Metals & Mining Q4FY24 Results Preview

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Axis Securities Equity Research

STEEL MARGINS UNDER PRESSURE; BASE METALS SHINE

We anticipate margin contraction for steel companies within our coverage due to decreased steel price realizations (average HRC benchmark prices down 7% YoY and 5% QoQ in Q4FY24) and increased coking coal consumption costs (largely flat YoY but higher QoQ), despite a QoQ recovery in sales volumes driven by seasonally strong performance in Q4 (although volumes remain largely flat YoY).

We expect another good quarter for base metal stocks under our coverage. Both Hindalco and NALCO are expected to report margin expansion YoY/QoQ on higher shipments, stable LME, and lower coal/power costs.

For Coal India, we expect EBITDA de-growth on a QoQ basis due to higher input cost pressure and lower e-auction premiums. The drop in e-auction premiums QoQ is expected to be partially offset by higher e-auction volumes and higher FSA volumes.

For structural steel tube companies, we expect a slightly muted quarter. Both APL and JTL Industries EBTDA/t are expected to remain flat or may even marginally come down QoQ led by lower steel price realizations in the quarter.

Steel Q4FY24 Preview:

Tata Steel: We anticipate Tata Steel India's EBITDA/t to decline by 9%/15% YoY/QoQ, primarily due to lower realizations and higher coking coal consumption costs, partially offset by increased operating leverage. In Europe, we expect the EBITDA/t loss to narrow down to $112/t from $178/t in Q3FY24, driven by higher sales volume in Europe and improved realizations, particularly in the UK. Tata Steel India's sales volume increased by 0.53MT QoQ to 5.41MT, reflecting a seasonally strong quarter. In Europe, sales volume grew by 0.15MT QoQ to 2.09MT, attributed to the restart of BF6 at the Netherlands following relining completion in early Feb'24, along with improved sales performance in the UK compared to the seasonally weak Q3FY24. Consolidated sales volume increased by 0.75MT QoQ to 7.82MT.

SAIL: SAIL's EBITDA/t is expected to contract both YoY/QoQ by 31%/23% to Rs 4,312/t due to lower realizations and higher coking coal consumption costs. SAIL's sales volume recovered QoQ to 4.6MT up 21% QoQ, but down 1.6% YoY.

Aluminium Q4FY24 Preview:

Hindalco: We build in flat aluminium and copper sales QoQ at 341kt and 118kt respectively. At Novelis, We expect shipments to recover to 950kt in Q4FY24 from 910kt on an impacted Q3FY24 base. Novelis volumes were impacted in Q3FY24 on account of maintenance shutdown at North America (Oswego hot mill) and other regions. We expect consolidated EBITDA to increase by 22%/9% YoY/QoQ to Rs 6,615 Cr led by higher EBITDA/t at Novelis and slightly lower input energy and coal prices at Indian upstream Aluminium operations. We expect Novelis EBITDA/t to improve by 22%/5% YoY/QoQ in Q4FY24 to $523/t led by higher shipments and higher operating leverage.

NALCO: We assume higher Alumina sales at 378kt (up 9%/25% YoY/QoQ) on seasonality. FY24 total metal sales stood at 470kt, which implies 121kt metal sales in Q4FY24 (up 2.4%/4% YoY/QoQ). We expect EBITDA to increase both YoY/QoQ by 36%/35% to Rs 1,041 Cr led by higher topline and slightly lower power costs. We expect EBITDA margins to expand YoY/QoQ by 713/490 bps to 28% led by lower costs and higher metal and Alumina sales volume-driven operating leverage.

Coal India: Coal off-take grew by 5% QoQ to 201MT in Q4FY24. FY24 off-take stood at 753.5MT up 8.5% YoY. We model 40% e-auction premium (Vs. 117% in Q3FY24) and 13% e-auction volumes (vs. 8% in Q3FY24). We expect Adj EBITDA (excl OBR) to grow by 26% YoY to Rs 11,156 Cr, led by higher overall coal off-take which offsets lower e-auction premiums. However, we expect the Adj EBITDA to drop by 7% QoQ as we assume slightly higher input costs in Q4FY24.

