

Apr-Jun'22 Earnings Preview

July 11, 2022

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Coal India	Accumulate	190	220
Hindalco Industries	Accumulate	358	545
Hindustan Zinc	Reduce	263	283
Jindal Steel & Power	Reduce	343	362
JSW Steel	Reduce	566	560
NMDC	Reduce	109	120
Steel Authority of India	Reduce	72	55
Tata Steel	Reduce	886	975

Source: PL

Note: Target prices may not be consistent with ratings as stocks have corrected in last one month.

Top Picks

Hindalco Industries

Weakness in current quarter kicks off the down-cycle

We expect EBITDA of steel companies under our coverage universe to decline by 36% QoQ due to seasonal decline in volumes and contraction in margins. Sales volumes are expected to decline by 22% QoQ (up 5% YoY) due to seasonal slowdown in domestic volumes and lower exports. Steel realisations would improve by 7% QoQ/Rs4,880/t on back of strong flat product prices till mid of May and lower fall in long product prices. Costs are expected to increase by 14% QoQ/Rs7,600/t on account of higher coking coal cost. Owing to increase in realisations incommensurate with rise in costs, EBITDA margins would fall by 18% QoQ/Rs2,750 (down 52% YoY) to Rs12,850.

Chinese steel demand to remain sluggish: Contrary to expectation of revival in economy aftermath the slowing of Covid-19 wave, steel demand continued to contract. Govt announced slew of measures like 1) relaxation of policies to revive housing market, 2) cut in taxes on buying of cars and 3) preponment of bond issuances in H2CY22 worth US\$220bn to fund infrastructure spending and revive the economic activity. But, it clearly underestimates fatigue and saturation of its housing and infrastructure sectors which is facing significant excesses and slowing demand. Due to these structural factors, we expect prices to remain under downward pressure.

Margins still away from normalisation: Domestic steel prices fell sharply by ~20-25% in last couple of months due to slump in global demand, elevated inventory and subdued recovery in Chinese demand. We see further fall in prices in wake of sharp decline in coking coal prices, destocking and weak demand. Though margins are expected to come off sharply in Q1FY23, still the levels are far higher than sustained low margins in down cycle. We expect that it would take couple of quarters for margins to bottom-out due to 1) weak demand in US & Europe, 2) concerns on high inflation and 3) uncertain market conditions in China.

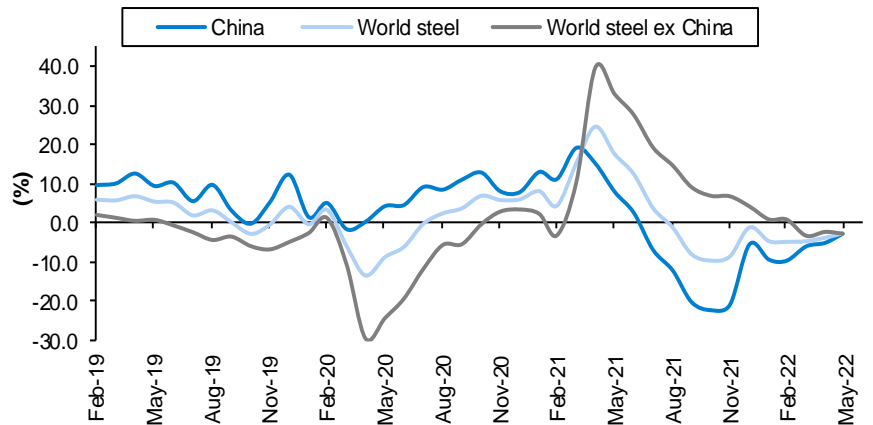
Maintain our negative stance on the sector: Global steel markets were spooked due to Russia-Ukraine war, depressed market conditions in China and high inflation. Stocks have come-off sharply in last 45 days, because of combination of factors including export duty imposed by Govt of India. However, margins above historical averages, challenging macro environment and limited upside in stocks drives our negative outlook on sector. We like Hindalco (HNDL) in the metals space on back of relatively better outlook on Aluminium prices due to constrained supplies and no major capacity addition across the markets and rising usage of metal.

