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Sector update

Metals & Mining

Jindal Steel (BUY)
Target Price: Rs750
Jindal Stainless (BUY)
Target Price: Rs300
Shyam Metalics (BUY)
Target Price: Rs425
APL Apollo (BUY)
Target Price: Rs1375
Tata Steel (ADD)
Target Price: Rs120
NMDC (ADD)
Target Price: Rs130
Hindalco (ADD)
Target Price: Rs495
SAIL (REDUCE)
Target Price: Rs77
NALCO (HOLD)
Target Price: Rs79
JSW Steel (SELL)
Target Price: Rs550

Research Analysts:

Amit Dixit
amit.dixit@icicisecurities.com
+91 22 6807 7289
Mohit Lohia
mohit.lohia@icicisecurities.com
+91 22 6807 7510
Pritish Urumkar
Pritish.urumkar@icicisecurities.com
+91 22 6807 7314

INDIA

ICICI Securities

Metals & Mining

Q3FY23 review: A toast to the dark horses

Q3FY23 was a revival quarter for smaller companies under our coverage with APL Apollo, Jindal Stainless and NALCO faring relatively better. Key highlights: 1) EBITDA/te for ferrous companies was up Rs3,000 on an average; 2) reduced cost of both thermal and coking coal aided margins; 3) net debt/EBITDA rose for almost all the companies; and 4) street raised the valuation multiples of all the companies. Going ahead, we believe volume for ferrous companies is likely to grow 12-15% QoQ in a seasonally strong quarter; however, margin might remain range-bound owing to the surge in coking coal cost. Non-ferrous companies, on the other hand, are likely to enjoy margin expansion owing to LME Zn and LME Al being up 10% and 8%, respectively QoQ, lower e-auction prices and increased linkage coal materialisation. While the street has made 12-15% cut in FY23E EBITDA for Tata Steel and NALCO, we believe Q4FY23 implied EBITDA for JSPL is quite low at Rs24.2bn (up 1.9% QoQ).

- **The unsung deliver better performance:** In Q3FY23, we saw smaller (unsung) companies delivering relatively better performance. Key points: 1) Among upstream steel players, only SAIL's EBITDA was in line with consensus estimates, while others missed consensus estimates by 25-45%; 2) Jindal Stainless posted volume growth of 22% QoQ while other steel companies showed a decline; 3) APL Apollo's EBITDA/te declined the least among all steel players; 4) performance of Tata Steel and Hindalco was impacted by overseas subsidiaries- Tata Steel Europe (TSE) and Novelis; and 5) NALCO's performance exceeded street estimates significantly while Hindalco's was a miss mainly due to Novelis. The stock reaction post the result was most severe for big players such as Tata Steel, JSW Steel and Hindalco- down 3-5% while NMDC and JSPL were up 3-4%. Going ahead, we expect 1) EBITDA/te for steel companies may expand further QoQ due to higher export realisation though coking coal cost might play the spoilsport; 2) profitability of non-ferrous companies is likely to get a leg up from higher LME price and progressively lower coal cost; 3) earnings may have bottomed out for TSE and Novelis; 4) Shyam Metalics is likely to benefit from higher pellet contribution.

- **Valuation multiple expansion for all the companies:** Post Q3FY23 earnings, street has lowered FY23E/FY24E EBITDA estimates for almost all the companies under our coverage while raising TPs for most of them. For instance, in case of JSW Steel, FY23E/FY24E EBITDA has been lowered by 6.8%/1.4% while TP has been raised by 4.4% while in case of JSPL, FY23E/FY24E EBITDA has been retained, while TP has been raised by 7.7%. In case of Jindal Stainless, consensus TP has been raised by 13.4% while consensus FY24E EBITDA has been lowered by 6.8%. In our view, multiple expansion by the street indicates earnings have likely bottomed out. The ask-rate for Q4FY24 EBITDA is quite steep for Tata Steel (mainly due to losses narrowing at TSE) and JSW Steel (due to higher shipments), while it is quite low for JSPL. We believe there is scope for an upward revision in JSPL's FY24E EBITDA for FY23 results due to volume growth and ensuing cost efficiencies.

- **Outlook- margin expansion on cards:** Going ahead, we believe non-ferrous players are likely to show relatively higher improvement in earnings mainly due to twin benefits of higher LME price and lower coal cost. Among ferrous players, we believe Shyam Metalics is better placed as pellet contribution grows. We maintain JSPL (TP: Rs750), Jindal Stainless (TP: Rs.300) and Shyam Metalics (TP: Rs425) as our top picks in the space.

Table 1: Target price and rating

Stock	TP	Recommendation	Methodology
Tata Steel	120	ADD	6x FY24E EBITDA
JSW Steel	550	SELL	6.2x FY24E EBITDA
Jindal Steel	750	BUY	6x FY24E EBITDA
SAIL	77	REDUCE	6x FY24E EBITDA
Hindalco	495	ADD	5.7x FY24E EBITDA
NMDC	130	ADD	5x FY24E EBITDA
Jindal Stainless	300	BUY	6x FY24E EBITDA
Shyam Metalics	425	BUY	5x FY24E EBITDA
NALCO	79	HOLD	4.5x FY24E EV/EBITDA
APL Apollo	1,375	BUY	35x FY24E EPS

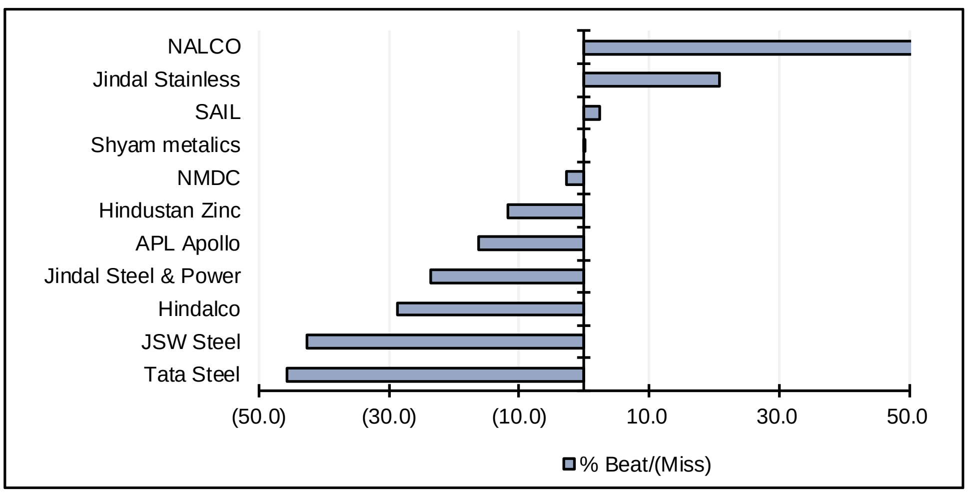
Source: I-Sec research

Table 2: Valuation snapshot

Companies	P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (x)			RoCE (x)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Tata Steel	3.4	11.2	8.8	3.4	6.1	5.9	1.2	1.1	1.0	43.2	10.5	12.4	30.4	11.1	12.6
JSW Steel	8.3	31.5	11.2	5.9	12.4	7.3	2.7	2.8	2.3	38.0	8.6	22.4	19.9	6.6	13.7
Jindal Steel	7.0	12.7	10.3	5.2	6.5	5.5	1.7	1.4	1.3	25.1	12.2	13.2	24.0	15.0	16.5
SAIL	2.8	11.5	11.4	2.4	7.8	5.9	0.7	0.7	0.7	25.7	6.0	6.0	23.3	5.0	7.5
Hindalco	7.2	7.4	7.4	5.2	5.2	5.5	1.3	1.1	1.0	19.5	16.1	14.1	16.6	14.5	13.3
NMDC	3.7	6.5	7.1	2.3	4.2	4.7	1.9	1.7	1.6	39.6	28.2	23.2	50.7	34.4	28.7
Jindal Stainless	5.4	7.6	5.3	4.4	5.9	4.5	2.0	1.6	1.2	45.2	23.0	25.9	36.4	21.3	25.0
Shyam Metalics	12.1	6.7	5.0	5.0	3.5	3.0	1.2	1.0	0.9	36.4	10.3	16.6	44.3	14.4	21.6
NALCO	11.1	4.8	11.0	7.2	2.4	5.2	1.3	1.1	1.1	12.2	23.5	10.0	10.8	35.7	13.9
APL Apollo	53.0	50.8	30.1	34.9	33.0	20.5	14.5	10.6	7.8	27.3	20.8	25.9	24.5	21.3	23.0

