

October 14, 2020

Higher realisations to aid QoQ improvement in EBITDA/tonne

With the opening up of the economy, domestic steel demand improved notably in Q2FY21 compared to Q1FY21. The improvement in demand aided capacity utilisation of domestic steel players. JSW Steel (Indian operations) reported capacity utilisation of 86% in Q2FY21, notably higher than 66% in Q1FY21. Tata Steel (Indian operations) reported capacity utilisation of ~93% in Q2FY21, notably higher than ~61% in Q1FY21. Furthermore, aided by improvement in global steel prices, domestic steel prices increased 5% QoQ to ₹ 38900/tonne. Sequential higher steel prices coupled with improvement in product mix (lower share of exports), we expect realisations of domestic steel companies to increase by ~₹ 3500/tonne in Q2FY21 compared to Q1FY21. Coking coal prices are also likely to decline by ~US\$10-20/tonne sequentially aiding the improvement in EBITDA/tonne on a QoQ basis. The EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 12000/tonne (₹ 5920/tonne in Q1FY21, ₹ 11200/tonne in Q2FY20). Domestic operations of JSW Steel are likely to report an EBITDA/tonne of ₹ 9000/tonne (₹ 5104/tonne in Q1FY21, ₹ 6472/tonne in Q2FY20).

Base metal prices improve sequentially...

During Q2FY21, there was a sequential improvement in base metal prices. During the quarter, average zinc prices on the LME were at US\$2339/tonne, up 18.7% QoQ but down 0.6% YoY while average lead prices were at US\$1873/tonne, up 11.5% QoQ, albeit down 7.7% YoY. Similarly, average aluminium prices on the LME were at US\$1706/tonne, up 13.7% QoQ but down 3.3% YoY. Average copper prices on the LME were at US\$6524/tonne, up 21.6% QoQ and 12.3% YoY.

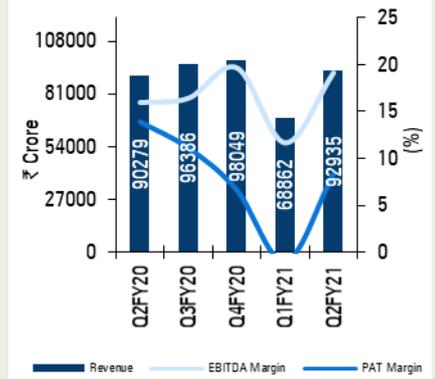
Aggregate EBITDA to increase both QoQ, YoY...

We expect the aggregate topline of coverage companies to increase 2.9% YoY and 35.0% QoQ to ₹ 92935 crore. The aggregate EBITDA of the coverage universe is expected to increase 23.2% YoY, 120.2% QoQ to ₹ 17766 crore. The aggregate EBITDA margin of the coverage universe is likely to come in at 19.1% (up 310 bps YoY, 740 bps QoQ). EBITDA/tonne of domestic miner Coal India is likely to come in at ₹ 333/tonne with NMDC expected to report EBITDA/tonne at ₹ 1623/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$375/tonne (Novelis numbers inclusive of Aleris numbers).

Company	Revenue			EBITDA			PAT		
	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ	Q2FY21E	YoY	QoQ
Coal India	21,278.0	4.4	15.1	4,468.0	23.7	46.4	3,381.0	-4.0	62.7
Graphite India	418.0	-52.6	2.2	-20.1	PL	NA	-52.0	PL	NA
Hindalco	9,621.0	-3.5	28.9	1,185.0	8.2	32.6	240.0	43.7	510.7
Hindustan Zinc	5,668.0	25.6	42.1	3,031.0	43.2	92.3	2,145.0	3.1	57.8
JSW Steel	18,331.0	7.2	55.6	3,525.0	55.6	162.9	1,085.0	-57.2	LP
NMDC	2,324.0	3.7	19.9	1,055.0	-0.5	39.7	793.0	12.8	48.8
Tata Steel	34,678.0	0.3	42.8	4,495.0	11.9	788.3	125.0	-96.2	LP
Ratnamani Metals	616.9	1.1	6.7	91.0	-21.9	23.6	65.3	-14.5	31.4
Total	92,934.9	2.9	35.0	17,766.0	23.2	120.2	7,782.3	-38.1	LP

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

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME

US\$/t	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Zinc	2,339	2,353	(0.6)	1,970	18.7
Lead	1,873	2,029	(7.7)	1,679	11.5
Alum.	1,706	1,765	(3.3)	1,501	13.6
Copper	6,524	5,808	12.3	5,366	21.6

