

18 April 2024

India | Equity Research | Q4FY24 preview

## Metals

### Q4FY24 preview: Non-ferrous players to fare better

We expect Q4FY24 earnings to be a mixed bag for metal companies. Key points: 1) Ferrous companies are likely to face the double whammy of lower prices and higher coking coal cost; 2) non-ferrous players are likely to benefit from lower thermal coal cost; and 3) NMDC may benefit from higher realisation/volume while Coal India is likely to see lower profitability owing to e-auction premium coming off. Going ahead, we expect better times for ferrous players as coking coal price has come off (will be reflected in P&L from Q1FY25) and demand post general elections is likely to improve. In case of non-ferrous players, we see macro challenges receding, and hence, expect higher LME prices. Our key picks in the sector are JSPL (**BUY**; TP: INR 985), Jindal Stainless (**BUY**; TP: INR 770) and Shyam Metalics (**BUY**; TP: INR 815).

### Profitability erosion for ferrous; lower cost to aid non-ferrous

We expect non-ferrous companies to hold an edge over ferrous in Q4FY24E. Key points: 1) Realisation of ferrous companies may be lower by INR 2,000-3,000/te QoQ while coking coal cost is likely to be up by USD 15-25/te; 2) shipments of ferrous companies were impacted by influx of imports, though the companies tried to boost sales volume by revving up exports; 3) slight decline in LME prices QoQ may be offset by lower e-auction prices and improved domestic coal availability; 4) working capital unlocking is likely to result in debt reduction for most ferrous companies; and 5) Coal India's performance is likely to be impacted by lower e-auction premium (40% in Q4FY24E vs 117% in Q3FY24). Going ahead, we expect spreads to have bottomed out for ferrous companies, while uptick in LME prices is likely to drive the performance of non-ferrous companies. In case of mining companies, volume growth is likely to offset the impact of potentially lower realisations.

### Four stocks to watch out

In Q4FY24, we believe four stocks are likely to be in focus: 1) Tata Steel: Loss at Tata Steel Europe (TSE) may sharply narrow down from USD 180/te in Q3FY24 to USD 77/te in Q4FY24E owing to cost advantages in the UK and resumption of blast furnace post relining at Netherlands; 2) Jindal Stainless: Expect EBITDA/te to decline to INR 16,500 (down 17% QoQ) owing to import influx and lower nickel prices trimming the price of 300 series and continued lower exports. That said, the situation is much better than FY19 when nickel prices declined in a similar manner as the company has managed to increase volumes; 3) NALCO: Expect good performance driven by best-ever operating performance and lower cost captive coal; and 4) Hindalco: Expect Novelis' EBITDA/te at USD 525 and shipments above 950kt. We would watch out for capex updates on Bay Minnette project.

### Outlook: Spreads may have bottomed out for ferrous

We expect better days ahead for the sector as demand is likely to be steady and spreads have likely bottomed out for ferrous players. In case of non-ferrous, the enhanced availability of domestic coal is likely to keep cost low while the recent LME price uptick is an icing on the cake. We maintain JSPL (**BUY**; TP: INR 985), Jindal Stainless (**BUY**; TP: INR 770) and Shyam Metalics (**BUY**; TP: INR 815) as our top picks in the sector.

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APL Apollo (**BUY**)Jindal Steel (**BUY**)Jindal Stainless (**BUY**)Hindalco (**BUY**)SMEL (**BUY**)Coal India (**ADD**)Tata Steel (**ADD**)NMDC (**ADD**)JSW Steel (**ADD**)NALCO (**REDUCE**)SAIL (**SELL**)

