



TM

## India Metals & Mining

10 June 2024

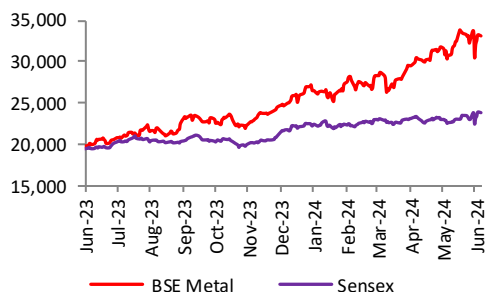
### Earnings a mixed bag; growth story to continue barring temporary volatilities

#### 4QFY24 RESULT REVIEW

Industry

Metals &amp; Mining

Relative performance: BSE Metals v/s Sensex



Source: Company, Systematix Institutional Research

#### Sector Rating (Rs)

Company	CMP	TP	Reco
Tata Steel	180	176	HOLD
JSW Steel	916	910	HOLD
SAIL	151	151	HOLD
NMDC	255	261	HOLD
Coal India	477	458	HOLD
MOIL	491	383	SELL
Hindalco	676	778	BUY
NALCO	183	165	HOLD
Vedanta	444	418	HOLD
Hindustan Zinc	669	306	SELL
APL Apollo Tubes	1,630	1872	BUY
Surya Roshni	589	684	BUY

Source: Company, Systematix Institutional Research

Metals and mining 4QFY24 earnings were mixed, largely in line with expectations, barring a few exceptional scenarios. We saw sales volume growth across our coverage companies indicating strong domestic demand. Sustained exports and topline growth in international operations indicated economic recovery overseas. Primary producers saw notable volume growth led by incremental volumes from commissioning various capacity expansion projects. Increased focus on downstream and value-added products (VAP) enabled better-than-expected steel realisations. Higher volumes also helped partially offset higher coking coal costs during the quarter, resulting in stable or marginally lower EBITDA margins QoQ. On a YoY basis, absolute revenue and EBITDA contracted for a majority of our coverage companies due to lower metal prices partially offset by higher volumes for a few.

Most of the commodity prices either marginally contracted or remained flat during the quarter. Rising Asian imports kept steel prices under check throughout the quarter. However, base metal prices witnessed a decent uptick post 4Q due to various macroeconomic factors and global supply concerns. In base metals, a contrasting picture is emerging in China when compared to steel. While steel exports continue to rise, China is witnessing higher base metal imports as the focus shifts to the engineering and automotive sectors to compensate for lost demand from the property sector. China's dominating macroeconomic role will continue to shape the global commodity picture.

Mining companies under our coverage recorded margin expansion due to a mix of operating leverage and various cost-saving initiatives. These companies continue to push for higher volumes led by enhanced EC limits and a corresponding favorable demand for ores as key raw materials used for producing metals and alloys. Steel pipe companies' performance was also a mixed bag with SYR recording stable margins versus APL Apollo Tubes (APAT) which reported a margin contraction.

#### Capex plans underway

Almost all names under our coverage are ramping up volumes and have various capacity expansion plans in place. JSW Steel and Tata Steel are looking at reaching 40-50mt steel capacity each by 2030. NMDC is also targeting to achieve the 100mt capacity mark by 2030 through larger EC limit enhancements. Vedanta and Hindalco both have notable expansion plans in place focused on downstream operations as well as backward integration. In the steel pipe segment, APAT is advancing rapidly to the 5mt capacity mark while SYR announced fresh capex to augment capacities from 1.2mt to 2mt in the next two years. These expansions build on the broader target of achieving 300mt steel capacity by 2030. The demand outlook remains positive as India stands out from the rest of the world with an improving pace of industrial development which is fostering growth in the engineering, automotive, and construction segments.

#### Outlook

We remain positive on the sector in the medium to long term led by a strong demand outlook. Near-term softness is likely to persist due to the election slowdown and the ensuing monsoon quarter. Raw material integrated operations, captive power projects, and a focus on value addition would enable margin expansion along with incremental volumes. We expect 5% to 24% volume growth in the ferrous space and -1% to 7% in the non-ferrous space over FY24-FY26E. The corresponding revenue and EBITDA CAGR are estimated to be in the range of 1% to 27% and 7% to 46%, respectively, for ferrous and 8% to 15% and 17% to 20%, respectively for non-ferrous companies.

