

July 10, 2021

## Strong quarter, aided by healthy realisation....

For Q1FY22E, we expect domestic steel companies to report a healthy quarter (in terms of EBITDA/tonne), driven by higher steel prices. For the quarter, on a QoQ basis we expect blended realisation of steel companies to be higher in the range of ₹ 6000-7000/tonne (for our coverage universe), wherein the price increase is higher for flats than longs. Subsequently, on a QoQ basis for our coverage universe, we expect EBITDA/tonne of steel companies to increase in the range of ~₹ 4000-5000/tonne. For Q1FY22E, EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 33000/tonne (₹ 27775/tonne in Q4FY21, ₹ 5920/tonne in Q1FY21). For Q1FY22E, standalone operations of JSW Steel are likely to post an EBITDA/tonne of ₹ 24000/tonne (₹ 19756/tonne in Q4FY21, ₹ 5104/tonne in Q1FY21). SAIL's EBITDA/tonne for Q1FY22E is likely to come in at ₹ 18000/tonne (₹ 14145/tonne in Q4FY21). Even on the non-ferrous front, on a QoQ basis, zinc, lead and aluminium prices are up 6%, 6% and 15%, respectively, while YoY, zinc, lead and aluminium prices are up 48%, 27% and 60%, respectively. The uptick in base metal prices augurs well for the operating margins of non-ferrous players.

## Base metal prices improve both QoQ, YoY...

During Q1FY22, base metal prices improved both QoQ and YoY. During the quarter, average zinc prices on the LME were at US\$2916/tonne, up 48% YoY, 6% QoQ, while average lead prices were at US\$2129/tonne, up 27% YoY, 6% QoQ. Similarly, during the quarter, average aluminum prices on LME were at US\$2401/tonne, up 60% YoY, 15% QoQ while average copper prices on the LME were at US\$9696/tonne, up 81% YoY, 14% QoQ.

## Aggregate EBITDA margins to increase QoQ as well as YoY...

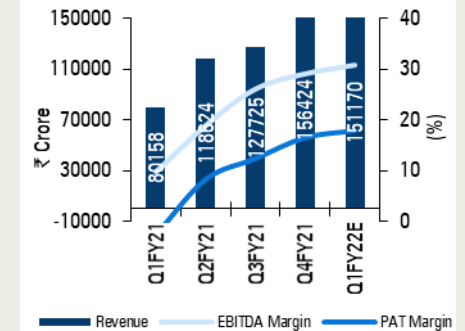
Given the lower base of Q1FY21, on a YoY basis for Q1FY22E the earnings growth of metal and mining companies is expected to be significantly higher. We expect the aggregate topline of coverage companies to increase 94% YoY but decline 3% QoQ to ₹ 151170 crore. The aggregate EBITDA of the coverage universe is expected to increase 506% YoY, 2% QoQ to ₹ 46467 crore. The aggregate EBITDA margin of coverage universe is likely to come in at 30.7% (up 2100 bps YoY, 170 bps QoQ). The EBITDA/tonne of domestic miners in Coal India is likely to come in at ₹ 355/tonne with NMDC expected to report the same at ₹ 3750/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$510/tonne (Novelis numbers inclusive of Aleris numbers).

Exhibit 1: Estimates for Q1FY22E: (Metals and Mining) (₹ Crore)

Company	Revenue			Change (%)			EBITDA			Change (%)			PAT			Change (%)		
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ			
Coal India	25,295	37	-5	5,691	86	-11	4,070	96	-11									
Graphite India	610	49	8	174	LP	123	149	LP	133									
Hindalco	12,752	71	-12	1,930	116	2	703	737	8									
Hindustan Zinc	6,570	65	-5	3,568	126	-8	2,198	62	-11									
JSW Steel	26,169	122	-3	9,015	572	7	4,533	LP	8									
NMDC	7,218	273	5	3,589	375	-15	2,704	407	-5									
SAIL	20,328	124	-13	6,210	LP	1	3,618	LP	5									
Tata Steel	51,636	113	3	16,186	3,102	14	9,136	LP	28									
Ratnamani Metals & Tube	592	2	-15	104	41	-35	70	41	-36									
<b>Total</b>	<b>1,51,170</b>	<b>94</b>	<b>-3</b>	<b>46,467</b>	<b>506</b>	<b>2</b>	<b>27,181</b>	<b>LP</b>	<b>5</b>									

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

### Topline & Profitability (Coverage Universe)



### Movement of base metal prices on LME.

US\$/t	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %
Zinc	2,916	1,970	48.0	2,749	6.1
Lead	2,129	1,679	26.8	2,011	5.9
Alum.	2,401	1,501	59.9	2,096	14.6
Copper	9,696	5,366	80.7	8,501	14.1

