ANAND RATHI

India I Equities

Metals

Initiating coverage

28 November 2024

Lloyds Metals and Energy

Leading Maharashtra's ferrous sector; initiating, with a Buy

Rating: **Buy**
Target Price (12-mth): Rs.1,260
Share Price: Rs.970

The only iron ore miner in Maharashtra, Lloyds has ~157m tonnes of extractable iron ore and ~701m tonnes of banded hematite quartzite (BHQ). It has environmental clearance (EC) for 10m tonnes, which is being enhanced to 55m tonnes (25m tonnes of usable ore). It is growing its presence across the steel value chain and has earmarked ~Rs327bn for setting up integrated steel facilities in Ghughus and Konsari. The mine, which was awarded via allocation route, boosts one of the highest qualities of iron ore reserve, with low silica-alumina content. Considering the company's focus on integrating the steel value chain, increasing capacity, exemption from paying additional premium, strategic mine locations near steel manufacturing hubs of nearby states, we expect a strong momentum ahead. We expect the company to outpace the sector, with a 65% EBITDA CAGR over FY24-27. We initiate coverage on the stock with a Buy and a sum-of-parts TP of Rs1,260.

Key data	LLOYDSME IN / LYMT.BO
52-week high / low	Rs1041/ 516
Sensex / Nifty	79044 / 23914
3-m average volume	$6.2m
Market cap	Rs.507bn / $6000m
Shares outstanding	522m

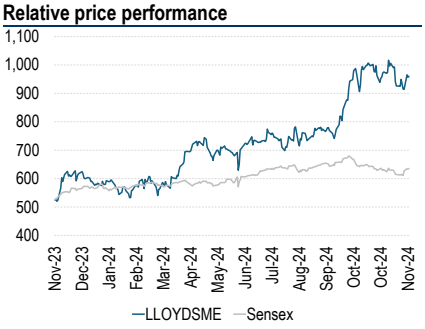
Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	63.5	65.7	65.7
- of which, Pledged	*18.2*	*24.5*	*24.2*
Free Float	36.5	34.3	34.3
- Foreign institutions	2.0	1.1	0.7
- Domestic institutions	1.3	0.1	0.1
- Public	33.2	33.1	33.5

High-grade allocated mine. As Surjagarh mine was awarded via allocation route and not auction, it exempts the company from paying any additional premium. This aids in making the company one of the most cost competitive miners in India. This mine, which is leased till 2057, would only pay standard royalty rates; the company's competitiveness would be further enhanced once the wire rod facility and HRC mills become operational.

Transforming Gadchiroli - Chandrapur as steel hubs of west India. The company has mining operations in Surjagarh and is setting up fully integrated steel facilities in Ghughus (Chandrapur) and Konsari (Gadchiroli), which are expected to come on stream during FY27-29. The strong focus on value-added products (VAP) and cost-saving initiatives would drive profits ahead.

Outlook, Valuation. Considering the company's focus on enhancing iron ore capacity, key projects likely to be completed over the next 12-24 months and benefits from the allocated mine and the Investment Promotion Scheme (IPS), we initiate coverage on the stock with a Buy rating and a sum-of-parts TP of Rs1,260/sh. **Key risks:** Delays in receipt of environmental clearance and capex execution; fluctuations in iron ore prices, operational risks in the Naxalite zone.

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	33,923	65,217	70,676	149,073	186,749
EBITDA (Rs m)	8,103	17,283	24,945	60,968	77,814
Adj. PAT (Rs m)	9,059	12,429	19,257	45,043	60,262
EPS (Rs)	17.9	24.6	36.8	80.5	107.7
P/E (x)	54.1	39.4	26.3	12.1	9.0
EV / EBITDA (x)	60.1	28.2	20.1	8.6	6.6
RoE (%)	-28.7	57.3	40.4	46.3	38.7

Source: Company, Anand Rathi Research

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Quick Glance – Financials &Valuations (consolidated)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Revenue	33,923	65,217	70,676	1,49,073	1,86,749
Revenue growth (%)	*386.4*	*92.2*	*8.4*	*110.9*	*25.3*
Expenses	25,820	47,934	45,731	88,105	1,08,935
EBITDA	**8,103**	**17,283**	**24,945**	**60,968**	**77,814**
EBITDA growth (%)	*456.8*	*113.3*	*44.3*	*144.4*	*27.6*
EBITDA margins (%)	*23.9*	*26.5*	*35.3*	*40.9*	*41.7*
Depreciation	230	490	1,350	2,750	4,750
Other income	745	529	2,224	2,000	7,500
Interest expenses	650	57	75	0	0
PBT before excep. items	7,967	17,265	25,744	60,218	80,564
Exceptional items	-11,944	0	0	0	0
PBT after exceptional items	-3,977	17,265	25,744	60,218	80,564
Effective tax	-1,091	4,836	6,488	15,175	20,302
PAT (before ass./ (mino.)	-2,885	12,429	19,257	45,043	60,262
+ Associates / (Minorities)	0	0	0	0	0
Reported PAT	-2,885	12,429	19,257	45,043	60,262
Adj. PAT	9,059	12,429	19,257	45,043	60,262
Adj. PAT growth (%)	*509.1*	*37.2*	*54.9*	*133.9*	*33.8*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	505	505	523	560	560
Net worth	15,290	28,109	67,225	1,27,486	1,83,831
Debt	28	331	0	0	0
Minority interest	0	0	0	0	0
DTL / (Assets)	-1,374	864	864	864	864
Others	226	249	249	249	249
Capital employed	**14,169**	**29,553**	**68,337**	**1,28,599**	**1,84,944**
Net tangible assets	4,817	11,568	31,158	56,508	83,658
Net intangible assets	0	0	0	0	0
CWIP	2,979	12,682	25,742	42,642	60,742
Investments	0	0	0	0	0
Other non-current assets	1,870	3,851	3,851	3,851	3,851
Inventory	2,698	2,311	2,504	5,282	6,617
Accounts receivable	245	799	866	1,827	2,288
Cash (incl. bank balance)	3,013	3,162	6,991	17,846	25,502
Other current assets	3,264	5,003	5,420	11,416	14,297
Current liabilities	4,717	9,823	8,195	10,773	12,011
Capital deployed	**14,169**	**29,553**	**68,337**	**1,28,599**	**1,84,944**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
EBITDA	8,103	17,283	24,945	60,968	77,814
+ other adj.	0	0	0	0	0
- Incr. / (decr.) in WC	-1,447	1,539	-2,305	-7,157	-3,439
Others incl. taxes	-11,821	-1,811	-6,488	-15,175	-20,302
CF from op. activity	**-5,165**	**17,010**	**16,153**	**38,636**	**54,073**
- Capex (tang. + intang.)	-3,884	-16,943	-34,000	-45,000	-50,000
Free cash-flow	**-9,048**	**68**	**-17,847**	**-6,364**	**4,073**
Others	-2,239	-311	2,224	2,000	7,500
CF from inv. activity	**-6,123**	**-17,254**	**-31,776**	**-43,000**	**-42,500**
- Div. (incl. buyback & taxes)	0	0	-1,569	-2,798	-3,918
+ Debt raised	0	0	-331	0	0
Others	11,426	-6	21,353	18,017	0
CF from fin. activity	**11,426**	**-6**	**19,453**	**15,219**	**-3,918**
Inc/Dec in cash	138	-250	3,830	10,855	7,655
Closing bal. (incl. bank bal.)	3,013	3,162	6,991	17,846	25,502

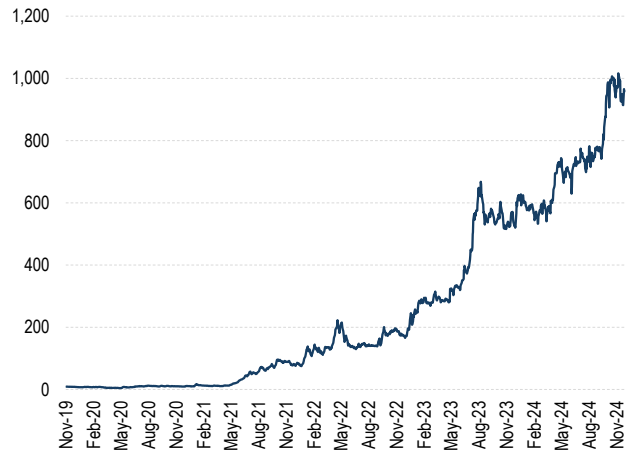
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
EPS (Rs)	17.9	24.6	36.8	80.5	107.7
P/E (x)	54.1	39.4	26.3	12.1	9.0
P/BV (x)	32.0	17.4	7.5	4.3	3.0
EV / EBITDA (x)	60.1	28.2	20.1	8.6	6.6
EV / Sales (x)	14.3	7.5	7.1	3.5	2.8
RoE (%)	-28.7	57.3	40.4	46.3	38.7
RoCE (%)	82.3	79.2	52.8	61.2	51.4
DPS (Rs)	0	1	3	5	7
Dividend payout (%)	0.0	4.1	8.1	6.2	6.5
Debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Inventory (days)	29	13	13	13	13
Debtors (days)	3	4	4	4	4
Payable (days)	8	22	12	12	12
EBITDA margins (%)	23.9	26.5	35.3	40.9	41.7
Net profit margins (%)	26.7	19.1	27.2	30.2	32.3

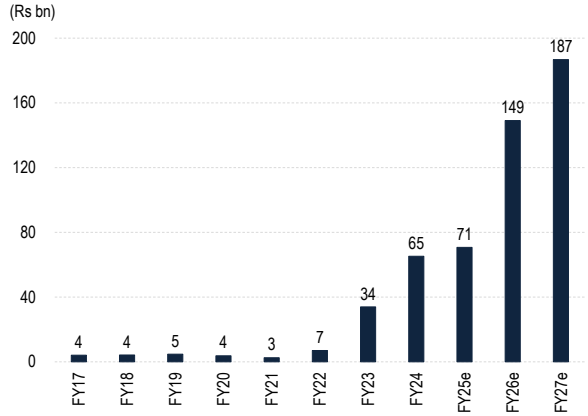
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Performance picked up after Thriveni Earthmovers became co-promoter in FY22



