26.1% in Q3FY22
JSW Steel	For Q4FY22E, we expect JSW Steel's standalone sales volume to come in at 4.9 MT, up 20% YoY and 23% QoQ. For the quarter, we expect JSW Steel to report a consolidated topline of ₹ 45325 crore, up 68% YoY and 19% QoQ. Consolidated EBITDA is likely to come in at ₹ 8610 crore, up 2% YoY but down 6% QoQ. For Q4FY22E, for standalone operations JSW Steel is likely to report an EBITDA/tonne of ₹ 14000/tonne (₹ 16993/tonne in Q3FY22 and ₹ 19756/tonne in Q4FY21). During Q4FY22E, on the cost front, higher coking coal costs are likely to weigh. Consolidated EBITDA margin for Q4FY22E is likely to come in at 19.0% (31.3% in Q4FY21, 24.0% in Q3FY22). Ensuing consolidated PAT for Q4FY22E is likely to come in at ₹ 4242 crore, up 1% YoY but down 6% QoQ
SAIL	For Q4FY22E, we expect SAIL's EBITDA/tonne to decline sequentially on higher coking coal costs. For the quarter, we expect SAIL to report sales volume of 4.5 MT, up 3% YoY and 17% QoQ. The topline is expected to come in at ₹ 30375 crore, up 30% YoY and 20% QoQ. EBITDA is likely to come in at ₹ 3510 crore, down 43% YoY but up 3% QoQ. EBITDA/tonne for Q4FY22E is likely to come in at ₹ 7800/tonne compared to ₹ 8859/tonne in Q3FY22. Ensuing PAT is likely to come in at ₹ 1710 crore, down 50% YoY but up 12% QoQ
Hindalco	For Q4FY22E, we expect Hindalco's domestic operations (standalone operations + Utkal) to report aluminium sales volume of ~325000 tonnes (329000 in Q4FY21 and 325000 in Q3FY22) and copper volumes of ~100000 tonnes (107000 tonnes in Q4FY21 and 110000 tonnes in Q3FY22). We expect Hindalco's domestic operations (standalone operations + Utkal) topline to come in at ₹ 19235 crore (up 33% YoY, 4% QoQ). EBITDA margin is likely to come it at 20.6% (13.0% in Q4FY21 and 20.4% in Q3FY22). The subsequent EBITDA of Hindalco's domestic operations (standalone operations + Utkal) is likely to come in at ₹ 3972 crore, up 111% YoY and 5% QoQ. Novelis is likely to report sales volume of 970 KT and EBITDA/tonne of US\$475/tonne
Jindal Stainless	For Q4FY22E, we expect Jindal Stainless (JSL) to report sales volume of 269168 tonnes (up 6% YoY, 9% QoQ). Consolidated topline is expected to come in at ₹ 6056 crore (up 55% YoY, 7% QoQ). Consolidated EBITDA is likely to come in at ₹ 804 crore (up 48% YoY, 1% QoQ). Consolidated EBITDA margin is likely to come in at 13.3% (13.8% in Q4FY21, 14.1% in Q3FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 28000/tonne (₹ 20438/tonne in Q4FY21, ₹ 29855/tonne in Q3FY22). Consolidated PAT is likely to come in at ₹ 453 crore (up 55% YoY and 3% QoQ)
Jindal Stainless Hisar	For Q4FY22E, we expect Jindal Stainless Hisar (JSHL) to report sales volume of 180000 tonnes (down 1% YoY, 2% QoQ). Consolidated topline is expected to come in at ₹ 4032 crore (up 30% YoY but down 3% QoQ). Consolidated EBITDA is likely to come in at ₹ 572 crore (up 41% YoY, 1% QoQ). Consolidated EBITDA margin is likely to come in at 14.2% (13.1% in Q4FY21 and 13.6% in Q3FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 29000/tonne (₹ 19952/tonne in Q4FY21, ₹ 28259/tonne in Q3FY22). Consolidated PAT is likely to come in at ₹ 518 crore (up 48% and 1% QoQ)
Ratnamani Metals & Tubes	We expect Ratnamani to report a steady performance in Q4FY22E. Topline is likely to increase 31% YoY but reduce 2% QoQ to ₹ 913 crore. EBITDA is likely to decline 8% YoY, but rise 12% QoQ to ₹ 146 crore. For Q4FY22E, RMTL is likely to report an EBITDA margin of 16.0% (22.8% in Q4FY21 and 14.0% in Q3FY22). Ensuing PAT for the quarter is likely to come in at ₹ 100 crore, down 8% YoY, but up 13% QoQ