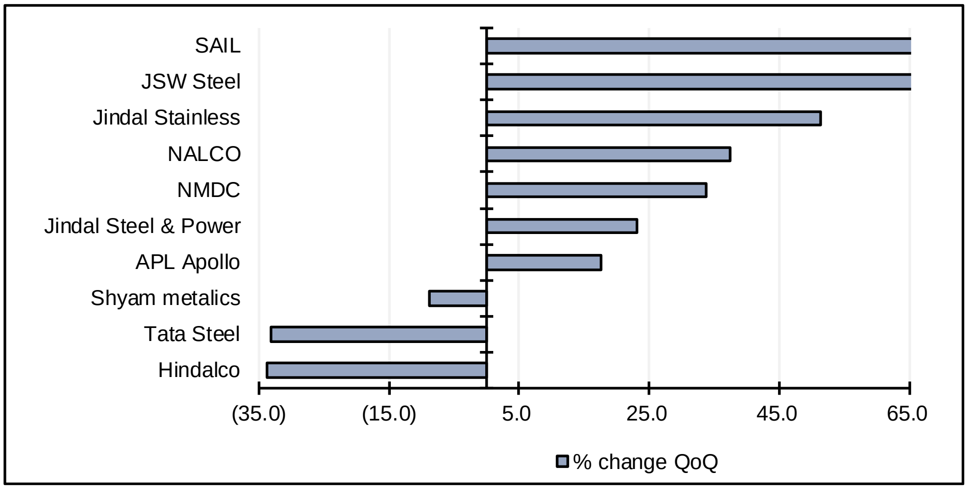
Source: I-Sec research

Chart 1: Comparison between actual and consensus estimates



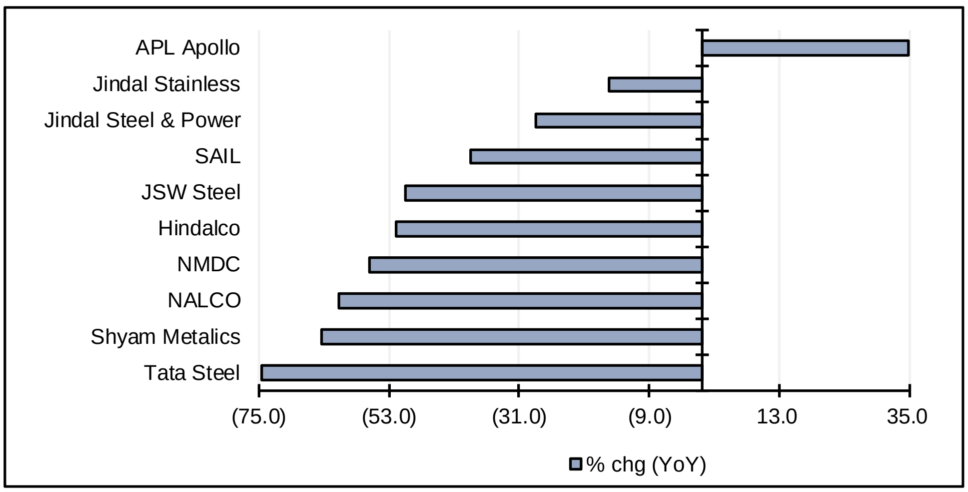
Source: I-Sec research & Bloomberg data

Chart 2: Overview of EBITDA performance on QoQ basis



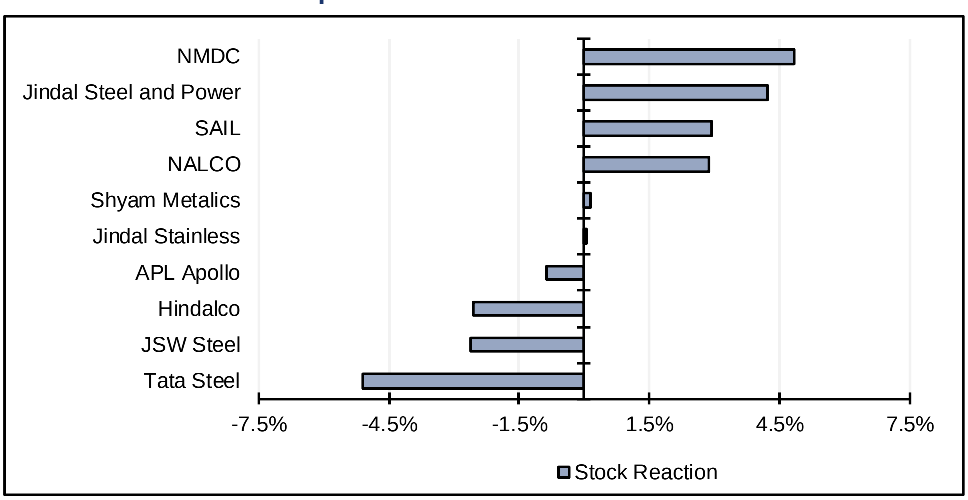
Source: I-Sec research & Bloomberg data

Chart 3: Overview of EBITDA performance on YoY basis



Source: I-Sec research & Bloomberg data

Chart 4: Stock reaction post financial results



Source: I-Sec research & Bloomberg data

Table 3: Volume snapshot –Q3FY23

Sales Volumes (mnte)	Q3FY23	Q3FY23E	Q2FY23	Q1FY23	%YoY	% QoQ
Tata Steel	4.6	4.5	4.8	3.9	(3.4)	17.6
Tata Steel Europe	2.0	2.0	1.9	2.1	6.4	(7.0)
JSPL	1.9	2.0	1.9	1.8	(0.5)	4.6
JSW Steel	5.0	4.8	5.1	4.0	(2.9)	22.8
SAIL	4.2	4.2	4.2	3.2	(1.4)	31.8
Jindal Stainless	0.3	0.3	0.3	0.2	22.2	40.3
APL Apollo	0.6	0.6	0.6	0.4	0.5	43.1
Hindalco						
Aluminium (kt)	345	339	341	333	1.2	3.6
Copper (kt)	112	110	109	115	2.9	(2.4)
Novelis (kt)	908	947	984	962	(7.7)	(5.6)
NMDC	9.6	9.5	8.4	7.8	13.6	22.8
NALCO						
Alumina	0.4	0.4	0.4	0.3	2.1	34.7
Aluminium	0.1	0.1	0.1	0.1	2.9	(2.4)

Source: Company data, I-Sec research

Table 4: Profitability snapshot- Q3FY23

EBITDA/te (Rs/te)	Q3FY23	Q3FY23E	Q2FY23	Q1FY23	%YoY	%QoQ
Tata Steel- standalone (Rs.)	11,241	11,128	10,192	24,515	10.3	(54.1)
Tata Steel Europe (USD/t)	(95)	(100)	126	364	(175.5)	(126.1)
JSPL- standalone (Rs.)	11,781	10,374	9,077	19,007	29.8	(38.0)
JSW Steel- standalone (Rs.)	8,141	6,746	3,416	8,318	138.4	(2.1)
SAIL (Rs.)	4,877	3,303	1,476	5,829	230.3	(16.3)
Jindal Stainless (Rs.)	18,834	18,066	15,208	22,216	23.8	(15.2)
APL Apollo (Rs.)	4,510	4,004	3,850	4,587	17.1	(1.7)
Hindalco-Aluminium (US$)	616	599	570	1,333	8.2	(53.8)
Novelis (US$)	376	400	514	583	(27.0)	(35.6)
NALCO - Alumina (US$)	27	41	36	10	(23.8)	164.0
NALCO - Aluminium (US$)	372	272	273	969	36.2	(61.7)
NMDC (Rs.)	1,194	1,481	1,013	1,013	17.8	17.8