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## Exhibit 1: Quarterly Review

Tata Steel	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	629.6	553.1	586.9	-1%	-7%	6%	<ul style="list-style-type: none"> <li>India operations EBITDA Rs 82.6bn (+2% YoY, flat QoQ).</li> <li>EBITDA loss at Tata Steel Netherlands (TSN) and Tata Steel UK (TSUK) operations contracted to Rs 2.9bn (vs Rs -12bn 3QFY24) and Rs 3.9bn (vs Rs -16.6bn 3QFY24)</li> <li>BF6 relining at TSN concluded</li> <li>Phased decommissioning of heavy-end assets at Port Talbot has commenced</li> <li>Expects 1.4mt incremental deliveries in FY25</li> </ul>
EBITDA	72.2	62.6	66.0	-1%	-9%	5%	
EBITDA margin	11.5%	11.3%	11.2%	-2	-22	-8	
PAT	15.7	5.2	5.5	-63%	-65%	6%	
JSW Steel	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	469.6	419.4	462.7	14%	-1%	10%	<ul style="list-style-type: none"> <li>Adj. EBITDA of Rs 61.2bn declined by 22.9%/14.7% YoY/QoQ</li> <li>4Q marked by lower domestic steel prices and higher raw material prices</li> <li>6.5mt capacity under commissioning; expected to ramp up by 3QFY25</li> <li>FY25 production and sales volumes guided 28.4mt and 27mt, respectively</li> </ul>
EBITDA	79.4	71.8	61.2	8%	-23%	-15%	
EBITDA margin	16.9%	17.1%	13.2%	-77	-367	-388	
PAT	37.4	24.5	13.2	5%	-65%	-46%	
SAIL	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	291.3	233.5	279.6	1%	-4%	20%	<ul style="list-style-type: none"> <li>EBITDA Rs 34.8bn grew by 20%/63% YoY/QoQ, due to lower employee benefits expense</li> <li>Saleable steel sales for the quarter were 4.6mt (-2% YoY and +21% QoQ)</li> <li>SAIL's net debt increased by Rs 54.3bn or 18% YoY due to increased coking coal prices</li> </ul>
EBITDA	29.1	21.4	34.8	76%	20%	63%	
EBITDA margin	10.0%	9.2%	12.5%	530	245	328	
PAT	10.5	4.2	11.3	606%	7%	166%	
NMDC	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	58.5	54.1	64.9	0%	11%	20%	<ul style="list-style-type: none"> <li>NMDC reported 4QFY24 EBITDA at Rs 21bn (-3%/+5% YoY/QoQ)</li> <li>EBITDA margin for the quarter at 32.4% contracted by 457bps/471bps YoY/QoQ on account of higher other expenditure</li> <li>4QFY24 realisations averaged Rs 5,125/t, registering a 9.9%/9.5% YoY/QoQ growth</li> <li>The management has laid out a comprehensive capex plan of Rs 500bn over the next 5-6 years to reach 100mt capacity by 2030-31</li> </ul>
EBITDA	21.6	20.1	21.0	-13%	-3%	5%	
EBITDA margin	37.0%	37.1%	32.4%	-488	-457	-471	
PAT	10.4	17.2	14.5	-27%	39%	-16%	
Coal India	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	381.5	361.5	374.1	4%	-2%	3%	<ul style="list-style-type: none"> <li>EBITDA at Rs 98.4bn grew 14% YoY, but fell 18% QoQ</li> <li>PAT at Rs 86.4bn grew +26% as the company reversed its stripping activity provision</li> <li>COAL realized Rs 2,545/t (-44%/-23% YoY/QoQ) through e-auction, a premium of 66% over FSA prices.</li> </ul>
EBITDA	86.3	119.4	98.4	-12%	14%	-18%	
EBITDA margin	22.6%	33.0%	26.3%	-466	369	-670	
PAT	68.7	101.5	86.4	16%	26%	-15%	
MOIL	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	4.3	3.1	4.2	14%	-3%	36%	<ul style="list-style-type: none"> <li>Reported 4QFY24 revenue and EBITDA of Rs 4.2bn (-2.8%/+35.8% YoY/QoQ) and 1.3bn (-3.2%/+43.4% YoY/QoQ).</li> <li>MnO production for the year was 1.75mt, an increase of 35% YoY. Electrolytic Manganese Dioxide (EMD) production for the year was recorded at 1,413t, a growth of 28% YoY</li> <li>MOIL targets to achieve 3.5mt capacity by 2030</li> <li>MOIL increased prices across grades by 25%-40% for May deliveries. The increase mirrors the rise seen in imported MnO prices due to elevated concerns about constrained global supply for the rest of the year</li> </ul>
EBITDA	1.3	0.9	1.3	18%	-3%	43%	
EBITDA margin	31.0%	29.2%	30.8%	98	-12	164	
PAT	0.8	0.5	0.9	15%	13%	68%	

