

January 11, 2021

Strong quarter, aided by healthy realisation....

For Q3FY21, healthy realisations coupled with subdued operating cost (especially coking coal) is expected to push EBITDA/tonne of steel companies to a multi-year high. During the quarter, average domestic Hot Rolled Coil (HRC) prices were at ~₹ 46700/tonne, up 19% QoQ, 33% YoY. Furthermore, while during Q3FY21, average coking coal prices were down 1% QoQ on account of inventory lag impact, the reduction in coking coal costs for steel companies is expected to be in the range of US\$5-10/tonne. However, in Q3FY21, domestic iron ore prices witnessed a sharp uptick, up ~47% QoQ. The upsurge in iron ore prices is likely to limit the EBITDA/tonne uptick for non-integrated players. The EBITDA/tonne of Tata Steel (standalone operations) is expected to come in at ₹ 19000/tonne (₹ 12861/tonne in Q2FY21, ₹ 10123/tonne in Q2FY20). Domestic operations of JSW Steel are likely to report an EBITDA/tonne of ₹ 13000/tonne (₹ 10136/tonne in Q2FY21, ₹ 5598/tonne in Q3FY20). Even on the non-ferrous front, on a YoY basis, zinc and aluminium prices are up 10% and 9%, respectively. On a QoQ, zinc and aluminium prices were up 12% each. The uptick in base metal prices augurs well for the operating margins of non-ferrous players.

Base metal prices improve sequentially...

During Q3FY21, there was a sequential improvement in base metal prices. During the quarter, average zinc prices on the LME were at US\$2628/tonne, up 12% QoQ & 10% YoY while average lead prices were at US\$1902/tonne, up 2% QoQ, albeit down 7% YoY. Similarly, average aluminium prices on LME were at US\$1917/tonne, up 12% QoQ, 9% YoY while average copper prices on the LME were at US\$7178/tonne, up 10% QoQ and 22% YoY.

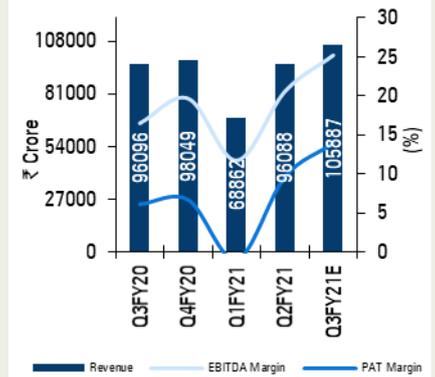
Aggregate EBITDA margins to increase QoQ, YoY...

We expect the aggregate topline of coverage companies to increase 10.2% YoY, 10.2% QoQ to ₹ 105887 crore. The aggregate EBITDA of the coverage universe is expected to increase 68.5 % YoY, 35.1% QoQ to ₹ 26689 crore. Aggregate EBITDA margin of the coverage universe is likely to come in at 25.2% (up 873 bps YoY, 464 bps QoQ). The EBITDA/tonne of domestic miner Coal India is likely to come in at ₹ 350/tonne with NMDC expected to report the same at ₹ 2700/tonne. We expect Novelis (Hindalco's subsidiary) to clock a blended EBITDA/tonne of US\$490/tonne (Novelis numbers inclusive of Aleris numbers).

Company	Revenue			EBITDA			PAT		
	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ	Q3FY21E	YoY	QoQ
Coal India	24,625.0	6.2	16.4	5,415.0	9.0	36.2	4,052.0	3.3	37.3
Graphite India	545.0	-15.2	12.4	27.0	LP	LP	50.0	LP	LP
Hindalco	9,989.0	-2.6	4.4	1,413.0	9.4	10.8	358.0	36.6	9.5
Hindustan Zinc	5,792.0	24.0	2.3	3,128.0	36.7	6.0	2,173.0	34.1	12.0
JSW Steel	20,857.0	15.5	8.3	5,269.0	115.0	19.4	2,441.0	1,205.3	53.0
NMDC	4,540.0	51.0	103.6	2,546.0	60.0	147.2	1,960.0	42.4	153.2
Tata Steel	39,091.0	10.1	5.2	8,825.0	143.8	44.4	3,672.0	LP	124.6
Ratnamani Metal	448.0	-40.7	-22.4	66.0	-38.9	-19.5	41.0	-59.4	-28.1
Total	105,887.0	10.2	10.2	26,689.0	68.5	35.1	14,747.0	150.5	59.6

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

Topline & Profitability (Coverage Universe)



Movement of base metal prices on LME

US\$/t	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)
Zinc	2628	2387	10	2339	12
Lead	1902	2042	-7	1873	2
Alum.	1917	1756	9	1706	12
Copper	7178	5891	22	6524	10