Global steel production fell by 3% due to contraction in China's production: World crude steel production fell by 3.4% YoY in Apr-May'22 due to 4% fall in China's steel production. While, Rest of World's (RoW) production fell by 2.5% YoY. India's steel production grew by 19% YoY. Production in EU fell 11% YoY, due to energy issues. Production in Japan/South Korea fell by 4%/4% YoY, due to auto production impacted by chip shortage. Production in USA fell by 2% on account of weak domestic demand.

Kamlesh Bagmar

kamleshbagmar@plindia.com | 91-22-66322237

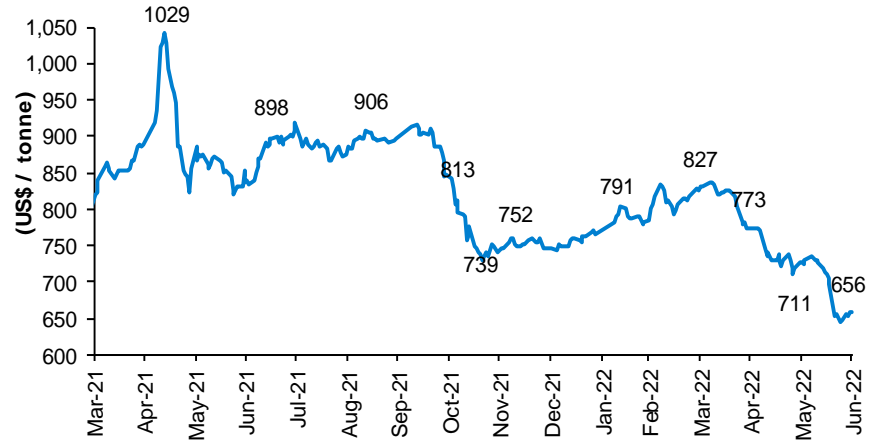
Exhibit 2: Movement in World Crude Steel Production



Source: World Steel, PL

Average Chinese HRC prices dipped by 6% QoQ to US\$745/t due to weak domestic demand and elevated level of production.

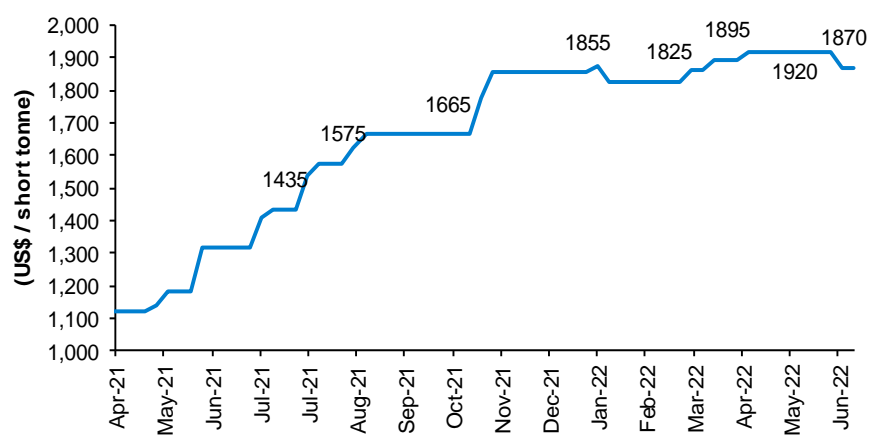
Exhibit 3: China HRC Price



Source: Bloomberg, PL

The average HRC prices in North America increased 3.6% QoQ to US\$1,905/short ton due to high cost pressure and restricted supplies in imports.