**Exhibit 1: Q4FY24 preview**

(INR mn)	Sales			EBITDA			PAT		
Company	Q4FY24E	%YoY	%QoQ	Q4FY24E	%YoY	%QoQ	Q4FY24E	%YoY	%QoQ
JSW Steel	4,46,726	(4.9)	6.5	57,811	(27.2)	(19.5)	12,246	(66.6)	(40.6)
Tata Steel	5,90,251	(6.3)	6.7	60,099	(16.8)	(4.1)	7,672	(47.8)	71.0
JSPL	1,18,055	(13.8)	0.9	22,897	4.7	(19.4)	11,066	78.7	(42.6)
SAIL	2,67,693	(8.1)	14.7	7,145	(75.6)	(66.7)	(7,348)	NM	NM
SMEL	35,826	6.0	8.1	4,120	(0.4)	1.1	1,778	(31.3)	41.3
Hindalco	5,48,711	(1.8)	3.9	61,577	15.6	5.0	25,476	5.7	9.3
NALCO	41,168	12.1	23.0	10,436	36.1	35.0	6,633	29.3	37.4
Jindal Stainless	89,558	(5.2)	(1.5)	9,251	(15.7)	(9.4)	5,079	(22.9)	(34.8)
APL Apollo	43,351	1.0	7.1	3,169	(1.9)	13.4	1,915	(5.1)	15.7
NMDC	60,181	2.8	11.2	22,442	3.8	11.8	18,076	(20.6)	23.0

Source: I-Sec research

**Exhibit 2: Target price and rating**

Stock	TP	Recommendation	Methodology
Tata Steel	150	ADD	6x FY26E EBITDA
JSW Steel	875	ADD	7x FY26E EBITDA
Jindal Steel	985	BUY	6.5x FY26E EBITDA
SAIL	100	SELL	6x FY26E EBITDA
Hindalco	620	BUY	6.5x FY26E EBITDA
NMDC	277	ADD	7x FY26E EBITDA
Jindal Stainless	770	BUY	15x FY26E EPS
Shyam Metalics	815	BUY	6.5x FY26E EBITDA
NALCO	133	REDUCE	5.5x FY26E EBITDA
APL Apollo	1,775	BUY	36x FY26E EPS
Coal India	500	ADD	8.5x FY26E EPS

Source: I-Sec research

**Exhibit 3: Key drivers**

	Q4FY24E	Q4FY23	Q3FY24	% growth (YoY)	% growth (QoQ)
USD:INR	83.0	82.3	83.3	0.9	(0.3)
HRC price (INR/t)	54,526	59,126	57,541	(7.8)	(5.2)
Longs (INR/t)	51,682	61,296	55,491	(15.7)	(6.9)
Alumina (USD/t)	360	357	334	0.8	7.9
Aluminium (USD/t)	2,200	2,402	2,194	(8.4)	0.3
Zinc (USD/t)	2,446	3,135	2,498	(22.0)	(2.0)
Copper (USD/t)	8,441	8,940	8,166	(5.6)	3.4
Lead (USD/t)	2,076	2,137	2,120	(2.9)	(2.1)
Silver (USD/oz)	23.4	22.5	23.2	3.8	0.6
HR Coil- Europe (USD/t)	783	824	703	(5.1)	11.3

Source: Bloomberg, I-Sec research

**Exhibit 4: Operating estimates**

	Q4FY24E	Q4FY23	Q3FY24	% growth (YoY)	% growth (QoQ)
<b>Shipments (mnmt)</b>					
Tata Steel	5.41	4.85	4.88	11.5	10.9
Tata Steel Europe	2.04	2.16	1.94	(5.6)	5.2
JSPL	1.97	2.03	1.81	(3.0)	8.8
JSW Steel	5.68	5.68	5.20	-	9.2
SAIL	4.62	4.68	3.81	(1.3)	21.1
Jindal Stainless	0.56	0.51	0.51	10.4	9.5
APL Apollo	0.68	0.65	0.60	4.4	12.4
<b>Hindalco</b>					
Aluminium (kte)	345	323	333	6.8	0.8
Copper (kte)	120	117	119	2.6	4.6
Novelis (kte)	952	936	910	1.7	5.2
<b>Coal India</b>					
NMDC	201	187	191	7.7	9.8
	12.5	12.4	11.4	0.8	10.9