Source: Company, Anand Rathi Research

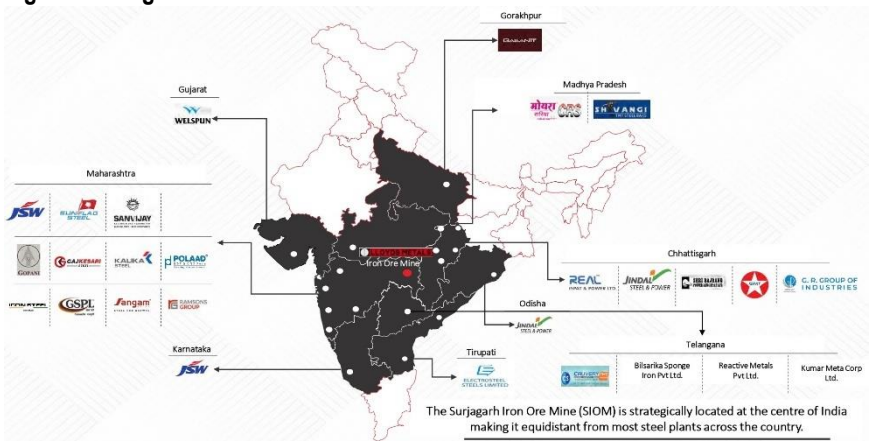
Allocated mine; cost-competitive miner

Low silica-alumina iron ore reserve, exemption from paying additional premium to help margins

The only iron ore miner in Maharashtra, the company has a strategically located mine in Surjagarh (Wooria hills), Surjagarh hill range, Gadchiroli, which spans >348Ha. The company had applied for a mining lease in 1993; however, the lease was executed in 2007 for 20 years and operations commenced in Sept'21 once Thriveni Earthmovers (now a part of the promoter entity) was appointed as the mine developer and operator (MDO). Prior to appointment of the MDO, the company undertook miniscule mining operations on a trial basis. Following the amendments to the MMDR Act in 2015, the lease was extended for additional 30 years (total 50 years) till 2057. The mine has also received a 5-star rating from the Indian Bureau of Mines.

The company has low silica-alumina reserves, which make it ideal for steel manufacturing. Additionally, Surjagarh mine's strategic location near steel manufacturing hubs eases logistical challenges associated with transportation of ore.

Fig 7 – Strategic location of the mine



Source: Company

Surjagarh mine was awarded via allocation route, which exempts the company from paying any premium to the Indian government over its lease tenure. Indian ore is one of the highest taxed in the world. Still, miners are grappling with astronomical mine auction premiums. While high royalties are intended to ensure that the government receives adequate revenue from the extracted resources, higher auction premiums are a concern. A similar concern was also recently flagged by Mr Anil Agarwal (Chairman, Vedanta) on a social media platform, where he highlighted that high auction premium and slow mining operations are creating roadblocks for iron ore mining in India. To increase production of key raw materials and improve transparency in the sector, ~112 mines have been auctioned (FY16-Oct'24) at an average premium of 100-125%. As companies scout for captive mines, auction premiums have only increased over the last few years (from ~85-86% in FY16 to ~130-160% in FY23). Considering high auction premiums, ferrous manufacturers are finding it unviable to excavate captive iron ore at current levels and are either importing or procuring from merchant miners.

The recently concluded Goa iron ore auction saw participation from companies such as JSW Steel (Codli iron ore) and Agarvanshi (Onda iron ore block), which emerged as the highest bidders for low grade ore (55.5-56.2%) at an average premium of 93-125%. Surjagarh's high-grade iron ore mine is exempt from any additional premium, which gives it an inherent competitive advantage. The outflow of royalties and premiums for the newly auctioned mines work out to be 5-6x higher than those of the allotted mines, making the company one of the most cost-efficient iron ore producers in India.

Ferrous manufacturers such as Tata Steel, Hira Group, Rungta, etc., enjoy similar benefits. However, most of their mining leases are coming up for auction from 2028. Tata Steel indicated that it may not retain all its existing mines and may import or procure from merchants, which may impact its domestic operations. It is expected that after 2030, Lloyds could emerge as one of the lowest cost iron ore producer in India.

Fig 8 – Cost structure of auctioned mines are higher

	UoM	Auctioned mine	Lloyds Surjagarh mine
IBM rate for 62-65% lumps (Aug '24)	Rs/tonne	5,932	5,932
Royalty	%	15%	15%
DMF	%	10%	30%
NMET	%	2%	2%
Total royalty (incl. DMF and NMET)	Rs/tonne	997	1,175
Avg. premium	%	~100%	0%
Premiums	Rs/tonne	5,932	0
Total payout (Royalty + premium)	Rs/tonne	6,929	1,175

Source: Industry, IBM, Anand Rathi Research

India has one of the highest royalty rates globally

Though the Ministry amended the mine auction process in 2015 to increase transparency, fairness and objectivity for mineral asset allocation, Indian mines are one of the highest taxed in the world; this impacts their global competitiveness. There are three royalty systems applied to non-fuel minerals: *tonnage-based system, ad valorem and profit-based system.* Over the last few years, India has moved away from tonnage-based system to ad valorem. Apart from royalty and higher auctioned premiums, mining companies also pay contributions such as District Mineral Foundation (DMF) and National Mineral Exploration Trust (NMET), in addition to corporate tax. Royalty rate on iron ore in India is 15% (excl. DMF + NMET + other cess) vs. 3-7% in Angola, Mozambique, and South Africa.

Prior to 2009, iron ore royalty was fixed for different grades of lumps and fines. For instance, lumps over Fe 65% attracted Rs24.5/tonne royalty and fines, Rs17/tonne. Similarly, Fe 62-65% lumps attracted Rs14.5/tonne royalty and fines, Rs10/tonne. However, royalty is now standardized for lumps and fines (across grades) and is calculated based on IBM declared prices.

Ad valorem royalty (as defined by the Indian Bureau of Mines) = Sale price of mineral (grade-wise and state-wise) published by IBM × rate of royalty (%) × total quantity of mineral grade produced/dispatched (tonnes).

Fig 9 – Royalty structure across different geographies

	India	Western Australia	Queensland	Northern territory	Brazil	China
Royalty rate (excl. other cess)	15%	5% beneficiated ore 7.5% raw ore	AU$1.25 per tonne + 2.5% if price > AU$ 100	Greater of 20% (less AU$ 10,000) or 1%, 2%, 2.5%	3.5%	1-9% (iron ore concentrate)
Royalty base	ASP (IBM price)	Sales revenue	Per tonne and sales revenue	Net value or sales revenue	Sales revenue	Sales revenue
System	Ad valorem	Ad valorem	Hybrid	Hybrid	Ad valorem	Ad valorem
Auction premiums	Yes	No	No	No	No	Yes

Source: CSEP (Aug'22), Anand Rathi Research

A highly regulated sector

Mining being a highly regulated sector, operationalizing a mine often becomes strenuous. Multiple clearances are required from various government authorities and agencies. Usually, a mining company requires ~30-35 different clearances/orders (a wide range of environmental-land safety-operational-local body clearances), which lead to delays in commencing operations. The average time taken to commercialize an iron ore block in India is ~3-5 years (after winning the auction). Due to lengthy mining processes, along with regional instability, there was a delay of almost 14 years (between execution of the lease and full-fledged commercial production) for the company.

In Jun'23, five entities (JSW Steel, Sunflag Group, Natural Resource Energy, Om Sairam Group and Universal Industrial Equipment and Technical Services) bagged multiple iron ore blocks in Surjagarh, Gadchiroli district (near the company's existing mine). ~12 iron ore blocks were auctioned at an average premium of 115-139%. Considering the long gestation period to commercialize a mine, along with high auction premiums and unfamiliarity in dealing with local issues, we believe these companies would find it difficult to operationalize the mines in the near term. Even if they operationalize ahead, the company would have already reached ~25m tonnes by then. Along with its network of slurry pipeline and integrated steel facilities, we believe the company would emerge as a key miner and steel manufacturer in Maharashtra.

Further, a 30-year extension of its lease will ensure uninterrupted iron ore supply to its captive steel facility and for external third-party merchant sale. The company's strategic mine location at the centre of India makes it equidistant from numerous steel plants (especially in Maharashtra and Chhattisgarh); this effectively helps in dispatching ore without wasting efforts in scouting for customers. The mine is located ~500km from Jalna district (an upcoming steel hub in Maharashtra) and ~250km from Raipur (considered the steel manufacturing hub of central India, with companies such as SAIL, Hira Group, Goel TMT, Sarda Energy and Minerals, Vraj Group, etc.).

Fig 10 – Equidistant from Jalna and Bhilai/Raipur

Source: Google Maps

The next steel hub of India

Integrated operations to drive performance

The only iron ore miner in Maharashtra, the company is enhancing presence across the ferrous value chain by setting up integrated steel manufacturing facilities in Chandrapur and Gadchiroli. Having earmarked ~Rs327bn, it is setting up a 45m-tonne beneficiation facility, a 12m-tonne pellet plant, 85km and 190km slurry pipelines, a 1.2m-tonne wire rod facility and a 3m-tonne carbon steel facility. Phase I (the 4m-tonne pellet plant and the 85km slurry pipeline) is expected to come on stream by FY25 and the benefits would accrue from FY26. The company's strong focus on enhancing value by integrating steel manufacturing operations would help margins. As the beneficiation facility, slurry pipeline and steel plant come on stream, we expect industry-best EBITDA margins.

