

Oct-Dec'23 Earnings Preview

January 5, 2024

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Hindalco Industries	BUY	591	673
Jindal Stainless	Acc	601	583
Jindal Steel & Power	BUY	745	826
JSW Steel	BUY	837	992
National Aluminium Co.	Acc	131	101
NMDC	BUY	224	261
Steel Authority of India	Acc	119	95
Tata Steel	Acc	134	140

Source: PL Acc=Accumulate

Top Picks

Hindalco Industries

Jindal Steel & Power

NMDC

Quarter affected by imports and higher RM

We expect our metals coverage universe to report weak performance in 3QFY24 with Revenue/EBITDA/PAT growth of ~0%/0%/-17% QoQ (~4%/30%/121% YoY) given sluggish steel prices and higher coking coal prices. Domestic demand was relatively weak in this quarter, affected by festivities and state elections. Steel prices declined post October on higher imports. Though low cost coking coal inventory of earlier months will aid profitability in this quarter yet steel companies may require price hikes in upcoming months to maintain margins, in our view. Key monitorables to watch out are 1) Govt's stand on rising imports, 2) rising coking coal prices, 3) progress on capex and 4) demand from China & developed countries. Our top picks are NMDC, Jindal Steel & Power and Hindalco.

Weak sequential performance for steel: Steel companies are expected to deliver weak sequential performance as 1) EBITDA per ton stands impacted by lower increase in NSR, 2) RM prices remain higher and 3) op. leverage stands relatively lower. Companies will benefit from prior period low cost coking coal inventories in 2HFY24 and depending upon inventory lag will deliver 3Q performance. We expect average realization to increase 1-3% for the quarter, despite weak HRC prices due to long term OEM contracts and relatively better long product prices. Flat steel products have declined 1% QoQ, while long steel products have increased 4% QoQ. A recent sharp jump in coking coal prices may dent steel margins in 4QFY24, unless price hikes are taken. Currently, domestic steel prices are at substantial discount on import parity basis and this may restrain imports going forward.

LME prices remains range bound: Performance of non-ferrous companies under our universe are expected to improve on stable LME aluminium prices (+2% QoQ) and better volumes. HNDL's copper volumes would be impacted due to maintenance shutdown, while Novelis is relatively weaker in seasonally weak quarter. Falling TcRc margins due to reduction in global concentrate mining could impact in near term. NALCO is expected to benefit from ramping up of Utkal-D mine & alumina volumes and better alumina prices (4% QoQ).

Key changes in estimates/ratings: TATA- We cut our FY24/25E EBITDA estimates by ~9% each given weak TSE spreads plus high repairs/maintenance expenses at TSUK and downgrade the rating from Buy to 'Accumulate' at revised TP of Rs140 (from earlier Rs138) on higher than expected losses from TSE in the near term. Progress on ongoing consultation with unions is awaited and can delay the entire TSUK transition by few quarters. **SAIL-** We downward revise our FY24E EPS by 14%, given reduction in steel spreads and maintain 'Accumulate' rating with revised TP of Rs92 (earlier Rs95). **NMDC-** We increase our FY24/FY25E earnings estimates by 7%/17% given rising iron ore prices in mid-November (NSR +7% QoQ) then again in January and upgrade the rating to 'Buy' from Accumulate with revised TP of Rs261 based on 6x FY26E EV/EBITDA (from earlier TP of Rs176 on 5x multiple) on stronger than expected delivery on both volumes and prices.

For all companies in our universe, we roll forward to Mar-26E and maintain ratings with revision in TP (Refer to Exhibit19).

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Top Picks:

Hindalco Industries: We believe HNDL is well placed amongst metals space as a) Novelis is expected to witness gradual improvement in per ton EBITDA over next few quarters (given resilient developed economies and gradual improvement in consumer demand from China); b) softer thermal coal prices and opening of captive coal mines to benefit India business; and c) rising focus on high margin value added products.

