Metals & Mining

Sector Report

Strong India growth & gradual global recovery

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Contents

Hindalco Industries

National Aluminium Co.

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Metals & Mining

Sector Report

August 28, 2023

Strong India growth & gradual global recovery

India's metal sector plays a pivotal role in fulfilling nation's increasing infrastructure demands and supporting its evolving manufacturing sector. Indian steel consumption is expected to grow strong 9% to 142mt over FY23-25E led by a) GOI's strong focus on building infrastructure, b) recovering automobile industry volumes with rising affordability and electrification trend, c) rising urbanization driving strong volumes in realty sector and d) increasing private capex utilization across industries. Indian steel companies are expected to add ~22mt of capacities over next two years and drive volume growth. However, near term global demand is muted led by weaker China and developed nations struggling from inflation and higher interest rates, both peaking out. Though coking coal prices are expected to moderate due to improved supply conditions, Iron ore prices are weak and would trend depending upon China's gradual recovery over next few quarters. As Chinese GDP growth is expected to be stimulus and consumption driven, demand recovery will be slow and steel prices may bottom out as industry is making losses. With curtailed production in 2HFY24, we expect pricing to get support and thereby Indian players would be ultimate beneficiaries of the same.

Considering strong underlying demand along with healthy growth momentum, <u>we initiate coverage on Metals sector</u> and recommend <u>'BUY'</u> rating on JSW Steel (JSTL; on 7x EV/EBITDA based TP of Rs926), Tata Steel (TATA; on SOTP based TP of Rs137), Jindal Steel & Power (JSP; on 6x EV/EBITDA based TP of Rs812), Jindal Stainless (JDSL; on 6.5x EV/EBITDA based TP of Rs484) & Hindalco Industries (HNDL; on 6x EV/EBITDA based TP of Rs557) and <u>'ACCUMULATE'</u> rating on Steel Authority of India Limited (SAIL; on 5.5x EV/EBITDA based TP of Rs95) and National Mineral Development Corporation (NMDC; on 5x EV/EBITDA based TP of Rs136) & National Aluminium Company Limited (NACL; on 5x EV/EBITDA based TP of Rs97).

- **Metals demand driven by India's GDP growth momentum:** India is expected to grow at much higher rate relative to world and GoI's continued strong push to infrastructure capex is expected to boost steel demand. With demonstrated resiliency in containing costs and inflation over last 18 months, we expect developed nations to start contributing to metals demand over next two quarters. As there's strong push on refurbishing infrastructure in most parts of Europe and given US's commitment to generate employment, we expect demand for metals to improve over next two years supporting prices. <u>We believe global steel prices are bottoming out and can show uptick if there is gradual recovery in demand.</u>

- **Softening raw material prices to aid in margin improvement:** With improved supply conditions, coking coal prices are expected to moderate and drive EBITDA margin improvement for steel players. We believe <u>JSTL, JSP and TATA</u> are well placed to benefit from upcoming capacities. With GoI's increasing shift towards using stainless over carbon steel, usage has increased in India benefiting <u>JDSL</u>. <u>HNDL</u> is biggest beneficiary of gradual recovery in developed nations driving CAN sheet volumes. <u>NMDC</u> is improving its focus on volumes while <u>NACL & SAIL</u> would be pure play on prices.

Companies covered in the report

Companies	Rating	CMP (Rs)	TP (Rs)
JSW Steel	BUY	773	926
Tata Steel	BUY	117	137
Jindal Steel & Power	BUY	634	812
SAIL	Accumulate	86	95
NMDC	Accumulate	119	136
Jindal Stainless	BUY	422	484
Hindalco	BUY	450	557
Nat. Aluminium Co.	Accumulate	88	97

Source: PL

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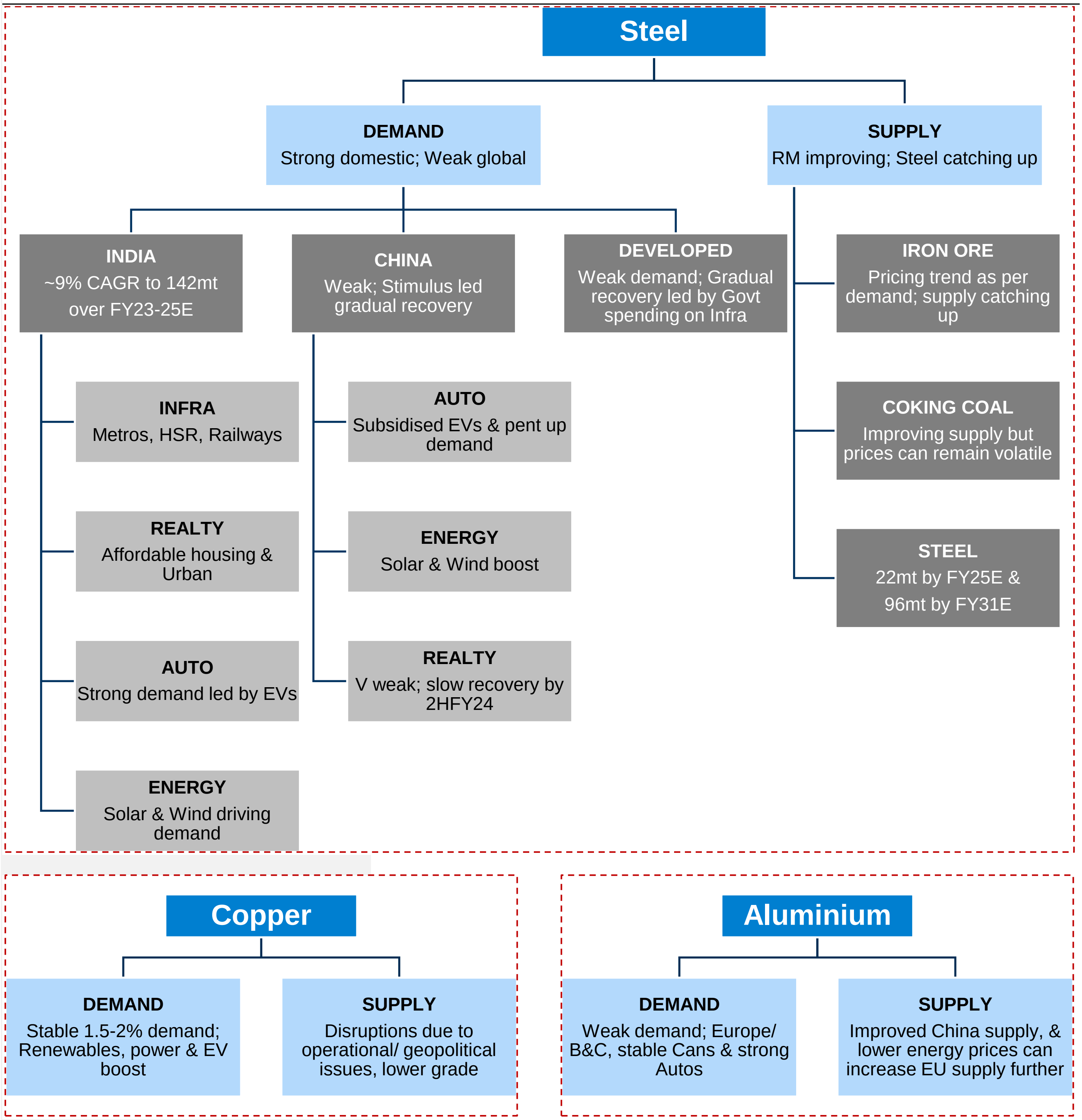
Exhibit 1: Metals Sector Overview



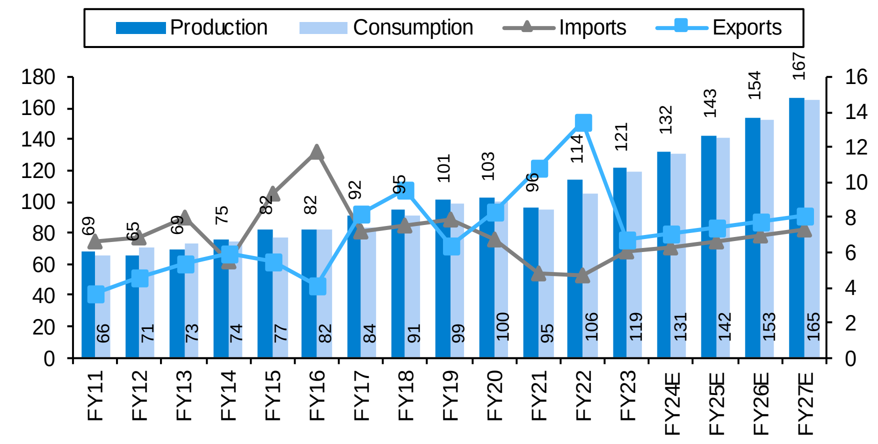
Source: Company, PL

Strong domestic demand of finished steel

Indian steel consumption grew at strong 6% CAGR over FY07-23 on the back of growing domestic demand. Over last one decade, domestic steel production has grown at 5.8%, outpacing consumption growth of 5%. As supply outpaced, consumption exports increased at a faster pace to 13.5mt in FY22, as companies also took advantage of vacuum created in the global trade led by Russian invasion of Ukraine. Post pandemic, both domestic consumption and supply grew at over 12% CAGR led by sharp recovery in indigenous markets and strong push in infrastructure spending by Government of India.

Focus on domestic infrastructure to continue over next few years, led by infrastructure boom as we enter election year and expect demand to grow at ~8% CAGR. Domestic companies are ramping up capex to cater to this strong domestic demand and ~22mtpa capacity is likely to get commissioned over next 12-18 months. India is at a stage where 7-8% steel demand growth would translate into requirement of 10mtpa of capacity addition and ramping up 10mtpa every year is not going to be an easy task.

Exhibit 2: Demand to grow at 8% CAGR, while capacities to catch up (MT)



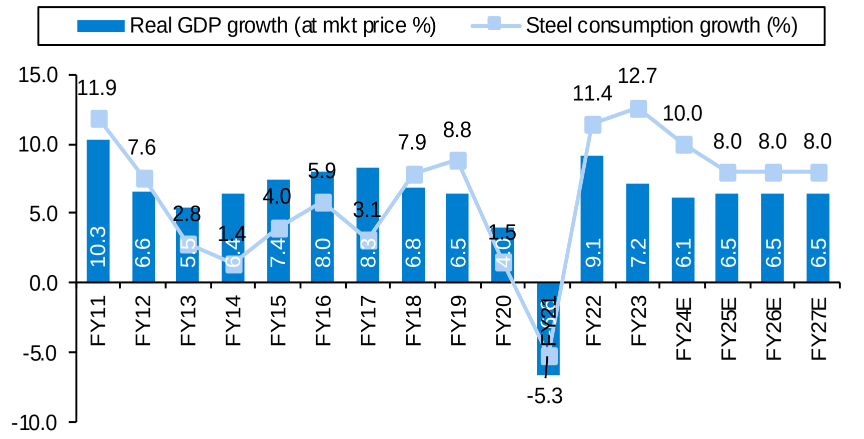
Source: Industry, PL

With accelerating real GDP growth, demand to accelerate to 10% p.a in FY24. We expect top 4 steel majors (JSTL, TATA, JSP, SAIL) to continue gaining market share as they are adding capacities to cater to this strong growth. While we estimate incremental production at 10.9m tons in FY24 and 10.6m tons in FY25; incremental demand is expected at 11.9m tons in FY24 and 10.5m tons in FY25.

Strong demand is expected to keep prices higher in Indian markets, if there is no further meltdown in China and incremental exports remain limited. As there is expectation from China to curtail production in 2HFY24, we believe global steel prices to get support from here and domestic companies to be major beneficiary of the same.

Indian steel consumption has demonstrated an elasticity factor of 1.1x to long term real GDP growth. As real GDP has grown at 6.4% over FY00-23, finished steel consumption has delivered 7% growth over same period. With current strong momentum expected to continue in Indian GDP over next few years, we expect finished steel consumption to grow at 8% CAGR over FY23-27E. Indian steel demand (ex-China) as a proportion of world demand is inching up consistently from 10% in FY18 to 14% in FY23 and can reach 19% in next 5 years.

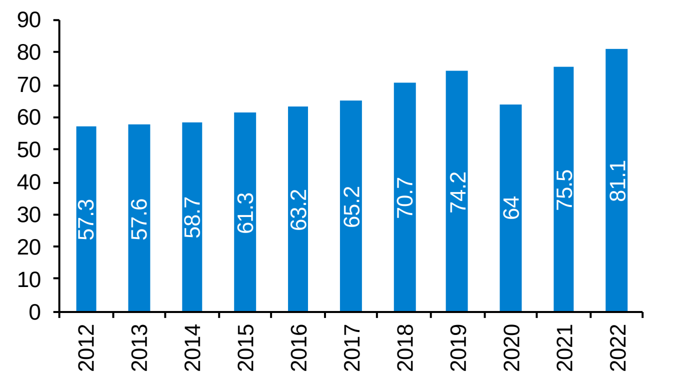
Exhibit 3: Strong co-relation with GDP with 1.1x factor



Source: Industry, PL

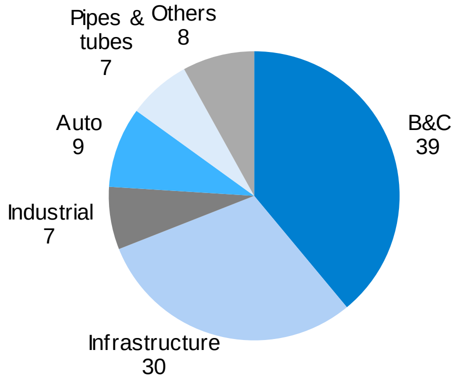
Per capita steel consumption still much lower than China: Over last decade, India's apparent per capita steel consumption grew at 3.5% CAGR to 81 kg; much lower than China average of 646 kg and world average of 223 kg. Over 55% of the steel demand in India comes from construction and infrastructure activities followed by Industrial and Automobile segment. We believe steel consumption would grow at strong 7-9% CAGR over next few years led by a) Government of India's thrust on building domestic infrastructure and affordable housing to continue, b) rising affordability and electrification trend; Automobile segment recovery post Covid-19 disruptions, c) rising urbanization and nuclearisation; realty sector is driving strong volumes, d) increasing private capex as utilizations have improved across industries and e) export opportunities due to global disruptions.

Exhibit 4: Apparent steel consumption per capita in kg



Source: Industry, PL

Exhibit 5: India steel consumption by sectors (%)



Source: Industry, PL

India's Infrastructure driving volume growth

Infrastructure propels overall development of any nation and India's infrastructure historically lagged behind its population growth. To reach its 2025 target of achieving USD 5 tn economy, India is focusing on building domestic infrastructure which includes building and improving efficiency of transport infrastructure, viz. roads, railways, aviation, shipping and logistics. With improving focus of GOI on domestic infrastructure (budgeted USD 122bn in FY24 union budget), demand for key commodities such as steel and cement is expected to grow at higher rates.

B&C (Building and Construction) and Infrastructure contributes maximum to India's steel sector volume growth and over the years share has risen to ~70%. Real estate was a key contributor to demand revival post Covid-19 as housing sector benefitted from record low interest rates, stable property prices and GoI's decision of reduction in stamp duties. Infrastructure projects across India picked up pace over last two years giving momentum to steel demand.

Urban public transport improving connectivity

The rapid transit metro system is designed to reduce traffic congestion in large cities and supplement the overcrowded road and rail network. As per industry officials, ~70km of metro requires 0.25mt of steel which translates into ~2mt of incremental steel required for below mentioned ongoing metro projects of ~632 km. This includes various finished steel such as LRPC, TMT bars, etc. Few of the key metro projects included in National Infrastructure Pipeline (NIP) are mentioned below:

Exhibit 6: Metro projects in progress under NIP

Name of the project	Cost (USD Bn)	Project date start	Project expected completion	State	Project Status
Pune Metro Line-3 Hinjawadi - Shivajinagar Metro Rail Corridor	1.1	Sep-19	Mar-25	Maharashtra	Construction stage
Noida Metro Rail Extension Project	0.3	Apr-22	Mar-25	UP	Construction stage
Chennai Metro Rail Project [CMRL] PHASE II	8.0	Jun-21	Dec-26	TN	Construction stage
Construction Of Bangalore Metro Rail Project Phase 2.	3.9	Feb-16	Mar-25	Karnataka	Construction stage
Delhi-Ghaziabad-Meerut Regional Rapid Transit System Corridor	3.8	Mar-19	Jun-25	Delhi/UP	Construction stage
Mumbai Metro Line 3	3.0	Jun-16	Jun-24	Maharashtra	Construction stage
Ahmedabad Metro Rail Project [Phase-I & II]	2.0	Feb-15	Dec-24	Guj	Phase II underway
Bangalore Metro Rail Project Phase-2A & 2B	1.9	Jan-19	Jun-26	Karnataka	Construction stage
Patna Metro Rail Project	1.7	Feb-19	Feb-27	Bihar	Construction stage
Vijayawada Metro Rail Development Project	1.1	Jun-21	Dec-24	Andhra Pradesh	DPR Approved
Wadala - CSMT Metro Rail Construction Project	1.1	Apr-19	Dec-26	Maharashtra	Construction stage

Source: NIP, PL

Substantial progress in construction of first line of HSR Corridor

The Mumbai–Ahmedabad High Speed Rail Corridor (MAHSR) is the first of thirteen lines planned by GoI, which is expected to cover ~500 km distance in 3 hours with a maximum speed of 320 km/hr. Although the project construction delayed due to Covid-19 and later due to land acquisition issues in Maharashtra, this project is highest steel consuming infrastructure project in India with estimated steel consumption of ~2.5mt in the form of TMT Bars, HR Plates & LRPC. The 352 km section through Gujarat will fully open in 2027, after opening the section's 50 km stretch, from Surat to Bilimora, in August 2026.

Below are few of the thirteen HSR corridors being planned by Government of India. If we assume per km steel required in first HSR project as a benchmark, total steel required for all the planned HSR projects alone would be ~40mn tonnes.

Exhibit 7: Bullet train projects planned across India in this decade

HSR Corridor	Proposed Year of Implementation	Km covered	Appx Steel reqd in mt
Mumbai Ahmedabad	2026	508	2.5
Delhi Varanasi via Ayodhya	2031	855	4.2
Delhi Ahmedabad	2031	789	3.9
Varanasi to Patna	2031	250	1.2
Patna to Kolkata	2031	530	2.6

Source: NRP, PL

Impressive capex push by Indian Railways

Over last few years, Indian railways (IR) has earmarked significant capex on building new lines, rolling stock, ordering wagons for freight, electrification and modernization of railway stations which is expected to generate strong demand for metals such as steel, aluminum and stainless steel.

Under the National Rail Plan (NRP) 2030, GoI has planned to formulate strategies to increase modal share of railways to 45% of the logistics market to move 3600mt from existing ~27%. IR has planned to add capacities ahead of demand and started procuring wagons, along with other ongoing capex.

The capex by IR would be steel intensive. E.g. Freight or goods wagons are made almost entirely of steel. Assuming average tare weight of 25 tons per wagon total steel required for upcoming IR's 50k wagons tender would require 1.25mt of steel.

Exhibit 8: IR capex leading to strong growth for steel, SS & AL

Particulars	FY21 achieved	FY22 achieved	FY23 RE target	FY24 BE target
1 Construction of New Lines (Route Kms)	286	289	200	600
2 Gauge conversion (Route Kms)	470	636	100	150
3 Doubling of Lines (Route Kms)	1614	1984	2200	2850
4 Rolling Stock				
a (i) Diesel Locomotives	10	100	100	100
a (ii) Electric Locomotives	754	1110	1290	1290
b Coaches	4903	7151	7520	6978
c Wagons (vehicle units)	10062	8386	21000	26000
5 Track renewals (Track Kms)	4363	4275	4200	4800
6 Electrification Projects (Route Kms)	6015	6366	6500	6500

Source: Indian Railways, PL

As per NRP document, Golden quadrilateral and Golden diagonal is planned to be developed with an infrastructure which will allow train sets to operate at a speed of 160km/hr from recently achieved speed of 130km/hr. It is expected that passenger demand for AC on these corridors with average trip length between 200-700km would increase steadily and generate demand for train sets at 7.5% CAGR over next decade. Demand for rolling stock, wagons and coaches is also expected to increase at 5-6% CAGR over FY23-31E. We believe this improved focus of GoI on creating capacities would be a key driver for volume growth for Indian steel industry.

Few of the notable projects out of over 695 projects (worth USD 233 bn) undertaken under NIP are listed below:

Exhibit 9: Key projects under NIP

Name of the project	Cost (USD Bn)	Project date start	Project expected completion	State	Project Status
Katghora- Dongargarh New Corridor Construction Project	0.7	Apr-21	Sep-25	Chhatisgarh	DPR Approved
CERL-LI Chhattisgarh New Railway Line Construction Project	0.2	Jan-14	Jan-24	Chhatisgarh	DPR Approved
Western Dedicated Freight Corridor	9.2	Jan-12	Mar-24	HR/ GJ/ RJ/ MH / UP	88% project complete
Construction Of Road Over/Under Bridges On Indian Railway	6.1	Apr-19	Mar-24	Across India	Continuous
Mumbai Urban Transport Project Phase-IIIA	4.2	Apr-19	Dec-26	Maharashtra	Work in progress
Rishikesh-Karnaprayag New Rail Line- 125 Km	3.1	Aug-18	Dec-24	Uttarakhand	33% complete
Pune Nasik Semi High Speed Railway Line Project	2.0	Jan-22	Mar-25	Maharashtra	Project is on hold
Mumbai Urban Transport Project Phase-III	1.4	Dec-16	Dec-25	Maharashtra	Work in progress
Bangalore Suburban Railway Project	2.0	Jan-21	Dec-26	Karnataka	Initial work has begun
Byrnihat-Shillong New Rail Line- 108 Km	1.1	Mar-10	Mar-27	Meghalaya	Facing hurdles
Rehabilitation & Rebuilding Of Bridges	1.0	Apr-19	Mar-24	Across India	Continuous

Source: Industry, PL

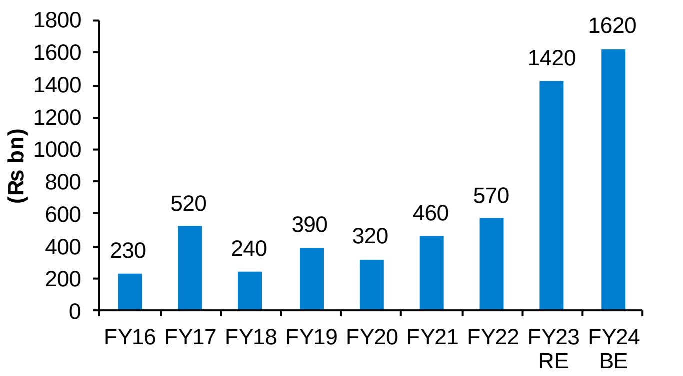
Transport sector and NHAI to support demand

GoI has ramped up spending on transport sector over last few years. As per Union Budget documents expenditure on transport sector has grown 5x over last 9 years to Rs 5170 bn. ~27 Greenfield Expressways being developed across the country while total length of National Highways in India has grown at a CAGR of 5.3% over last decade to 145k km in Mar'23.

Target for achieving national highways of 200k km by FY25

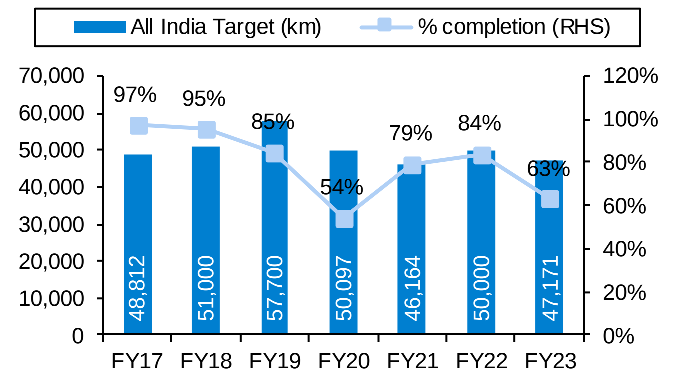
The pace of addition had declined due to Covid lockdown, however over last two years it has picked up pace again. The total road network in India is ~6.2 mn km with state highways at 187k km and other roads at 5.9mn km. Over the years, implementation track record of GoI budgetary spend has improved significantly resulting uptick in activities supporting demand.

Exhibit 10: 4x increase in NHAI Expenditure over FY19-23



Source: Industry, PL

Exhibit 11: Target length of roads under PMGSY



Source: Industry, PL

The Pradhan Mantri Gram Sadak Yojana (PMGSY), was launched by the GoI in 2012 to provide connectivity to unconnected Habitations as part of a poverty reduction strategy. As per latest figures made available by the State Governments under a survey to identify Core Network as part of the PMGSY programme, about 1.67 lakh Unconnected Habitations are eligible for coverage under the programme. This involves construction of about 3.71 lakh km. of roads for New Connectivity and 3.68 lakh km. under upgradation.

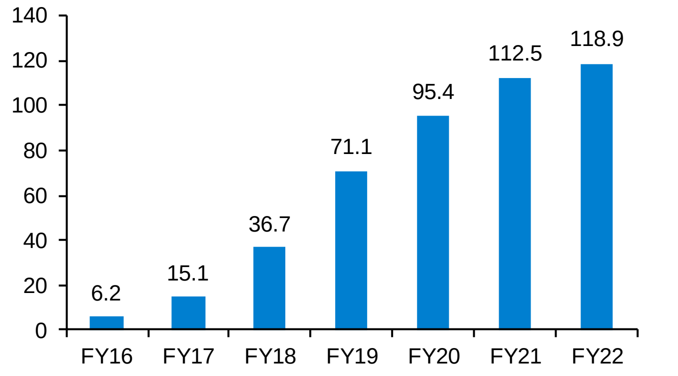
Building and Construction

Affordable housing under PMAY continues to drive demand

Under Pradhan Mantri Awas Yojana- Urban (PMAY-U) scheme, GoI has promoted affordable housing for the weaker sections of population through Credit Linked Subsidy Scheme along with its original aim of rehabilitating slums. As of August 2023 in urban area, ~64% of the houses sanctioned till FY22 were delivered and the scheme is expected to deliver rest till FY24.

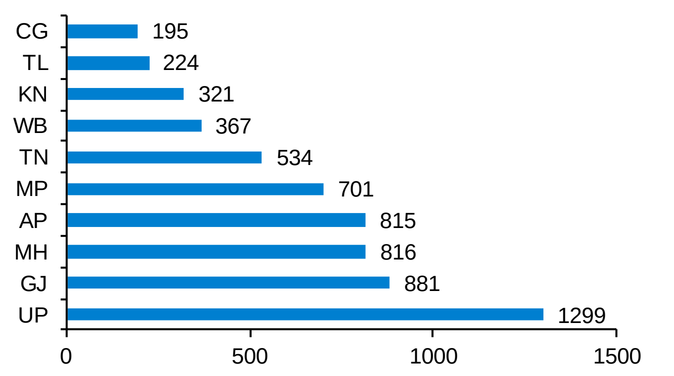
Till FY21, this scheme has resulted in 8.4mt of steel usage as per GoI update. When announced, the idea was to build 20m houses for "Housing for all". Although only 60% houses were sanctioned, if extended this will result in incremental demand.

Exhibit 12: Total no of Houses sanctioned (in lacs)



Source: Industry, PL

Exhibit 13: Completed units - top 10 States (in '000)



Source: Industry, PL

Improving demand from domestic real estate market

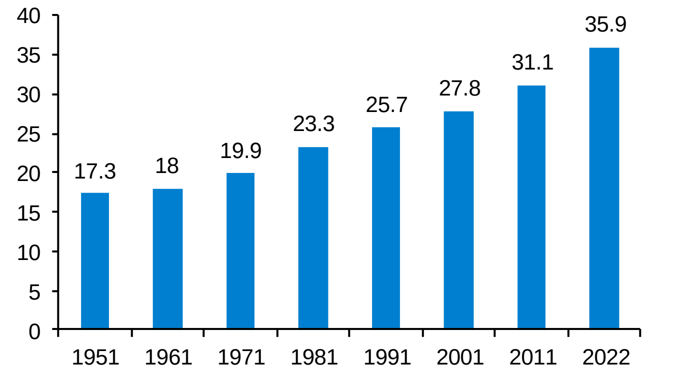
The Covid-19 pandemic has reinstated the importance of home ownership and the attitude of customers towards residential properties has seen a substantial shift in India. Few of the emerging trends in realty market are: a) Preference for larger sized apartments, b) inclination towards reputed developers, c) owning a retirement house and d) a rising demand for townships projects. Despite recent interest rate hikes, residential demand has not only remained resilient but surged to decadal high in terms of annual sales in CY2022 as per industry reports.

The number of launches are also increasing and touched a decadal high last year, inventory is continuing to show a decline or stability across Tier-1 cities, indicating a healthy demand momentum.

While the residential segment witnessed strong performance, commercial office segment continues to remain sluggish with demand not yet reaching the pre-pandemic levels. The challenges to office space demand has been the 'work from home' trend and slowdown in global economic growth. The global slowdown directly impacts sectors like IT/ITeS which is the major occupier of office space in India. Retail real estate sector though, is back to full swing with consumption recovering beyond pre-pandemic levels and should continue the momentum.

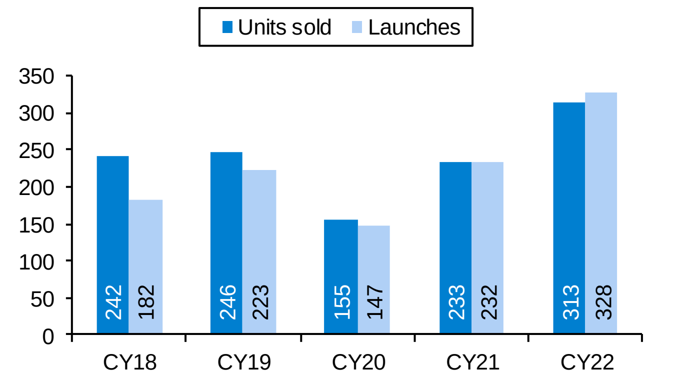
General thumb rule of ~4 kg of steel per square foot of built-up area translates to total urban cities residential market steel demand works out at ~21mt. With urbanization rate likely to continue over next decade, steel demand is expected to get support from higher residential activities.

Exhibit 14: Urban population as a % of total



Source: MOSPI, PL

Exhibit 15: Top 8 cities res. sales picking up ('000)



Source: Real estate Industry, PL

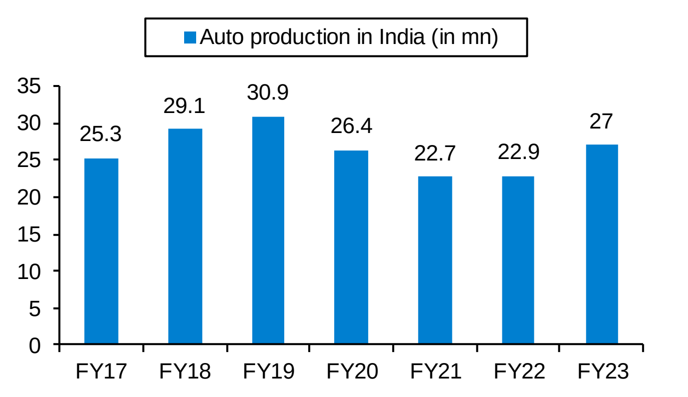
Domestic Auto industry gradually coming out of woes

Indian automobile demand is improving gradually post pandemic and is expected to surpass pre-covid numbers led by a) relatively young population, b) rising disposable income, c) uptick in electrification, d) better access to auto finance, and e) rising trend of premiumization.

As per industry reports, premium car market is expected to grow at a faster pace (11-12% CAGR) than mass car market (4-5%) over next five years in the Passenger car market. The UV segment has recorded a CAGR of 14% from FY17-23 and is expected to grow by the same rate in the next five years. A healthy macroeconomic growth is expected to support the growth in automobiles segment.

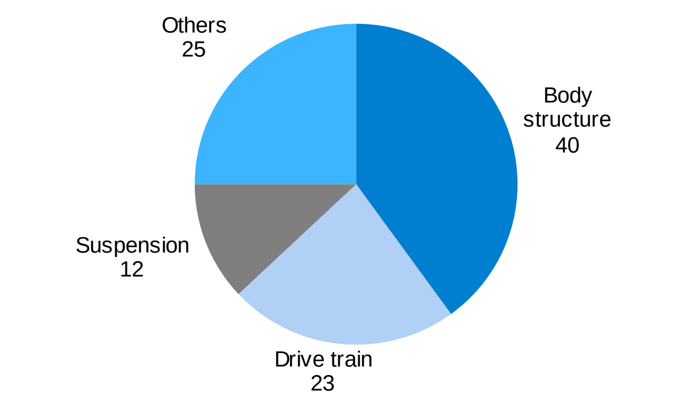
We expect the commercial vehicle industry to grow by 7-10% in FY24 with M&HCV segment outperforming LCVs. In two wheelers, growth is expected to be ~5-8% on a low base and outperformance of EV 2Ws and the three wheeler segment is expected to continue to grow led by high growth in the passenger segment in FY24. Automobile has always supported steel demand growth with stable 10-12% volume share. We expect this to continue as auto volume improve and India moves towards becoming a developed nation gradually.

Exhibit 16: Auto industry regaining the glory



Source: Industry, PL

Exhibit 17: Weight distribution per vehicle



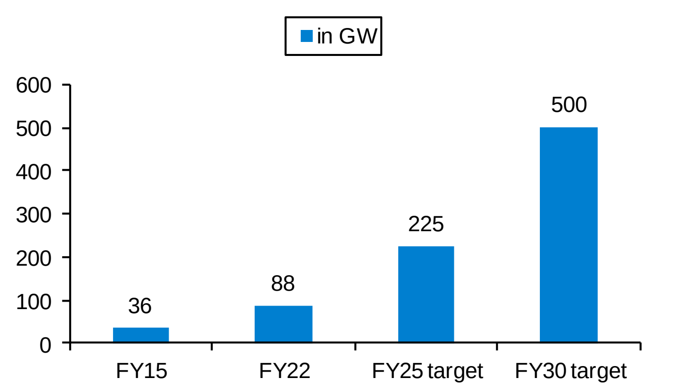
Source: WSA, PL

Rising share of renewables in energy generation

In an effort to reduce carbon intensity India has targeted to achieve ~50% of the cumulative electric power installed from non-fossil fuel based resources by 2030. To achieve this target, India aims to add 500 GW of renewable installed capacity. India is well ahead of its near term target with 110GW installed Solar & Wind power capacities as of July 2023. India's share of electricity generation from renewable (mainly Solar and wind) capacities is rising consistently and stood at 14.1% as per generation data of June 2023.

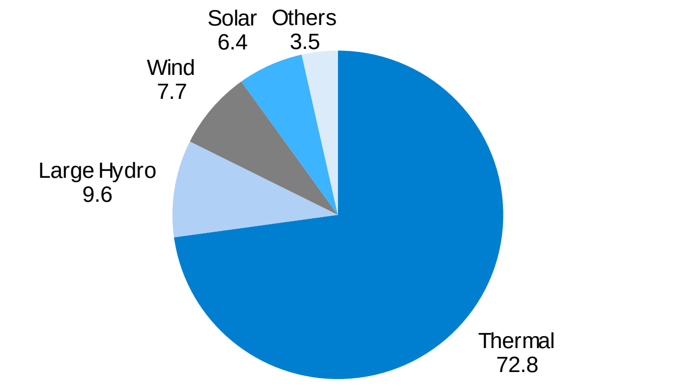
As per global steel major ArcelorMittal, each new megawatt (MW) of solar power requires between 35-45 tonnes of steel, and each new MW of wind power requires 120-180 tonnes of steel. Assuming average number of steel usage, India will require ~23mt of incremental steel to achieve this renewable capacity.

Exhibit 18: Massive Renewable Energy capacity targets



Source: Industry, PL

Exhibit 19: Rising share of renewables in generation

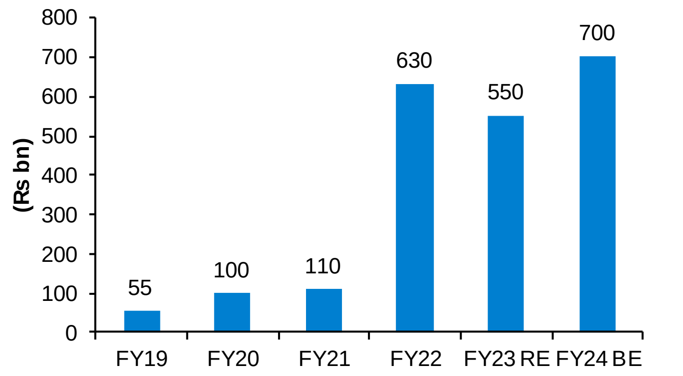


Source: CEA, PL

Strong demand from gas and water transportation

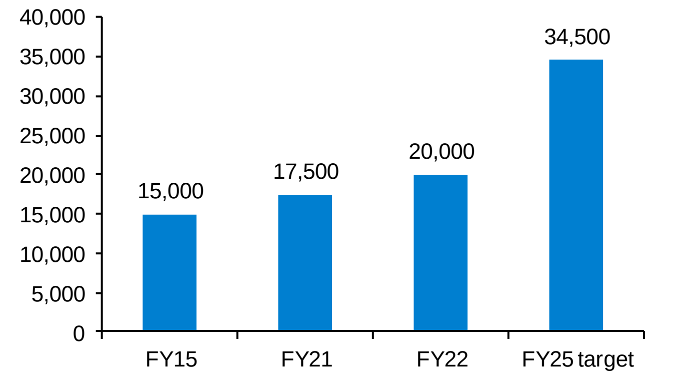
Under Jal Jeevan Mission, GoI has focused on supplying tap water connections across all households in rural India and over 8 cr connections have been provided since 2019. The budget is expected to remain high for FY24 at Rs 700 bn. Similar strong demand is seen from gas pipeline sector where gas network is rising as CNG distribution is increasing across India. Increasing pipelines usage is expected to directly drive steel demand over next few years.

Exhibit 20: 6x increase in Jal Jeevan outlay since FY21



Source: Industry, PL

Exhibit 21: Length of Gas pipelines (km)



Source: Industry, PL

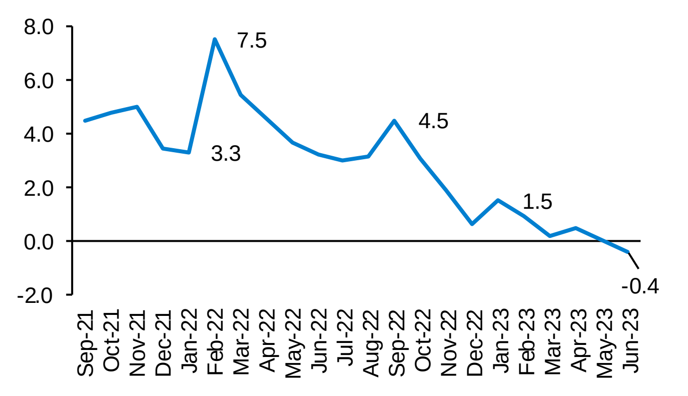
Dedicated Freight Corridors in final phase

GoI has taken up the construction of two Dedicated Freight Corridors (DFC) namely the Eastern Dedicated Freight Corridor (EDFC) from Ludhiana, Punjab to Sonnagar, Bihar (1337 Km) and the Western Dedicated Freight Corridor (WDFC) from Jawaharlal Nehru Port Terminal, Maharashtra to Dadri, Uttar Pradesh (1506 Km). Over 65% of the work on DFCs have been completed.

DFC is a railroad route with a high capacity and high speed which is only used to transport freight, goods and commodities. This is expected to reduce congestion on main lines, increase speed and improve efficiencies. We believe DFCs along with similar such bigger infrastructure projects under construction viz. Sagarmala, Bharatmala, Urja Ganga Pipeline, national infrastructure pipelines, national investment and manufacturing zones are expected to keep the domestic steel demand momentum strong.

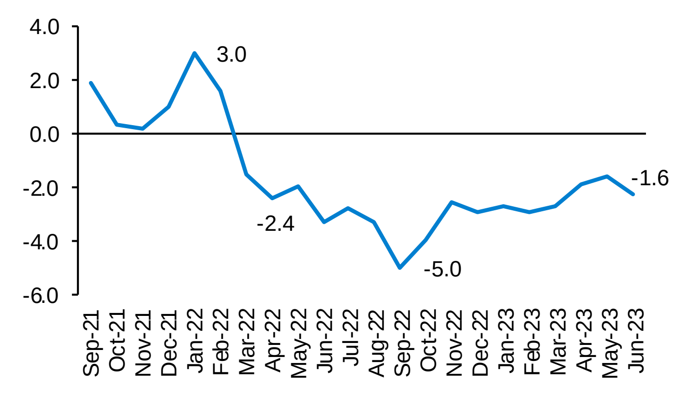
Industrial production growth weak across except India (YoY growth)

Exhibit 1: US



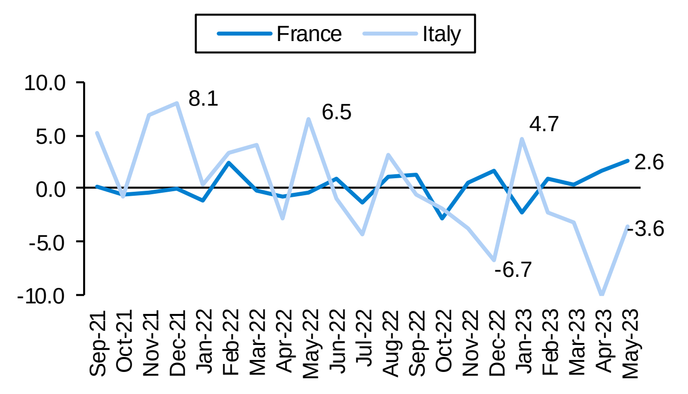
Source: Industry, PL

Exhibit 2: UK



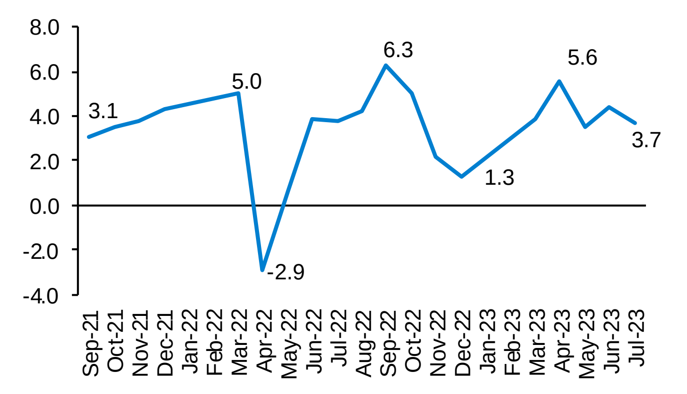
Source: Industry, PL

Exhibit 3: Other Europe countries



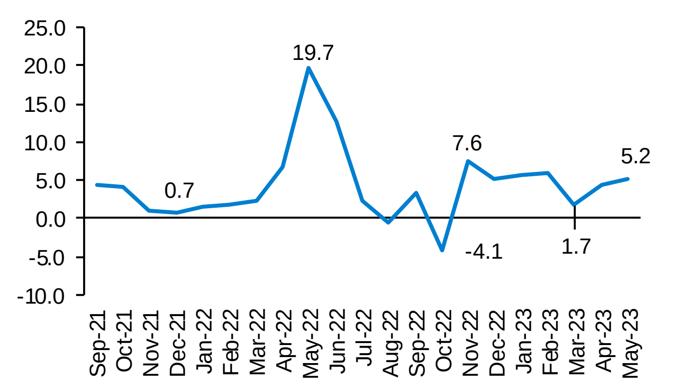
Source: Industry, PL

Exhibit 4: China



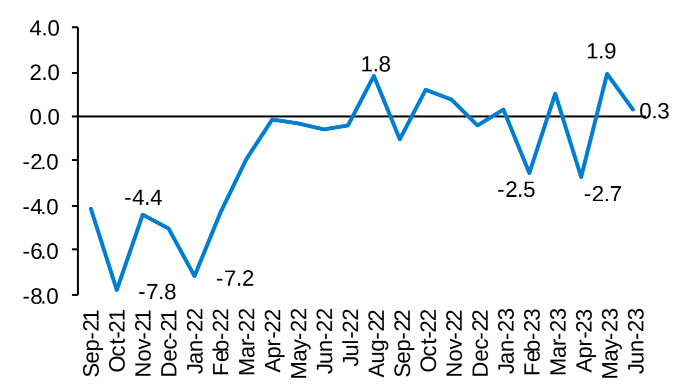
Source: Industry, PL

Exhibit 5: India



Source: Industry, PL

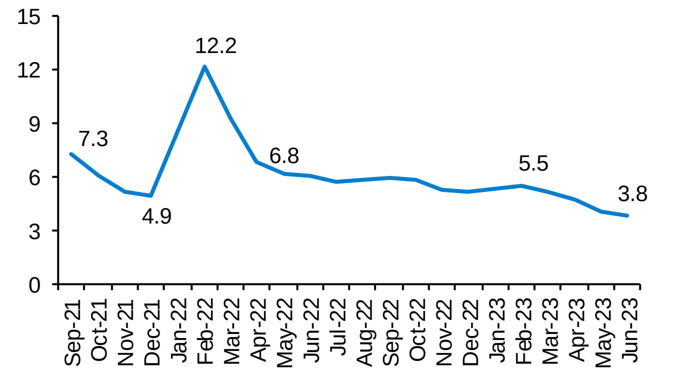
Exhibit 6: Brazil



Source: Industry, PL

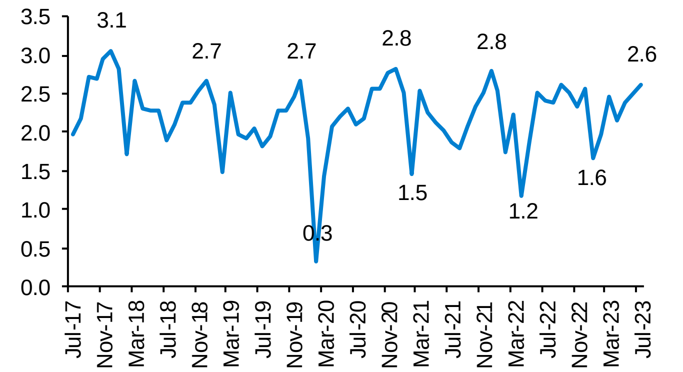
China steel demand scenario

Exhibit 7: China fixed asset investment (YoY %)



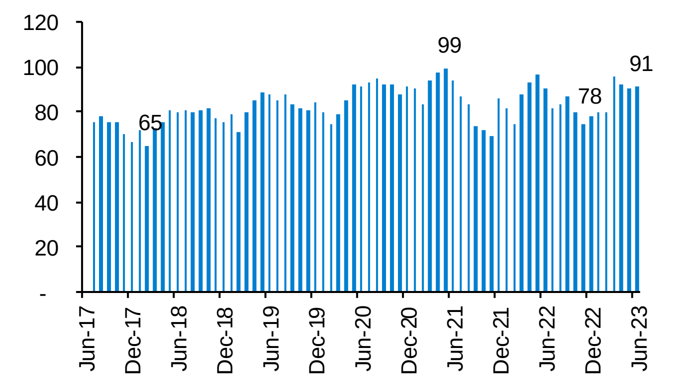
Source: Industry, PL

Exhibit 8: China vehicle sales (mn units)



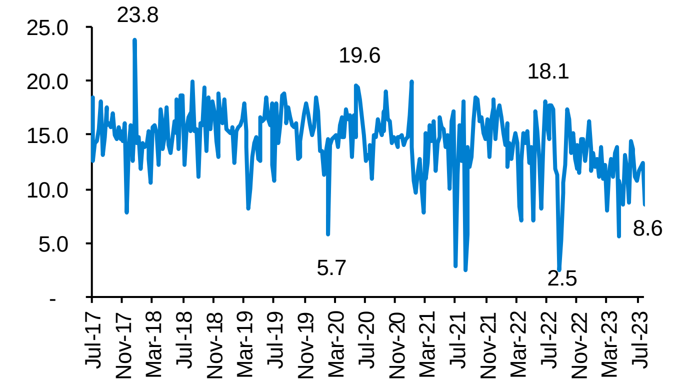
Source: Industry, PL

Exhibit 9: China Monthly Crude Steel Production (mt)



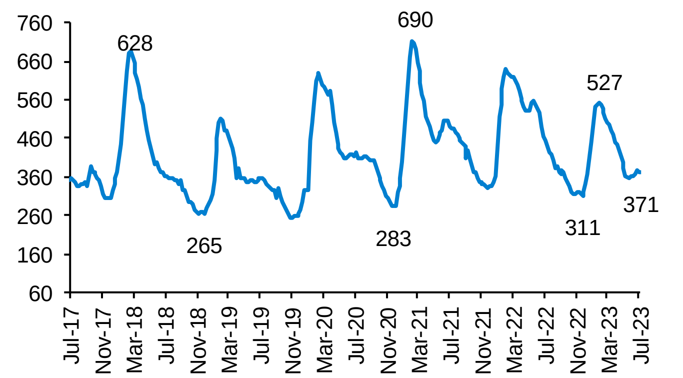
Source: Bloomberg, PL

Exhibit 10: China weekly iron ore imports (mt)



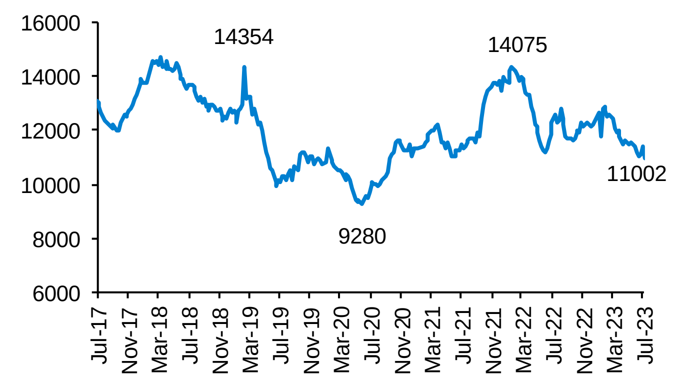
Source: Bloomberg, PL

Exhibit 11: Weekly Steel Inventory (in 10,000 tonnes)



Source: Bloomberg, PL

Exhibit 12: Weekly Iron Ore Inventory (in 10,000 tonnes)



Source: Bloomberg, PL

Weak Chinese demand to improve gradually

China being major contributor to demand of metals since last two decades any weakness or volatility in demand weighs on prices. In the near term, as Chinese GDP growth is expected to be stimulus and consumption driven, metal prices are expected to remain muted. Chinese property sector woes continue and prices have declined to decade lows. With ongoing efforts by Government to push the demand via generating jobs post Covid-19, we expect property sector to come back to normalcy over next few quarters supporting metals demand.