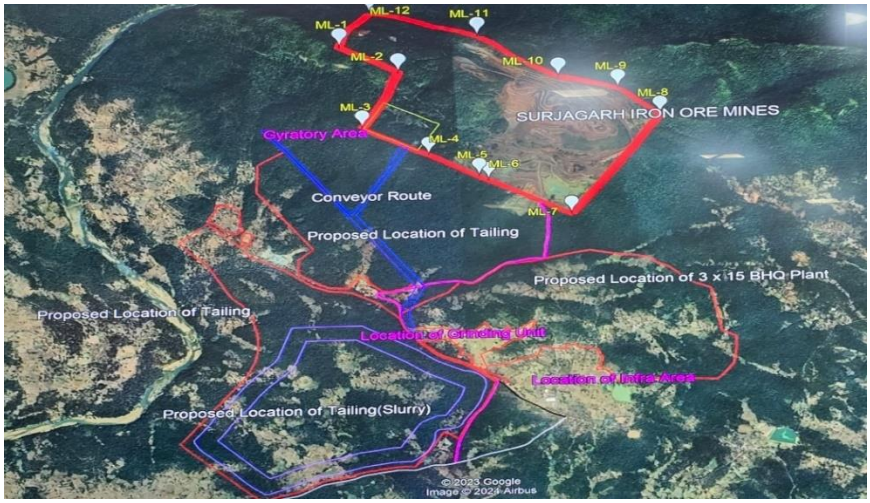
The fully mechanized open-cast Surjagarh iron ore mine has R&R of ~858m tonnes (~157m tonnes of iron ore and ~701m tonnes of BHQ), with 55m tonnes to be excavated (incl. 45m tonnes of BHQ). The company has already started capex towards integrated steel plants (to complete by FY29), which would transform the Chandrapur-Gadchiroli belt as the next steel hubs of west India.

Fig 11 – Capex timelines (capacities in m tonnes, unless specified)

Capex projects	Hedri (mines) (Gadchiroli)	Konsari (Gadchiroli)	Ghugus (Chandrapur)	Capex (~Rs. bn)	Project comple timeline
Enhanced EC	10 to 25			10	
Pellet plant 1		4		14.5	FY25
Pellet plant 2		4		21	FY26
Pellet plant 3			4	17	FY29
Slurry pipeline- 85kms		Yes		4.8	FY25
Slurry pipeline- 190kms			Yes	5.5	FY29
Wire rod mill			1.2	10	FY27
BoF HRC plant		3		160	FY29
Beneficiation plant	45			50	In 3 phases FY29
DRI (enhanced capacity)			0.36	5.9	FY25
SMS			1.2	7.6	FY28
Coke oven			0.4	5	FY28
Others				15.7	
Total				**327**	

Source: Company, Anand Rathi Research

Fig 12 – Surjagarh iron ore mine - Master plan



Source: Company

Phase-I (85km slurry pipeline) to save Rs6bn of cost annually

Under phase-I, the company is setting up a 10m-tonne, 85km slurry pipeline between Hedri (pumping station) and the Konsari plant. The pipeline has a design life of 30 years and can carry 1,262.6 tonnes per hour. The pipeline, which is currently under the hydro testing phase, has been designed in-house and operates at Rs50-60/tonne, which is a fraction of the current Rs650-700/tonne cost. The benefit of this slurry pipeline is expected to accrue from FY26; on optimal utilization, it would save ~Rs6bn pa, which would boost profits.

Indian miners are on the higher end of the cost curve globally, largely due to higher transportation/logistics costs and royalties and premiums. However, the company offers a unique proposition, which positions it as one of the lowest cost producers with no additional premium to be paid on ore extraction, coupled with cost-savings (on use of the slurry pipeline).

Due to its strong presence in Hedri and considering the difficult terrain to extract ore, along with local operational challenges, any upcoming mines nearby (JSW Steel, Sunflag Group, Natural Resource Energy, Om Sairam Group and Universal Industrial Equipment and Technical Services) would also utilize the slurry pipeline tolling service of the company. This would further enhance its dominance in ore logistics.

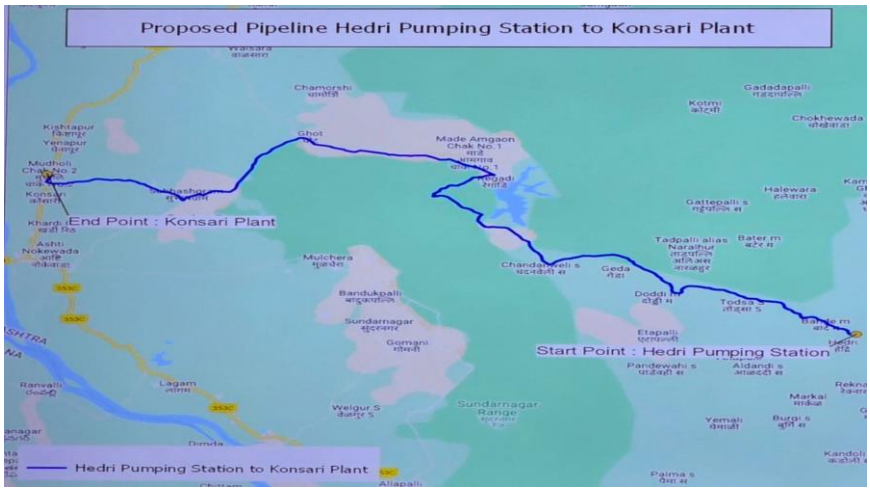
Thriveni Earthmovers' experience in effectively managing a 230km slurry pipeline in collaboration with the JSW Group in Barbil (Odisha) would help to execute the 10m-tonne, 85km Hedri-Konsari pipeline effectively.

Fig 13 – Slurry pipeline - Technical specification

Description	Salient features
Throughput capacity	10m tonnes
Pipeline diameter	18" outer diameter
Length of pipeline	17.48mm thick (~13km), 15.88mm thick (~12km), 12.7mm thick (~19km), 11.13mm thick (~14km) and 9.53mm thick (~29km)
Pipe material	API 5L Gr. X70
Total crossings	89
Dry tonnage	1,262.6 tonne/hour
Design flow	1,027m³/hr
Solids concentration by mass	62%
Villages	21
Forest area	55.17km

Source: Company, Anand Rathi Research

Fig 14 – Slurry pipeline



Source: Company

BHQ – first mover advantage

The company is enhancing its presence in BHQ by setting up a 45m-tonne beneficiation facility (in three phases of 15m tonnes each) in Hedri. Though this is a well-practised process in Europe and China, it will be a first of its kind for any Indian entity. As BHQ is low in Fe, one needs to beneficiate 2.5-3 parts of it to arrive at one part of iron ore/hematite equivalent (Fe 64-65%). Over the last few months, the company operated a 5 tonne/hour pilot BHQ beneficiation plant, which gave better-than-estimated results. The yield worked out at ~38-40%, beating the originally anticipated ~33-35%. This means the company would now have to beneficiate ~2.5m tonnes of BHQ to derive an equivalent 1m-tonne hematite. Once all the beneficiation plants (15m tonnes x 3) are operational, 25m-28m tonnes of high-grade mineral would be yielded.

The company plans to set up these beneficiation plants on a land located ~3km outside the mines' leasehold land. The IBM rates for Fe below 45% are disproportionately lower, compared to those for Fe 62-65%. Hence considering the difference in existing IBM rates structure, we believe, the company would incur miniscule royalty charges on these minerals. We believe, the ex-mine cost would be negligible as compared to realizations once BHQ is converted to a high-quality mineral. This will further solidify the company as one of the lowest cost iron ore producers globally.

Fig 15 – BHJ and BHQ (visit in Sep'24)

Source: Company, Anand Rathi Research

Fig 16 – Surjagarh iron ore mine (visit in Sep'24)

Source: Company, Anand Rathi Research

Konsari steel mill

The company has already commenced constructing the 4m-tonne pellet plant, which is to come on stream by FY25, and another 4m tonnes by FY26 (taking the total to 8m tonnes). Total iron ore for the 8m-tonne pellet plant is expected at 8.7m-9m tonnes. The company is establishing the Konsari facility, which would take steel-making capacity from 3m tonnes to 11m tonnes under the next phase of expansion.

Simultaneously, the company is also developing a 1.2m-tonne wire rod mill in Ghughus (Chandrapur district), along with enhancing additional DRI (direct reduced iron) capacity by 0.36m tonnes. Once the 0.7m-tonne DRI and the 12m-tonne pellet plant become operational, the company would utilize ~14.5-16m tonnes of iron ore for captive consumption, leaving ~10m-12m tonnes to be sold externally via the merchant route. Once the ~3m-tonne carbon steel facility is operationalized in FY29, it would also utilize captive ore. Thus, iron ore produced from the only operating mine in Maharashtra, i.e., Surjagarh will not only cater to the captive requirement but also other steel manufacturers' needs. This would ensure better margins.

Fig 17 – Capex overview

Source: Company

India's pellet production increased 10% y/y in H1 FY25

Pelletisation involves mixing of iron ore and limestone, along with water. Pellets of desired sizes are prepared in ball mills. The use of pellets as feed in the BoF has several advantages because of the uniform size, known composition and strength. Pellet production (in m tonnes) grew at a 7.7% CAGR over CY18-23 in India, surpassing global majors' CAGRs. Pellet production in India surpassed 52m tonnes (up 10% y/y) in H1 FY25. We believe steel plants are likely to increase pellet usage in ferrous production to reduce pollution and increase productivity.

One of the other reasons why pellet facilities are consistently growing in India is because of margins commanded by pellet manufacturers. Globally, the premium commanded by pellet-to-iron ore has been consistently eroding and is ~$4-7/tonne now vs. $23-25/tonne in India. As tier-I mills such as JSW Steel, Tata Steel, AM/NS produce substantial pellets, the requirement would only increase on steel volumes picking up in India. The increase in the share of pellets in hot metal production and direct reduced iron (DRI) making also signifies its importance. The share of pellets in hot metal production has risen from 31% to 41%.