NMDC: NMDC is well placed to capitalize on strong volume growth in domestic steel markets over next two years given a) its increased focus on mining business expected to deliver strong 11% CAGR over FY23-26E to ~53mt iron ore volumes; b) doubling of railway line for evacuation and higher availability of rakes to support iron ore volume growth; c) Periodic price hikes as domestic demand remained strong and global iron ore pricing remains stable on expectation of improving Chinese demand; d) other high margin minerals to constitute ~10-15% of revenue in next 5 years.

Jindal Steel & Power: We remain positive on JSP given 1) strong 16% CAGR in steel volumes over FY23-26E led by ongoing Angul capacity expansion, 2) commissioning of 5.5mtpa Hot Strip Mill to improve product mix, and 3) margin improvement in projects such as 12mtpa pellet plant, 18mtpa slurry pipeline and four coal blocks to drive margins.

Exhibit 2: Volumes expected to be subdued in 3QFY24

Volumes (kt)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
TATA India	3,990	4,420	4,250	5,120	4,070	4,910	4,740	5,150	4,790	4,820	4,940
JSW	3,610	3,790	4,000	5,110	4,030	5,010	4,950	5,680	4,930	5,410	5,099
SAIL	3,327	4,280	3,840	4,703	3,150	4,210	4,151	4,680	3,884	4,800	4,483
JSP	1,610	2,130	1,820	2,080	1,740	2,010	1,900	2,030	1,840	2,010	1,938

Source: Company, PL

Exhibit 3: Companies having higher exposure to longs would have better sequential NSR growth in 3QFY24

Realization (Rs/t)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
TATA India	52,126	73,716	75,210	71,642	78,676	70,556	64,273	66,554	72,427	68,928	69,962
JSW	71,909	73,879	72,125	70,472	77,184	64,858	62,495	65,410	66,513	62,362	63,677
SAIL	62,045	62,680	65,745	65,401	76,281	62,343	60,327	62,245	62,713	58,259	60,007
JSP	64,501	62,259	65,686	66,494	73,842	65,209	62,275	65,972	66,905	60,108	62,408

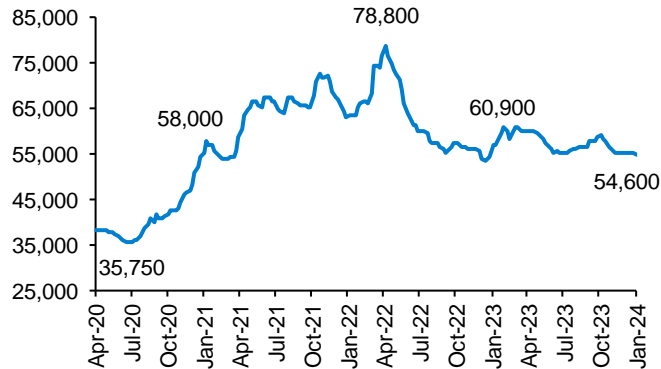
Source: Company, PL

Exhibit 4: EBITDA per ton would vary depending upon prior period inventory of coking coal in 3QFY24

EBITDA/ton (Rs)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
TATA India	25,576	30,385	28,631	23,895	23,509	9,503	10,885	15,787	13,808	14,006	14,283
JSW	26,291	22,884	16,993	13,517	8,318	3,477	8,141	10,998	9,860	12,750	11,115
SAIL	19,728	16,395	8,881	9,210	7,304	1,740	5,003	6,226	4,241	4,416	5,428
JSP	28,288	21,306	17,534	13,726	19,147	9,183	11,864	10,594	14,496	11,632	12,590

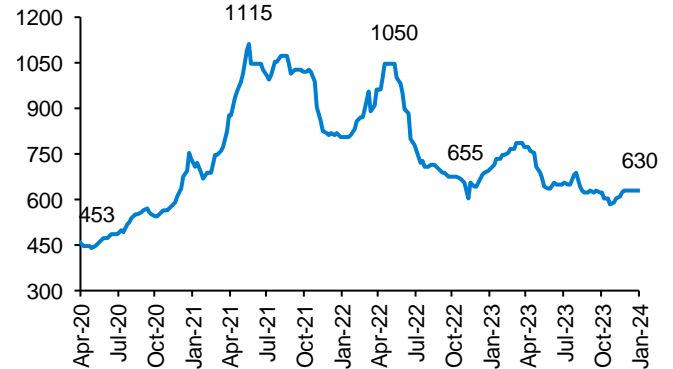
Source: Company, PL

Exhibit 5: Indian HRC prices declined 1% QoQ (Rs/t)