Source: Company data, I-Sec research

Table 5: TP changes by consensus post Q3FY23

	Consensus-Target price				
(Rs.)	Pre-results	Current	% chg	Isec TP	% diff
Tata Steel	123	124	0.4	120	(3.1)
JSW Steel	635	663	4.4	550	(17.0)
Jindal Steel and Power	592	633	7.0	750	18.5
SAIL	91	93	2.2	77	(17.0)
Hindalco	536	535	(0.1)	495	(7.5)
NMDC	131	134	2.2	130	(3.0)
Jindal Stainless	272	309	13.4	300	(2.8)
Shyam Metalics	418	413	(1.2)	425	3.0
NALCO	92	93	1.4	79	(15.2)
APL Apollo	1,211	1,268	4.7	1,375	8.4

Source: I-Sec research, Company data & Bloomberg data

Table 6: FY23 EBITDA comparison: Consensus vs ISEC`

	Consensus-Target price						Q4FY23
(Rs.mn)	Pre-results	Current	% chg	Isec	% diff	9MFY23	Implied
Tata Steel	3,62,199	3,18,058	(12.2)	3,09,946	(2.6)	2,50,810	67,248
JSW Steel	1,99,555	1,85,889	(6.8)	1,77,911	(4.3)	1,06,080	79,809
Jindal Steel and Power	1,01,474	1,01,707	0.2	1,14,967	13.0	77,476	24,231
SAIL	84,789	84,047	(0.9)	76,089	(9.5)	51,103	32,944
Hindalco	2,44,817	2,39,423	(2.2)	2,68,225	12.0	1,73,390	66,033
NMDC	62,401	62,485	0.1	65,336	4.6	38,977	23,508
Jindal Stainless	23,681	22,839	(3.6)	22,198	(2.8)	15,568	7,272
Shyam Metalics	19,510	17,853	(8.5)	15,885	(11.0)	10,724	7,129
NALCO	25,701	21,395	(16.8)	21,205	(0.9)	16,628	4,767
APL Apollo	10,274	10,258	(0.2)	9,854	(3.9)	6,987	3,271

Source: I-Sec research, Company data & Bloomberg data

Table 7: Detailed earnings snapshot

Stock	(Rs mn)	Q3FY23	Q3FY23E	Q3FY23C	Q3FY22	Q2FY23	Comments	% diff with Consensus	% YoY	% QoQ
JSW (Consolidated)	Revenues	3,91,340	4,01,363	4,33,783	3,80,710	4,17,780	EBITDA was in line with consensus estimates. Consolidated EBITDA surged 2.6x QoQ at Rs45.5bn owing to lower cost at standalone operations. Performance of overseas subsidiaries, especially Italy, improved. Going ahead, management expects the performance to improve further aided primarily by realisation, though cost is expected to stay range-bound.	-9.8	2.8	-6.3
	EBITDA	45,470	35,446	79,139	91,320	17,520		**-42.5**	**-50.2**	**159.5**
	PAT	4,900	1,858	28,056	43,570	(8,480)		-82.5	-88.8	-157.8
Tata Steel (Consolidated)	Revenues	5,70,836	5,45,039	6,12,838	6,07,831	5,98,775	EBITDA of Rs40.5bn (down 75% YoY) was below street estimates though in line with ours. Lower coking coal prices offset the impact of lower steel realisations, which lifted domestic EBITDA/te; 2) TSE operations were impacted by NRV loss of GBP55mn on slab inventory in Europe. In our view, the worst is behind the stock as margins in both domestic and European operations are expected to improve from Q4FY23.	-6.9	-6.1	-4.7
	EBITDA	40,478	37,335	74,575	1,58,937	60,603		**-45.7**	**-74.5**	**-33.2**
	PAT	(22,238)	3,386	44,000	95,727	15,144		-150.5	-123.2	-246.8
Jindal Steel & Power (Consolidated)	Revenues	1,24,524	1,34,886	1,43,334	1,25,249	1,35,214	Q3FY23 performance surpassed street estimates. EBITDA/te (adj.) was Rs11,381 (up 60.5% QoQ) on positive price-cost spread. Shipments were impacted by rake/wheel shortages and lower export opportunities. Provision of Rs72.5bn taken towards diminution in value of its investments in JSPML. Going ahead, we expect JSPL to fare better than peers on longs prices faring better than flats.	-13.1	-0.6	-7.9
	EBITDA	23,775	20,471	31,146	33,102	19,314		**-23.7**	**-28.2**	**23.1**
	PAT	8,967	8,101		16,217	11,178		#DIV/0!	-44.7	-19.8
SAIL	Revenues	2,50,419	2,55,790	2,57,644	2,52,459	2,62,463	EBITDA was in line with consensus estimates. Sales volume growth was relatively muted. EBITDA/te (adjusted) rose Rs3,400/te QoQ on lower coking coal. Debt rose to Rs292.7bnn. Going ahead, management expects sales volume to improve; however, the recent uptick in coking coal prices might keep spreads under pressure.	-2.8	-0.8	-4.6
	EBITDA	20,768	13,983	20,289	34,104	7,327		**2.4**	**-39.1**	**183.5**
	PAT	4,635	800	6,204	14,431	(3,858)		-25.3	-67.9	-220.2
NMDC	Revenues	37,200	35,061	35,603	58,738	33,285	Q3FY23 EBITDA was in line with consensus estimates. Best-ever Q3 production volume and second-best sales volume. EBITDA margin rebounded QoQ to 30.7%. 9MFY23 end net cash at Rs63bn. We believe Q4FY23 is likely to be better as iron ore prices are up Rs600/te on average and volume is also expected to be higher in a seasonally strong quarter.	4.5	-36.7	11.8
	EBITDA	11,434	13,994	11,760	26,124	8,542		**-2.8**	**-56.2**	**33.9**
	PAT	8,901	12,008	9,449	20,497	8,887		-5.8	-56.6	0.2
Shyam Metalics	Revenues	29,217	31,579		25,778	30,852	Q3FY23 performance met our estimates. Lower contribution from pellets and ferroalloys impacted profitability. Rolled products volume grew 49% YoY. Going ahead, we expect SMEL's margins to improve as thermal coal cost has peaked off and benefit of iron ore inventory at lower prices is likely to kick in.		13.3	-5.3
	EBITDA	2,223	2,219		6,250	2,436			-64.4	-8.7
	PAT	673	897		4,215	1,143			-84.0	-41.1

