

July 12, 2022

Steel companies' EBITDA/tonne likely to soften QoQ...

In sync with global prices, domestic steel prices witnessed a sharp uptick in March 2022 due to the Russia-Ukraine conflict and remained largely elevated in April 2022. However, with the levy of 15% export duty on several steel products in May 2022, domestic steel prices witnessed a steep downtrend from the last week of May 2022, which continued till the end of the quarter (Q1FY23). On the back of healthy steel prices during the first half of the quarter, blended steel realisation for Q1FY23 is expected to be up sequentially by ~₹ 2000-3000/tonne. However, uptick in realisations on a QoQ basis is unlikely to compensate for ~US\$100-125/tonne increase in coking coal consumption cost sequentially. Hence, on the back of elevated coking coal prices, sequentially, EBITDA/tonne of steel companies are likely to witness a softening trend in Q1FY23E. Within our coverage universe, for large steel companies we expect a sequential dip in EBITDA/tonne in the range of ~₹ 3200-5200/tonne QoQ. For Q1FY23E, EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 20500/tonne (₹ 23690/tonne in Q4FY22). For Q1FY23E, standalone operations of JSW Steel are likely to post an EBITDA/tonne of ₹ 8250/tonne (₹ 13517/tonne in Q3FY22). SAIL's EBITDA/tonne for Q1FY23E is likely to come in at ₹ 5250/tonne (₹ 9196/tonne in Q4FY22). Steel players are likely to report a decline in sales volume sequentially to the tune of ~20-22%.

Majority of base metal prices decline sequentially (except zinc)

In Q1FY23E, majority of base metal prices (except zinc) witnessed a declining trend on a QoQ basis. During the quarter, average zinc prices on LME were at US\$3904/tonne, up 34% YoY, 4% QoQ. During the quarter, average lead prices were at US\$2192/tonne, up 3% YoY, but down 6% QoQ. In the quarter, average aluminium prices on LME were at US\$2872/tonne, up 20% YoY, but down 12% QoQ. Average copper prices for the quarter on LME were at US\$9508/tonne, down 2% YoY, 5% QoQ.

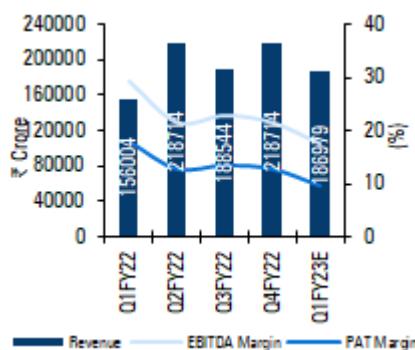
For Q1FY23E, aggregate EBITDA to decline both QoQ, YoY

For Q1FY23E, we expect the aggregate topline of coverage companies to increase 20% YoY but decline 15% QoQ to ₹ 186979 crore. Aggregate EBITDA of the coverage universe is expected to decline 28% YoY, 30% QoQ to ₹ 33005 crore. The aggregate EBITDA margin of the coverage universe is likely to come in at 17.7% (down 1170 bps YoY, 390 bps QoQ). The decline in aggregate EBITDA margins is likely to be on account of higher input costs.

Company	Revenue		EBITDA		PAT	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Coal India	32,505	29	-1	8,436	74	-7
Graphite India	960	57	14	161	14	83
Hindalco	17,633	32	-10	2,864	10	-35
JSW Steel	38,475	33	-18	4,716	-54	-49
NMDC	4,022	-38	-40	1,340	-68	-50
SAIL	24,638	19	-20	1,916	-71	-56
Jindal Stainless	5,220	29	-20	554	-8	-34
Jindal Stainless Hisar	3,333	20	-23	378	-8	-37
Tata Steel	59,280	11	-14	12,497	-22	-21
Ratnamani Metals & Tube	915	74	-6	141	117	-17
Total	1,86,979	20	-15	33,005	-28	-30
				17,743	-36	-36

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

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME

	US\$/t	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Zinc	3904	2916	33.9	3738	4.4	
Lead	2192	2129	3.0	2325	(5.7)	
Alum.	2872	2401	19.6	3262	(11.9)	
Copper	9508	9696	(1.9)	9997	(4.9)	

Source: Bloomberg, ICICI Direct Research,

	₹/tonne	Q1FY23	Q1FY22	YoY %	Q4FY22	QoQ %
Zinc	301588	215170	40.2	281256	7.2	
Lead	169381	157135	7.8	174960	(3.2)	
Alum.	221918	177162	25.3	245410	(9.6)	
Copper	734548	715499	2.7	752144	(2.3)	