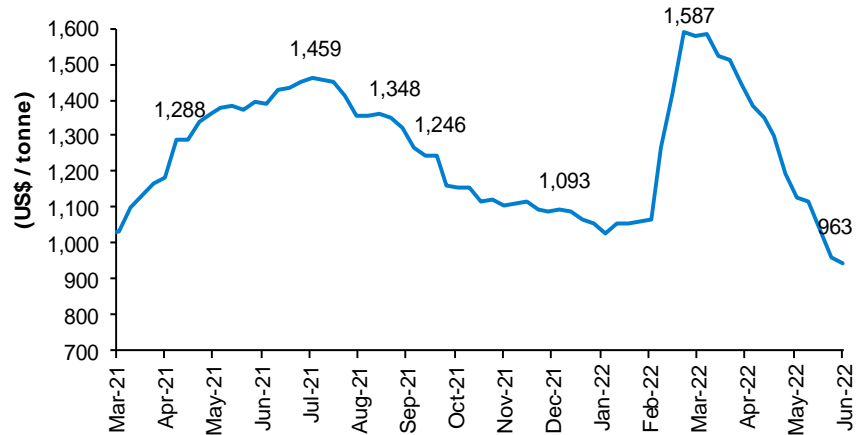
Exhibit 4: North America HRC Price



Source: Bloomberg, PL

The average HRC price in Europe surged by 4% QoQ to US\$1,276/t due to sharp increase in March-April. As prices slumped in last couple of months, the current levels are below Q1FY23 average by ~25%.

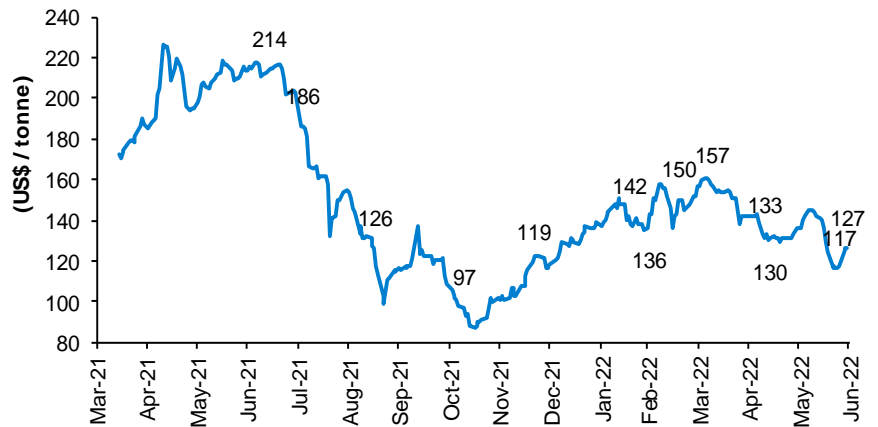
Exhibit 5: Europe HRC Price



Source: Bloomberg, PL

Iron ore prices remained flat QoQ at US\$140/t. Due to absence of pick-up in Chinese economic activity, the current prices are lower by ~17% on Q1FY23 average.

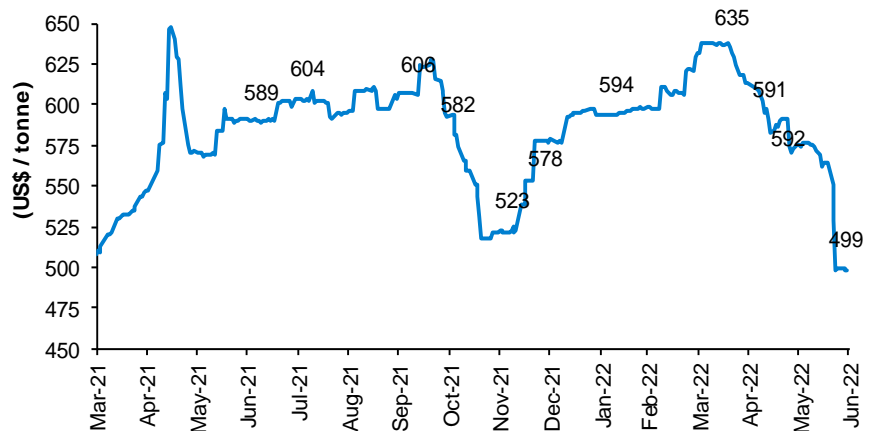
Exhibit 6: Indian origin Iron Ore (62% Fe) Export Prices (CIF) to China