Source: I-Sec research, Company data

**Exhibit 5: Profitability estimates**

EBITDA/te - (INR)	Q4FY24E	Q4FY23	Q3FY24	% growth (YoY)	% growth (QoQ)
Tata Steel- standalone	14,031	16,756	16,905	(16.3)	(17.0)
Tata Steel Europe (USD)	(77)	(92)	(180)	NM	NM
JSPL- standalone	11,115	10,519	15,021	5.7	(26.0)
JSW Steel- standalone	8,014	10,998	11,113	(27.1)	(27.9)
SAIL	1,547	6,248	5,619	(75.2)	(72.5)
Jindal Stainless	16,500	21,610	19,937	(23.6)	(17.2)
APL Apollo	4,670	4,968	4,632	(6.0)	0.8
Hindalco - Aluminium (USD)	1,002	867	918	15.6	9.1
Novelis (USD)	477	431	499	10.8	(4.4)
Coal India	486	369	595	31.7	(18.3)
NMDC	1,794	1,742	1,762	3.0	1.8

Source: I-Sec research, Company data

**Exhibit 6: Snapshot- ferrous**

(INR mn)		Q4FY24E	Q4FY23	Q3FY24	% growth (YoY)	% growth (QoQ)	Comments
JSW (Consolidated)	Revenues	4,46,726	4,69,620	4,19,400	(4.9)	6.5	Expect profitability to be impacted by lower realisation and higher coking coal/RM costs. However, realisation dip may be arrested by lower drop in VAP segment and exports at better realisation.
	EBITDA	57,811	79,390	71,800	(27.2)	(19.5)	
	PAT	12,246	36,640	20,630	(66.6)	(40.6)	
	EPS	5.1	15.2	8.5	(66.6)	(40.6)	
Tata Steel (Consolidated)	Revenues	5,90,251	6,29,615	5,53,119	(6.3)	6.7	Domestic profitability is likely to be impacted by lower realisation- down INR 2,200/te QoQ and higher coking coal prices. However, loss at TSE is likely to narrow down substantially owing to better cost structure as re-lined furnace at TSN commences operations.
	EBITDA	60,099	72,192	62,636	(16.8)	(4.1)	
	PAT	7,672	32,129	4,487	(76.1)	71.0	
	EPS	0.7	2.8	0.4	(76.1)	71.0	
Jindal Steel & Power (Consolidated)	Revenues	1,18,055	1,36,919	1,17,013	(13.8)	0.9	While decline in longs prices was more than flats, we expect the impact to be lower owing to change in product mix in favour of flats. Expect higher coking coal and iron ore cost to impact margins. However, cost efficiencies from captive thermal coal mines provide succour.
	EBITDA	22,897	21,873	28,426	4.7	(19.4)	
	PAT	11,066	6,192	19,279	78.7	(42.6)	
	EPS	10.0	5.6	17.4	78.7	(42.6)	
SAIL	Revenues	2,67,693	2,91,307	2,33,486	(8.1)	14.7	Expect EBITDA to be impacted both lower realisation- down INR 3,000/te QoQ and higher coking coal cost- up INR 2,500/te QoQ. Sales volume likely at 4.62mnte- up 21% QoQ. Exports unlikely to go up, resulting in more dip in realisation compared to peers.
	EBITDA	7,145	29,242	21,425	(75.6)	(66.7)	
	PAT	(7,348)	11,592	4,229	NM	NM	
	EPS	(1.8)	2.8	1.0	NM	NM	
SMEL	Revenues	35,826	33,801	33,153	6.0	8.1	Relative outperformance expected to be aided by capacity ramp up and lower price of thermal coal. However, higher iron ore cost and lower prices in secondary value chain likely to impact margins. On demand front, secondary segment was relatively better placed, hence finished steel volume likely to be higher.
	EBITDA	4,120	4,135	4,074	(0.4)	1.1	
	PAT	1,778	2,589	1,258	(31.3)	41.3	
	EPS	7.0	10.1	4.9	(31.3)	41.3	