Hindalco	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	558.6	528.1	559.9	1%	0%	6%	<ul style="list-style-type: none"> <li>EBITDA of Rs 72bn, up 24%/14% YoY/QoQ</li> <li>Novelis reported quarterly shipment of 951kt (+1.6%/+4.5% YoY/QoQ) and EBITDA of USD 540/t</li> <li>India aluminium business (40% share in total EBITDA) reported Rs 28.6bn EBITDA (+24%/12% YoY/QoQ) with margins averaging at 25% versus 21% in 4QFY23</li> <li>The copper segment delivered 135kt in copper metal sales during the quarter, registering a 15.4%/13.4% growth YoY/QoQ</li> </ul>
EBITDA	57.8	61.4	70.4	19%	22%	15%	
EBITDA margin	10.3%	11.6%	12.6%	190	224	94	
PAT	23.7	23.3	31.8	61%	34%	36%	
NALCO	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	36.7	33.5	35.8	-4%	-3%	7%	<ul style="list-style-type: none"> <li>Reported 4QFY24 revenue of Rs 35.8bn (-2.5% YoY and +6.9% QoQ) and EBITDA of Rs 11bn (+44.4% YoY and +43.1% QoQ)</li> <li>Aluminium metal sales during the quarter were 123kt (+5.6% YoY, +8.4% QoQ), implying a realisation of USD 2,380/t (-9%/-3% YoY/QoQ)</li> <li>1mtpa alumina refinery expansion underway, the plan has already overrun cost and commissioning timeline by 38.37% and 53 months</li> </ul>
EBITDA	7.7	7.7	11.1	8%	44%	43%	
EBITDA margin	20.9%	23.1%	30.9%	356	1005	783	
PAT	4.9	4.7	10.0	52%	101%	112%	
Vedanta	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	379.3	355.4	355.1	2%	-6%	0%	<ul style="list-style-type: none"> <li>Cons. EBITDA of Rs 88bn (-7.3% YoY, 2.8% QoQ)</li> <li>Aluminum segment reported EBITDA of Rs 30bn (54.8%/4.4% YoY/QoQ), clocking growth on account of higher volumes and lower cost of production (CoP) more than offsetting the impact of lower commodity prices</li> <li>Zinc International continued to underperform during the quarter, reporting a 46.8%/19.5% YoY/QoQ decline in volumes</li> </ul>
EBITDA	94.6	85.3	87.7	4%	-7%	3%	
EBITDA margin	24.9%	24.0%	24.7%	29	-25	69	
PAT	18.8	20.1	13.7	-15%	-27%	-32%	
Hindustan Zinc	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	82.8	70.7	72.9	-1%	-12%	3%	<ul style="list-style-type: none"> <li>EBITDA for the quarter was Rs 36.5bn (-9.4%/+3.6% YoY/QoQ)</li> <li>EBITDA margin during the quarter improved by 101bps/17bps YoY/QoQ to 48.3%</li> <li>At 220kt, zinc volumes were higher by 2.3%/8.4% YoY/QoQ largely due to better grades.</li> <li>Zinc/lead prices averaged at USD 2,450/t (-21.7%/-1.9% YoY/QoQ) and USD 2,077/t (-2.9%/-2.0% YoY/QoQ), respectively, during the quarter</li> </ul>
EBITDA	40.3	35.2	36.5	2%	-9%	4%	
EBITDA margin	48.6%	49.8%	50.1%	145	146	27	
PAT	23.6	20.3	20.4	0%	-13%	0%	
APL Apollo	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	44.3	41.8	47.7	8%	8%	14%	<ul style="list-style-type: none"> <li>EBITDA (excl. other income) was reported at Rs 2.8bn (-15.6%/+0.3% YoY/QoQ)</li> <li>APAT reported 679kt in sales volume this quarter, clocking 4.5%/12.4% YoY/QoQ growth, with a blended realisation of Rs 70,188/t</li> <li>Overall EBITDA/t in 4Q was Rs 4,132 due to lower margins from key segments</li> </ul>
EBITDA	3.5	2.9	2.9	-3%	-16%	0%	
EBITDA margin	7.9%	7.1%	6.2%	-82	-172	-87	
PAT	2.1	1.7	1.7	-1%	-19%	3%	
Surya Roshni	4QFY23	3QFY24	4QFY24	vs estimate	YoY	QoQ	Key highlights
Revenue	21.5	19.4	20.8	-4%	-3%	7%	<ul style="list-style-type: none"> <li>EBITDA for the quarter was Rs 1.7bn (-32%/+9% YoY/QoQ), majorly impacted by lower realizations and fall in API spiral pipes deliveries, partially offset by better margins at the lighting and consumer durables segment.</li> <li>The steel pipes and tubes segment recorded sales of 236kt (+10%/+20% YoY/QoQ)</li> <li>EBITDA/t reported at Rs 5,877/t (-40%/-5% YoY/QoQ)</li> <li>The company has announced fresh capex of Rs 5bn which would span over 2 years towards a) steel pipe capacity expansion from 1.2mt to 2mt, b) enhancing the professional and value-added product portfolio in the lighting segment</li> </ul>
EBITDA	2.5	1.6	1.7	-11%	-32%	9%	
EBITDA margin	11.8%	8.2%	8.3%	-45	-350	13	
PAT	1.6	0.9	1.0	-7%	-33%	15%	