Stock	(Rs mn)	Q3FY23	Q3FY23E	Q3FY23C	Q3FY22	Q2FY23	Comments	% diff with Consensus	% YoY	% QoQ
Hindalco (Consolidated)	Revenues EBITDA PAT	5,31,510 35,480 13,620	5,70,026 48,777 18,425	5,24,925 49,733 18,413	5,02,720 73,740 36,750	5,61,760 53,620 22,050	Lower volumes and cost headwinds at Novelis led to 52% YoY plunge in Q3FY23 EBITDA, though its India performance was in line with our estimates. Going ahead, we believe progressively lower costs in the Al division and robust TC/RC levels in Cu division are likely to aid India earnings, despite transient cost headwinds at Novelis.	1.3 **-28.7** -26.0	5.7 **-51.9** -62.9	-5.4 **-33.8** -38.2
Jindal Stainless	Revenues EBITDA PAT	62,206 6,223 3,512	57,290 5,149 2,652		53,685 7,392 3,718	54,424 4,112 1,892	EBITDA was 22% ahead of our and street estimates. Sales volumes were up 33% YoY to an all-time high of 330.4kte. Blended realisation, however, was down 13% QoQ due to higher hollow-ware sales in domestic market. Proportion of exports declined to an all-time low of a mere 3%. Going ahead, we expect the advantages of volume growth to aid earnings.		15.9 **-15.8** -5.5	14.3 **51.4** 85.6
APL Apollo	Revenues EBITDA PAT	42,011 2,729 1,692	38,305 2,423 1,573	44,475 3,255 2,168	31,239 2,023 1,279	38,456 2,319 1,502	EBITDA was ahead of street and our estimates. Record sales volume of 605kte (up 50% YoY) on higher shipments across segments. Blended EBITDA/te rose 17.1% QoQ to Rs4,510. Raipur plant (in Chhattisgarh) is now ramping up well- expected FY24 shipment at 600kt. Going ahead, management has targeted both volume growth and EBITDA/te improvement.	-5.5 **-16.2** -22.0	34.5 **34.9** 32.3	9.2 **17.7** 12.6
NALCO	Revenues EBITDA PAT	32,900 4,598 2,739	36,316 3,136 1,558	31,837 1,895 618	37,733 11,905 8,309	34,896 3,344 1,701	EBITDA was significantly ahead of consensus due to lower than expected power and fuel costs. EBITDA margin at 14% rose 440bps QoQ. Profitability at Al division recovered sequentially owing to lower power and fuel costs. Going ahead, we expect Q4FY23 to be even better owing to higher LME Al price and progressively lower coal cost.	3.3 **142.6** 343.1	-12.8 **-61.4** -67.0	-5.7 **37.5** 61.0

Source: I-Sec research, Company data & Bloomberg data

JSW Steel Q3FY23 concall: Key takeaways

- **Production/sales volume guidance:** Remains unchanged for India operations at 23.6mt/22.6mt. There could be some shortfall in 1.4mt guidance for US-Ohio operations and JSW Ispat combined.
- Demand notice of Rs7.02bn with respect to grade difference is not legally tenable.
- **Inventory losses impact:** Impact of Rs9.84bn in Q3FY23 (~Rs1,750/te). Excluding the losses, EBITDA/te would have been ~Rs9,900/te in Q3 on standalone basis.
- **Realisation:** Down Rs3,900/t in Q3FY23. Expected to trend higher in Q4FY23, in line with global steel prices.
- **Coking coal:** Consumption cost was down US$100/t in Q3FY23. Management expects coking coal cost to remain range-bound in Q4FY23.
- **Iron ore:** Expected to remain range-bound like coking coal cost. The company is not carrying significant amount of iron ore inventory. Captive iron ore consumption was 41% of the total ore required. The endeavour is to increase captive iron ore consumption to 50% in FY24.
- **Other costs:** Thermal coal cost was lower by Rs600/t of steel. Management expects this to remain stable or trend lower as domestic coal prices have started coming off.
- **Net debt** at Q3FY23-end increased to Rs695bn mainly due to adverse forex impact and working capital accretion. Going ahead, management expects net debt to trend lower due to favourable currency movement and reduction in inventory. Average cost of debt has increased to 6.89%.
- **Capex** incurred during Q3FY23 was Rs41bn. 9MFY23 capex was Rs107bn. No change in capex guidance of Rs150bn for FY23E.
- **Inventory:** Inventory accretion of 180kt in Q3FY23. Total finished products inventory stands at 2.09mt. Management expects inventory to decline in Q4FY23 as export opportunities have opened up.
- **Coated products:** Performance impacted by lower export volume and realisation. Exports constitute 35-40% of total sales. Q3FY23 performance has also been impacted by Rs1.05bn of NRV losses owing to higher cost of HRC.
- **Piombino, Italy performance:** Turnaround in performance as the company has received its first tranche of rail orders. This was the chief driver of improvement in overseas subsidiaries' performance. Overseas subsidiaries EBITDA was Rs1.12bn as against EBITDA loss of Rs1.91bn in Q2FY23. Expect performance to remain robust until June-23. Management expects further tranches of rail orders soon.
- **BPSL performance:** BPSL's capacity utilisation has improved in Q3. However, it was still impacted due to NRV/inventory losses of Rs1.58bn and cost was higher owing to pellet plant being shut. BPSL's performance is likely to be much better in Q4FY23 owing to capacity ramp up. Capacity has increased from ~2.7mnpte to ~3.5mnpte.
- **Acceptances:** Revenue at US$2.3bn; capital at US$1bn.

Table 8: JSW Steel Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**3,91,340**	**3,80,710**	2.8	**4,17,780**	(6.3)	**14,63,710**	**17,01,938**	**18,98,678**
EBITDA	45,470	91,320	(50.2)	17,520	159.5	3,90,070	1,77,911	3,33,211
EBITDA Margin (%)	*11.6*	*24.0*		*4.2*		*26.6*	*10.5*	*17.5*
PAT	5,300	44,940	(88.2)	(8,590)	(161.7)	2,00,210	56,094	1,59,280
PAT Margin (%)	*1.4*	*11.8*		*(2.1)*		*13.7*	*3.3*	*8.4*

Source: Company data, I-Sec research

Jindal Stainless Q3FY23 concall: Key takeaways

- Global stainless steel market remains challenging.
- In the domestic market, sustainable growth of 7-9% p.a is expected with enough demand from railways, pipes and tubes, infra sector and new-gen power plants.
  - Railways provides an attractive opportunity to boost volumes. Demand growth from railways was 12% QoQ led by traction from Vande Bharat and metro coaches.
  - Pipe and tubes – Sales increased in Q3FY23 over and above the record Q2FY23 volumes.
- With the removal of export duty, the company is also looking to book incremental export orders.
- The acquisition of Rathi Supersteel Limited has added wire rods and rods to the portfolio.
- Jindal Stainless will do any further expansion at Jajpur by utilising renewable power.
- Merger with JSHL likely to be completed before FY23 end
- JUSL acquisition is likely to be completed within the committed timeline (Dec-23)
- Volumes in Q3FY23 were boosted by utilising surplus rolling capacity at JUSL.
- FY23 EBITDA guidance (pro-forma) is at Rs19,000/t.
- Company is on track to commission the 1.0mtpa brownfield plant in Q1FY24. Jump of 20% likely compared to FY23 volumes.
- Company is comfortable at a total capacity of 3mtpa over next two years considering the growth opportunities. Not looking at further expansion at Jajpur in the immediate term.
- Overseas subsidiaries are in loss due to market conditions and negative inventory valuation.
- Company is open to inorganic opportunities if cashflow permits. Will be targeting backward integration overseas through strategic tie-ups.
- Series mix in Q3FY23 – 200, 300, 400: 35%, 40%, 25%.
- Revenue from exports was 4% of overall revenues.

