

October 11, 2021

## Prices steady, volumes to improve sequentially...

Commodity price tailwinds coupled with QoQ improvement in volumes is expected to aid domestic metal companies to report a healthy performance in Q2FY22E. During Q2FY22E, average steel prices are likely to be QoQ higher by ~₹ 1000-2500/tonne vs. Q1FY22. Despite a sharp rise, coking coal costs are likely to witness only a marginal increase in Q2FY22E due to a lag in consumption as steel companies generally maintain a month or two of coking coal inventory. For Q2FY22E, we expect EBITDA/tonne of Tata Steel to increase QoQ while EBITDA/tonne of JSW Steel, SAIL is expected to moderate from Q1FY22 levels. For Q2FY22E, EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 36500/tonne (₹ 35558/tonne in Q1FY22). For Q2FY22E, standalone operations of JSW Steel are likely to post an EBITDA/tonne of ₹ 25000/tonne (₹ 26291/tonne in Q1FY22). SAIL's EBITDA/tonne for Q2FY22E is likely to come in at ₹ 18000/tonne (₹ 19728/tonne in Q1FY22). Also, for Q2FY22E we expect steel companies to report QoQ improvement in sales volumes on the back of easing of lockdown restrictions. On the non-ferrous front, QoQ, zinc, lead, aluminium prices are up 3%, 10%, 10%, respectively, while YoY, zinc, lead and aluminium prices are up 28%, 25% and 55%, respectively.

## Majority of base metal prices remain firm...

During Q2FY22E, base metal prices (except copper) improved both QoQ and YoY. During the quarter, average zinc prices on the LME were at US\$2991/tonne, up 28% YoY, 3% QoQ, while average lead prices were at US\$2332/tonne, up 25% YoY, 10% QoQ. Similarly, during the quarter, average aluminium prices on the LME were at US\$2646/tonne, up 55% YoY, 10% QoQ while average copper prices on the LME were at US\$9382/tonne, up 44% YoY, but down 3% QoQ.

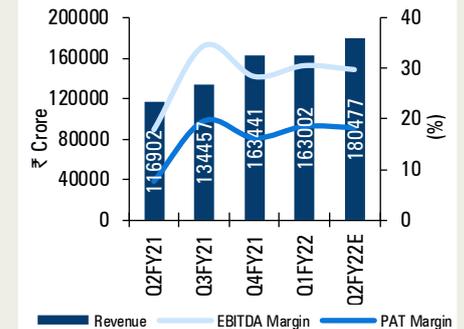
## Aggregate EBITDA margins to increase QoQ, YoY...

For Q2FY22E, we expect the aggregate topline of coverage companies to increase 54% YoY & 11% QoQ to ₹ 180477 crore. Aggregate EBITDA of the coverage universe is expected to increase 156% YoY & 8%QoQ to ₹ 53614 crore. The aggregate EBITDA margin of coverage universe is likely to come in at 29.7% (up 1181 bps YoY, down 78 bps QoQ). EBITDA/tonne of domestic miner Coal India is likely to come in at ₹ 325/tonne with NMDC expected to report the same at ₹ 3000/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$550/tonne (Novelis numbers inclusive of Aleris numbers).

Company	Revenue			EBITDA			PAT		
	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ	Q2FY22E	YoY	QoQ
Coal India	24,760	17	-2	4,791	21	-1	3,211	9	1
Graphite India	712	47	17	231	LP	64	224	LP	49
Hindalco	15,752	65	18	2,901	128	11	1,365	317	32
JSW Steel	31,350	63	8	10,340	134	1	6,334	297	7
NMDC	5,944	167	-9	2,679	160	-36	2,074	168	-35
SAIL	26,563	57	29	7,650	303	17	4,677	2,637	21
Jindal Stainless	4,375	32	8	639	85	6	310	284	1
Jindal Stainless Hisar	3,465	51	25	475	63	15	374	121	4
Tata Steel	60,254	62	13	20,212	231	25	12,206	647	25
Ratnamani Metals & Tube	733	39	27	128	51	56	90	80	58
<b>Total</b>	<b>1,80,477</b>	<b>54</b>	<b>11</b>	<b>53,614</b>	<b>156</b>	<b>8</b>	<b>33,063</b>	<b>264</b>	<b>9</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	Q2FY22	Q2FY21	YoY %	Q1FY22	QoQ %
Zinc	2,991	2,339	27.9	2,916	2.6
Lead	2,332	1,873	24.5	2,129	9.5
Alum.	2,646	1,706	55.0	2,401	10.2
Copper	9,382	6,524	43.8	9,696	(3.2)

