Metals

Q2FY24 preview: Lower cost to the rescue

Q2FY24 is likely to see lower cost offsetting the impact of softer ferrous/LME prices. Besides, volume will likely stay upbeat, especially for ferrous companies. Key points: **1)** Shipments of all the major ferrous players likely to be up YoY, tracking steel consumption growth. **2)** Coking coal cost likely to be lower by USD40–50/te. **3)** Realisation for ferrous companies likely to be lower by INR2,500–3,000/te. **4)** Lower thermal cost due to better linkage rationalisation and e-auction price shall aid profitability for non-ferrous players. Going ahead, commentaries from the companies will be critical as the price-cost effect outlook (particularly for ferrous) is likely to take centre stage. Our top picks in the space are: JSPL (TP: INR 810; **BUY**); Jindal Stainless (TP: INR 610; **BUY**); and Shyam Metalics (TP: INR 690; **BUY**).

Better margins in the offing

We expect EBITDA/te to improve for all ferrous companies owing to the positive price-cost effect. Key points: **1)** Despite seasonally weak Q2FY24, volume growth of 4–6% YoY is likely on average for ferrous players. **2)** Blended realisation for ferrous players likely to decline by INR2,500–3,000/te due to lower spot prices and absence of carry-over of exports booked in the prior period at higher prices. **3)** Blended realisation for longs players (particularly in secondary sector) is likely to decline more than flats. **4)** Iron ore cost likely to witness marginal decline while coking coal cost is likely to decline by USD40–50/te QoQ. **5)** Non-ferrous likely to see flat margins QoQ as lower thermal cost should mitigate the impact of lower LME prices. **6)** In case of mining companies (NMDC and Coal India), robust volumes YoY shall partially mitigate the adverse impact of lower realisation.

Stocks in focus

We see five stocks being in focus in Q2FY24: 1) **SAIL**: Likely to see the maximum improvement in EBITDA/t compared to peers, owing to higher price-cost benefit and volume growth. 2) **Hindalco**: Sales volume at Novelis likely to improve by 5% QoQ as supplies pick up; EBITDA/t is likely to improve further as a result of higher recycling. 3) **APL Apollo**: Likely to report record performance on the back of best-ever sales volume and ramp up of value added capacity at Raipur. 4) **Tata Steel**: Re-lining expenses at Ijmuiden and neutral price-cost impact at TSE might plunge, thickening TSE's EBITDA level loss to USD150/te (last three quarters at USD90–95/t loss). 5) **Shyam Metalics**: Expect stable EBITDA margin at 11.1% despite lower realisation/volume on a QoQ-basis as longs prices in secondary segment fared worse than the primary market.

Outlook: Hinging on management commentary

For ferrous players, the recent uptick in coking coal cost has eroded the spot spreads; hence, we would keep a close watch on management commentary, particularly on realisation and coking coal's cost trajectory. For non-ferrous companies, we would watch out for thermal coal cost and changes in procurement mix. We remain positive on the sector with JSPL (TP: INR 810; **BUY**); Jindal Stainless (TP: INR 610; **BUY**); and Shyam Metalics (TP: INR 690; **BUY**) as or top picks.

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APL Apollo (BUY)
Coal India (BUY)
Jindal Steel (BUY)
Jindal Stainless (BUY)
NMDC (BUY)
Shyam Metalics (BUY)
Hindalco (ADD)
SAIL (ADD)
Tata Steel (ADD)
JSW Steel (HOLD)
NALCO (HOLD)

Exhibit 1: Q2FY24E Preview

(INR mn)	Sales			EBITDA			PAT		
Company	Q2FY24E	%YoY	%QoQ	Q2FY24E	%YoY	%QoQ	Q2FY24E	%YoY	%QoQ
JSW Steel	4,11,414	(1.5)	(2.5)	69,588	297.2	(1.2)	23,448	(376.5)	(3.1)
Tata Steel	5,63,043	(6.0)	(5.4)	44,156	(27.1)	(14.7)	-1,611	(110.6)	(125.4)
JSPL	1,21,246	(10.3)	(3.7)	23,685	22.6	(9.9)	10,602	(5.2)	(37.3)
SAIL	2,70,650	3.1	11.1	27,214	271.4	65.1	9,540	(347.3)	349.0
SMEL	29,050	(5.8)	(12.2)	3,225	32.4	(20.4)	1,700	53.3	(27.7)
Hindalco	5,35,586	(4.7)	1.1	60,075	12.0	5.1	26,681	21.0	8.7
NALCO	30,837	(11.6)	(3.0)	5,037	50.7	(15.2)	2,826	81.9	(17.9)
Jindal Stainless	1,03,600	90.4	3.3	11,424	177.8	2.2	6,836	261.3	2.7
APL Apollo	44,157	14.8	0.3	3,367	45.2	9.6	2,161	43.9	11.6
NMDC	42,164	26.7	(21.8)	13,485	57.9	(32.4)	10,683	20.2	(35.7)