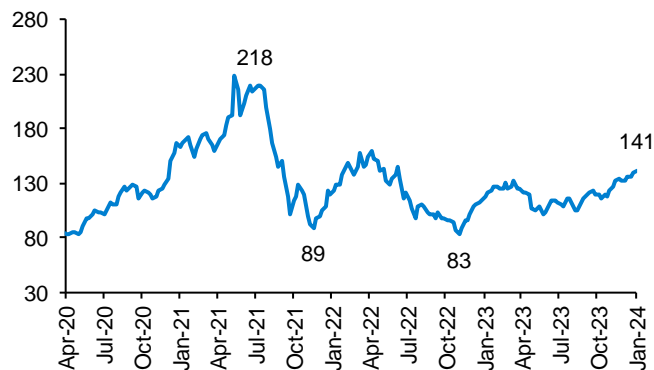
Source: SteelMint, PL

Exhibit 6: China HRC prices declined 1% QoQ (USD/t)



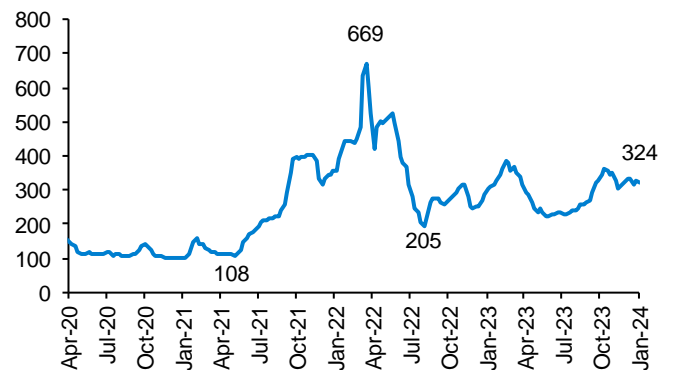
Source: SteelMint, PL

Exhibit 7: Iron Ore Fines (62%) increased 12% QoQ (USD/t)



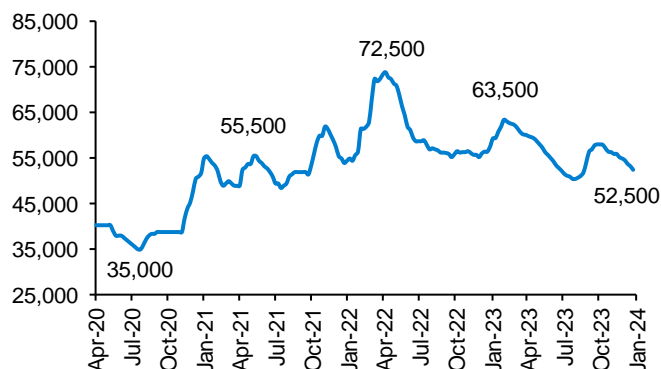
Source: SteelMint, PL

Exhibit 8: Coking Coal increased prices 27% QoQ(USD/t)



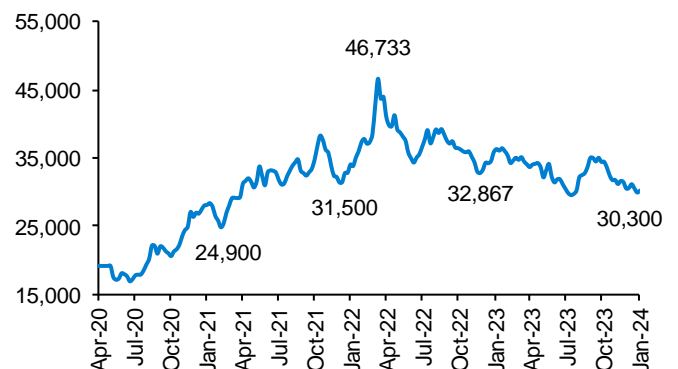
Source: SteelMint, PL

Exhibit 9: Rebar prices increased 4% QoQ (Rs/t)