Source: Bloomberg, ICICI Direct Research,

(₹)/t	Q3FY21	Q3FY20	YoY(%)	Q2FY21	QoQ(%)
Zinc	193858	170056	14	173935	11
Lead	140327	145473	-4	139288	1
Alum.	141419	125110	13	126913	11
Copper	529521	419668	26	485214	9

Source: Bloomberg, ICICI Direct Research,

Analyst

Dewang Sanghavi

Dewang.sanghavi@icicisecurities.com

Exhibit 2: Company Specific View – Metals and Mining

Company	Write Up
Tata Steel	For Q3FY21, we expect Tata Steel's standalone operations to report an EBITDA/tonne of ₹19000/tonne (as compared to an EBITDA/tonne of ₹ 12861/tonne in Q2FY21 and ₹ 10123/tonne in Q3FY20). Indian operations (standalone) are expected to report steel sale of 3.4 million tonne (MT) while European operation steel sales are likely to come in at 2.1 MT. Additionally, Bhushan Steel is expected to report a sales volume of 1.3 MT. We expect European operations to report a EBITDA/tonne of US\$30/tonne. On a consolidated basis, the topline is expected to increase 10% YoY and 5% QoQ to ₹39091 crore. The consolidated EBITDA is expected to increase 44% QoQ and 144% YoY to ₹8825 crore. Consolidated EBITDA margins are likely to come in at 22.6% (as compared to 16.4% in Q2FY21 and 10.2% in Q3FY20).
JSW Steel	For Q3FY21, we expect JSW Steel's standalone sales volume to remain flattish both QoQ as well as YoY basis and come in at 4.0 MT. For the quarter, we expect JSW Steel to report a consolidated topline of ₹ 20857 crore, up 8% QoQ and 16% YoY, while consolidated EBITDA is likely to come in at ₹5269 crore, up 115% YoY and 53% QoQ. JSW Steel is likely to report EBITDA/tonne of ₹13000/tonne (₹5598/tonne in Q3FY20 and ₹10136/tonne in Q2FY21). Consolidated EBITDA margin is likely to come in at 25.3% (13.6% in Q3FY20 and 22.9% in Q2FY21).
Hindustan Zinc	During Q3FY21, zinc prices witnessed a steady uptick both on QoQ as well as YoY basis. In dollar terms, LME zinc prices during the quarter were up 12% QoQ and 10% YoY to US\$2628/tonne. On the other hand lead prices for Q3FY21 stood at US\$1902/tonne, down 7% YoY, up 2% QoQ. We expect zinc sales of ~180000 tonne (up 5% YoY, down 1% QoQ), lead sales of ~53000 tonne (up 27% YoY, down 7% QoQ) and silver sales of ~175000 kg (up 14% YoY, down 14% QoQ). The topline is likely to increase 24% YoY, 2% QoQ to ₹5792 crore, EBITDA is likely to increase 37% YoY and 6% QoQ to ₹3128 crore while PAT is likely to increase 34% YoY, 12% QoQ to ₹ 2173 crore. We expect the EBITDA margin to come in at 54.0% (compared to 49.0% in Q3FY20 and 52.2% in Q2FY21).
Hindalco	For Q3FY21 we expect Hindalco's domestic oprations (Standalone operations + Utkal) to report aluminium sales volume of ~319000 tonnes (328000 in Q3FY20 and 303000 in Q2FY21) and copper sales of ~73000 tonnes (75000 tonnes in Q2FY21 and 86000 tonnes in Q3FY20). We expect topline to come in at ₹ 9889 crore (down 3.0% YoY, up 4% QoQ). EBITDA margin is likely to come it at 14.1% (12.6% in Q3FY20 and 13.3% in Q3FY21). The subsequent EBITDA is likely to come in at ₹ 1413 crore, up 11% QoQ and 9% YoY basis. Novelis is likely to report sales volume of 925 KT and EBITDA/tonne of US\$490/tonne.
Coal India	For Q3FY21, Coal India reported coal offtake of 155 million tonne (MT), up 9% YoY and 15% QoQ. We expect the topline to increase 6% YoY to ₹ 24625 crore. The EBITDA margin is likely to come in at 22.0% (as against 18.8% in Q2FY21 and 21.4% in Q3FY20). We expect the company to clock an EBITDA/tonne of ₹350/tonne (as compared to ₹297/tonne in Q2FY21 and ₹350/tonne in Q3FY20).
NMDC	We expect NMDC report healthy performance for Q3FY21 on the back of successive price hikes taken by the company during the quarter under review. We expect NMDC to report sales volume of 9.4 MT for Q3FY21, up 12% YoY, 43% QoQ. Topline is expected to come in at ₹4540 crore, up 51% YoY, 104% QoQ. EBITDA is expected to come in at ₹2546 crore, up 147% QoQ, 60% YoY. EBITDA margin is likely to come in at 56.1% (52.9% in Q3FY20, 46.2% in Q2FY21). The ensuing PAT is likely to come at ₹1960 crore, up 42% YoY and 153% QoQ.
Ratnamani Metals & Tubes	For Q3FY21E, we expect Ratnamani to report subdued operational performance on the back of muted sales volumes for both Stainless Steel and carbon steel segment. We expect Ratnamani's stainless steel segment to report sales volumes of 4550 tonne (down13% QoQ, 27% YoY) and carbon steel segment to report sales volume of 48125 tonne (down 34% QoQ and 14% YoY). Ratnamani's topline is likely to decrease 41% YoY and 22% QoQ to ₹448 crore, while the EBITDA is likely to decrease 19% QoQ, 39% YoY to ₹66 crore. We expect the EBITDA margin come in at 14.8% (EBITDA margin of 14.2% in Q2FY21and 14.3% in Q3FY20). The ensuing PAT is likely to come in at ₹41 crore (down 60% YoY and 29% QoQ).
Graphite India	For Q3FY21E, on a consolidated basis, we expect Graphite India (GIL) to report capacity utilisation of 75% (45% in Q3FY20 and 60% in Q2FY21). For the quarter we expect Graphite India to report a consolidated topline of ₹ 545 crore (down 15 YoY, however up 12% QoQ). We expect the company to report consolidated EBITDA of ₹ 27 crore and consolidated net profit of 50 crore.