Source: Company, Systematix Institutional Research

## Exhibit 2: Coverage snapshot

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Upside / Downside	FY24-26E CAGR (%)			RoE (%)			P/E (x)			EV/EBITDA (x)		
					Sales	EBITDA	EPS	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
<b>Primary steel producers</b>																
Tata Steel	2,250	180	176	-2%	5%	32%	NA	3%	10%	12%	NA	22.8	16.6	13.5	9.7	8.3
JSW Steel	2,239	916	910	-1%	1%	18%	45%	11%	18%	20%	24.7	13.0	11.2	9.1	7.4	6.5
SAIL	622	151	151	1%	5%	17%	38%	6%	5%	10%	20.3	19.9	10.6	9.3	8.9	6.8
<b>Mining</b>																
NMDC	746	255	261	3%	12%	17%	20%	22%	26%	25%	13.9	10.5	9.6	8.6	7.3	6.3
Coal India	2,939	477	458	-4%	3%	7%	3%	72%	52%	42%	7.9	6.9	7.5	6.0	5.4	5.2
MOIL	100	491	383	-22%	27%	46%	47%	12%	21%	21%	34.1	15.7	13.9	20.7	11.2	9.7
<b>Non ferrous</b>																
Hindalco	1,520	676	778	15%	9%	17%	24%	10%	12%	12%	14.7	10.4	9.6	8.0	6.5	5.9
NALCO	337	183	165	-10%	8%	18%	11%	11%	16%	13%	21.6	13.4	15.4	9.6	7.0	6.8
Vedanta	1,652	444	418	-6%	9%	20%	105%	12%	35%	42%	39.0	14.4	10.6	5.6	4.2	3.8
Hindustan Zinc	2,828	669	306	-54%	15%	19%	24%	55%	56%	51%	36.4	28.5	23.6	20.4	16.7	14.4
<b>Iron and steel products</b>																
APL Apollo Tubes	452	1,630	1,872	15%	27%	33%	35%	22%	30%	42%	55.9	39.6	30.7	34.9	25.3	20.4
Surya Roshni	64	589	684	16%	14%	15%	18%	16%	18%	18%	18.5	14.6	13.3	10.3	8.6	7.7