IPS scheme to further increase capex

Under the state government's policy of IPS refund, the company is entitled to receive 115% of Chandrapur project cost and 150% of Gadhchiroli project cost (capex) as subsidies in the form of SGST refunds. The blended IPS works out at ~125%; it will be paid over 12 years. Receipts under such a policy will ensure a shorter payback period in Maharashtra.

The company is expected to spend ~Rs66bn-68bn towards capex till FY27. At a blended rate of ~125%, it works out to Rs83bn-85bn via SGST recoveries. During FY27-37, it is expected to receive ~Rs5bn-7bn annually as reversal of the amount spent on capex; this would significantly improve its operating cashflow. The receipt under IPS from future spends (beyond FY27) would further reduce the capex burden on the company. A simple back-of-the-envelope calculation indicates that benefits from IPS are expected to accrue until FY42.

The company would remain net debt-free

Since FY22, the company has seen a turnaround in its fortunes. It has remained net debt-free with cash and equivalents of Rs10.9bn as of H1 FY25. Future capex would either be funded via internal accruals, IPS receipt(s) or the war chest created by the company in recent months.

QIP. In Jul'24, the company allotted 17.5m equity shares via QIP at Rs696/share. It raised ~Rs12.18bn from diverse investors (incl. long-only funds, mutual funds, insurance companies and other key stakeholders). The proceeds would be utilized for setting up the 4m-tonne pellet facility in Konsari, along with an iron ore and grinding unit.

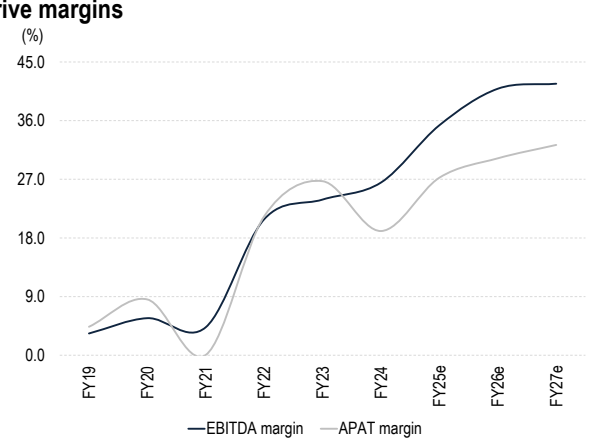
Warrants. In Sep'24, the company allotted 36.795m convertible warrants at Rs740/share. Once the warrants are converted in FY26, it is expected to receive ~Rs17.8bn (~65% of the amount on conversion). The proceeds will be used to set up an additional 4m-tonne pellet plant, along with DRI and power capacities in Chandrapur district.

"*This fundraise marks an exceptional milestone in our company's history. It will bolster our capital structure even further, enhance our financial flexibility, and enable us to accelerate our growth plans.*"

-Mr Riyaz Shaikh, CFO

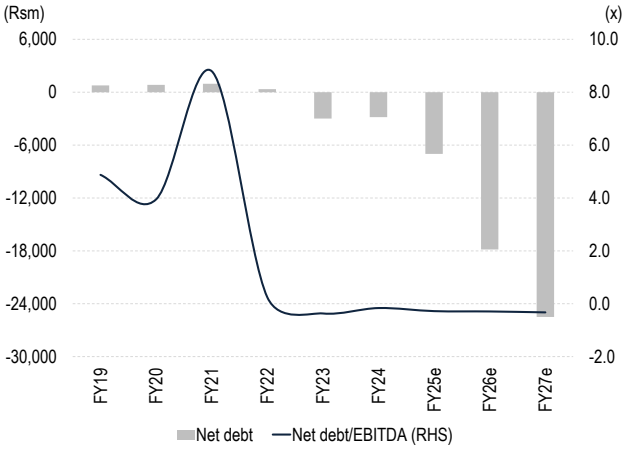
Improved operating cashflow, along with the debt-free status will ensure increased financial flexibility, which would aid the company's profitability and return ratios.

Fig 18 – Increased ore/VAP volumes and debt-free status to drive margins



Source: Company, Anand Rathi Research

Fig 19 – Net debt/EBITDA (x)



Source: Company, Anand Rathi Research

May'21 – a change in fortunes

Surjagarh lease was signed in 2007. However, operations began once Thriveni Earthmovers was appointed as the MDO. In the past, Gadchiroli experienced challenges owing to the Naxals. Under Mr Balasubramanian Prabhakaran's leadership, the company started engaging with the locals and set up a state-of-the-art school, hospital and housing complexes, which helped to move forward with mining operations.

Under Mr Prabhakaran's leadership, Thriveni Earthmovers emerged as the largest MDO in India, with presence in Indonesia and Africa. Management has multi-decades' experience of operating in challenging regions of Jharkhand, Odisha, Andhra Pradesh and Tamil Nadu. Leveraging the past expertise, Mr Prabhakaran was able to tackle the Naxals.

As far as mining operations is concerned, Thriveni Earthmovers is India's largest private sector miner for Iron Ore, second only to NMDC. Thriveni Earthmovers also has MDO with NTPC (coal mining) and Barita mines (Indonesia – coal mining). The company has also entered JV with JSW Group in Odisha for manufacturing 4m tonnes pellets (Bhramani River Pellets Ltd.) along with operating slurry pipeline.

Thriveni Earthmovers engaging with the locals lowered the Naxal impact. To protect the natural balance, the MDO also limited carbon emissions, aided by green mining practices and all-electric equipment. Leveraging Thriveni Earthmovers' Jamshedpur facility, a fleet of EV vehicles was utilized, which not only curbed the carbon footprint but also enhanced safety. The company has also set up a truck stimulator to train its HEMM drivers in real world scenarios.

In Jul'21, Thriveni Earthmovers became a part of the promoter entity and currently holds 31.7% stake (co-promoter).

Changing scenario in Gadchiroli

The company not only developed infrastructure, but also invested in strengthening human capital in Gadchiroli. Its 360^0 community upliftment steps include setting up a primary school to provide free education and meals to tribal kids (a secondary wing is being planned by next year), a garment factory for export orders to provide stable employment and a hospital for free-of-cost check-ups and critical care surgeries to all. This harmonious ecosystem has helped the company to earn goodwill in the Maoist-Naxal belt.

Over the last three years, the situation has improved drastically and Gadchiroli has become an aspirational district under the NITI Aayog program. In the recently concluded Maharashtra assembly elections, Gadchiroli district saw one of the highest voting turnouts, further solidifying district's commitment towards development. It is expected that the district will supply substantial steel in coming years. Being the most prominent mining entity in the district, the company would see better performance.

"Naxalism has weakened not only in Maharashtra but in the entire country. Gadachiroli, which was known for the naxalism, is now known for steel industry and development."

-PM Narendra Modi

Management profile and key milestones

Management profile is relatively strong with an average tenure of >30 years. The promoter holding is 63.5% (62%, considering full conversion of securities), however, Thriveni Earthmovers has pledged a part of its stake for its MDO business. Since the turn in the company's fortunes, we think management has been able to deliver on its guidance.

Mr Rajesh Gupta, managing director. A commerce graduate and an accomplished industrialist, he brings over 35 years of expertise in production, management, consultancy and operations across steel, power and trading industries. As the founder and board member, he has been instrumental in driving transformative projects, incl. the development of a power plant and key advancements at Lloyds Steel Industries.

Mr Mukesh Gupta, chairman. A commerce graduate with over 44 years of experience in project implementation, finance, marketing and operations, he is the founder and board member. His leadership drove the Group's growth (incl. major steel projects and a power plant for Lloyds Steel Industries). His vision has been the key to success across steel, power and real estate sectors.

Mr Babulal Agarwal, vice chairman. A commerce and law graduate with over 54 years of experience in steel trading and industry, he actively oversees the company's daily operations. With expertise in legal, administrative and management domains, he has been instrumental in the growth and success of the Group as its founder and board member.

Mr Balasubramanian Prabhakaran, managing director. Being the co-promoter, he is also the managing director of Thriveni Earthmovers. He established the organization in 1994, following his graduation in computer science. A visionary with deep passion for technology, engineering and flawless execution, he has transformed Thriveni into India's largest private MDO entity. Under his leadership, Lloyds achieved significant milestones.

Mr Riyaz Shaikh. He holds an MBA in finance from the Institute for Technology and Management, Mumbai, and boasts of over 25 years' experience. During his tenure, he consistently delivered on the company's financial goals, adjusting as per changing business requirements. His strong analytical/execution skills, leadership and positive mindset have been instrumental in driving success.

Fig 20 – Key milestones

Year	Milestone
1974	Incorporation of the Group
1987	Started India's second galvanizing line in Nanded
1993	Applied for a mining lease for Surjagarh block
1995	Started manufacturing 0.15m tonnes of coal-based DRI in Chandrapur
2006	Enhanced DRI capacity to 0.27m tonnes
2007	Signed mining lease for Surjagarh block (20-year period)
2021	Thriveni Earthmovers became co-promoters
2023	Reached 3m tonnes of production; EC enhanced to 10m tonnes
2024	Reached 10m tonnes of production

Source: Company

After the amendment to the MMDR Act in 2015 only few mines were left outside the purview of auction route which had longer tenure (beyond 2030). It was then the company appointed Thriveni Earthmovers as MDO on per tonne basis (not on product sharing basis). Realizing the subsequent opportunity in scaling up the business, the company and Thriveni Earthmovers decided to partner and scale-up the mine with the latter investing in the company, thus becoming co-promoter.