Table 9: Jindal Stainless Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**63,497**	**56,700**	12.0	**56,045**	13.3	**2,12,234**	**2,36,800**	**2,78,639**
EBITDA	5,248	7,968	(34.1)	3,583	46.5	29,871	22,198	29,922
EBITDA Margin (%)	*8.3*	*14.1*		*6.4*		*14.1*	*9.4*	*10.7*
PAT	2,630	4,107	(35.9)	1,421	85.2	18,814	13,351	19,162
PAT Margin (%)	*4.1*	*7.2*		*2.5*		*8.9*	*5.6*	*6.9*

Source: Company data, I-Sec research

Hindalco Q3FY23 concall: Key takeaways

- **External market in Q4CY22 for aluminium:**
  - **China:** Production increased by 6% YoY, while consumption grew by 3% YoY, leading to deficit of 0.2mnte.
  - **World ex-China**: Production declined 2% YoY, but consumption declined 6% YoY, leading to surplus of 0.1mnte. Overall market balance in Q4CY22 was a deficit of 0.2mnte.
- In Q3FY23, domestic (India) demand for aluminium is likely to have reached 1,160kte (up 13% YoY) due to base effect. On QoQ basis, the industry contracted by 2%, due to slowdown in consumer durables and packaging. However, the electrical segment witnessed positive growth.
- Demand trend for secondary aluminium: Global FRP demand in CY23 is expected to grow 3% YoY (similar rate as last year). Can sheet demand is expected to remain stable. Automotive demand is estimated to grow by 11% YoY for next five years. Aerospace sector expected to remain strong while specialties market is expected to remain stable YoY.
- Capex likely to be dovetailed to the cashflow generation. In India, FY23 capex is likely to be Rs27bn while in FY24, it is likely to be marginally higher. This would be funded through internal accruals. At Novelis, capex for backward integration in China, further expansion in South America and Europe are likely to be delayed.
- Aluminium hedging: 32% in Q4FY23 at US$2,500/t; 7% for FY24 at US$2,900/t.
- Downstream Al EBITDA/t declined in Q3FY23 owing to subdued demand from (high-margin) cookware segment. Similar to the beverage can market in Novelis, this segment had a soft quarter owing to destocking.
- Coal mix in Q3FY23: 48% linkage; 37% e-auction. Company is expecting linkage proportion to increase. Linkage materialisation has reached 90% vs 75% in Q3FY23. E-auction premium has come off. This should aid lowering the coal cost.
- Al CoP/t: Coal cost was down 20% QoQ in Q3FY23, resulting in lower CoP/t. Coal cost is expected to further reduce in Q4FY23. Hence, management expects CoP/t to go down a further 5% QoQ.
- Own coal mines: In Q3FY23, Gare Palma IV/4 (0.8mtpa) was running. Kathautia mine (0.8mtpa-1mtpa) will also start operating aiding Mahaan next year. Chakla (5.5mtpa) is likely to be operational in Dec'23 (it will take about a year to ramp up). Meenakshi mine (12mtpa) is still pending clearance. Company has returned Gare Palma IV/5 and Dhumri mines back to the Government.
- External alumina sales: 150kt in Q3FY23 and likely to be 150kt-160kt in Q4FY23. External sales is also contingent on alumina prices.
- Copper TC/RC in Q3FY23: Spot TC/RC has risen to USc22.6/lb from USc16.7/lb YoY. Spot TC/RC declined owing to supply-side disruption.
- Increased water consumption in YTD FY23 due to some operational challenges in aluminium facilities and an unplanned shutdown at Dahej.

- GHG emission for primary aluminium has come down to 19.14tCO_2/t in 9MFY23 (FY22: 19.66tCO_2/t) through a combination of internal efficiencies.
- Encouraging signs for EBITDA trajectory at Novelis: Availability of metal in South America has improved, energy and Freight costs are coming off, and energy hedges in Europe are at the similar levels as current spot prices.
- Profitability in Q4FY23 is likely to be better sequentially for both India business and Novelis. For India aluminium business, higher LME Al prices (already up US$150/te QoQ) and lower cost (down 5% QoQ) are likely to drive margins. At Novelis, the company expects EBITDA/te springing back above US$400/te level.

Table 10: Hindalco Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**5,31,510**	**5,02,720**	**5.7**	**5,61,760**	**(5.4)**	**19,50,590**	**21,62,355**	**20,82,732**
EBITDA	35,480	73,740	(51.9)	53,620	(33.8)	2,83,470	2,68,225	2,61,765
EBITDA Margin (%)	*6.7*	*14.7*		*9.5*		*14.5*	*12.4*	*12.6*
PAT	13,620	36,750	(62.9)	22,050	(38.2)	1,42,010	1,36,589	1,37,836
PAT Margin (%)	*2.6*	*7.3*		*3.9*		*7.3*	*6.3*	*6.6*

Source: Company data, I-Sec research

SAIL Q3FY23 concall: Key takeaways

- Global Crude steel production in India was up 5% (YoY) in April-Dec'2022. Consumption was up by 12% during the same period. WSA has projection short range outlook has projected growth of 6.1% and 6.7% in CY22 and CY23, respectively.
- Steel demand is very good in India. Both rebar and flat prices have come off in Feb'23. SAIL is focusing more on domestic market. There is no import pressure as of now.
- **Rail price revision:** SAIL has received additional proceeds pertaining to rail price revision till FY21. The management has submitted the proposal for FY22 and will submit the proposal for revision for FY23 post the AGM in Sep-23. The benefit of Rs5,000/te for 1.1mnte of sales volumes for FY22 has already been accounted in Q1FY23.
- **Wagon wheel capacity**. SAIL has also participated in the recent tender floated by the Indian Railways. Currently, the company is able to supply 40,000 wheels per annum. The capacity is going to increase further post modification in the existing plant.
- **Operating at rated capacity.** SAIL has ~19mnte crude steel capacity and is currently operating at rated capacity. The company expects sequentially higher production in Q4FY23. Also, sales volume for Q4FY23 is likely to be 4.78mnte. Jan'23 was one of the best months ever on production front.
- **Capex.** For FY23, the company has capex commitment of ~Rs55bn of which Rs35bn has already been incurred in 9MFY23. The company is expected to incur the balance capex (even higher) in Q4FY23. The management expects to incur capex of Rs65-75bn in FY24.
- **Borrowings.** There has been an increase in the borrowings since the beginning of FY23 mainly due to higher coking coal cost. As on 31 Dec'22, net debt stands at Rs292.7bn (Mar-22 end at Rs133.9bn). The management expects to achieve debt reduction of Rs30-35bn in Q4FY23. As a result, net debt is likely to be Rs240-250bn by Mar-23 end.
- **Capacity addition plans.** Management indicated capacity increase through 1) assets debottlenecking by 3-4mnte in next 3-4 years, 2) expansion plans starting with increasing crude steel capacity at IISCO steel plant to 4.5mtpa; and 3) brownfield capacity addition of 12-13mtpa at various locations by FY31. Expansionary capex is expected to commence in FY25.
- **Employee cost.** Cost has been regularly reducing mainly due to natural attrition. Almost 3,000 employees have superannuated and the company has been trying to reduce fresh recruitments to the extent possible. Employee cost is likely to come down further as 3,000-3,500 employees are expected to retire in the next 1-2 years. Furthermore, new employees are hired at a far lower pay-scale.
- **Prices:** For Jan-23, long product prices were in the range of Rs56,000/te and flat product prices in the range of Rs54,000/te. In Q3FY23, flat product prices were in the range of Rs54-55,000/te and long product prices were in the range of Rs54,000/te.

- **Inventory.** Management mentioned that all endeavours will be made to bring down the inventory to below 1mnte by the end of FY24.
- **Coking coal cost** during Q3 was Rs25,500/te. In Jan/Feb'23, it declined by almost Rs1,000-1,500/te on average; however, prices are firming up again. Management expects coking coal prices to be higher by Rs4,000/te in Mar-23 compared to Jan/Feb'23 levels.