Source: Bloomberg, PL

Chinese heavy steel scrap prices dipped by 2% QoQ at US\$590/t due to strong scrap availability and weak demand by EAF based steel producers

Exhibit 7: China heavy Steel Scrap Prices



Source: Bloomberg, PL

Exhibit 8: Steel volumes are expected to decline sharply by 22% QoQ in Q1FY23E due to seasonal factors and lower exports

Steel Volume Growth QoQ (%)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23E
Jindal Steel & Power	11.4	23.7	-3.1	2.1	-15.7	32.3	-14.6	14.3	-15.9
JSW Steel	-24.3	47.1	-5.3	4.1	-11.1	5.0	5.5	27.8	-19.6
Steel Authority of India	-40.3	88.0	-1.4	4.7	-23.4	28.6	-10.3	22.6	-27.3
Tata Steel (Incl TATA Steel BSL)	-9.8	38.9	-7.8	0.2	-11.3	10.8	-3.9	17.1	-21.8

/Source: Company, PL

Exhibit 9: Q1FY23 Result Preview

Company Name	Q1FY23E	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)	Remark
Coal India	Sales	3,21,974	2,52,822	27.4	3,27,068	(1.6)
	EBITDA	81,362	48,439	68.0	90,788	(10.4)
	Margin (%)	25.3	19.2		27.8	
	PBT	76,212	43,366	75.7	93,345	(18.4)
	Adj. PAT	55,635	31,752	75.2	67,142	(17.1)
	Coal desp. (mn tn)	177.6	160.4	10.7	180.3	(1.5)
	Real. / tonne (Rs)	1,673	1,452	15.2	1,667	0.4
	EBITDA / tonne (Rs)	458	302	51.7	504	(9.0)
Hindalco Industries	Sales	1,71,155	1,32,980	28.7	1,89,690	(9.8)
	EBITDA	22,486	20,980	7.2	32,620	(31.1)
	Margin (%)	13.1	15.8		17.2	
	PBT	15,786	14,120	11.8	26,260	(39.9)
	Adj. PAT	10,261	9,126	12.4	16,677	(38.5)
	Alum. (Al) prod (t)	3,20,000	3,18,784	0.4	3,26,000	(1.8)
	Copper (Cu) prod (t)	85,000	62,648	35.7	94,000	(9.6)
	EBITDA-AI (Rs m)	19,757	18,370	7.5	28,750	(31.3)
EBITDA-Cu (Rs m)	3,129	2,610	19.9	3,870	(19.1)	
EBITDA-Utkal Alumina (Rs m)	9,773	5,150	89.8	11,750	(16.8)	
Jindal Steel & Power	Sales	1,31,990	1,06,095	24.4	1,43,395	(8.0)
	EBITDA	26,135	45,390	(42.4)	30,702	(14.9)
	Margin (%)	19.8	42.8		21.4	
	PBT	16,585	34,096	(51.4)	20,788	(20.2)
	Adj. PAT	12,106	25,433	(52.4)	15,683	(22.8)
	Steel Sales Vol. (Tonne)	1.8	1.6	8.7	2.1	(15.9)
	Standalone EBITDA	71,994	64,501	11.6	66,494	8.3
	Standalone EBITDA / t (Rs)	13,764	28,098	(51.0)	13,589	1.3
JSW Steel	Sales	4,02,227	2,89,020	39.2	4,68,950	(14.2)
	EBITDA	59,687	1,02,740	(41.9)	91,840	(35.0)
	Margin (%)	14.8	35.5		19.6	
	PBT	29,887	82,960	(64.0)	58,460	(48.9)
	Adj. PAT	19,436	59,040	(67.1)	37,527	(48.2)
	Sales Vol. (mt)	4.1	3.6	13.9	5.1	(19.6)
	Real. / tonne (Rs)	75,090	71,909	4.4	70,472	6.6
	EBITDA / tonne (Rs)	10,507	26,291	(60.0)	13,517	(22.3)
NMDC	Sales	44,972	65,122	-30.9	67,022	(32.9)
	EBITDA	19,156	41,777	(54.1)	26,844	(28.6)
	Margin (%)	42.6	64.2		40.1	
	PBT	20,086	42,635	(52.9)	28,803	(30.3)
	Adj. PAT	19,386	31,930	(39.3)	22,157	(12.5)
	Total Volume (mt)	7.7	9.4	(18.9)	12.3	(37.6)
	Realization/t (Rs.)	5,845	6,823	(14.3)	5,363	9.0
	EBITDA/t (Rs)	2,501	4,421	(43.4)	2,185	14.4