Source: I-Sec research, Company data

Exhibit 2: Target Price & Ratings

Stock	TP	Recommendation	Methodology
Tata Steel	150	ADD	6x FY25E EBITDA
JSW Steel	755	HOLD	6.6x FY25E EBITDA
Jindal Steel	810	BUY	6x FY25E EBITDA
SAIL	100	ADD	6x FY25E EBITDA
Hindalco	500	ADD	6x FY25E EBITDA
NMDC	180	BUY	5.5x FY25E EBITDA
Jindal Stainless	610	BUY	8x FY25E EBITDA
Shyam Metalics	690	BUY	6x FY25E EBITDA
NALCO	94	HOLD	5x FY25E EBITDA
APL Apollo	1,930	BUY	40x FY25E EPS
Coal India	325	BUY	7.2x FY25E EPS

Source: I-Sec research

Exhibit 3: Key Drivers

	Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)
USD:INR	82.7	79.8	82.2	3.6	0.5
HRC price (INR/te)	56,882	57,340	58,294	(0.8)	(2.4)
Longs (INR/te)	52,611	57,763	57,057	(8.9)	(7.8)
Alumina (USD/te)	336	339	349	(0.9)	(3.9)
Aluminium (USD/te)	2,156	2,356	2,264	(8.5)	(4.7)
Zinc (USD/te)	2,430	3,283	2,525	(26.0)	(3.8)
Copper (USD/te)	8,378	7,758	8,460	8.0	(1.0)
Lead (USD/te)	2,172	1,977	2,118	9.8	2.6
Silver (USD/oz)	23.6	19.2	24.3	22.9	(2.5)
HR Coil- Europe (USD/te)	721	816	860	(11.7)	(16.2)

Source: I-Sec research, Bloomberg, SteelMint

Exhibit 4: Operating performance

Shipments (mnte)	Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)
Tata Steel	4.55	4.75	4.45	(4.3)	2.3
Tata Steel Europe	1.79	1.87	1.99	(4.3)	(10.1)
JSPL	1.96	2.01	1.84	(2.5)	6.5
JSW Steel	5.18	5.10	4.93	1.5	5.0
SAIL	4.50	4.21	3.88	6.9	16.0
Jindal Stainless*	0.56	0.27	0.55	107.1	2.1
APL Apollo	0.67	0.60	0.66	12.0	2.0
Hindalco					
Aluminium (kt)	335	341	341	(1.8)	(1.8)
Copper (kt)	115	112	118	2.7	(2.5)
Novelis (kt)	923	984	879	(6.2)	5.0
Coal India	174	155	187	12.3	(7.2)
NMDC	9.4	8.4	11.0	11.5	(14.4)

Source: I-Sec research, Company data, , *Prior period numbers are comparable for Jindal stainless

Exhibit 5: Profitability outlook

EBITDA/te - (INR)	Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)
Tata Steel- standalone	15,019	10,192	14,528	47.4	3.4
Tata Steel Europe (US$)	(146)	126	(96)	NM	NM
JSPL- standalone	12,281	9,077	14,414	35.3	(14.8)
JSW Steel- standalone	10,541	9,077	9,860	16.1	6.9
SAIL	6,048	1,740	4,250	247.5	42.3
Jindal Stainless*	20,400	15,208	20,375	34.1	0.1
APL Apollo	4,990	3,850	4,645	29.6	7.4
Hindalco - Aluminium (US$)	758	570	743	33.1	2.1
Novelis (US$)	484	514	479	(5.9)	1.1
Coal India	381	471	562	(19.1)	(32.3)
NMDC	1,435	1,013	1,816	41.6	(21.0)

Source: I-Sec research, Company data, , *Prior period numbers are comparable for Jindal stainless