Source: Bloomberg, ICICI Direct Research,

₹/t	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %
Zinc	173,935	165,508	5.1	149,496	16.3
Lead	139,288	142,698	(2.4)	127,443	9.3
Alum.	126,913	124,114	2.3	113,920	11.4
Copper	485,214	408,442	18.8	407,215	19.2

Source: Bloomberg, ICICI Direct Research,

Top Pick

Hindalco
Ratnamani Metals & Tubes

Research Analyst

Dewang Sanghavi
dewang.sanghavi@icicisecurities.com

Exhibit 2: Company Specific Views – Metals and Mining

Company	Remarks
Tata Steel	For Q2FY21, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 12000/tonne (compared to EBITDA/tonne of ₹ 5920/tonne in Q1FY21 and ₹ 11200/tonne in Q2FY20). Indian operations (standalone) are expected to report steel sale of 3.6 million tonne (MT) while European operation steel sales are likely to come in at 2.3 MT. Additionally, Bhushan Steel is expected to report a sales volume of 1.3 MT. We expect European operations to report a negative EBITDA/tonne of US\$35/tonne. On a consolidated basis, the topline is expected to increase 0.3% YoY and 42.8% QoQ to ₹ 34678 crore. The consolidated EBITDA is expected to increase 11.9% YoY to ₹ 4495 crore. Consolidated EBITDA margins are likely to come in at 13.0% (compared to 2.1% in Q1FY21 and 11.6% in Q2FY20)
JSW Steel	For Q2FY21, we expect JSW Steel's standalone sales volume to increase 42.9% QoQ and 11.1% YoY to 4.0 MT. For the quarter, we expect JSW Steel to report a consolidated topline of ₹ 18331 crore, up 55.6% QoQ and 7.2% YoY, while consolidated EBITDA is likely to come in at ₹ 3525 crore, up 162.9% QoQ and 55.6% YoY. JSW Steel is likely to report EBITDA/tonne of ₹ 9000/tonne (₹ 6472/tonne in Q2FY20 and ₹5104/tonne in Q1FY21). Consolidated EBITDA margin is likely to come in at 19.2% (13.2% in Q2FY20 and 11.4% in Q1FY21)
Hindustan Zinc	After the muted trend witnessed in in Q1FY21, base metal prices witnessed an uptick on a sequential basis in Q2FY21. In dollar terms, LME zinc prices during the quarter were up 18.7% QoQ to US\$2339/tonne while lead prices were up 11.5% QoQ to US\$1873/tonne. We expect zinc sales of ~185400 tonne (up 10.4% YoY, 13.8% QoQ), lead sales of 60125 tonne (up 36.6% YoY, 33.6% QoQ) and silver sales of ~195000 kg (up 44.4% YoY, 33.6% QoQ). The topline is likely to increase 25.7% YoY, 42.1% QoQ to ₹ 5668 crore, EBITDA is likely to increase 43.2% YoY and 92.3% QoQ to ₹ 3031 crore while PAT is likely to increase 3.1% YoY, 57.9% QoQ to ₹ 2145 crore. We expect the EBITDA margin to come in at 53.5% (compared to 46.7% in Q2FY20 and 39.5% in Q1FY21)
Hindalco	For Q2FY21E, we expect Hindalco's domestic operations to report aluminium sales volume of ~315000 tonnes (328000 in Q2FY20, 303000 in Q1FY21) and copper sales of 75000 tonnes (82000 tonnes in Q2FY20, 58000 tonnes in Q1FY21). We expect topline (standalone + Utkal) to come in at ₹ 9621 crore (down 3.5% YoY, up 28.9% QoQ). EBITDA (standalone + Utkal) is likely to come in at ₹ 1185 crore (up 8.2% YoY, 32.6% QoQ). Novelis (including Aleris) is likely to report sales volume of 875 KT and EBITDA/tonne of US\$375/tonne
Coal India	For Q2FY21, Coal India reported coal offtake of 134.2 million tonne (MT), up 9.6% YoY, 11.4% QoQ. We expect the topline to increase 4.4% YoY to ₹ 21278 crore. The EBITDA margin is likely to come in at 21.5% (against 16.5% in Q1FY21, 17.7% in Q2FY20). We expect the company to clock an EBITDA/tonne of ₹ 333/tonne (compared to ₹ 254/tonne in Q1FY21 and ₹ 296/tonne in Q2FY20)
NMDC	We expect NMDC to report sales volume of 6.5 MT for Q2FY21, up 12.1% YoY, 3.2% QoQ. Topline is expected to come in at ₹ 2324 crore, up 3.7% YoY, 19.9% QoQ. EBITDA is expected to come in at ₹ 1055 crore, up 39.8% QoQ but flattish YoY. The subsequent EBITDA margin is likely to come in at 45.4% (47.3% in Q2FY20, 39.0% in Q1FY21)
Ratnamani Metals & Tubes	For Q2FY21E, we expect Ratnamani's stainless steel segment to report sales volumes of 5775 tonne (up 43.5% QoQ but down 0.7% YoY) and carbon steel segment to report sales volume of 61250 tonne (up 4.6% QoQ, 20.6% YoY). Ratnamani's topline is likely to increase 1.1% YoY, 6.7% QoQ to ₹ 617 crore while the EBITDA is likely to increase 23.6% QoQ but down 21.9% YoY to ₹ 91 crore. We expect the EBITDA margin come in at ~14.8% (EBITDA margin of 12.7% in Q1FY21, 19.1% in Q2FY20). PAT is likely to come in at ₹ 65 crore (up 31.4% QoQ but down 14.5% YoY)
Graphite India	For Q2FY21E, we expect Graphite India to report capacity utilisation of 45% (61% in Q2FY20 and 36% in Q1FY21). For the quarter, we expect Graphite India to report a consolidated topline of ₹ 418 crore (down 52.6% YoY, albeit up 2.3% QoQ). We expect the company to report consolidated EBITDA loss of ₹ 84 crore and consolidated net loss of ₹ 52 crore