Iron ore – a key raw material

Australia is the world's largest producer/exporter of iron ore and China is the biggest consumer/importer. India is the fourth largest iron ore producer, with significant exports. Brazil and Australia account for ~55% of global iron ore production. Though South Africa is not among the top five iron ore producers globally, it is the third largest exporter in the world. Rio Tinto, BHP and Vale are the largest iron ore miners in the world, controlling >50% of global production.

Fig 21 – M9 CY24 iron ore exports

Load country	M9 CY24 (m tonnes)	M9 CY23 (m tonnes)	% Change y/y	CY23 (m tonnes)
Australia	646	631	2	855
Brazil	291	275	6	380
South Africa	46	44	4	59
Canada	43	41	6	57
India	32	30	5	44
Ukraine	27	13	111	18
China	18	17	8	21
Peru	17	15	12	19
Netherland	14	14	-	19
Sweden	14	17	-18	23
Iran	13	11	25	17
Chile	12	11	7	18
Bahrain	8	7	13	10
USA	8	8	-	11
Mongolia	5	5	-	6
Kazakhstan	4	4	-	5
Mozambique	2	3	-49	5
Norway	1	1	-	2
Total global exports	**1,201**	**1,149**	**5**	**1,569**

Source: BigMint, Anand Rathi Research

Some of the factors, which influenced global iron ore trade, were stimulus by China, restocking ahead of the Golden Week holidays in Oct'24 and higher demand from emerging economies. This led to imports increasing 5% y/y in China (from 878m tonnes to 920m tonnes).

However, exports from India did not pick up as was originally anticipated, which meant that much of the material was diverted for indigenous consumption. As steel production in India rises, iron ore production would increase from 278m tonnes in FY24 to ~400m tonnes in FY30.

Fig 22 – Iron ore production expected at ~400m tonnes by FY30

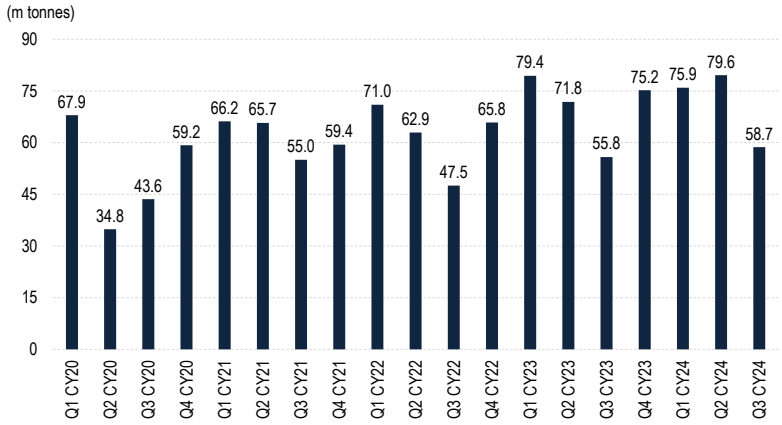
Volumes (~m tonnes)	FY24	FY30e
Production	278	400
Exports	48	50
Imports	5	10
Consumption	235	350

Source: BigMint, Anand Rathi Research

India, predominantly a net exporter of iron ore, usually imports a miniscule quantity (FY24 ~5m tonnes). JSW Steel is the largest importer of iron ore

(~89% of total imports). Similarly, most of the iron ore produced in India is exported to China (~85-89%), with Rungta/Vedanta group being the largest exporters. Production volumes in Jul-Sep are usually subdued due to the impact from monsoons. The same holds true for all iron ore miners, incl. the company (Q2 volumes were hurt due to heavy rains, which disrupted production for almost 30 days).

Fig 23 – Domestic iron ore production (m tonnes)



Source: Source: BigMint, Anand Rathi Research

Odisha – leading in India's iron ore mining

Accounting for ~55% of domestic production, Odisha produces the most iron ore in India and has the largest R&R at ~9.4bn tonnes. According to the IBM, Gadchiroli district has one of the best ore qualities in India, with Surjagarh mine having an average Fe 63-64%.

Fig 24 – Quarterly state-wise production

(m tonnes)	Q1CY20	Q2CY20	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Q2CY23	Q3CY23	Q4CY23	Q1CY24	Q2CY24	Q3CY24
Odisha	41.5	17.2	21.1	32.3	36.6	41.7	29.2	30.2	37.1	37.3	24.4	35.5	44.9	40.7	30.3	44.0	42.8	48.5	32.5
Chhattisgarh	10.4	6.9	6.6	10.3	13.5	8.3	8.3	10.2	13.1	9.9	7.6	11.1	13.8	10.8	8.7	12.2	14.5	9.4	8.3
Jharkhand	7.6	3	5.4	6	6.5	4.1	6.4	7.2	7.7	5.7	5.6	6.8	6.9	4.8	4.6	5.7	6.4	5.4	4.9
Karnataka	6.5	6.9	9.5	9.4	8.5	10.2	9.7	10	10.6	7.1	7.7	9.8	10.9	10.3	8.8	9.5	8.9	10.9	9.1
Others	1.9	0.9	1.1	1.2	1.2	1.4	1.5	1.8	2.5	2.9	2.3	2.7	2.9	5.3	3.4	3.9	3.4	5.3	3.9

Source: BigMint, Anand Rathi Research

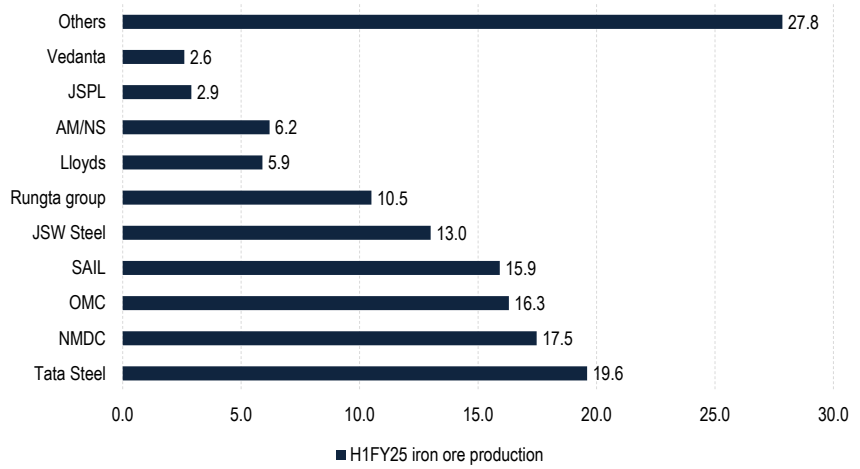
Availability of low silica-alumina ore makes the company ideal for steel manufacturing. Many ferrous manufacturers have started scouting for captive mines, which ensure timely and consistent ore quality. Companies such as JSW Steel are planning to enhance captive iron ore consumption to ~50%. JSPL has captive mines, which can meet ~60% of its requirement; companies such as Tata Steel (domestic operations) and SAIL have complete iron ore integration. However, due to high cost of production, mine premium and logistical bottlenecks, many tier-I mills are not able to completely utilize their captive capacities and ultimately procure from merchants. Similarly, once Tata Steel's mine lease expires around 2030, the company would either import or procure from merchant miners. It is expected that after 2030, Lloyds could emerge as the lowest-cost iron ore producer in India.

Iron ore production expected to reach ~305m-310m tonnes in FY25

Tata Steel overtook NMDC as the largest iron ore miner in India in H1 FY25. Iron ore production in India is expected to increase to ~305m-310m tonnes

in FY25, with Odisha remaining the frontrunner, thanks to ~174m-175m tonnes of production.

Fig 25 – H1 FY25, company-wise production (m tonnes)



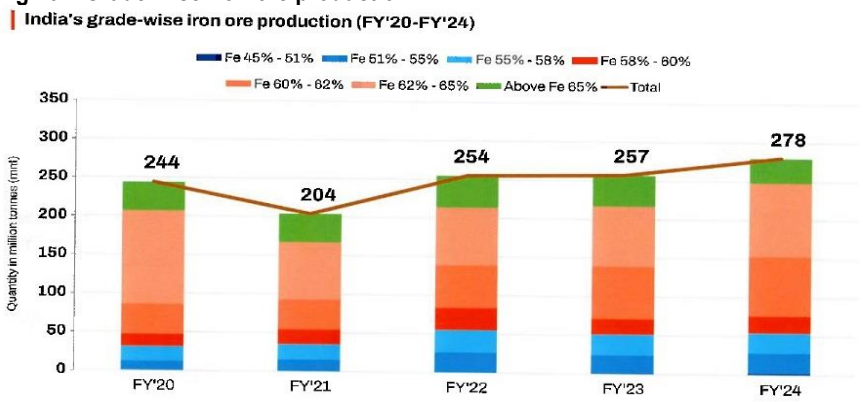
Source: BigMint, Industry, Anand Rathi Research

Ore deterioration – the biggest challenge in India

Iron ore grades in India have steadily declined over the last few years, challenging domestic ferrous manufacturers to maintain quality. Production of lower grade Fe 55-58% rose from 19m tonnes in FY20 to 26m tonnes in FY24. On the contrary, production of high-grade Fe 62-65% fell from 121m tonnes in FY20 to 96m tonnes in FY24. The deterioration in ore not only impacts steel quality, but also raises cost of production.

High-grade iron ore in the feed reduces the amount of slag generated in the blast furnace, thus, raising productivity and reducing the coke rate. A 1% improvement in iron ore quality, it is estimated, reduces coke consumption by 1% and betters blast furnace productivity by 2%. Therefore, we believe the company would be one of the largest beneficiaries ahead.