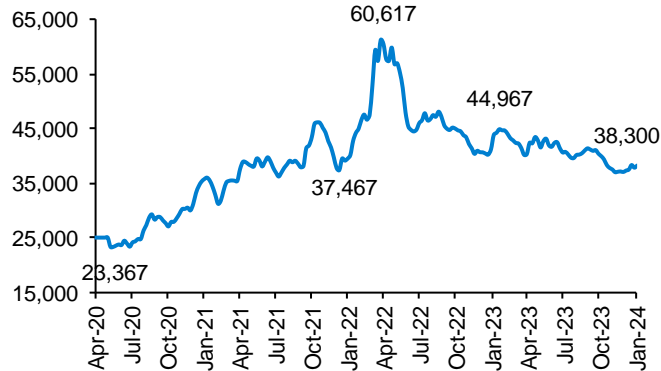
Source: SteelMint, PL

Exhibit 10: Sponge iron prices declined 3% QoQ (Rs/t)



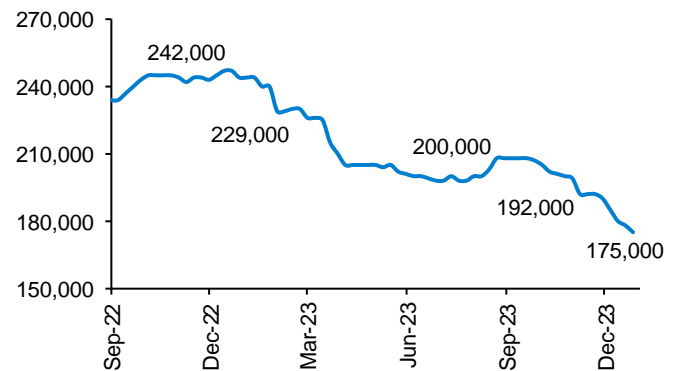
Source: SteelMint, PL

Exhibit 11: Pig iron prices decline 7% QoQ (Rs/t)



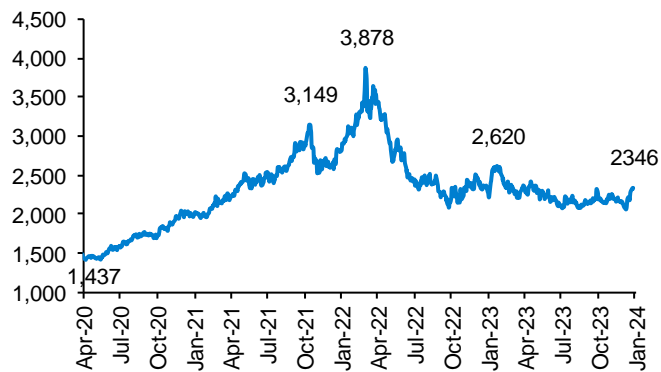
Source: SteelMint, PL

Exhibit 12: SS 304 grade prices declined 6% QoQ (Rs/t)



Source: SteelMint, PL

Exhibit 13: LME Aluminium prices grew 2% QoQ (USD/t)



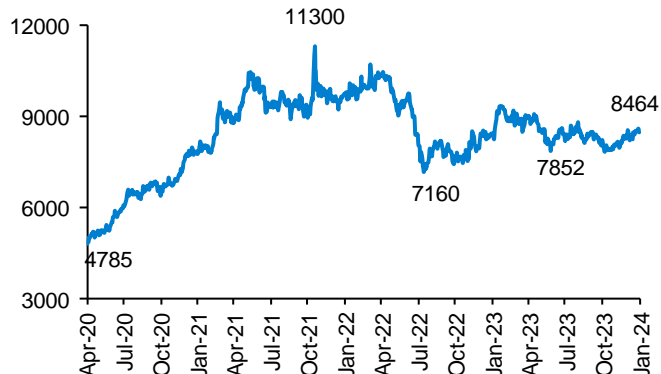
Source: PL

Exhibit 14: Spot Alumina (East China) grew 4% QoQ (USD/t)