Although Chinese production is growing faster than WSA's estimate over last few years, it is expected to decline marginally over next two years. Government of China has nominated 2030 as its target date for peak steel output which they have already achieved much before. We expect the weak residential property sector, which is expected to improve gradually from the fall, and Government's support in infrastructure spending would drive steel demand gradually from 2HFY24.

Govt. in its support to drive demand had issued special purpose bonds worth ~USD 680 bn, primarily to be used for infrastructure spending in 2022. The Govt. has also instructed its various policy banks to increase lending for infrastructure projects.

Consumer spending is expected to pick up slowly in line with easing monetary policy. In June 2023, the People's Bank of China reduced key lending rates, including reducing one-year medium term lending facility loan rates to some financial institutions by 10 basis points and cutting the seven-day repurchase rate by the same amount.

There are indications that China's central bank is likely to cut the reserve requirement ratio for major lenders by **25 bps by end of 2QFY24.** However, there is yet to be a meaningful pick up of credit growth in the broader economy.

<u>We believe lower steel production from China will keep fall in global steel prices in check and would be beneficial for overall steel industry. Gradual economic recovery is positive for overall pricing scenario for metals.</u>

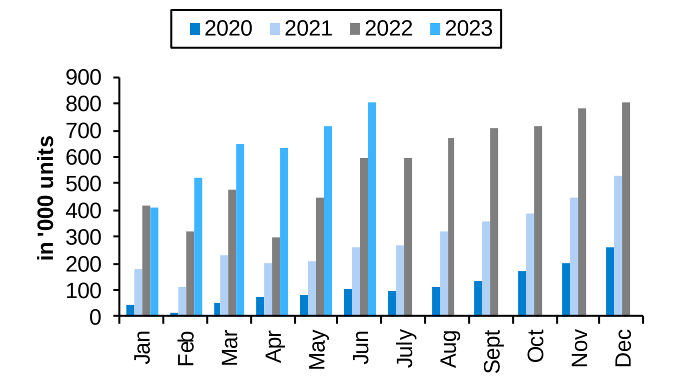
Stable Chinese Auto market

Pent-up demand and supportive government policies on NEV expected to offset the impact from slowing economic growth

Over last decade Chinese automobile sector volume growth is flattish and volumes achieved in 2017 still acting as peak. Weakening sales growth has raised concern over its economic growth, while financial support is widely expected after an earlier government pledge to promote the industry. In June 2023, Chinese government extended the existing new energy vehicles (NEV) tax exemption by four years to December 2027 which was available till December 2023. China's purchase tax exemption on NEVs to remain in place till Dec'25, with total exemption amount per unit will not exceed 30,000 yuan ($4,179). Post Dec'25, the tax exemption will be halved for next two years from its original 10%, with the per-unit exemption amount capped at 15,000 yuan. With this tax exemption, sales of NEV vehicles are seeing strong growth aiding the decarburization efforts of Government.

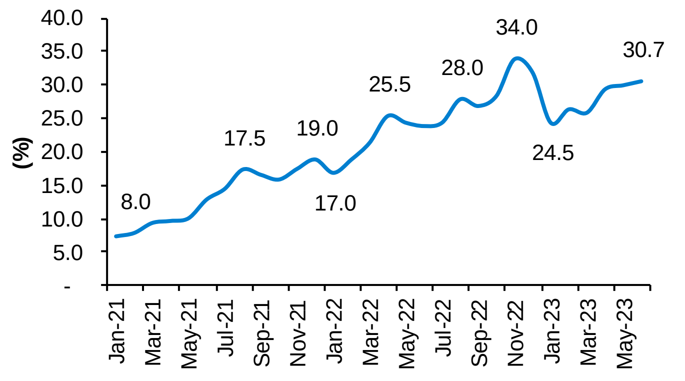
In 1HCY23, China's NEV sales amounted to 3.75 mn units, contributing 28.3% of all vehicle sales. China sold 806k NEVs in June (up 35% YoY), the second highest on record after 814k in December last year as per data released by China Association of Automobile Manufacturers (CAAM).

Exhibit 13: Chine NEV sales grew 45% YoY in 1HCY23



Source: Industry, PL

Exhibit 14: China monthly NEV penetration at 30.7%

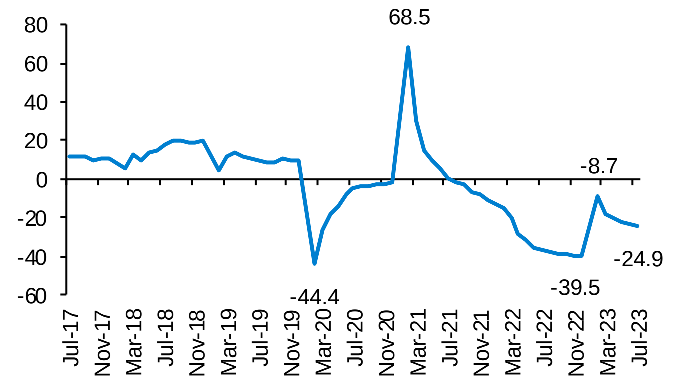


Source: Industry, PL

China property sector woes continues

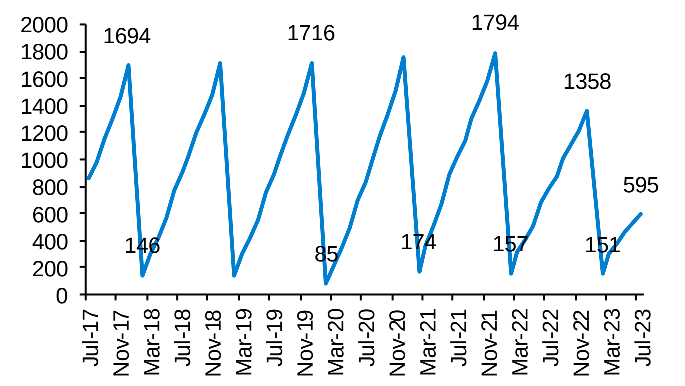
China property woes continued in 1HCY23 with both new housing starts and commercial sale falling sharply. Property sales have declined over 30% to a level before Covid which has taken housing market back to where it was in 2015. In 2022, the downturn in the housing market hurt local government finances. Tightening restrictions on developers led to a record number of debt defaults and triggered the most serious housing slump in China since 1998. Local governments faced difficulty selling land; the total land sale revenue in 2022 dropped to 6.7 trillion yuan (-23% YoY). Government responded by suspending financial restrictions on developers to spur the economy.

Exhibit 15: New housing starts over FY17-23 (%)



Source: Bloomberg, PL

Exhibit 16: Commercial spaces sold over FY17-23 (m sqm)



*Source: Bloomberg, PL; * cumulative*

Government land-related income decreased from 37% of total local government revenue in 2021 to 31% in 2022. To address to limit downturn in Chinese realty sector, various solutions are being anticipated such as a) more relaxation in the Hukou system, b) incentives on down payment for second homes, c) building care homes for elderly, d) more flexibility on the implementation of businesses in residential areas, e) a debt solvency framework for property developers and f) launch of fresh renovation programs in large cities.

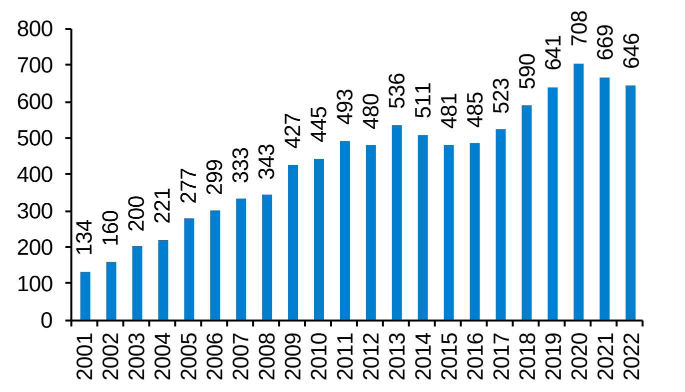
The commercial market is also weak with decade high vacancy rates. At recent monthly press conference by the National Development and Reform Commission (NDRC), an NDRC official talked about challenges of "insufficient demand, weak momentum and weak confidence". However, it is expected that NDRC would come up with infra projects in energy and transportation industries which would support economy and boost consumer confidence.

The scenario is unlikely to change quickly however with Government's sustained efforts to create jobs and announcing stimulus to support overall economy, we believe demand scenario for steel is expected to improve gradually. As the recovery is expected to be driven by jobs creation in service intensive parts of economy (which is seeing recovery and expects to create 16m jobs in next one year), demand recovery in metals is expected to be gradual supported by Autos and realty sectors.

Strong push in renewable energy sector

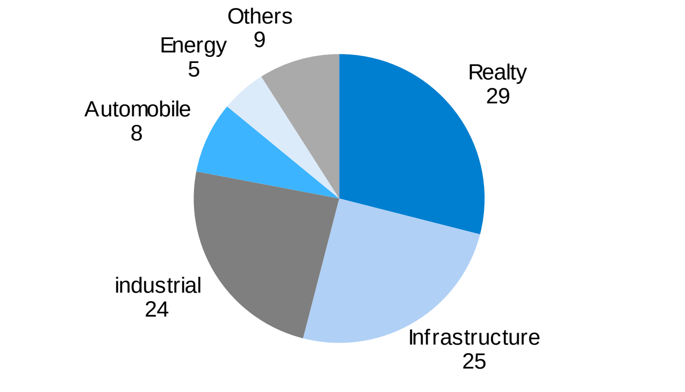
China has reached its targeted 2025 renewable capacity of 50% much before in June 2023. Key non-fossil fuel power sources, such as wind and solar power, account for ~31% of the country's total installed capacity of 1,330 GW. By the end of 2022, China's installed power generation capacity was 2,564 GW, according to data from the National Bureau of Statistics (NBS). As steel demand from traditional infrastructure capex is muted, incremental capex in renewables is expected to support steel demand.

Exhibit 17: China steel consumption (kg/capita)



Source: Bloomberg, PL

Exhibit 18: China steel consumption by sectors (%)



Source: Bloomberg, PL

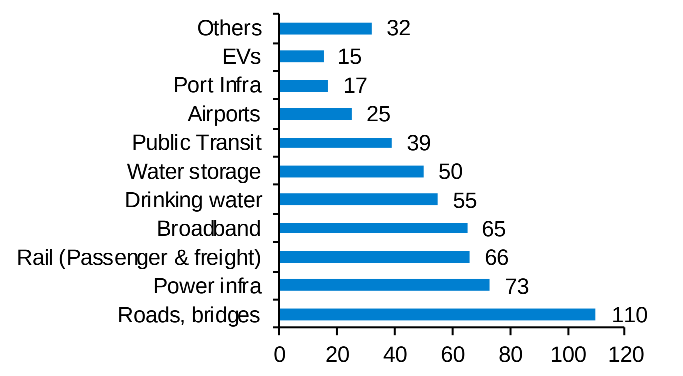
Developed nations - Weak near term demand

Metals demand in the developed nations suffered significant contraction last year led by higher energy costs, weak demand and monetary tightening.

North America (137 mt of finished steel usage)

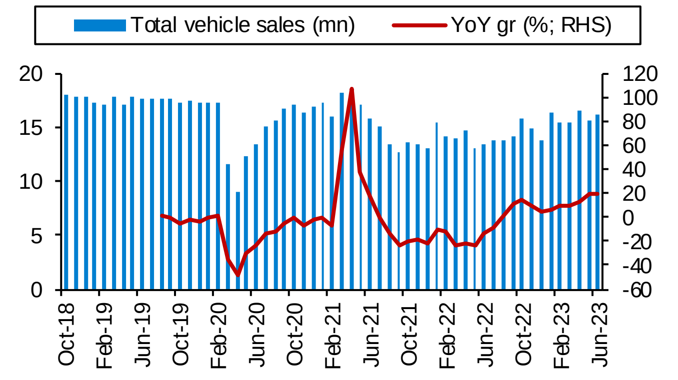
Economic growth in FY24 is expected to be subdued by recessionary pressure which is expected to keep steel demand muted in near term. Rising interest rates as well as land and material costs are putting negative pressure on construction, particularly for the residential sector. However, renewable energy generates ~20% of the total energy produced in US and which is expected to rise to 50% over next decade. Steel demand is also expected to be aided by recent legislations viz. 2021 infrastructure law and the Inflation Reduction Act (IRA). E.g. ~42% of all bridges in the US were at least 50 years old as of 2021, and ~7.5% were labeled “structurally deficient” by the American Society of Civil Engineers. On March 31, 2021, US President unveiled USD 2.3 tn American Jobs Plan which, when combined with the American Families Plan, amounted to USD 4 tn in infrastructure spending.

Exhibit 19: New capex planned by IIJA Act (USD Bn)



Source: Industry, PL

Exhibit 20: Strong recovery in US total vehicle sales



Source: Industry, PL

The detailed plan aimed to create millions of jobs, bolster labor unions, expand labor protections, and address climate change. Post debates and discussions, Senate passed final version of Infrastructure Investment and Jobs Act with projects worth USD 550 bn. Although the execution may take time, political will to invest in infrastructure seems strong and will culminate into higher demand for steel and other commodities over next five years.

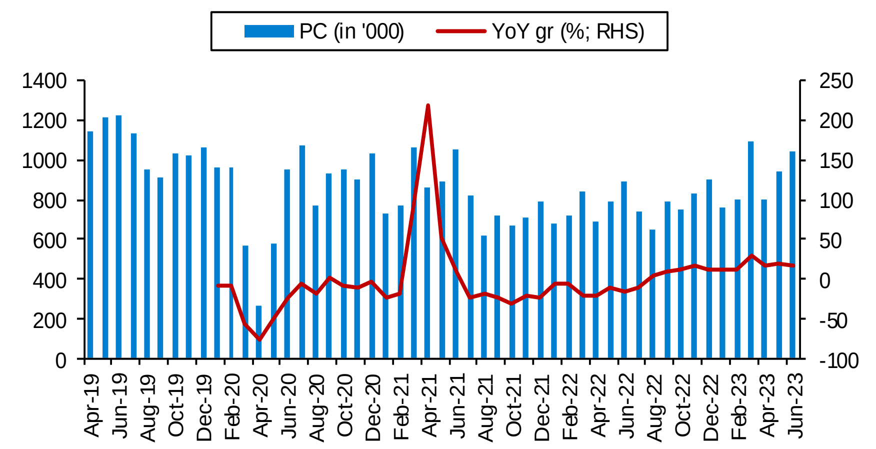
Europe (183 mt of finished steel usage)

The European Union economy including UK, turned out to be more resilient to the energy crisis caused by the Ukraine war than earlier estimated. Public construction works and government housing schemes should provide some support in H2 2023. However, higher energy costs (relative to historical levels), and the impact of rising interest rates on residential and commercial construction is expected to hurt activity in near term.

Auto sector is seeing gradual recovery with reduced component supply disruptions caused by the pandemic. In the first half of 2023, new EU car registrations increased 17.9% YoY, reaching 5.4 mn units. However, cumulative volumes are 21% lower compared to 2019. Most of the region's markets grew significantly in the first six months of 2023, including the four largest ones: Spain (+24.0%), Italy (+22.8%), France (+15.3%), and Germany (+12.8%).

New truck registrations recorded a significant increase of 20%/15%, totalling 179k/15k units. Almost all EU markets saw double-digit percentage gains, including the four largest: Germany (+24.8%), France (+12.3%), Italy (+12.6%), and Poland (+10.8%) for trucks segment.

Exhibit 21: EU new Passenger car registrations improving



Source: Industry, PL

In 2023, the EU steel industry is expected to remain sluggish with ongoing war and continued monetary tightening. Steel demand is expected to remain flat with 0.4% decline as per WSA. In 2024, demand is expected to see a visible rebound of over 5% if the external environment improves.

New projects in transport infrastructure expected in the long term

The European Commission has recently announced to invest Euro 6.2 bn in 107 projects of transport infrastructure. Over 80% of the funding is expected to support projects that deliver a more efficient, greener, and smarter network of railways, inland waterways and maritime routes along the trans-European transport (TEN-T) network. Projects will not only bolster the EU-Ukraine Solidarity Lanes, but also facilitate Ukraine's exports and imports.

Japan (55mt): After a fall of 4.2% in 2022, steel demand is expected to increase by 4%/1.2% in 2023/2024

Major cross-border rail connections along the TEN-T core network have also been prioritized for funding. These include notably a) the Brenner Base tunnel (linking Italy and Austria), b) Rail Baltica (connecting the three Baltic States and Poland with the rest of Europe), and c) the cross-border section between Germany and Netherlands (Emmerich–Oberhausen), among others.

S Korea (52mt): After a fall of 8.6% in 2022, steel demand is expected to increase by 3%/2% in 2023/2024

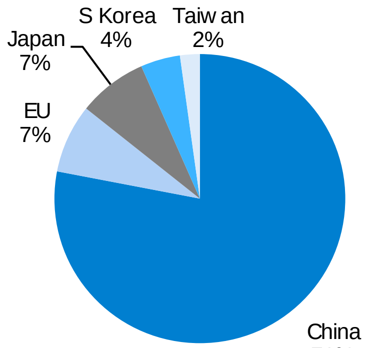
Maritime ports in Ireland, Greece, Spain, Latvia, Lithuania, the Netherlands and Poland will receive funding for developing on-shore power supply to reduce greenhouse gas emissions from moored vessels.

Supply side constraints easing

Iron ore prices to remain soft led by China

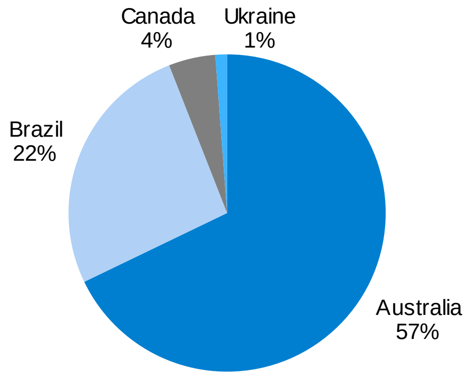
As China leads in world's iron ore trade (~1.6bt) with over 70% of import share, global iron ore prices move along with Chinese apparent steel growth and overall economic scenario. With China expected to remain soft on steel production over next few years, we believe iron ore prices will remain range bound between USD100-120/t. China's local iron ore has lower iron content, which requires further processing to produce concentrates with higher content. Therefore, imports are expected to continue in medium term till the time Government support investment for further processing. With demand situation remaining soft, incremental capacities by global majors are expected to drive iron ore production by 5-6% per annum.

Exhibit 22: Share of world's iron ore imports in 2022 (%)



Source: Industry, PL

Exhibit 23: Share of world's iron ore exports in 2022



Source: Industry, PL

Few of the planned capacities coming in near term are mentioned below

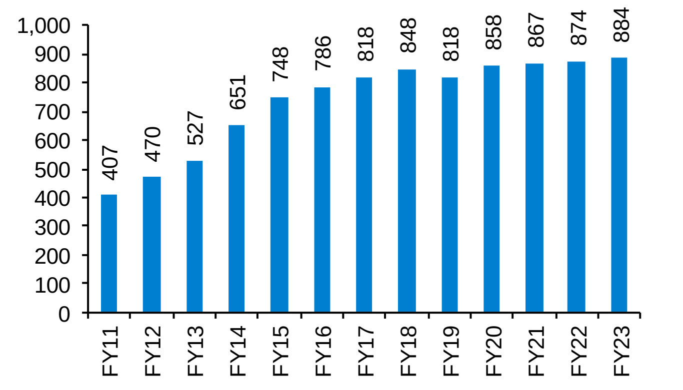
Exhibit 24: Upcoming global iron ore projects

Company	Upcoming Project	Capacity (mtpa)	Commissioning by
Fortescue	Iron Bridge Magnetite	22	May-23
Atlas Iron	McPhee Creek	10	Dec-23
Rio Tinto	Pilbara Western range	25	Jun-25
Vale	Amazon Brazil	30	Jun-25
Rio & consortium*	Simandou Guinea	120	Mar-23

*Source: Industry, PL; * restarted but infra needed for ramp up*

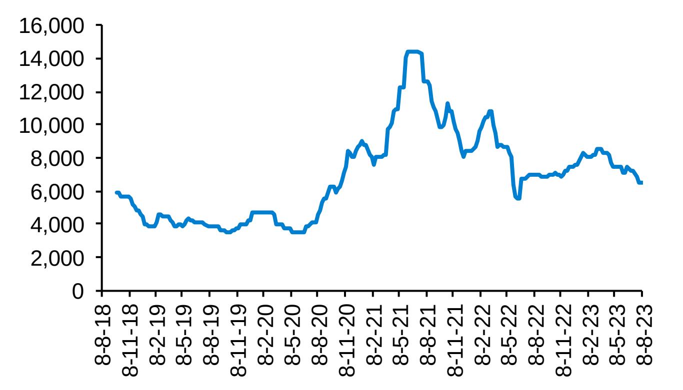
Iron ore production in India is rising again post mining ban removed in few states. However, increasing royalty costs and incremental regulatory issues (such as putting a limit on production) can keep the cost on higher side. Iron ore auctions are huge success with companies bidding for iron ore mines to secure the key raw material. Once mining lease of existing captive mines comes to an end, the cost of operations would increase for TATA & SAIL as they will have to pay the premiums to retain the mines. However, JSTL and JSP are adding mines to their portfolio over last few years to improve the self-sufficiency.

Exhibit 25: 6.7% CAGR in Australian iron ore exports (mt)



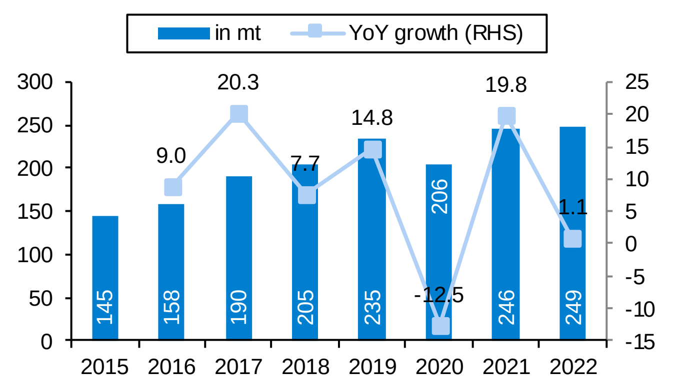
Source: Industry, PL

Exhibit 26: Iron Ore Lumps (Fe 63% Odisha) remain weak



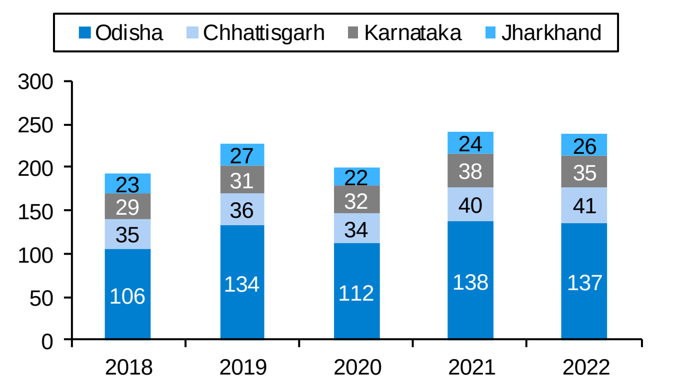
Source: Industry, PL

Exhibit 27: India iron Ore production (in mt)



Source: SteelMint, PL

Exhibit 28: State wise Iron Ore Production (mt)



Source: SteelMint, PL

Coking coal prices to moderate on improved supply

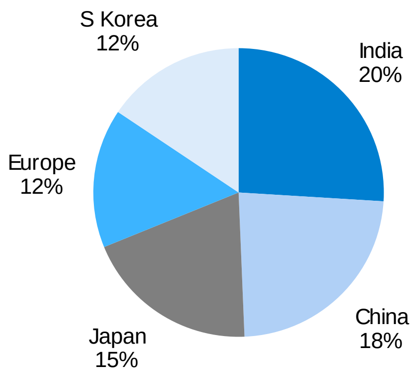
Real struggle is for coking coal as volatility in prices remain high due to limited supplies across world and operations gets disrupted due to various issues such as weather disruptions, geopolitical issues, etc. As India has limited reserves and rising steel production, over last few years it has overtaken China in imports. <u>However, supply conditions are expected to improve in the near term and expected to put pressure on coking coal prices.</u>

Shipments from Australia have begun to recover following a long period of weather-related disruptions; most of which abated only in March 2023 and the outlook is for greater production. The Australian Bureau of Meteorology has announced that drier weather is likely with the end of the La Niña climate episode. This will allow more rapid dewatering and restoration of full coal output across most of NSW and Queensland.

Production from mine openings in Australia is also expected to help increased volumes. These mines include the new Vickery mine in NSW, and the Ironbark, Burton, North Goonyella, Hillalong, Wilton Fairhill and Olive Downs projects in Queensland.

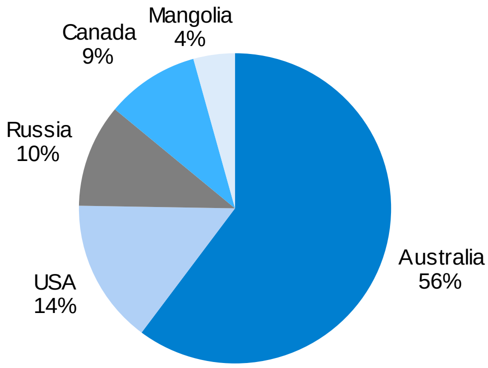
Australian exports to China have started following the removal of informal trade impediments imposed in October 2020 by the Chinese Government. However, volumes remain well below 2019 monthly average. China's domestic prices have recently dropped significantly, amidst rumors of cuts in steelmaking; which will keep prices on lower side. The contract prices for high quality hard coking coal are at USD228/ USD203 per ton for FY24/ FY25.

Exhibit 29: Share of world's Coking coal imports in 2022 (%)



Source: Industry, PL

Exhibit 30: Share of world's Coking coal exports in 2022



Source: Industry, PL

Rising EAF proportion globally but still low at China: Over 90% of China's steel production still comes from traditional BF-BOF process due to lower availability of scrap and relatively easy imports of coking coal. In developed nations proportion of electric route is significant due to higher availability of scarp. Over last two decades, India's share of BF-BOF has reduced to 46% and as nations progresses towards development scrap generation would increase resulting in companies moving towards electric arc furnaces.

Exhibit 31: EAF proportion still low at China at 10%

	Oxygen (%)	Electric (%)	Production (mt)
EU (27)	56	44	136
Other Europe	37	63	46
Russia & CIS	64	36	86
N America	31	69	111
S America	66	34	43
Africa	13	87	21
Middle East	5	95	50
China	91	10	1018
India	46	54	125
Rest Asia	61	39	241
ANZ	75	25	6

Source: Industry, PL

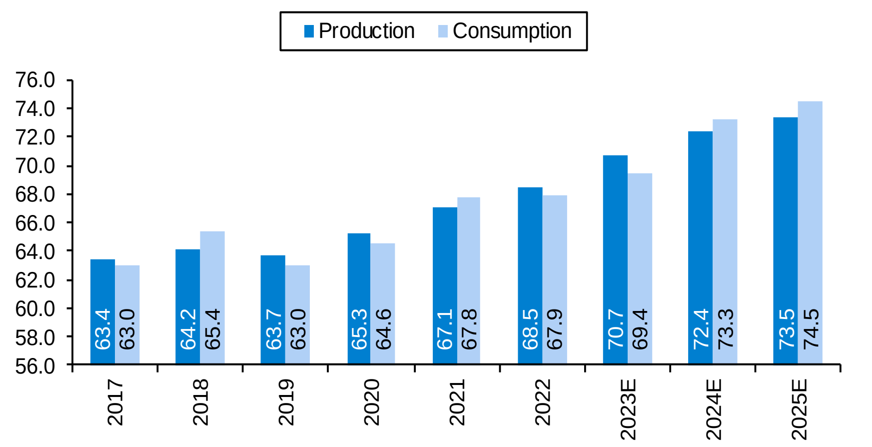
Aluminium

Demand: Global consumption for primary aluminium grew at 2.4% CAGR over 2015-22. Aluminium production kept pace growing at 2.3% CAGR over same period. In FY22 global aluminium market went into sizeable deficit due to sharp resumption of demand post pandemic; however, with weakening demand from developed nations (especially Europe) market is expected to remain in slight surplus in 2023. European economy displayed strong resilience to sharp jump in energy prices, and falling inflation is expected to support overall demand scenario. However tighter monetary conditions are likely to impact Western aluminium demand in FY24. China on the other hand is displaying stronger growth and contribution from China in global aluminium has increased to over 60% over the last few years.

<u>In recent quarters demand remains weak as global primary aluminium consumption declined 1.5% YoY in 4QFY23 to 16mt. led by sharp 28% YoY fall in European consumption. Weaker European demand was due to subdued activity in the housing and construction sectors. China's primary aluminium demand however rose by 7% YoY in 4QFY23 ~10mt led by strong NEV sales.</u>

Supply: Production outages in China's Yunnan Province have reduced supply over last few quarters, however with restoration of the Yunnan facilities there would be some pressure on prices. Although energy conditions and Government's production cap of 45mtpa at China remains a question. As energy costs remain key differentiator in the aluminium industry, industry is working towards higher usage of renewable energy. ~35% of the total costs in aluminium manufacturing is energy. <u>Declining energy prices are restoring the profitability of aluminium production in developed nations and volumes are expected to come back.</u>

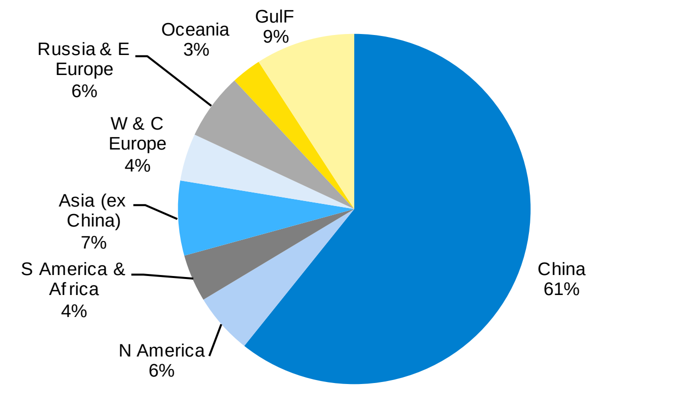
Exhibit 32: Global Primary Aluminium demand supply situation (mt)



Source: Industry, Hydro, PL

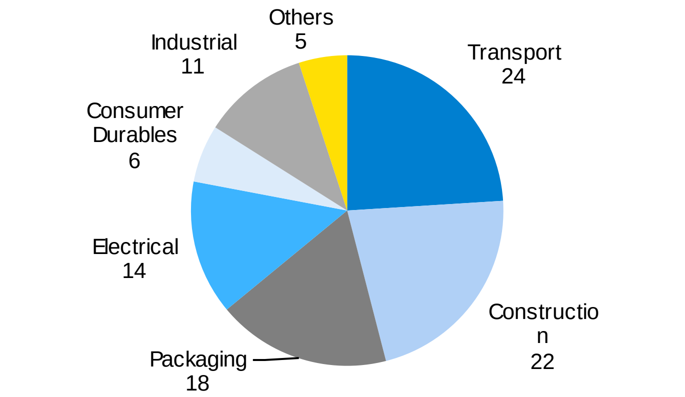
On supply front, no significant new projects to start ramping up in 2023, except Indonesia. As competitive renewable energy is hard to find, limited new projects in the pipeline which will not be enough to meet demand beyond next 3-5 years.

Exhibit 33: Share of Chinese production over 60% (%)



Source: Industry, PL

Exhibit 34: Segment wise Aluminium demand (%)



Source: Industry, Hydro, PL

Going forward, we expect aluminium demand to grow at 3.1% CAGR over FY22-25 led by China and India as globally aluminium is seeing strong traction in transport sector as share of EV is rising. Falling inflation and probable decline of interest rates in FY25 can boost housing and construction activities, aiding economic growth.

Alumina consumption rose by 5.1% YoY in 4QFY23 to 33mt led by higher primary aluminium production. China (7.3% YoY) remained world's largest alumina consumer, accounting for 59% of global alumina usage. As India has abundant bauxite reserves, Indian companies remain beneficiary of low cost alumina produced. Although other raw material costs have inched up over FY21-23, we expect with other commodities normalizing impact of Russian invasion, these raw materials to come off in FY24 supporting margins.

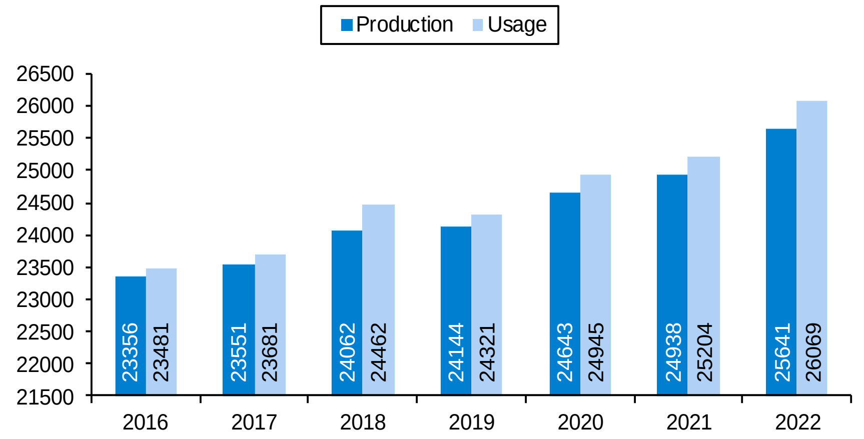
We remain positive on HNDL in the space as Novelis is expected to turn around the weak volume growth over next few quarters and contribution from LME prices in consolidated EBITDA is less than 30%. NACL is a pure play on aluminium and alumina prices as volume growth is expected only in 4QFY25.

Copper

Copper is very critical to the energy transition and used to modernize aging power generation and transmission infrastructure to accommodate fast-growing renewable sources including solar PV and wind. Transportation segment is driving the demand at significant rate with rapidly growing sales of EVs across globe.

Demand: Global refined copper consumption is estimated to grow 1.5% YoY to 26.5mt in 2023. In 4QFY23, consumption was flat YoY, with Asia growing 3.9% YoY offsetting falls in Europe (-6%) and US (-19%). Weaker China, combined with weak construction activity in developed nations is putting downward pressure on copper prices. Growing demand from the power and EV sectors are key drivers of copper consumption over next few years.

Exhibit 35: Global copper demand supply situation (kt)

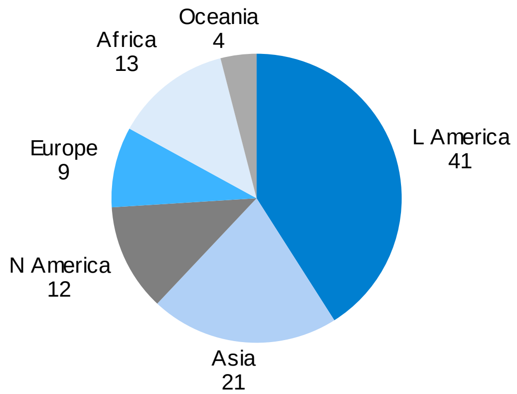


Source: Industry, ICSG, PL

China's copper consumption over next two years is expected to be led by the energy sector, with substantial investment in energy grid and renewable energy generation. India and the ASEAN nations are expected to make strong contributions to copper demand. Indian copper consumption is expected to increase by 10-12% YoY over next two years led by key demographic factors viz. population growth, higher copper intensity per capita, driven by higher urbanisation and living standards.

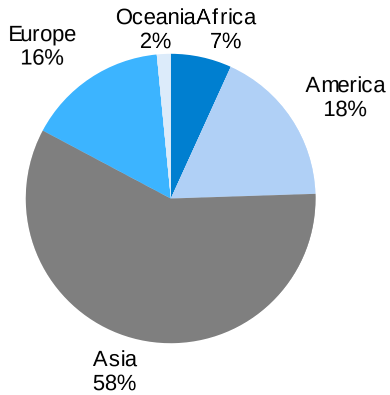
Supply: As per ICSG estimates, Copper mining capacity is estimated to reach 31.2mtpa in 2026, with 18.8% being SX-EW production a steady 3.7% CAGR. Growth in copper mine capacity is expected to witness 2.5% CAGR going forward as new capacity is added at existing and some new operations. However, continued disruptions at mines have been witnessed in the past. In YTD CY23, global copper mining growth was limited by operational issues in Chile (lower grades and reduced water supply due to drought), China, Indonesia, Panama and US, as well as by community actions in Peru.

Exhibit 36: Copper mine production by region (%)



Source: Industry, PL

Exhibit 37: Refined copper production by region (%)



Source: Industry, PL

As companies in India don't have copper mines, they are into custom smelting business which is relatively stable and dependent on TC/RC charges. Miners pay TC/RCs to smelters to process copper concentrate into refined metal, offsetting the cost of the ore. Charges fall when supply tightens and rise when more concentrate is available.

There is strong double digit demand growth expectation for copper in India and post closure of Vedanta's copper unit at Tuticorin, imports had risen. Seeing this opportunity, Adani Enterprises' subsidiary company 'Kutch Copper' is adding 1mtpa smelter in two phases at capex of USD1.1 bn, which might increase competition for HNDL.

Outlook & Valuation

Greenfield capacity addition has been quite challenging in India. Difficulty in acquiring a large parcel of land and getting regulatory MoEF approvals in a timely manner has been the key reason behind long delays for Greenfield plants. Significant steel capacity addition is planned for the next decade supporting GoI's National Steel Policy that envisages doubling domestic steel capacity to 300mtpa by 2030. Top 5 companies (including our universe & AM-NS India) are planning to add ~22 mtpa by FY25E and a whopping 96 mtpa over next decade which includes ~14mtpa each from TATA/JSTL/SAIL, 21mtpa from AM-NS and 34mtpa from JSP. Although most of the players are now talking about Brownfield expansion at existing locations, the targets of AM-NS & JSP seem optimistic.

Domestic demand however remains very strong in near to medium term led by GoI's focus on infrastructure, which is expected to absorb growth in capacities.

For our universe companies' we expect revenue to grow at a CAGR of 9% over FY23-25E on strong volume growth (13% CAGR) led by planned capacity additions and strong demand in the domestic market. Capacities are expected to grow 12% CAGR from 80mtpa to over 100mt by FY25E. We also expect ~23% EBITDA CAGR over FY23-25E on strong volume growth and falling coking coal prices, which would drive earnings growth from 2HFY24. In the previous steel upcycle, most companies deleveraged themselves, except JSTL who focused on capacity addition.

Over FY23-25E we expect TATA, JSP, JSTL, SAIL, JDSL, NMDC, HNDL & NACL to clock EBITDA/PAT CAGR of 10%/34%, 16%/24%, 44%/128%, 25%/66%, 31%/33%, 2%/1%, 7%/5% & 13%/10% respectively.

Considering strong underlying demand along with healthy growth momentum, we **initiate coverage on Metals sector** and recommend 1) **'BUY'** rating on JSW Steel (JSTL; on 7x EV/EBITDA based TP of Rs926), Tata Steel (TATA; on SOTP based TP of Rs137), Jindal Steel & Power (JSP; on 6x EV/EBITDA based TP of Rs812), Jindal Stainless (JDSL; on 6.5x EV/EBITDA based TP of Rs484) & Hindalco Industries (HNDL; on 6x EV/EBITDA based TP of Rs557) and 2) **'ACCUMULATE'** rating on Steel Authority of India Limited (SAIL; on 5x EV/EBITDA based TP of Rs95) and National Mineral Development Corporation (NMDC; on 5x EV/EBITDA based TP of Rs136) & National Aluminium Company Limited (NACL; on 5x EV/EBITDA based TP of Rs97).

Exhibit 38: Peer comparison

Company	Revenue			EBITDA			EBITDA Margin (%)			EPS		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Tata Steel	2,434	2,476	2,635	323	306	392	13.3	12.4	14.9	7.1	6.0	12.8
JSW Steel	1,660	1,827	2,086	185	320	401	11.2	17.5	19.2	14.7	55.9	76.3
Jindal Steel & Power	527	559	666	99	109	133	18.8	19.4	19.9	45.0	54.2	68.7
SAIL	1,044	1,120	1,243	80	121	125	7.7	10.8	10.1	4.0	10.4	11.0
Jindal Stainless	357	425	484	36	54	61	10.0	12.6	12.6	25.7	37.7	45.2
NMDC	177	212	219	61	67	63	34.3	31.9	28.9	15.8	17.3	16.3

Source: Company, PL

Exhibit 39: Valuation comparison

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating	BV FY23 (Rs)	P/BV (x)	EV/EBITDA (x)			ROCE (%)		
							FY23	FY24E	FY25E	FY23	FY24E	FY25E
Tata Steel	1,428	117	137	BUY	84	1.4	6.3	6.8	5.0	12.6	11.0	15.7
JSW Steel	1,869	713	926	BUY	272	2.6	13.3	7.7	6.0	7.7	16.4	19.3
Jindal Steel & Power	638	634	812	BUY	385	1.6	7.1	6.4	5.0	14.7	15.5	18.3
SAIL	354	86	95	ACCUMULATE	126	0.7	8.7	5.4	5.2	5.6	9.6	9.6
Jindal Stainless	348	422	484	BUY	145	2.9	10.4	6.9	5.7	20.2	26.9	26.8
NMDC	350	119	136	ACCUMULATE	77	1.5	4.8	4.1	4.2	30.0	28.5	25.1

Source: Company, PL

Exhibit 40: Peer comparison

Company	Revenue			EBITDA			EBITDA Margin (%)			EPS		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hindalco	2,232	2,158	2,309	229	222	261	10.3	10.3	11.3	45.3	40.9	50.2
Nalco	142	133	139	24	28	31	17.1	21.2	22.3	8.5	9.4	10.2

Source: Company, PL

Exhibit 41: Valuation comparison

Company	Mcap (Rs bn)	CMP (Rs)	TP (Rs)	Rating	BV FY23 (Rs)	P/BV (x)	EV/EBITDA (x)			ROCE (%)		
							FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hindalco	999	450	557	BUY	427	1.1	6.0	6.1	4.9	11.4	9.8	11.3
Nalco	162	88	97	ACCUMULATE	72	1.2	5.8	5.1	4.7	15.3	16.7	16.8

Source: Company, PL

Exhibit 42: Global Comparison

Company	MCap	CMP (Rs)	Return (%) 3M	Return (%) 1Y	Networth	Net Debt	EBITDA (mn) FY23	EBITDA (mn) FY25	PER (x) FY25	EV/EBITDA (x) FY25	Currency
India											
Tata Steel	14,37,891	118	11	10	10,51,752	7,15,358	3,23,002	3,80,849	7.6	5.7	INR
SAIL	3,59,318	87	6	6	5,47,467	3,02,228	80,394	1,22,867	6.5	5.4	INR
JSW Steel	18,74,192	775	10	16	6,70,390	6,01,390	2,05,730	3,70,808	10.5	6.7	INR
Jindal Steel & Power	6,58,416	645	24	54	3,90,191	83,295	97,811	1,37,172	7.8	5.4	INR
Jindal Stainless	3,43,743	417	44	225	1,19,676	30,274	35,861	59,021	12.3	6.3	INR
NMDC	3,58,267	122	15	39	2,26,351	66,751	60,527	68,539	6.0	4.3	INR
Hindalco Inds	10,11,697	450	9	2	9,48,170	5,05,730	2,26,660	2,62,145	8.0	5.8	INR
National Aluminium	1,66,215	91	7	11	1,31,264	20,129	24,481	33,164	9.0	4.4	INR
Global											
Hyundai Steel	46,63,930	34,950	4	6	1,91,28,543	1,12,23,111	32,05,030	31,51,252	4.6	5.0	KRW
POSCO	5,02,35,311	5,94,000	65	139	5,82,57,401	1,87,79,004	85,07,611	1,02,78,496	11.1	6.7	KRW
Nippon Steel Corp.	32,35,844	3,405	22	57	46,46,417	21,01,636	10,66,273	10,23,009	6.4	5.2	JPY
JFE	14,01,841	2,282	30	52	21,93,395	17,52,732	4,56,990	5,49,202	6.5	5.7	JPY
Kobe Steel	7,14,215	1,802	68	184	9,77,653	7,74,566	1,98,870	2,41,212	8.1	6.2	JPY
Arcelor Mittal	20,531	24	1	2	55,590	5,707	12,852	7,542	4.4	3.5	EUR
Thyssenkrupp	4,249	7	1	27	14,742	1,416	2,682	1,951	6.4	1.5	EUR
US Steel Corp.	6,754	30	40	19	10,311	1,076	4,030	1,556	10.5	5.0	USD
Gerdau	42,639	25	1	8	46,298	11,082	19,466	12,335	7.5	4.4	BRL
Angang Steel	28,060	2	3	21	58,797	12,184	3,871	7,595	7.1	5.3	HKD
Baoshan Iron and Steel	1,41,365	6	5	19	2,15,876	67,641	31,727	40,566	8.5	5.2	CNY
Aperam SA	1,967	25	23	10	3,392	496	1,076	570	5.2	4.3	EUR
Outokumpu	1,894	4	22	5	4,119	223	1,300	567	6.9	3.7	EUR
SSAB	60,941	61	13	18	67,191	13,840	31,435	13,434	8.7	3.5	SEK
AcerInox	2,247	9	11	2	2,548	560	1,069	708	6.5	4.0	EUR
Nucor Corp.	41,139	165	21	18	19,570	2,474	11,493	5,560	13.7	7.8	USD
BlueScope Steel	9,432	21	9	19	11,031	703	2,118	1,957	9.6	4.5	AUD
Non Ferrous											
Alcoa	5,038	28	(16)	(49)	6,589	906	1,361	1,478	7.9	4.0	USD
Shandong Nashan Aluminium	37,467	3	4	(11)	50,018	10,183	6,177	7,236	8.2	3.8	CNY
Saudi Arabia Mining Company	1,49,148	40	(5)	(22)	56,040	34,694	18,550	12,598	27.4	14.6	SAR
Kaiser Aluminium	1,161	73	14	(5)	631	1,070	123	268	8.4	8.3	USD
Norsk Hydro	1,18,472	58	(17)	(16)	1,07,798	10,330	37,971	29,676	7.8	4.3	NOK
Yunnan Aluminium	49,106	14	14	28	25,277	6,746	7,834	8,890	7.5	6.3	CNY
Rio Tinto	1,56,686	109	1	10	52,274	4,014	24,943	22,615	16.5	7.1	AUD
BHP	2,20,718	44	2	2	48,530	9,917	27,399	26,932	18.5	8.6	AUD
Freeport-McMORan	54,951	38	10	19	24,871	4,269	9,102	10,551	15.1	5.6	USD
Glencore	52,674	426	1	(7)	45,219	26,914	31,818	18,430	779.1	4.3	GBp
Southern Copper	60,140	78	16	51	8,147	4,904	5,348	5,898	17.8	11.0	USD
First Quantum Minerals	23,146	33	9	29	12,237	6,320	3,471	3,498	16.1	8.4	CAD
Anglo American	24,885	2,031	(12)	(31)	34,024	6,521	11,689	12,152	634.1	2.6	GBp
Zijin Mining Group Co	3,38,802	12	11	27	1,24,455	1,07,148	39,747	55,770	8.6	8.0	HKD

Source: Bloomberg, PL

COMPANIES

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

August 28, 2023

Company Initiation

JSW Steel (JSTL IN)

Rating: BUY | CMP: Rs773 | TP: Rs926

Beneficiary of strong volume growth

We initiate coverage on JSW Steel (JSTL) with 'BUY' rating and target price of Rs926 based on 7x FY25EV/EBITDA. JSTL is well placed to capitalize on strong volume growth in domestic markets over next two years given a) its brownfield expansion at Vijayanagar to take its total steel producing capacity to ~35mtpa by end FY24; b) being lowest cost steel producer in India, fallen RM prices would benefit; c) rising raw material security has led to consistency and yield improvement; d) rising focus on value added and specialized portfolio expected to improve product mix and improve resilience for withstanding steel price volatility. Over last two decades, JSTL has grown its capacity at robust 15% CAGR and also gained good market share. With GoI's focus on infrastructure and overall stronger domestic economy, steel demand is expected to remain high in next few years wherein JSTL would be key beneficiary. The stock is currently trading at 7.7x/6x EV of FY24E/FY25E EBITDA. Initiate 'BUY'.