Source: I-Sec research, Company data

**Exhibit 7: Snapshot- non-ferrous**

(INR mn)		Q4FY24E	Q4FY23	Q2FY24	% growth (YoY)	% growth (QoQ)	Comments
Hindalco (Consolidated)	Revenues	5,48,711	5,58,570	5,28,080	(1.8)	3.9	Al CoP/t likely to remain flat QoQ, however, hedging gains likely to boost Al EBITDA/te. Copper EBITDA likely to remain stable at INR 6.5bn. Expect Novelis EBITDA at USD 525/te, in line with the company's guidance.
	EBITDA	61,577	53,270	58,650	15.6	5.0	
	PAT	25,476	24,110	23,310	5.7	9.3	
	EPS	11.4	10.8	10.5	5.7	9.3	
NALCO	Revenues	41,168	36,709	33,469	12.1	23.0	Gains from captive coal mining, higher logistics through railways and better underlying commodity prices likely to boost performance. Additionally, best-ever quarterly operating performance is likely to aid.
	EBITDA	10,436	7,665	7,731	36.1	35.0	
	PAT	6,633	5,130	4,826	29.3	37.4	
	EPS	3.6	2.7	2.6	29.3	37.4	

Source: I-Sec research, Bloomberg

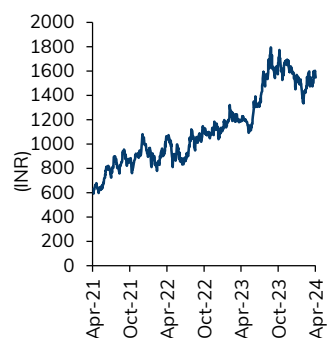
**Exhibit 8: Snapshot- mining and others**

(INR mn)		Q4FY24E	Q4FY23	Q4FY24	% growth (YoY)	% growth (QoQ)	Comments
Jindal Stainless (Standalone)	Revenues	89,558	94,443	90,876	(5.2)	(1.5)	EBITDA/te impacted by influx of 300 series imports and continuously declining price of Nickel. Also, the company concentrated on pushing volumes and hence realisation was impacted further.
	EBITDA	9,251	10,970	10,208	(15.7)	(9.4)	
	PAT	5,079	6,592	7,793	(22.9)	(34.8)	
	EPS	10.6	13.8	16.3	(22.9)	(34.8)	
APL Apollo	Revenues	43,351	42,916	40,478	1.0	7.1	Best-ever quarterly volume. Performance impacted by the continuous destocking in the dealer channel as steel prices continued to fall through the quarter. As a result, EBITDA/te growth QoQ likely to be constrained despite pick-up in volumes.
	EBITDA	3,169	3,229	2,796	(1.9)	13.4	
	PAT	1,915	2,018	1,655	(5.1)	15.7	
	EPS	7.7	8.1	6.6	(5.1)	15.7	
Coal India	Revenues	3,77,107	3,81,523	3,61,540	(1.2)	4.3	QoQ performance likely to be impacted by sharply lower e-auction premium. That said, there is likely to be an upside on our estimates as performance incentive in Q4FY24 might be higher than our estimate of INR 70bn. Expect manpower cost to remain stable.
	EBITDA	97,837	68,981	1,13,731	41.8	(14.0)	
	PAT	1,08,737	76,423	1,23,749	42.3	(12.1)	
	EPS	17.6	12.4	20.1	42.3	(12.1)	
NMDC (Standalone)	Revenues	60,181	58,514	54,099	2.8	11.2	Both higher iron ore prices and sales volume likely to boost performance QoQ. YoY performance likely to be benefitted from higher sales volume.
	EBITDA	22,442	21,624	20,072	3.8	11.8	
	PAT	18,076	22,771	14,701	(20.6)	23.0	
	EPS	5.7	7.2	4.6	(20.6)	23.0	