Source: Bloomberg, ICICI Direct Research,

₹/t	Q2FY22	Q2FY21	YoY %	Q1FY22	QoQ %
Zinc	2,21,558	1,73,935	27.4	2,15,170	3.0
Lead	1,72,783	1,39,288	24.0	1,57,135	10.0
Alum.	1,96,011	1,26,913	54.4	1,77,162	10.6
Copper	6,95,084	4,85,214	43.3	7,15,499	(2.9)

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	For the quarter, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹ 36500/tonne (compared to an EBITDA/tonne of ₹ 35558/tonne in Q1FY22 and ₹ 12861/tonne in Q2FY21). Tata Steel's standalone operations are expected to report steel sales volume of 3.5 million tonne (MT) while European operation steel sales are likely to come in at 2.2 MT. Additionally, Tata Steel BSL is expected to report a sales volume of 1.1 MT. We expect European operations to report an EBITDA/tonne of US\$200/tonne. For Q2FY22, on a consolidated basis, the topline is expected to increase 62% YoY and 13% QoQ to ₹ 60254 crore. The consolidated EBITDA for Q2FY22 is expected to increase 25% QoQ and 231% YoY to ₹ 20212 crore. Consolidated EBITDA margins are likely to come in at 33.5% (compared to 30.2% in Q1FY22)
JSW Steel	For Q2FY22E, we expect JSW Steel's standalone sales volume to come in at 3.8 MT, up 6% QoQ but down 7% YoY. For the quarter, we expect JSW to report a consolidated topline of ₹ 31350 crore, up 63% YoY, 8% QoQ while consolidated EBITDA is likely to come in at ₹ 10340 crore, up 134% YoY, 1% QoQ. For Q2FY22E, for standalone operations JSW Steel is likely to report an EBITDA/tonne of ₹ 25000/tonne (₹ 10136/tonne in Q2FY21, ₹ 26291/tonne in Q1FY22). Consolidated EBITDA margin for Q2FY22E is likely to come in at 33.0% (22.9% in Q2FY21 and 35.5% in Q1FY22). Ensuing consolidated PAT for Q2FY22E is likely to come in at ₹ 6334 crore, up 297% YoY, 7% QoQ
SAIL	For Q2FY22E, we expect SAIL to report sales volume of 4.3 million tonnes (MT), up 1% YoY, 28% QoQ. Topline is expected to come in at ₹ 26563 crore, up 57% YoY, 29% QoQ. EBITDA is likely to come in at ₹ 7650 crore, up 303% YoY, 17% QoQ. EBITDA/tonne for Q2FY22 is likely to come in at ₹ 18000/tonne compared to ₹ 19728/tonne in Q1FY22. Ensuing PAT is likely to come in at ₹ 4677 crore, up 21% QoQ
Hindalco	For Q2FY22E, we expect Hindalco's domestic operations (standalone operations + Utkal) to report aluminium sales volume of ~330000 tonnes (303000 in Q2FY21 and 303000 in Q1FY22) and copper volumes of ~100000 tonnes (75000 tonnes in Q2FY21 and 80000 tonnes in Q1FY22). We expect Hindalco's domestic operations (standalone operations + Utkal) topline to come in at ₹ 15752 crore (up 65% YoY, 18% QoQ). EBITDA margin is likely to come it at 18.4% (13.3% in Q2FY21, 19.6% in Q1FY22). The subsequent EBITDA of Hindalco's domestic operations (standalone operations + Utkal) is likely to come in at ₹ 2901 crore, up 128% YoY, 11% QoQ basis. Novelis is likely to report sales volume of 974 KT and EBITDA/tonne of US\$550/tonne
Jindal Stainless	For Q2FY22E, we expect Jindal Stainless (JSL) to report sales volume of 250000 tonnes (up 9% YoY, 5% QoQ). Consolidated topline is expected to come in at ₹ 4375 crore (up 32% YoY, 8% QoQ). Consolidated EBITDA is likely to come in at ₹ 639 crore (up 85% YoY, 6% QoQ). Consolidated EBITDA margin is likely to come in at 14.6% (10.4% in Q2FY21, 14.9% in Q1FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 24750/tonne (₹ 24378/tonne in Q1FY22, ₹15317/tonne in Q2FY21). Ensuing consolidated PAT is likely to come in at ₹ 310 crore (up 284% YoY and 6% QoQ)
Jindal Stainless Hisar	For Q2FY22E, we expect Jindal Stainless Hisar (JSHL) to report sales volume of 180000 tonnes (up 16% YoY, 19% QoQ). Consolidated topline is expected to come in at ₹ 3465 crore (up 51% YoY, 25% QoQ). Consolidated EBITDA is likely to come in at ₹ 475 crore (up 63% YoY, 15% QoQ). Consolidated EBITDA margin is likely to come in at 13.7% (12.7% in Q2FY21 and 14.9% in Q1FY22). EBITDA/tonne (standalone) is likely to come in at ₹ 25000/tonne (₹ 25278/tonne in Q1FY22, ₹ 15958/tonne in Q2FY21). Ensuing consolidated PAT is likely to come in at ₹ 374 crore (up 121% YoY, 4% QoQ)
Ratnamani Metals & Tubes	We expect Ratnamani Metals and Tubes (RMTL) to report a healthy performance in Q2FY22E. Topline is likely to increase 39% YoY and 27% QoQ to ₹ 733 crore, while EBITDA is likely to increase 51% YoY and 56% QoQ to ₹128 crore. For Q2FY22E, RMTL is likely to report an EBITDA margin of 17.5% (16.2% in Q2FY21 and 14.2% in Q1FY22). Ensuing PAT for the quarter is likely to come in at ₹ 90 crore, up 80% YoY and 58% QoQ