Source: Bloomberg, ICICI Direct Research,

Top Picks

Coal India
Ratnamani Metals and Tubes

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com



Exhibit 2: Company Specific Views – Metals and Mining

Company	Remarks
Tata Steel	<p>For Q1FY23E, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 20500/tonne (compared to an EBITDA/tonne of ₹ 23690/tonne in Q4FY22). Higher coking coal costs are likely to increase operating costs during Q1FY23E thereby resulting in both QoQ as well as YoY decline in EBITDA/tonne of Tata Steel's standalone operations. For Q1FY23E, Tata Steel's standalone operations is expected to report steel sales volume of ~3.9 million tonne (MT), down 3% YoY and 22% QoQ, while European operation steel sales are likely to come in at ~2.16 MT, down 7% YoY and 10% QoQ. For Q1FY23E, we expect European operations to report an EBITDA/tonne of US\$250/tonne (EBITDA/tonne of US\$241/tonne in Q4FY22). For Q1FY23E, on a consolidated basis, the topline is expected to increase 11% YoY but decline 14% QoQ to ₹ 59280 crore. Consolidated EBITDA for Q1FY23E is expected to decline 22% YoY and 21% QoQ to ₹ 12497 crore. Consolidated EBITDA margins for Q1FY23E are likely to come in at 21.1% compared to 22.9% in Q4FY22 and 30.2% in Q1FY22. Ensuing consolidated PAT is likely to come in at ₹ 7198 crore, down 26% YoY and 27% QoQ</p>
JSW Steel	<p>For Q1FY23E, we expect JSW Steel's standalone sales volume to come in at 4.1 MT, up 13% YoY but down 21% QoQ. For the quarter, we expect consolidated topline to come in at ₹ 38475 crore, up 33% YoY but down 18% QoQ. Consolidated EBITDA is likely to come in at ₹ 4716 crore, down 54% YoY and 49% QoQ. For Q1FY23E, for standalone operations JSW Steel is likely to report an EBITDA/tonne of ₹ 8250/tonne (₹ 13517/tonne in Q4FY22 and ₹ 26291/tonne in Q1FY22). Consolidated EBITDA margin for Q1FY23E is likely to come in at 12.3% (35.5% in Q1FY22, 19.6% in Q4FY22). For Q1FY23E, decline in consolidated EBITDA margins and EBITDA/tonne for both QoQ as well as YoY would be primarily due to higher coking coal costs. Ensuing consolidated PAT for Q1FY23E is likely to come in at ₹ 941 crore, down 84% YoY and 72% QoQ</p>
SAIL	<p>For Q1FY23E, we expect SAIL's EBITDA/tonne to decline both QoQ as well as YoY due to higher coking coal costs. For the quarter, we expect SAIL to report sales volume of 3.7 MT, up 11% YoY but down 22% QoQ. The topline is expected to come in at ₹ 24638 crore, up 19% YoY but down 20% QoQ. EBITDA is likely to come in at ₹ 1916 crore, down 71% YoY and 56% QoQ. EBITDA/tonne for Q1FY23E is likely to come in at ₹ 5250/tonne compared to ₹ 9196/tonne in Q4FY22. Ensuing PAT is likely to come in at ₹ 592 crore, down 85% YoY and 76% QoQ</p>
Hindalco	<p>For Q1FY23E, we expect Hindalco's domestic operations (standalone operations + Utkal) to report aluminium sales volume of ~320000 tonnes (303000 in Q1FY22 and 336000 in Q4FY22) and copper volumes of ~100000 tonnes (80000 tonnes in Q1FY22 and 105000 tonnes in Q4FY22). We expect Hindalco's domestic operations (standalone operations + Utkal) topline to come in at ₹ 17633 crore (up 32% YoY but down 10% QoQ). EBITDA margin is likely to come in at 16.2% (19.6% in Q1FY22, 22.6% in Q4FY22). The subsequent EBITDA of Hindalco's domestic operations (standalone operations + Utkal) is likely to come in at ₹ 2864 crore, up 10% YoY but down 35% QoQ. Novelis is likely to report sales volume of 985 KT and EBITDA/tonne of US\$500/tonne</p>
Jindal Stainless	<p>For Q1FY23E, we expect Jindal Stainless (JSL) to report sales volume of ~240000 tonnes (up 1% YoY but down 11% QoQ). Consolidated topline is expected to come in at ₹ 5220 crore (up 29% YoY, however down 20% QoQ). Consolidated EBITDA is likely to come in at ₹ 554 crore (down 8% YoY, 34% QoQ). Consolidated EBITDA margin is likely to come in at 10.6% (14.9% in Q1FY22 and 12.8% in Q4FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 21000/tonne (₹ 24378/tonne in Q1FY22, ₹ 28278/tonne in Q4FY22). Consolidated PAT for Q1FY23E is likely to come in at ₹ 275 crore (down 10% YoY and 63% QoQ)</p>
Jindal Stainless Hisar	<p>For Q1FY23E, we expect Jindal Stainless Hisar (JSHL) to report sales volume of 155000 tonnes (up 3% YoY but down 13% QoQ). Consolidated topline is expected to come in at ₹ 3333 crore (up 20% YoY but down 23% QoQ). Consolidated EBITDA is likely to come in at ₹ 378 crore (down 8% YoY and 37% QoQ). Consolidated EBITDA margin is likely to come in at 11.4% (14.8% in Q1FY22 and 14.0% in Q4FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 21500/tonne (₹ 25278/tonne in Q1FY22, ₹ 30011/tonne in Q4FY22). Consolidated PAT for Q1FY23E is likely to come in at ₹ 326 crore (down 9% YoY, 43% QoQ)</p>
Ratnamani Metals & Tubes	<p>We expect Ratnamani Metals and Tubes (RMTL) to report a steady performance in Q1FY23E. Topline is likely to increase 74% YoY but reduce 6% QoQ to ₹ 915 crore. EBITDA is likely to increase 117% YoY but fall 17% QoQ to ₹ 141 crore. For Q1FY23E, RMTL is likely to report an EBITDA margin of 15.4% (12.4% in Q1FY22 and 17.4% in Q4FY22). Ensuing PAT for the quarter is likely to come in at ₹ 91 crore, up 81% YoY but down 19% QoQ</p>