- **Fastest growing domestic steel producer with superior execution abilities:** JSTL's steel volumes are expected to grow at 17% CAGR over FY23-26E, driven by capacity commissioning planned in FY24 at Vijayanagar plant. Accordingly, the company has undertaken debottlenecking initiatives to increase its plant capacity at Vijayanagar by 1mtpa to make it 13mtpa in FY23. Also, planned brownfield expansion with an estimated capex of Rs200b at Vijayanagar will add another 7.5mtpa over FY24-25. We expect JSTL to benefit from strong domestic growth environment over next two years, as it will have incremental capacities to cater to growth.

- **Lowest cost steel producer in India:** JSTL's manufacturing plants are strategically located in areas that are well-connected by rail, road and port networks for easy and cost-effective movement of materials. These factors, along with operational excellence, high people productivity and state-of-the-art manufacturing facilities, enable JSTL to record one of the lowest conversion costs among Indian steelmakers.

- **Rising raw materials security over last decade:** In an earlier steel upcycles, (especially 2005-08) JSTL suffered on margins due to zero self-sufficiency of key raw materials such as 'iron ore'. However, over last decade there were improvements on that account as well. From recent mining auctions by GoI, JSTL acquired 13 iron ore mines (9 in Karnataka and rest in Odisha) with aggregate reserves of 1.35 bn tonnes. In FY23, the company also met 41% of its total iron ore requirements from captive mines thereby reducing dependence on external procurements.

- **Diversification and value added portfolio to rise:** Rising consumer aspirations and Government's focused capex in infrastructure is expected to continue over next decade, which would benefit steel players having excess capacities. JSTL has improved its value added products portfolio to cater to growing demands, enhance product mix and increase resilience to withstand steel price volatility. The share of value added and speciality products is improving over the years and with ongoing downstream capacity expansion projects such as LRPC, colour coating and tin-plate this VAP portfolio share is expected to improve further.

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	1,464	1,660	1,827	2,086
EBITDA (Rs. bn)	390	185	320	401
Margin (%)	*26.6*	*11.2*	*17.5*	*19.2*
PAT (Rs. bn)	214	36	135	184
EPS (Rs.)	88.6	14.7	55.9	76.3
Gr. (%)	*167.8*	*(83.4)*	*280.2*	*36.5*
DPS (Rs.)	17.4	3.4	5.0	7.0
Yield (%)	*2.2*	*0.4*	*0.6*	*0.9*
RoE (%)	*37.5*	*5.3*	*18.8*	*21.2*
RoCE (%)	*26.1*	*7.7*	*16.4*	*19.3*
EV/Sales (x)	1.7	1.5	1.3	1.2
EV/EBITDA (x)	6.2	13.3	7.7	6.0
PE (x)	8.7	52.6	13.8	10.1
P/BV (x)	2.8	2.8	2.4	2.0

Key Data	JSTL.BO | JSTL IN
52-W High / Low	Rs.835 / Rs.614
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.1,869bn/ $ 22,611m
Shares Outstanding	2,417m
3M Avg. Daily Value	Rs.2638.98m

Shareholding Pattern (%)

Promoter's	45.91
Foreign	25.99
Domestic Institution	9.60
Public & Others	18.50
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.4)	12.9	19.2
Relative	(1.2)	3.4	8.0

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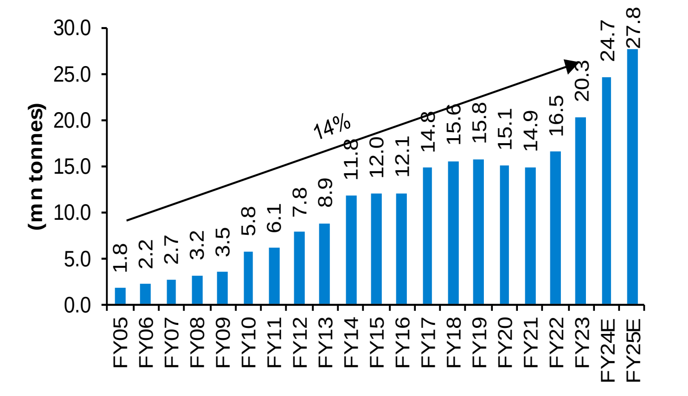
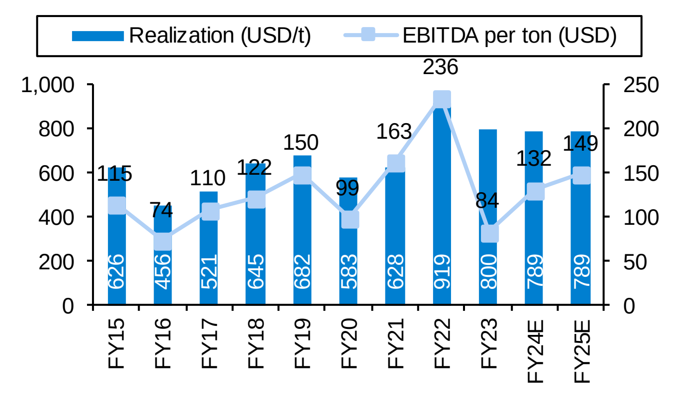
Story in charts

Exhibit 43: Strong 14% CAGR in sales volume



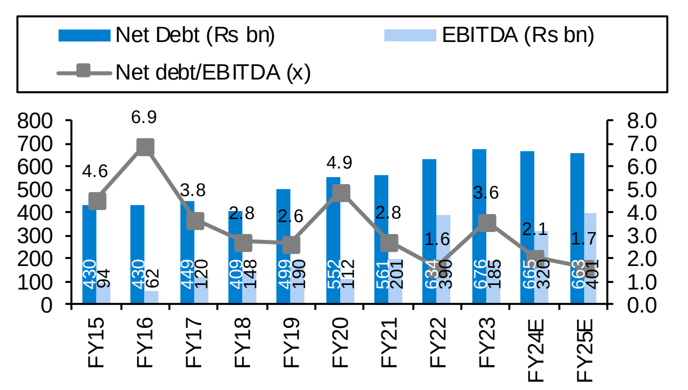
Source: Company, PL

Exhibit 44: EBITDA/t to improve on lower coking coal prices



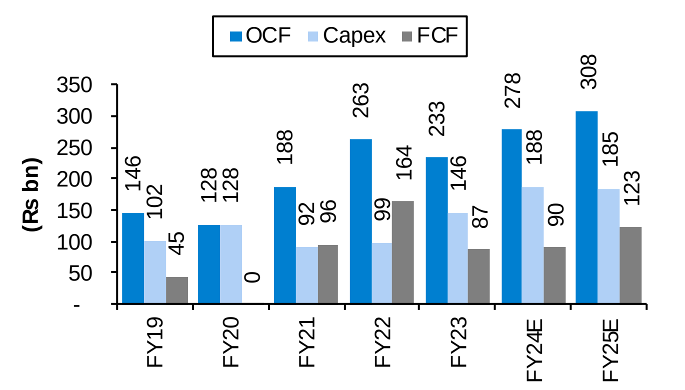
Source: Company, PL

Exhibit 45: Debt manageable with incremental EBITDA



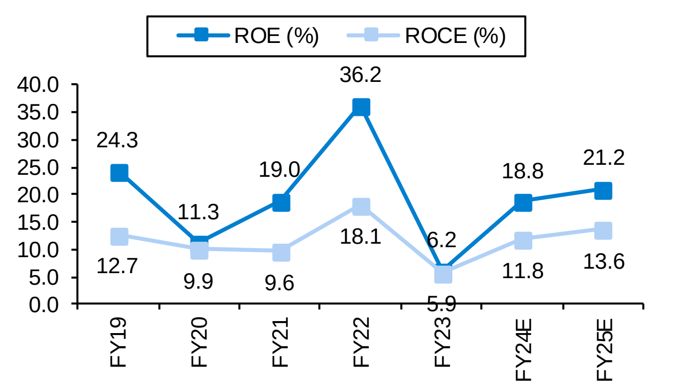
Source: Company, PL

Exhibit 46: FCF to improve despite ongoing capex



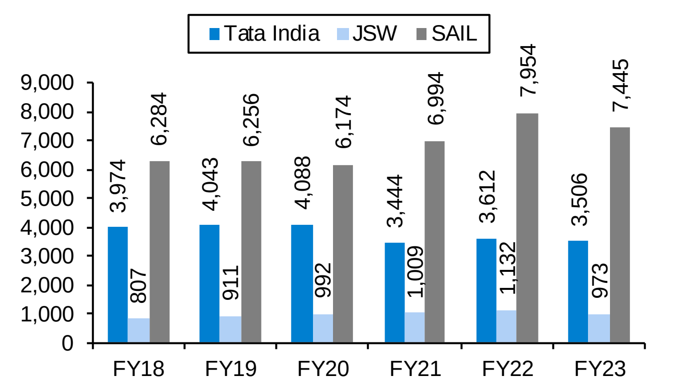
Source: Company, PL

Exhibit 47: Return ratios to improve from low base



Source: Company, PL

Exhibit 48: Lowest employee cost per ton amongst peers (Rs)



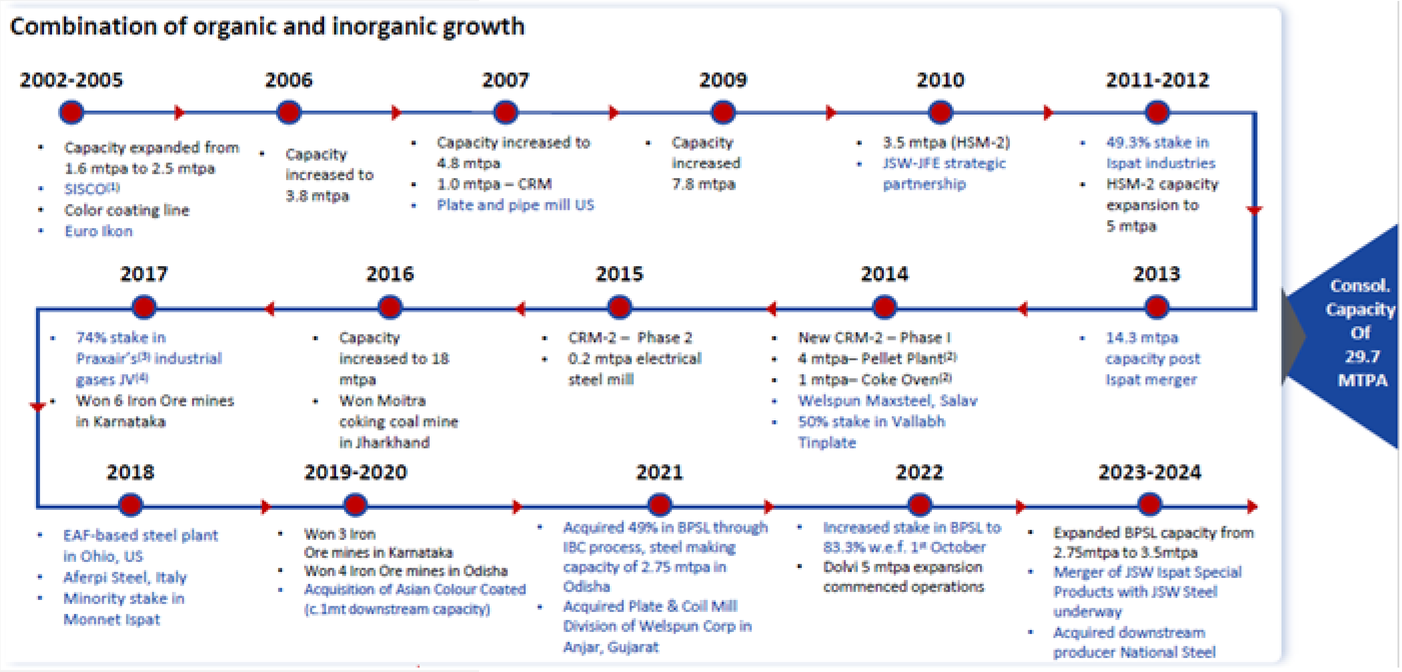
Source: Company, PL

JSW Steel - Superior execution skills

JSW Steel is a flagship company of the O. P. Jindal Group led by Mr Sajjan Jindal. It is leading integrated steel manufacturer and India's fastest growing steel companies. JSW is also the first company to manufacture high-strength and advanced high-end steel products for its automotive segments. With largest steel product portfolio, JSW is India's leading steel exporter, shipping to over 100 countries across 5 continents. Over last 35 years, company has been at the forefront of cutting-edge technology. Starting with a single plant in 1982, the company is now most geographically well distributed manufacturer of value-added and high-grade steel products.

The company manufactures products such as hot-rolled steel strips, sheets/plates, mild steel (MS) cold-rolled coils/sheets, MS galvanised plain/ corrugated/ colour-coated coils/sheets, steel billet, bars and rods. As on Mar-23, JSTL's plants in Vijayanagar (Karnataka), Salem (Tamil Nadu) and Dolvi (Maharashtra) a combined installed capacity of 23 mtpa. JSW Coated Products Limited (JSCPL), a 100% subsidiary of JSTL, has manufacturing facilities at Vasind & Tarapur near Mumbai and Kalmeshwar near Nagpur (Maharashtra) for its value-added steel products. JSTL completed acquisition of Bhushan Power & Steel (BPSL) in Mar-21 by initially acquiring 49% stake and subsequently increased it to 83% in Oct-21. BPSL has 3.5 mtpa integrated steel making facility at Jharsuguda, Odisha.

Exhibit 49: JSTL's journey over last two decades in which capacities grew at 15% CAGR



Source: Company, PL

Investment Arguments

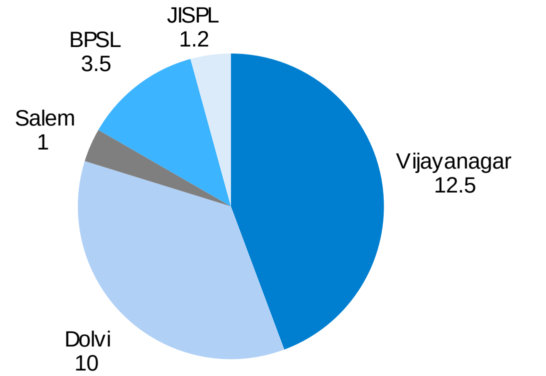
Fastest growing domestic steel producer

Expect robust 17% CAGR in sales volume over FY23-26E

Over last two decades, JSTL's crude steel capacity increased at a strong CAGR of 15%, given its focus on India market and consistent addition in capacities via Brownfield expansions. Going forward, JSTL's steel volumes are expected to grow at a strong CAGR of 17% over FY23-26 driven by ramp up in recently completed capacity expansion at Dolvi and brownfield expansion planned at VIjayanagar. JSTL has completed a 5mtpa expansion at Dolvi, Maharashtra, along with cost-saving initiatives like pellet plant, coke oven and captive power generation facilities in FY22. FY24 will see additional 2mt volumes from ramp up at Dolvi unit.

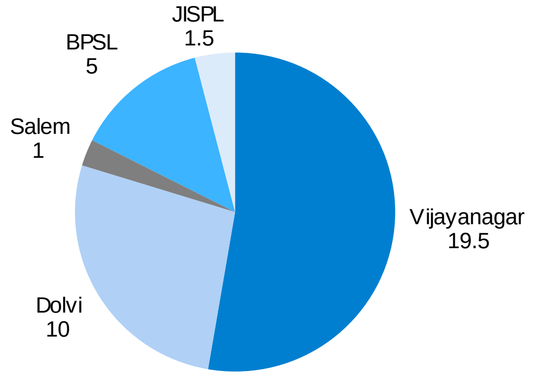
JSTL has undertaken debottlenecking initiatives to increase capacity at Vijayanagar by 1mtpa to make it 13mtpa in FY23. Also its planned brownfield expansion with an estimated capex of Rs200 bn at Vijayanagar will add another 5mtpa over FY24-25E. Incremental expansion is planned at Vijayanagar to enhance capacity by further 2.5mtpa in phases. Recently acquired Bhushan Power & Steel (BPSL) is also undergoing capacity expansion from existing 3.5mtpa to 5 mtpa to be commissioned by end FY24. Ramping up of these facilities in FY24 would give strong volume growth to JSTL. We believe that additional 2.5-3mt volumes will be available from BIjayanagar and BPSL facilities in FY25 and as they ramp up to full utilization, incremental 3-4mt would come in FY26. We expect JSTL is biggest beneficiary of strong demand growth seen in domestic steel sector, as it will have incremental capacities to cater to the growth.

Exhibit 50: Existing capacity: FY23 (mtpa)



Source: Company, PL

Exhibit 51: FY25E capacity across locations

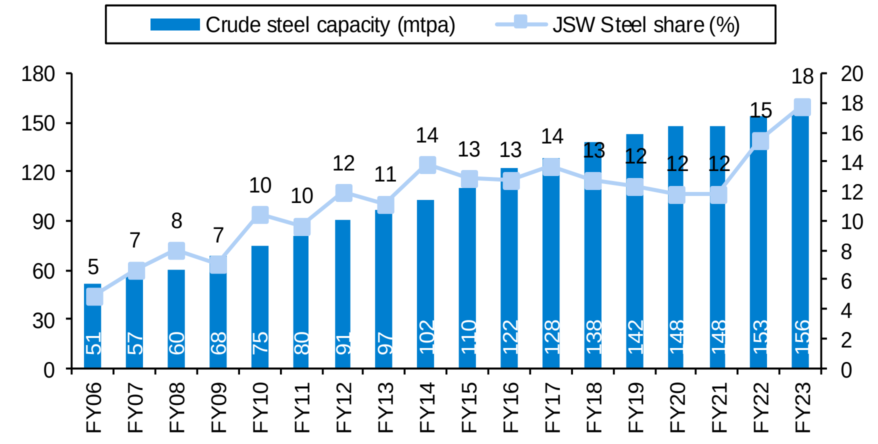


Source: Company, PL

JSTL's share in India's steel capacity has grown from 5% in 2005 to 18% in FY23

JSTL would commission its 5 mtpa VIjayanagar expansion project by 1QFY25E to reach 33 mtpa capacity. Ongoing expansion at Bhushan Power and Steel (BPSL) would eventually add another 1.5 mtpa to reach 5mtpa at BPSL and take JSTL's total capacity to 34.5mtpa. Further, it has brownfield expansion planned of 2mtpa at VIjayanagar and 0.3mtpa at JISPL to reach desired capacity of 37mtpa by FY25E. With strong focus on capacity addition, JSTL's share in India's steel capacity has grown from 5% in 2005 to 18% in FY23.

Exhibit 52: Significant rise of JSTL's share in India Steel capacity



Source: Company, PL

*24km long pipe conveyor belt at Bellary****, Vijayanagar plant***

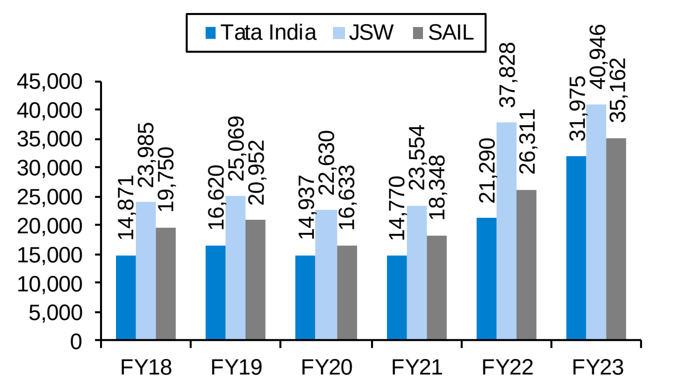
With completion of ongoing expansion by end FY24, JSTL could soon announce the next phase of expansion. Vijayanagar has adequate infrastructure to reach 24mtpa while Dolvi and BPSL can add another 5mtpa each in the next phase of growth. Brownfield projects planned by JSTL usually have shorter gestation, lower capex intensity and higher IRR compared to peers. With Indian steel demand expected to grow at a healthy rate, we believe JSTL is the biggest beneficiary.

Lowest cost steel producer in India

JSTL's all manufacturing sites are strategically located in areas that are well-connected by rail, road and port networks, which makes it easy and cost-effective to move materials. Dolvi is well connected via ports while Vijayanagar has its own integrated logistics management. Installation of 24km long pipe conveyor belt has aided in saving fuel and reducing carbon and dust generation since FY20. BPSL and JISPL facilities are located in mineral rich areas of Jharkhand and Chhattisgarh respectively. Other measures undertaken to reduce costs such as setting up coke oven battery, pellet plants, sinter plant and captive power plants at BPSL. These factors, along with operational excellence, high people productivity and state-of-the-art manufacturing facilities, enable JSTL to record one of the lowest conversion costs among Indian steelmakers. Past comparison of the per ton analysis of operating cost depicts JSTL's supremacy in containing costs despite not having significant raw material integration which peers enjoyed over decades.

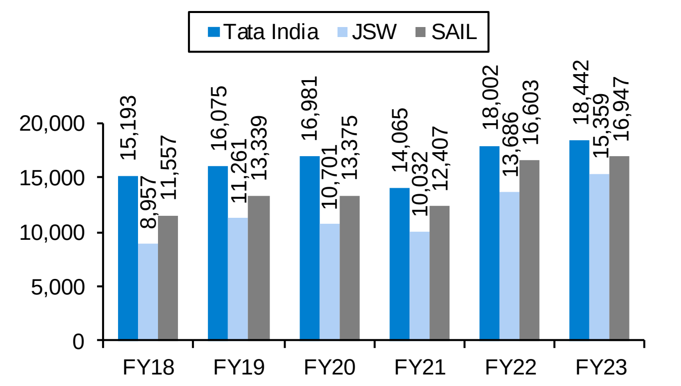
With falling raw material price scenario, we believe JSTL would be biggest beneficiary in the near term; having 100% imports of coking coal and ~55% non-captive iron ore. Although JSTL is still highest in per ton RM cost than peers, it is way more efficient in managing other costs and employee cost per ton as seen in graphs below.

Exhibit 53: Raw material costs per ton (Rs/t)



Source: Company, PL

Exhibit 54: Other cost per ton (Rs/t)



Source: Company, PL

Exhibit 55: xxx

Name of Mines	Reserves (mt)
Tunga	6.9
Nandi	10.0
Devadri	28.6
Bhadra	33.9
Rama	31.5
Ubulgundi	9.8
Narayanpura	21.8
Dharmapura	12.2
BBH	61.2
Nuagaon	789.0
Narayanposhi	187.6
Ganua	119.2
Jajang	39.4

Source: Company, PL

Rising raw materials security over the last decade

In an earlier steel upcycles (especially 2005-08) JSTL suffered on margins relative to peers due to zero self-sufficiency of key raw materials such as iron ore. However, over the last decade JSTL has improved on that account as well. From the mining auctions undertaken by GoI, JSTL has acquired 13 iron ore mines (9 in Karnataka and rest in Odisha) with an aggregate reserves of 1.35 bn tonnes. In FY23 JSTL met ~41% of its total iron ore requirements from its captive mines reducing the dependence on external procurement.

Iron ore is one of the key raw materials required for steel production. All 13 mines held by JSTL have been operational - nine in Karnataka and four in Odisha. Although these mines have been acquired at premium (payment linked to market price), it has led to consistency, availability, and yield improvement of iron ore. Also the availability of captive iron ore mines can be considered as a long-term strategic advantage when it had suffered for the same in the past.

JSTL has also set up a beneficiation plant, a coke oven plant, a pellet and sinter plant across locations, thus helping yield improvements and cost reduction. As on March 31, 2023, JSTL has 1,029 MW of captive power capacity and another 175 MW and 60 MW has been commissioned in Dolvi, Maharashtra, in FY23.

Media reports suggest JSTL's attempt to acquire stake in Teck Resources' high quality coking coal mining business; CoP is ~USD95/t can result in substantial savings.

For its coking coal requirement, JSTL is primarily dependent on imports, and hence, it is exposed to price volatility similar to its peers. JSTL continues to focus on backward integration by investing in its resource base to secure critical raw materials for the steel making operations. Recent media reports suggest JSTL's interest to own controlling stake in Teck Resources' coking coal opeations; which if gets materialized would significantly improve margins and make JSTL operations resilient to externalities such as weather, geopolitical & operational issues faced in coking coal imports.

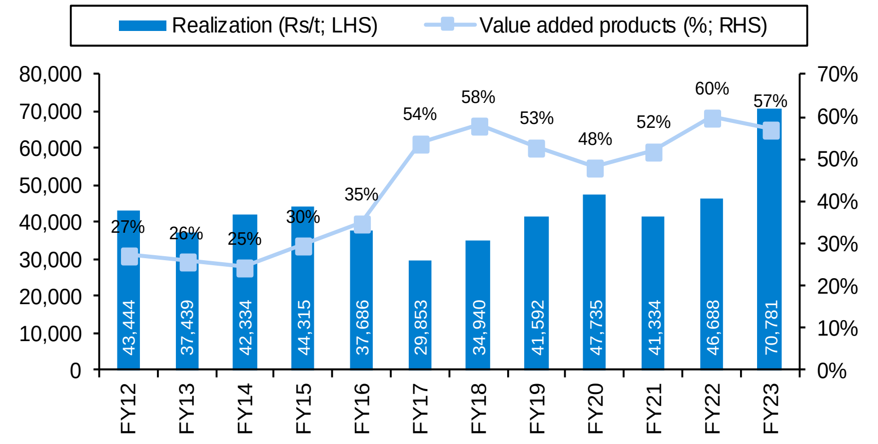
JSTL's newly set up LRPC unit of 0.144mtpa capacity is double the size of one of the oldest player

Improving focus on VAP portfolio

Rising consumer aspirations and Government's focused capex in infrastructure is expected to continue over next decade which would benefit steel players having excess capacities to cater to. Post strategic collaboration with JFE steel in 2010, there has been tremendous improvement in the proportion of value added products of JSTL portfolio as JSTL gained access to cutting edge technologies from JFE resulting into gaining market share in domestic high growth automotive market (c.35% share).

Over the last few years, JSTL's proportion of value added and specialized products (VAP) portfolio increased from 35% in FY11 to over 57% in FY23. Growing domestic steel demand gave JSTL an opportunity to increase volumes, improve product mix and improve resilience to withstand steel price volatility. We believe the share of value added and specialty products would remain high as company is investing in various downstream capacity expansion projects such as LRPC, colour coating and tin-plate across locations.

Exhibit 56: VAP share to remain high with addition of requisite capacities



Source: Company, PL

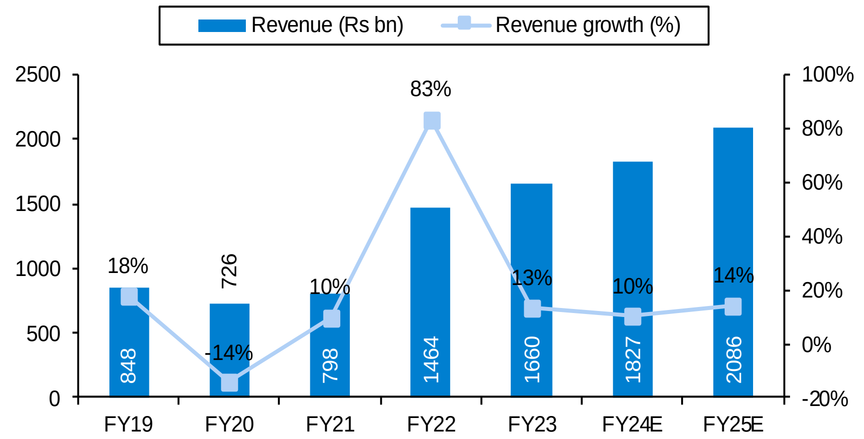
Financial Analysis

Rev/ EBITDA to grow at 12%/47% CAGR over FY23-25E

We estimate consolidated EBITDA to grow at a 47% CAGR on weak FY23 base and margins are expected to improve led by weak raw material prices and consistent demand which supports domestic steel prices. As JSTL is witnessing strong 17% CAGR in volume growth led by capacity addition, revenue growth is expected to remain stable despite flattish realizations.

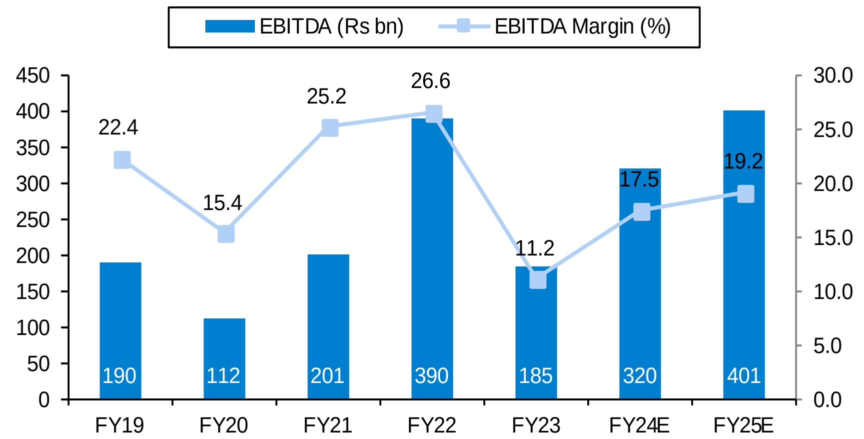
Robust 17%+ CAGR in volumes to drive revenue growth even if prices remain subdued

Exhibit 57: Strong 17% CAGR volume to drive revenue



Source: Company, PL

Exhibit 58: Fallen coking coal prices to drive EBITDA growth



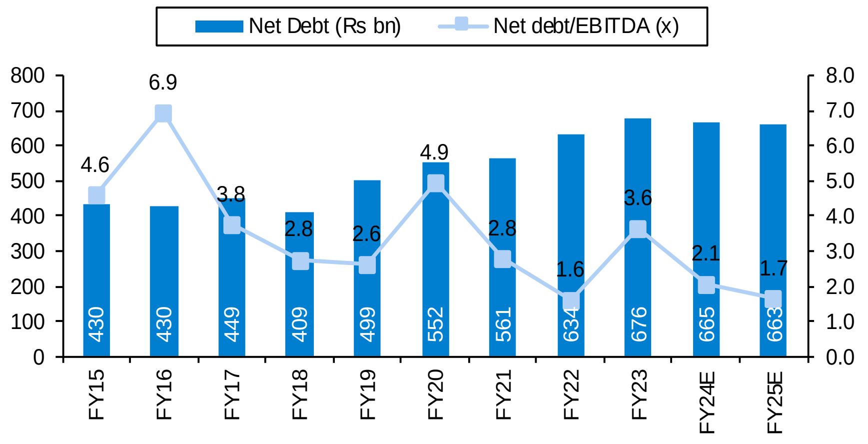
Source: Company, PL

Consolidated PAT to witness robust 128% CAGR over FY23-25E on lower base & easing coking coal prices

Consolidated PAT is expected to witness similar healthy growth led by strong operating performance.

Net debt to EBITDA remain comfortable

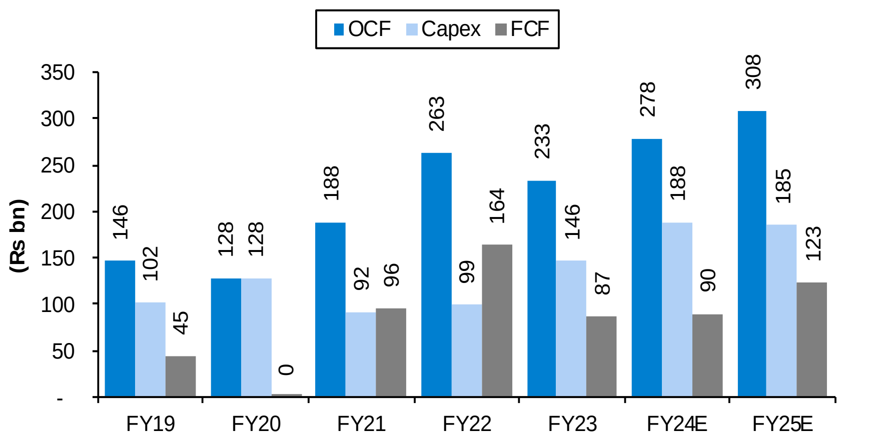
Exhibit 59: Net debt to EBITDA to decline form FY23 levels



Source: Company, PL

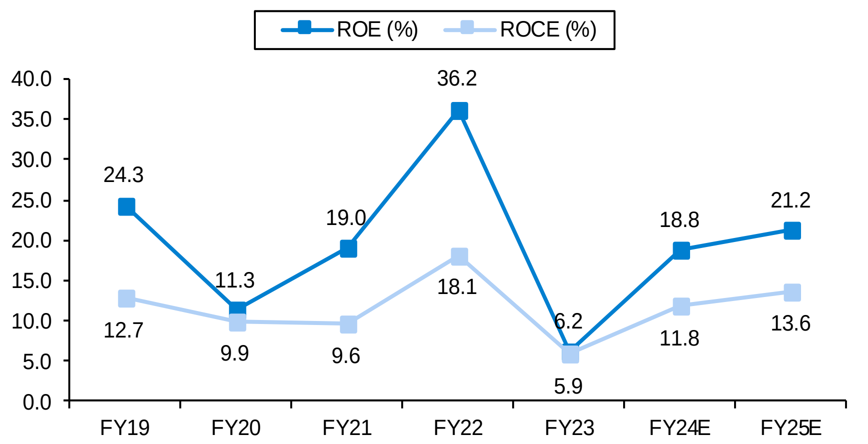
Return ratios and cash flows to improve

Exhibit 60: FCF to improve despite ongoing Capex of Rs520 bn



Source: Company, PL

Exhibit 61: Return ratios to improve from low base and better margins



Source: Company, PL

Valuation

JSTL is consistently adding capacities over last two decades which has kept its debt at higher levels relative to peers. In recent high steel price scenario, when most of the players reduced debt JSTL focused on capital expenditure to make it ready for next level of growth for steel consumption in India. We believe incremental EBITDA coming from the expanded capacities to compensate for the high interest costs and even overall interest rate in the system is peaking out.

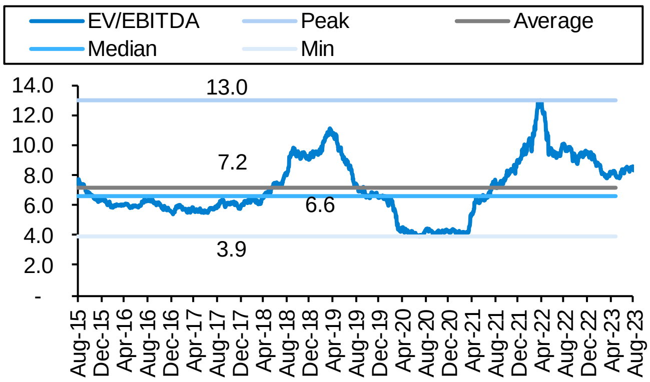
JSTL is currently trading at 7.7x/6x EV of FY24E/FY25E EBITDA at discount to its average multiple of 7.2x. We initiate coverage on JSTL with 'BUY' rating and target price of Rs926 based on 7x FY25E EV/EBITDA which is similar to its historical average multiple.

Exhibit 62: Target Price Calculation

EBITDA (Rs mn)	4,00,987
Target EBITDA multiple (x)	7
Target EV (Rs mn)	28,06,910
Net Debt (Rs mn)	5,67,894
Residual Market Cap (Rs mn)	22,39,016
Target price (Rs)	926

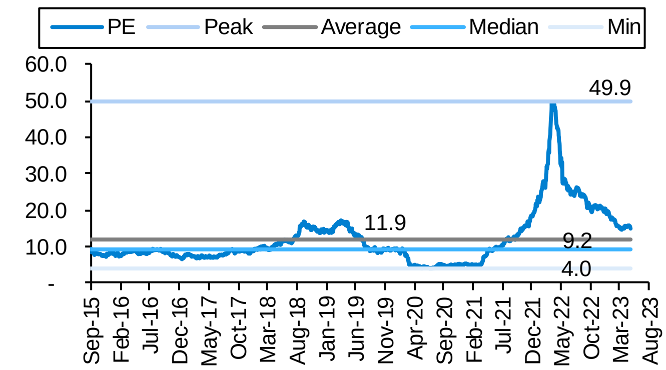
Source: Company, PL

Exhibit 63: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 64: 1-Year forward PER chart



Source: Bloomberg, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**14,63,710**	**16,59,600**	**18,27,091**	**20,86,021**
YoY gr. (%)	*83.3*	*13.4*	*10.1*	*14.2*
Cost of Goods Sold	5,92,700	9,33,340	10,27,590	11,44,072
Gross Profit	8,71,010	7,26,260	7,99,502	9,41,949
Margin (%)	*59.5*	*43.8*	*43.8*	*45.2*
Employee Cost	34,930	39,150	29,455	31,043
Other Expenses	4,46,010	5,01,640	4,49,688	5,09,919
EBITDA	**3,90,070**	**1,85,470**	**3,20,359**	**4,00,987**
YoY gr. (%)	*93.7*	*(52.5)*	*72.7*	*25.2*
Margin (%)	*26.6*	*11.2*	*17.5*	*19.2*
Depreciation and Amortization	60,010	74,740	71,048	79,765
EBIT	**3,30,060**	**1,10,730**	**2,49,311**	**3,21,222**
Margin (%)	*22.5*	*6.7*	*13.6*	*15.4*
Net Interest	49,680	69,020	79,799	89,591
Other Income	15,310	10,300	9,495	10,702
Profit Before Tax	**2,88,280**	**57,920**	**1,79,007**	**2,42,333**
Margin (%)	*19.7*	*3.5*	*9.8*	*11.6*
Total Tax	88,070	15,160	47,421	66,497
Effective tax rate (%)	*30.6*	*26.2*	*26.5*	*27.4*
Profit after tax	**2,00,210**	**42,760**	**1,31,586**	**1,75,836**
Minority interest	2,730	(50)	(500)	(500)
Share Profit from Associate	9,170	(1,370)	3,000	8,000
Adjusted PAT	**2,14,060**	**35,530**	**1,35,086**	**1,84,336**
YoY gr. (%)	*167.8*	*(83.4)*	*280.2*	*36.5*
Margin (%)	*14.6*	*2.1*	*7.4*	*8.8*
Extra Ord. Income / (Exp)	(7,410)	5,910	-	-
Reported PAT	**2,06,650**	**41,440**	**1,35,086**	**1,84,336**
YoY gr. (%)	*161.2*	*(79.9)*	*226.0*	*36.5*
Margin (%)	*14.1*	*2.5*	*7.4*	*8.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,06,650	41,440	1,35,086	1,84,336
Equity Shares O/s (m)	**2,417**	**2,417**	**2,417**	**2,417**
EPS (Rs)	**88.6**	**14.7**	**55.9**	**76.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**12,83,850**	**13,90,060**	**16,13,990**	**17,98,990**
Tangibles	12,83,850	13,90,060	16,13,990	17,98,990
Intangibles	-	-	-	-
Acc: Dep / Amortization	**2,86,240**	**3,46,820**	**4,17,868**	**4,97,633**
Tangibles	2,86,240	3,46,820	4,17,868	4,97,633
Intangibles	-	-	-	-
Net fixed assets	**9,97,610**	**10,43,240**	**11,96,122**	**13,01,357**
Tangibles	9,97,610	10,43,240	11,96,122	13,01,357
Intangibles	-	-	-	-
Capital Work In Progress	1,85,660	2,30,590	1,52,718	1,52,718
Goodwill	1,190	1,280	1,280	1,280
Non-Current Investments	84,670	96,880	96,880	96,880
Net Deferred tax assets	(70,690)	(67,660)	(67,660)	(95,304)
Other Non-Current Assets	56,596	59,610	59,610	59,610
Current Assets				
Investments	80	50	50	50
Inventories	3,37,870	3,31,350	3,20,770	3,94,997
Trade receivables	74,570	71,340	88,921	1,12,942
Cash & Bank Balance	1,74,900	2,07,560	2,07,333	2,37,723
Other Current Assets	46,830	44,360	55,956	68,976
Total Assets	**19,86,056**	**21,22,180**	**22,15,560**	**24,62,453**
Equity				
Equity Share Capital	3,010	3,010	3,010	3,010
Other Equity	6,69,960	6,53,940	7,80,807	9,53,057
Total Networth	**6,72,970**	**6,56,950**	**7,83,817**	**9,56,067**
Non-Current Liabilities				
Long Term borrowings	7,32,950	8,04,470	7,93,227	7,93,227
Provisions	14,810	13,950	13,950	13,950
Other non current liabilities	31,526	26,080	390	390
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,08,890	3,82,030	3,79,790	4,32,994
Other current liabilities	1,29,330	1,34,590	1,39,202	1,41,497
Total Equity & Liabilities	**19,86,056**	**21,22,180**	**22,13,985**	**24,68,879**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	2,97,450	56,550	1,79,007	2,42,333
Add. Depreciation	60,010	74,740	71,048	79,765
Add. Interest	45,840	66,550	79,799	89,591
Less Financial Other Income	15,310	10,300	9,495	10,702
Add. Other	(14,170)	10,720	(7,946)	(9,110)
Op. profit before WC changes	3,89,130	2,08,560	3,21,908	4,02,579
Net Changes-WC	(72,640)	31,050	(16,225)	(55,769)
Direct tax	(53,790)	(6,380)	(27,608)	(38,854)
Net cash from Op. activities	**2,62,700**	**2,33,230**	**2,78,075**	**3,07,956**
Capital expenditures	(1,02,970)	(1,48,810)	(1,88,000)	(1,85,000)
Interest / Dividend Income	6,160	6,210	7,946	9,110
Others	(63,060)	35,490	-	-
Net Cash from Invt. activities	**(1,59,870)**	**(1,07,110)**	**(1,80,054)**	**(1,75,890)**
Issue of share cap. / premium	(5,190)	590	-	-
Debt changes	(74,650)	50,600	(10,230)	-
Dividend paid	(15,710)	(41,940)	(8,219)	(12,086)
Interest paid	(51,020)	(69,020)	(79,799)	(89,591)
Others	-	-	-	-
Net cash from Fin. activities	**(1,46,570)**	**(59,770)**	**(98,248)**	**(1,01,677)**
Net change in cash	**(43,740)**	**66,350**	**(227)**	**30,390**
Free Cash Flow	1,61,790	85,390	90,075	1,22,956

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**4,17,780**	**3,91,340**	**4,69,620**	**4,22,130**
YoY gr. (%)	*28.5*	*2.8*	*0.1*	*10.8*
Raw Material Expenses	2,77,360	2,14,760	2,45,150	2,13,700
Gross Profit	1,40,420	1,76,580	2,24,470	2,08,430
Margin (%)	*33.6*	*45.1*	*47.8*	*49.4*
EBITDA	**17,520**	**45,470**	**79,390**	**70,460**
YoY gr. (%)	*(83.2)*	*(50.2)*	*(13.6)*	*63.5*
Margin (%)	*4.2*	*11.6*	*16.9*	*16.7*
Depreciation / Depletion	18,050	18,820	20,090	19,000
EBIT	**(530)**	**26,650**	**59,300**	**51,460**
Margin (%)	*(0.1)*	*6.8*	*12.6*	*12.2*
Net Interest	15,230	18,190	21,380	19,630
Other Income	1,880	1,880	4,650	3,310
Profit before Tax	**(7,970)**	**10,340**	**42,570**	**35,140**
Margin (%)	*(1.9)*	*2.6*	*9.1*	*8.3*
Total Tax	620	5,040	5,080	10,520
Effective tax rate (%)	*(7.8)*	*48.7*	*11.9*	*29.9*
Profit after Tax	**(8,590)**	**5,300**	**37,490**	**24,620**
Minority interest	(670)	(160)	770	900
Share Profit from Associates	(560)	(560)	(80)	(340)
Adjusted PAT	**(12,434)**	**4,900**	**36,640**	**23,380**
YoY gr. (%)	*(118.6)*	*(88.8)*	*(1.4)*	*179.0*
Margin (%)	*(3.0)*	*1.3*	*7.8*	*5.5*
Extra Ord. Income / (Exp)	3,954	-	-	-
Reported PAT	**(8,480)**	**4,900**	**36,640**	**23,380**
YoY gr. (%)	*(111.8)*	*(88.8)*	*13.3*	*179.0*
Margin (%)	*(2.0)*	*1.3*	*7.8*	*5.5*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**(8,480)**	**4,900**	**36,640**	**23,380**
Avg. Shares O/s (m)	2,417	2,417	2,417	2,417
EPS (Rs)	**(5.1)**	**2.0**	**15.2**	**9.7**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	88.6	14.7	55.9	76.3
CEPS	113.4	45.6	85.3	109.3
BVPS	278.4	271.8	324.3	395.5
FCF	66.9	35.3	37.3	50.9
DPS	17.4	3.4	5.0	7.0
Return Ratio(%)				
RoCE	26.1	7.7	16.4	19.3
ROIC	21.0	6.7	14.0	16.4
RoE	37.5	5.3	18.8	21.2
Balance Sheet				
Net Debt : Equity (x)	0.8	0.9	0.7	0.6
Net Working Capital (Days)	26	5	6	13
Valuation(x)				
PER	8.7	52.6	13.8	10.1
P/B	2.8	2.8	2.4	2.0
P/CEPS	113.4	45.6	85.3	109.3
EV/EBITDA	6.2	13.3	7.7	6.0
EV/Sales	1.7	1.5	1.3	1.2
Dividend Yield (%)	2.2	0.4	0.6	0.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Crude Steel Production (mt)	17	21	26	29
Sales Volume (mt)	17	20	25	28
Realisation / tonne (Rs)	70,781	64,035	64,378	65,663
EBITDA / tonne (Rs)	23,613	9,133	12,979	14,423

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

August 28, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	2,440	2,434	2,476	2,635
EBITDA (Rs. bn)	635	323	306	392
Margin (%)	*26.0*	*13.3*	*12.4*	*14.9*
PAT (Rs. bn)	403	86	73	156
EPS (Rs.)	33.0	7.1	6.0	12.8
Gr. (%)	*363.0*	*(78.5)*	*(15.5)*	*114.2*
DPS (Rs.)	5.1	3.6	4.0	4.4
Yield (%)	*4.4*	*3.1*	*3.4*	*3.8*
RoE (%)	*42.7*	*8.0*	*7.0*	*14.0*
RoCE (%)	*32.2*	*12.6*	*11.0*	*15.7*
EV/Sales (x)	0.8	0.8	0.8	0.8
EV/EBITDA (x)	2.9	6.3	6.8	5.0
PE (x)	3.5	16.5	19.5	9.1
P/BV (x)	1.2	1.4	1.3	1.2

Key Data	TISC.BO | TATA IN
52-W High / Low	Rs.124 / Rs.95
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.1,429bn/ $ 17,285m
Shares Outstanding	12,221m
3M Avg. Daily Value	Rs.4104.79m

Shareholding Pattern (%)

Promoter's	33.90
Foreign	21.01
Domestic Institution	21.11
Public & Others	23.98
Promoter Pledge (Rs bn)	7.72

Stock Performance (%)

	1M	6M	12M
Absolute	(2.0)	6.5	10.0
Relative	0.2	(2.4)	(0.3)

Tushar Chaudhari
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Tata Steel (TATA IN)

Rating: BUY | CMP: Rs117 | TP: Rs137

Mixed play on Volumes & Margins

We initiate coverage on Tata Steel (TATA IN) with 'Buy' rating and SOTP based TP of Rs137. We believe Tata Steel India (TSI) is well placed to capitalize on strong volume growth expected in domestic steel markets, while Tata Steel Europe (TSE) is at an inflection point as UK decision is nearing. We believe earnings leakage on consolidated level would stop, even in case of an adverse decision. We expect solid earnings growth over next few years given a) strong double digit volume growth potential for TSI post commissioning of 5mtpa KPO II by 1QFY25, b) more clarity on impending decision on TSUK, c) continuous deleveraging without affecting planned capex to keep balance sheet healthy and d) falling coking coal prices and tight global steel market to keep TSE green (as Netherland operations are profit making). With GoI's focus on infrastructure and overall stronger domestic economy, steel demand is expected to remain high over next few years thereby supporting TSI's volume growth. The stock is currently trading at 6.8x/5.0x EV of FY24E/FY25E EBITDA. Initiate 'BUY'.