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APL Apollo Tubes: Sales volume reached a new high of 679kt, up 4%/12% YoY/QoQ. In Q3FY24, sales volumes were lower due to channel destocking. We anticipate EBITDA to decline Cr by 4% YoY to Rs 310, driven by higher input costs. However, on a QoQ basis, we expect EBITDA to improve by 11% due to higher sales volume. EBITDA/t is projected to decline by 8%/1.2% YoY/QoQ to Rs 4,574/t, primarily due to lower sales realization and higher input costs.

JTL Industries: Sales volume grew by 2.2% YoY but declined by 19% QoQ to 81.91kt. The VAP share recovered to 24% of the total sales volume in Q4FY24 from 20% in Q3FY24 (24% in Q4FY23). We anticipate EBITDA to decline by 33%/17% YoY/QoQ to Rs 35 Cr, driven by a lower top line and reduced operating leverage. EBITDA/t is expected to drop to Rs 4,300, down by 35% YoY due to lower operating leverage, and recover slightly QoQ by 2% led by a higher VAP share.

Outlook

Steel sector outlook: China's demand uncertainty continues to linger as its property sector continues to remain sluggish. China's steel demand remains slower than expected. China's 3MMA YoY growth in 'floor space started' fell to -9.9% in Dec'23. However, continued policy support has led to the easing of this fall, as the floor space started has slowly recovered from -45% YoY in Aug'22 to -9.9% in Dec'23. According to the China Iron and Steel Association (CISA), the total steel inventory of key enterprises in mid-Mar'24 stood at 19.5 MT, up by 9.7kt compared to early Mar'24. HRC prices in China have corrected by 8% since Jan'24 to $535/t. Iron ore inventory at Chinese ports remained elevated at 142 MT as of 3rd Apr'24. Iron ore prices traded below $100/t on the 1st of Apr'24, at a 10-month low level due to lower steel demand and increased supply from Australia. Coking coal prices have also eased from the peak of $367/t in Oct'23 to spot at $245/t, offering some respite to steel spot spreads.

Aluminium sector outlook: LME Aluminum prices are up 13% from the lows of $2,132/t on 26th Feb'24 to the current level of $2,412/t. An increase in Aluminum prices along with the easing of coal prices supports Aluminum smelters. Apart from the tailwind of the Fed rate cuts in future, Aluminum prices have found support due to the concerns over the slow recovery of production in China's Yunnan province due to dry weather conditions restricting hydropower supply.

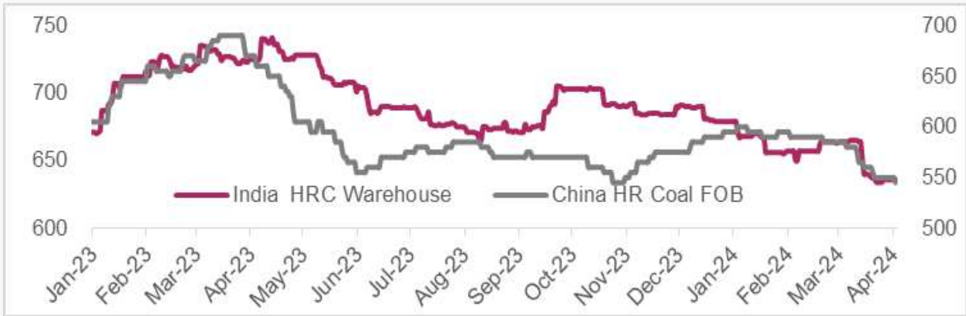
Our top picks are:

Hindalco; NALCO; Coal India; APL Apollo tubes; JTL Industries; Tata Steel

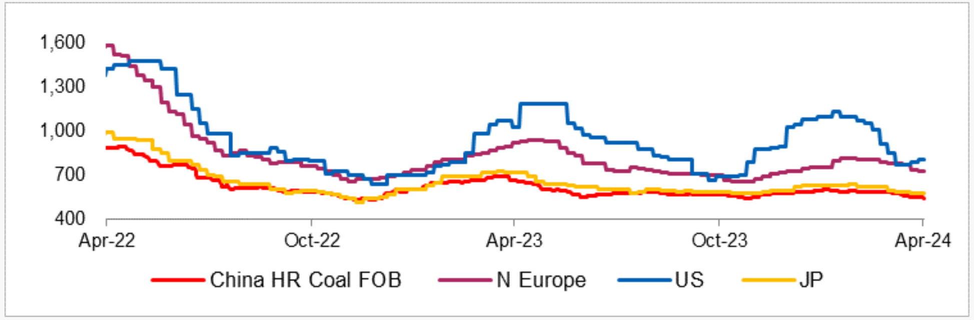
Our Top Earnings plays are:

Nalco; Hindalco

Indian HRC prices have corrected recently

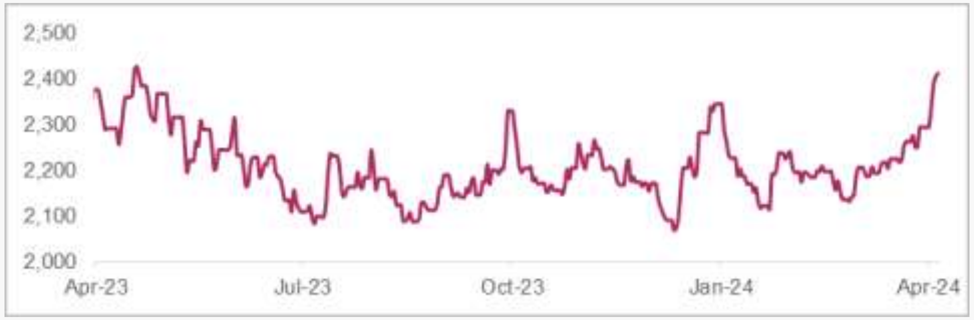


HRC prices ($/t) across geographies

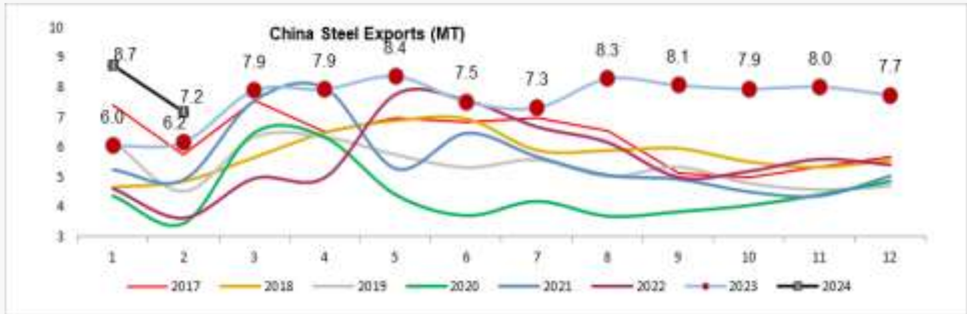


Coking coal and iron ore prices have eased from recent highs led by weak China steel demand

LME Aluminium prices ($/t) rallied recently



China Steel Exports have stood elevated in CY2024



Thermal Coal prices stabilising at lower level

Source: Bloomberg, LSEG Workspace

Quarterly Preview – Q4FY24

Metals & Mining

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)	Result expectations
Hindalco Industries						
Aluminum sales (kt)	341	344	-0.8%	341	0.1%	➔ We assume flat aluminium sales QoQ in Q4FY24. At Novelis, we expect shipments to recover QoQ in Q4FY24 on the impacted base. Novelis volumes were impacted in Q3FY24 on account of maintenance shutdown at North America (Oswego hot mill) and other regions. We assume flat copper sales QoQ ➔ Consolidated Revenue to increase QoQ, led by higher Novelis shipments and slightly higher LME Aluminum prices. ➔ EBITDA to increase YoY/QoQ, led by higher EBITDA/t at Novelis and slightly lower input energy and coal prices at Indian operations. ➔ EBITDA margins are expected to improve on a YoY/QoQ basis, led by the easing of the coal costs at Indian operations and higher operating leverage at Novelis. We expect Novelis EBITDA/t to improve in Q4FY24 QoQ, led by higher shipments and higher operating leverage.
Novelis Shipments (kt)	950	910	4.4%	936	1.5%	
Copper sales (Kt)	118	119	-0.6%	117	1.1%	
LME Aluminum ($/t)	2,202	2,198	0.2%	2,399	-8.2%	
Revenues	55,177	52,808	4.5%	55,857	-1.2%	
EBITDA	6,615	6,048	9.4%	5,423	22.0%	
EBITDA margin (%)	12.0	11.5	54	9.7	228	
Novelis EBITDA/t ($/t)	523	499	4.9%	431	21.6%	
PAT	2,956	2,331	26.8%	2,411	22.6%	
EPS (Rs)	13.3	10.5	26.8%	10.9	22.6%	
Nalco						
Alumina sales (kt)	378	302	25.2%	346	9.2%	➔ We assume higher Alumina sales on seasonality. FY24 total metal sales stood at 470kt, which implies 121kt metal sales in Q4FY24 ➔ We expect Revenue to grow by 11% QoQ, mainly led by higher Aluminum and Alumina sales volume ➔ We expect EBITDA to increase both YoY/QoQ, led by higher topline and slightly lower power costs ➔ We expect margins to expand YoY/QoQ, led by lower costs and higher metal and Alumina sales volume-driven operating leverage
Aluminum sales (kt)	121	116	4.0%	118	2.4%	
LME Aluminum ($/t)	2,202	2,198	0.2%	2,399	-8.2%	
Revenues	3,717	3,347	11.1%	3,671	1.3%	
EBITDA	1,041	773	34.7%	767	35.8%	
EBITDA margin (%)	28.0	23.1	491	20.9	713	
PAT	622	471	32.1%	495	25.6%	
EPS (Rs)	3.4	2.6	32.1%	2.7	25.6%	