Source: Bloomberg, ICICI Direct Research,

₹/t	Q1FY22	Q1FY21	YoY %	Q4FY21	QoQ %
Zinc	2,15,170	1,49,496	43.9	2,00,438	7.3
Lead	1,57,135	1,27,443	23.3	1,46,616	7.2
Alum.	1,77,162	1,13,920	55.5	1,52,786	16.0
Copper	7,15,499	4,07,215	75.7	6,19,779	15.4

Source: Bloomberg, ICICI Direct Research,

### Top Picks

Tata Steel  
Hindalco  
Graphite India

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Exhibit 2: Company Specific Views – Metals and Mining

Company	Remarks
Tata Steel	On the back of strength in steel prices, we expect Tata Steel to report a healthy performance in Q1FY22E. For the quarter, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 33000/tonne (compared to an EBITDA/tonne of ₹ 27775/tonne in Q4FY21 and ₹ 5920/tonne in Q1FY21). Standalone operations is expected to report steel sales volume of 2.9 million tonne (MT) while European operation steel sales are likely to come in at 2.4 MT. Additionally, Bhushan Steel is expected to report a sales volume of 1.1 MT. We expect European operations to report an EBITDA/tonne of US\$100/tonne. For Q1FY22, on a consolidated basis, the topline is expected to increase 113% YoY, 3% QoQ to ₹ 51636 crore. Consolidated EBITDA for Q1FY22 is expected to increase 14% QoQ to ₹ 16186 crore. Consolidated EBITDA margins are likely to come in at 31.3% (compared to 28.4% in Q4FY21)
JSW Steel	On the back of strength in steel prices, we expect JSW Steel to report a healthy performance for Q1FY22E. For the quarter, we expect JSW Steel's standalone sales volume to come in at 3.6 MT, up 29% YoY but down 12% QoQ. For Q1FY22, we expect consolidated topline at ₹ 26169 crore, up 122% YoY but down 3% QoQ while consolidated EBITDA is likely to come in at ₹ 9015 crore, up 572% YoY, 7% QoQ. For Q1FY22, EBITDA/tonne is expected at ₹ 24000/tonne (₹ 5104/tonne in Q1FY21 and ₹ 19756/tonne in Q4FY21). Consolidated EBITDA margin for Q1FY22 is likely to come in at 34.4% (11.4% in Q1FY21, 31.1% in Q4FY21)
Hindustan Zinc	During Q1FY22E, zinc prices witnessed a healthy uptick both QoQ as well as YoY. In dollar terms, LME zinc prices during the quarter were up 6% QoQ, 48% YoY to US\$2916/tonne. On the other hand, lead prices for Q1FY22 were at US\$2129/tonne, up 6% QoQ, 27% YoY. We expect zinc sales of ~190000 tonne (up 17% YoY but down 4% QoQ), lead sales of ~50000 tonne (up 11% YoY but down 19% QoQ) and silver sales of ~170000 kg (up 16% YoY but down 16% QoQ). Topline is likely to increase 65% YoY but decline 5% QoQ to ₹ 6570 crore. EBITDA is likely to increase 126% YoY but decline 8% QoQ to ₹ 3568 crore while PAT is likely to increase 62% YoY but decline 11% QoQ to ₹ 2198 crore. We expect the EBITDA margin to come in at 54.3% (vs. 39.5% in Q1FY21, 55.8% in Q4FY21)
Hindalco	For Q1FY22E, we expect Hindalco's domestic operations (standalone operations + Utkal) to post aluminium sales volume of ~305000 tonnes (303000 in Q1FY21, 329000 in Q4FY21) and copper volumes of ~75000 tonnes (58000 tonnes in Q1FY21 and 107000 tonnes in Q4FY21). We expect Hindalco's domestic operations (standalone operations + Utkal) topline to come in at ₹ 12752 crore (up 71% YoY but down 12% QoQ). EBITDA margin is likely to come it at 15.1% (13.0% in Q4FY21, 12.0% in Q4FY21). Subsequent EBITDA of domestic operations (standalone operations + Utkal) is likely to come in at ₹ 1930 crore, up 116% YoY, 2% QoQ. Novelis is likely to report sales volume of 950 KT and EBITDA/tonne of US\$510/tonne
Coal India	For Q1FY22E, coal offtake was at 160 million tonne (MT), up 33% YoY but down 3% QoQ. We expect consolidated topline to increase 37% YoY but decline 5% QoQ to ₹ 25295 crore. The consolidated EBITDA margin is likely to come in at 22.5% (vs. 23.9% in Q4FY21 and 16.5% in Q1FY21). We expect EBITDA/tonne to come in at ₹ 355/tonne (compared to ₹ 387/tonne in Q4FY21 and ₹ 253/tonne in Q1FY21)
SAIL	For Q1FY22E, we expect sales volume of 3.5 million tonnes (MT), up 54% YoY but down 22% QoQ. Topline is expected to come in at ₹ 20328 crore, up 124% YoY but down 13% QoQ. EBITDA is likely to come in at ₹ 6210 crore, up 1% QoQ. EBITDA/tonne for Q1FY22 is likely to come in at ₹ 18000/tonne compared to ₹ 14145/tonne in Q4FY21. Ensuing PAT is likely to come in at ₹ 3618 crore, up 5% QoQ
NMDC	We expect a healthy performance in Q1FY22E on the back of an improvement in blended iron ore realisation during the quarter. We expect NMDC to report sales volume of 9.6 MT for Q1FY22, up 52% YoY but down 14% QoQ. Topline is expected to come in at ₹ 7218 crore, up 273% YoY, 5% QoQ. EBITDA is expected to come in at ₹ 3589 crore, up 375% YoY, down 15% QoQ. EBITDA margin is likely to come in at 49.7% (39.0% in Q1FY21, 61.9% in Q4FY21). We expect EBITDA and EBITDA margin to decline sequentially on the back of levy of additional premium, which would largely offset sequential increase in realisations. Ensuing PAT is likely to come in at ₹ 2704 crore, up 407% YoY but down 5% QoQ

