

November 21, 2022

## Removal of export duty on steel; long term positive...

In a bid to provide a fillip to the domestic steel industry and boost exports, the government has restored the status quo, which was prevailing prior to May 22, 2022. The government has withdrawn the 15% export duty on steel products (which was earlier levied during May 2022). Steel products now attract nil export duty compared to 15% earlier. The removal of export duty is a significant relief and a long term positive for the domestic steel sector. The government has also withdrawn the export duty on iron ore lumps and fines below 58% Fe content and iron ore pellets. Export of iron ore lumps and fines above 58% Fe content will now attract a lower duty of 30% (reduced from 50% earlier). The import duty concessions on anthracite/PCI coal, coking coal, coke & semi coke and ferronickel have also been withdrawn. All these changes in duty came into effect from November 19, 2022.

### Removal of export duty augurs well for domestic steel players

- The removal of export duty augurs well for domestic steel players, albeit over a longer term horizon. Global steel demand has turned subdued since May 2022, which has put downward pressure on steel prices. As steel prices in the global market are currently muted, hence export volumes are likely to pick up notably only when international prices recover. However, the recent step of removal of export duty on steel products does provide an opportunity for domestic players to enhance their export volume notably as and when global steel prices strengthens
- Even though current domestic HRC prices are at a premium to landed cost of imports, the recent relief measure is likely to aid in keeping domestic steel prices stable around current levels in the near term. While we do not expect a major uptick in domestic steel prices, we believe a significant sector headwind has been removed.
- Stainless steel players viz. Jindal Stainless (JSL) & Jindal Stainless (Hisar) (JSHL) are expected to be the key beneficiaries. Currently, the export market is more favourable for stainless steel players compared carbon steel players as European players have curtailed production due to the ongoing energy crisis. With the recent relief, the share of exports is expected to increase for both JSL and JSHL. Earlier, for JSL, the share of exports had declined to 5% in Q2FY23 (25% in FY22) while JSHL's share of exports had declined to 8% in Q2FY23 (15% in FY22). Going forward, we expect the share of exports to increase from Q2FY23 level. The recent relief also augurs well for volume growth in FY24, as JSL is planning to commission its 1 million tonnes per annum (MTPA) stainless steel capacity in Q4FY23

### Valuation and Outlook

The removal of export duty augurs well for domestic steel players albeit over a longer term horizon. Global steel demand has turned subdued since May 2022, which has put downward pressure on steel prices. As steel prices in the global market are currently muted, hence export volumes are likely to pick up notably only when global prices recover. However, the recent step of removal of export duty on steel products does provide an opportunity for domestic players to enhance their export volume notably as and when the global steel prices strengthens. While we do not expect a major uptick in domestic steel prices, we believe a significant sector headwind has been removed. Hence, we upward revise our EV/EBITDA multiple for JSW Steel, Tata Steel and NMDC. We also marginally upward revise our EBITDA/tonne estimate for Tata Steel and JSW Steel and sales volume estimate for JSW Steel. With respect to stainless steel players, we upward revise our EBITDA/tonne estimate for Jindal Stainless and Jindal Stainless (Hisar). We maintain our **BUY** rating on Jindal Stainless and Jindal Stainless (Hisar) and upgrade Tata Steel and NMDC from **HOLD** to **BUY**. We continue to maintain our **HOLD** rating on JSW Steel and SAIL.