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)	Result expectations
SAIL						
HRC Ex-Mumbai (Rs/t)	54,539	57,374	-4.9%	58,871	-7.4%	
Sales Volume (MT)	4.6	3.8	20.7%	4.7	-1.6%	
Revenues	27,780	23,349	19.0%	29,131	-4.6%	
EBITDA	1,985	2,142	-7.4%	2,924	-32.1%	
EBITDA margin (%)	7.1	9.2	(203)	10.0	(289)	
EBITDA/t (Rs/t)	4,312	5,619	-23.3%	6,248	-31.0%	
PAT	248	423	-41.4%	1,159	-78.6%	
EPS (Rs)	0.6	1.0	-41.4%	2.8	-78.6%	

SAIL – Result expectations:

- Steel HRC prices (traders market ex-Mumbai) have declined by 7%/5% YoY/QoQ.
- Saleable steel sales volumes stood down 1.6% YoY and up 21% QoQ
- Revenue to decline by 5% YoY, led by lower sales price realization and slightly lower volumes
- EBITDA to decline by 32% YoY, driven by lower topline and higher cost of coking coal consumption. EBITDA/t is likely to drop YoY on account of a lower topline. On a sequential basis, EBITDA/t is expected to decline despite higher sales volumes due to lower realizations and higher coking coal consumption costs

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Tata Steel					
India Sales Volume (MT)	5.41	4.88	10.8%	5.31	1.8%
Europe Sales Volume (MT)	2.09	1.94	7.7%	2.16	-3.2%
Consolidated sales volume (MT)	7.82	7.07	10.5%	7.78	0.5%
HRC Ex-Mumbai (Rs/t)	54,539	57,374	-4.9%	58,871	-7.4%
Revenues	59,181	55,312	7.0%	62,962	-6.0%
EBITDA	6,653	6,264	6.2%	7,219	-7.8%
EBITDA margin (%)	11.2	11.3	(8)	11.5	(22)
India EBITDA/t (Rs/t)	14,946	17,661	-15.4%	16,326	-8.5%
Europe EBITDA/t ($/t)	(112)	(178)		(92)	
PAT (excl. exceptional, attr. to shareholders)	1,055	848	24.5%	1,693	-37.7%
EPS (Rs)	0.9	0.7	24.5%	1.4	-38.3%

Tata Steel – Result expectations:

- India sales volume grew by 0.53MT QoQ in a seasonally strong quarter. Europe sales volume grew by 0.15MT QoQ led by the restart of BF6 at the Netherlands upon completion of relining in early February along with improvement in sales at the UK over the impacted base of seasonally weak Q3FY24. Consolidated Sales volume grew by 0.75MT QoQ
- The Steel HRC prices (traders' market ex-Mumbai) have declined by 7%/5% YoY/QoQ. Consolidated revenue is expected to grow by 7% QoQ mainly led by higher consolidated sales volume.
- EBITDA is expected to increase by 6% QoQ led by higher operating leverage on higher sales volume. On a YoY basis, EBITDA is expected to decline led by lower realizations.
- India's EBITDA per tonne is expected to decrease by 15% QoQ (-9% YoY), mainly led by lower realizations and higher coking coal consumption costs, partially offset by operating leverage. The EBITDA per tonne loss in Europe is expected to narrow down to $112/t in Q4FY24 from $178/t in Q3FY24, led by higher sales volume in Europe and higher realizations in the UK.