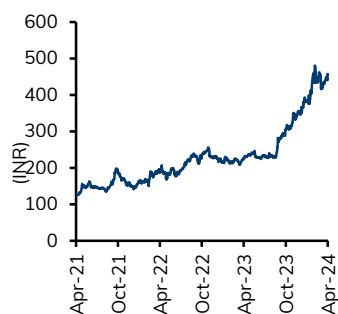
Source: I-Sec research, Company data

## Price charts

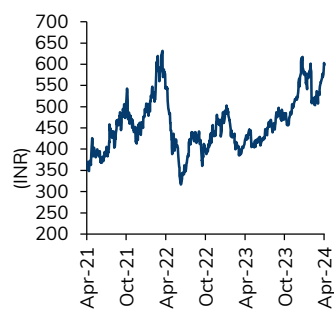
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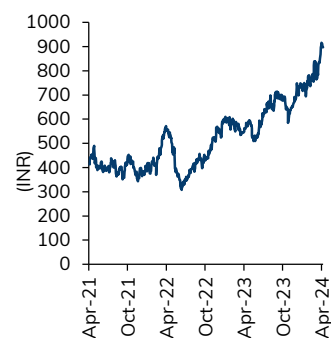
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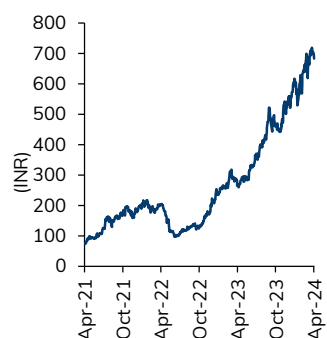
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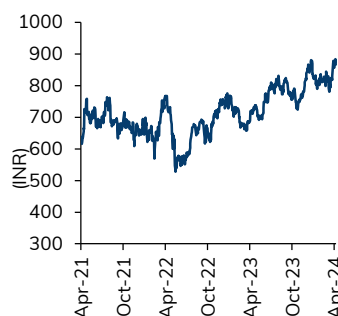
**Jindal Steel**



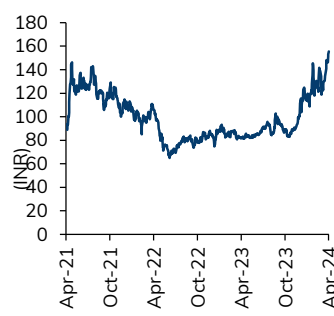
**Jindal Stainless**



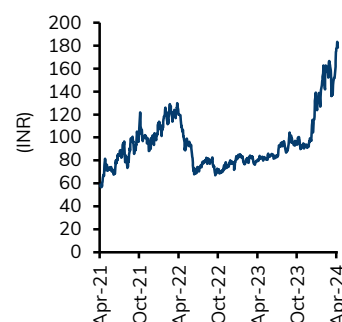
**JSW Steel**



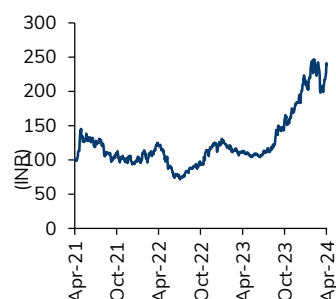
**SAIL**



**NALCO**



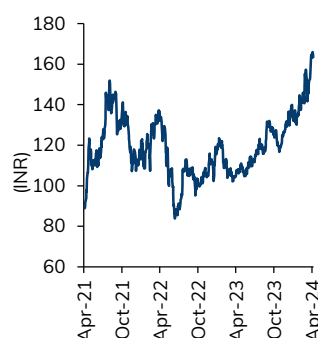
**NMDC**



**Shyam Metals and Energy**



**Tata Steel**



Source: Bloomberg

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