Company Name	Q1FY23E	Q1FY22	YoY gr. (%)	Q4FY22	QoQ gr. (%)	Remark
Steel Authority of India	Sales	2,40,055	2,06,424	16.3	3,07,581	(22.0)
	EBITDA	18,825	65,636	(71.3)	43,313	(56.5)
	Margin (%)	7.8	31.8		14.1	
	PBT	7,125	51,449	(86.2)	31,995	(77.7)
	Adj. PAT	5,344	38,500	(86.1)	24,104	(77.8)
	Sales Vol. (m tonnes)	3.4	3.3	2.8	4.7	(27.3)
	Real. / Tonne (Rs)	69,742	61,611	13.2	64,992	7.3
	EBITDA / Tonne (Rs)	5,504	19,728	(72.1)	9,204	(40.2)
Tata Steel - India	Sales	3,03,608	2,76,896	9.6	3,66,809	(17.2)
	EBITDA	82,883	1,28,226	(35.4)	1,22,343	(32.3)
	Margin (%)	27.3	46.3		33.4	
	PBT	65,383	1,09,621	(40.4)	1,07,150	(39.0)
	Adj. PAT	48,907	81,910	(40.3)	78,958	(38.1)
	Sales Vol. (m tonnes)	3.9	4.0	-2.6	5.0	(21.8)
	Realization/t (Rs.)	78,129	69,397	12.6	73,805	5.9
	EBITDA / Tonne (Rs)	21,329	32,137	(33.6)	24,616	(13.4)
Tata Steel - Consol	Sales	6,22,507	5,33,718	16.6	6,93,235	(10.2)
	EBITDA	1,29,396	1,61,106	(19.7)	1,50,296	(13.9)
	Margin (%)	20.8	30.2		21.7	
	PBT	97,446	1,21,368	(19.7)	1,19,799	(18.7)
	Adj. PAT	79,070	90,893	(13.0)	1,00,305	(21.2)
	SalesVol.-Corus (mt)	2.2	2.3	(7.3)	2.4	(10.0)
	EBITDA/Tn-Corus (US\$)	255	89	186.1	241	5.9

Source: Company, PL



Exhibit 10: Valuation Summary

Company Names	S/C Rating	CMP (Rs)	TP (Rs)	MCap (Rs bn)	Sales (Rs bn)				EBITDA (Rs bn)				PAT (Rs bn)				EPS (Rs)				PE (x)				EV/EBITDA (x)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Coal India	C Acc	190	220	1,169.7	900	1,099	1,349	1,379	201	287	411	410	128	176	268	257	20.7	28.5	43.5	41.8	9.2	6.6	4.4	4.5	5.3	3.1	2.1	2.1
Hindalco Industries	C Acc	358	545	793.8	1,320	1,989	2,089	1,982	177	279	291	278	55	122	126	114	24.8	54.9	56.8	51.5	14.4	6.5	6.3	6.9	7.8	4.8	4.6	4.8
Hindustan Zinc	S Reduce	263	322	1,111.4	226	300	357	296	117	167	199	144	80	126	153	108	18.9	29.9	36.3	25.7	13.9	8.8	7.2	10.2	10.9	7.5	6.1	8.3
Jindal Steel & Power	C Reduce	343	362	350.3	389	543	546	579	143	176	107	121	78	88	39	52	76.3	86.2	38.2	50.6	4.5	4.0	9.0	6.8	3.9	2.6	4.2	3.4
JSW Steel	C Reduce	566	560	1,368.6	798	1,354	1,714	1,712	201	362	280	295	80	197	128	132	33.0	81.4	53.2	54.7	17.2	7.0	10.7	10.4	9.4	5.2	7.0	6.6
NMDC	S Reduce	109	120	319.3	154	261	163	160	88	126	61	57	66	97	49	45	22.5	33.0	16.6	15.4	4.8	3.3	6.6	7.1	3.8	2.6	5.2	5.6
Steel Authority of India	S Reduce	72	55	295.7	691	1,059	1,098	1,133	127	209	89	121	38	119	29	52	9.2	28.7	7.0	12.6	7.8	2.5	10.2	5.7	5.2	2.7	6.7	4.8
Tata Steel	C Reduce	886	975	1,081.9	1,565	2,440	2,277	2,247	305	635	366	362	85	402	156	152	71.3	329.4	127.4	124.2	12.4	2.7	7.0	7.1	5.7	2.4	4.3	4.2