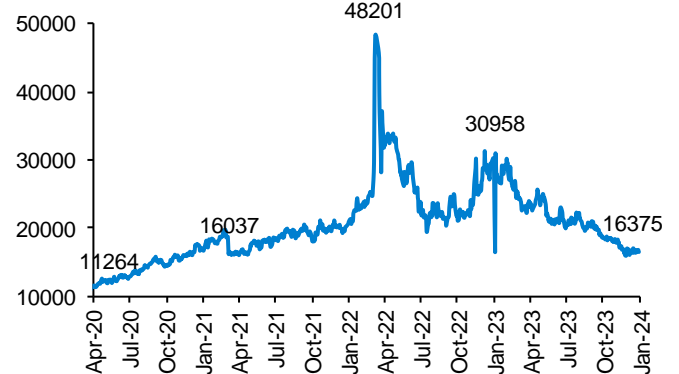
Source: PL

Exhibit 15: LME Copper prices declined 2% QoQ (USD/t)



Source: PL

Exhibit 16: LME Nickel prices declined 15% QoQ (USD/t)



Source: PL

Exhibit 17: Q3FY24 Result Preview (Rs bn)

Company Name		Q3FY24E	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	Remark
Hindalco Industries	Sales	538.7	531.5	1.4	541.7	(0.5)	LME AL is up 2% QoQ and along with old hedges AL business to perform better in 3Q led by coal mix improvement; copper volumes to get impacted QoQ (-12%) due to planned shutdown while AL volumes to grow 1% QoQ. Novelis performance to remain on weaker side in seasonally weak quarter; volumes to decline 1% QoQ to ~925kt; EBITDA/t in range of USD450-500/t.
	EBITDA	51.4	35.5	44.9	56.1	(8.4)	
	Margin (%)	9.5	6.7	287 bps	10.4	-82 bps	
	PBT	26.4	12.1	117.8	32.0	(17.5)	
	Adj. PAT	20.5	13.6	50.9	21.3	(3.7)	
Jindal Stainless	Sales	98.5	90.6	8.7	98.0	0.6	Expect volumes to grow at 10% YoY to 516kt affected by planned maintenance shutdown; weak export volumes & contribution to keep realisation flattish; expect EBITDA/t in the range of Rs19.5k-20k for 3QFY24; and ~6% QoQ decline in consolidated EBITDA.
	EBITDA	11.5	8.7	32.7	12.3	(6.4)	
	Margin (%)	11.7	9.6	211 bps	12.6	-87 bps	
	PBT	9.2	6.5	42.2	8.8	4.5	
	Adj. PAT	7.0	5.0	40.7	7.7	(9.6)	
Jindal Steel & Power	Sales	122.8	124.5	(1.4)	122.5	0.2	Expect ~4% QoQ improvement in NSR as long product prices have outperformed flats in 3QFY24; volume to decline 4% QoQ to 1.93mt on account of maintenance shutdown; EBITDA/t to see improvement of ~Rs950 QoQ to ~Rs12,500; good performance from overseas subs.
	EBITDA	24.3	23.8	2.4	22.9	6.5	
	Margin (%)	19.8	19.1	74 bps	18.7	117 bps	
	PBT	15.1	14.4	4.6	13.8	8.9	
	Adj. PAT	10.8	5.2	108.5	13.9	(22.1)	
JSW Steel	Sales	426.7	391.3	9.0	445.8	(4.3)	Expect ~2% QoQ improvement in NSR as steel prices had increased till end October; India volume to grow 3% YoY to 5.1mt; EBITDA/t to decline by Rs1,600 QoQ to ~Rs11,200 on account of weak NSR, higher RM cost and lower operating leverage. Expect weak performance from overseas subsidiaries to continue.
	EBITDA	66.0	45.5	45.2	78.9	(16.3)	
	Margin (%)	15.5	11.6	385 bps	17.7	-222 bps	
	PBT	29.0	10.3	180.5	40.2	(27.9)	
	Adj. PAT	17.6	4.9	258.8	22.3	(21.1)	
National Aluminium Co.	Sales	33.8	32.9	2.8	30.4	11.2	Expect alumina volumes to grow 1% YoY to ~341kt; metal volumes flat YoY at 114kt; higher LME price (+2% QoQ) to grow EBITDA 3% QoQ. Cut FY24 EPS by 3-4% on lower alumina volumes. Key monitorables would be progress on refinery and announced capex.
	EBITDA	4.1	4.6	(10.8)	4.0	3.4	
	Margin (%)	12.1	14.0	-186 bps	13.0	-91 bps	
	PBT	3.1	3.6	(14.9)	2.7	12.9	
	Adj. PAT	2.3	2.7	(15.9)	2.1	11.7	
NMDC	Sales	52.4	37.2	40.9	40.1	30.6	Volume of 11.42mt (+19% YoY) is higher than our earlier est. of 11.2mt; NMDC raised prices from mid-November which is going to drive superior EBITDA growth. Expect realisation to improve ~8-9% QoQ (+17% YoY). We raise FY24/25E EBITDA est by 6%/12% on sharp price hikes undertaken.
	EBITDA	15.5	11.4	36.0	11.9	30.3	
	Margin (%)	29.6	30.7	-107 bps	29.7	-7 bps	
	PBT	16.5	12.3	34.3	14.0	17.9	
	Adj. PAT	12.1	9.0	33.6	10.3	17.8	
Steel Authority of India	Sales	269.0	250.4	7.4	279.6	(3.8)	Expect ~3% QoQ increase in NSR as long product prices performed better than flats for 3QFY24; volume to grow 8% YoY to 4.5mt; EBITDA/t to see improvement of Rs1,012 QoQ to ~Rs5,400 mainly due to RM inventory lag. Cutting FY24 EBITDA by ~9% on weakening spreads led by higher coking coal prices
	EBITDA	24.3	20.8	17.2	21.2	14.8	
	Margin (%)	9.0	8.3	75 bps	7.6	147 bps	
	PBT	7.7	3.4	128.2	3.6	112.1	
	Adj. PAT	5.7	4.6	22.5	12.4	(54.2)	
Tata Steel	Sales	564.8	570.8	(1.1)	556.8	1.4	Expect ~1.5% QoQ increase in NSR; volume to grow 2% QoQ to 4.94mt ; EBITDA/t to see improvement of just Rs300 QoQ to ~Rs14,300. TSE contribution to deteriorate further QoQ as European prices has fallen GBP 30-35 QoQ and weak volumes in TSUK (-10% QoQ); TSUK to drag subsidiaries EBITDA loss QoQ to over USD180/t; Cutting FY24 EBITDA by ~9% on poor TSE contribution
	EBITDA	51.6	40.5	27.4	42.7	20.8	
	Margin (%)	9.1	7.1	204 bps	7.7	146 bps	
	PBT	8.3	1.8	354.5	0.6	1,357.0	
	Adj. PAT	2.5	-9.6	NA	4.7	(47.2)	