Rating Matrix				
Company	GMP (₹/share)	Target Price (₹/share)	Upside (%)	Rating
Tata Steel	106	125	18%	Buy
JSW Steel	708	700	-1%	Hold
SAIL	81	90	11%	Hold
NMDC	111	130	17%	Buy
Jindal Stainless	167	200	20%	Buy
Jindal Stainless (Hisar)	324	390	20%	Buy

#### Key risks

**For BUY rated companies (Tata Steel, Jindal Stainless, Jindal Stainless (Hisar) and NMDC**

- (i) Steep decline in realisation (ii) Higher than expected increase in operating costs

**For HOLD rated Companies (JSW Steel, SAIL)**

- (i) Steep decline in realisation (ii) Lower than expected increase in operating costs

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## Exhibit 1: Valuation and target matrix

	CMP	Target	Upside / (Downside) (%)	Rating	Comments
Tata Steel	106	125	18	Buy	With respect to Tata Steel, for standalone operations, we assume EBITDA/tonne of ₹14500/tonne for FY23E (marginally upward revised from ₹ 14000/tonne) and ₹ 16500/tonne for FY24E (marginally upward revised from ₹ 16000/tonne). We maintain volume estimate for Tata Steel. We now value standalone operations of Tata Steel at 6x FY24E EV/EBITDA (upward revised from 5.5x earlier) and continue to value European operations at 3x FY24E EV/EBITDA and other subsidiaries at 4x FY24E EV/EBITDA. Hence, we arrive at a target price of ₹ 125. We upgrade Tata Steel from HOLD to BUY
JSW Steel	708	700	-1	Hold	With respect to JSW Steel, for standalone operations, we model EBITDA/tonne of ₹7500/tonne for FY23E (marginally upward revised from ₹ 7000/tonne) and ₹ 12000/tonne for FY24E (marginally upward revised from ₹ 11750/tonne). For the standalone operations, we now model sales volume of 20 MT for FY23E (marginally upward revised from 19.5 MT earlier) and 21.3 MT for FY24E (marginally upward revised from 21 MT earlier). We now value JSW Steel at 6.5x FY24E EV/EBITDA (upward revised from 6x earlier) and arrive at a target price of ₹ 700. We maintain our HOLD rating on JSW Steel
SAIL	81	90	11	Hold	For SAIL, we maintain our sales volume estimate of 16 MT for FY23E and 17 MT for FY24E. For SAIL, we also maintain our EBITDA/tonne of ₹ 4500/tonne for FY23E and ₹ 7250/tonne for FY24E. We continue to value SAIL at 5x FY24E EV/EBITDA and arrive at a target price of ₹ 90. We maintain our HOLD rating on SAIL
NMDC	111	130	17	Buy	For NMDC, we upward revise our EBITDA/tonne estimate for both FY23E and FY24E. We now assume EBITDA/tonne of ₹ 1400/tonne for FY23E (upward revised from ₹ 1354/tonne earlier) and ₹ 1500/tonne for FY24E (upward revised from ₹ 1365/tonne earlier). We maintain our sales volume estimate for NMDC. We now valued NMDC at 5x FY24E EV/EBITDA (upward revised from 4.5x earlier) and arrive at a target price of ₹ 130. We upgraded the stock from HOLD to BUY
Jindal Stainless (JSL)	167	200	20	Buy	For Jindal Stainless (JSL), we upward revise our EBITDA/tonne estimate to ₹ 19000/tonne for FY23E (upward revised from ₹ 18000/tonne earlier) and ₹ 20000/tonne for FY24E (upward revised from ₹ 18000/tonne earlier). For JSL, we maintain our sales volume of 1.05 MT for FY23E and 1.2 MT for FY24E. We continue to value JSL on merged entity basis and arrive at a target price of ₹ 200. We maintain our BUY rating on Jindal Stainless
Jindal Stainless (Hisar) (JSHL)	324	390	20	Buy	For Jindal Stainless (Hisar) (JSHL), we upward revise our EBITDA/tonne estimate to ₹ 19000/tonne for FY23E (upward revised from ₹ 18000/tonne earlier) and ₹ 20000/tonne for FY24E (upward revised from ₹ 18000/tonne earlier). For JSHL, we maintain our sales volume of 630000 tonnes for FY23E and 650000 tonnes for FY24E. We continue to value JSHL as per merger ratio and arrive at a target price of ₹ 390. We maintain our BUY rating on Jindal Stainless (Hisar)