Source: Company, Systematix Institutional Research

## Exhibit 3: EBITDA margin

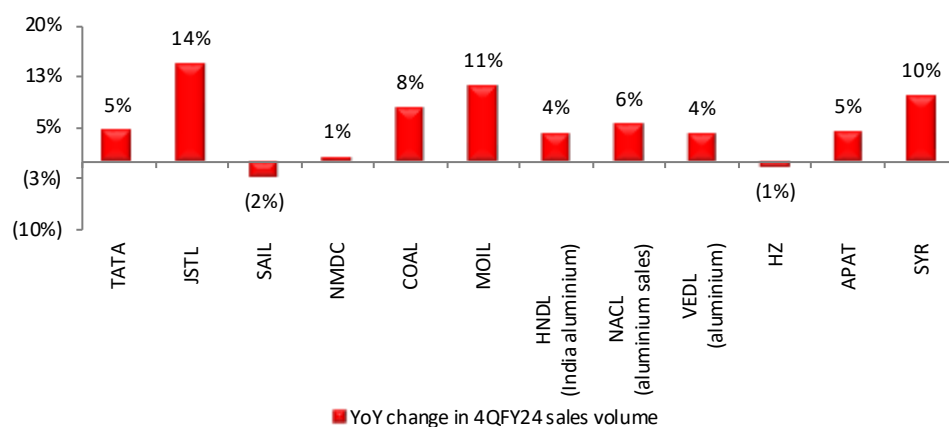
	4QFY23	3QFY24	4QFY24
SAIL	10.0%	9.2%	12.5%
JSW Steel	16.9%	17.1%	13.2%
Tata Steel	11.5%	11.3%	11.2%
<b>Primary steel producers</b>	<b>13.0%</b>	<b>12.9%</b>	<b>12.2%</b>
Coal India	22.6%	33.0%	26.3%
NMDC	37.0%	37.1%	32.4%
MOIL	31.0%	29.2%	30.8%
<b>Mining</b>	<b>24.6%</b>	<b>33.5%</b>	<b>27.2%</b>
APL Apollo Tubes	7.5%	6.7%	5.9%
Surya Roshni	11.8%	8.2%	8.3%
<b>Steel products</b>	<b>8.9%</b>	<b>7.2%</b>	<b>6.6%</b>
Hindustan Zinc	48.6%	49.8%	50.1%
Vedanta	24.9%	24.0%	24.7%
NALCO	20.9%	23.1%	30.9%
Hindalco	10.3%	11.6%	12.6%
<b>Non-ferrous</b>	<b>18.9%</b>	<b>19.2%</b>	<b>20.1%</b>
<b>Total</b>	<b>16.8%</b>	<b>18.3%</b>	<b>17.2%</b>