Source: Company, PL



Exhibit 18: 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)				RoE (%)				PE (x)			
					FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Hindalco Industries	C BUY	591	673	1,310.9	2,232.0	2,222.3	2,398.1	2,555.9	228.9	224.0	264.2	281.1	101.0	91.5	114.9	125.9	45.5	41.2	51.8	56.7	11.7	9.2	10.6	10.5	13.0	14.3	11.4	10.4
Jindal Stainless	C Acc	601	583	495.2	357.0	411.1	477.3	532.2	35.9	52.1	61.9	71.4	21.1	30.6	38.5	46.1	25.7	37.2	46.7	56.0	19.4	22.7	22.7	21.8	23.4	16.2	12.9	10.7
Jindal Steel & Power	C BUY	745	826	748.7	527.1	547.7	585.5	650.2	99.3	98.5	123.2	142.7	45.2	49.9	63.3	77.4	45.0	49.6	63.0	77.0	12.2	12.1	13.7	14.6	16.6	15.0	11.8	9.7
JSW Steel	C BUY	837	992	2,023.5	1,659.6	1,849.7	2,158.0	2,492.2	185.5	300.4	369.7	414.9	35.5	122.6	164.7	186.1	14.7	50.7	68.1	77.0	5.3	17.2	19.4	18.4	57.0	16.5	12.3	10.9
National Aluminium Co.	S Acc	131	101	239.7	142.3	129.2	134.7	151.5	24.3	23.9	28.8	34.1	15.6	14.8	17.1	20.5	8.5	8.1	9.3	11.2	12.1	10.9	11.8	13.2	15.4	16.2	14.0	11.7
NMDC	S BUY	224	261	655.2	176.7	214.5	242.6	263.8	60.5	73.9	88.0	105.4	46.4	55.5	65.9	79.3	15.8	18.9	22.5	27.1	22.8	22.9	23.8	25.0	14.1	11.8	9.9	8.3
Steel Authority of India	S Acc	119	95	490.1	1,044.5	1,116.6	1,259.7	1,287.6	80.2	98.1	122.7	121.1	17.2	25.7	43.9	41.1	4.2	6.2	10.6	10.0	3.3	4.8	7.8	6.9	28.5	19.0	11.2	11.9
Tata Steel	C Acc	134	140	1,639.5	2,433.5	2,428.5	2,694.7	2,872.1	323.0	272.6	349.4	402.1	87.1	67.5	144.6	183.4	7.1	5.5	11.8	15.0	8.0	6.6	13.4	15.3	18.8	24.3	11.3	8.9