Fig 26 – Grade-wise iron ore production



Source: BigMint,

China's role in the global landscape

Over the last four years, international raw material and finished ferrous prices saw notable shifts, particularly due to policy changes in China. Unlike in the past, over the last 3-4 years, the rally in metal prices coincided with China's stimulus announcement and thereafter, prices corrected. A similar trend was also seen during Sep-Oct'24, when key raw material and metal prices rallied in anticipation of stimulus, but thereafter corrected. Iron ore prices, which

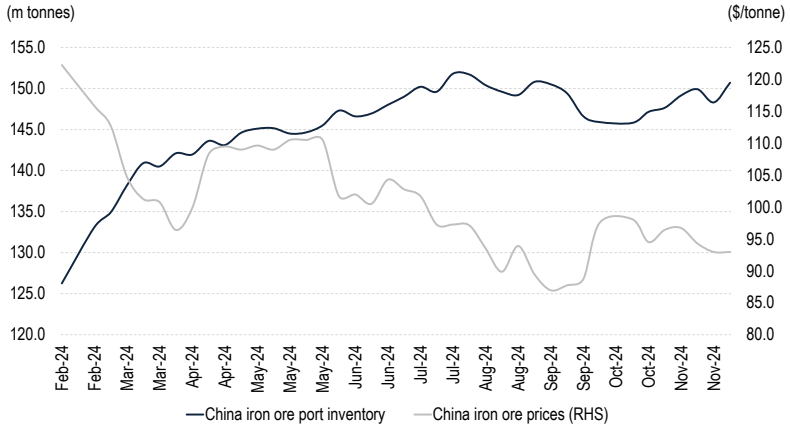
surpassed $101/tonne in October first week have since corrected to $94/ tonne.

China's capital efficiency (boosted by the stimulus) has reduced, which means that the stimulus post 2020 has been less effective, compared to those declared during the 2008 or 2016 crises. This is primarily because of the lull in China's real estate sector, which has been dragging the economy.

China's port-level inventory and its impact on iron ore prices

Port-level inventory also played a key role in driving iron ore prices. It has been seen that if China's port-level iron ore rises continuously, prices tend to suffer as there are no buyers of fresh ore. Currently, port inventory is at a record level of over 150m tonnes. Additionally, higher exports by Australia and Brazil to China also build port inventory, which might further impact prices. In CY25, >60m tonnes of additional iron ore production is expected outside China (31-32m tonnes from Australia, 20-21m tonnes from Brazil, 7-9m tonnes in South Africa and 7-12m tonnes in India).

Fig 27 – Inverse relationship between port inventory and prices



Source: Bloomberg, Anand Rathi Research

As China is cutting its steel output, Guinea's Simandou is intensifying its ore production timeline, which could steadily ramp up its volumes to ~80m tonnes by CY29-30. Over the last century, iron ore mining was lucrative, which helped countries like Australia and Brazil to build their economies. However, we believe, with low-cost iron ore production ramping up, mining majors increasing their capacities and countries like India starting to explore mineral requirement via the BHQ route, many high-cost miners might seize their operations by the turn of the decade. The pace at which these closures are announced will determine where the international ore price finds its long-term support level.

Due to the scale of operations, mining majors such as Rio Tinto, Vale and BHP can mine ore at $35-45 per tonne (excl. logistics and processing cost). Hence, even if ore price drops, major miners would still find mining ore viable.

To benefit from less-than-expected ore exports from India, some of the global majors might try and capture higher global market shares. Expansion of three projects puts Vale in a good position to ramp up its production to 350m tonnes. Similarly, Rio Tinto and BHP are expected to produce 360m and 305m tonnes ahead (respectively).

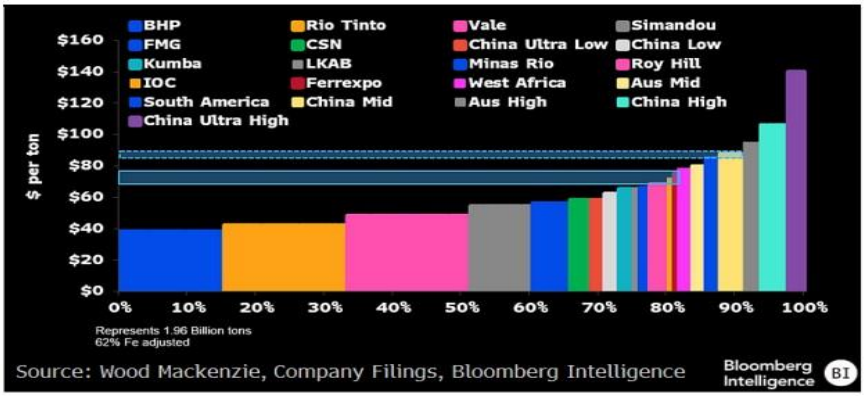
Fig 28 – Global miner comparison (CY23/FY24)

Company	Iron ore production (m tonnes)	ASP ($/tonne)	EBITDA margin (%)	R&R
BHP	260	107.6	67.6	
Fortescue	217	103	58.9	1,701
Rio Tinto	290	108.4	61.9	1,651
Vale	321	116.2	43.3	

Source: Industry, Bloomberg, Anand Rathi Research

The company's cost of mining (excl. transportation and process cost) is ~$25-27 per tonne, which is less compared to NMDC's $34-36/tonne. Though the company's EBITDA margin was ~26% in FY24, it is expected to improve and surpass 41%, thus, exceeding NMDC's EBITDA margin (FY24: ~35%). Even if prices in international geographies remain subdued, the company would still be able to maintain its margins. Additionally, it is expected to utilize its high-grade ore for captive consumption, which would improve finished product quality.

Fig 29 – Global iron ore cost curve 2030



Source: Bloomberg

At a time when rising concerns over China's demand is being reflected in global miners' equity valuations, which are trading slightly lower than their 10-year averages, better domestic iron ore demand (driven by higher steel consumption) is supporting domestic valuations. Considering the strong growth momentum, domestic mining companies are likely to command premium valuations compared to their global peers.

At a time when all domestic captive and merchant miners are increasing production and offtake, NMDC's sales volume was impacted in H1 FY25. After the recent price hike by NMDC, its ore has become unviable, compared to export prices. This has further aggravated NMDC's woes. The recently concluded NMDC's Karnataka auction (Fe 59%) received lukewarm response. 12,000 tonnes of lumps and 36,000 tonnes of fines were booked at Rs4,738 and Rs4,025 per tonne (against base price Rs4,728 and Rs4,015 per tonne respectively).

Fig 30 – NMDC ore is more expensive than export prices

	UoM	Per tonne (unless specified)
Iron ore price in international	CFR - $/tonne	94
Less: port and ocean freight charges	$/tonne	14.5
Net realizations	$/tonne	79.5
Less: 30% export duty	$/tonne	23.9
Net realization DMT	$/tonne	55.6
Less: Loss	%	5%
Net realization for WMT	$/tonne	52.9
USD:INR	Conversion rate	84
Net realization for WMT	Rs/tonne	4,441
Less: logistics cost	Rs/tonne	750
Ex-mine realization	Rs/tonne	3,691
Royalty	15%	554
DMF (assuming auctioned mine)	10%	55
NMET	2%	11
Net realizations	Rs/tonne	3,071
NMDC prices (adjusted to royalty+DMF+NMET+cess)	Rs/tonne	4,975
Premium commanded by NMDC		62%

Source: Industry, BigMint, CSEP, Anand Rathi Research

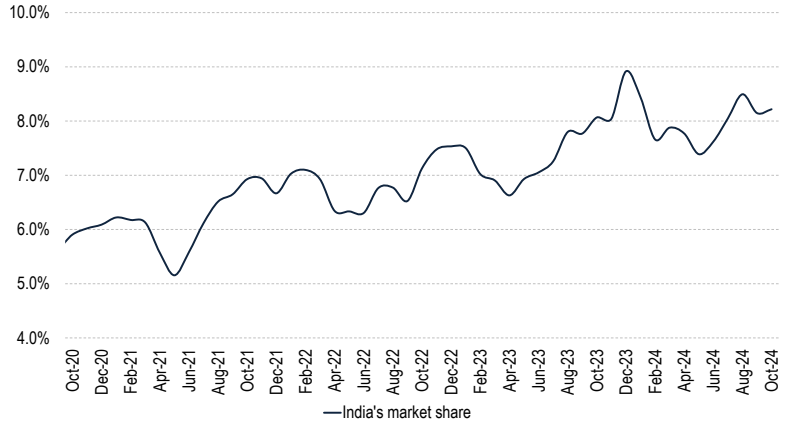
Steel demand in India to outpace GDP growth

Unlike other regions, steel consumption in India is seeing greenshoots, driven by higher public and private capex (~15% capex outlay CAGR in the Union Budget over the last 13 years). Post FY21, the pace of growth saw a sharper curve on sustained thrusts from construction, infrastructure, automobiles, renewable energy and consumer durables. Steel consumption in H1 FY25 rose 13% y/y to ~72.7m tonnes. India is the fastest growing steel manufacturer globally and the only one among the top ten countries to clock consistent growth. As the momentum in China slows, India is expected to pick up a portion of the former's commodities over the next decade, thus, becoming a preferred destination for metals and mining.

Whenever a nation inches toward a $5trn economy, demand for metals multiplies in a short span. India is now at an inflection point, like Japan in the 1950s and China in the 1980s. To meet the swelling domestic demand for steel, all tier-I manufacturers are adding capacities. This would further drive demand for iron ore in India.