Source: Company, ICICI Direct Research

Hindustan Zinc Sales volume trend

Sales	unit	Q3FY21E	Q3FY20	Q2FY21
Zinc	Tonne	180048	172000	181000
Lead	Tonne	53188	42000	57000
Silver	Kg	175000	154000	203000

Source: Company, ICICI Direct Research,

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

	Q3FY21E	Q3FY20	YoY	Q2FY21	QoQ
Sales Vol.	4.0	4.0	-1%	4.1	-3%
EBITDA/t	13000	5598	132%	10136	28%

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

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

	Q3FY21E	Q3FY20	YoY	Q2FY21	QoQ
Sales Vol.					
India Op.	4.7	4.9	-4%	5.1	-8%
Europe Op.	2.1	2.4	-13%	2.3	-9%
EBITDA/t					
India Stand.	19000	10123	88%	12861	48%
Tata BSL	15000	2261	563%	8689	73%
Europe	30	-57	NA	-27	NA

Source: Company, ICICI Direct Research, Sales volume in MT, Indian Operations sales volume includes Tata Steel Standalone, Tata Steel BSL and Tata Steel Long products. Tata Steel (Standalone) and Tata Steel BSL EBITDA/tonne is in ₹/tonne, - Europe EBITDA/tonne in US\$/tonne.

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

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
Coal India	142	130	Hold	87928	27.1	22.2	22.9	5.2	6.4	6.2	3.0	4.6	4.7	55.5	40.2	40.1	51.9	39.0	36.9
Hindalco	260	240	Buy	58310	18.2	25.3	34.4	14.3	10.3	7.6	6.9	7.0	5.8	7.8	7.7	9.2	6.9	9.0	10.9
Hind Zinc	292	230	Hold	123210	16.1	17.1	21.1	18.1	17.1	13.8	11.5	10.6	8.0	20.8	25.5	27.4	16.9	23.5	24.1
JSW Steel	396	330	Hold	95637	19.5	16.7	33.5	20.2	20.2	10.1	12.7	10.0	6.5	7.2	8.4	13.3	12.7	9.8	16.5
NMDC	125	100	Hold	38213	11.8	11.6	9.0	10.6	10.7	13.8	4.5	5.0	5.5	20.3	14.3	9.9	13.1	11.3	8.3
Ratnamani	1620	1475	Buy	7572	65.8	53.1	73.8	24.6	30.5	22.0	17.6	21.4	15.3	22.2	16.1	21.8	18.0	13.1	15.7
Graphite Ind.	320	185	Hold	6261	2.0	-1.0	18.0	78.0	NA	10.5	NA	NA	3.6	-2.6	-5.7	4.4	1.0	-0.4	7.3
Tata Steel	692	625	Buy	79302	41.4	18.4	58.1	16.7	37.6	11.9	10.7	9.8	6.3	4.8	5.0	8.7	6.4	2.8	7.7

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/We, Dewang Sanghavi, MBA, 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 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 icidirect.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 and ICICI Securities as an entity 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