Source: Company, ICICI Direct Research

## Exhibit 2: Duty changes with effect from November 19, 2022...

## Government withdraws export duty on Steel

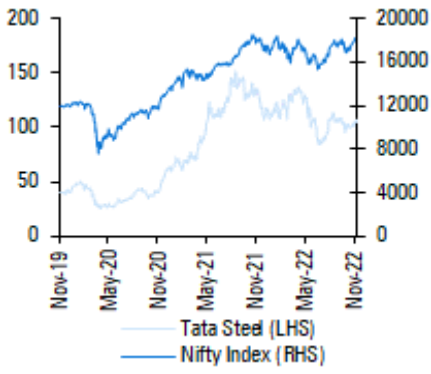
The Central Government has restored the status quo as was prevailing prior to 22<sup>nd</sup> May, 2022 and withdrawn the export duty on iron ores lumps & Fines below 58% Fe content, iron ore pellets and the specified steel products including pig iron. The import duty concessions on Anthracite / PCI coal, coking coal, coke & semi coke and ferronickel have also been withdrawn.

Thus with effect from 19 Nov, 2022,-

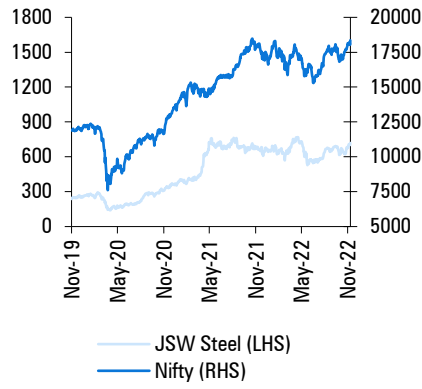
- Exports of iron ore lumps and fines < 58% Fe will attract nil export duty.
- Exports of iron ore lumps and fines > 58% Fe will attract lower export duty of 30%.
- Exports of iron ore pellets will attract nil export duty.
- Exports of pig iron and steel products classified under HS 7201, 7208, 7209, 7210, 7213, 7214, 7219, 7222 & 7227 will attract nil export duty
- Anthracite/PCI & coking coal and ferronickel will attract import duty of 2.5%.
- Coke and Semi coke will attract 5% import duty.

Source: Company, ICICI Direct Research

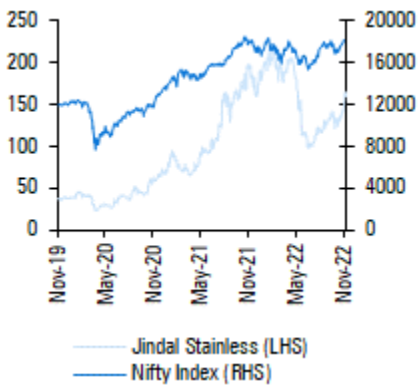
Price Chart (Tata Steel)



Price Chart (JSW Steel)



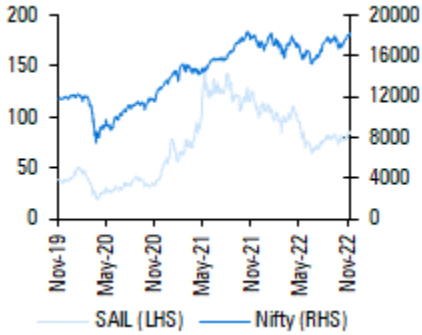
Price Chart (Jindal Stainless)



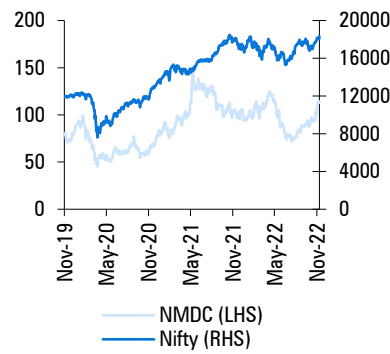
Price Chart (Jindal Stainless Hisar)



Price Chart (SAIL)



Price Chart (NMDC)



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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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