Source: Company, ICICI Direct Research

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

	Q2FY22E	Q2FY21	YoY	Q1FY22	QoQ
Sales Vol.	3.8	4.1	-7%	3.6	6%
EBITDA/t	25000	10136	147%	26291	-5%

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

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

	Q2FY22E	Q2FY21	YoY	Q1FY22	QoQ
Sales Vol.					
India Stand.	3.5	3.6	-3%	2.9	21%
Europe Op.	2.2	2.3	-4%	2.4	-8%
EBITDA/t					
India Stand.	36500	12861	184%	35558	3%
Europe	200	-27	NA	89	125%

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 Q2FY22E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 78% (60% in Q2FY21 and 75% in Q1FY22). For the quarter we expect GIL to report a consolidated topline of ₹ 712 crore (up 47% YoY, 17% QoQ). We expect the company to report consolidated EBITDA of ₹ 231 crore (up 64% QoQ) and a consolidated net profit of ₹ 224 crore (up 49% QoQ)
Coal India	For Q2FY22E, Coal India (CIL) reported coal offtake of 147 million tonne (MT), up 10% YoY but down 8% QoQ. We expect CIL's consolidated topline to increase 17% YoY but decline 2% QoQ to ₹ 24760 crore. The consolidated EBITDA margin is likely to come in at 19.3% (against 18.8% in Q2FY21 and 19.2% in Q1FY22). We expect the company to clock an EBITDA/tonne of ₹ 325/tonne (compared to ₹ 297/tonne in Q2FY21 and ₹ 302/tonne in Q1FY22)
NMDC	We expect NMDC to report a steady performance for Q2FY22E. We expect NMDC to report sales volume of 8.9 MT for Q2FY22, up 35% YoY but down 5% QoQ. Topline is expected to come in at ₹ 5944 crore, up 167% YoY but down 9% QoQ. EBITDA is expected to come in at ₹ 2679 crore, up 160% YoY but down 36% QoQ. EBITDA margin is likely to come in at 45.1% (46.2% in Q2FY21, 64.2% in Q1FY22). We expect EBITDA and EBITDA margin to decline sharply on a sequential basis on the back of the full impact of higher royalty and lower shipments. Ensuing PAT is likely to come in at ₹ 2074 crore, up 168% YoY but down 35% 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	188	160	Hold	116979	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	474	525	Buy	106491	25.5	46.0	51.1	17.3	9.6	8.6	8.3	6.2	5.4	8.8	12.4	13.0	8.5	14.3	13.9
JSW Steel	666	850	Buy	160987	32.9	87.7	71.6	22.7	8.5	10.4	11.5	6.1	6.8	13.8	24.2	18.2	17.0	31.3	20.4
NMDC	146	210	Buy	42655	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	2209	2400	Buy	10323	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.	603	825	Buy	11773	-2.0	46.0	81.0	NA	15.4	8.8	NA	10.5	5.3	-5.4	19.0	28.8	-5.7	20.0	30.3
Tata Steel	1301	1750	Buy	156552	77.1	260.2	179.9	18.9	5.6	8.1	8.4	4.0	4.9	13.1	29.5	20.2	12.4	30.5	17.5
Jindal Stainless Jindal	168	200	Buy	8210	8.6	16.9	16.3	18.8	9.6	9.9	7.7	5.9	6.0	16.0	20.0	17.5	13.0	20.4	16.4
Stainless Hisar Vardhman	296	390	Buy	6977	29.0	42.0	45.0	9.9	6.9	6.6	7.4	5.5	4.8	18.6	20.6	18.1	23.2	24.2	19.8
Special Steel	239	300	Buy	968	10.9	20.2	26.0	22.7	12.3	9.5	10.9	7.5	6.3	13.7	18.0	19.2	9.6	15.3	16.6
Tata Metaliks	1129	1475	Buy	3580	69.9	99.1	123.1	18.0	12.7	10.2	9.7	7.6	5.8	24.6	26.7	26.2	17.0	19.8	19.7

Source: Company, ICICI Direct Research

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Sell: <-15%



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