- **Strong volume growth in Indian operations to drive earnings:** TSI is expanding its Kalinganagar (KPO) facility from 3mtpa to 8mtpa in its planned Phase-II expansion. Out of total capex of ~Rs275bn, TATA has already spent Rs170bn till March 2023. KPO II is expected to take TSI crude steel capacity to 26.6mpta by 1QFY25 and drive near term 7-8% volume growth.

- **Impending decision at TSUK to boost earnings over long term:** Tata Steel UK **(**TSUK) has sought support from the UK Govt in a) policy terms by encouraging the transition to green steel and in b) financial terms in which UK Govt would do partnership in financing of the project given the size of investment and the financially constrained position of TSUK. In the absence of any support from Govt TSUK has an option to ramp down the facilities as some of the existing upstream assets will reach end of useful life over the next 18-24 months. Any positive measures undertaken by Govt would support the TSUK operations for long term.

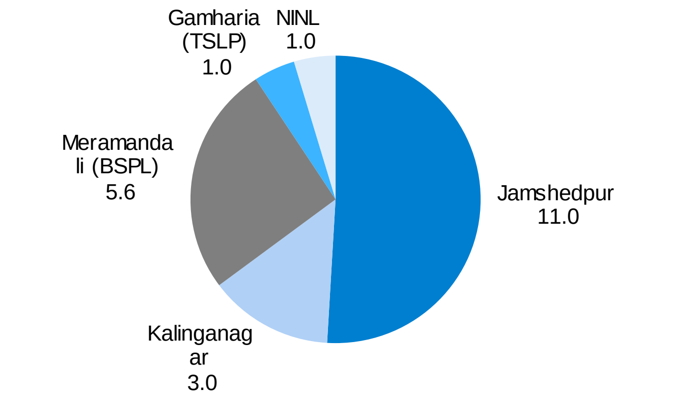
- **Deleveraging strategy to keep balance sheet healthy:** TATA's prudent capital allocation strategy over last few years has kept balance sheet healthy, as company utilized strong cash flows generated in steel upcycle to deleverage itself. We expect deleveraging to continue as per management's stated target of USD 1bn per year.

- **Falling RM prices help TSE stay afloat; TSI EBITDA/t to rise:** Coking coal prices have fallen over last few months on improved supplies from Australia and overall weak global demand. TSI margins are expected to improve and also TSE EBITDA losses would turn into profits from 2HFY24 due to sharp fall in coking coal prices.

- **TATA's transition strategy to achieve net zero by 2045:** TATA has started trials to achieve its own target of net zero by 2045 by injecting Hydrogen into blast furnace to reduce coke usage, convert captured CO2 to polycarbonate, convert low grade waste to Electricity and to produce methanol from blast furnace flue gases. Although results of these measures undertaken are not yet declared by mgmt., we believe TATA would get edge over peers due to its efforts for net zero at its other TSE units.

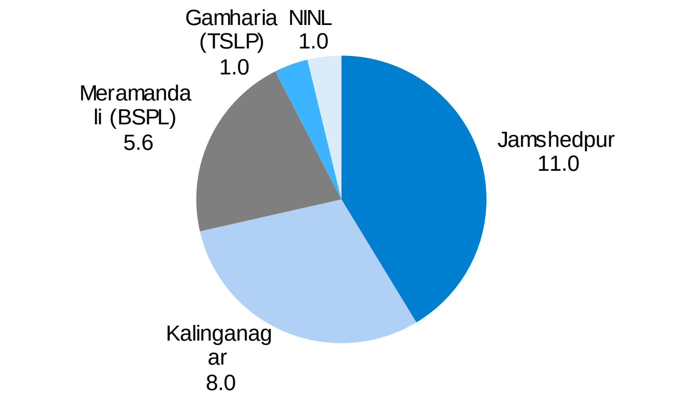
Story in Charts

Exhibit 65: TSI capacity in FY23 (mtpa)



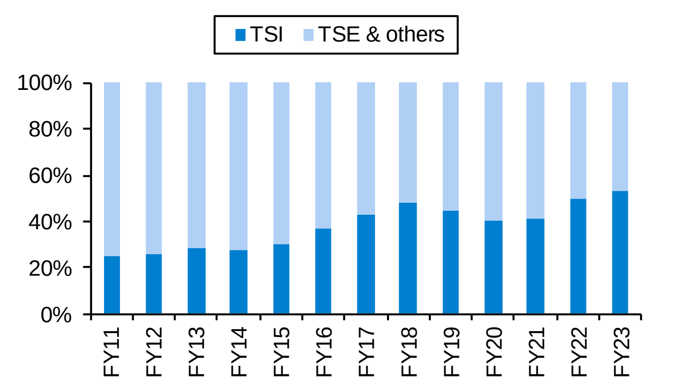
Source: Company, PL

Exhibit 66: TSI capacity by FY25E (mtpa)



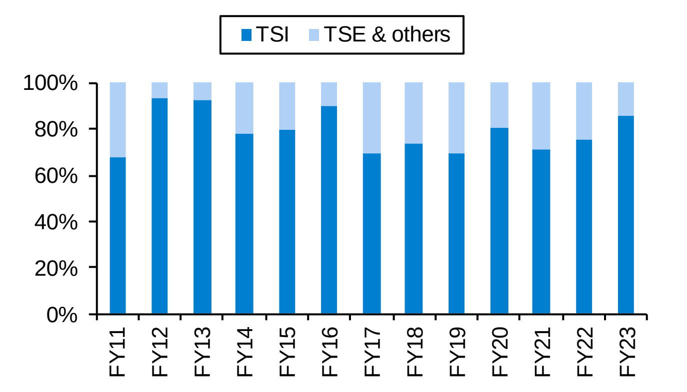
Source: Company, PL

Exhibit 67: Revenue contribution from TSI growing (%)



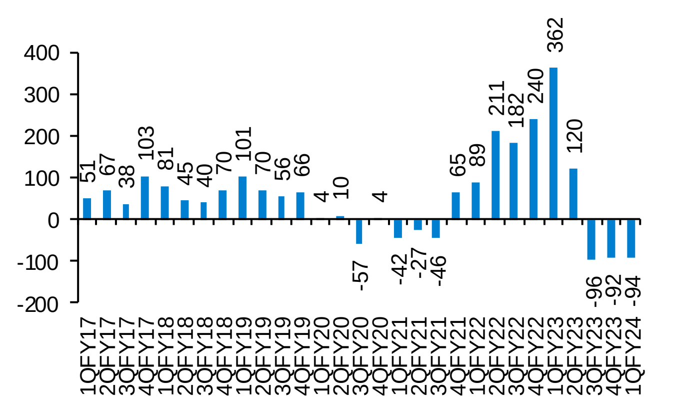
Source: Company, PL

Exhibit 68: TSE EBITDA contribution still weak (%)



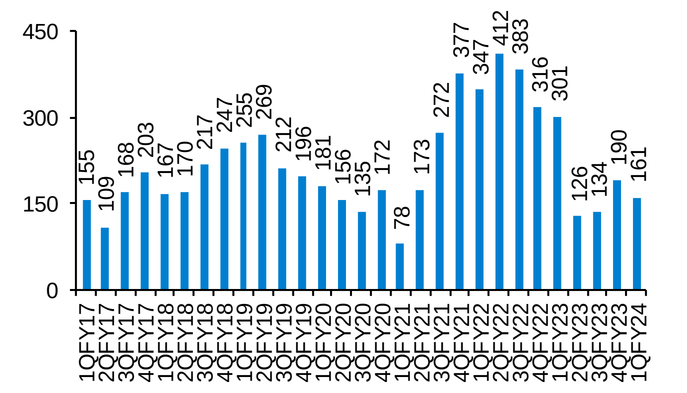
Source: Company, PL

Exhibit 69: TSE EBITDA/ton to improve gradually (USD)



Source: Company, PL

Exhibit 70: TSI EBITDA/t to improve on falling RM (USD)



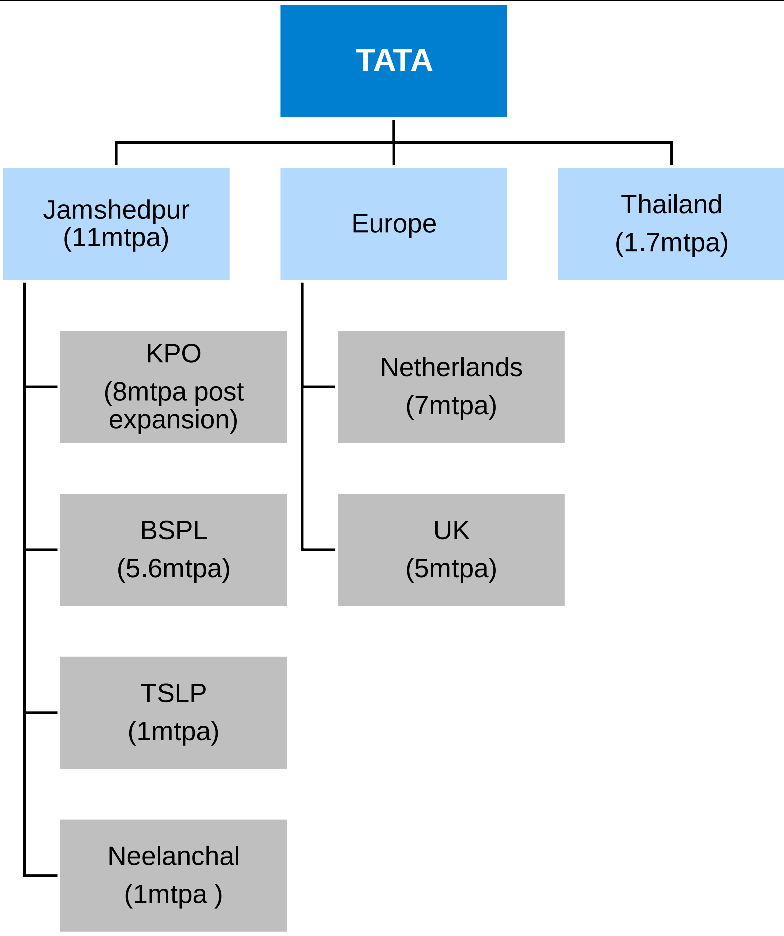
Source: Company, PL

Tata Steel - A mixed bag

Tata Steel (TATA) is a part of India's well diversified Tata Group. The company has an annual crude steel capacity of 35 mtpa; 21.6 mtpa in India and remaining in Europe (12mtpa) and Thailand (1.7mtpa). Tata Steel Europe (TSE) was formed by takeover of the erstwhile Corus Plc by TATA in 2007. TSE's restructuring efforts have also led to decline in capacity since 2007. Over last decade, TSE has been forced to close some of its loss making plants and sell others in order to become more efficient which has resulted in a loss of capacity. Today TSE has 12mtpa crude steel capacity at two locations viz. Netherlands (7mtpa) and Port Talbot, UK (5mtpa).

TATA's standalone steel business Tata Steel India (TSI) remains one of the lowest cost steel producers globally, consistently reporting healthy earnings through cycles. TATA's 21.6 mtpa India operations procure almost 100% of its iron ore requirement and ~18% of its coking coal requirement from captive mines keeping domestic profitability partly insulated from volatility in raw material prices. Other recently merged subsidiaries such as Tata Steel Long Products and NINL also have captive iron ore mines. TATA's product portfolio spans across the flat and long product categories with over 50% revenue coming from value-added product categories.

Exhibit 71: Steel capacities across the geographies



Source: Company, PL

Investment Arguments

Strong volume growth in India operations to drive earning

Expect ~8% volume growth till the new capacity gets commissioned

Tata Steel India is expanding its Kalinganagar facility from 3mtpa to 8mtpa in its planned Phase II expansion, which is expected to get commissioned in 1QFY25. A 6mtpa pellet plant and 2.2mtpa cold rolling mill have already been commissioned during 4QFY23 while annealing and galvanizing units will come on stream over next 12 months. Out of the total capex of Rs 275 bn for KPO II TATA has already spent Rs 170 bn till March 31, 2023. FY24 would see Rs 65 -70 bn for this Odisha project and remaining Rs 35 bn would be spent in FY25. This KPO II is expected to take the TSI crude steel capacity to 26.6mpta by 1QFY25 to drive near term volume growth.

Exhibit 72: Planned capacity expansions at TSI (mtpa)

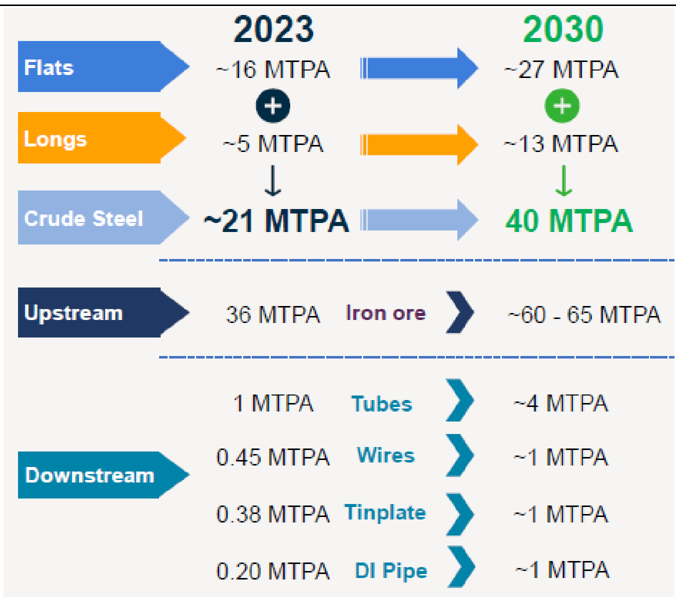
	FY23	FY25E	LT target
Jamshedpur	11.0	11.0	11.0
Kalinganagar	3.0	8.0	16.0
Meramandali (BSPL)	5.6	5.6	8.0
Gamharia (TSLP)	1.0	1.0	1.0
NINL	1.0	1.0	10.0
Total	**21.6**	**26.6**	**46.0**

Source: Company, PL

Rising focus on India: planning to double India crude steel capacity to 40mtpa by 2030

TSI has planned to double its crude steel capacity from existing 21.6mtpa to ~40mtpa by 2030. Post KPO II, TSI has 0.75mtpa EAF plant coming up at Ludhiana which would be commissioned by FY26. Further it has planned to expand its long steel products capacity at recently bought NINL plant from 1mtpa to 5 mtpa. And for flat steel products it has options to expand at Meramandali (BSPL) and Kalinganagar over the long term. For next few years TSI is expected to invest Rs 120bn every year. With this planned capex program over next few years, we believe TSI is set to deliver strong volume growth over next few years.

Exhibit 73: Longs capacity share to increase to 32% by 2030



Source: Company, PL

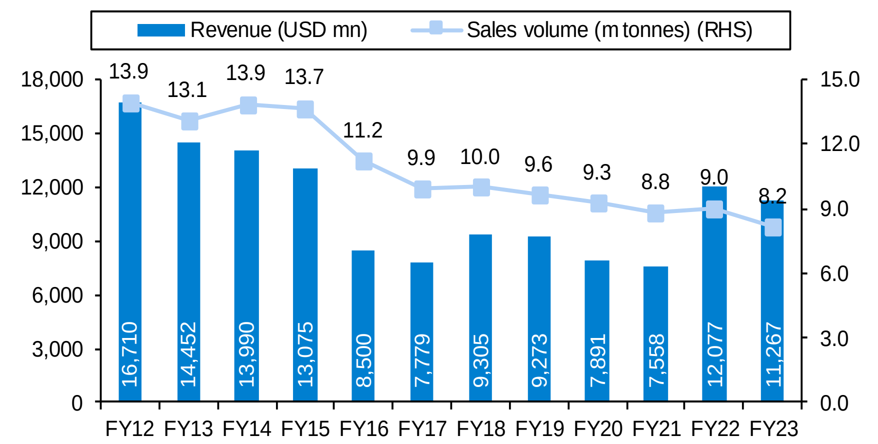
Impending decision at TSUK to boost long term earnings

In absence of any support from UK government, there can be some write off amount to P&L post decision to ramp down old facilities

TATA is undergoing detailed discussions with UK Government in relation to the future of the Tata Steel UK (TSUK) business. Given UK's decarbonisation journey and rising carbon costs, it has been clear that for continuity of steel making in the long-term, it is necessary for TSUK to transition to alternative green technologies. TSUK has therefore sought support from the government in two forms: a) In policy terms by encouraging the transition to green steel and ensuring cost competitive landscape, and b) partnership in financing of the project given size of investment and financially constrained position of TSUK. In absence of any support from Government TSUK has option to ramp down facilities, as some of the existing upstream assets will reach end of useful life over next 18-24 months.

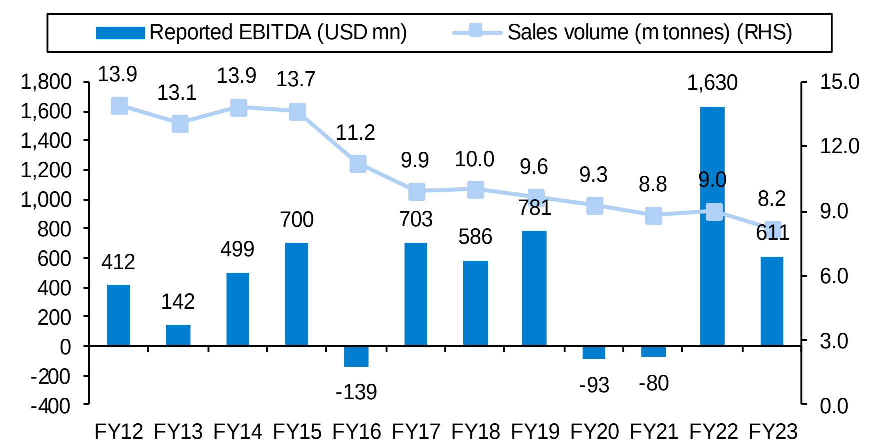
TSUK would evaluate all scenarios with regard to future configuration of the business for taking strategic decisions. As discussions are still ongoing, final decision of TSUK would depend upon various factors such as external steel market environment, proposal from UK Government regarding financing towards green transition and overall health of economy. We believe even in the case of any adverse decision there is silver lining at the end as earnings leakage at consolidated level seen over last two decades would stop. Any positive measures undertaken by Government would obviously support TSE operations for long term.

Exhibit 74: TSE Revenues Vs Volumes



Source: Company, PL

Exhibit 75: TSE EBITDA Vs Volumes



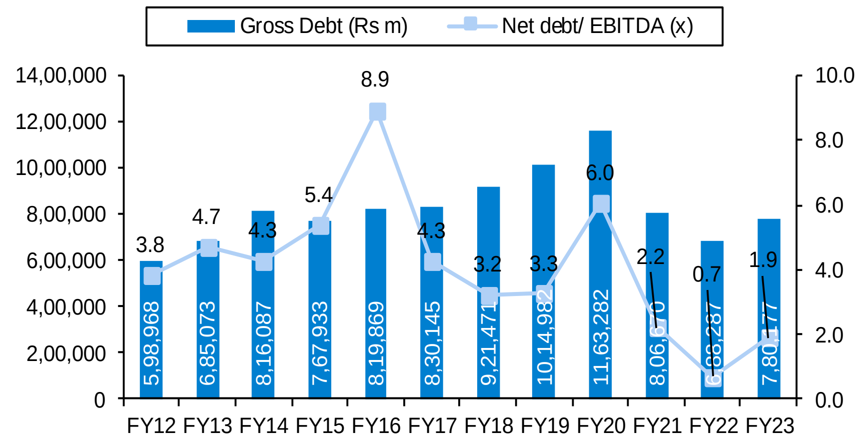
Source: Company, PL

Focusing on earlier stated target of debt reduction of USD1 bn per year

Deleveraging strategy to keep balance sheet healthy

TATA's prudent capital allocation strategy has driven strong health of its balance sheet over last few years as company utilized strong cash flows generated in steel upcycle to deleverage itself. As per its stated deleveraging target of USD 1 bn every year, it has reduced net debt from peak of Rs 1,048 bn in FY20 to Rs 574 bn in FY23. This is despite ongoing capex of ~Rs 100 bn every year and few acquisitions such as NINL (Rs 120 bn) and one ferro alloy processing unit (Rs 10 bn) in FY23. We expect deleveraging to continue as stated by management earlier.

Exhibit 76: Deleveraging to keep balance sheet strong



Source: Company, PL

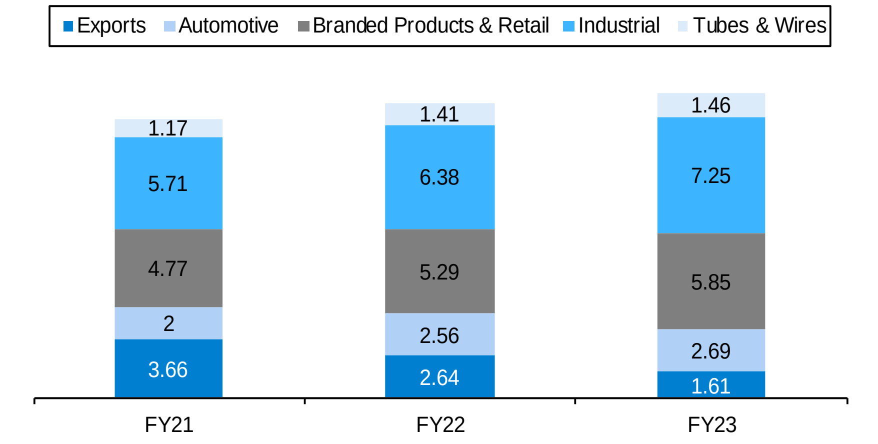
Fallen coking coal prices to improve TSI EBITDA/t and aid TSE to return from EBITDA profit by 2HFY24

Falling RM prices help TSE stay afloat; TSI EBITDA/t to rise

Post Russian invasion of Ukraine raw material prices increased sharply, supply gap inflated steel prices as well. Over last few months, steel prices and its key raw materials (viz. coking coal) are coming off and stabilizing at new lower levels. In the absence of strong Chinese demand and improved supplies from Australia, we expect coking coal prices to remain muted which would benefit TSE operations. TSE has shown significant resilience despite higher energy prices last year.

TSN is self-sustaining and already in transition towards green steel. TSUK is loss making due to higher operating costs. With falling raw material prices and relatively tight steel market in Europe, in the absence of any further global shock, we believe TSE would support consolidated TATA earnings.

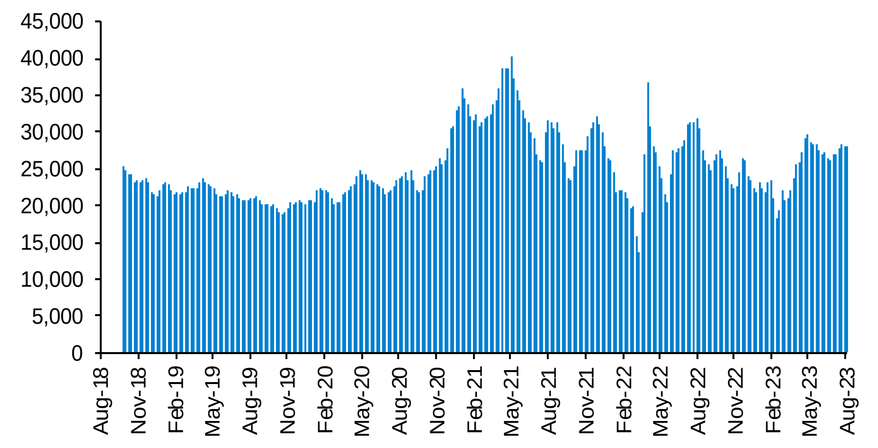
Exhibit 77: Domestic volumes remain strong from user industries (mt)



Source: Company, PL

TSI volumes continues to grow despite challenges in domestic markets led by strong demand from end user segments such as Automotive, Industrial Projects, Tubes & Wires in Infrastructure and Branded products & Retail segment. As demand remains strong steel prices continues to remain relatively stable. With sharp fall in coking coal prices, we believe there would be strong uptick in EBITDA per ton for TSI from 2QFY24.

Exhibit 78: Spot spread for TSI (Rs/t)



Source: SteelMint, PL

TATA's transition strategy to achieve net zero by 2045

TATA has started trials to achieve its own target of net zero by 2045 by injecting Hydrogen into blast furnace to reduce coke usage. In the short term, it has run various pilot projects to convert captured CO2 to polycarbonate, convert low grade waste to Electricity and to produce methanol from blast furnace flue gases. Entry into steel recycling business will accelerate the transition to a completely circular economic model for steel for TSI. Other measures include utilization of higher proportion of scrap and increasing share of renewable energy. Although results of these measures undertaken are not yet declared by management, we believe TATA would get edge over peers due to its efforts for net zero at its other TSE units.

We believe TATA to apply its expertise gained in TSE and replicate in TSI to prepare itself to reduce carbon footprint in future.

Europe is expected to have a carbon border tax mechanism before India. As a result, the transition to greener steel is also expected to be faster. TATA would have first-hand experience of this transition through its operations at TSE. This experience can then be leveraged for transitioning in TSI in terms of process and technology transfer. Another important area of synergy is unified strategic procurement for TSI and TSE which has potential to reduce costs and improve supply chain reliability.

Over the long term TSI has planned to add capacities using the scrap-based EAF route. Also other measure includes a) shifting from metallurgical coal to fuels with lower CO2 emissions intensities such as natural gas/ coal bed methane and b) Upscaling pilots of Carbon Capture Utilisation & Storage (CCUS) and Hydrogen-based steelmaking.

At Europe, Tata Steel Nederland (TSN) is transitioning in a phased manner out of blast furnace operations to steel making using Direct Reduced Iron technology and electric smelting, with an eventual transition to Green Hydrogen depending on availability and economics. It is also undertaking a comprehensive project to reduce dust and other fugitive missions from its plant to make it future ready. It has committed to spend Euro 300 mn, including an ongoing de-NOx investment in the pellet plant, covering bunkers and transport systems and installing dust screens, and upgraded coal filters. These projects are currently under implementation and part of the planned capital expenditure at TSE.

In Europe, TSE has already launched low carbon steel products. *Zeremis Carbon Lite*, launched in TSN, is a steel with an allocated carbon footprint reduction of up to 100%. Several customers including *Ford* have reached agreements to source this steel once the TSN's IJmuiden plant switches to green hydrogen-based steelmaking. We believe TATA to apply its expertise gained in TSE and replicate in TSI to prepare itself better for the European Commission's implementation of carbon border adjustment mechanism.

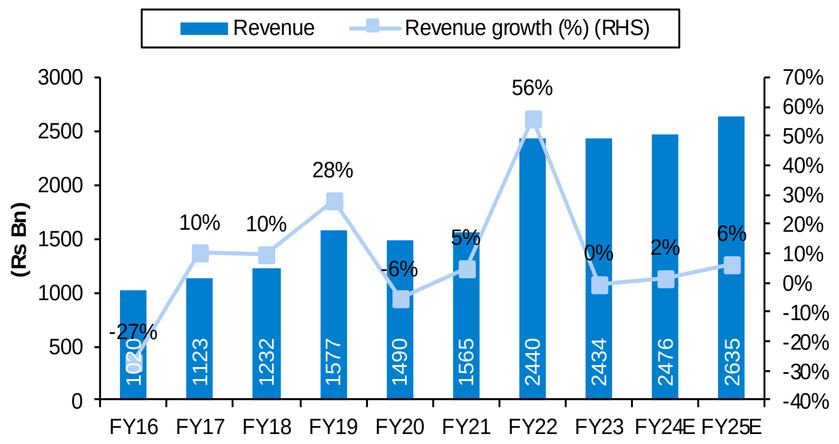
We expect TATA's consolidated revenue and EBITDA to grow at 4%/10% CAGR over FY23-25E on better TSI performance while TSE struggles in the near term.

EBITDA improvement is seen in TSI on lower coking coal prices while TSE EBITDA is expected to improve gradually from 4QFY24.

Financial Analysis

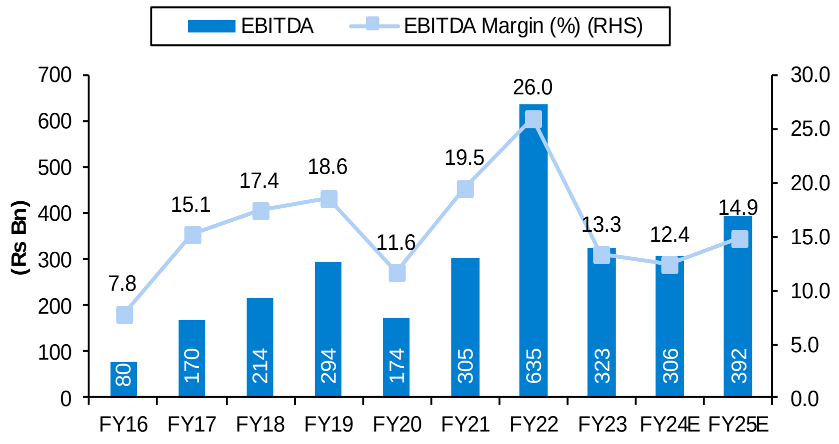
Revenue/ EBITDA to grow at 4%/10% over FY23-25E

Exhibit 79: 7% volume CAGR in TSI to drive earnings growth



Source: Company, PL

Exhibit 80: Margins to improve on lower RM prices despite weak TSE

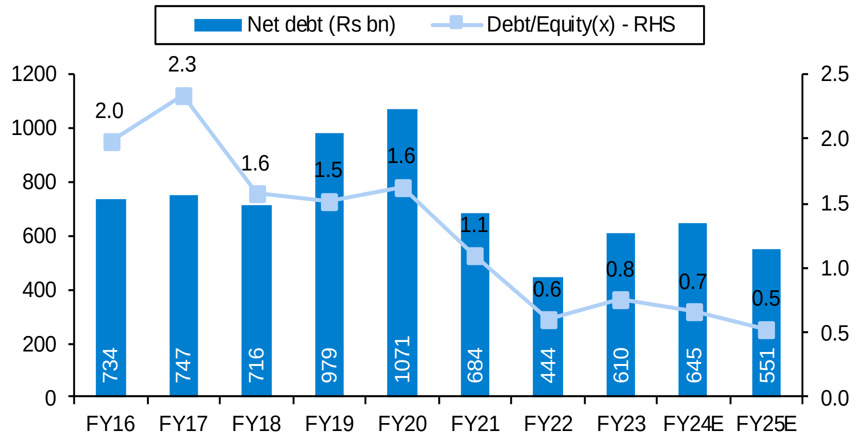


Source: Company, PL

Consolidated debt is expected to decline every year despite ongoing capex of ~Rs 70 bn p.a. TATA has reduced its debt on balance sheet in the last uptick in steel prices, which gives it an opportunity to plan for further capacity addition in TSI. Return ratios and free cash flows to improve gradually as coking coal prices have declined and with improving volume growth from KPO II, it will be able to improve free cash flows.

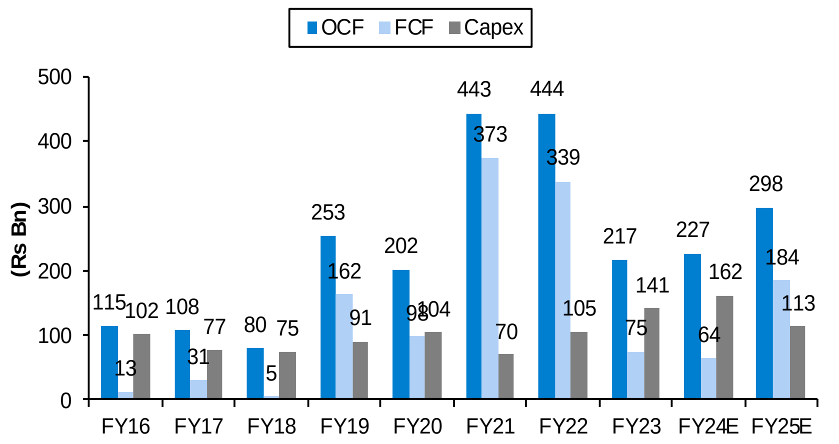
Consolidated debt is expected to decline every year despite ongoing capex of ~Rs 70 bn p.a.

Exhibit 81: Net debt to EBITDA to improve to 0.5x by FY25E



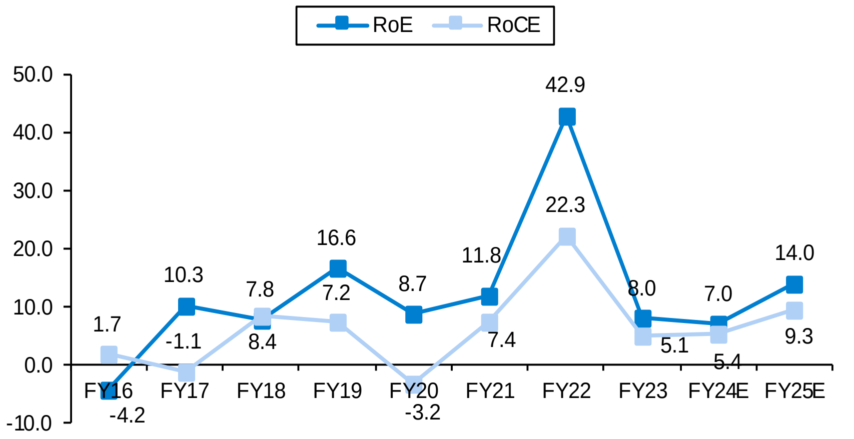
Source: Company, PL

Exhibit 82: Strong CFO to generate free cash flows despite Capex



Source: Company, PL

Exhibit 83: Return ratios to improve gradually to double digits (%)



Source: Company, PL

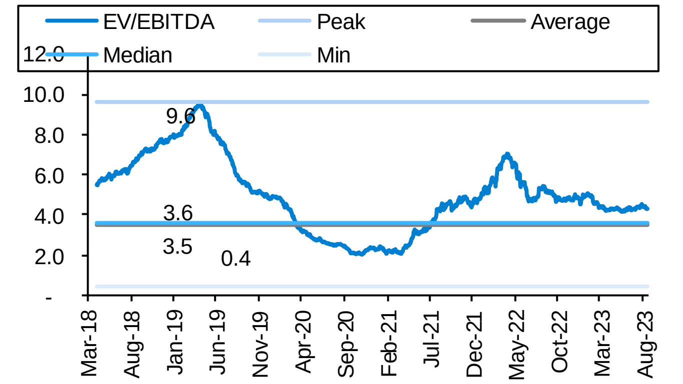
Valuations

The recently commissioned 6 mtpa pellet plant at KPO is ramping up well and expects to improve additional savings from 2QFY24. The 2.2 mtpa CRM mill at KPO is expected to get commissioned in 2HFY24 and aid margins on value addition. The 5mtpa KPO Phase II is likely to commission in 1QFY25 and drive volume growth in near term.

TSI's low-cost manufacturing will continue attracting higher multiple, while TSE struggles due to impending decision of TSUK. As and when there is clarity on TSUK operations, we expect further re-rating depending upon subsidy related support from UK Government and management's decision to upgrade or restructure the ailing assets.

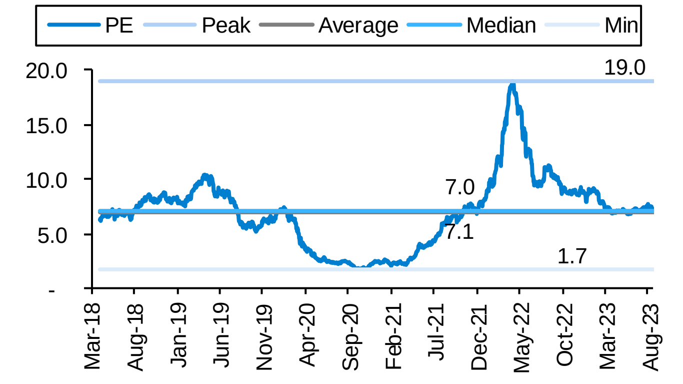
The stock trades at 5.0x EV of FY25E EBITDA and at 15% discount to its decade long range. We initiate coverage on with 'Buy' rating and target price of Rs137 giving long term multiple of 6x FY25E EV/EBITDA to Indian operations.

Exhibit 84: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 85: 1-Yead forward PER chart



Source: Bloomberg, PL

Exhibit 86: SOTP calculation

Figures in Rs mn	EV/EBITDA (FY25E)	EBITDA (Rs mn)	Value (Rs mn)
Indian operations	6.0	3,12,629	18,75,771
Other domestic operations	6.0	35,131	2,10,787
Tata steel Europe	4.0	37,454	1,49,818
South East Asean operations	5.0	7,075	35,374
Total EV			**22,71,750**
Debt			6,88,931
Cash			69,053
Net debt			6,19,878
Shareholder's value			**16,51,872**
Value per share			**137**

Source: PL

Key Risks

- Delays in commissioning KPO II can result in losing market share to peers.
- TSUK fortune depends on external environment.
- Weak global demand situation can affect TSE profitability.
- Delay in getting environmental clearances for iron ore mines expansion projects can lead to cost escalations in TSI.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**24,39,592**	**24,33,527**	**24,76,495**	**26,35,273**
YoY gr. (%)	*55.9*	*(0.2)*	*1.8*	*6.4*
Cost of Goods Sold	8,34,787	11,32,383	10,09,620	10,07,337
Gross Profit	16,04,804	13,01,144	14,66,876	16,27,936
Margin (%)	*65.8*	*53.5*	*59.2*	*61.8*
Employee Cost	2,32,641	2,24,193	2,60,462	2,77,233
Other Expenses	7,37,264	7,53,949	9,00,437	9,58,414
EBITDA	**6,34,900**	**3,23,002**	**3,05,976**	**3,92,289**
YoY gr. (%)	*108.1*	*(49.1)*	*(5.3)*	*28.2*
Margin (%)	*26.0*	*13.3*	*12.4*	*14.9*
Depreciation and Amortization	91,009	93,352	1,09,541	1,13,272
EBIT	**5,43,891**	**2,29,650**	**1,96,436**	**2,79,017**
Margin (%)	*22.3*	*9.4*	*7.9*	*10.6*
Net Interest	54,622	62,987	59,214	46,414
Other Income	7,849	10,375	8,110	8,511
Profit Before Tax	**4,95,777**	**1,78,170**	**1,45,331**	**2,41,114**
Margin (%)	*20.3*	*7.3*	*5.9*	*9.1*
Total Tax	84,776	1,01,598	68,299	80,708
Effective tax rate (%)	*17.1*	*57.0*	*47.0*	*33.5*
Profit after tax	**4,11,002**	**76,572**	**77,032**	**1,60,405**
Minority interest	15,954	(6,851)	7,500	7,500
Share Profit from Associate	6,492	4,181	3,500	3,500
Adjusted PAT	**4,02,880**	**86,471**	**73,032**	**1,56,405**
YoY gr. (%)	*372.1*	*(78.5)*	*(15.5)*	*114.2*
Margin (%)	*16.5*	*3.6*	*2.9*	*5.9*
Extra Ord. Income / (Exp)	(1,341)	1,133	-	-
Reported PAT	**4,01,539**	**87,604**	**73,032**	**1,56,405**
YoY gr. (%)	*436.1*	*(78.2)*	*(16.6)*	*114.2*
Margin (%)	*16.5*	*3.6*	*2.9*	*5.9*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,01,539	87,604	73,032	1,56,405
Equity Shares O/s (m)	**12,212**	**12,212**	**12,212**	**12,212**
EPS (Rs)	**33.0**	**7.1**	**6.0**	**12.8**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**21,58,522**	**23,81,707**	**24,73,827**	**25,47,090**
Tangibles	21,58,522	23,81,707	24,73,827	25,47,090
Intangibles	-	-	-	-
Acc: Dep / Amortization	**8,68,756**	**9,71,509**	**10,81,050**	**11,94,322**
Tangibles	8,68,756	9,71,509	10,81,050	11,94,322
Intangibles	-	-	-	-
Net fixed assets	**12,89,766**	**14,10,198**	**13,92,777**	**13,52,768**
Tangibles	12,89,766	14,10,198	13,92,777	13,52,768
Intangibles	-	-	-	-
Capital Work In Progress	2,33,785	3,25,963	3,95,963	4,35,963
Goodwill	43,112	56,017	56,017	56,017
Non-Current Investments	54,487	57,593	61,093	64,593
Net Deferred tax assets	(93,019)	(1,14,897)	(1,21,542)	(1,28,494)
Other Non-Current Assets	2,77,500	1,37,533	1,37,533	1,37,533
Current Assets				
Investments	85,244	36,301	36,301	36,301
Inventories	4,88,244	5,44,153	5,22,439	5,55,934
Trade receivables	1,22,464	82,572	1,35,698	1,44,399
Cash & Bank Balance	1,58,989	1,33,573	19,090	32,752
Other Current Assets	35,717	49,474	54,474	59,474
Total Assets	**28,54,456**	**28,80,217**	**28,58,725**	**29,23,574**
Equity				
Equity Share Capital	12,212	12,212	12,212	12,212
Other Equity	11,32,218	10,18,609	10,47,676	11,55,232
Total Networth	**11,44,430**	**10,30,821**	**10,59,888**	**11,67,444**
Non-Current Liabilities				
Long Term borrowings	6,88,287	7,80,177	7,00,177	6,20,177
Provisions	48,260	47,758	47,758	47,758
Other non current liabilities	1,48,434	1,33,421	1,18,421	1,03,421
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,67,649	3,78,325	3,88,384	4,10,342
Other current liabilities	2,97,585	3,28,912	3,49,149	3,65,031
Total Equity & Liabilities	**28,54,456**	**28,80,217**	**28,58,725**	**29,23,574**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	5,02,269	1,82,351	1,45,331	2,41,114
Add. Depreciation	91,009	93,252	1,09,541	1,13,272
Add. Interest	54,622	62,987	59,214	46,414
Less Financial Other Income	7,849	10,375	8,110	8,511
Add. Other	11,105	(29,507)	(4,218)	(4,619)
Op. profit before WC changes	6,59,004	3,09,083	3,09,868	3,96,180
Net Changes-WC	(96,177)	(37,065)	(21,616)	(24,855)
Direct tax	(1,19,017)	(55,188)	(61,654)	(73,756)
Net cash from Op. activities	**4,43,810**	**2,16,831**	**2,26,597**	**2,97,569**
Capital expenditures	(99,907)	(2,42,144)	(1,62,120)	(1,13,262)
Interest / Dividend Income	2,989	5,651	4,218	4,619
Others	(11,894)	49,695	-	-
Net Cash from Invt. activities	**(1,08,812)**	**(1,86,798)**	**(1,57,902)**	**(1,08,643)**
Issue of share cap. / premium	3,257	14	-	-
Debt changes	(1,52,307)	54,281	(80,000)	(80,000)
Dividend paid	(30,201)	(62,926)	(43,965)	(48,850)
Interest paid	(46,867)	(61,197)	(59,214)	(46,414)
Others	(7,893)	22	-	-
Net cash from Fin. activities	**(2,34,011)**	**(69,807)**	**(1,83,179)**	**(1,75,264)**
Net change in cash	**1,00,987**	**(39,775)**	**(1,14,483)**	**13,662**
Free Cash Flow	3,38,588	75,406	64,477	1,84,307

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**5,98,775**	**5,70,836**	**6,29,615**	**5,94,897**
YoY gr. (%)	*(0.7)*	*(6.1)*	*(9.2)*	*(6.2)*
Raw Material Expenses	3,15,271	3,00,226	2,86,561	2,74,752
Gross Profit	2,83,504	2,70,610	3,43,055	3,20,145
Margin (%)	*47.3*	*47.4*	*54.5*	*53.8*
EBITDA	**60,603**	**40,478**	**72,192**	**51,739**
YoY gr. (%)	*(63.2)*	*(74.5)*	*(52.0)*	*(65.4)*
Margin (%)	*10.1*	*7.1*	*11.5*	*8.7*
Depreciation / Depletion	23,478	23,684	23,822	24,123
EBIT	**37,125**	**16,795**	**48,370**	**27,616**
Margin (%)	*6.2*	*2.9*	*7.7*	*4.6*
Net Interest	15,191	17,679	17,936	18,252
Other Income	3,293	2,706	1,695	11,768
Profit before Tax	**25,033**	**3,569**	**32,245**	**21,266**
Margin (%)	*4.2*	*0.6*	*5.1*	*3.6*
Total Tax	13,081	29,049	17,545	13,305
Effective tax rate (%)	*52.3*	*813.9*	*54.4*	*62.6*
Profit after Tax	**11,952**	**(25,480)**	**14,700**	**7,961**
Minority interest	-	(2,781)	(1,386)	(1,091)
Share Profit from Associates	1,019	605	963	(2,713)
Adjusted PAT	**13,063**	**(9,617)**	**16,996**	**6,289**
YoY gr. (%)	*(89.2)*	*(109.9)*	*(83.1)*	*(91.9)*
Margin (%)	*2.2*	*(1.7)*	*2.7*	*1.1*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**12,971**	**(22,094)**	**17,049**	**6,339**
YoY gr. (%)	*(89.7)*	*(123.0)*	*(82.7)*	*(91.8)*
Margin (%)	*2.2*	*(3.9)*	*2.7*	*1.1*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**12,971**	**(22,094)**	**17,049**	**6,339**
Avg. Shares O/s (m)	12,212	12,212	12,212	12,212
EPS (Rs)	**1.1**	**(0.8)**	**1.4**	**0.5**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	33.0	7.1	6.0	12.8
CEPS	40.4	14.7	14.9	22.1
BVPS	93.7	84.4	86.8	95.6
FCF	27.7	6.2	5.3	15.1
DPS	5.1	3.6	4.0	4.4
Return Ratio(%)				
RoCE	32.2	12.6	11.0	15.7
ROIC	31.2	6.0	6.0	10.9
RoE	42.7	8.0	7.0	14.0
Balance Sheet				
Net Debt : Equity (x)	0.4	0.6	0.6	0.5
Net Working Capital (Days)	36	37	40	40
Valuation(x)				
PER	3.5	16.5	19.5	9.1
P/B	1.2	1.4	1.3	1.2
P/CEPS	41.4	15.1	15.3	22.6
EV/EBITDA	2.9	6.3	6.8	5.0
EV/Sales	0.8	0.8	0.8	0.8
Dividend Yield (%)	4.4	3.1	3.4	3.8

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Rev. Indian Op. (US$ m)	17,435	16,126	17,025	17,883
Rev.TSE (US$ m)	12,071	11,267	11,284	11,700
Rev. South East (US$ m)	1,610	726	1,020	1,063
EBITDA-India (US$ m)	6,909	3,463	3,539	3,756
EBITDA-TSE (US$ m)	1,629	611	(268)	450
EBITDA-South East (US$ m)	115	42	54	85
Sales volume India (mt)	18	19	21	22
Real./t - India (Rs)	73,199	68,366	66,631	67,519
EBITDA/t- India (Rs)	29,008	14,680	13,852	14,182
Sales volume TSE (mt)	9	8	9	9
Real./t-TSE (US$)	1,337	1,379	1,265	1,300
EBITDA/Tonne-Corus (US$)	180	75	(30)	50
Sales volume South East (mt)	2	1	2	2
Real./Tonne-SEAN (US$)	700	600	600	625
EBITDA/Tonne-SEAN (US$)	50	35	32	50

Source: Company Data, PL Research

Jindal Steel & Power (JSP IN)

Rating: BUY | CMP: Rs634 | TP: Rs812

August 28, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	511	527	559	666
EBITDA (Rs. bn)	155	99	109	133
Margin (%)	*30.4*	*18.8*	*19.4*	*19.9*
PAT (Rs. bn)	87	45	54	69
EPS (Rs.)	85.7	45.0	54.2	68.7
Gr. (%)	*37.5*	*(47.5)*	*20.5*	*26.7*
DPS (Rs.)	3.0	2.0	3.0	4.0
Yield (%)	*0.5*	*0.3*	*0.5*	*0.6*
RoE (%)	*25.7*	*12.2*	*13.2*	*14.7*
RoCE (%)	*24.6*	*14.7*	*15.5*	*18.3*
EV/Sales (x)	1.4	1.3	1.2	1.0
EV/EBITDA (x)	4.7	7.1	6.4	5.0
PE (x)	7.4	14.1	11.7	9.2
P/BV (x)	1.8	1.6	1.5	1.3

Key Data	JNSP.BO | JSP IN
52-W High / Low	Rs.700 / Rs.386
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.647bn/ $ 7,829m
Shares Outstanding	1,020m
3M Avg. Daily Value	Rs.1843.53m

Shareholding Pattern (%)

Promoter's	62.68
Foreign	12.72
Domestic Institution	14.75
Public & Others	9.86
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.6)	13.2	57.4
Relative	(2.4)	3.8	42.6

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Dual benefit of volumes and better product mix

We initiate coverage on Jindal Steel & Power (JSP IN) with a 'BUY' rating and target price of Rs812 assigning 6x EV to FY25E EBITDA. We believe JSP is well poised to take dual benefit of strong volume growth and improvement in product mix over FY23-25E given a) strong 16% CAGR in steel volumes owing to ongoing Angul capacity expansion; b) commissioning of 5.5mtpa Hot Strip Mill (HSM) to improve product mix and increase Flat Products share from c.33% to over 60%; and c) its upcoming 12mtpa pellet plant, 18mtpa slurry pipeline and four coal blocks to aid margins. With GoI's focus on infrastructure and relatively stronger domestic economy, steel demand is expected to remain high in next few years supporting JSP's volume growth and drive earnings growth. We expect Revenue/EBIDTA/PAT CAGR of 12%/16%/24% over FY23-25E. The stock is currently trading at 6.4x/5x EV of FY24E/FY25E EBITDA. Initiate 'BUY'.