Table 11: SAIL Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**2,50,419**	**2,52,459**	(0.8)	**2,62,463**	(4.6)	**10,34,733**	**10,52,419**	**10,58,307**
EBITDA	20,768	34,104	(39.1)	7,327	183.5	2,13,222	76,089	96,934
EBITDA Margin (%)	*8.3*	*13.5*		*2.8*		*20.6*	*7.2*	*9.2*
PAT	(1,333)	18,070	(107.4)	(3,858)	(65.5)	1,20,150	30,213	30,487
PAT Margin (%)	*(0.5)*	*7.2*		*(1.5)*		*11.6*	*2.9*	*2.9*

Source: Company data, I-Sec research

NMDC Q3FY23 concall: Key takeaways

- Best-ever quarterly production (for Q3) of 10.6mnte and 10mnte of sales.
- **Capacity enhancement of around 70-75mnte:** Following projects are key for achieving this:
  - Doubling of KK line between Kirandul & Jagdalpur is being executed by the Indian Railways. Overall progress of this work is 75%. Completion of this project will augment the evacuation capacity of Bailadila sector from 28mtpa to 40mtpa.
  - The company is working with Railways to ensure higher availability of rakes- 30 rakes from the current 15-16 rakes.
  - Setting up of 135km slurry pipeline with capacity of 15mnte from Bailadila to Nagarnar and further up to Vizag. This is likely to complete in Dec-23.
- No shrinkage in market share is expected due to higher captive production by other steel players as Nagarnar steel plant will be sourcing from NMDC, AM/NS pellet plant in Vizag will be procuring iron ore from NMDC. Besides, iron ore required in NMDC's 2mnte pellet plant and higher requirement of iron ore for JSW's enhanced capacity at Dolvi will lead to additional volume.
- **Iron ore production:** In FY23, NMDC is targeting to match FY22 volumes at 40.9mnte. Production guidance for FY24 is ~50mnte, up by ~10mnte YoY. The additional volume is expected from Kumaraswamy (3mnte) and balance 6-7mnte will come from other mines in Bailadila sector- primarily, 5th line is coming in Bacheli). In 9MFY23, NMDC's iron ore production stood at 26.7mnte.
- **NMDC to explore iron ore exports in Q4:** With exports opportunity opening up amid strong demand from China, there is a possibility of export of low-grade iron ore (less than Fe58%) from Vizag port and Krishnapatnam port in Q4FY23.
- **Nagarnar steel plant:** The commissioning of the 3mnte Nagarnar steel plant is expected by March, 2023 with production of coke having commenced and the blast furnace being ready. The commissioning of the 2mnte Nagarnar pellet plant is expected by the end of next year (FY24). Pellet plant would be under NMDC and will not be a part of disinvestment.
- **Pellet plant in Visakhapatnam:** NMDC aims to set up a pellet plant in Visakhapatnam in the future, considering its enhancement plans. However, capacity is yet to be decided.
- **Increase in royalty expenses.** Royalty is based on ad valorem rate and production volumes. The main reason for increase in royalty in production by ~50% in Q3FY23 as compared to Q2FY23.
- **Capex.** In FY23, Rs35bn of capex is expected including steel plant capex, excluding steel plant, capex would be ~Rs18-20bn. In FY24, NMDC plans to incur capex of Rs15-16bn excluding steel plant.
- **Key major projects under execution.** Major projects under execution by NMDC are slurry pipeline, screening plant (Kirandul) and pellet plant. In phase 1, all the work has been awarded and L&T is executing the pellet plant, slurry pipeline etc. Phase II of slurry pipeline from Jagdalpur to Visakhapatnam is now under

consideration. The company is also putting up a screening plant at Donimalai and has obtained clearances.

- Nearly 10% stake purchase in NMDC steel would be a cash purchase (market determined prices). Cash balance stood at ~Rs80bn as on Dec'2022.

Table 12: NMDC Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**37,200**	**58,738**	(36.7)	**33,285**	11.8	**2,59,648**	**1,87,450**	**1,86,044**
EBITDA	11,434	26,124	(56.2)	8,542	33.9	1,26,309	65,336	61,338
EBITDA Margin (%)	*30.7*	*44.5*		*25.7*		*48.6*	*34.9*	*33.0*
PAT	8,901	20,497	(56.6)	8,887	0.2	94,483	53,453	48,702
PAT Margin (%)	*23.9*	*34.9*		*26.7*		*36.4*	*28.5*	*26.2*

Source: Company data, I-Sec research

Jindal Steel Q3FY23 concall: Key takeaways

- **Sales volume in Q3FY23:** Domestic volume down due to rake availability issues.
- **Production in Q3FY23** continued to stay on target with blast furnace at Angul delivering the highest production in a day at 54 heats in Oct-22.
- Steel prices were slightly down in Q3FY23. Now prices are firming up with current realisation up 1-2% QoQ.
- Lower cost in Q3FY23 aided margins: Coking coal and thermal coal costs were down 18% QoQ and 17% QoQ, respectively, while iron ore cost remained constant.
- **Debt reduction** continued in Q3FY23. Net debt stood at Rs74.7bn at standalone and Rs70.9bn at consolidated level.
- **Cashflow bridge in Q3FY23:** Opening cash at Rs63.8bn. Inflows: EBITDA: Rs21.6bn; Working capital unlocking: Rs7.1bn; and short-term debt: Rs4.1bn (to fund Monnet Power assets' acquisition). Outflows: Debt refinancing: Rs17.3bn, investment in Jindal Steel Odisha: Rs9.4bn, scheduled repayment: Rs9.7bn, capex: Rs6.4bn, advance tax payment: Rs7.1bn, interest cost: Rs3.4bn and loan repayment: Rs4.5bn. Cash at the end of the period: Rs.35.5bn.
- **Cashflow break-up:** Cashflow from operations: Rs21.6bn, cashflow for investing: RS.31.7bn and cashflow from financing at Rs19.7bn.
- Finished goods inventory of 35kte was built up in Q3FY23. Continues to face challenges on rake movement for both finished goods and raw materials.
- Australia mining- working on debottlenecking. Likely to see results from June-23.
- **Ongoing capex**: Clearances are still in process. Pellet plant is close to commissioning- currently under trial and testing, coal mines- clearances in process- all equipment/contractor are lined up. Within 4 weeks, mining will start. Slurry pipeline commissioning is taking slightly longer. Currently, it is 50% complete. Hot Strip Mill is likely to be commissioned in Q2FY24.
- Likely commissioning timelines of key facilities at Angul: Pellet plant- Q4FY23, slurry pipeline- Q2/Q3FY24, blast furnace/BOF- Q3FY24 end
- Expect to be completely insulated from external thermal coal cost once captive mines are commissioned and ramp up is at full capacity.
- Volume in Q4FY23 is likely to be stable with demand looking good. However, logistics still remains a challenge.
- No plans to invest in any overseas subsidiary.
- Investment in Monnet Power assets is a step towards reducing carbon footprint. Once operational, it will reduce 25% carbon footprint at Angul as the heat rate is better than the existing power plants (2,400kcal/unit compared to 3,000kcal/unit). Besides, the coal supply will be done over shorter distance- almost half of the existing. Further investment of Rs15bn is lined up in phases.
- See withdrawal of export duty as a positive step. See a healthy order pipeline of export orders now.

- Coal realisation in overseas subsidiaries dropped from US$197/te in Q2FY23 to US$67/te in Q3FY23. The target is to ramp up both production and quality at Australian mine by improving mining plan.
- Capex for 9MFY23- Rs27.1bn investment in Jindal Steel Odisha, Rs15.6bn for sustenance and existing projects and Rs4.1bn for acquisition of Monnet Power assets.