Source: Company, Systematix Institutional Research

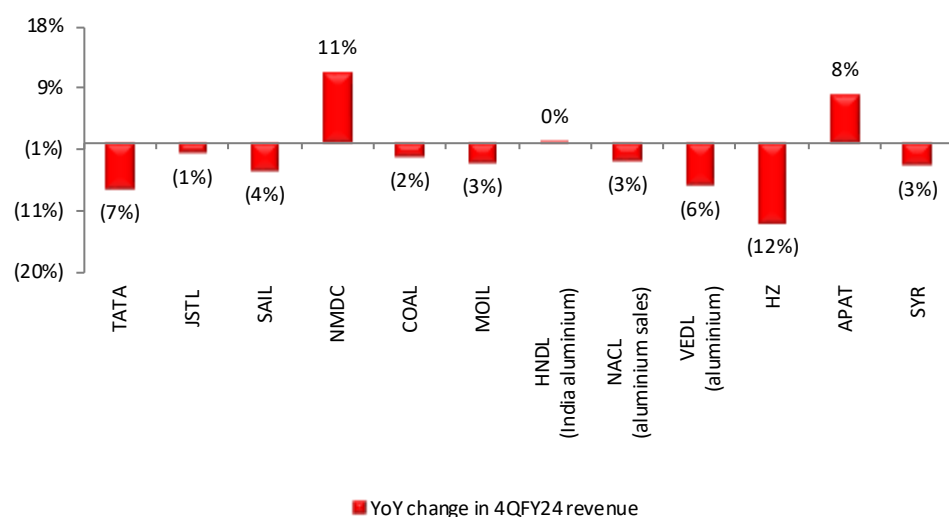
## Exhibit 4: Annual estimate revision

	FY25E	FY26E
<b>Tata Steel</b>		
Revenue	-1%	NA
EBITDA	-19%	NA
Adj. PAT	-47%	NA
<b>JSW Steel</b>		
Revenue	-1%	-3%
EBITDA	-3%	-5%
Adj. PAT	8%	3%
<b>SAIL</b>		
Revenue	2%	NA
EBITDA	-29%	NA
Adj. PAT	-59%	NA
<b>NMDC</b>		
Revenue	-5%	-2%
EBITDA	2%	6%
Adj. PAT	6%	11%
<b>Coal India</b>		
Revenue	8%	4%
EBITDA	8%	-1%
Adj. PAT	33%	37%
<b>MOIL</b>		
Revenue	13%	21%
EBITDA	14%	14%
Adj. PAT	11%	9%
<b>HINDALCO</b>		
Revenue	2%	5%
EBITDA	2%	9%
Adj. PAT	-4%	3%
<b>NALCO</b>		
Revenue	-6%	NA
EBITDA	22%	NA
Adj. PAT	26%	NA
<b>Vedanta</b>		
Revenue	-4%	NA
EBITDA	9%	NA
Adj. PAT	-20%	NA
<b>Hindustan Zinc</b>		
Revenue	5%	NA
EBITDA	5%	NA
Adj. PAT	-1%	NA
<b>APL Apollo</b>		
Revenue	-16%	NA
EBITDA	-21%	NA
Adj. PAT	-20%	NA
<b>Surya Roshni</b>		
Revenue	-12%	NA
EBITDA	-13%	NA
Adj. PAT	-9%	NA

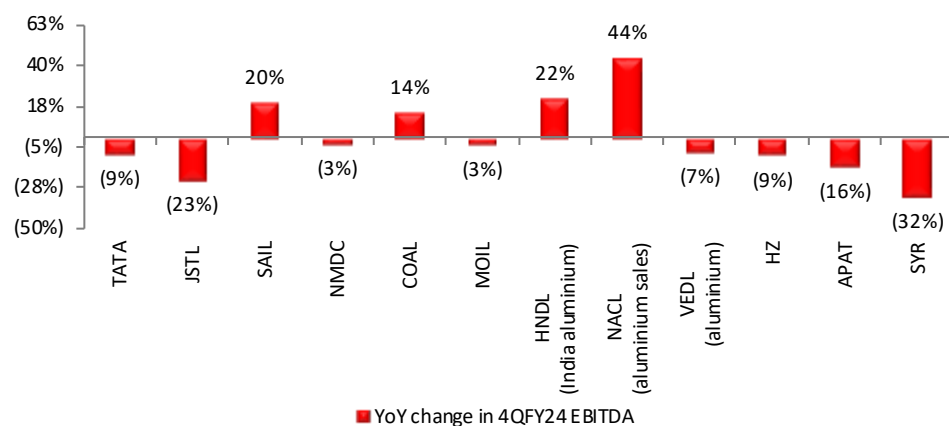
Source: Company, Systematix Institutional Research

**Exhibit 5: YoY change in quarterly sales volume**

Source: Company, Systematix Institutional Research

**Exhibit 6: YoY change in quarterly revenues**

Source: Company, Systematix Institutional Research

**Exhibit 7: YoY change in quarterly EBITDA**

Source: Company, Systematix Institutional Research

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