Source: Company, ICICI Direct Research

Hindustan Zinc Sales volume trend

Sales	unit	Q2FY21E	Q2FY20	Q1FY21
Zinc	Tonne	185419	168000	163000
Lead	Tonne	60125	44000	45000
Silver	Kg	195000	135000	146000

Source: Company, ICICI Direct Research,

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

	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ
Sales Vol.	4.0	3.6	11.1%	2.8	42.9%
EBITDA/t	9000	6472	39.1%	5104	76.3%

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

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

	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ
Sales Vol.					
India	3.6	3.0	20%	2.1	71%
Europe	2.3	2.3	0%	2.0	15%
EBITDA/t					
India	12000	11200	7%	5920	103%
Europe	-35	10	NA	-42	-17%

Source: Company, ICICI Direct Research, Sales volume in MT, Indian and Bhushan EBITDA/tonne in ₹/tonne,

*- Europe EBITDA/tonne in US\$/tonne.

Exhibit 3: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Coal India	114	150	Hold	70702	27.1	22.2	22.9	4.9	6.0	5.8	2.7	4.3	4.4	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	172	225	Buy	38649	18.2	16.4	29.2	10.6	11.7	6.6	5.6	7.6	5.5	7.8	6.0	8.4	6.9	6.0	9.7
Hind Zinc	206	195	Hold	87063	16.1	12.4	18.8	11.8	15.3	10.1	6.6	8.2	4.8	20.8	20.0	26.0	16.9	14.5	19.0
JSW Steel	289	210	Hold	69930	19.5	3.3	22.2	10.5	61.3	9.2	8.9	11.7	6.5	7.2	4.5	10.6	12.7	2.1	12.5
NMDC	79	100	Hold	24250	11.8	11.6	9.0	8.3	8.4	10.8	4.9	5.4	5.9	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1284	1320	Buy	5252	65.8	49.5	66.0	17.1	22.7	17.0	12.5	16.0	11.4	22.2	14.8	19.8	18.0	12.3	14.4
Graphite Ind.	187	199	Hold	3897	2.0	1.0	21.0	80.8	231.3	8.7	NA	NA	3.2	-2.6	-5.4	6.0	1.0	0.3	8.7
Tata Steel	368	450	Hold	42112	41.4	-20.3	56.7	10.1	NA	7.4	9.1	12.6	5.7	5.0	2.0	8.9	6.4	-3.2	8.0

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, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com



ANALYST CERTIFICATION

I/We, Dewang Sanghavi, MBA, Research Analyst, 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 broking and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ00183631 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 generally prohibits its analysts, persons reporting to analysts and their relatives 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, 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 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 are engaged in various financial service businesses, they might have financial interests or beneficial ownership in 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.