Table 13: Jindal Steel Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**1,24,524**	**1,25,249**	(0.6)	**1,35,214**	(7.9)	**5,10,856**	**5,58,841**	**5,91,305**
EBITDA	23,775	33,102	(28.2)	19,314	23.1	1,55,134	1,14,967	1,29,915
EBITDA Margin (%)	*19.1*	*26.4*		*14.3*		*30.4*	*20.6*	*22.0*
PAT	8,967	16,217	(44.7)	11,178	(19.8)	82,553	46,795	57,649
PAT Margin (%)	*7.2*	*12.9*		*8.3*		*16.2*	*8.4*	*9.7*

Source: Company data, I-Sec research

Tata Steel Q3FY23 concall: Key takeaways

- Domestic operations did well in Q3FY23. Shipments in VAP segments rose 17% YoY due to expanding product range. Company recorded best-ever quarterly sales in Tiscon.
- Domestic prices likely to be supported by higher international prices and enhanced infrastructure spend in traditionally strong Q4.
- International prices have already risen by US$100/te in past one month. Domestic prices are likely to follow the same trend. Hence, the management expects to see more price hikes in Feb-Mar'23.
- In Europe, annual contracts are being negotiated at EUR150-200/te lower YoY; however, these are still higher compared to spot prices.
- Management believes uncertainties still persist in Europe with realisations staying subdued. That said, EBITDA/te should improve, but TSE operations are not out of woods yet.
- Domestic operations – Q3FY23: Realisation was lower by Rs3,000/te though coking coal cost was also lower by US$82/te and iron ore royalty too was down 14% QoQ.
- European operations – Q3FY23: Realisation was lower by GBP159/te. Coking coal cost was down by a similar level as Indian operations. However, there was an NRV adjustment of GBP55mn owing to slab stocks being carried on for the forthcoming relining of blast furnace at Ijmuiden operations starting Apr'23.
- Residual buy-in of BSPS scheme (40%) is likely to be completed by Jun'23.
- Management expects to see working capital unwinding in Ijmuiden operations as slabs are consumed from Apr'23.
- Domestic operations outlook – Q4FY23: Realisations are likely to rise by Rs1,500-1,800/te while coking coal cost is expected to be lower by US$10/te based on current prices.
- European operations outlook – Q4FY23: Realisations are likely to be lower by GBP70/te though costs are likely to be lower by GBP100/te as NRV-related provisions are unlikely to recur.
- Expect additional 0.5mnte volume in Q4FY23 from domestic and European operations combined.
- Capex: Incurred Rs94.7bn in 9MFY23. Expect to incur another Rs30bn in Q4FY23 as the focus is on completing the ongoing expansion project at KPO-II.
- Management does not expect debt reduction in FY23 owing to spend towards NINL acquisition, highest-ever dividend and capex requirement at KPO-II.
- NINL: Delivered negative EBITDA in Q3FY23. However, the production rate is stabilising. Production is likely to improve from 50kte/month in Q3FY23 to 80kte/month in Q4FY23. Recently, the plant delivered single-day volume of 3,200te indicating that it has already reached the rated capacity of 1mtpa. Management expects NINL to deliver volume of 1mnte in FY24.

- Status of KPO-II projects: Pellet plant likely to be commissioned in Q1FY24 followed by CRM. Blast furnace likely to be commissioned in FY25.
- Capex at Netherlands operations: Likely to be in the range of EUR250mn-270mn for relining of blast furnace. The blast furnace shutdown is likely to last 120 days. Netherlands operations still has a cash balance of EUR600mn, hence no support is required from domestic operations.
- Capex at UK operations: Company is looking for UK government support for 50% of capex, lower energy cost and level playing field. Management had proposed for EAF and downstream TSCR plant configuration, replacing the existing plant, a few facilities of which have reached their end of useful life. However, given inadequate support from the UK government, management is reworking at resizing the operations.
- For European capex projects, the hurdle rate (IRR) is usually lower at 10%, compared to Indian projects.
- Hoping to close the merger of subsidiaries as illustrated in Sep'22 within a year.

Table 14: Tata Steel Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**5,70,836**	**6,07,831**	(6.1)	**5,98,775**	(4.7)	**24,39,592**	**24,27,173**	**22,70,030**
EBITDA	40,478	1,58,937	(74.5)	60,603	(33.2)	6,34,900	3,09,946	3,55,956
EBITDA Margin (%)	*7.1*	*26.1*		*10.1*		*26.0*	*12.8*	*15.7*
PAT	(25,624)	94,159	(127.2)	11,952	(314.4)	4,01,539	1,20,845	1,54,648
PAT Margin (%)	*(4.5)*	*15.5*		*2.0*		*16.5*	*5.0*	*6.8*

Source: Company data, I-Sec research

Shyam Metalics Q3FY23 concall: Key takeaways

- KPMG has been appointed as the internal auditor with an additional mandate for reviewing internal financial controls.
- Ramsarup Industries is likely to contribute to earnings from FY25. The company is commissioning DRI plant of 150KTPA and captive power plant of 125MW by Sep23. Going ahead, 0.45mtpa BF and 1.2mtpa Sinter plant is likely to be commissioned by Dec-23. In order to further lower the cost, oxygen plant and coke oven plant are likely to get operational in Sep-24 and Mar-25, respectively. Total investment is expected at Rs7.5bn of which Rs2.95bn and Rs1.21bn may be incurred in FY24 and FY25, respectively. The balance is likely to be incurred in FY26.
- Al foil plant: Sold 7,875t of Al products in 9MFY23 of which 3,416te was sold in Q3FY23 and 2,873te was sold in Q2FY23. The capacity is 40kt considering 20micron size. However, the company is producing 6micron size, hence, effective capacity is 35ktpa. This size fetches an average premium of Rs40-50k/te. There are very few suppliers in the world who can produce such thickness of Al foil. The company is exporting 75-80% of Al foils despite adverse geopolitical situation. Going ahead, the management expects Rs70-80mn of EBITDA from Al foil business per month.
- Cold rolling mill: The company is embarking on a greenfield plant spread over 94acres. The plant will be implemented in two phases of 250ktpa and 150ktpa at the expense of Rs6.03bn through internal accruals.
- 14ktpa LC ferrochrome plant has commenced operations.
- The company has completed 1.2mtpa pellet plant eight months ahead of schedule. The other 1.2mtpa plant is also expected to be commissioned by Mar-23, six months ahead of schedule.
- Incurred capex of Rs25.5bn until Dec-22 which accounts to 63% of the total capex envisaged i.e. Rs39.5bn as illustrated at the time of IPO. Of Rs25.5bn capex, almost Rs15.7bn has been capitalised. Capex incurred in 9MFY23 is Rs9.7bn.
- Interest cost in Q3FY23 rose due to iron ore inventory build up at a favourable price. Currently, the company has an inventory of 1mnte of iron ore (sufficient for 3 months of consumption) at an average price of Rs4,030/te (spot price is Rs6,500-7,000/te). Q3FY23 consumption cost was Rs4,090/te.
- Coal cost: Thermal coal cost is slightly declining. From the current level of Rs3/GCV, the management expects it to settle at Rs2-2.5/GCV. Coal cost in Q2FY23 was Rs13,500/te that came down to Rs12,500/te in Q3FY23. The management expects coal cost at Rs12,000-12,500/te in the near term.
- The management is not interested in bidding for RINL or NMDC steel plant. It has enough expansion plans on the platter.
- Interested in stainless steel industry as more than 85% of stainless steel ingredients are produced in-house. The management wishes to go down the value chain for higher profitability. For the acquisition of Mittal Corp, the revised bid is likely to be submitted soon.

- Debt- currently at Rs13.77bn compared to Rs6.75bn in Q2FY23. Interest cost rose to 6.5% in Q3FY23 compared to 4.92% in Q2FY23. Debt has gone up primarily due to iron ore inventory build up and advances to suppliers.
- Depreciation expense in Q3FY23 rose due to the commissioning of new facilities. Almost Rs4.9bn of assets were capitalised in Q3FY23. Tax rate in Q3FY23 was also impacted by the deferred tax component related to the capitalisation of assets.