Exhibit 6: Performance snapshot – Ferrous

(INR mn)		Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)	Comments
JSW (Consolidated)	Revenues	4,11,414	4,17,780	4,22,130	(1.2)	(2.2)	India business volume likely to improve by 5% QoQ. Besides, positive price-cost effect is likely to lead to margins improvement. However, we expect the performance of subsidiaries to stay relatively subdued. Coated products likely to be impacted by lower CRC-HRC spread while US subsidiaries likely to incur inventory related losses amidst falling HRC prices
	EBITDA	69,588	17,520	70,460	311.3	2.3	
	PAT	23,448	(8,480)	24,190	NM	4.1	
	EPS	9.7	(3.5)	10.0	NM	4.1	
Tata Steel (Consolidated)	Revenues	5,63,043	5,98,775	5,94,897	(6.0)	(5.4)	Expect slight expansion in India EBITDA. However, loss at TSE level is expected to expand owing to negative price-cost effect and re-lining cost for blast furnace at Ijmuiden. TSLP likely to report subdued EBITDA owing to higher decline in longs prices in Q2FY24
	EBITDA	44,156	60,603	51,739	(27.1)	(14.7)	
	PAT	(1,611)	25,227	6,339	NM	NM	
	EPS	(0.1)	2.2	0.6	NM	NM	
Jindal Steel & Power (Consolidated)	Revenues	1,21,246	1,35,214	1,25,883	(10.3)	(3.7)	Performance likely to be impacted by sharper decline in longs prices compared to flats. However, higher pellet sales as a result of commissioning of 6mtpa pellet plant is likely to aid EBITDA. Profitability of mining operations is likely to remain flat QoQ
	EBITDA	23,685	19,314	26,280	22.6	(9.9)	
	PAT	10,602	11,178	16,920	(5.2)	(37.3)	
	EPS	9.6	10.1	15.3	(5.2)	(37.3)	
SAIL	Revenues	2,70,650	2,62,463	2,43,591	3.1	11.1	Sales volume likely to stay robust due to traction from government projects as a result of tepid monsoon in Aug-23. Biggest beneficiary of lower coking coal prices. We expect debt reduction of INR12-15bn mainly due to working capital unlocking
	EBITDA	27,214	7,327	16,488	271.4	65.1	
	PAT	9,540	(3,858)	2,125	NM	349.0	
	EPS	2.3	(0.9)	0.5	NM	349.0	
SMEL	Revenues	29,050	30,852	33,068	(5.8)	(12.2)	Performance to stay slightly soft QoQ owing to lower volume and prices. However, on YoY basis, the performance is likely to improve due to capacity ramp up and lower thermal cost prices. Expect EBITDA margin at 11.1%
	EBITDA	3,225	2,436	4,049	32.4	(20.4)	
	PAT	1,700	1,109	2,352	53.3	(27.7)	
	EPS	6.7	4.3	9.2	53.3	(27.7)	

Source: I-Sec research, Company data

Exhibit 7: Performance snapshot – Non-ferrous

(INR mn)		Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)	Comments
Hindalco (Consolidated)	Revenues	5,35,586	5,61,760	5,29,910	(4.7)	1.1	Expect steady performance led by higher volume at Novelis as beverage can market looks better and automotive segment volumes remain robust. On India-business, the impact of lower LME prices is likely to be offset by lower cost. Copper division's performance likely to stay firm on the back of higher by-product prices and value added sales
	EBITDA	60,075	53,620	57,140	12.0	5.1	
	PAT	26,681	22,050	24,540	21.0	8.7	
	EPS	12.0	9.9	11.0	21.0	8.7	
NALCO	Revenues	30,837	34,896	31,784	(11.6)	(3.0)	Expect performance to be impacted by lower LME Al and Alumina prices. However, lower coal cost YoY is likely to aid EBITDA
	EBITDA	5,037	3,344	5,943	50.7	(15.2)	
	PAT	2,826	1,554	3,442	81.9	(17.9)	
	EPS	1.5	0.8	1.8	81.9	(17.9)	

