

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.

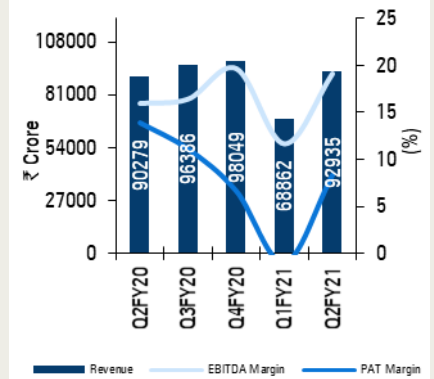
Aggregate EBITDA to increase both QoQ, YoY...

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

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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 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	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
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

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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