Source: Company, ICICI Direct Research

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

	Q4FY22E	Q4FY21	YoY	Q3FY22	QoQ
Sales Vol.	4.9	4.1	20%	4.0	23%
EBITDA/t	14000	19756	-29%	16993	-18%

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

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

	Q4FY22E	Q4FY21	YoY	Q3FY22	QoQ
Sales Vol.					
India Stand.	5.0	4.5	10%	4.3	17%
Europe Op.	2.4	2.5	-4%	2.2	9%
EBITDA/t					
India Stand.	25500	27775	-8%	28631	-11%
Europe	200	66	203%	182	10%

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 Q4FY22E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 92% (75% in Q4FY21 and 90% in Q3FY22). For the quarter, we expect Graphite India to report a consolidated topline of ₹1014 crore (up 80% YoY, 15% QoQ). We expect GIL to report consolidated EBITDA of ₹ 197 crore (up 152% YoY, 44% QoQ) and consolidated net profit of ₹ 189 crore (up 196% YoY, 43% QoQ)</p>
Coal India	<p>For Q4FY22E, Coal India (CIL) reported coal offtake of 180 million tonne (MT), up 9% YoY, 4% QoQ. For the quarter, we expect CIL's consolidated topline to increase 16% YoY and 9% QoQ to ₹ 31080 crore. Consolidated EBITDA margin is likely to come in at 27.5% for Q4FY22E compared to 23.9% in Q4FY21 and 24.0% in Q3FY22. For Q3FY22E, we expect Coal India to clock an EBITDA/tonne of ₹ 475/tonne compared to ₹ 387/tonne in Q4FY21 and ₹ 393/tonne in Q3FY22</p>
NMDC	<p>For Q4FY22E, we expect NMDC to report sales volume of 12.4 MT up 12% YoY and 27% QoQ. Topline is expected to come in at ₹ 6956 crore, up 2% YoY and 18% QoQ. EBITDA is expected to come in at ₹ 3120 crore, down 26% YoY, but up 20% QoQ. EBITDA margin is likely to come in at 44.9% (44.5% in Q3FY22). Ensuing PAT for Q4FY22E is likely to come in at ₹ 2391 crore, down 16% YoY but up 17% QoQ</p>

Source: Company, ICICI Direct Research

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

	CMP		TP	Rating	M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E		
Coal India	186	195	Buy	114627	20.6	25.7	28.0	9.0	7.2	6.6	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5			
Hindalco	542	725	Buy	121898	25.5	62.8	73.7	21.2	8.6	7.4	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3			
NMDC	170	190	Buy	49732	21.3	34.2	20.9	8.0	5.0	8.1	5.2	3.5	5.5	27.0	34.6	19.0	21.0	28.3	15.9			
JSW Steel	754	775	Buy	182234	32.9	98.1	76.8	22.9	7.7	9.8	11.6	6.0	6.5	13.8	22.1	15.6	17.0	33.8	21.0			
Ratnamani	2439	2254	Hold	11397	59.0	69.3	90.2	41.3	35.2	27.0	27.3	21.3	16.9	15.7	18.4	19.8	13.9	14.5	16.3			
Graphite Ind.	560	650	Buy	10942	-1.6	29.7	62.4	NA	18.9	9.0	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7			
Tata Steel	1321	1600	Buy	161389	77.1	329.7	205.7	17.1	4.0	6.4	7.9	3.5	4.6	13.1	30.0	18.4	12.4	35.1	17.7			
Sail	108	120	Buy	44605	9.2	29.1	16.0	11.8	3.7	6.8	6.2	3.0	4.6	10.9	22.2	11.5	8.9	22.5	11.5			
Jindal Stainless Jindal	203	250	Buy	10237	8.6	31.9	23.5	23.6	6.4	8.6	9.1	5.3	6.9	16.0	25.4	16.5	13.0	33.3	19.7			
Stainless Hisar	383	488	Buy	9035	29.5	70.8	58.9	13.4	5.6	6.7	9.6	5.3	5.4	18.6	28.5	19.8	23.2	34.7	21.9			
Vardhman Special Steel	260	300	Buy	1055	10.9	23.0	25.6	23.8	11.3	10.1	11.3	6.5	6.1	13.7	22.0	20.9	9.6	17.2	16.3			
Tata Metaliks	883	975	Hold	2788	69.9	74.3	80.1	12.6	11.9	11.0	6.7	6.7	5.8	24.6	21.6	19.5	17.0	15.6	14.4			

Source: Company, ICICI Direct Research

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