Source: I-Sec research, Company data

Exhibit 8: Performance snapshot – Others

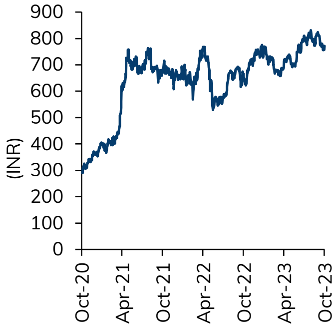
(INR mn)		Q2FY24E	Q2FY23	Q1FY24	% growth (YoY)	% growth (QoQ)	Comments
Jindal Stainless* (Standalone)	Revenues	1,03,600	54,424	1,00,273	90.4	3.3	Expect slight improvement in both sales volume and profitability, despite it being a seasonally weak quarter. We expect product mix to tilt more towards 300 series as railway and construction segments are likely to do better
	EBITDA	11,424	4,112	11,178	177.8	2.2	
	PAT	6,836	1,892	6,657	261.3	2.7	
	EPS	14.3	3.9	13.9	261.3	2.7	
APL Apollo	Revenues	44,157	38,456	44,025	14.8	0.3	Expect performance to be aided by higher sales volume as well as improvement in profitability owing to ramp up of larger diameter pipe capacity at Raipur plant
	EBITDA	3,367	2,319	3,072	45.2	9.6	
	PAT	2,161	1,502	1,936	43.9	11.6	
	EPS	8.6	6.0	7.7	43.9	11.6	
Coal India	Revenues	3,17,518	2,98,381	3,59,832	6.4	(11.8)	Performance likely to be impacted by lower e-auction prices. However, volume growth YoY is likely to offset the adverse impact of wage hike. We expect FSA realisation to improve further owing to higher linkage sales
	EBITDA	66,114	72,802	1,05,139	(9.2)	(37.1)	
	PAT	68,314	76,875	1,07,123	(11.1)	(36.2)	
	EPS	11.1	12.5	17.4	(11.1)	(36.2)	
NMDC (Standalone)	Revenues	42,164	33,285	53,947	26.7	(21.8)	Performance likely to be impacted by lower realisation/volume QoQ. However, the improvement in performance on YoY basis is likely on the back of higher volume.
	EBITDA	13,485	8,542	19,935	57.9	(32.4)	
	PAT	10,683	8,887	16,612	20.2	(35.7)	
	EPS	3.4	2.8	5.3	20.2	(35.7)	

Source: I-Sec research, Company data, *Prior period numbers are comparable for Jindal stainless

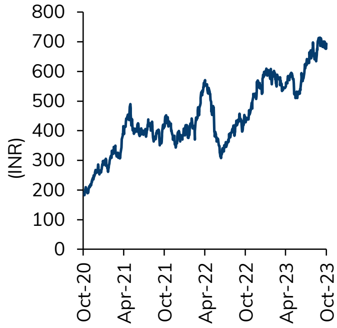
Price chart

Tata Steel

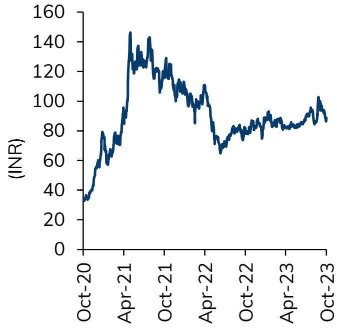
JSW Steel



Jindal Steel



SAIL



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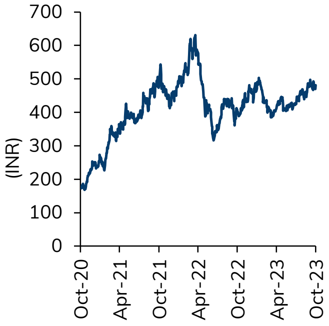

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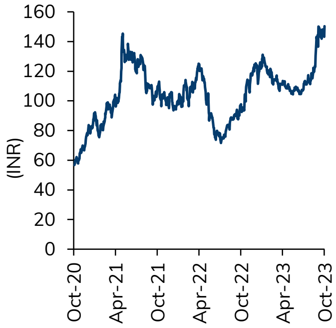
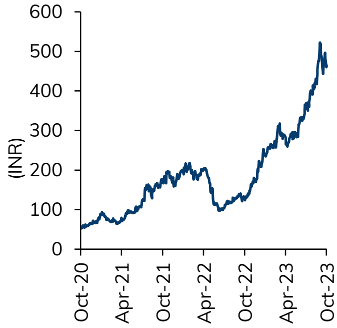


Jindal Stainless



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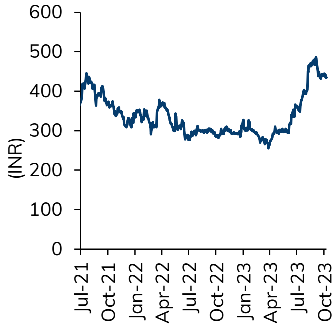

NALCO

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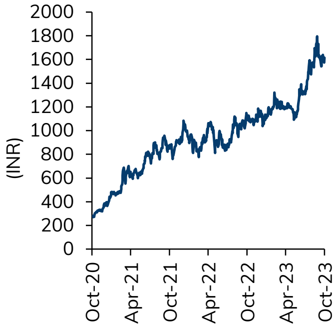
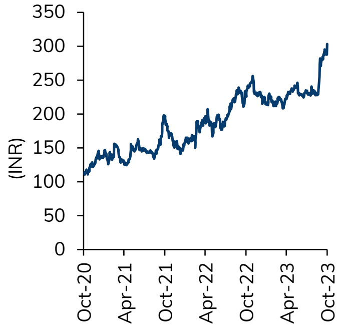


Coal India



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