Source: Company, PL

S=Standalone / C=Consolidated / Acc=Accumulate

Exhibit 19: Change in Estimates

	Rating		Target Price			Sales						PAT						EPS					
						FY24E			FY25E			FY24E			FY25E			FY24E			FY25E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Hindalco Industries	BUY	BUY	673	583	15.4%	2,222.3	2,229.3	-0.3%	2,398.1	2,398.1	0.0%	91.5	93.0	-1.5%	114.9	114.9	0.0%	41.2	41.9	-1.5%	51.8	51.8	0.0%
Jindal Stainless	Acc	Acc	583	532	9.6%	411.1	411.1	0.0%	477.3	477.3	0.0%	30.6	30.6	0.0%	38.5	38.5	0.0%	37.2	37.2	0.0%	46.7	46.7	0.0%
Jindal Steel & Power	BUY	BUY	826	751	10.0%	547.7	547.7	0.0%	585.5	585.5	0.0%	49.9	49.8	0.1%	63.3	63.2	0.1%	49.6	49.6	0.1%	63.0	62.9	0.1%
JSW Steel	BUY	BUY	992	903	9.9%	1,849.7	1,849.7	0.0%	2,158.0	2,158.0	0.0%	122.6	122.6	0.0%	164.7	164.7	0.0%	50.7	50.7	0.0%	68.1	68.1	0.0%
National Aluminium Co.	Acc	Acc	101	100	1.0%	129.2	129.9	-0.6%	134.7	136.2	-1.1%	14.8	15.4	-3.7%	17.1	18.3	-6.4%	8.1	8.4	-3.7%	9.3	10.0	-6.4%
NMDC	BUY	Acc	261	176	48.3%	214.5	206.0	4.1%	242.6	227.6	6.6%	55.5	51.2	8.4%	65.9	56.0	17.8%	18.9	17.5	8.4%	22.5	19.1	17.8%
Steel Authority of India	Acc	Acc	95	95	-0.3%	1,116.6	1,104.7	1.1%	1,259.7	1,250.7	0.7%	25.7	30.0	-14.3%	43.9	43.9	-0.1%	6.2	7.3	-14.3%	10.6	10.6	-0.1%
Tata Steel	Acc	Buy	140	138	1.8%	2,428.5	2,433.1	-0.2%	2,694.7	2,667.5	1.0%	67.5	75.2	-10.2%	144.6	159.7	-9.5%	5.5	6.2	-10.2%	11.8	13.1	-9.5%

Source: Company, PL

C=Current / P=Previous / Acc=Accumulate



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	583	482
2	Jindal Stainless	Accumulate	532	523
3	Jindal Steel & Power	BUY	751	634
4	JSW Steel	BUY	903	769
5	National Aluminium Co.	Accumulate	100	91
6	NMDC	Accumulate	176	169
7	Steel Authority of India	Accumulate	95	88
8	Tata Steel	BUY	138	118

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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