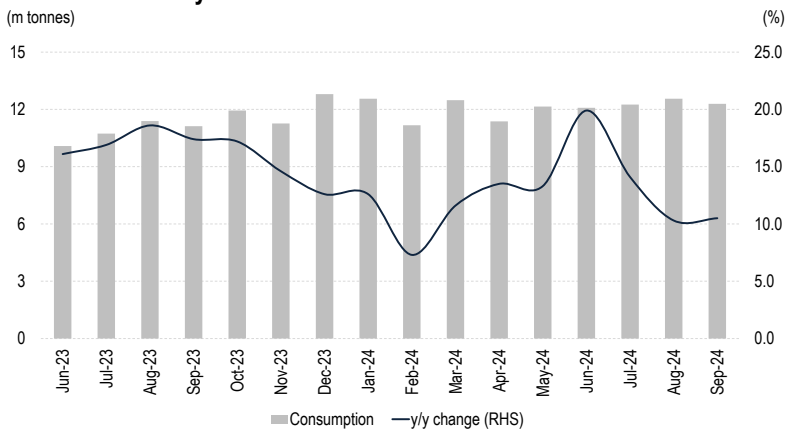
The steel sector has a strong co-relation with the GDP growth rate. Post FY21, it outpaced the latter, recording >8% CAGR. It has retained this pace even after the pent-up demand (Covid) easing a couple of quarters back. As India sees increased steel production, iron ore production would rise from 278m tonnes in FY24 to ~400m tonnes in FY30.

Fig 31 – India's market share globally remained over 8% since Jul'24



Source: JPC, worldsteel.org, Anand Rathi Research

Fig 32 – Monthly steel consumption at a glance; yearly consumption expected to reach >190m tonnes by FY30



Source: JPC, Industry, Anand Rathi Research

Q2 FY25 financial performance

Fig 33 – Quarterly performance

Particulars (Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25
Revenue	8,427	6,738	9,996	8,763	19,655	10,913	19,105	15,543	24,172	13,644
Revenue growth (% q/q)	*152.9*	*-20.0*	*48.4*	*-12.3*	*124.3*	*-44.5*	*75.1*	*-18.6*	*55.5*	*-43.6*
EBITDA	2,619	1,569	2,270	1,646	5,359	2,863	4,477	4,584	7,187	3,395
EBITDA growth (% q/q)	*133.5*	*-40.1*	*44.6*	*-27.5*	*225.7*	*-46.6*	*56.3*	*2.4*	*56.8*	*-52.8*
EBITDA margins (%)	*31.1*	*23.3*	*22.7*	*18.8*	*27.3*	*26.2*	*23.4*	*29.5*	*29.7*	*24.9*
Depreciation	50	55	57	68	76	102	147	165	187	177
Other income	126	126	298	195	119	199	131	81	58	1,054
Interest expenses	54	214	210	173	5	10	19	23	19	36
PBT before excep. items	2,641	1,427	2,300	1,599	5,397	2,951	4,442	4,476	7,039	4,235
PBT after exceptional items	(9,303)	1,427	2,300	1,599	5,397	2,951	4,442	4,476	7,039	4,235
Effective tax	0	0	0	(1,091)	1,364	638	1,127	1,707	1,465	1,222
PAT (before Ass. / (Mino.)	(9,303)	1,427	2,300	2,690	4,033	2,313	3,315	2,769	5,574	3,013
Reported PAT	(9,303)	1,427	2,300	2,690	4,033	2,313	3,315	2,769	5,574	3,013
Adj. PAT	2,641	1,427	2,300	2,690	4,033	2,313	3,315	2,769	5,574	3,013
Adj. PAT growth (% q/q)	*114.1*	*-46.0*	*61.2*	*17.0*	*49.9*	*-42.7*	*43.3*	*-16.5*	*101.3*	*-45.9*

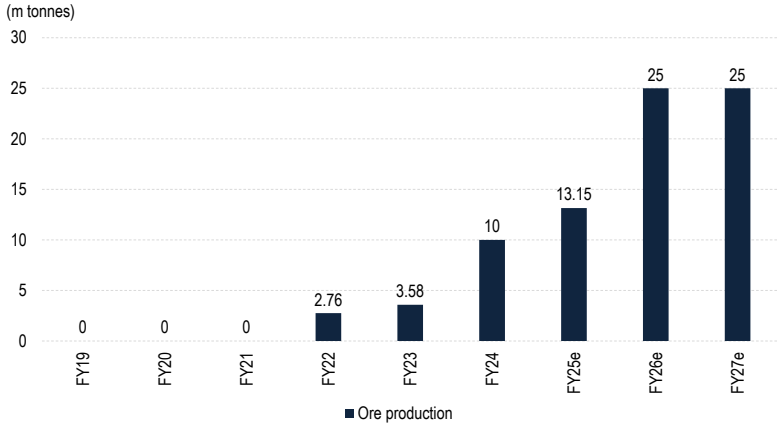
Source: Company, Anand Rathi Research

Financial analysis

Iron ore production expected to ramp up to 25m tonnes by FY26

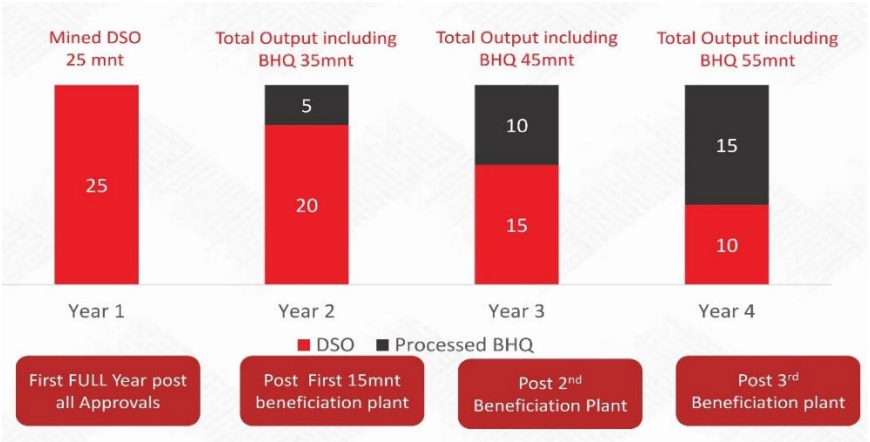
The company operates one of the highest-grade iron ore mines in Maharashtra. Once the enhanced EC is received, it is expected to reach 10m tonnes of DSO (direct shipped ore) and 45m tonnes of BHQ (to yield ~15m tonnes of high-grade usable ore). However, till the beneficiation plans are operationalized (in phases) the company would continue to ship ore which would gradually be replaced by BHQ. The company had miniscule operations until Thriveni Earthmovers was appointed as the MDO.

Fig 34 – Ore production to continuously ramp up



Source: Company, Anand Rathi Research

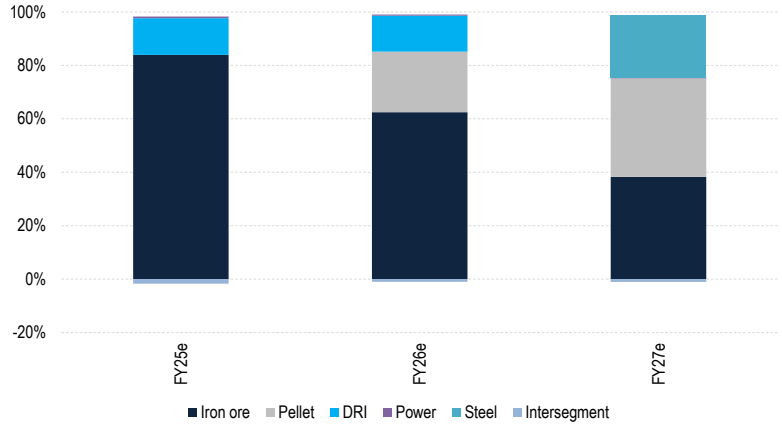
Fig 35 – Lloyds mining plan



Source: Company

However, as integrated steel plants come on stream, the share of revenue from sale of iron ore is expected to reduce.

Fig 36 – Segment-wise revenue break-up (%)

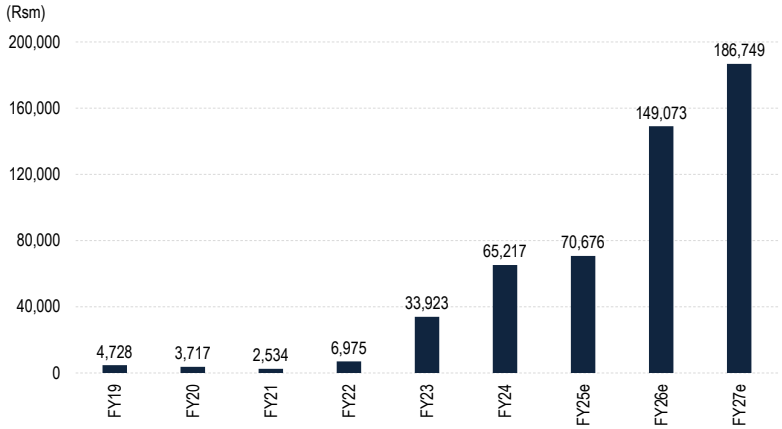


Source: Company, Anand Rathi Research

~42% revenue CAGR expected over FY24–27

In line with enhancing iron ore capacity and multiple facilities coming on stream over the next 2-3 years, we expect revenue to reach ~Rs187bn.

Fig 37 – Revenue expected to continuously increase

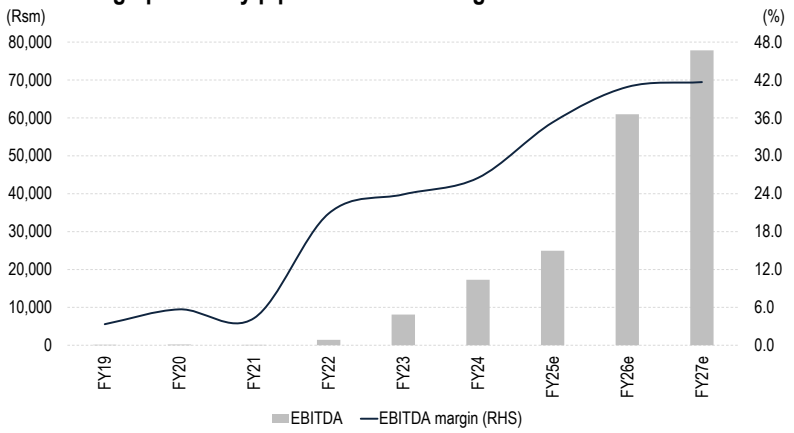


Source: Company, Anand Rathi Research

We expect EBITDA to surpass the revenue CAGR

Considering the company's strong dominance in Maharashtra and setting up of integrated steel plants, we expect margins to increase. Also, the company is setting up a slurry pipeline, which is expected to further drive the EBITDA margin.