Source: Company, PL S=Standalone / C=Consolidated / Acc=Accumulate

Exhibit 11: Change in Estimates

	Rating		Target Price			Sales						EBITDA						PAT					
	C	P	C	P	% Chng.	FY22			FY23			FY22			FY23			FY22			FY23		
						C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Coal India	Acc	Acc	220	220	0.0%	1,349	1,320	2.2%	1,379	1,361	1.3%	411	383	7.4%	410	393	4.2%	268	229	17.2%	257	225	14.6%
Hindalco Industries	Acc	Acc	545	545	0.0%	2,089	2,089	0.0%	1,982	1,982	0.0%	291	291	0.0%	278	278	0.0%	126	126	0.0%	114	114	0.0%
Hindustan Zinc	Reduce	Reduce	283	322	-12.2%	357	357	0.0%	296	296	0.0%	199	199	0.0%	144	144	0.0%	153	153	0.0%	108	108	0.0%
Jindal Steel & Power	Reduce	Reduce	362	405	-10.6%	546	546	0.0%	579	579	0.0%	107	107	0.0%	121	121	0.0%	39	39	0.0%	52	52	0.0%
JSW Steel	Reduce	Reduce	560	560	0.0%	1,714	1,714	0.0%	1,712	1,712	0.0%	280	280	0.0%	295	295	0.0%	128	128	0.0%	132	132	0.0%
NMDC	Reduce	Reduce	120	155	-22.5%	163	166	-1.8%	160	150	7.1%	61	63	-2.2%	57	51	11.4%	49	50	-2.3%	45	41	10.5%
Steel Authority of India	Reduce	Reduce	55	57	-3.2%	1,098	1,098	0.0%	1,133	1,133	0.0%	89	89	0.0%	121	121	0.0%	29	29	0.0%	52	52	0.0%
Tata Steel	Reduce	Reduce	975	1,230	-20.7%	2,277	2,258	0.8%	2,247	2,241	0.2%	366	360	1.7%	362	368	-1.5%	156	155	0.5%	152	160	-5.3%

Source: Company, PL C=Current / P=Previous / Acc=Accumulate

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	2,425	2,168
2	Ambuja Cement	Hold	404	367
3	Coal India	Accumulate	220	186
4	Dalmia Bharat	Accumulate	1,755	1,453
5	Heidelberg Cement India	Reduce	183	169
6	Hindalco Industries	Accumulate	545	408
7	Hindustan Zinc	Reduce	322	294
8	Jindal Steel & Power	Reduce	405	378
9	JK Lakshmi Cement	Accumulate	570	434
10	JSW Steel	Reduce	560	548
11	NMDC	Reduce	155	147
12	Shree Cement	Hold	23,150	20,015
13	Steel Authority of India	Reduce	57	83
14	Tata Steel	Reduce	1,230	1,171
15	The Ramco Cements	Hold	650	654
16	Ultratech Cement	Accumulate	7,180	5,839

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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