Source: Company, ICICI Direct Research

Sales	unit	Q1FY22E	Q1FY21	Q4FY21
Zinc	Tonne	190000	163000	198000
Lead	Tonne	50000	45000	62000
Silver	Kg	170000	146000	203000

Source: Company, ICICI Direct Research,

	Q1FY22E	Q1FY21	YoY	Q4FY21	QoQ
Sales Vol.	3.6	2.8	29%	4.1	-12%
EBITDA/t	24000	5104	370%	19756	21%

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

	Q1FY22E	Q1FY21	YoY	Q4FY21	QoQ
<b>Sales Vol.</b>					
India Stand.	2.9	2.1	38%	3.3	-12%
Europe Op.	2.4	2.0	18%	2.5	-6%
<b>EBITDA/t</b>					
India Stand.	33000	5920	457%	27775	19%
Europe	100	-42	NA	66	52%

Source: Company, ICICI Direct Research, Sales volume in MT, Indian EBITDA/tonne in ₹/tonne, \*- Europe EBITDA/tonne in US\$ /tonne. Tata Steel's sales volume and EBITDA/tonne is for the Standalone operations.

**Exhibit 3: Company Specific Views – Metals and Mining**

**Ratnamani Metals & Tubes** We expect a steady performance in Q1FY22E. Topline is likely to increase 2% YoY to ₹ 592 crore while EBITDA is likely to increase 41% YoY to ₹ 104 crore. We expect the EBITDA margin to come in at 17.5%. Ensuing PAT is likely to come in at ₹ 70 crore (up 41% YoY)

**Graphite India** For Q1FY22E, on a consolidated basis, we expect capacity utilisation at 75% (36% in Q1FY21, 73% in Q4FY21). For the quarter, we expect consolidated topline at ₹ 610 crore (up 49% YoY, 8% QoQ). We expect consolidated EBITDA to come in at ₹ 174 crore (up 123% QoQ) with a consolidated net profit of ₹ 149 crore (up 133% QoQ)

*Source: Company, ICICI Direct Research*

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

	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Coal India	147	165	Hold	90877	20.6	25.1	27.7	7.1	5.9	5.3	4.1	3.9	3.9	42.3	43.1	41.2	34.8	36.7	35.5
Hindalco	390	475	Buy	83764	25.5	42.6	45.7	15.6	9.3	8.7	7.8	6.1	5.4	8.8	11.7	12.0	8.5	13.4	12.7
Hind Zinc	331	340	Hold	139098	18.7	23.6	27.2	15.0	12.0	10.4	9.2	7.0	5.8	27.3	30.4	30.1	25.1	27.5	26.9
JSW Steel	682	800	Buy	162896	32.9	76.0	70.2	20.6	8.9	9.7	10.7	6.5	6.7	13.8	21.4	17.6	17.0	28.3	20.8
NMDC	168	210	Buy	52077	21.3	24.7	9.5	8.3	7.2	9.2	5.5	4.6	5.3	27.0	24.9	17.2	21.0	20.5	14.6
Ratnamani	2060	2400	Buy	9532	59.0	76.2	96.0	33.9	26.2	20.8	22.1	16.1	13.0	15.7	19.3	20.1	13.9	15.7	16.9
Graphite Ind.	636	800	Buy	12388	-2.0	48.0	80.0	NA	13.1	7.9	NA	8.5	4.7	-5.4	20.0	28.1	-0.7	18.1	24.8
Tata Steel	1239	1500	Buy	134858	77.1	189.3	152.9	14.8	6.0	7.5	7.2	4.2	4.5	13.1	23.2	18.4	12.4	23.6	15.7
Sail	125	160	Buy	53697	9.2	26.4	21.2	14.2	4.9	6.1	7.0	4.1	4.8	10.9	18.4	13.9	8.9	20.7	14.7

Source: Company, ICICI Direct Research

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