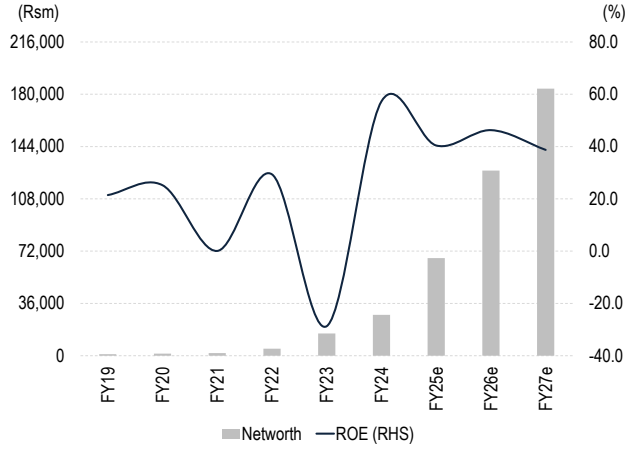
Fig 38 – Setting up of slurry pipeline to drive margins



Source: Company, Anand Rathi Research

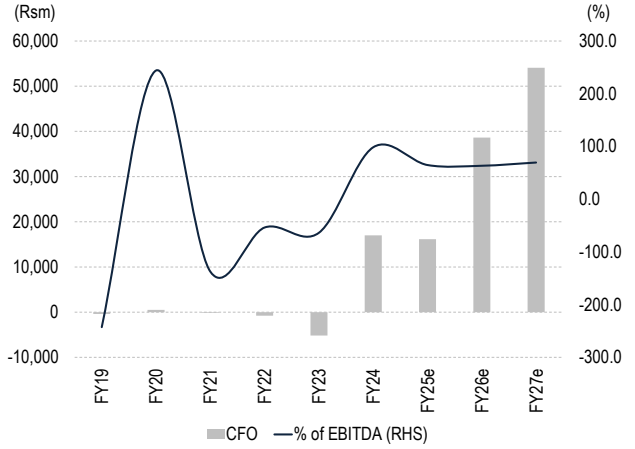
Debt-free status to drive better return ratios

Fig 39 – One of the highest RoE in the industry



Source: Company, Anand Rathi Research

Fig 40 – Improvement in profitability to enhance CFO



Source: Company, Anand Rathi Research

Capacity expansion overview

Fig 41 – Capacity expansion, segment-/ unit-wise

(m tonnes)	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Surjagarh						
Iron ore (EC)	25	25	25	25	25	25
Beneficiation			15	30	45	
Konsari						
DRI	0.07	0.07	0.07	0.07	0.07	0.07
Pellet	4	8	8	8	8	8
HRC mill					3	3
Ghughus						
DRI	0.63	0.63	0.63	0.63	0.63	0.63
Pellet					4	4
Wire rod mill			1.2	1.2	1.2	1.2

Source: Company, Anand Rathi Research

Sensitivity analysis

We have worked out sensitivity to change in iron ore volumes and ASP (Rs/tonne), based on our estimates.

Fig 42 – Change in EBITDA (FY27e) to change in volume and ASP

Rs m		Change in iron ore volumes (tonnes)								
		-10,00,000	-7,50,000	-5,00,000	-2,50,000	0	2,50,000	5,00,000	7,50,000	10,00,000
Change in ASP	-100	74,608	75,049	75,490	75,931	76,372	76,813	77,254	77,695	78,137
	-75	74,949	75,395	75,841	76,287	76,733	77,179	77,625	78,071	78,517
	-25	75,629	76,086	76,542	76,998	77,454	77,910	78,366	78,822	79,278
	0	75,970	76,431	76,892	77,353	77,814	78,275	78,736	79,198	79,659
	25	76,310	76,776	77,243	77,709	78,175	78,641	79,107	79,573	80,039
	50	76,651	77,122	77,593	78,064	78,535	79,006	79,478	79,949	80,420
	100	77,332	77,813	78,294	78,775	79,256	79,737	80,219	80,700	81,181

Source: Anand Rathi Research

Fig 43 – Change in EBITDA (%) (FY27e) to change in volume and ASP

Rs m		Change in iron ore volumes (tonnes)								
		-10,00,000	-7,50,000	-5,00,000	-2,50,000	0	2,50,000	5,00,000	7,50,000	10,00,000
Change in ASP	-100	-4.1	-3.6	-3.0	-2.4	-1.9	-1.3	-0.7	-0.2	0.4
	-75	-3.7	-3.1	-2.5	-2.0	-1.4	-0.8	-0.2	0.3	0.9
	-25	-2.8	-2.2	-1.6	-1.0	-0.5	0.1	0.7	1.3	1.9
	0	-2.4	-1.8	-1.2	-0.6	0.0	0.6	1.2	1.8	2.4
	25	-1.9	-1.3	-0.7	-0.1	0.5	1.1	1.7	2.3	2.9
	50	-1.5	-0.9	-0.3	0.3	0.9	1.5	2.1	2.7	3.3
	100	-0.6	0.0	0.6	1.2	1.9	2.5	3.1	3.7	4.3

Source: Anand Rathi Research

Fig 44 – Change in TP to change in volume and ASP

TP (Rs/share)		Change in iron ore volumes (tonnes)								
		-10,00,000	-7,50,000	-5,00,000	-2,50,000	0	2,50,000	5,00,000	7,50,000	10,00,000
Change in ASP	-100	1,207	1,215	1,222	1,229	1,237	1,244	1,252	1,259	1,267
	-75	1,213	1,220	1,228	1,235	1,243	1,251	1,258	1,266	1,273
	-25	1,224	1,232	1,240	1,248	1,255	1,263	1,271	1,278	1,286
	0	1,230	1,238	1,246	1,254	1,260	1,269	1,277	1,285	1,293
	25	1,236	1,244	1,252	1,260	1,268	1,275	1,283	1,291	1,299
	50	1,242	1,250	1,258	1,266	1,274	1,282	1,290	1,298	1,306
	100	1,253	1,261	1,270	1,278	1,286	1,294	1,302	1,310	1,319

Source: Anand Rathi Research

Fig 45 – Change in TP (%) to change in volume and ASP

TP (Rs/share)		Change in iron ore volumes (tonnes)								
		-10,00,000	-7,50,000	-5,00,000	-2,50,000	0	2,50,000	5,00,000	7,50,000	10,00,000
Change in ASP	-100	-4.3	-3.6	-3.1	-2.5	-1.9	-1.3	-0.7	-0.2	0.5
	-75	-3.8	-3.3	-2.6	-2.1	-1.4	-0.8	-0.2	0.4	1.0
	-25	-2.9	-2.3	-1.7	-1.0	-0.5	0.2	0.8	1.3	2.0
	0	-2.5	-1.8	-1.2	-0.6	0.0	0.6	1.3	1.9	2.5
	25	-2.0	-1.3	-0.7	-0.1	0.6	1.1	1.7	2.4	3.0
	50	-1.5	-0.9	-0.2	0.4	1.0	1.7	2.3	2.9	3.6
	100	-0.6	0.0	0.7	1.3	2.0	2.6	3.3	3.9	4.6

Source: Anand Rathi Research

Valuation

Lloyds is the only iron ore miner in Maharashtra to boost one of the highest-grade ores in the country. It is expanding capacity, which will help to produce ~25m tonnes of DSO by FY26. A part would be for captive consumption, while ~10m-12m tonnes would be sold externally via the merchant route.

The company is also setting up integrated steel plants in Ghughus and Konsari. This would enhance its presence across the steel value chain, which would aid realizations and margins. Considering its focus on integrating steel, expanding capacity and exemption from paying additional premium, coupled with strategic mine locations, ISP benefits, we expect a strong momentum ahead. We expect the company to outpace the sector, with a 65% EBITDA CAGR over FY24-27.

We value the company on a sum-of-parts basis using EV/EBITDA and ascribe 7.5x FY27e EV/EBITDA to its core operations and 6x for IPS benefits. We arrive at a Rs1,260/sh TP. The stock now quotes at 6.6x FY27e EV/EBITDA. If we equal weights across different valuation metrics, we arrive at a TP of Rs1,340/sh.

Fig 46 – TP calculation

Vertical	UoM	FY27e
Core operations		
EBITDA	Rs bn	79
EV/EBITDA multiple	X	7.5
EV	Rs bn	584
IPS benefit		
EBITDA	Rs bn	7.5
EV/EBITDA multiple	X	6.0
EV	Rs bn	45
Total EV	**Rs bn**	629
+ C-Wip @ 85%	Rs bn	52
Net debt	Rs bn	-26
Equity value	Rs bn	706
No of shares	bn	0.56
Equity Value	Rs/share	1,260

Source: Anand Rathi Research *Rounded off to nearest 10s*

We have assigned equal weights to our calculation, and the TP works out to Rs1,340/sh.

Fig 47 – TP via the weighted-average method (FY27e)

Valuation methodology	Multiple (x)	TP (Rs)	Weight (%)
SoTP		1,260	25
EV/EBITDA (consolidated)	7.5	1,180	25
P/E	15	1,615	25
P/BV	4	1,314	25
Weighted average price		**1,340**	

Source: Anand Rathi Research *Rounded off to nearest 10s*

Key risks: Delays in receipt of environmental clearance and capex execution, fluctuation in iron ore prices, operational risks in Naxalite zones.

Appendix

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