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)	Result expectations
APL Apollo Tubes						
HRC Ex-Mumbai (Rs/t)	54,539	57,374	-4.9%	58,871	-7.4%	➔ Steel HRC prices (traders market ex-Mumbai) have declined by 7%/5% YoY/QoQ ➔ Sales volume increased to a new high of 679kt, up 4%/12% YoY/QoQ. Q3 volumes were lower due to channel destocking ➔ Revenue to rise by 1.5%/7.7% YoY/QoQ, led by higher sales volumes. ➔ EBITDA is expected to decline YoY led by higher input costs. On a QoQ basis, EBITDA to improve led by higher sales volume ➔ EBITDA/t to decline by 8%/1.2% YoY/QoQ led by lower sales realization and higher input costs
Sales Volume (kt)	679	604	12.4%	650	4.4%	
Revenues	4,498	4,178	7.7%	4,431	1.5%	
Realization (Rs/t)	66,295	69,207	-4.2%	68,199	-2.8%	
EBITDA	310	280	11.0%	323	-3.9%	
EBITDA margin (%)	6.9	6.7		7.3		
EBITDA/t (Rs/t)	4,574	4,631	-1.2%	4,970	-8.0%	
PAT	190	166	14.6%	202	-6.0%	
EPS (Rs) Diluted	6.83	5.96	14.6%	7.28	-6.1%	
JTL Industries Ltd						
HRC Ex-Mumbai (Rs/t)	54,539	57,374	-4.9%	58,871	-7.4%	➔ Steel HRC prices (traders market ex-Mumbai) have declined by 7%/5% YoY/QoQ. Sales volume grew by 2.2% YoY but declined by 19% QoQ. ➔ Revenue is expected to decline by 21% QoQ, led by lower sales volume and lower realization. Revenue is also expected to decline by 5% YoY, led by lower sales realization partially offset by higher sales volumes. ➔ Realization is projected to decline by 2% QoQ, led by a drop in HRC prices, partially offset by the recovery in VAP share to 24% in Q4FY24 from 20% in Q3FY24 (24% in Q4FY23). ➔ EBITDA is expected to de-grow YoY/QoQ, led by lower topline and lower operating leverage. EBITDA per tonne is anticipated to drop YoY due to lower operating leverage and recovery QoQ led by higher VAP share.
Sales Volume (kt)	81.91	100.91	-18.8%	80.18	2.2%	
Revenues	451	567	-20.6%	473	-4.7%	
Realization (Rs/t)	55,000	56,230	-2.2%	58,948	-6.7%	
EBITDA	35	43	-17.1%	53	-33.3%	
EBITDA margin (%)	7.8%	7.5%		11.2%		
EBITDA/t (Rs/t)	4,300	4,213	2.1%	6,584	-34.7%	
PAT	23	30	-22.6%	37	-36.2%	
EPS (Rs) Diluted	1.3	1.7	-22.6%	3.8	-66.1%	

Year-end March (Rs Cr)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)	Result expectations
Coal India						➔ CIL Coal offtake grew by 5% QoQ, whereas FY24 offtake stood at 753.5MT, up 8.5% YoY ➔ We model a 40% e-auction premium (vs. 117% in Q3FY24) and 13% e-auction volumes (vs. 8% in Q3FY24). Higher total sales offtake along with e-auction volumes offset the drop from lower e-auction premiums, leading to higher revenue QoQ ➔ We anticipate Adj. EBITDA (excluding OBR) to increase by 26% YoY, driven by higher overall coal off-take, which offsets lower e-auction premiums. However, we expect Adj. EBITDA to decrease by 6.5% QoQ, assuming slightly higher input costs in Q4FY24.
Offtake (MT)	201	191	5.1%	187	7.3%	
Revenues	38,087	36,154	5.3%	38,152	-0.2%	
Adj EBITDA (exl OBR)	11,156	11,936	-6.5%	8,834	26.3%	
EBITDA	9,266	11,373	-18.5%	6,898	34.3%	
Adj EBITDA margin (%)	29.3	33.0	(372)	23.2	614	
PAT	7,277	9,069	-19.8%	5,533	31.5%	
EPS (Rs)	11.8	14.7	-19.8%	9.0	31.5%	

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