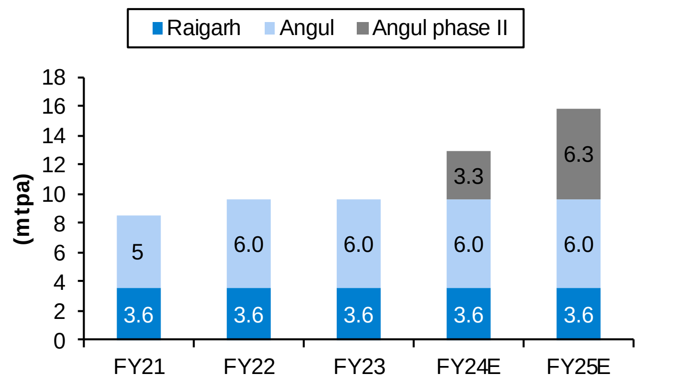
- **Strong volume growth and improved product mix to drive EPS:** JSP's ongoing Rs 240 bn capacity expansion at Angul is expected to drive steel volumes at 16% CAGR and earnings at 24% CAGR over FY23-25E. Commissioning of first 6mtpa pellet plant and slurry pipeline to drive savings of ~Rs2,000/t. With commissioning of 5.5 mtpa HSM and thin slab caster, proportion of Flat products will increase from c. 33% to over 55-60% and proportion of semis (~20% in FY23) will reduce which will aid further margin expansion.

- **Rising coal security leading to significant value accretion:** JSP has won four coal blocks in recent auctions conducted by Ministry of Coal viz. Utkal C, Utkal B1 & B2 and Gare Palma IV/6. JSP expects production to start in next few quarters from these mines, as most of the land acquisition is complete and JSP has also received requisite clearances from MoEF for all four blocks. These blocks are in close vicinity of JSP's operations and expected to result in savings of Rs 1,500 to 1,700 per ton vis a vis e-auction coal. We expect annual savings of ~Rs 22 bn once all the mines get operational over next two years.

- **Deleveraging to keep balance sheet ready for future expansion:** JSP utilized its strong cash flows generated in steel upcycle in FY22 to deleverage itself and selling of power business further reduced net debt. From the net debt of Rs 436 bn in FY16, JSP's net debt in FY23 stood at Rs 81 bn. We believe net debt would remain at lower level compared to peers despite ongoing capex of ~Rs 60 bn per year. The healthy balance sheet would support its future capacity addition plans at Angul.

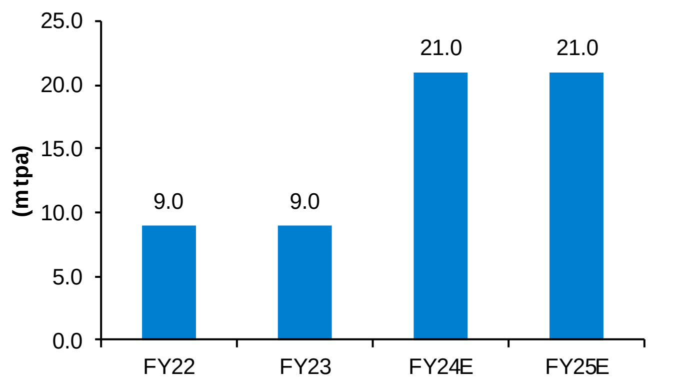
Story in Charts

Exhibit 87: Crude steel capacity to grow at 29% CAGR



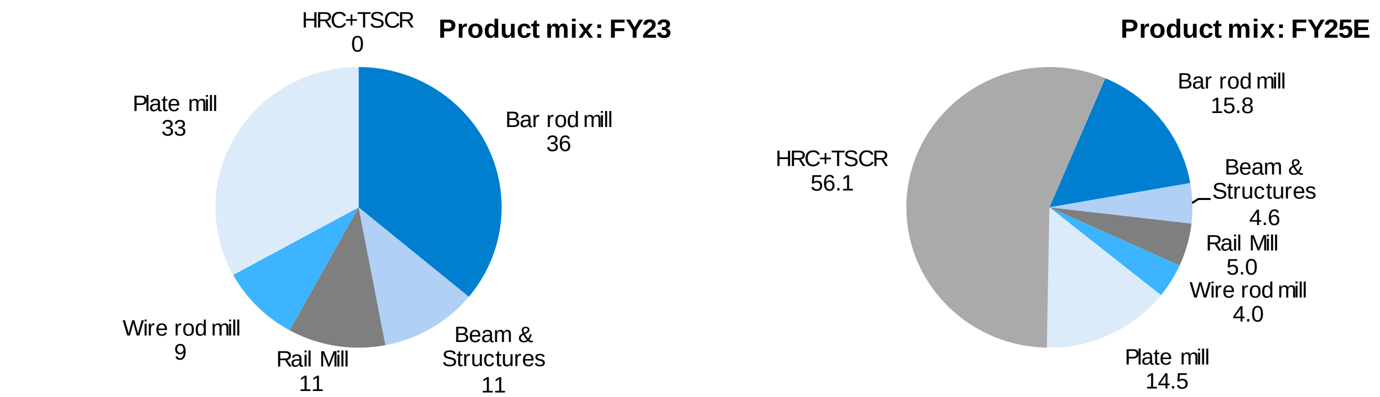
Source: Company, PL

Exhibit 88: Pellet capacity to more than double



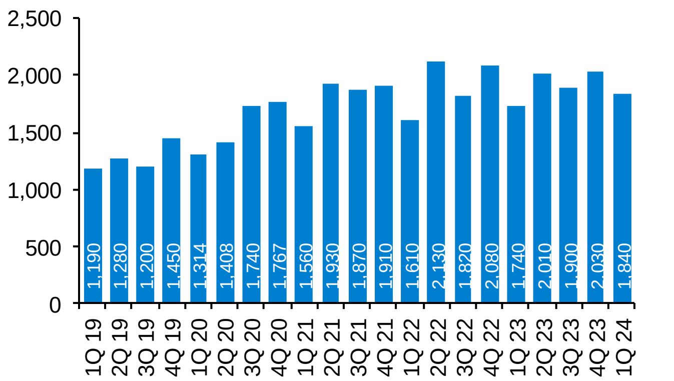
Source: Company, PL

Exhibit 89: Commissioning of HSM mill (HRC+TSCR) shall improve product mix (%)



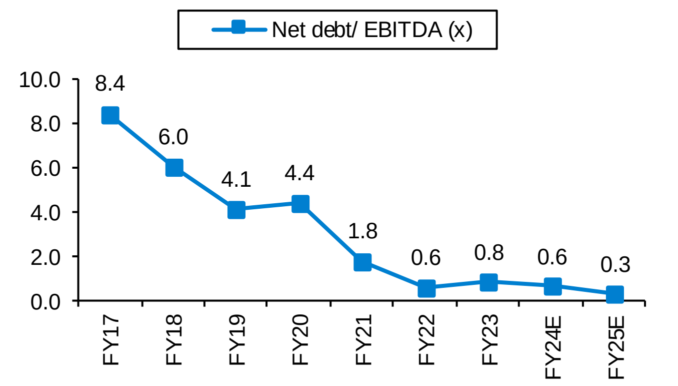
*Source: Company, PL *HSM-----, TSCR-----, HRC*

Exhibit 90: Improving trend in quarterly sales volume (kt)



Source: PL, Bloomberg

Exhibit 91: Low leverage to aid in next phase of steel growth



Source: PL, Bloomberg

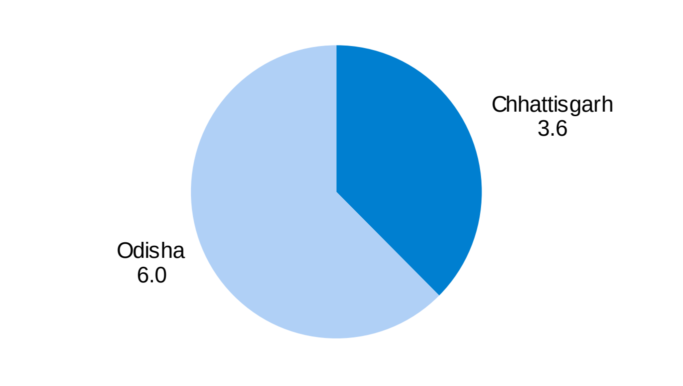
Jindal Steel & Power – Tailwinds ahead

It has highest exposure to Long products (being ~67% of total volumes) among its peers.

Jindal Steel and Power (JSP) is a part of OP Jindal group focused on steel, power and mining businesses led by Mr Naveen Jindal.

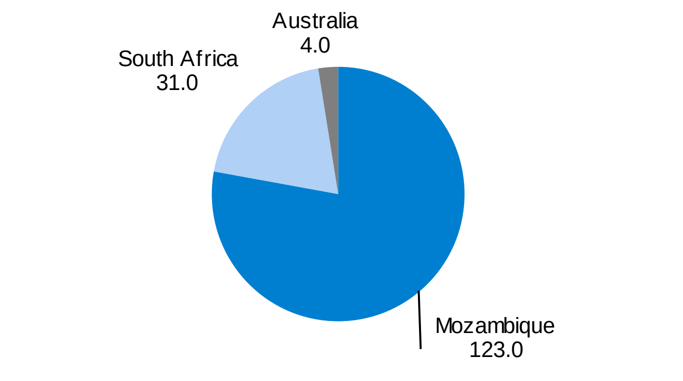
- Post selling of power business to promoter group entity, JSP has become full-fledged steel manufacturer having 9.6mtpa steel capacity at Raigarh (Chhattisgarh) and Angul (Odisha).
- It also operates a 9mtpa pellet plant at Barbil. At Jharkhand, JSP has 1.6mtpa finished steel capacity mainly into Long products viz. 1mtpa Bar Rod mill and Wire Rod mill (0.6mtpa).

Exhibit 92: FY23 crude steel capacities (mtpa)



Source: Company, PL

Exhibit 93: Overseas contribution to FY23 EBITDA (USD mn)

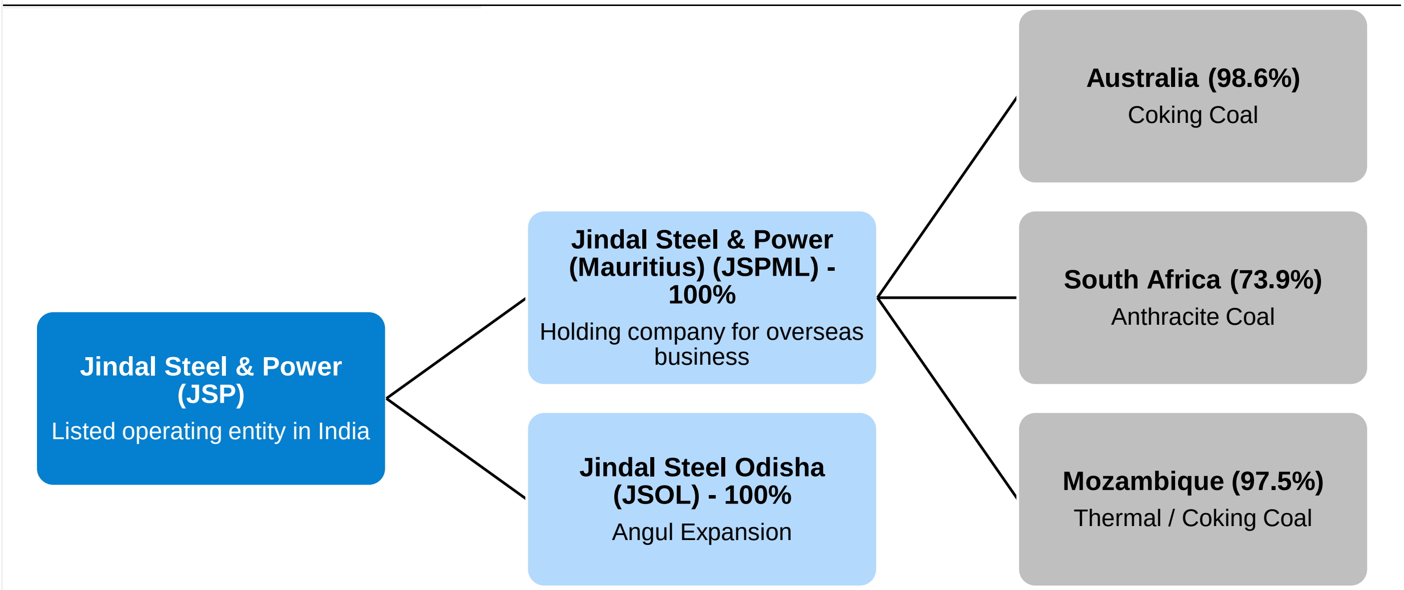


Source: Company, PL

Wollongong Coal Ltd at Australia owns and operates coking coal mines having 1.2mtpa capacity.

- South African mining operations consists of 1.2mtpa thermal coal and Mozambique operation consists of ~1mtpa coking coal and 5mtpa thermal coal mines.

Exhibit 94: Simplified Company structure post sale of power business



Source: Company, PL

Investment Arguments

Strong vol. growth & improved product mix to drive EPS

- JSP's ongoing Rs 240bn capacity expansion at Angul is expected to drive steel volumes at a strong 16% CAGR over next three years. Around 33% of the capex is earmarked for projects which are expected to result in margin, while rest of the capex is expected to increase capacities of blast furnace and hot strip mill (HSM).

- JSP has undertaken forward integration project by setting up a 5.5mtpa HSM at Angul which is expected to improve its product mix over next two years; resulting in margin expansion as well. As proportion of semis decline, margin is expected to rise by ~Rs 2,000/t.

5.5mtpa HSM to result in product mix improvement and reduce semis

- Other growth projects such as 4.25mtpa blast furnace are planned to get commissioned in 1HFY25 which will drive hot metal production at a strong 21% CAGR at Angul over next three years. To augment the capacity of liquid steel from c. 9.6mtpa to 15.9mtpa by FY25, JSP is adding a 3.3mtpa BOF in 1HFY25 and another 3mtpa electric arc furnace (EAF) at Angul in 2HFY25. We expect steel volumes to grow at a strong 16% CAGR over next three years.

<u>We believe with the commissioning of 5.5 mtpa HSM and thin slab caster, proportion of Flat products would increase from c. 33% to over 55-60% and proportion of semis (~20% in FY23) to reduce which will aid margin expansion</u>.

Exhibit 95: Expansion plan at Angul: Commissioning schedule

Type	Capacity (mtpa)	Expected COD	Capex (Rs mn)
Pellet plant I	6.0	Commissioned	
HSM	5.5	3QFY24	8100
Slurry pipeline	18.0	1QFY25	
Pellet plant II	6.0	4QFY25	
Oxygen plant, Coke oven & RMHS	-	2QFY25	
Blast furnace	4.3	2QFY25	
BOF	3.3	2QFY25	
CPP	1050 MW	2QFY25	15900
EAF/BOF furnace	3.0	4QFY25	
Tihn slab casting & rolling	3.0	4QFY25	
DRI	2.7	4QFY25	

Source: Company, PL

Ramping up of recently commissioned 6mtpa pellet plant to start contributing to EBITDA

- Other projects such as 18mtpa slurry pipeline (between mines and Angul plant), 12mtpa pellet plant (6mtpa commissioned in 1QFY24) at Angul are expected to drive margins by reducing the cost of transportation and utilizing low grade iron ore fines widely available in nearby areas. We expect ramping up of 6mtpa pellet plant in 1HFY24 to start contributing to EBITDA from 2HFY24. Slurry pipeline commissioning however got delayed to 1QFY25 due to operational issues.

- Over the years JSP benefitted from strong growth in domestic infrastructure activities driving its long product portfolio volume growth. With timely commissioning of HSM mill, we believe JSP would improve the gaps in its product portfolio and improve its average realization. With strong growth envisaged in Indian infrastructure over next few years, we believe JSP will be one of the beneficiaries as its steel volumes would grow at double digits over next 3-4 years.

Rising coal security leading to significant value accretion

- JSP's DRI and captive power generation operations are expected to benefit in the near term from easing cost pressures, as global thermal coal prices have declined from ~USD330/t YoY to USD 110/t in recent months.
- Domestic availability of coal is also expected to improve led by strong performance from Coal India which will improve linkage availability. At present, it sources ~50% of coal required via e-auction, ~45% via linkage from Coal India and rest from imports.
- However, over the long term, significant value accretion would happen once captive coal mining starts from its recently won coal blocks. JSP has won four coal blocks in recent auctions conducted by Ministry of Coal viz. Utkal C (capacity of 3.37mtpa, expandable up to 5mtpa at 45% premium, if used in coal gasification premiums reduces to 22.5%), Utkal B1 & B2 (having total capacity of ~8mpta won at a premium of 15.25%) and Gare Palma IV/6 (with a total capacity of 4 mtpa bagged at 85.25% premium in auction). These four mines have a combined extractable reserves of ~498 mt sufficient for next 30 years.

Opening of captive coal mines to result in savings of ~Rs 1,500 per ton

- Company expects production to start in next few quarters from these mines as most of the land acquisition is complete and JSP has also received requisite clearances from MoEF for all four blocks. These blocks are in close vicinity of JSP's operations and expected to result in savings of Rs 1,500 to 1,700 per ton vis a vis e-auction coal depending upon global coal price.

Exhibit 96: 100% self-sufficiency on the back of acquired coal mines

Mines	bid won	Location	Capacity (mtpa)	Reserves (mt)	Premium (%)
Utkal C	Feb-22	Angul	3.37	124.0	45.00
Utkal B1	Mar-22	Angul	8	148.7	15.25
Utkal B2	Mar-22	Angul		59.0	15.25
Gare Palma IV/6	Apr-22	Raigarh	4	167.0	85.25

Source: PL, Company

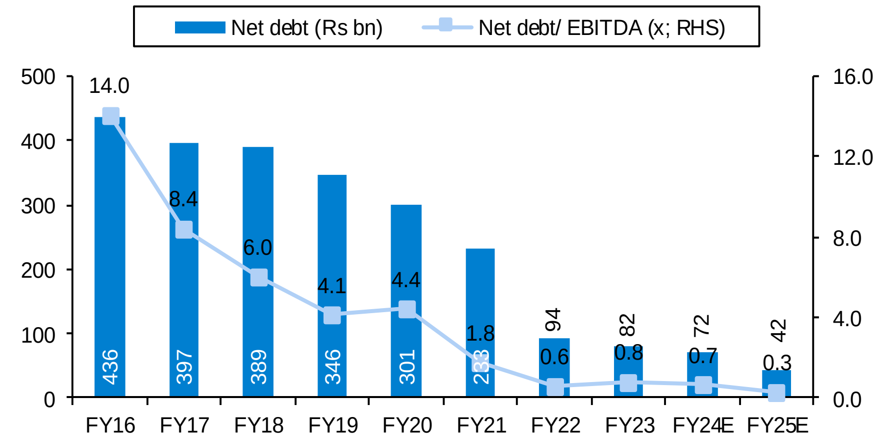
We believe that the starting of coal mining would also improve yield, along with cost savings on transportation aiding margin improvement from FY25 onwards. Although most of the approvals are in place, mining lease (ML) has not been granted to JSP and any further delays in receiving ML would result in delays in expected cost savings. As one of the mines faced significant resistance in past for land acquisition by locals as their demands were not fulfilled by previous promoter to whom it was allocated in 1999.

Deleveraging to keep B/S ready for future expansion

- Over the last few years, JSP has reduced its debt on balance sheet as a) they sold capital intensive power business to promoter group entity, b) company utilized its strong cash flows generated in steel upcycle in FY22 to deleverage itself, as per its earlier stated policy to achieve debt free status.

- Although there are questions over capital allocation policy due to few earlier overseas expansion, we believe JSP is now on right track and we expect it to focus on India by expanding steel capacities in phases.

Exhibit 97: Deleveraging to keep the balance sheet strong



Source: Company, PL

- From the net debt of Rs 436 bn in FY16, JSP's net debt in FY23 stood at Rs 82 bn.

JSP plans to expand the capacity of its steel plant to 25.2 MTPA at Angul by 2030

- We believe net debt would remain at lower level compared to peers despite ongoing Capex of ~Rs 60 bn per year. The healthy balance sheet would support its future capacity addition plans at Angul as JSP plans to expand the capacity of its steel plant to 25.2 MTPA at Angul by 2030.

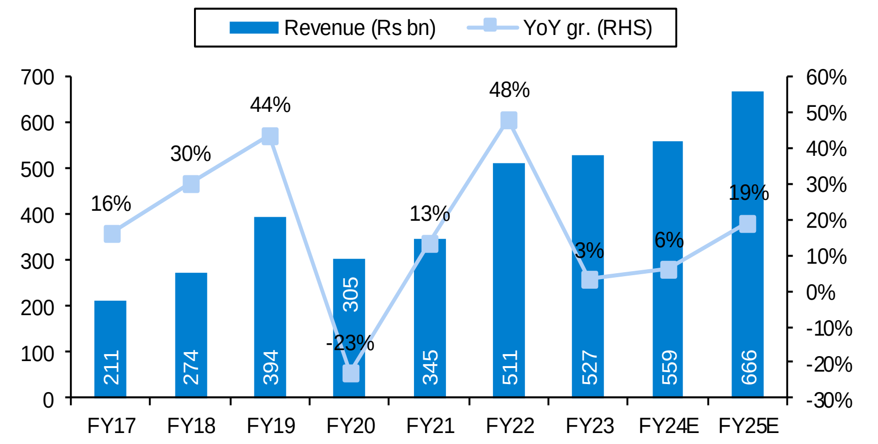
- Odisha government has already approved the expansion plan in August 2021, which envisages investment of Rs 1 tn in the state. We believe strong balance sheet and cash flows getting generated over next few years would help JSP to announce future capex plans by 1HFY25E.

Financial Analysis

Revenue/EBITDA at 13%/15% CAGR over FY23-25E

We expect revenue CAGR of 10% over FY23-25E on the back of strong steel volume growth led by capacity expansion at Angul.

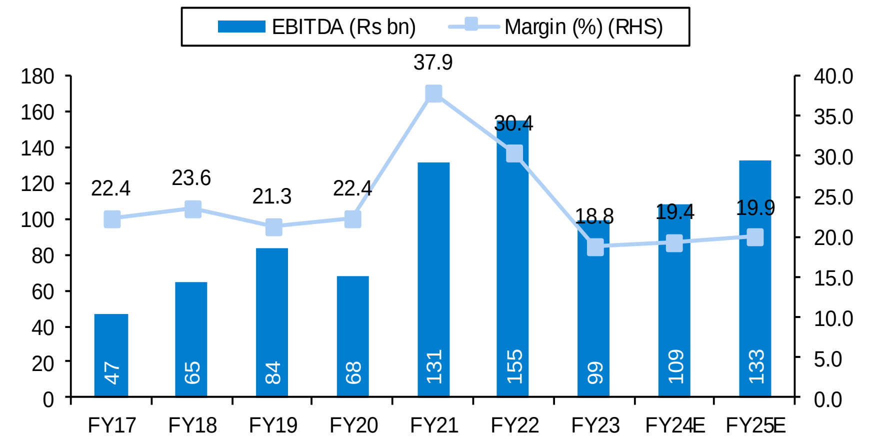
Exhibit 98: Revenue to grow at 10% CAGR



Source: Company, PL

Expect 17% CAGR in EBITDA over FY23-25E as margin improvement from 18.8% to 21.2% in FY25E due to improved product mix.

Exhibit 99: EBITDA to grow at 15% CAGR

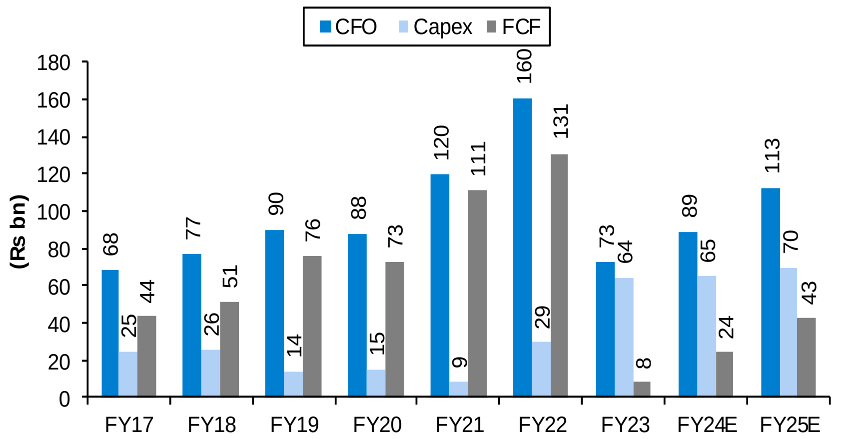


Source: PL, Company

CFO is expected to increase at a CAGR of 26% over FY23-25E on volume driven earnings growth.

FCF is expected to grow at a healthy rate despite high capex intensity.

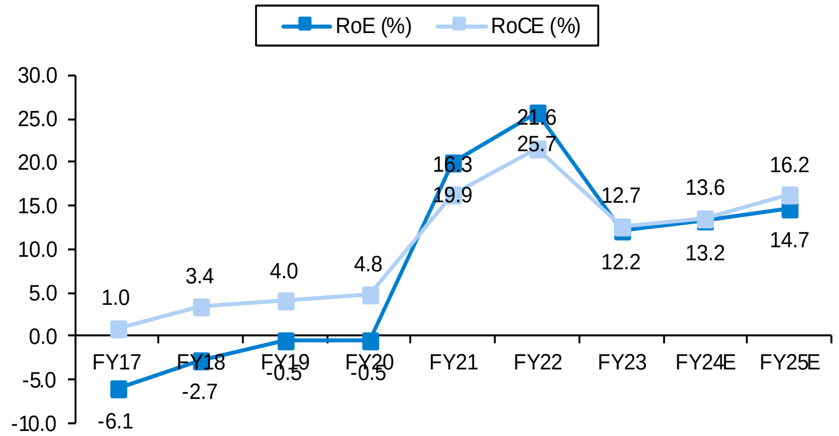
Exhibit 100: Healthy cashflows to aid growth



Source: Company, PL

Return ratios are expected to improve as earnings grow along with additional capacities facilitating volume growth over FY23-25E.

Exhibit 101: Return ratios to improve



Source: Company, PL

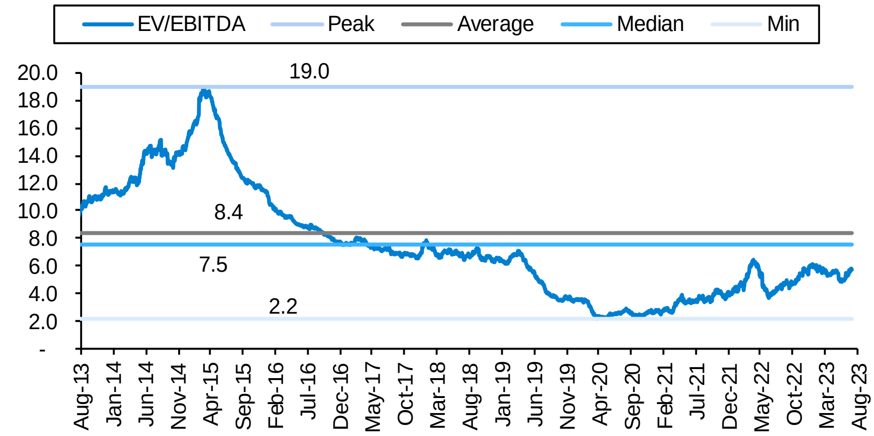
Valuation

JSP has stepped up investments in steel business over last few years as balance sheet has improved considerably post sale of Jindal Power. We expect consolidated EBITDA to grow at a CAGR of 15% over FY23-25E and even higher EPS growth (23% CAGR) led by strong volume growth and flattish steel prices.

JSP's consolidated net debt has reduced from FY16 peak of Rs 436 bn to Rs 82 bn in FY23 led by various measures undertaken by management. Subsequently net debt to equity ratio has improved from 1.3x to 0.2x. The management intends to fund most of the capex via internal accruals.

The stock trades at EV/EBITDA of 6.4x FY24E and 5.0x FY25E. We expect re-rating of the stock as capacities come on stream which would drive significant volume growth. We recommend Buy, with a target price of Rs812 assigning EV/EBITDA of 6x FY25E as most of the earnings would be from domestic volume growth.

Exhibit 102: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 103: Target price calculation

FY25 EBITDA	1,32,787
Target EBITDA multiple	6.0
Target EV	7,96,721
Net Debt (Rs m)	37,404
Residual Market Cap	7,59,317
Target price per share	**812**

Source: PL

Key Risks

- A delay in commissioning of the new facilities at Angul may restrict desired volume growth
- Delays in commissioning of captive coal mine may impact margins in case of sharp rise in coal prices
- Weak global demand can affect domestic steel pricing affecting profitability
- ~34% of promoter holdings is pledged although pledges have come down over last three years.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**5,10,856**	**5,27,112**	**5,58,676**	**6,66,202**
YoY gr. (%)	*47.9*	*3.2*	*6.0*	*19.2*
Cost of Goods Sold	2,05,024	2,46,977	2,61,916	3,05,346
Gross Profit	3,05,831	2,80,135	2,96,761	3,60,856
Margin (%)	*59.9*	*53.1*	*53.1*	*54.2*
Employee Cost	8,707	11,343	10,053	11,059
Other Expenses	1,41,990	1,69,444	1,78,189	2,17,010
EBITDA	**1,55,134**	**99,349**	**1,08,518**	**1,32,787**
YoY gr. (%)	*18.5*	*(36.0)*	*9.2*	*22.4*
Margin (%)	*30.4*	*18.8*	*19.4*	*19.9*
Depreciation and Amortization	20,968	26,910	28,036	30,180
EBIT	**1,34,167**	**72,439**	**80,483**	**1,02,607**
Margin (%)	*26.3*	*13.7*	*14.4*	*15.4*
Net Interest	18,877	14,459	11,527	8,396
Other Income	504	571	1,123	919
Profit Before Tax	**1,11,731**	**44,856**	**70,078**	**95,129**
Margin (%)	*21.9*	*8.5*	*12.5*	*14.3*
Total Tax	29,245	12,923	15,587	26,066
Effective tax rate (%)	*26.2*	*28.8*	*22.2*	*27.4*
Profit after tax	**82,485**	**31,934**	**54,491**	**69,063**
Minority interest	(67)	421	-	-
Share Profit from Associate	(2)	(2)	-	-
Adjusted PAT	**86,613**	**45,205**	**54,491**	**69,063**
YoY gr. (%)	*36.3*	*(47.8)*	*20.5*	*26.7*
Margin (%)	*17.0*	*8.6*	*9.8*	*10.4*
Extra Ord. Income / (Exp)	(4,062)	(13,695)	-	-
Reported PAT	**82,550**	**31,511**	**54,491**	**69,063**
YoY gr. (%)	*34.2*	*(61.8)*	*72.9*	*26.7*
Margin (%)	*16.2*	*6.0*	*9.8*	*10.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	82,550	31,511	54,491	69,063
Equity Shares O/s (m)	**1,011**	**1,005**	**1,005**	**1,005**
EPS (Rs)	**85.7**	**45.0**	**54.2**	**68.7**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**6,73,403**	**6,82,067**	**7,27,067**	**7,77,067**
Tangibles	5,90,464	5,97,809	6,42,809	6,92,809
Intangibles	82,939	84,258	84,258	84,258
Acc: Dep / Amortization	**2,23,006**	**2,47,199**	**2,75,235**	**3,05,415**
Tangibles	1,68,024	1,89,774	2,17,809	2,47,989
Intangibles	54,982	57,426	57,426	57,426
Net fixed assets	**4,50,397**	**4,34,867**	**4,51,832**	**4,71,652**
Tangibles	4,22,440	4,08,035	4,24,999	4,44,819
Intangibles	27,957	26,832	26,832	26,832
Capital Work In Progress	25,384	78,696	98,696	1,18,696
Goodwill	4,480	554	554	554
Non-Current Investments	6,595	5,468	5,468	5,468
Net Deferred tax assets	(72,762)	(59,366)	(59,366)	(59,366)
Other Non-Current Assets	13,490	19,930	19,930	19,930
Current Assets				
Investments	3,321	7,649	7,649	7,649
Inventories	72,814	58,868	61,225	73,008
Trade receivables	12,641	9,745	15,306	18,252
Cash & Bank Balance	36,685	47,168	36,717	46,949
Other Current Assets	25,384	25,225	25,225	25,225
Total Assets	**7,66,435**	**6,94,272**	**7,28,704**	**7,93,485**
Equity				
Equity Share Capital	1,011	1,005	1,005	1,005
Other Equity	3,55,236	3,86,061	4,37,537	5,02,580
Total Networth	**3,56,247**	**3,87,066**	**4,38,542**	**5,03,585**
Non-Current Liabilities				
Long Term borrowings	84,343	72,076	52,076	32,076
Provisions	4,219	3,497	3,497	3,497
Other non current liabilities	7,137	14,155	14,155	14,155
Current Liabilities				
ST Debt / Current of LT Debt	44,277	52,277	52,277	52,277
Trade payables	52,943	47,360	48,980	58,407
Other current liabilities	1,29,803	55,350	56,686	66,997
Total Equity & Liabilities	**7,66,436**	**6,94,272**	**7,28,704**	**7,93,485**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,21,573	44,855	70,078	95,129
Add. Depreciation	30,075	26,910	28,036	30,180
Add. Interest	23,747	14,459	11,527	8,396
Less Financial Other Income	504	571	1,123	919
Add. Other	4,587	8,500	-	-
Op. profit before WC changes	1,79,982	94,723	1,09,641	1,33,706
Net Changes-WC	100	5,078	(4,963)	5,008
Direct tax	(19,604)	(27,047)	(15,587)	(26,066)
Net cash from Op. activities	**1,60,478**	**72,755**	**89,091**	**1,12,648**
Capital expenditures	(28,722)	(33,946)	(65,000)	(70,000)
Interest / Dividend Income	1,631	726	-	-
Others	3,778	(6,965)	-	-
Net Cash from Invt. activities	**(23,313)**	**(40,185)**	**(65,000)**	**(70,000)**
Issue of share cap. / premium	18	-	-	-
Debt changes	(1,18,284)	(4,644)	(20,000)	(20,000)
Dividend paid	(984)	(2,046)	(3,015)	(4,020)
Interest paid	(26,064)	(15,391)	(11,527)	(8,396)
Others	(5,882)	(2,923)	-	-
Net cash from Fin. activities	**(1,51,196)**	**(25,005)**	**(34,542)**	**(32,416)**
Net change in cash	**(14,031)**	**7,565**	**(10,451)**	**10,232**
Free Cash Flow	1,31,033	8,270	24,091	42,648

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**1,35,214**	**1,24,524**	**1,36,919**	**1,25,883**
YoY gr. (%)	*(0.7)*	*(0.6)*	*(4.5)*	*(3.5)*
Raw Material Expenses	67,307	58,063	68,145	53,735
Gross Profit	67,907	66,462	68,775	72,149
Margin (%)	*50.2*	*53.4*	*50.2*	*57.3*
EBITDA	**19,314**	**23,775**	**21,873**	**26,280**
YoY gr. (%)	*(58.0)*	*(28.2)*	*(28.8)*	*(23.6)*
Margin (%)	*14.3*	*19.1*	*16.0*	*20.9*
Depreciation / Depletion	6,143	6,077	8,729	5,875
EBIT	**13,171**	**17,698**	**13,144**	**20,405**
Margin (%)	*9.7*	*14.2*	*9.6*	*16.2*
Net Interest	3,648	3,461	3,712	3,291
Other Income	5	171	158	553
Profit before Tax	**543**	**10,624**	**8,055**	**17,667**
Margin (%)	*0.4*	*8.5*	*5.9*	*14.0*
Total Tax	(1,650)	5,441	3,398	748
Effective tax rate (%)	*(303.9)*	*51.2*	*42.2*	*4.2*
Profit after Tax	**2,193**	**5,183**	**4,657**	**16,920**
Minority interest	-	-	-	-
Share Profit from Associates	-	(1)	-	-
Adjusted PAT	**2,193**	**5,183**	**4,657**	**16,920**
YoY gr. (%)	*(91.5)*	*(67.9)*	*(69.5)*	*(15.0)*
Margin (%)	*1.6*	*4.2*	*3.4*	*13.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**2,193**	**5,183**	**4,657**	**16,920**
YoY gr. (%)	*(91.5)*	*(67.9)*	*(69.5)*	*(15.0)*
Margin (%)	*1.6*	*4.2*	*3.4*	*13.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**2,193**	**5,183**	**4,657**	**16,920**
Avg. Shares O/s (m)	1,005	1,005	1,005	1,005
EPS (Rs)	**2.2**	**5.2**	**4.6**	**16.8**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	85.7	45.0	54.2	68.7
CEPS	106.4	71.8	82.1	98.7
BVPS	352.5	385.1	436.4	501.1
FCF	129.6	8.2	24.0	42.4
DPS	3.0	2.0	3.0	4.0
Return Ratio(%)				
RoCE	24.6	14.7	15.5	18.3
ROIC	19.5	11.6	13.0	14.6
RoE	25.7	12.2	13.2	14.7
Balance Sheet				
Net Debt : Equity (x)	0.2	0.2	0.1	0.1
Net Working Capital (Days)	23	15	18	18
Valuation(x)				
PER	7.4	14.1	11.7	9.2
P/B	1.8	1.6	1.5	1.3
P/CEPS	6.0	8.8	7.7	6.4
EV/EBITDA	4.7	7.1	6.4	5.0
EV/Sales	1.4	1.3	1.2	1.0
Dividend Yield (%)	0.5	0.3	0.5	0.6

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Steel sales volumes (mt)	8	8	8	10
EBITDA/t (Rs)	19,815	12,477	13,069	12,836
Reaslisation/t (Rs)	64,701	66,641	64,753	63,752

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Steel Authority of India (SAIL IN)

Rating: ACCUMULATE | CMP: Rs86 | TP: Rs95

August 28, 2023

Company Initiation

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	1,035	1,044	1,120	1,243
EBITDA (Rs. bn)	213	80	121	125
Margin (%)	*20.6*	*7.7*	*10.8*	*10.1*
PAT (Rs. bn)	124	16	43	45
EPS (Rs.)	29.9	4.0	10.4	11.0
Gr. (%)	*226.2*	*(86.7)*	*161.1*	*5.6*
DPS (Rs.)	6.5	1.5	2.5	2.5
Yield (%)	*7.6*	*1.8*	*2.9*	*2.9*
RoE (%)	*25.9*	*3.2*	*8.0*	*7.9*
RoCE (%)	*22.6*	*5.6*	*9.6*	*9.6*
EV/Sales (x)	0.5	0.7	0.6	0.5
EV/EBITDA (x)	2.6	8.7	5.4	5.2
PE (x)	2.9	21.5	8.2	7.8
P/BV (x)	0.7	0.7	0.6	0.6

Key Data	SAIL.BO | SAIL IN
52-W High / Low	Rs.96 / Rs.73
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.354bn/ $ 4,280m
Shares Outstanding	4,130m
3M Avg. Daily Value	Rs.1344.57m

Shareholding Pattern (%)

Promoter's	65.00
Foreign	3.82
Domestic Institution	13.63
Public & Others	17.55
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.2)	3.3	7.4
Relative	(5.1)	(5.4)	(2.7)

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Pure play on steel prices

We initiate coverage on Steel Authority of India (SAIL IN) with a 'Accumulate' rating and target price of Rs95 based on 5.5x FY25E EV/EBITDA. We believe SAIL is a pure play on steel prices as volume growth would depend upon successful execution of the Capex over next few years. We expect EBITDA growth to be driven by steel prices in near term as a) its volume growth would depend upon successful execution of its planned capex in phases from FY25 onwards and b) mgmt has guided ~15% volume growth for FY24 which includes ~1.4mt of steel inventory. Iron ore mining has multiple issues which can lead to uptick in costs over long term and affect its strategic advantage vis a vis peers. Moreover, other legacy costs are declining however are still relatively much higher than peers. The stock is currently trading at 5.4x/5.2x EV of FY24E/FY25E EBITDA. Initiate 'Accumulate'.

- **Incurring huge capex over next decade, but in phases:** SAIL plans to increase its total capacity to ~35mtpa by FY32 from c. 20.2mtpa with total capex outlay of Rs 1 tn. Accordingly 3 mtpa capacity will be added through debottlenecking at existing facilities and first project of 4.5 mtpa at IISCO will commence FY25 onwards. Guided capex for FY24 is ~Rs 65 bn. This capex would be incurred towards modernization and debottlenecking at existing units and once detailed project report (DPR) is approved next phase of capex would start. SAIL has started preparing a DPR for its IISCO Burnpur, Bokaro, Rourkela and Durgapur units. <u>We believe this time SAIL would learn from its last decade's mistakes and keep adding capacities in phases. However, any delays in one project can lead to deterioration of balance sheet and affect long term volume growth.</u>

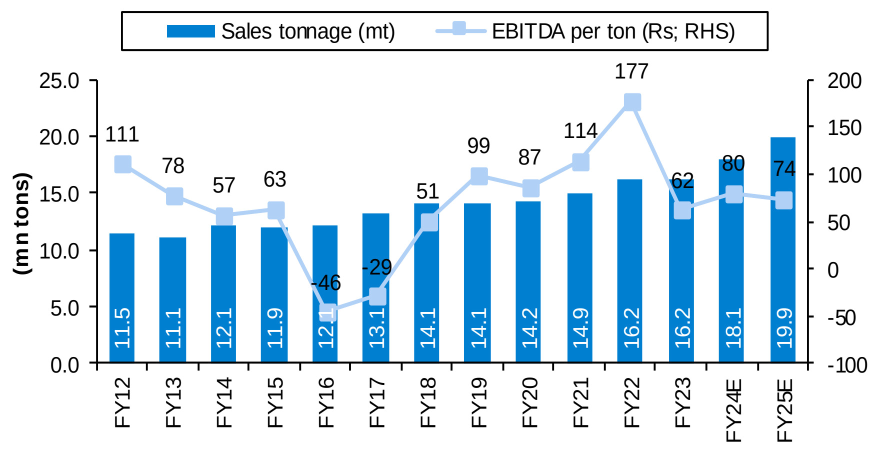
- **Pure play on steel prices:** We believe SAIL is a pure play on steel prices as volume growth beyond FY24 would depend on successful execution of capex being planned. Mgnt. guided 15% volume growth for FY24 which includes ~1.4mt of steel inventory. We also expect earnings growth to be driven by steel prices in the near to medium term. <u>As SAIL has relatively highest cost structure to its peers, it also has highest sensitivity to steel price increase resulting in highest sensitivity to EBITDA per tonne on steel price increase.</u>

- **Iron ore mining cost to increase if Chiria mining issue goes in limbo:** SAIL currently operates 9 iron ore mines and is 100% self-sufficient in its iron ore requirements. However, its biggest mining plan at Chiria has faced a bottleneck post Center's draft plan on mining in the Saranda forest proposing 'no-go zones and biodiversity hotspots'. The matter which is under discussion with steel ministry and GoI, <u>if kept in abeyance for long would take toll on SAIL's capex plans and raise cost per ton further.</u>

- **Valuation & rating:** We initiate coverage on SAIL with 'Accumulate' rating and TP of Rs 95 giving long term multiple of 5.5x FY25E EV/EBITDA, due to its relatively weaker volume growth.

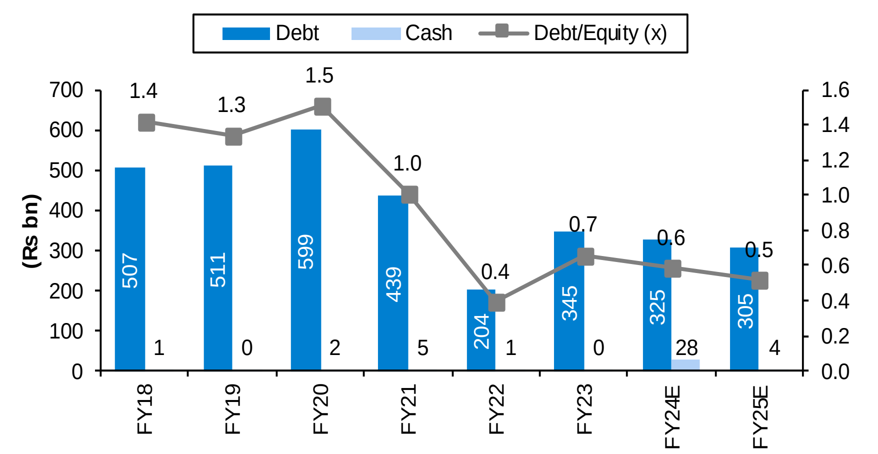
Story in Charts

Exhibit 104: Sluggish 3% CAGR in volume growth over last decade



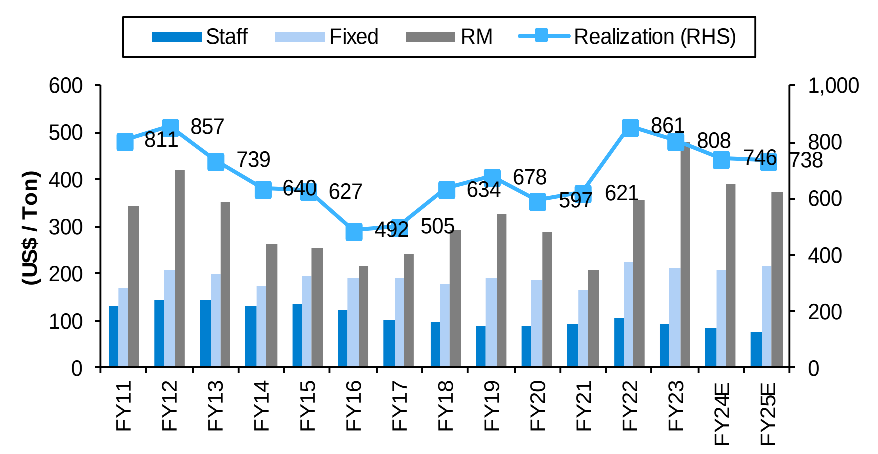
Source: Company, PL

Exhibit 105: Debt to equity will remain comfortable in near term



Source: Company, PL

Exhibit 106: Higher fixed and employee cost remain drag on margins



Source: Company, PL

About the Company

- Steel Authority of India Limited (SAIL) is one of the largest steel-making companies in India with crude steel capacity of 21mtpa and it is one of the Maharatnas of India's Central Public Sector Enterprises. The Government of India owns ~65% of equity stake however, by virtue of its 'Maharatna' status, the company enjoys significant operational and financial autonomy.