Table 15: SMEL Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**29,217**	**25,778**	13.3	**30,852**	(5.3)	**1,03,940**	**1,44,349**	**1,74,481**
EBITDA	2,223	6,250	(64.4)	2,436	(8.7)	25,998	15,885	22,574
EBITDA Margin (%)	*7.6*	*24.2*		*7.9*		*25.0*	*11.0*	*12.9*
PAT	648	4,227	(84.7)	1,109	(41.6)	17,240	6,265	11,344
PAT Margin (%)	*2.2*	*16.4*		*3.6*		*16.6*	*4.3*	*6.5*

Source: Company data, I-Sec research

APL Apollo Q3FY23 concall: Key takeaways

- Volume guidance: In FY23, APL targets more than 2.2mnte volume, and in FY24 it targets 3.2mnte volume due to contribution from Raipur (0.6mnte), Dubai and Kolkata plants (100kte each).
- EBITDA/t guidance: In FY24, the company will be focusing on expanding its margins. APL targets overall blended EBITDA of Rs5,000/te in FY23 and ~Rs6,000/te for FY24 with more focus on super value-added products.
- APL achieved peak run rate of 220kte per month in Q3FY23 and the company is enhancing capacity through debottlenecking to take the capacity beyond 4mnte by FY23-end.
- Raipur 1mntepa plant: All three complexes are fully operational and 1mnte capacity is on stream now. In Q3FY23, utilisation was 25% which has increased to 30% now. In Q4FY23, company is targeting volume of ~100kte from Raipur plant. Raipur plant has fixed cost of Rs50mn per month, so with a capacity utilisation of 25-30%, company can achieve break-even level. In Q3FY23, EBITDA/te was Rs3,000/te which should improve to Rs4,000/te in Q4FY23. The company targets more than Rs6,000/te of EBITDA from Raipur plant and volumes of ~0.6mnte in FY24 led by contribution from narrow galvanised pipes.
- Capex: APL needs to incur capex of Rs4bn to achieve volumes of 5mnte and depending on cashflow, capex can be incurred in two years. Capex will be largely funded through internal accruals.
- Company has projects incorporating the use of heavy structure such as railway stations. Currently, the company has a pipeline of 10 railway stations and expects 100 more railway station projects to be allocated in the next 2-3 years. The work at the first station will commence in the next 3 months.
- With current sales mix of 15% residential, 25% from commercial, 25% from infra segment (airport, railways etc.), Union Budget FY24 will have positive implication due to increased capex spending on infra projects, benefitting the company on Railways and water infrastructure spending. In water segment, the company has demonstrated heavy tubular infrastructure in Uttar Pradesh for water infrastructure projects. APL built the infrastructure in just 3 days as against the RCC requirement of 4-5 months. APL is waiting for more such projects.
- Increase in the margin/te of general structures category is mainly due to price differential of primary and secondary market. The lower gap between primary and secondary HRC prices in Q3FY23 helped improve the EBITDA margins/te. Company expects to achieve Rs2,000/te EBITDA in general structures segment.
- Dubai capacity of ~300kte and Kolkata capacity of ~200kte are expected to come online in FY24 with identical product profile as of APL Apollo.
- Association with Shankara Building Products is yielding results, sales was up 170% YoY in 9MFY23 and with Raipur coming online, volumes are expected to improve further.
- In airport (in structures), APL has been supplying structure tubes and in the last 5 years, APL had a market share of ~60-65%,with similar share in Delhi Metro, Kochi Metro projects etc.

- Current proportion of value-added products is ~65% which should further increase to 70-75% in the next 2-3 years and the share of general structures product will go down to 25-30% in coming years.
- Currently, APL has 2.5mnte tie up with major steel companies for its raw material requirement (HRC) and next year as the company is targeting more volumes (3.2mnte), procurement of HRC should not be an issue as more steel capacities are coming online.
- Trading volumes in Q3FY23 were ~30,000te.

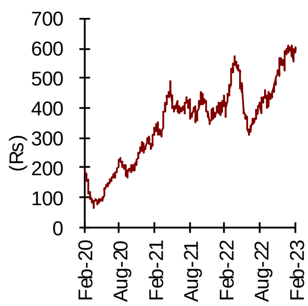
Table 16: APL Apollo Q3FY23 earnings snapshot

(Rs.mn)	Q3FY23	Q3FY22	% chg YoY	Q2FY23	% chg QoQ	FY22	FY23E	FY24E
Revenue	**43,271**	**32,304**	34.0	**39,692**	9.0	**1,30,633**	**1,60,784**	**2,21,004**
EBITDA	2,729	2,023	34.9	2,319	17.7	9,453	9,854	15,550
EBITDA Margin (%)	*6.3*	*6.3*		*5.8*		*7.2*	*6.1*	*7.0*
PAT	1,692	1,279	32.3	1,502	12.6	6,190	6,454	10,886
PAT Margin (%)	*3.9*	*4.0*		*3.8*		*4.7*	*4.0*	*4.9*

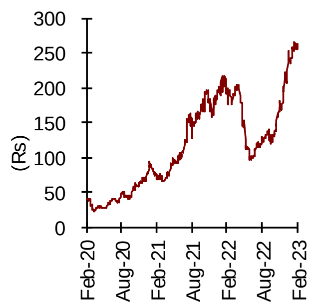
Source: Company data, I-Sec research

Price charts

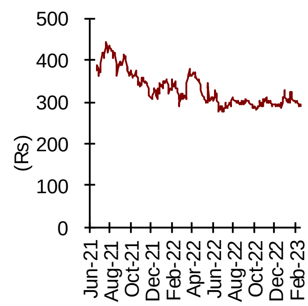
Jindal Steel



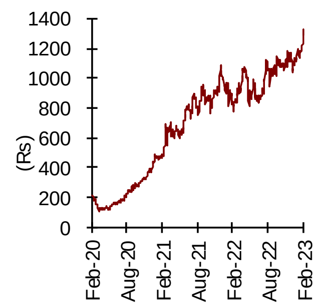
Jindal Stainless



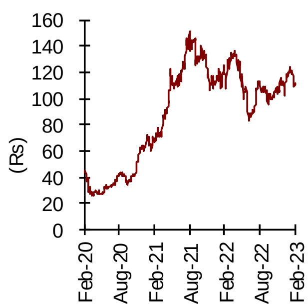
Shyam Metalics



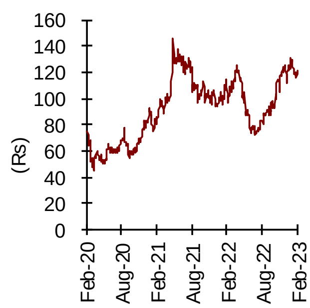
APL Apollo



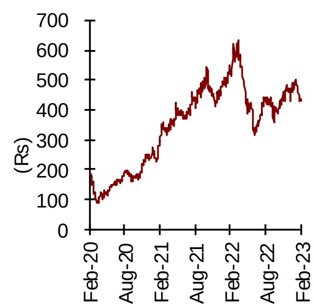
Tata Steel



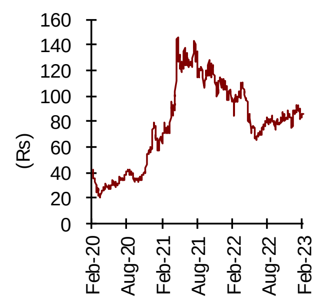
NMDC



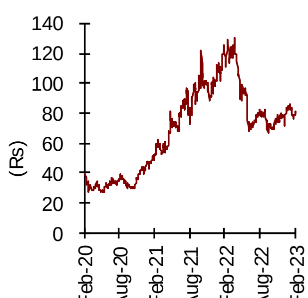
Hindalco



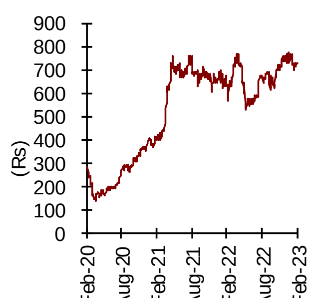
SAIL



NALCO



JSW Steel



Source: Bloomberg

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