Source: Company, ICICI Direct Research

JSW Steel: Sales Volume; EBITDA/tonne....

	Q1FY23E	Q1FY22	YoY	Q4FY22	QoQ
Sales Vol.	4.1	3.6	13%	5.1	-21%
EBITDA/t	8250	26291	-69%	13517	-39%

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

Tata Steel: Sales Volume; EBITDA/tonne....

	Q1FY23E	Q1FY22	YoY	Q4FY22	QoQ
Sales Vol.					
India Stand.	3.9	4.0	-3%	5.0	-22%
Europe Op.	2.2	2.3	-7%	2.4	-10%
EBITDA/t					
India Stand.	20500	35558	-42%	23690	-13%
Europe	250	89	181%	241	4%

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

Graphite India	For Q1FY23E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 83% (75% in Q1FY22 and 76% in Q4FY22). For the quarter, we expect Graphite India to report a consolidated topline of ₹ 960 crore (up 57% YoY, 14% QoQ). For the quarter, we expect GIL to report consolidated EBITDA of ₹ 161 crore (up 14% YoY, 83% QoQ) and consolidated net profit of ₹ 156 crore (up 4% YoY, 64% QoQ)
Coal India	For Q1FY23E, Coal India (CIL) reported coal offtake of 178 million tonne (MT), up 11% YoY but down 1% QoQ. For the quarter, we expect the consolidated topline to increase 29% YoY but decline 1% QoQ to ₹ 32505 crore. Consolidated EBITDA margin is likely to come in at 26.0% for Q1FY23E compared to 19.2% in Q1FY22 and 27.8% in Q4FY22. For Q1FY23E, we expect EBITDA/tonne at ₹ 475/tonne compared to ₹ 303/tonne in Q1FY22 and ₹ 504/tonne in Q4FY22. Ensuing consolidated PAT for the quarter is likely to come at ₹ 6013 crore, up 89% YoY but down 10% QoQ
NMDC	For Q1FY23E, we expect NMDC to report sales volume of 7.7 million tonnes (MT) down 19% YoY and 38% QoQ. Topline is expected to come in at ₹ 4022 crore, down 38% YoY and 40% QoQ. EBITDA is expected to come in at ₹ 1340 crore, down 68% YoY and 50% QoQ. EBITDA margin for Q1FY23E is likely to come in at 33.3% (40.0% in Q4FY22). Ensuing PAT for Q1FY23E is likely to come in at ₹ 1005 crore, down 69% YoY and 45% QoQ

Source: Company, ICICI Direct Research



RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**



ANALYST CERTIFICATION

I/W We, Dewang Sanghavi MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ('associates'), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.