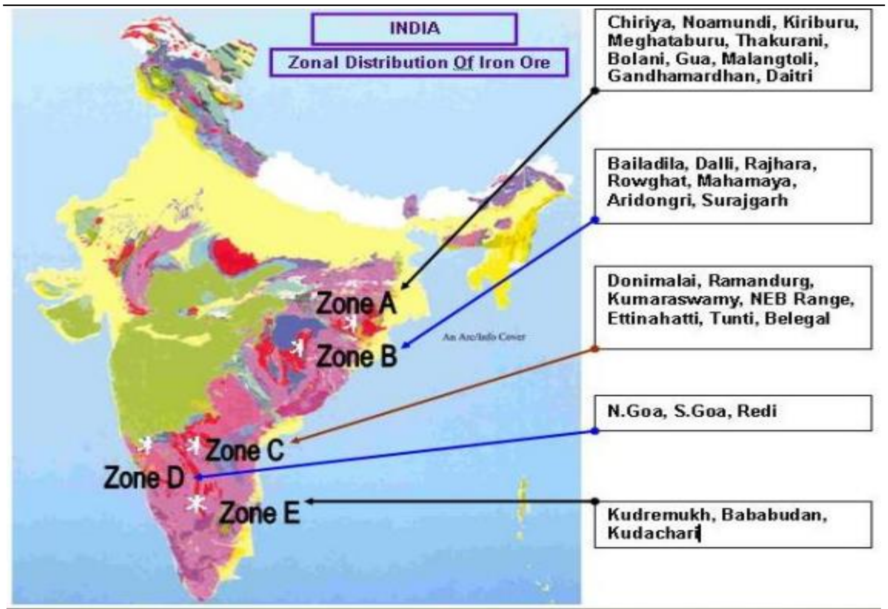
- SAIL produces iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India situated close to domestic sources of raw materials.

Exhibit 107: Plant wise location and capacities

Type of plants	State	Saleable Capacity (mtpa)
Integrated Steel plants		19.24
Bhilai Steel Plant (BSP)	Chhattisgarh	6.56
Durgapur Steel Plant (DSP)	West Bengal	2.12
Rourkela Steel Plant (RSP)	Odisha	3.99
Bokaro Steel Plant (BSL)	Jharkhand	4.18
IISCO Steel Plant (ISP)	West Bengal	2.39
Special steel plants		0.99
Salem Steel Plant	Tamil Nadu	0.34
Alloys Steel Plant	West Bengal	0.44
Visvesvaraya Steel Plant	Karnataka	0.22
Total		**20.23**

Source: Company, PL

Exhibit 108: SAIL's iron ore mines mainly located in Zone A & B



Source: Company, PL

Investment Arguments

Incurring huge capex over next decade but in phases

- In an earlier steel upcycle, SAIL had announced Rs700bn capex to increase its saleable steel capacity from 11.2mtpa in FY10 to 20.2mtpa by FY14. However, more than 20% capex was spent on sustenance, as its old facilities required frequent repairs and maintenance. Moreover, there were significant delays in execution which led to capex overruns and subsequent weakening of balance sheet.

- SAIL produced crude steel of 12.9 mt in FY11 and despite various capacity additions undertaken at its locations; first significant jump in production was seen in FY17 at 14.4mt. Nevertheless, over last six years, SAIL ramped up its production and reached 18.3mt in FY23.

SIAL plans to increase its total capacity to ~35mtpa in phases by FY32, envisaging a total capex outlay of Rs 1 tn

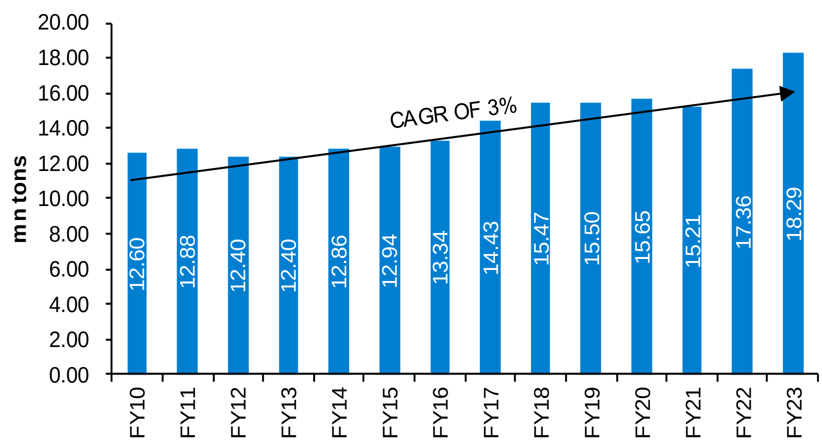
- The company plans to increase its total capacity to ~35mtpa from c. 20.2mtpa by FY32, envisaging a total capex outlay of Rs 1 tn. Accordingly 3 mtpa capacity will be added through debottlenecking at existing facilities and first project of 4.5 mtpa at IISCO will commence FY25 onwards. Guided capex for FY24 is ~Rs 65 bn. Capex shall be incurred towards modernization and debottlenecking at existing units. We believe capex intensity will increase post FY24, as equipment ordering for new capacities would start.

- SAIL has started preparing a detailed project report (DPR) for its IISCO Burnpur, Bokaro, Rourkela and Durgapur units. It expects to finalize the DPR by September 2024 and post getting Stage-1 clearances for these projects, tendering activity would start by FY24 end. As this expansion plan is being planned in phases, funds requirement would not be bunched up at once, however, we expect debt to remain on higher side over long term.

First capacity addition of 3mtpa would come via debottlenecking across existing facilities

- Capex would peak in FY28 and FY29 as first expansion would start by mid FY25 and next would start with a gap of one year. Although this time management has planned capex in phases, we are wary of its scheduled on time delivery considering its weak execution in the past.

Exhibit 109: Stable 3% CAGR in crude steel production growth



Source: Company, PL

Exhibit 110: Capex to enable long term growth

Total Saleable Steel Capacity	FY10	FY23	FY32E
Bhilai	3.2	6.6	-
Durgapur	1.6	2.1	DPR started and expecting capex to start from FY25E
Rourkela	1.7	4.0	
Bokaro	3.8	4.2	
ISP	0.6	2.4	
Special steel plants	0.5	1.0	-
Total	**11.2**	**20.2**	**~35**

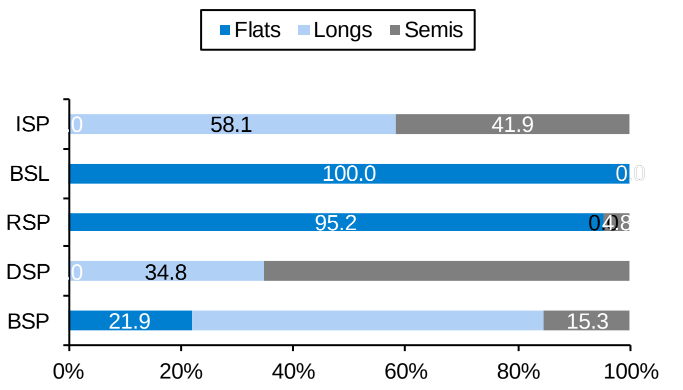
Source: Company, PL

Pure play on steel prices

We believe SAIL is a pure play on steel prices as volume growth beyond FY24 would depend upon successful execution of capex being planned. For FY24 mgnt. guided 15% volume growth which includes ~1.4mt of steel inventory. We expect earnings growth to be driven by steel prices in near to medium term. As SAIL has highest cost structure relative to its peers, it also has highest sensitivity to steel price increase and resultant highest sensitivity to EBITDA per tonne on steel price increase. A 1% positive change in price, with other costs being the same, has a ~7% positive impact on EBITDA per tonne vs ~4% for TATA & JSTL and ~2% for JSP. Therefore, SAIL is likely to be one of the key beneficiaries of any rise in domestic steel prices in near term.

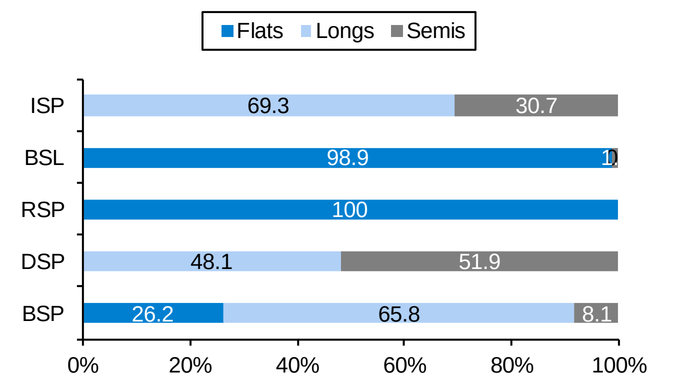
Although proportion of semis is declining over years (20.3% in FY20 to 13.4% in FY23), it is still above management's stated guidance of ~10%. Higher proportion of semis result in lower average realization amongst its peers. We expect SAIL to learn from its earlier experience of capacity addition and reduce semis proportion over next phase of growth.

Exhibit 111: Product mix: FY20 (15.7mt)



Source: Company, PL

Exhibit 112: Product mix: FY23 (18.3mt)



Source: Company, PL

Iron ore mining cost to increase if Chiria goes in limbo

- SAIL currently operates 9 iron ore mines and is 100% self-sufficient in its iron ore requirements. In FY22, SAIL met its entire iron ore requirements (34.2mt) through its captive mines. After accepting the Indian Council of Forestry Research and Education's (ICFRE) expert report on carrying capacity survey of Saranda, the Environment Ministry had earlier proposed two mining zones, two conservation areas and three critical biodiversity hotspots for "sustainable mining" in the region. The ministry had also proposed that forest compartments in mining Zone-II would be considered only after exhausting mineral reserves in the mining Zone-I.

- However, Centre's draft plan on mining in the Saranda forest proposing 'go, no-go zones and biodiversity hotspots' was prepared in the light of recommendations of Justice MB Shah inquiry commission report on illegal mining in Jharkhand in 2016. This could affect SAIL’s long term iron ore self-sufficiency even at current steel capacity.

- As per media reports in 2018, SAIL, the Jharkhand government and Ministry of Steel had all opposed the Centre's draft plan and they had advocated doing away with the concept of phased mining. They also made a special case to allow mining in the Chiria block in Ankua forest, spread over 6,800 hectares, that has India's single largest iron ore deposit of about 2 bn tonnes. SAIL argued that with most of its mines depleting in next 20 years, the Chiria mine is crucial to expand iron ore production from 7mtpa to 40 mtpa between 2020 and 2040.

- Beyond 2040, Chiria will be the only iron ore resource left with SAIL in Jharkhand which will cater to most of iron ore requirement of Eastern Sector Steel Plants of SAIL. The matter if kept in abeyance for long would take toll on SAIL’s 100% iron ore integration and raise cost per ton further. In the near to medium term, SAIL is developing the Rowghat and Taldih mines in Chhattisgarh.

Exhibit 113: SAIL: Iron ore mining details

Mines	State	YoC	Rated Cap (mtpa)	Original reserves (mt)	Fe%
Kiriburu	JH	1964	5.5	33	63.0
Meghahataburu	JH	1985	6.5	23	61.5
Bolani	OD	1960	10.0	144	63.0
Barsua/ Taldih	OD	1960	3.0	74	61.8
Kalta	OD	1966	2.5	67	62.5
Gua	JH	1919	10.0	141	61.9
Chiria	JH	1907	5.0	1200	62.1
Dalli-Rajhara	CG	1958	9.0	302	62.3
Rowghat	CG	2021	14.0	511	63.0

Source: Company, PL

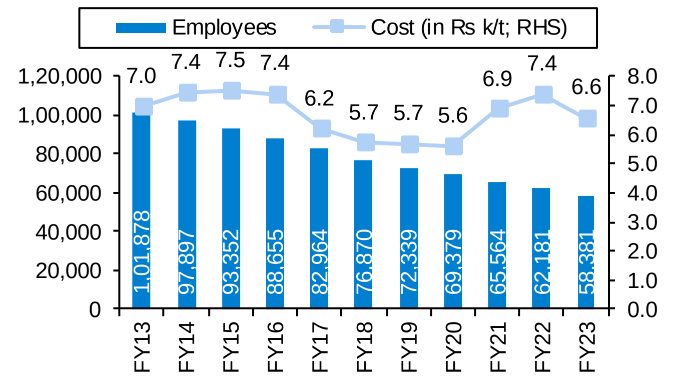
- SAIL procures thermal coal from Coal India except for small quantities produced from captive mines.

- For clean coking coal, ~8-10% is being met from indigenous sources (BCCL & captive sources) and for balance requirement of coking coal (~16 mt), SAIL has to depend on imports due to constraint of good quality coking coal within India. ~1mtpa coking coal is being imported from its resources at Mozambique, Australia and USA via ICVL. ICVL has got lot of reserves with good potential.
- SAIL is expecting to open Tasra mine in the near term which would provide another 1.6mtpa. Although coal production from this block had started in FY18 it was again stuck due to land acquisition related issues of associated contractor then. For rest of coking coal, SAIL will undertake long term agreements to import from Australia, US and Canada.

Enhanced labour productivity however cost/t still highest

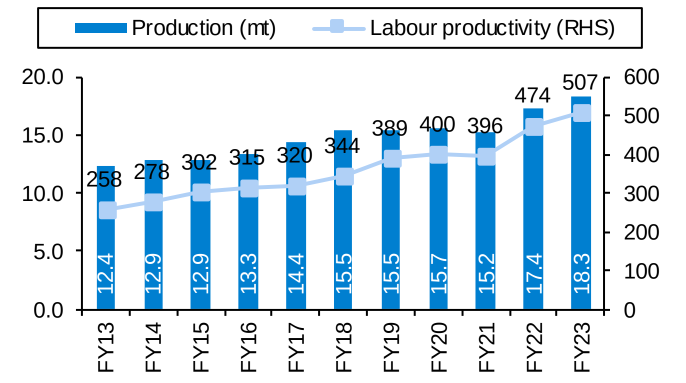
- Being PSU, SAIL struggled with higher employee cost per ton compared to its industry peers. Although over past decade, SAIL undertook measures to improve labour productivity and cut employee cost per ton, it is still nowhere close to its peers.

Exhibit 114: Reducing employees but cost/t inched up



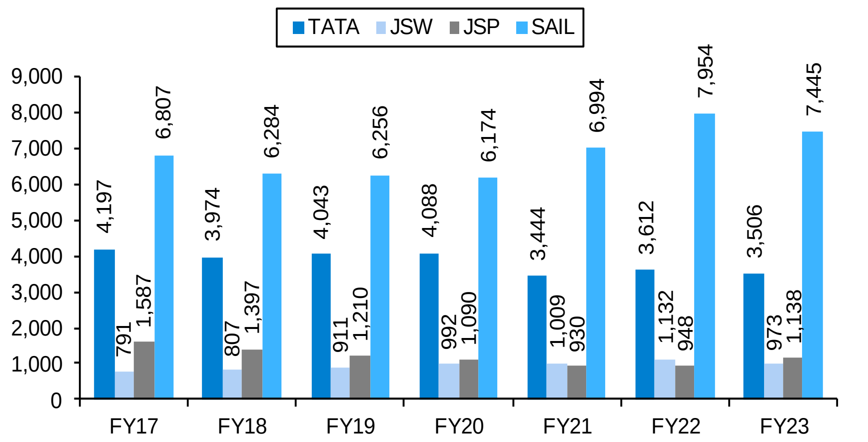
Source: Company, PL

Exhibit 115: Labour productivity is rising along with volumes



Source: Company, PL

Exhibit 116: SAIL has highest cost of employees on per ton basis



Source: Company, PL

Revenue is expected to increase at a CAGR of 9% over FY23-25E as volume growth will be largely dependent on timely commissioning of planned addition.

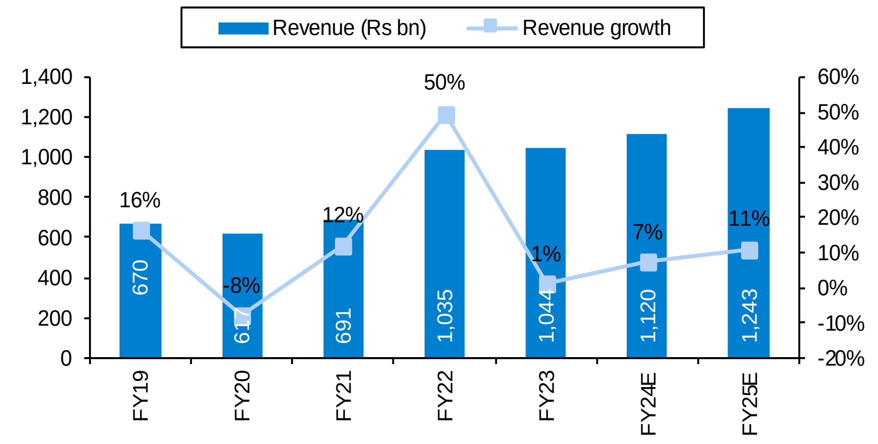
However, there will be ~10% volume growth in FY24, as it has finished steel inventory and domestic demand remains strong.

We expect EBITDA to increase at a CAGR of 26% over FY23-25E on lower coking coal prices.

Financial Analysis

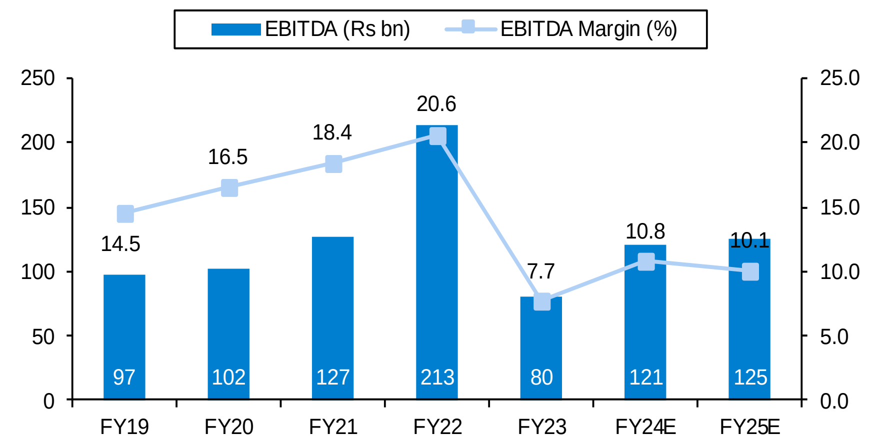
Expect revenue/EBITDA CAGR of 9%/26% over FY23-25E

Exhibit 117: Revenue CAGR of 9% on stable steel prices & volume growth



Source: Company, PL

Exhibit 118: Strong EBITDA margin improvement on low base



Source: Company, PL

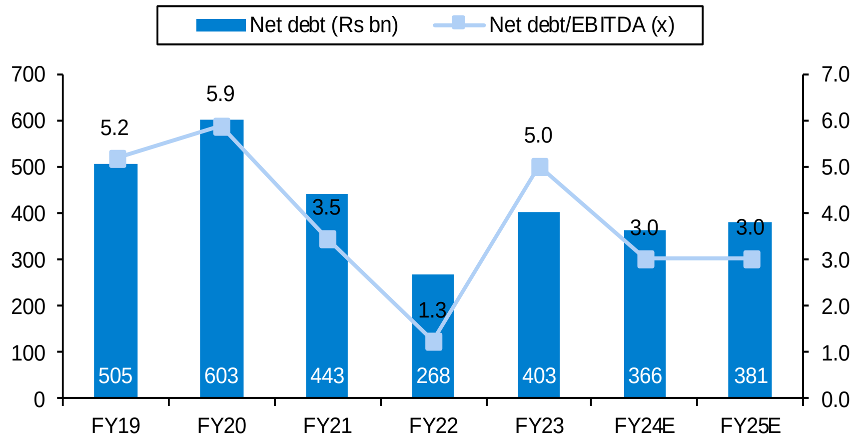
Deleveraging the balance sheet

The company has been focusing on deleveraging its balance sheet and reduced debt in the last steel upcycle. Going forward, debt to EBITDA ratio is expected to remain at lower level as expansion is planned in phases.

We expect Operating cash flows to be positive, given improving working capital and reduced raw material prices.

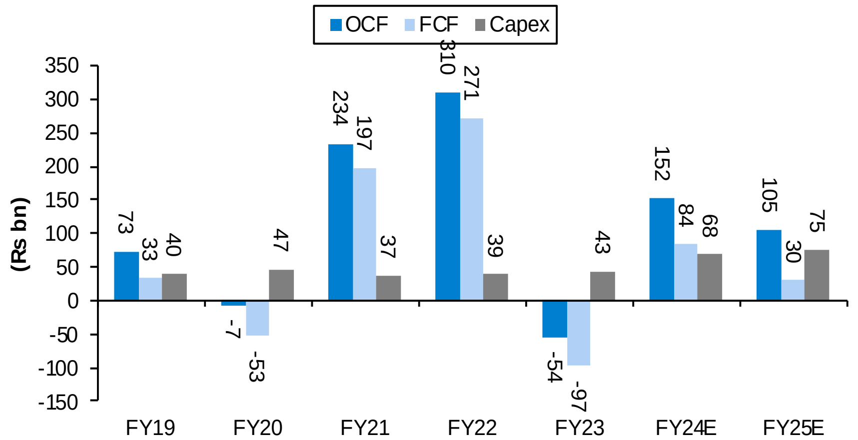
We expect capex intensity to increase from FY25 as it aims to increase steel capacity to 35mtpa by FY32.

Exhibit 119: Continued focus on deleveraging



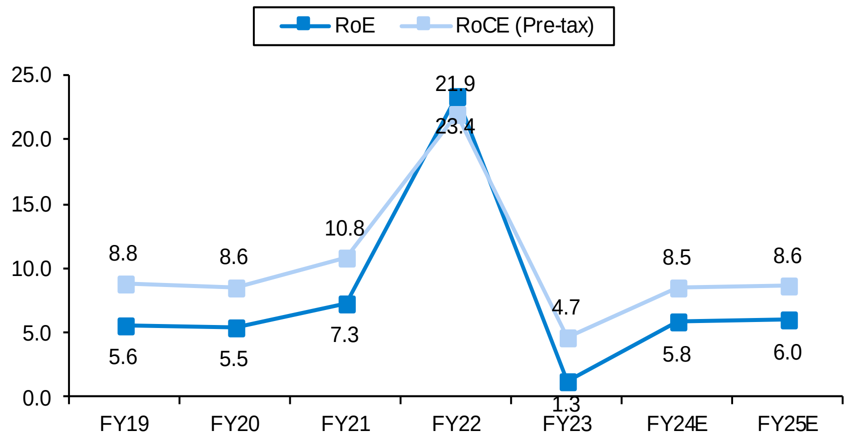
Source: Company, PL

Exhibit 120: Capex intensity to increase going forward



Source: Company, PL

Exhibit 121: Return ratios to gradually improve after hitting lows in FY23



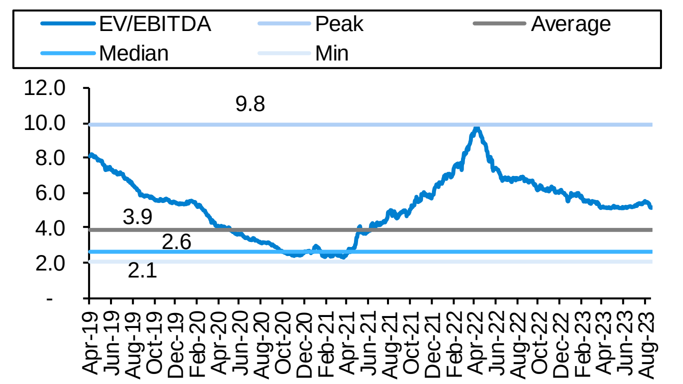
Source: Company, PL

Valuations

In the near term, volume growth is expected to increase as domestic demand remains strong and SAIL has finished steel inventory along with some scope to increase capacity utilization. However, for long term, we expect the company to be pure play on steel prices as incremental capacity will come by FY26 via debottlenecking at existing units.

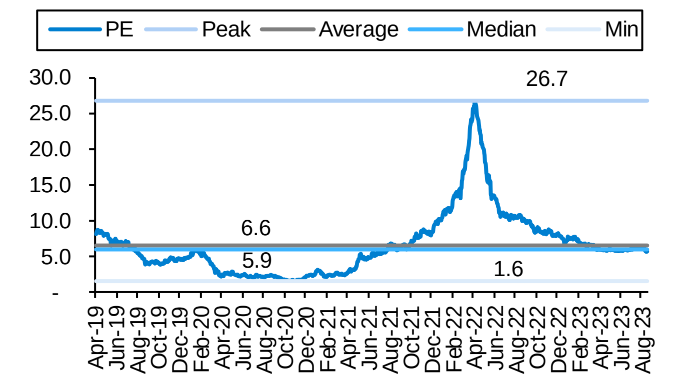
Although next leg of capex is expected to be in phases, delays if any, SAIL may face issues similar to its earlier mega capex cycle seen in FY10-16 period. Any delays in capacity addition followed by balance sheet deterioration can lead to shrinking of valuation multiples. We initiate coverage with 'Accumulate' rating and target price of Rs 95 giving long term multiple of 5.5x FY25E EV/EBITDA.

Exhibit 122: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 123: 1-Year forward PER chart



Source: Bloomberg, PL

Exhibit 124: Target Price Calculation

EBITDA (Rs mn)	1,25,106
Target EBITDA multiple (x)	5.5
Target EV (Rs mn)	6,88,082
Net Debt (Rs mn)	2,96,425
Residual Market Cap (Rs mn)	3,91,657
Target price (Rs)	**95**

Source: PL

Key Risks

- Weak Chinese demand may put pressure on steel prices leading to lower margins.
- Delays in new capex planning and commissioning may result in losing market share to peers.
- Delays in getting environmental clearances for iron ore mine expansion projects may lead to cost escalations.
- Private players including AM-NS have superior execution capabilities resulting in SAIL to lag, despite strong domestic demand scenario.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**10,34,733**	**10,44,474**	**11,19,660**	**12,43,136**
YoY gr. (%)	*49.7*	*0.9*	*7.2*	*11.0*
Cost of Goods Sold	4,24,915	5,69,310	5,61,991	6,26,322
Gross Profit	6,09,819	4,75,164	5,57,669	6,16,813
Margin (%)	*58.9*	*45.5*	*49.8*	*49.6*
Employee Cost	1,28,462	1,20,536	1,23,389	1,29,558
Other Expenses	2,68,135	2,74,387	3,13,549	3,62,149
EBITDA	**2,13,222**	**80,241**	**1,20,731**	**1,25,106**
YoY gr. (%)	*67.5*	*(62.4)*	*50.5*	*3.6*
Margin (%)	*20.6*	*7.7*	*10.8*	*10.1*
Depreciation and Amortization	42,742	49,625	51,746	54,841
EBIT	**1,70,480**	**30,616**	**68,985**	**70,264**
Margin (%)	*16.5*	*2.9*	*6.2*	*5.7*
Net Interest	16,979	20,375	25,203	23,287
Other Income	10,420	13,548	15,024	15,174
Profit Before Tax	**1,60,387**	**26,369**	**58,806**	**62,152**
Margin (%)	*15.5*	*2.5*	*5.3*	*5.0*
Total Tax	40,237	7,338	15,855	16,781
Effective tax rate (%)	*25.1*	*27.8*	*27.0*	*27.0*
Profit after tax	**1,20,150**	**19,031**	**42,951**	**45,371**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**1,23,685**	**16,451**	**42,951**	**45,371**
YoY gr. (%)	*226.2*	*(86.7)*	*161.1*	*5.6*
Margin (%)	*12.0*	*1.6*	*3.8*	*3.6*
Extra Ord. Income / (Exp)	(3,534)	2,580	-	-
Reported PAT	**1,20,150**	**19,031**	**42,951**	**45,371**
YoY gr. (%)	*212.1*	*(84.2)*	*125.7*	*5.6*
Margin (%)	*11.6*	*1.8*	*3.8*	*3.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,20,150	19,031	42,951	45,371
Equity Shares O/s (m)	**4,131**	**4,131**	**4,131**	**4,131**
EPS (Rs)	**29.9**	**4.0**	**10.4**	**11.0**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**12,47,850**	**13,78,585**	**14,46,585**	**15,21,585**
Tangibles	12,47,850	13,78,585	14,46,585	15,21,585
Intangibles	-	-	-	-
Acc: Dep / Amortization	**5,11,289**	**5,60,914**	**6,12,660**	**6,67,502**
Tangibles	5,11,289	5,60,914	6,12,660	6,67,502
Intangibles	-	-	-	-
Net fixed assets	**7,36,561**	**8,17,671**	**8,33,925**	**8,54,083**
Tangibles	7,36,561	8,17,671	8,33,925	8,54,083
Intangibles	-	-	-	-
Capital Work In Progress	40,167	48,914	48,914	48,914
Goodwill	-	-	-	-
Non-Current Investments	16,245	26,979	26,979	26,979
Net Deferred tax assets	(52,599)	(57,472)	(57,539)	(57,539)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	1,95,693	2,77,163	2,76,081	3,06,527
Trade receivables	47,368	53,625	61,351	1,02,176
Cash & Bank Balance	6,478	3,980	32,097	8,263
Other Current Assets	-	-	-	-
Total Assets	**11,30,445**	**12,77,150**	**13,28,166**	**13,95,760**
Equity				
Equity Share Capital	41,305	41,305	41,305	41,305
Other Equity	4,78,866	4,80,087	5,12,711	5,47,756
Total Networth	**5,20,171**	**5,21,392**	**5,54,017**	**5,89,061**
Non-Current Liabilities				
Long Term borrowings	2,03,907	3,44,688	3,24,688	3,04,688
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	1,69,180	1,43,389	1,68,716	1,87,322
Other current liabilities	1,84,588	2,10,210	2,23,207	2,57,151
Total Equity & Liabilities	**11,30,445**	**12,77,150**	**13,28,166**	**13,95,760**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,60,387	26,369	58,806	62,152
Add. Depreciation	42,742	49,534	51,746	54,841
Add. Interest	16,069	20,375	25,203	23,287
Less Financial Other Income	10,420	13,548	15,024	15,174
Add. Other	(3,542)	(7,923)	-	-
Op. profit before WC changes	2,15,656	88,355	1,35,755	1,40,280
Net Changes-WC	94,816	(1,38,224)	31,680	(18,721)
Direct tax	(836)	(4,196)	(15,788)	(16,781)
Net cash from Op. activities	**3,09,636**	**(54,065)**	**1,51,647**	**1,04,778**
Capital expenditures	(38,522)	(43,145)	(68,000)	(75,000)
Interest / Dividend Income	-	-	-	-
Others	(1,225)	10,810	-	-
Net Cash from Invt. activities	**(39,747)**	**(32,335)**	**(68,000)**	**(75,000)**
Issue of share cap. / premium	(1,862)	(2,670)	-	-
Debt changes	(2,22,224)	1,22,761	(20,000)	(20,000)
Dividend paid	(30,669)	(13,424)	(10,326)	(10,326)
Interest paid	(19,221)	(20,800)	(25,203)	(23,287)
Others	-	-	-	-
Net cash from Fin. activities	**(2,73,976)**	**85,867**	**(55,529)**	**(53,613)**
Net change in cash	**(4,086)**	**(533)**	**28,118**	**(23,835)**
Free Cash Flow	2,71,114	(97,210)	83,647	29,778

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**2,62,463**	**2,50,419**	**2,91,306**	**2,43,576**
YoY gr. (%)	*(2.2)*	*(0.8)*	*(5.3)*	*1.4*
Raw Material Expenses	1,64,182	1,35,252	1,55,044	1,30,515
Gross Profit	98,281	1,15,167	1,36,262	1,13,061
Margin (%)	*37.4*	*46.0*	*46.8*	*46.4*
EBITDA	**7,326**	**20,768**	**29,139**	**16,471**
YoY gr. (%)	*(89.6)*	*(39.1)*	*(32.7)*	*(28.4)*
Margin (%)	*2.8*	*8.3*	*10.0*	*6.8*
Depreciation / Depletion	11,832	12,210	13,644	12,749
EBIT	**(4,506)**	**8,558**	**15,495**	**3,723**
Margin (%)	*(1.7)*	*3.4*	*5.3*	*1.5*
Net Interest	5,062	6,403	5,170	6,126
Other Income	4,412	1,208	4,875	4,425
Profit before Tax	**(5,156)**	**6,347**	**14,795**	**2,021**
Margin (%)	*(2.0)*	*2.5*	*5.1*	*0.8*
Total Tax	(1,298)	1,712	4,305	523
Effective tax rate (%)	*25.2*	*27.0*	*29.1*	*25.9*
Profit after Tax	**(3,858)**	**4,635**	**10,490**	**1,498**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**(3,858)**	**4,635**	**10,490**	**1,498**
YoY gr. (%)	*(109.0)*	*(67.9)*	*(56.6)*	*(80.7)*
Margin (%)	*(1.5)*	*1.9*	*3.6*	*0.6*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**(3,858)**	**4,635**	**10,490**	**1,498**
YoY gr. (%)	*(109.0)*	*(67.9)*	*(56.6)*	*(80.7)*
Margin (%)	*(1.5)*	*1.9*	*3.6*	*0.6*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**(3,858)**	**4,635**	**10,490**	**1,498**
Avg. Shares O/s (m)	4,135	4,135	4,135	4,135
EPS (Rs)	**(0.9)**	**1.1**	**2.5**	**0.4**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	29.9	4.0	10.4	11.0
CEPS	40.3	16.0	22.9	24.3
BVPS	125.9	126.2	134.1	142.6
FCF	65.6	(23.5)	20.3	7.2
DPS	6.5	1.5	2.5	2.5
Return Ratio(%)				
RoCE	22.6	5.6	9.6	9.6
ROIC	16.1	2.8	6.0	5.8
RoE	25.9	3.2	8.0	7.9
Balance Sheet				
Net Debt : Equity (x)	0.4	0.7	0.5	0.5
Net Working Capital (Days)	26	65	55	65
Valuation(x)				
PER	2.9	21.5	8.2	7.8
P/B	0.7	0.7	0.6	0.6
P/CEPS	40.3	16.0	22.9	24.3
EV/EBITDA	2.6	8.7	5.4	5.2
EV/Sales	0.5	0.7	0.6	0.5
Dividend Yield (%)	7.6	1.8	2.9	2.9

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales volume (mt)	16	16	18	20
Realisation/t (Rs)	64,070	64,510	61,990	62,570
EBITDA/t (Rs)	13,203	4,956	6,684	6,297

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

NMDC (NMDC IN)

Rating: ACCUMULATE | CMP: Rs119 | TP: Rs136

August 28, 2023

Company Initiation

Play on strong volume growth

We initiate coverage on National Mineral Development Corporation (NMDC IN) with 'Accumulate' rating and TP of Rs136 based on 5x FY25EV/EBITDA which is ~20% discount to its 10-year historical average multiple. NMDC is well placed to capitalize on strong volume growth in domestic steel markets over next two years given a) its increased focus on mining business, post steel business demerger (expect 15% CAGR over FY23-25E to ~50mt) and b) doubling of railway line for evacuation and higher availability of rakes over next few years. Higher royalty payments could be a concern, expected to be set off by higher volumes. With GoI's focus on infrastructure and overall stronger domestic economy, steel demand is expected to remain high over next few years supporting iron ore volumes; NMDC would be key beneficiary of the same. We expect Revenue/EBIDTA /PAT of 14%/10%/10% over FY23-25E. The stock is currently trading at 4.1x/4.2x EV of FY24E/FY25E EBITDA. Initiate 'ACCUMULATE'.

- **Renewed focus on iron ore volume growth post steel de-merger:** NMDC has increased its focus on improving iron ore production volumes post recent de-merger of steel plant to NMDC Steel Ltd. With recent approvals from Karnataka government, NMDC has mining lease validity till minimum next 12 years with mining capacity of ~50mtpa. With strong demand from domestic steel producers for next few years, we believe NMDC is all set to increase iron ore production to ~49-50mt given precedence of high return ratios in mining business.

- **One of the world's lowest cost producers:** NMDC has been historically one of the lowest cost producers of iron ore in India as well as in the world due to a) its strategically located high quality iron ore mines in resource rich regions of Chhattisgarh and Karnataka; b) customer proximity and usage of slurry pipe lines limiting transportation costs; and c) strong focus on operational efficiencies and cost optimization (advanced mining technology and beneficiation units) which contributed to lower production costs. Although iron ore royalties have increased post imposition of 37.5% royalty by Karnataka Government, we expect rising cost impact will be mitigated due to higher volume growth.

- **Various projects to augment production and improve product mix:** Doubling of KK line (Kirandul-Kotvatsala) between Kirandul & Jagdalpur (150.5 km) executed by Railways will augment capacity in 2HFY25. Doubling of ~110 km rail line is already completed and is in operation. Completion of this project will augment evacuation capacity of Bailadila sector through railway line from 28 to 40 mtpa. 15mtpa Slurry pipeline project from Bailadila to Nagarnar and further up to Visakhapatnam is also 65% complete. NMDC is setting up 2mtpa pellet plant at Jagdalpur to be commissioned by FY25 and scouting for locations for additional four pellet plant of 2mtpa each to reach 6mtpa. We believe additional capex will be earmarked for these pellet plant over next few quarters which will drive earnings post FY25.

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	2,58,817	1,76,669	2,11,830	2,18,740
EBITDA (Rs. m)	1,25,843	60,573	67,478	63,194
Margin (%)	*48.6*	*34.3*	*31.9*	*28.9*
PAT (Rs. m)	93,941	46,438	50,838	47,636
EPS (Rs.)	32.1	15.8	17.3	16.3
Gr. (%)	*50.3*	*(50.6)*	*9.5*	*(6.3)*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*39.2*	*22.8*	*21.2*	*18.1*
RoCE (%)	*51.2*	*30.0*	*28.5*	*25.1*
EV/Sales (x)	1.1	1.7	1.3	1.2
EV/EBITDA (x)	2.2	4.8	4.1	4.2
PE (x)	3.7	7.5	6.9	7.3
P/BV (x)	1.9	1.5	1.4	1.3

Key Data	NMDC.BO | NMDC IN
52-W High / Low	Rs.132 / Rs.86
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.350bn/ $ 4,233m
Shares Outstanding	2,931m
3M Avg. Daily Value	Rs.1134.79m

Shareholding Pattern (%)

Promoter's	60.79
Foreign	6.98
Domestic Institution	18.01
Public & Others	14.21
Promoter Pledge (Rs bn)	-

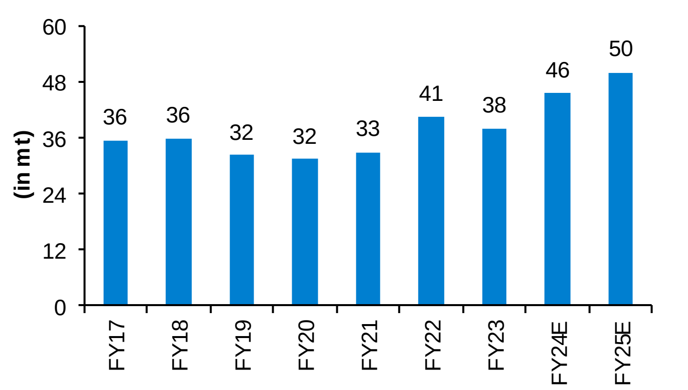
Stock Performance (%)

	1M	6M	12M
Absolute	6.4	6.6	36.5
Relative	8.8	(2.3)	23.7

Tushar Chaudhari
tusharchaudhari@plindia.com | 91-22-663222391

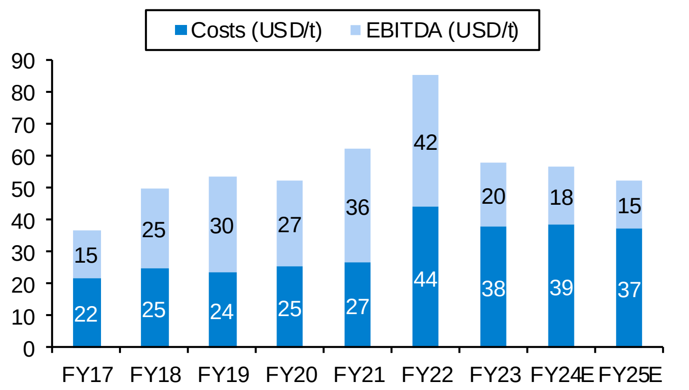
Story in charts

Exhibit 125: Strong 16% CAGR in volumes over FY23-25E



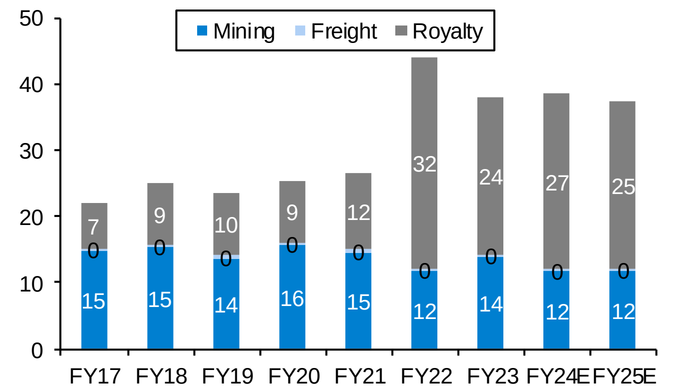
Source: Company, PL

Exhibit 126: Volumes can compensate margin compression



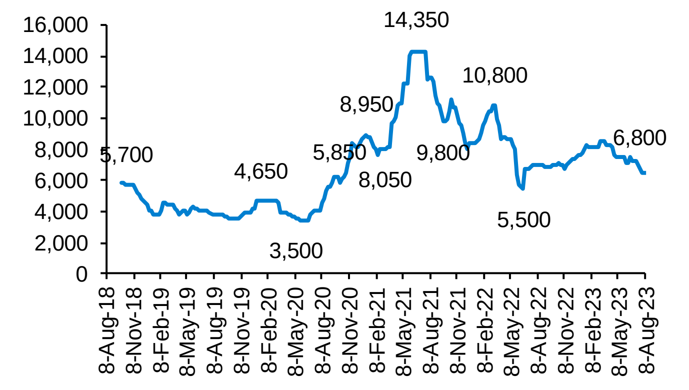
Source: Company, PL

Exhibit 127: Lowest cost iron ore producer (USD/t)



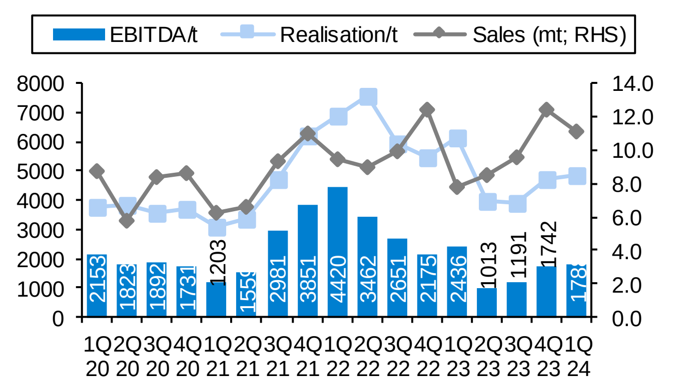
Source: Company, PL

Exhibit 128: Iron Ore Lumps prices, Fe 63%, Odisha (Rs/t)



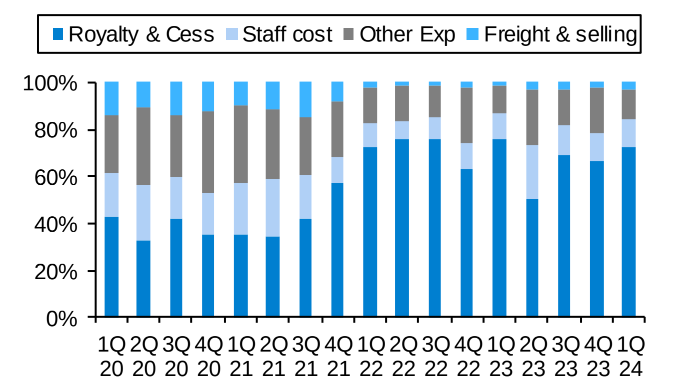
Source: Company, PL

Exhibit 129: Trend in ore sales, realization and EBITDA/t (Rs)



Source: Company, PL

Exhibit 130: Proportion of Royalty jumped significantly (%)

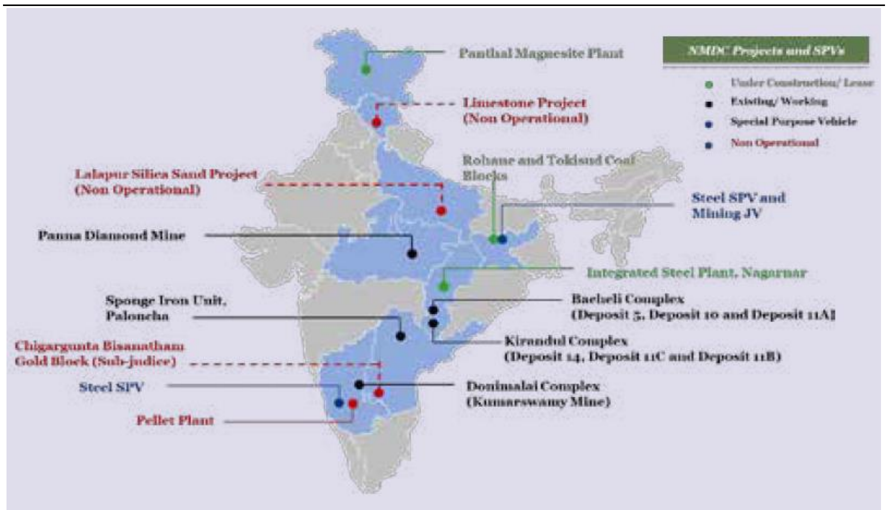


Source: Company, PL

NMDC – Largest Indian iron ore producer

- NMDC Ltd., a Navratna PSU under Ministry of Steel, Govt. of India is the single largest producer of iron ore in India. The company being one of the world's low-cost iron ore producers owns and operates highly mechanized iron ore mines in Chhattisgarh & Karnataka with annual capacity of over 49mtpa.
- Its total reserves stand at over 1bn tonnes (including proved and probable) with mine life of 25 years (based on FY22 production) and an average Fe content of proved reserves of 64%+.
- NMDC's core business of iron ore is operated through three iron ore mining complexes, the Kirandul and Bacheli complexes, located in Chhattisgarh, and the Donimalai complex in Karnataka. It has five iron ore mining leases in Chhattisgarh and two in Karnataka. After almost 2 years of waiting, NMDC has resumed mining at Donimalai complex in Karnataka since February 2021, which is expected to drive volumes. Although royalties in Karnataka have increased, NMDC has mining lease validity till next 12 years for most mines.
- NMDC also operates the only mechanized diamond mine in India at Panna, MP and generated Rs 630mn in FY22.
- The company has set up 3mtpa integrated steel plant at Nagarnar, Chhattisgarh and de-merged the same successfully into NMDC Steel Ltd.

Exhibit 131: Wide presence across the country



Source: Company, PL

Investment Arguments

Renewed focus on iron ore volume growth

Post successful demerger of steel unit into NMDC Steel Ltd, management reiterated to improve its focus on iron ore production for next few years.

- **NMDC plans to reach its earlier quoted 100mtpa target by 2030** in-line with growing requirement from domestic steel producers. It has already achieved ~80% capacity utilization since last two years (with current ~50mtpa capacity).
- **Unprecedented time delays in the 3mtpa steel plant** (which was envisaged at steel cycle peak in 2008) were witnessed along with a massive Rs230bn capital investment from NMDC. Delays in setting up steel unit affected iron ore mining business, however we believe the situation is going to change from hereon as high return ratios of mining business would take precedence. Mgmt. has guided for 46-50mt of volumes for FY24 led by planned commissioning of 3mt Kumaraswamy mine expansion.
- **Mgmt. guided to spend Rs 20 bn in FY24** towards ongoing projects and step up the annual capex to Rs 30 bn from FY25 on few identified projects such as Deposit 11c and 14; and two slurry pipelines. We believe with this focused approach on volume growth, NMDC can deliver healthy 15%+ CAGR volume for next few years.

Exhibit 132: NMDC: Details of Mines and current capacities

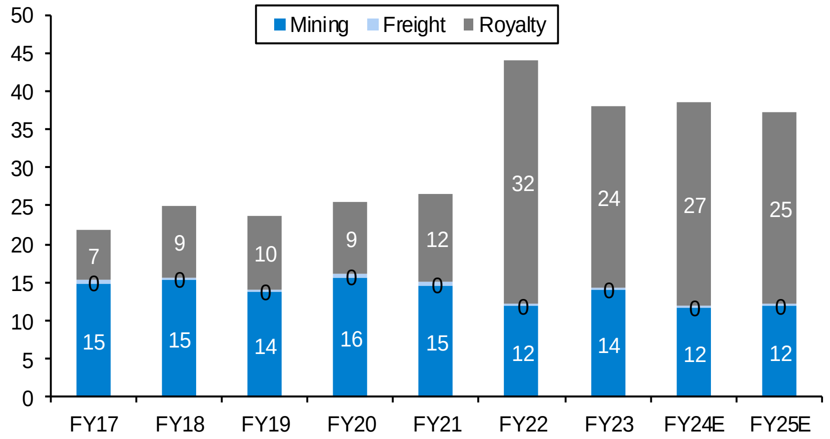
Name of Mining Lease	Area in Ha	ML Validity	Capacity (mtpa)
Chhattisgarh			
Bailadila Deposit-11 (A,B & C)	875	09-10-2037	11.3
Bailadila Deposit-14	322	09-11-2035	5
Bailadila Deposit-14NMZ	507	12-06-2035	5.5
Bailadila Deposit-5	540	09-10-2035	10
Bailadila Deposit-10	309	09-10-2035	4.2
Karnataka			
Donimalai Iron Ore Mines	598	11-03-2038	6
Kumaraswamy Iron Ore Mines	640	20-10-2042	7

Source: Company, PL

One of the lowest cost producers in the world

NMDC has been historically one of the lowest cost producers of iron ore in India and the world due to a) its strategically located high quality iron ore mines in resource rich regions of Chhattisgarh and Karnataka; b) customer proximity and usage of slurry pipe lines limiting transportation costs; c) strong focus on operational efficiencies and cost optimization (advanced mining technology and beneficiation units) resulting in reduction of overall cost.

Exhibit 133: One of the lowest cost producers (USD/t)



Source: Company, PL

- Although iron ore royalties have increased post imposition of 37.5% royalty by Karnataka Government (while giving lease extension in February 2021), we expect NMDC to continue with its long term cost leadership given mining lease approvals 1) till 2035 at Chhattisgarh and 2) till 2042 in Karnataka. Focus is on mining volume growth with necessary approvals for augmentation of production.

- Various initiatives (such as building slurry pipelines, conveyor belts, beneficiation and pellet plants) have been undertaken by NMDC in past to reduce cost and improve productivity. NMDC is setting up 2mtpa pellet plant at Jagdalpur to be commissioned by FY25 and scouting for locations for additional four pellet plant of 2mtpa each to reach 6mtpa. <u>We believe additional capex will be earmarked for these pellet plant over next few quarters.</u>

Various projects to improve production & product mix

- **Doubling of KK line (Kirandul-Kotvatsala) between Kirandul & Jagdalpur** (150.5 km) executed by Railways will augment capacity in 2HFY25. Doubling of ~110 Km rail line out of total 150.5km is already completed and in operation. Completion of this project will augment evacuation capacity of Bailadila sector, through railway line from 28 to 40 mtpa.

- **15mtpa slurry pipeline project from Bailadila to Nagarnar** and further up to Visakhapatnam is also 65% complete. Out of 131km pipeline, ~48km laying is under progress due to site challenges and expected to be commissioned in 2HFY25. The slurry pipeline will be associated with facilities like 2mtpa beneficiation plants at Kirandul & Bacheli each and 2mtpa pellet plant at Nagarnar.

- **NMDC has undertaken various other projects** to augment production and to improve the quality of product mix from Bailadila Sector, e.g. 12mtpa Screening Plant– III at Kirandul, New Crushing Plant of Dep.14 & 11/C and Downhill conveyor, Rapid Wagon Loading System etc. With these focused efforts being undertaken by NMDC, <u>we believe there will be strong traction in volume growth post 2HFY25.</u>

Other businesses to add value only in long term

- To diversify its iron ore mining business, NMDC has entered into mining of various other high value added commodities such as lithium. Recently it also begun prospecting for lithium in Australia's Mt Bevan region. Through its 100% owned subsidiary Legacy, it has entered into an MoU with Hancock Prospecting Pty. Depending on the quantity of lithium reserves mined, Hancock will be granted a stake in Legacy, not exceeding 49%. However actual mining can take more than 3-4 years.

- NMDC has a majority stake of 92% in Legacy Iron Ore Ltd., Australia which has iron ore, gold, nickel and base metals tenaments for which exploration is in progress. Total investment as of now is Rs 2.2 bn in Legacy.

- NMDC has also obtained a prospecting licence to explore Lithium reserves in the Raipur district of Karnataka. The GoI has mandated PSUs to invest and explore mining possibilities in lithium, cobalt, nickel which are used in EV batteries. NMDC is expected to begin exploration and feasibility of the reserves.

- Ministry of Coal has allotted two coal blocks to NMDC, the Rohne and Tokisud North (located at Hazaribaug district of Jharkhand) under section 5(1) of Coal Mines Act 2015 for commercial mining. NMDC is planning to start Tokisud North (extractable reserves of 52mt and planned production capacity of 2.32mtpa) in next two years.

- NMDC also participated in auction of Gold mine and is declared as preferred bidder for Chigugunta-Bisanatham Gold Block in Andhra Pradesh. The company is expected to take action to start this gold mine after LOI issued by state government.

- International Coal Ventures P. Ltd. (ICVL) is a JV company formed in May 2009 in which NMDC has 26% stake. ICVL was promoted as a Special Purpose Vehicle by SAIL, RINL, NMDC, CIL and NTPC for acquiring coal mines and assets overseas. This JV company is operating a coking coal mine in Mozambique.

Exhibit 134: Other Explorations

State/ Country	Minerals
Jharkhand	Iron Ore, Gold, Copper, Nickel, Cobalt and Molybdenum
Karnataka	Iron Ore, Lithium
Australia	Lithium
Odisha	Iron Ore, Manganese, Nickle
Madhya Pradesh	Iron Ore, Diamond, Ferro-Manganese
Andhra Pradesh	Iron Ore, Gold
Maharashtra	Tungsten, Coal
Chhattisgarh	Iron Ore, Diamond

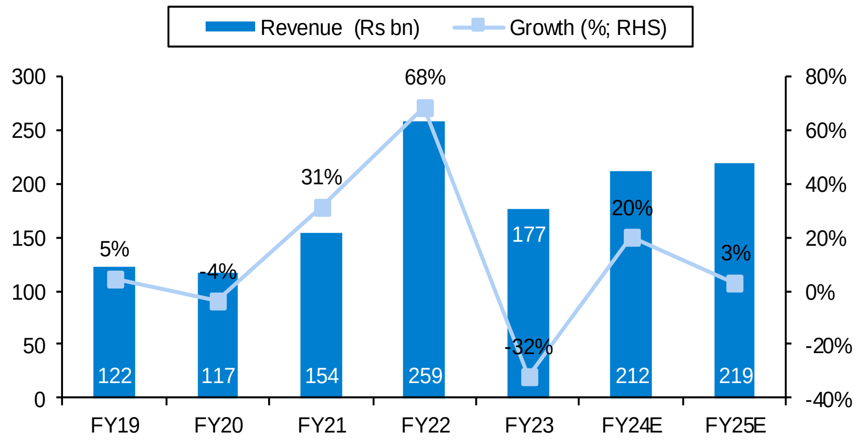
Source: Company, PL

Financial Analysis

Expect 14% CAGR in Revenue/ EBITDA over FY23-25E

Revenue is expected to increase at 14% CAGR over FY23-25E led by strong 15% volume CAGR over same period. Any incremental uptick in prices led by Chinese improvement would be positive.

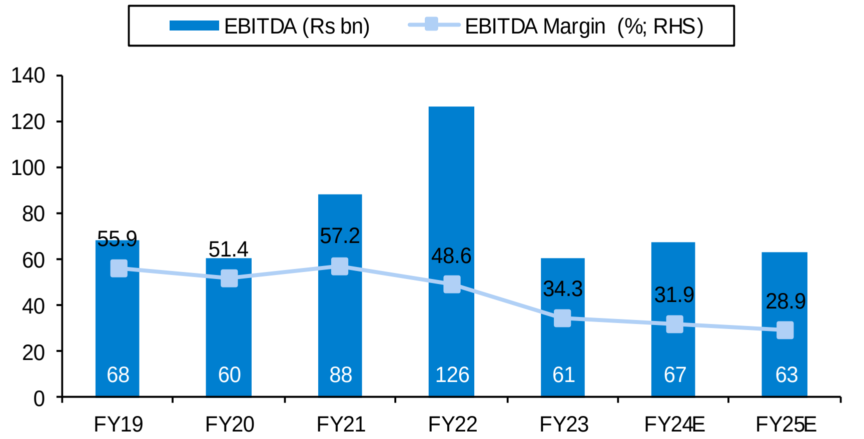
Exhibit 135: 14% CAGR revenue growth over FY23-25E



Source: Company, PL

EBITDA is expected to increase at a CAGR of 10% to Rs 73 bn over FY23-25E as margins are expected to be stable. Higher royalty charges will be offset by better operational efficiencies led by higher volumes.

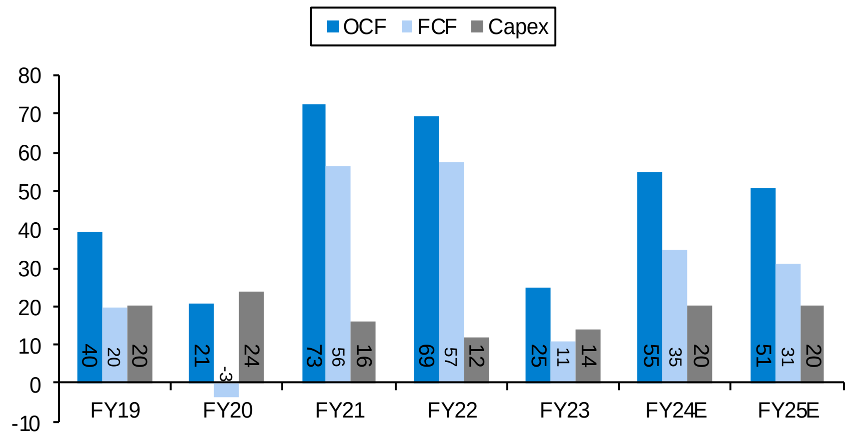
Exhibit 136: EBITDA CAGR of 10% over FY23-25E



Source: Company, PL

CFO is expected to increase at a CAGR of 54% over FY23-25E on lower base of FY23. Expect working capital improvement and better profitability to enhance OCF.

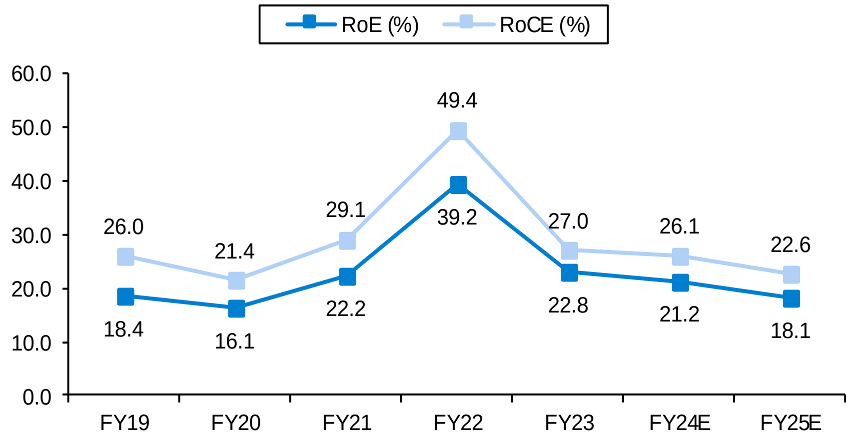
Exhibit 137: FCF CAGR at 19% over FY23-25E (Rs bn)



Source: Company, PL

Return ratios are expected to improve in-line with profitability over FY23-25E however with falling iron ore prices ratios would remain weak.

Exhibit 138: Weak return ratios as iron ore pricing pressure continues



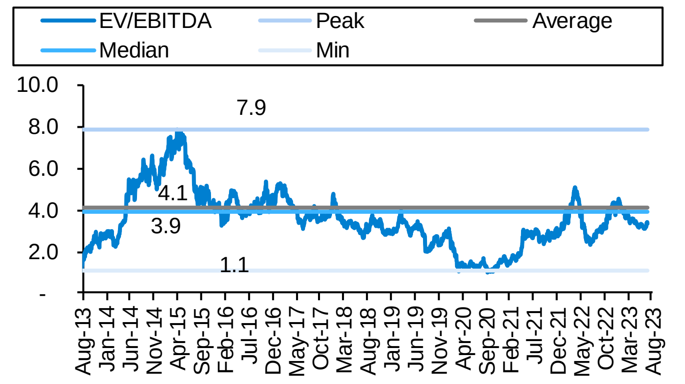
Source: Company, PL

Valuations

NMDC's low-cost, high-grade iron ore resource base offers an attractively valued defensive investment opportunity. Post demerger of capital intensive steel business, management is focusing on iron ore volume growth. We expect robust volume growth in iron ore business due to strong demand in domestic markets, which would drive earning growth in medium term. Further, any meaningful development on other value added projects would be incremental to FY25 earnings estimates.

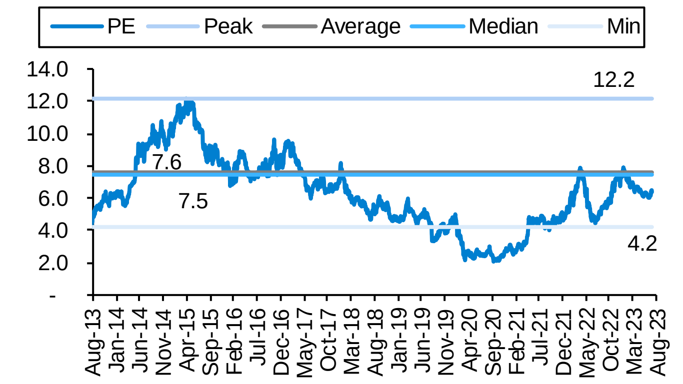
At CMP, stock is trading at EV of 4.2x FY25E EBITDA. We initiate NMDC with 'Accumulate' rating with a target price of Rs 136 giving long term multiple of 5x FY25 EV/EBITDA.

Exhibit 139: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 140: 1-Year forward PER chart



Source: Bloomberg, PL

Exhibit 141: Target Price Calculation

EBITDA (Rs mn)	63,194
Target EBITDA multiple (x)	5
Target EV (Rs mn)	3,15,972
Net Debt (Rs mn)	-82,406
Residual Market Cap (Rs mn)	3,98,378
Target price (Rs)	**136**

Source: Bloomberg, PL

Exhibit 142: Sensitivity analysis with iron ore realization

Iron ore realization (Rs/ton)	4,150	4,250	4,350	4,450	4,550
EBITDA (Rs mn)	53,137	58,166	63,194	68,223	73,251
PAT (Rs mn)	40,345	43,990	47,636	51,282	54,927
EPS (Rs)	13.8	15.0	16.3	17.5	18.7
% change	*-15%*	*-8%*	*0%*	*8%*	*15%*

Source: PL

Key Risks

- Delays in getting environment clearances for higher output, post rated capacity.
- With just 2.5% import duty on iron ore, if global iron ore prices fall further there is a risk of imports at plants nearer to ports.
- NMDC's Chhattisgarh complex had seen discontinuations due to Naxal activities in the past, which remains a risk.
- Unprecedented rains in monsoon quarter can impact production and rail rake availability can limit the evacuation.
- Major customers are acquiring captive iron ore blocks in mineral rich states, which can affect NMDC's volumes in the long term.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**2,58,817**	**1,76,669**	**2,11,830**	**2,18,740**
YoY gr. (%)	*68.4*	*(31.7)*	*19.9*	*3.3*
Cost of Goods Sold	(12,005)	(4,966)	6,370	7,538
Gross Profit	2,70,822	1,81,635	2,05,460	2,11,202
Margin (%)	*104.6*	*102.8*	*97.0*	*96.6*
Employee Cost	13,362	15,283	16,625	17,954
Other Expenses	1,31,617	1,05,780	1,21,358	1,30,053
EBITDA	**1,25,843**	**60,573**	**67,478**	**63,194**
YoY gr. (%)	*43.2*	*(51.9)*	*11.4*	*(6.3)*
Margin (%)	*48.6*	*34.3*	*31.9*	*28.9*
Depreciation and Amortization	2,874	3,358	3,317	4,112
EBIT	**1,22,969**	**57,215**	**64,161**	**59,083**
Margin (%)	*47.5*	*32.4*	*30.3*	*27.0*
Net Interest	391	752	782	814
Other Income	7,185	7,679	6,743	7,436
Profit Before Tax	**1,29,763**	**76,514**	**70,122**	**65,705**
Margin (%)	*50.1*	*43.3*	*33.1*	*30.0*
Total Tax	35,822	21,118	19,283	18,069
Effective tax rate (%)	*27.6*	*27.6*	*27.5*	*27.5*
Profit after tax	**93,941**	**55,396**	**50,838**	**47,636**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**93,941**	**46,438**	**50,838**	**47,636**
YoY gr. (%)	*50.3*	*(50.6)*	*9.5*	*(6.3)*
Margin (%)	*36.3*	*26.3*	*24.0*	*21.8*
Extra Ord. Income / (Exp)	-	8,958	-	-
Reported PAT	**93,941**	**55,396**	**50,838**	**47,636**
YoY gr. (%)	*50.3*	*(41.0)*	*(8.2)*	*(6.3)*
Margin (%)	*36.3*	*31.4*	*24.0*	*21.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	93,941	55,396	50,838	47,636
Equity Shares O/s (m)	**2,931**	**2,931**	**2,931**	**2,931**
EPS (Rs)	**32.1**	**15.8**	**17.3**	**16.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**56,348**	**55,081**	**70,081**	**85,081**
Tangibles	56,348	55,081	70,081	85,081
Intangibles	-	-	-	-
Acc: Dep / Amortization	**19,673**	**23,031**	**26,348**	**30,459**
Tangibles	19,673	23,031	26,348	30,459
Intangibles	-	-	-	-
Net fixed assets	**36,675**	**32,051**	**43,734**	**54,622**
Tangibles	36,675	32,051	43,734	54,622
Intangibles	-	-	-	-
Capital Work In Progress	13,283	19,916	24,916	29,916
Goodwill	-	-	-	-
Non-Current Investments	8,950	9,347	9,347	9,347
Net Deferred tax assets	5,689	2,975	2,975	2,975
Other Non-Current Assets	27,344	60,117	60,117	60,117
Current Assets				
Investments	-	-	-	-
Inventories	21,252	26,606	26,116	20,975
Trade receivables	29,543	26,560	31,920	26,968
Cash & Bank Balance	79,775	70,978	78,274	82,406
Other Current Assets	-	-	-	-
Total Assets	**2,43,434**	**2,79,502**	**3,08,352**	**3,18,279**
Equity				
Equity Share Capital	2,931	2,931	2,931	2,931
Other Equity	1,77,386	2,23,420	2,50,812	2,69,142
Total Networth	**1,80,317**	**2,26,351**	**2,53,743**	**2,72,072**
Non-Current Liabilities				
Long Term borrowings	12,486	14,113	4,113	0
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	56,169	40,775	52,232	47,943
Other current liabilities	151	1,239	1,239	1,239
Total Equity & Liabilities	**2,43,434**	**2,79,502**	**3,08,352**	**3,18,279**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,30,153	76,457	70,122	65,705
Add. Depreciation	2,877	3,362	3,317	4,112
Add. Interest	391	752	782	814
Less Financial Other Income	7,185	7,679	6,743	7,436
Add. Other	2,578	(3,775)	(6,743)	(7,436)
Op. profit before WC changes	1,35,999	76,796	67,478	63,194
Net Changes-WC	(23,075)	(31,455)	6,587	5,804
Direct tax	(43,506)	(20,685)	(19,283)	(18,069)
Net cash from Op. activities	**69,418**	**24,656**	**54,782**	**50,929**
Capital expenditures	(11,983)	(14,013)	(20,000)	(20,000)
Interest / Dividend Income	4,228	5,588	6,743	7,436
Others	(24,384)	8,858	-	-
Net Cash from Invt. activities	**(32,139)**	**433**	**(13,257)**	**(12,564)**
Issue of share cap. / premium	-	-	-	-
Debt changes	3,400	(13,773)	(10,000)	(4,113)
Dividend paid	(43,195)	(10,993)	(23,446)	(29,307)
Interest paid	(391)	(752)	(782)	(814)
Others	(482)	153	-	-
Net cash from Fin. activities	**(40,669)**	**(25,365)**	**(34,228)**	**(34,234)**
Net change in cash	**(3,389)**	**(276)**	**7,297**	**4,132**
Free Cash Flow	57,435	10,643	34,782	30,929

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	32.1	15.8	17.3	16.3
CEPS	33.0	17.0	18.5	17.7
BVPS	61.5	77.2	86.6	92.8
FCF	19.6	3.6	11.9	10.6
DPS	-	-	-	-
Return Ratio(%)				
RoCE	51.2	30.0	28.5	25.1
ROIC	51.1	28.4	27.2	23.5
RoE	39.2	22.8	21.2	18.1
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	(8)	26	10	-
Valuation(x)				
PER	3.7	7.5	6.9	7.3
P/B	1.9	1.5	1.4	1.3
P/CEPS	3.6	7.0	6.5	6.8
EV/EBITDA	2.2	4.8	4.1	4.2
EV/Sales	1.1	1.7	1.3	1.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**33,285**	**37,200**	**58,514**	**53,947**
YoY gr. (%)	*(51.0)*	*(36.7)*	*(12.7)*	*13.2*
Raw Material Expenses	7,371	(1,235)	(2,391)	2,099
Gross Profit	25,913	38,435	60,905	51,848
Margin (%)	*77.9*	*103.3*	*104.1*	*96.1*
EBITDA	**8,542**	**11,406**	**21,624**	**19,935**
YoY gr. (%)	*(72.6)*	*(56.3)*	*(19.4)*	*4.9*
Margin (%)	*25.7*	*30.7*	*37.0*	*37.0*
Depreciation / Depletion	738	837	934	692
EBIT	**7,804**	**10,569**	**20,690**	**19,243**
Margin (%)	*23.4*	*28.4*	*35.4*	*35.7*
Net Interest	182	299	118	62
Other Income	4,260	2,048	(89)	2,942
Profit before Tax	**11,882**	**12,317**	**32,856**	**22,123**
Margin (%)	*35.7*	*33.1*	*56.2*	*41.0*
Total Tax	2,994	3,276	10,085	5,511
Effective tax rate (%)	*25.2*	*26.6*	*30.7*	*24.9*
Profit after Tax	**8,888**	**9,041**	**22,771**	**16,612**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**8,888**	**9,041**	**14,196**	**16,612**
YoY gr. (%)	*(62.0)*	*(55.9)*	*(21.8)*	*13.0*
Margin (%)	*26.7*	*24.3*	*24.3*	*30.8*
Extra Ord. Income / (Exp)	-	-	8,575	-
Reported PAT	**8,888**	**9,041**	**22,771**	**16,612**
YoY gr. (%)	*(62.0)*	*(55.9)*	*25.4*	*13.0*
Margin (%)	*26.7*	*24.3*	*38.9*	*30.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**8,888**	**9,041**	**22,771**	**16,612**
Avg. Shares O/s (m)	3,965	3,965	3,965	3,965
EPS (Rs)	**2.2**	**2.3**	**3.6**	**4.2**

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales volume (mt)	41	38	46	50
Realisation/t (Rs)	6,370	4,622	4,634	4,350
EBITDA/ton (Rs)	3,097	1,585	1,476	1,257

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

August 28, 2023

Company Initiation

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	3,27,327	3,56,970	4,25,057	4,83,652
EBITDA (Rs. m)	50,905	35,861	53,550	61,073
Margin (%)	*15.6*	*10.0*	*12.6*	*12.6*
PAT (Rs. m)	30,788	21,145	31,031	37,180
EPS (Rs.)	58.6	25.7	37.7	45.2
Gr. (%)	*699.1*	*(56.2)*	*46.8*	*19.8*
DPS (Rs.)	-	1.0	1.0	1.0
Yield (%)	-	*0.2*	*0.2*	*0.2*
RoE (%)	*47.3*	*19.4*	*23.1*	*22.2*
RoCE (%)	*43.7*	*20.2*	*26.9*	*26.8*
EV/Sales (x)	0.8	1.0	0.9	0.7
EV/EBITDA (x)	5.1	10.4	6.9	5.7
PE (x)	7.2	16.4	11.2	9.4
P/BV (x)	2.3	2.9	2.3	1.9

Key Data	JIST.BO | JDSL IN
52-W High / Low	Rs.438 / Rs.120
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.348bn/ $ 4,208m
Shares Outstanding	823m
3M Avg. Daily Value	Rs.218.69m

Shareholding Pattern (%)

Promoter's	57.94
Foreign	23.10
Domestic Institution	6.01
Public & Others	12.95
Promoter Pledge (Rs bn)	152.21

Stock Performance (%)

	1M	6M	12M
Absolute	13.5	59.2	233.9
Relative	16.1	45.9	202.4

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Jindal Stainless (JDSL IN)

Rating: BUY | CMP: Rs422 | TP: Rs484

Beneficiary of strong volume growth

We initiate coverage on Jindal Stainless (JDSL) with 'BUY' rating and target price of Rs484 based on 6.5x FY25EV/EBITDA. JDSL is well placed to capitalize on strong volume growth in domestic markets over next two years given a) its recently completed brownfield expansion at Jajpur expected to deliver 17% volume CAGR; b) strong Stainless Steel (SS) demand in India due to longevity and corrosion resistant properties; c) strong pricing power demonstrated post Russian invasion of Ukraine, despite rising raw material prices; and d) all necessary backend infrastructure at Jajpur for future expansion. With govt.'s focus on infrastructure and overall stronger domestic economy, SS demand is expected to remain high over next few years and JDSL would be key beneficiary of the same. We expect Revenue/EBIDTA/PAT growth of 16%/30%/33% over FY23-25E. The stock is currently trading at 6.9x/5.7x EV of FY24E/FY25E EBITDA. Initiate 'BUY'.

- **Strong 17% volume CAGR aided by recently added capacities:** JDSL has successfully commissioned most of its Rs26bn capex undertaken earlier taking its SS melt shop capacity to 2.9mtpa in Mar-23. The company's Jajpur plant had ready infrastructure which supported this expansion plan at less than one third of the greenfield project cost. We believe with this recent capacity addition, JDSL is set to deliver strong 17% volume CAGR as domestic demand for SS products remains strong.

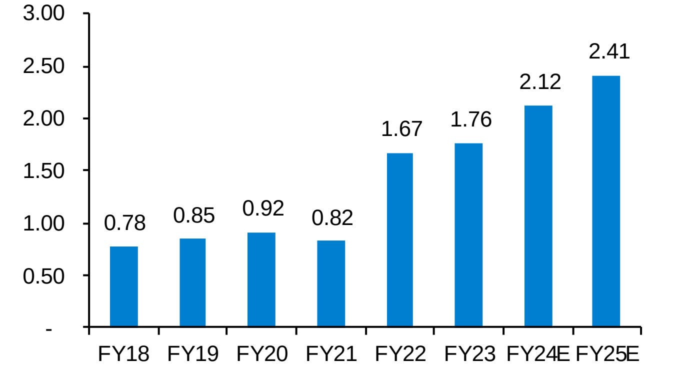
- **Domestic Stainless steel (SS) demand to see healthy growth:** SS demand in India has grown faster as it diversified to new value added segments such as Architecture Building & Construction (ABC), Automobile Railways & Transport (ART) and Process industries apart from historic usage in cookware and Consumer Durables. Its longevity and corrosion resistant properties are forcing the govt. to consider for increased utilization in various infrastructure projects. Moreover, the Indian Railways have allocated a massive capex of Rs 2.40 tn for FY24, of which ~44% is earmarked for procurement of new wagons and coaches. GoI's thrust on use of SS is increasing in all the coastal areas for public infrastructure, bridges, FOB etc. <u>We believe JDSL is going to be one of the beneficiaries of upcoming replacement demand from domestic infrastructure.</u>

- **New growth strategies to improve product portfolio:** In order to diversify into SS long products market (~1mtpa market in India) JDSL has acquired Rathi Super Steel from NCLT at distress value of Rs 2bn. With demand avenues growing in domestic infrastructure, JDSL is exploring new products in long segment and improving its product mix. We believe the strategy to improve JDSL's market share in long product portfolio is also getting strong traction due to GoI's growing emphasis on infrastructure spending.

- **Imports remain a threat:** Indian SS industry has witnessed high import intensity compared to carbon steel, as it is exposed to imports from FTA nations. Although JDSL has limited presence in the product category in which imports are higher, there is always a risk associated with imports as higher imports can affect pricing power of domestic players.

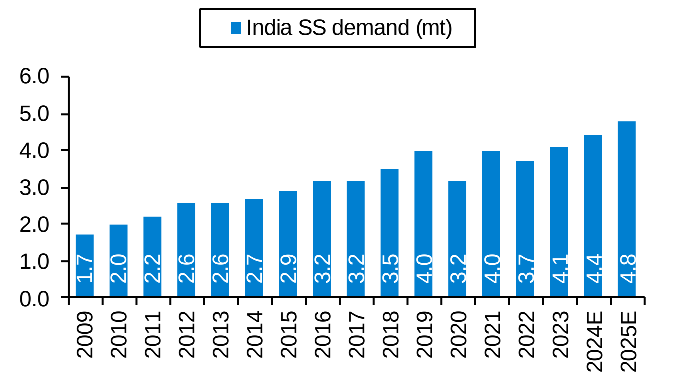
Story in charts

Exhibit 143: Strong volume growth to continue (mt)



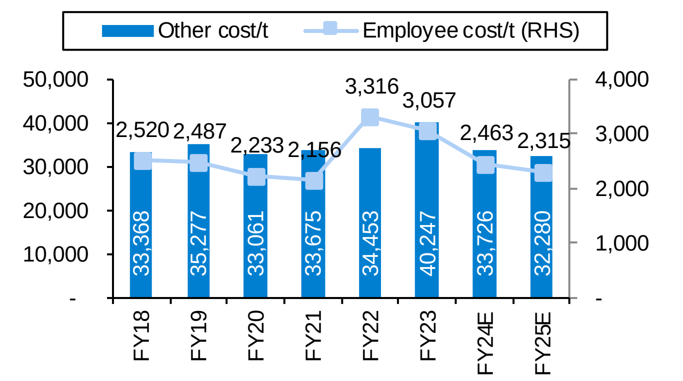
Source: Company, PL

Exhibit 144: Strong India's SS demand boosting JDSL volumes



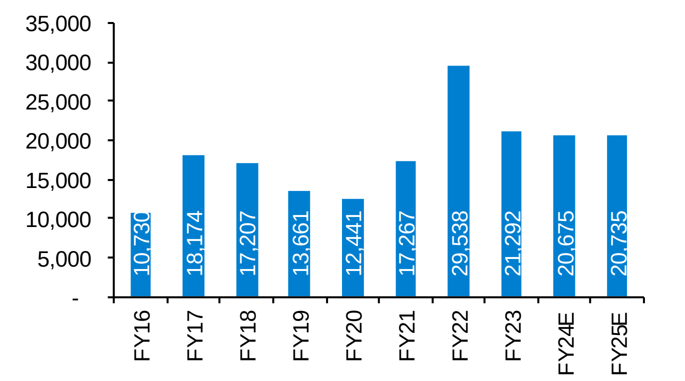
Source: Company, PL

Exhibit 145: Operating leverage to set in over FY23-25E (Rs)



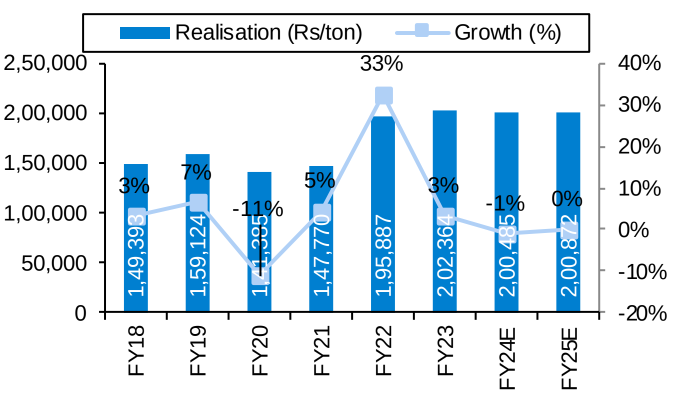
Source: Company, PL

Exhibit 146: Resulting in higher than mid cycle EBITDA (Rs/t)



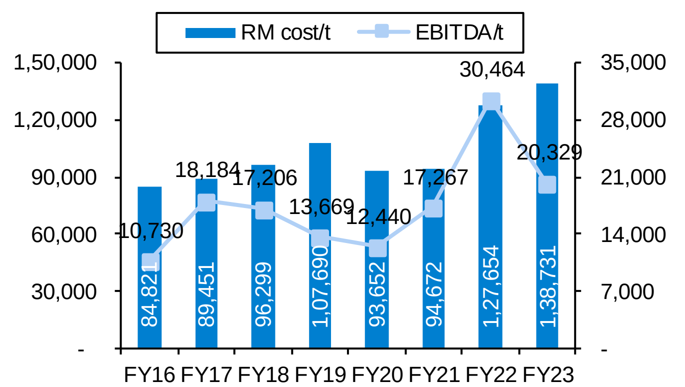
Source: Company, PL

Exhibit 147: Higher realization drove margins higher



Source: Company, PL

Exhibit 148: Higher pricing power relative to carbon steel (Rs)



Source: Company, PL

Jindal Stainless – story of perseverance

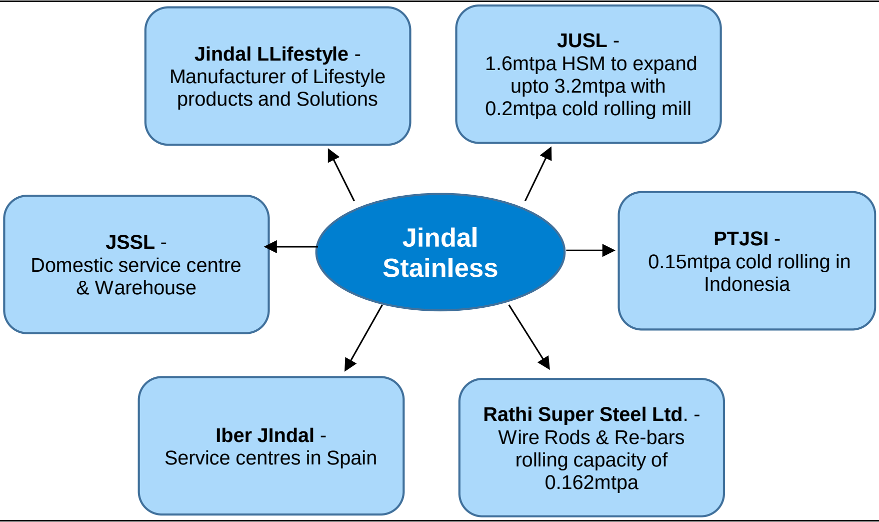
Jindal Stainless Limited (JDSL) is India's largest stainless-steel manufacturer with SMS capacity of 2.9mtpa. The company has grown from an indigenous single–unit Stainless Steel plant in Hisar, Haryana, to the present multi–location and multi–product conglomerate.

- JDSL is a globally recognized producer of stainless steel flat products in Austenitic, Ferritic, Martensitic and Duplex grades. Its product range includes Ferro Alloys, Stainless Steel Slabs and Blooms, Hot Rolled Coils, Plates, Cold Rolled Coils and specialty products such as razor blade steel, precision strips and coin blanks.

- After merging with Jindal Stainless (Hisar), JDSL has become among world's top five stainless steel manufacturers (ex-China). Its Jajpur (Odisha) plant is spread across ~800 acres of land and is conveniently located in close proximity to raw material sources and ports, which enables JDSL to maintain low logistics and transportation costs. Despite shaken by Global Financial Crisis and delays in setting up necessary infrastructure for Jajpur integrated plant, JDSL has successfully come out of CDR and delivered strong operating performance over last few years.

Recently, the company simplified its group structure to gain control over most assets which were demerged due to asset monetization program in 2015.

Exhibit 149: Group structure



Source: Company, PL

Investment Arguments

Strong volume CAGR aided by recently added capacities

- JDSL successfully commissioned most of the Rs26bn capex undertaken earlier, thereby taking its stainless steel melt shop capacity to 2.9mtpa in March 2023. With this upstream and downstream capacity expansion, the company increased its melt shop capacity by 52% and also increased its hot rolled annealed pickled (HRAP) and cold rolled annealed pickled (CRAP) capacities proportionately at Jajpur (Odisha).

Timely addition of both upstream (1mtpa) and downstream capacities to aid volume growth

- Jajpur already had ready infrastructure which supported this expansion plan at less than one third of the greenfield project cost. Jajpur SS melt shop is now 2.1mtpa capacity and rest 0.8mtpa is at JDSL's Hisar plant. At Hisar, JDSL has expanded Precision Strip facility by 3x, blade steel capacity by 1.7x at capex of Rs 4.5 bn.

- JDSL is world's largest producer of stainless steel strips for razor blades (top global supplier of Gillette) and India's largest producer of coin blanks. With this recent capacity addition, we believe JDSL is set to deliver strong 17% volume CAGR as domestic demand for SS products remains strong over medium term.

Exhibit 150: Total capacities post-merger of Jindal Stainless Hisar

Particulars	Capacities (in mt)
SMS	2.90
HSM (incl JUSL)*	3.92
Narrow Tandem Mill	0.25
HRAP	1.91
CRAP	1.45
Special Product Division	0.09
Ferro Alloy	0.28
Power (MW)	264

Source: Company, PL

- Post merging with Jindal Stainless (Hisar), JDSL became world's top 10 SS manufacturer having captive 0.28mtpa Ferro Chrome, 264MW CPP and good infrastructure support for raw material movement (Railway sliding) which is expected to support strong EBITDA/t as and how volumes ramp up.

- Over years JDSL has demonstrated superior pricing power even in rising raw material price scenario, while keeping other costs at lower side.

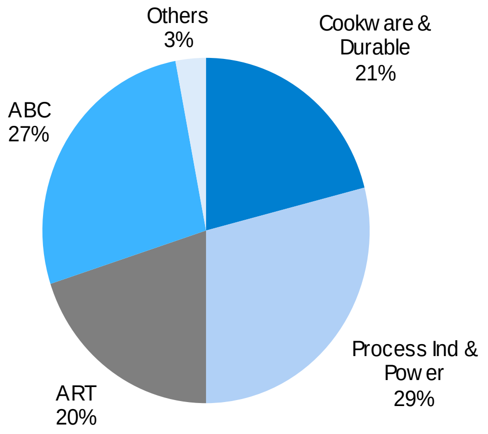
- The company sources nickel mainly from stainless steel scrap and ferronickel. Usage of primary metal is limited due to high volatility. Chrome is also sourced from stainless steel scrap and ferrochrome. With addition of capacities, we expect operating leverage to set in and JDSL will deliver EBITDA/t of Rs 20-21,000 for next two years.

Domestic stainless steel demand to see healthy growth

As India evolves in higher usage of SS, JDSL's evolution is even better with focus on high margin business segments

- Over last two decades, stainless steel demand has grown faster than any other commodity in the metals space as SS consumption diversified to new value added segments such as Architecture Building & Construction (ABC), Automobile Railways & Transport (ART) and Process industries apart from historic usage in cookware and Consumer Durables.
- Its longevity and corrosion resistant properties are forcing the govt. to increase utilization in various infrastructure projects, despite higher prices relative to carbon steel. Recent accidents in railway foot over bridges (FOB) and bridges have accelerated the process.
- India has come a long way over decades in usage of SS. In 1998, 80% of the SS consumption was only in Cookware and consumer durables which has reduced to ~38% today as other segments grew faster. GoI is contemplating to introduce higher usage of SS in various infrastructure projects such as FOB, coaches, metro coaches, modernization of stations due to its long life. SS's high corrosion-resistance and strength not only increases life of the structure, but also avoids maintenance cost.
- Furthermore, improved strength helps in reducing overall weight of the structure. GoI's thrust on use of SS is increasing in all coastal areas for public infrastructure, bridges, FOB etc.
- We believe, JDSL being largest player in domestic market with >50% market share is going to be one of the beneficiaries of upcoming replacement demand from domestic infrastructure.

Exhibit 151: JDSL's share in Value added segments higher than industry



Source: Company, PL

- JDSL has signed a Memorandum of Understanding (MoU) with Braithwaite & Co Limited (BCL), a Government of India undertaking under the Ministry of Railways, to develop stainless steel foot-over-bridges (FOBs), road-over-bridges (ROBs) etc. The company also holds significant share in the railway wagon and coach market.
- Indian Railway has allocated Rs 2.40 tn for capital expenditure in FY24, of which Rs 1.05 tn is earmarked for procurement of new wagons and coaches.

Massive capex undertaken by Indian Railways to modernize, build new stations to augment volume growth

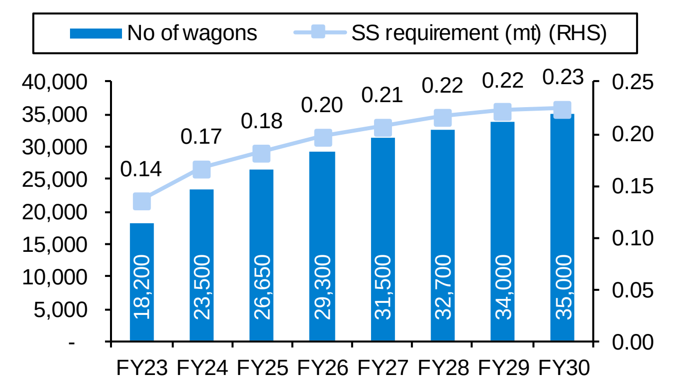
It will also generate strong volumes for steel in general. The railways plan to procure 20,000 new wagons and 5,000 new coaches in FY24. New wagons will be used to increase carrying capacity of freight trains, while new coaches will be used to improve passenger amenities.

Exhibit 152: New avenues of SS usage developed over last decade

Source: Company, PL

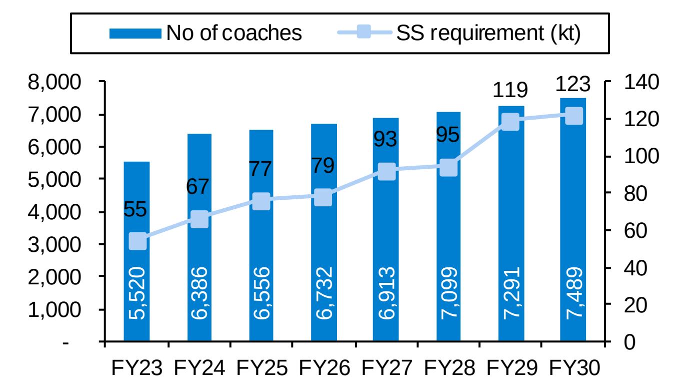
- <u>We believe, JDSL is well poised to supply material for developing FOBs on railway platforms, ROBs on municipal roads, smart city skywalks, road bridges and rail bridges in next decade.</u>

Exhibit 153: Demand for Railway wagons to drive SS volume



Source: Industry, PL

Exhibit 154: Strong demand for Indian Railway coaches



Source: Industry, PL

- Company's diversified end use segments along with robust domestic and global presence is expected to drive superior volumes. More than 120 grades and niche offerings catering to ever growing demand from ABC and ART sectors along with effective distribution network have all aided <u>JDSL to deliver strong 15% CAGR volume growth over FY13-23</u>. We expect this momentum to continue over medium to long term.

JDSL has enough capacity to ramp up over next two years which can deliver strong 20% volume CAGR

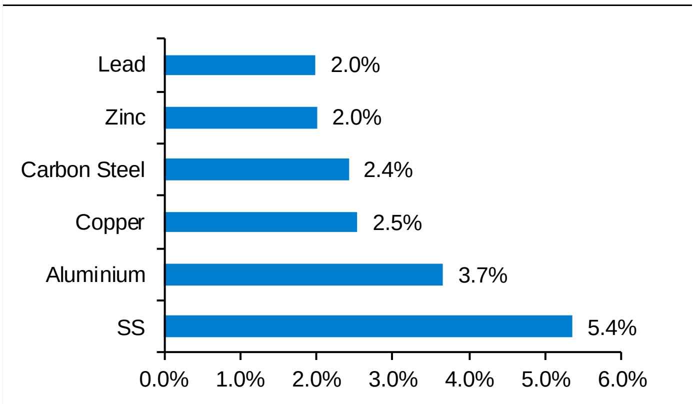
Exhibit 155: Newly launched Vande Bharat trains will drive volume

Source: Company, PL

SS depicting higher growth rate over other metals

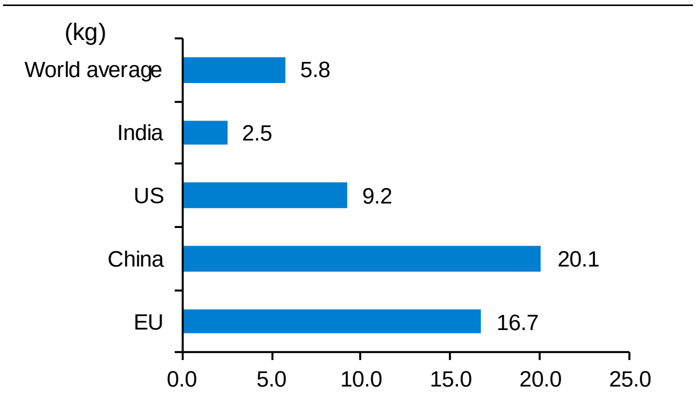
- As per ISSF, world stainless steel consumption is expected to remain flat in 2023 and to increase ~3.6% in 2024. Chinese consumption is expected to grow 1.1% and 2.7% resp. over the same period, while US and Euro area will see decline in 2023. India on the other hand is expected to witness healthy growth rates over next few years.
- With recently completed 1mtpa expansion, JDSL has enough capacity to ramp up over next two years which will deliver strong 20% volume CAGR. Although SS is expensive than carbon steel, its usage is rising in India, as Indian per capita GDP is rising and there is also rising acceptability of SS. We believe JDSL is key beneficiary of current trend and will deliver ~25% CAGR in PAT over FY23-26E.
- Historically SS has grown much faster than rest of the commodities in metals space as seen in figures below. Like most of the other commodities and sectors India still remains lowest in per capita consumption of SS with just 2.5kg, while world average is 5.5-6kg.

Exhibit 156: SS is fastest growing metal over 1980-22



Source: Industry, PL

Exhibit 157: High potential being lowest per capita consumer



Source: Industry, PL

- Carbon steel capacities and demand is expected to grow at 7-8% CAGR over next few years led by GoI’s focus on infrastructure and overall development of domestic economy. Analyzing historical consumption pattern, SS consumption is seen at ~3% of carbon steel world over and in India as well. We expect SS consumption in India to grow at similar proportion for next few years.

New growth strategies to improve product portfolio

- SS is an alloy of steel with at least 10.5% of chromium by mass and is produced in an induction furnace with key important metals such as nickel and molybdenum.
- These are added to achieve desirable properties of hardness, corrosion resistance, strength, machinability etc. Depending on the alloying element used, SS is classified into different categories viz. 200, 300, and 400 series.
- Over last decade JDSL has evolved its product mix with improving share of series 400 gradually in order to de-risk its portfolio from high volatile nickel prices.

Contribution from series 400 has increased from 19% to 25% in overall product mix over FY17-23

- Over last few years, contribution from series 400 has increased from 19% to 25% over FY17-23. This strategy is aiding JDSL from import threat from Indonesian Chinese counterparts having nickel mines and better positioned on the cost curve.
- In order to diversify into SS long products market (~1mtpa market in India) JDSL has acquired Rathi Super Steel from NCLT at distress value of Rs 2 bn. Over last two months, JDSL has begun production in the facility ahead of planned timelines despite extended shutdown of facilities in past.
- With demand avenues growing in domestic infrastructure JDSL is exploring new products in longs segment and improving its product mix.

Exhibit 158: India SS consumption pattern Vs Carbon steel

Product form (India)	SS	Carbon Steel
Long	20%	43%
Flat	80%	47%
- HR	16%	29%
- CR	64%	18%

Source: Industry, PL

- Stainless usage in infrastructure is just 12% in India as compared to over 60% of carbon steel. With rising awareness and higher allocation of budgets, usage is expected to increase considering structural corrosion resistant properties of stainless steel.
- We believe JDSL's entry into long products will improve its product mix and aid in delivering strong volumes.

JV with Indonesian company to ensure long- term availability of nickel ore for JDSL improving its raw material security.

- JDSL has also recently entered into a collaboration agreement with New Yaking Pte. Ltd. for a 49% stake in their Nickel Pig Iron (NPI) smelter facility in Indonesia. This move will ensure long- term availability of nickel ore for JDSL improving raw material security and effectively reduce import to that extent.
- Capex for this NPI, project is ~Rs 13 bn spread over next 18-24 months. We believe, this is a slight high risk venture considering historical evidences of unstable Indonesian policies. The investment is on lower side and in event of high nickel prices NPI sourcing is expected to benefit.

Imports from China and Indonesia witnessed a steep increase of 318% and 158% respectively from FY21 to FY23

Imports remain a threat

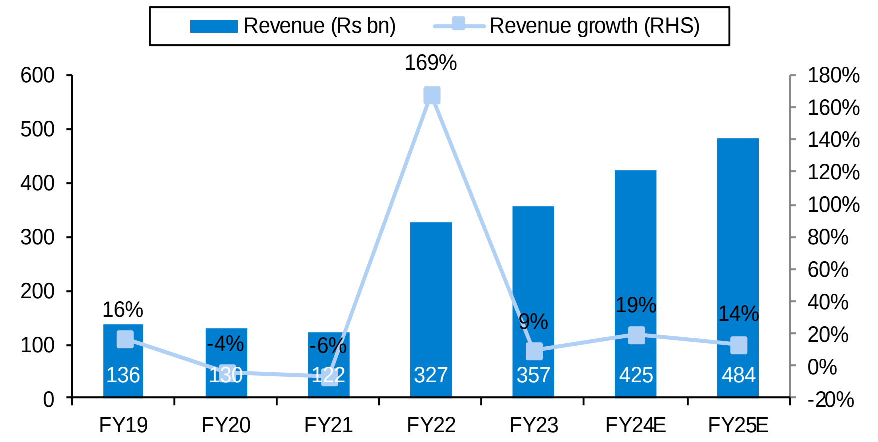
- Indian stainless steel industry has witnessed high import intensity compared to carbon steel as it is exposed to imports from FTA nations. As of now industry has no solution for such imports as these cheap imports can affect pricing in domestic markets.
- Although JDSL has limited presence in the product category in which imports are higher, there is always a risk associated with imports as higher imports can affect pricing power of domestic players.
- In recent years, there was sudden surge of material from Indonesian players (Chinese peers having set up plant at Indonesia as it has nickel ore) which affected pricing. However, over last few months there was some rationality seen in the imports volumes.

Financial Analysis

Revenue/EBITDA CAGR expected to grow at 16%/28%

Revenue is expected to increase at 16% CAGR over FY23-25E on volume ramp up from recently commissioned capacity. Volumes are expected to grow 17% to 2.41mt, while realizations are assumed flattish.

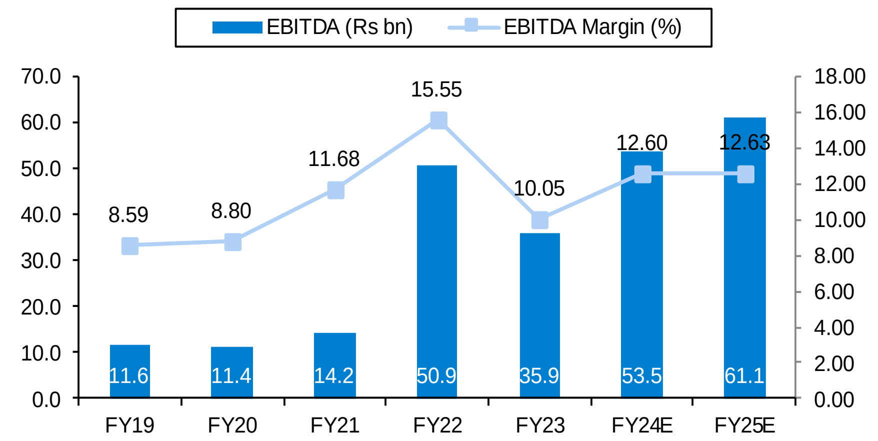
Exhibit 159: Robust 17% volume driven revenue growth



Source: Company, PL

We expect EBITDA to increase at 30% CAGR over FY23-25E on higher operating leverage expected on higher volumes.

Exhibit 160: Margins to improve from low base and operating leverage

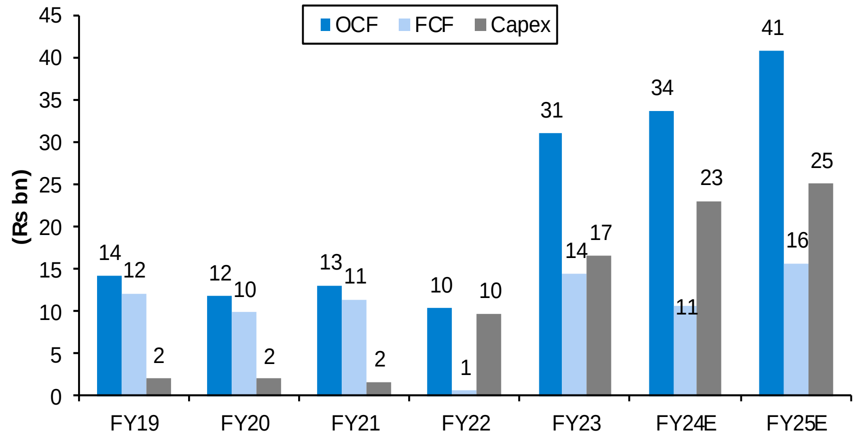


Source: Company, PL

Strong cash flows as most of capex is over

Post recent commissioning of 1mtpa facility at Jajpur, volumes will ramp up resulting in robust cash flows. Free cash flow generation to improve despite Rs24 bn p.a. capex planned for next two years.

Exhibit 161: FCF generation to improve despite Rs24 bn p.a. capex

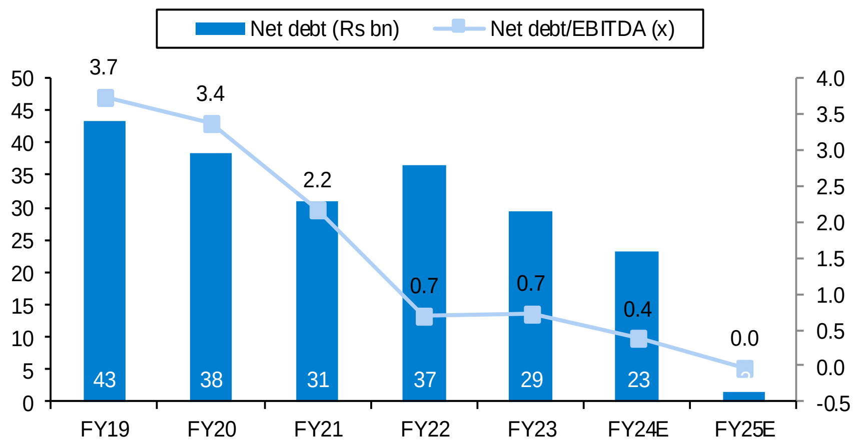


Source: Company, PL

Deleveraging Efforts resulted in healthy balance sheet

Balance sheet is expected to remain healthy, despite capex with net debt decreasing from Rs43bn in FY19 to Rs17bn in FY25E.

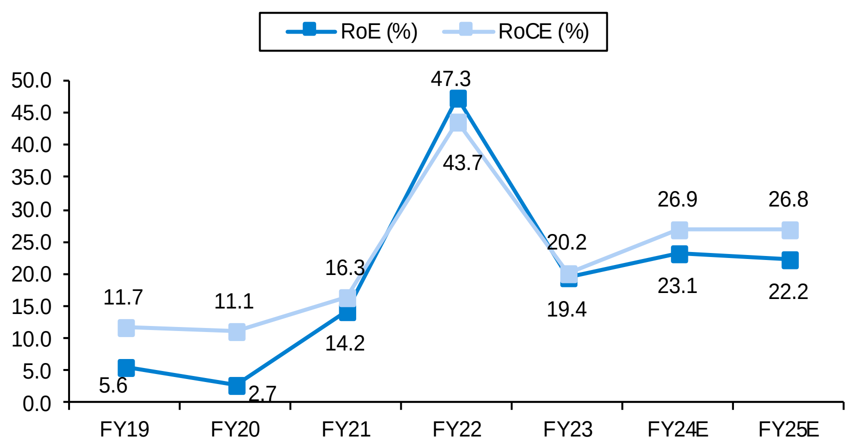
Exhibit 162: Expected to be debt free by FY25E



Source: Company, PL

Return ratios are expected to improve gradually from low base of FY23. ROCE to improve to 26% while ROE to 20% by FY25E.

Exhibit 163: Return ratios to improve gradually over FY23-25E

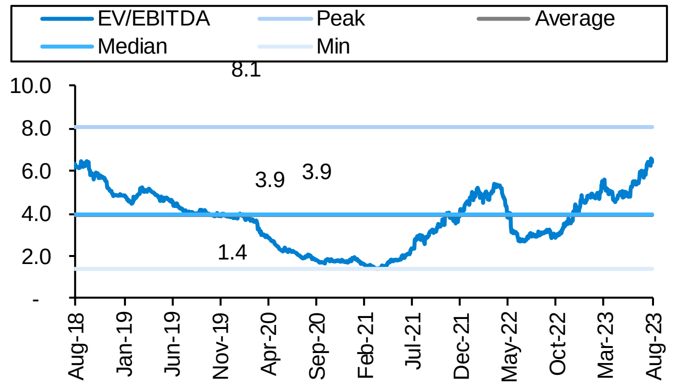


Source: Company, PL

Valuations

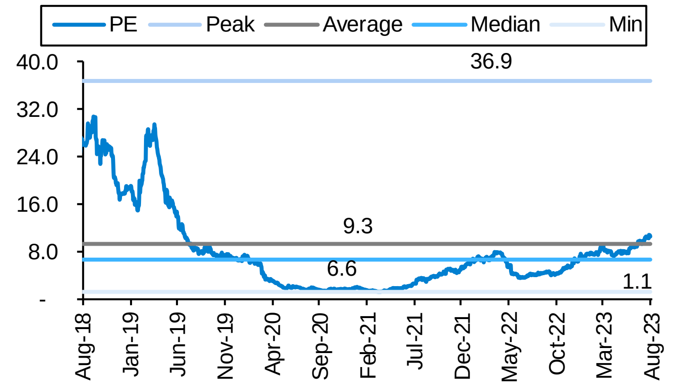
We initiate coverage on JDSL with a 'BUY' rating and target price of Rs 484 per share with 6.5x FY25 EV/EBITDA multiple as JDSL has demonstrated robust performance over last few years. Despite irrational movement in raw material prices JDSL delivered strong sustainable improvement in EBITDA over the years. We are assigning premium valuation over global peers on relatively higher volume and EBITDA growth is anticipated in JDSL. Initiate 'Buy'.

Exhibit 164: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 165: 1-Year forward PER chart



Source: Bloomberg, PL

Exhibit 166: Target Price Calculation

EBITDA	**61,073**
Target EBITDA multiple	6.5
Target EV	3,96,977
Net Debt (Rs m)	(1,339)
Residual Market Cap	3,98,315
Target price	**484**

Source: Company, PL

Exhibit 167: Global peer set comparison

Company	**MCap**	**CMP (Rs)**	**Return (%)**		**Networth**	**Net Debt**	**EBITDA (mn)**		**PER (x) FY25**	**EV / EBITDA (x) FY25**	**Currency**
			3M	**1Y**			**FY23**	**FY25**			
POSCO	5,02,35,311	5,94,000	65	139	5,82,57,401	1,87,79,004	85,07,611	1,02,78,496	11	6.7	KRW
Aperam SA	1,967	25	23	10	3,392	496	1,076	570	5	4.3	EUR
Outokumpu	1,894	4	22	5	4,119	223	1,300	567	7	3.7	EUR
Acerlnox	2,247	9	11	2	2,548	560	1,069	708	6	4.0	EUR

Source: Bloomberg, PL

Key Risks

- As SS usage is linked to per capita GDP of economies, any prolong slowdown would affect SS demand.
- Although JDSL has demonstrated strong pricing power last year when LME Nickel prices shot up, it remains a risk in a weak economic scenario.
- Any significant imports from China and Indonesia may lead to lower pricing power in domestic markets. Although JDSL is not significantly present in the import segment, any prolonged weakness in pricing due to high cheap imports may affect other series pricing as well.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**3,27,327**	**3,56,970**	**4,25,057**	**4,83,652**
YoY gr. (%)	*168.6*	*9.1*	*19.1*	*13.8*
Cost of Goods Sold	2,13,309	2,44,721	2,94,781	3,39,283
Gross Profit	1,14,017	1,12,249	1,30,276	1,44,369
Margin (%)	*34.8*	*31.4*	*30.6*	*29.8*
Employee Cost	5,541	5,393	5,222	5,573
Other Expenses	57,572	70,995	71,504	77,723
EBITDA	**50,905**	**35,861**	**53,550**	**61,073**
YoY gr. (%)	*257.4*	*(29.6)*	*49.3*	*14.0*
Margin (%)	*15.6*	*10.0*	*12.6*	*12.6*
Depreciation and Amortization	7,591	7,238	8,270	8,350
EBIT	**43,314**	**28,623**	**45,279**	**52,724**
Margin (%)	*13.2*	*8.0*	*10.7*	*10.9*
Net Interest	3,437	3,246	5,437	4,602
Other Income	707	1,263	605	635
Profit Before Tax	**40,584**	**26,640**	**40,448**	**48,757**
Margin (%)	*12.4*	*7.5*	*9.5*	*10.1*
Total Tax	10,497	6,901	10,516	12,677
Effective tax rate (%)	*25.9*	*25.9*	*26.0*	*26.0*
Profit after tax	**30,087**	**19,739**	**29,931**	**36,080**
Minority interest	306	(307)	-	-
Share Profit from Associate	1,007	1,100	1,100	1,100
Adjusted PAT	**30,788**	**21,145**	**31,031**	**37,180**
YoY gr. (%)	*761.8*	*(31.3)*	*46.8*	*19.8*
Margin (%)	*9.4*	*5.9*	*7.3*	*7.7*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**30,788**	**21,145**	**31,031**	**37,180**
YoY gr. (%)	*634.4*	*(31.3)*	*46.8*	*19.8*
Margin (%)	*9.4*	*5.9*	*7.3*	*7.7*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	30,788	21,145	31,031	37,180
Equity Shares O/s (m)	**526**	**823**	**823**	**823**
EPS (Rs)	**58.6**	**25.7**	**37.7**	**45.2**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**1,04,468**	**1,23,249**	**1,42,249**	**1,61,249**
Tangibles	96,159	1,14,690	1,33,690	1,52,690
Intangibles	8,309	8,558	8,558	8,558
Acc: Dep / Amortization	**27,949**	**33,815**	**42,085**	**50,435**
Tangibles	27,396	33,080	41,277	49,546
Intangibles	554	735	808	889
Net fixed assets	**84,828**	**97,977**	**1,07,914**	**1,18,483**
Tangibles	77,073	90,153	1,00,163	1,10,814
Intangibles	7,756	7,824	7,750	7,670
Capital Work In Progress	5,252	7,730	11,730	17,730
Goodwill	1,634	1,634	1,634	1,634
Non-Current Investments	7,008	10,254	10,254	10,254
Net Deferred tax assets	(8,904)	(8,606)	(8,606)	(8,606)
Other Non-Current Assets	7,171	2,691	2,691	2,691
Current Assets				
Investments	707	3,007	3,007	3,007
Inventories	67,854	83,939	98,986	1,06,006
Trade receivables	38,597	36,578	40,759	46,378
Cash & Bank Balance	2,563	9,308	10,370	27,046
Other Current Assets	8,477	13,406	13,406	13,406
Total Assets	**2,25,842**	**2,71,402**	**3,06,573**	**3,53,260**
Equity				
Equity Share Capital	1,051	1,647	1,647	1,647
Other Equity	97,180	1,17,665	1,47,872	1,84,228
Total Networth	**98,231**	**1,19,312**	**1,49,519**	**1,85,875**
Non-Current Liabilities				
Long Term borrowings	26,299	27,918	22,918	17,918
Provisions	332	429	429	429
Other non current liabilities	3,805	4,336	4,336	4,336
Current Liabilities				
ST Debt / Current of LT Debt	12,918	10,796	10,796	10,796
Trade payables	57,427	78,210	87,340	99,381
Other current liabilities	16,319	20,499	21,332	24,622
Total Equity & Liabilities	**2,25,842**	**2,71,402**	**3,06,573**	**3,53,260**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	41,590	27,740	40,448	48,757
Add. Depreciation	7,591	7,238	8,270	8,350
Add. Interest	3,437	3,246	5,437	4,602
Less Financial Other Income	707	1,263	605	635
Add. Other	(1,347)	(1,757)	(605)	(635)
Op. profit before WC changes	51,271	36,467	53,550	61,073
Net Changes-WC	(32,322)	2,026	(9,416)	(7,737)
Direct tax	(8,568)	(7,537)	(10,516)	(12,677)
Net cash from Op. activities	**10,381**	**30,956**	**33,618**	**40,659**
Capital expenditures	(9,681)	(16,478)	(23,000)	(25,000)
Interest / Dividend Income	172	197	605	635
Others	(343)	(8,536)	-	-
Net Cash from Invt. activities	**(9,853)**	**(24,817)**	**(22,395)**	**(24,365)**
Issue of share cap. / premium	1,091	-	-	-
Debt changes	3,301	(780)	(5,000)	(5,000)
Dividend paid	-	-	-	-
Interest paid	(3,253)	(2,959)	(5,437)	(4,602)
Others	(124)	(124)	-	-
Net cash from Fin. activities	**1,015**	**(3,863)**	**(10,437)**	**(9,602)**
Net change in cash	**1,543**	**2,277**	**786**	**6,692**
Free Cash Flow	670	14,399	10,618	15,659

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**56,045**	**90,625**	**97,651**	**1,01,840**
YoY gr. (%)	*11.5*	*59.8*	*0.4*	*25.4*
Raw Material Expenses	41,064	61,854	67,484	71,339
Gross Profit	14,981	28,771	30,167	30,501
Margin (%)	*26.7*	*31.7*	*30.9*	*29.9*
EBITDA	**3,583**	**8,683**	**11,439**	**11,924**
YoY gr. (%)	*(52.1)*	*9.0*	*(19.0)*	*34.1*
Margin (%)	*6.4*	*9.6*	*11.7*	*11.7*
Depreciation / Depletion	933	1,814	1,814	1,880
EBIT	**2,649**	**6,869**	**9,625**	**10,044**
Margin (%)	*4.7*	*7.6*	*9.9*	*9.9*
Net Interest	837	756	829	996
Other Income	175	387	379	432
Profit before Tax	**1,987**	**6,500**	**9,176**	**9,481**
Margin (%)	*3.5*	*7.2*	*9.4*	*9.3*
Total Tax	567	1,723	2,410	2,430
Effective tax rate (%)	*28.5*	*26.5*	*26.3*	*25.6*
Profit after Tax	**1,421**	**4,777**	**6,766**	**7,050**
Minority interest	(73)	151	(495)	(82)
Share Profit from Associates	98	349	397	326
Adjusted PAT	**1,591**	**4,975**	**7,658**	**7,458**
YoY gr. (%)	*(61.0)*	*14.2*	*(12.8)*	*49.7*
Margin (%)	*2.8*	*5.5*	*7.8*	*7.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,591**	**4,975**	**7,658**	**7,458**
YoY gr. (%)	*(61.0)*	*14.2*	*(12.8)*	*49.7*
Margin (%)	*2.8*	*5.5*	*7.8*	*7.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,591**	**4,975**	**7,658**	**7,458**
Avg. Shares O/s (m)	526	823	823	823
EPS (Rs)	**3.0**	**6.0**	**9.3**	**9.1**

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	58.6	25.7	37.7	45.2
CEPS	73.0	34.5	47.7	55.3
BVPS	186.9	144.9	181.6	225.7
FCF	1.3	17.5	12.9	19.0
DPS	-	1.0	1.0	1.0
Return Ratio(%)				
RoCE	43.7	20.2	26.9	26.8
ROIC	32.9	15.7	21.3	23.1
RoE	47.3	19.4	23.1	22.2
Balance Sheet				
Net Debt : Equity (x)	0.4	0.2	0.1	0.0
Net Working Capital (Days)	55	43	45	40
Valuation(x)				
PER	7.2	16.4	11.2	9.4
P/B	2.3	2.9	2.3	1.9
P/CEPS	5.8	12.3	8.8	7.6
EV/EBITDA	5.1	10.4	6.9	5.7
EV/Sales	0.8	1.0	0.9	0.7
Dividend Yield (%)	-	0.2	0.2	0.2

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales volumes (mt)	2	2	2	2
EBITDA/t (Rs)	29,538	21,292	20,675	20,735
Reaslisation/t (Rs)	2,10,552	2,00,552	1,91,052	1,91,052

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Hindalco Industries (HNDL IN)

Rating: BUY | CMP: Rs450 | TP: Rs557

August 28, 2023

Company Initiation

Margins to improve gradually

We initiate coverage on Hindalco Industries (HNDL IN) with 'BUY' rating at SOTP based TP of Rs557. HNDL has stepped up investments in high margin downstream units of India and USA, as Novelis has identified undersupplied North American 'CAN sheet' market that aims to cater an indigenous market. We believe HNDL is best placed amongst metals peers as a) Novelis is expected to witness gradual improvement in per ton EBITDA over next few quarters, led by resilient Europe and improving consumer demand from China; b) fall in thermal coal prices and opening of captive coal mines to benefit India business; c) rising focus on high margin Value added products; and d) balance sheet to remain healthy despite significant capex. We expect consolidated EBITDA CAGR of ~10% over FY23-25E and similar EPS growth on flattish LME price assumptions and Novelis FY25E EBITDA of USD500/t. The stock is currently trading at 6.1x/4.9x EV of FY24E/FY25E EBITDA. Initiate 'BUY'.

- **Focus on value addition and judicious capital allocation:** Post pandemic Novelis has delivered strong 5% CAGR volume growth to reach 3.8mt, despite several headwinds in global operations. HNDL has prioritized its USD 2.5b capex on fully integrated Greenfield facility in Bay Minette to cater to domestic CAN market. Timely addition of this facility in an undersupplied market would improve its market share and margins. In India, HNDL is focusing on expanding capacities of mainly value added products in downstream aluminium and copper, while adding alumina capacity at Utkal by 350ktpa by end FY24.

- **Novelis to witness gradual volume improvement:** Although CAN sheet market is witnessing softer demand due to inventory destocking, yet rest of the segments are seeing strong traction. As beverage CAN volume growth recovers from 2HFY24, we expect margins also to recover gradually for Novelis. With relatively stable beverage CAN segment, strong demand from Autos/aerospace and consistent addition in FRP capacities, we believe Novelis is well placed to deliver 4-5% volume CAGR over next 3-5 years. And resultant, we believe Novelis share of EBITDA will increase in consolidated EBITDA as LME remains weak in the near term.

- **Fall in thermal coal prices and opening of coal mines to benefit India business:** HNDL's Indian operations are expected to benefit from easing cost pressures, as global thermal coal prices have declined from ~USD330/t YoY to USD 100/t in recent months. Domestic availability of coal is also expected to improve, led by strong performance from Coal India which will improve linkage availability. Over long term, significant value accretion would happen once captive coal mining starts in FY26 as its Chakla coal mine (for Mahan & Renukoot) is on track for development.

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. bn)	1,951	2,232	2,158	2,309
EBITDA (Rs. bn)	287	229	222	261
Margin (%)	*14.7*	*10.3*	*10.3*	*11.3*
PAT (Rs. bn)	136	101	91	112
EPS (Rs.)	61.3	45.3	40.9	50.3
Gr. (%)	*140.0*	*(26.2)*	*(9.7)*	*22.9*
DPS (Rs.)	4.0	3.0	3.6	4.3
Yield (%)	*0.9*	*0.7*	*0.8*	*1.0*
RoE (%)	*18.8*	*11.6*	*9.2*	*10.3*
RoCE (%)	*16.6*	*11.4*	*9.8*	*11.3*
EV/Sales (x)	0.7	0.6	0.6	0.6
EV/EBITDA (x)	4.9	6.0	6.1	4.9
PE (x)	7.3	9.9	11.0	8.9
P/BV (x)	1.3	1.1	1.0	0.9

Key Data	HALC.BO | HNDL IN
52-W High / Low	Rs.504 / Rs.359
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.1,011bn/ $ 12,235m
Shares Outstanding	2,247m
3M Avg. Daily Value	Rs.2569.68m

Shareholding Pattern (%)

Promoter's	35.03
Foreign	29.93
Domestic Institution	26.11
Public & Others	8.93
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.1	8.4	4.0
Relative	2.4	(0.7)	(5.8)

Tushar Chaudhari
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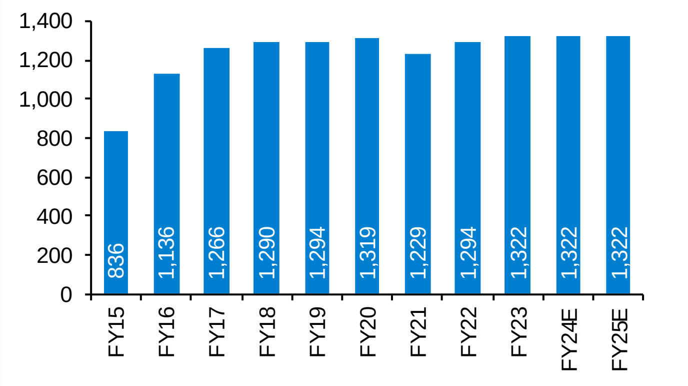
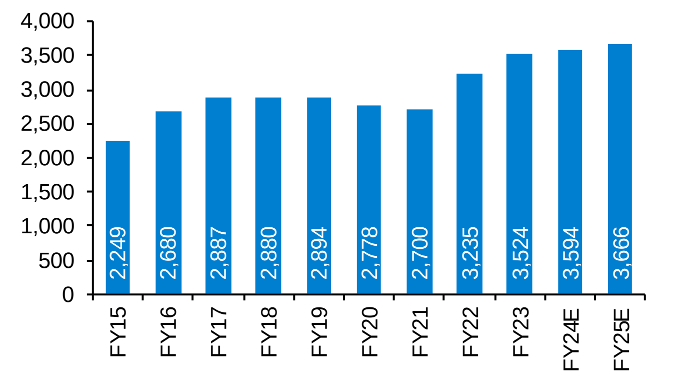
Story in charts

Exhibit 168: AL production grew at 9% CAGR over FY15-23 (kt)



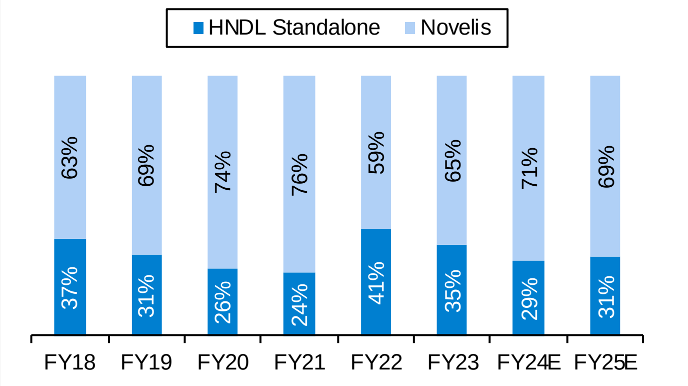
Source: Company, PL

Exhibit 169: Alumina production grew at strong 10% CAGR (kt)



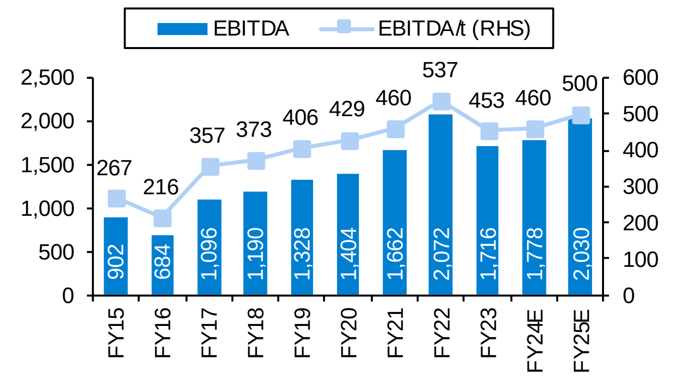
Source: Company, PL

Exhibit 170: Novelis EBITDA share to inch up as LME weakens



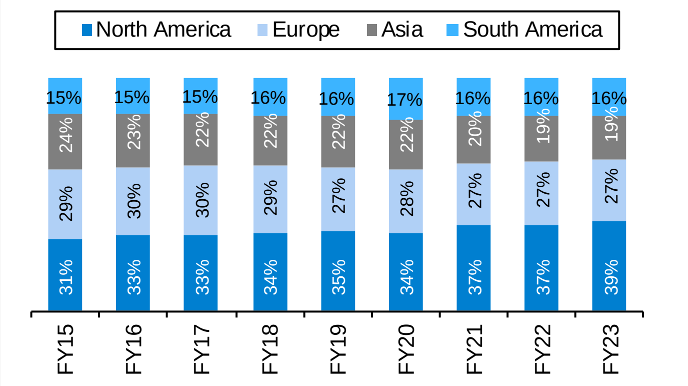
Source: Company, PL

Exhibit 171: Gradual increase in Novelis EBITDA/t (USD)



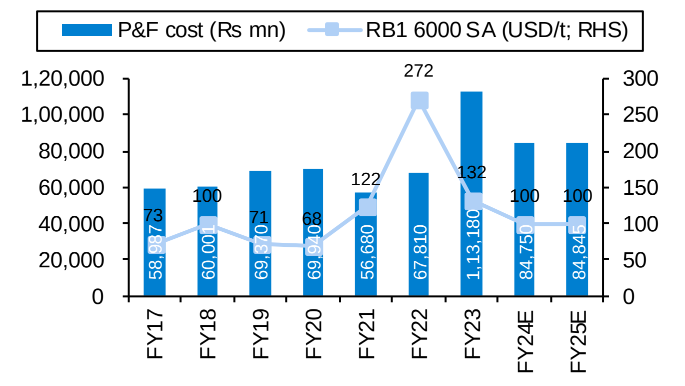
Source: Company, PL

Exhibit 172: Geographical volume mix of Rolled products



Source: Company, PL

Exhibit 173: Indian ops to benefit due to falling coal prices



Source: Company, PL

Hindalco Industries – Fairly stable & agile

Hindalco Industries (HNDL) is a part of the India's well diversified Aditya Birla group and an industry leader in aluminium and Copper. The company's Indian operations comprise of custom copper smelting, special grade alumina and low cost integrated primary aluminum smelting.

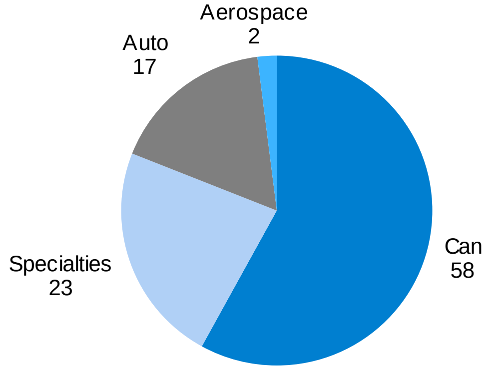
- **HNDL's aluminium units** across India encompass a gamut of operations from bauxite mining, alumina refining, coal mining, captive power plants and aluminium smelting to downstream rolling, extrusions and foils.
- **Company's copper division** operates one of the largest single location custom copper smelter in the world. The custom smelter at Dahej houses three copper smelters, three refineries, two rod plants, a captive power plant, a captive oxygen plant, phosphoric acid plant, di-ammonium phosphate plant, precious metal recovery plant, captive jetty and other utilities.
- **Hindalco's wholly owned subsidiary Novelis** is world's largest aluminium Flat Rolled Products (FRP) producer and aluminium recycler having manufacturing operations spread across North America, Europe and Asia. Post USD 6 bn acquisition of Novelis in FY07, HNDL successfully ramped up its FRP business and successfully acquired Aleris Corp. in April 2020.

Exhibit 174: Capacities across HNDL businesses

Name	Capacity
Alumina	3.6 mtpa
Primary metal	1.3 mtpa
VAP	~400 ktpa
Copper Cathode	421 ktpa
Copper Rods	540 ktpa
Novelis Rolling capacity	4.1 mtpa
Recycling capacity	2.2 mtpa

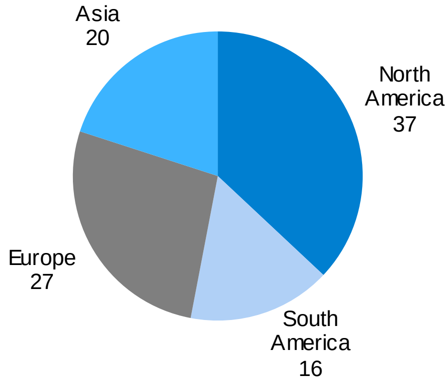
Source: Company, PL

Exhibit 175: Novelis shipments by product market (%)



Source: Company, PL

Exhibit 176: Novelis shipments by region (%)



Source: Company, PL

Investment Arguments

Focus on value addition and judicious capital allocation

Novelis: Prioritizing integrated CAN sheet facility capex

Novelis 600ktpa greenfield expansion to drive volumes from FY26

- **Novelis consistently ramped up FRP volumes at 3% CAGR** over the past decade. Post pandemic it delivered strong 5% volume CAGR to reach 3.8mt, despite several headwinds in global operations. Over next three years, HNDL has planned substantial capex of USD 3.3 bn at Novelis.
- **HNDL prioritized capex on fully integrated USD 2.5 bn Greenfield facility** in Bay Minette to cater to the domestic market, given the deteriorating global macro-economic environment over last one year.
- **Novelis has identified undersupplied North American CAN sheet market** and aims to cater with this new 600ktpa low carbon US facility. It has already received strong order book from existing customers. The facility is expected to get commissioned in FY26. We believe timely addition of this facility in an undersupplied market will improve its market share and margins.

Exhibit 177: Planned capacity expansion at Novelis

Project name	Location	Capacity (ktpa)	Capex (USD mn)
Greenfield rolling and recycling facility	Bay Minette, US	600	2,500
Automotive recycling center	Guthrie, US	240	365
Recycling expansion	Ulsan, S Korea	100	50
Debottlenecking and rolling capacity release	Oswego, Logan, Yeongju & Brazil	265	350

Source: Company, PL

- **The US facility will add recycling capacity by 15 bn CANs per year.** The new recycling and casting centers being planned at US and Korea are planned with an intention to achieve a circular business model for aluminum over long term.

In FY23, Novelis recycled ~82 bn CANs (~2.2mtpa).

Expect a gradual improvement in volumes and profitability

- Novelis maintained its medium term EBITDA per ton guidance of USD 525/t, despite ongoing macro headwinds in developed economies. However, we believe near term headwinds will persist in 1HFY24 led by a) continued channel inventory destocking in the CAN segment, b) weaker demand from Building & Construction (B&C)/ specialty segment in Europe/North America as the segment is expected to witness softer volume growth led by inflation and interest rates hikes in near term.
- We believe gradual improvement in scrap supply in South America and fallen energy prices in Europe will lead to an improvement in performance by 2HFY24. Long term CAN sheet demand remains robust across regions and we expect volume trajectory to improve gradually from 2HFY24.
- There is good strength seen in Automotive volumes led by electrification and strong pent up demand post pandemic; while Chinese Government's efforts to uplift economy are also playing critical role. Automotive volumes have seen significant improvement in last two months in China led by EV revolution. We believe as overall volumes pick up gradually in 2HFY24, Novelis would achieve its targeted per ton EBITDA.

Recent JV with Texmaco to supply AL sheets for railway wagons & coaches to drive volume growth

India: Focusing on high margin downstream projects

- Various small scale downstream projects in India have been prioritized to take benefit of PLI scheme and as cashflows improve, incremental capex will be undertaken across businesses as guided under its long term capex plan.
- In India, HNDL is focusing on expanding capacities of mainly value added products (VAP) in downstream aluminium and copper, while adding alumina capacity at Utkal by 350ktpa by end FY24.
- It is also working on integration project of renewable power feeding aluminum smelters, which if found viable and economical, would determine its further capex in upstream capacities in India over next few years.
- The total capex planned for India over next two years is ~USD 850 mn. HNDL's Copper business is customs smelting business and largely stable.

Exhibit 178: Planned capacity expansion at Indian businesses

Project name	Location	Capacity (ktpa)	Capex (USD mn)	Expected COD
Alumina debottlenecking	Utkal	350	40	FY24
Precipitate Hydrate Alumina	Belagavi	60	55	FY25
Synthetic Aggregates Alumina	Aditya	90	55	FY25
Can recycling	Aditya	100	-	FY25
Extrusions	Silvassa	34	97	FY24
FRP casting & Cold rolling	Aditya/ Hirakud	170	450	FY25
Coated AC Fins (PLI)	Taloja, Maharashtra	26	50	FY25
Battery Foil Mill	Aditya	24	105	FY26
Battery Enclosures	Pune	6.5	33	FY25
Inner Grove Tubes & Alloy roda (Copper)	Vadodara	25	66	FY25

Source: Company, PL

Rs 20 bn capex planned in Copper e-waste recycling facility; to capture an opportunity which is exported at present due to lack of advanced metal extraction and refining technologies in India.

- HNDL would continue to focus on these small scale but high margin capacities in the near term. E.g. Acquired copper rod facility from Polycab in November 2021 which took its total copper cathode rods capacity to ~540ktpa.

Exhibit 179: Recent acquisitions in VAP

Inorganic Projects	Products	Capacity (ktpa)	EV (USD m)
Ryker CCR	Copper CR	225	46
SAPA Extrusions	AL Extrusions	15	33

Source: Company, PL

- With ongoing projects and recent acquisitions, HNDL's VAP capacity is expected to nearly double in next few years.

Exhibit 180: Projected capacity evolution in downstream businesses

Projects (ktpa)	Capacity now	Expected in FY27E
AL VAP projects	350	600
Specialty Alumina	361	676
CU VAP projects - Cathode	421	521
CU VAP projects - Wire rods	540	565

Source: Company, PL

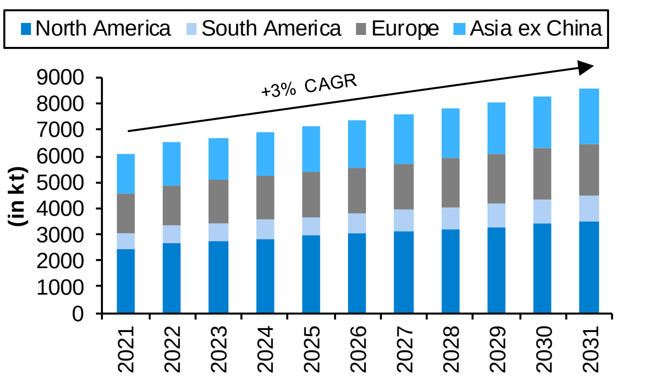
- We believe HNDL is well placed to benefit from these value added projects in aluminium business over the near term, as it would reduce LME volatility. HNDL's expertise and fiscal prudence in capital allocation would deliver strong earnings growth even in challenging macro environment, as it has prioritized capex on value added projects while keeping the balance sheet lean.

Novelis to witness gradual volume improvement

Novelis shipments are well distributed across continents with North America being highest at 37% followed by Europe 27%. Beverage CAN segment contributes ~58% of the shipments giving stability to the consolidated business followed by 23% from Specialties business, 17% Auto and 2% Aerospace.

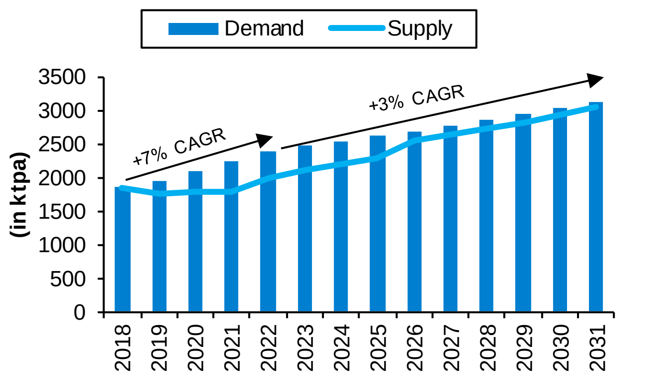
- **CAN:** Novelis has ~40% market share in global beverage CAN sheet market (ex-China). Although near term volume growth remains weak led by continued destocking in CAN business, long term fundamentals remains strong.
  - Key trends driving beverage packaging demand over long term are a) substrate shifts driven by sustainability and new products; b) consumption driven demand primarily within energy, alcoholic RTD (ready to drink) & flavored water categories; and c) form factor shifts (sleek/ smaller CANs).

Exhibit 181: Global CAN sheet demand to grow at 3% CAGR



Source: Company, PL

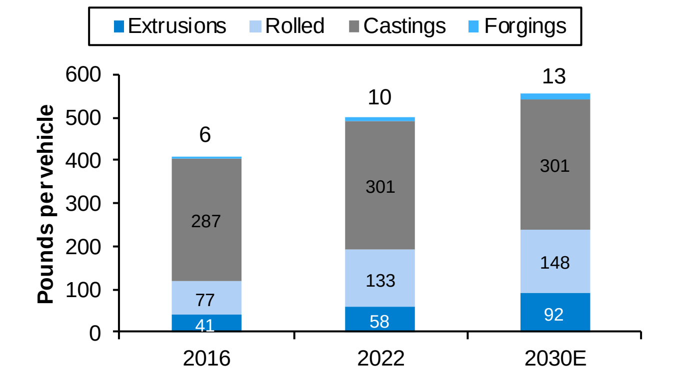
Exhibit 182: Demand grew faster in N. America at 7% CAGR



Source: Company, PL

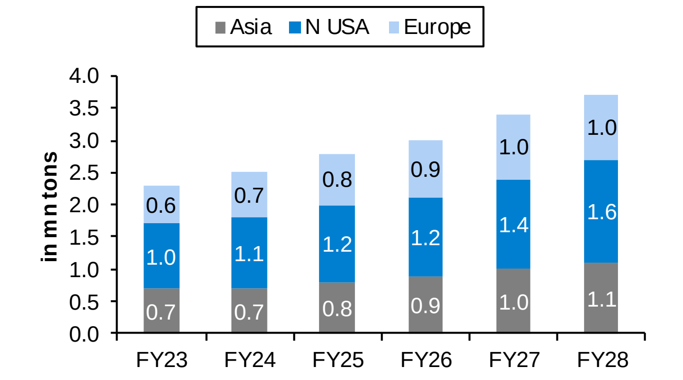
- **Automotive:** Novelis has significant market share in global Automobile aluminium FRP business with 40% in North America, 35% in Europe and 20% in Asia in FY23.
  - Key trends driving Automotive sheet demand over long term are a) pent up demand post pandemic and stimulus given by China; b) rising electrification and aluminium adoption in electric vehicles to 550+ pounds per vehicle by 2030; c) improving vehicle mix due to strong growth in premium battery electric vehicle led by government subsidies and ICE city bans.
  - With Auto segment getting strong traction led by electrification and pent up demand from Chinese economy, we believe revenue contribution from Auto business will reach ~20% from c.17% over next few years.

Exhibit 183: AL content to inch up in N. America Automobiles



Source: Company, PL

Exhibit 184: AL Auto FRP Demand to grow at 10% CAGR



Source: Company, PL

Specialties segment can give some pain for volume growth if economies of developed nations takes time to recover beyond FY24

- **Specialties:** Although Specialties business is witnessing weaker demand in lieu of rising interest rates and high inflation, we expect situation to improve gradually with inflation cooling off across developed nations and demand is expected to improve post FY24. Noveils has diverse portfolio and flexible capacities in Specialties which enables optimized capacity utilization and agility.

- **Aerospace:** Demand from Aerospace segment is rapidly growing mainly due to a) strong demand from Asia (40% of new demand); b) need for fleet modernization; c) increasing spending on luxury post pandemic leading to strong growth for aerospace aluminium plate and sheet demand.

With stable beverage CAN segment, strong demand from Autos/Aerospace and consistent addition in FRP capacities, we believe Novelis is well placed to deliver 4-5% volume CAGR over next 3-5 years. Resultant, we believe Novelis share of EBITDA will increase in consolidated EBITDA as LME remains weak in the near term.

Rising coal security leading to value accretion

HNDL's India operations expected to benefit from easing cost pressures as global thermal coal prices declined from ~USD330/t YoY to USD 110/t in recent months which would put pressure on Coal India's benchmark prices. Domestic availability of coal is also expected to improve led by strong performance from Coal India which will improve linkage availability. However, over the long term, significant value accretion would happen once captive coal mining starts in FY26 as its Chakla coal mine (for Mahan & Renukoot) is on track for development by Dec-25. HNDL had won this coal block in Jharkhand in coal e-auction of commercial coal blocks in Nov-20.

Exhibit 185: Coal mining portfolio of Hindalco

Mines	bid won	Location	Capacity (mtpa)	Reserves (mt)	Status
Gare Palma IV/4	2015	Chhattisgarh	1.0	27.4	Operational
Gare Palma IV/5	2015	Chhattisgarh	1.0	85.8	Operational
Kathautia	2015	Jharkhand	0.8	27.38	Operational
Dumri	2015	Jharkhand	1.0	40.8	in development stage
Chakla	2020	Jharkhand	4.5	76	in development stage
Meenakshi	2022	Odisha	12*	285	in development stage

*Source: Company, PL; *PRC*

Development of coal mines is expected to save Rs1000/t

- HNDL's requirement of thermal coal per year is ~16mt out of which 55% of the requirement is procured via linkages, ~44% via e-auction, 3% captive mining and ~2% via imports.
- HNDL is operating Gare Palma IV/4, Gare Palma IV/5 and Kathautia coal mines, while rest of the mines are in development stage.
- The company is spending USD 186 mn over next few years on these coal mines won via Government auctions.
- Although development of Chakla block is delayed by almost one year compared to management's earlier estimates, once the production from mine starts, it would improve yield and reduce dependence on Coal India.

<u>We believe opening up of captive coal block will result in cost savings of Rs 900-1000 per ton along with other benefits such as yield improvement and reduced transportation cost.</u>

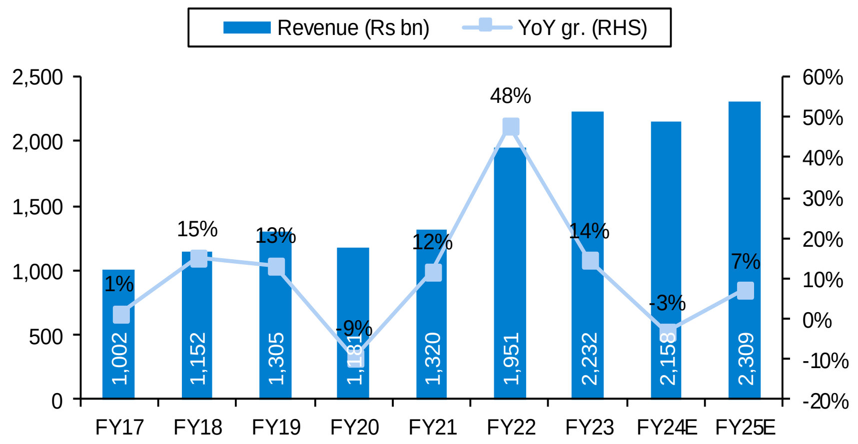
Financial Analysis

Revenue CAGR 3% over FY23-25E

We expect consolidated revenue CAGR of 3% over FY23-25E assuming flat LME and gradual improvement in Novelis volumes over two years.

Standalone revenue is expected to remain flattish over FY23-25E, while Novelis will deliver Revenue CAGR of 6% over same period led by volume growth and USD-INR assumption.

Exhibit 186: Marginal growth in revenue CAGR led by Novelis volumes

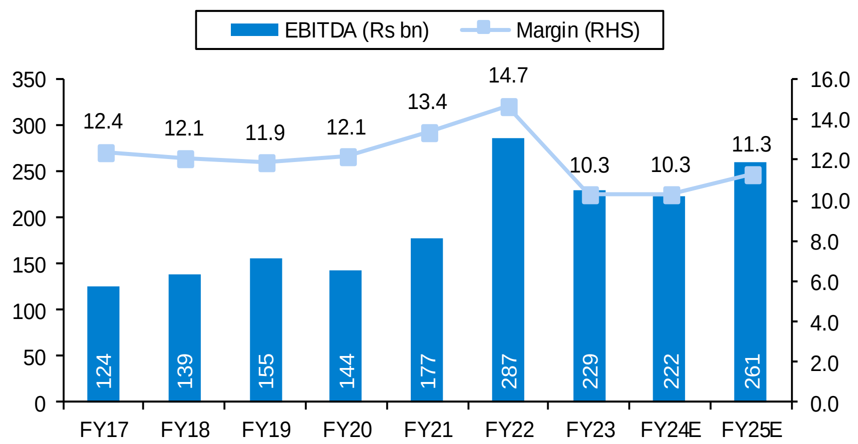


Source: Company, PL

EBITDA CAGR of 10% over FY23-25E

We expect EBITDA CAGR of 10% over FY23-25E on reduction in coal cost of standalone business and gradual improvement in Novelis per ton EBITDA numbers over two years.

Exhibit 187: Consolidated margins to improve gradually led by Novelis



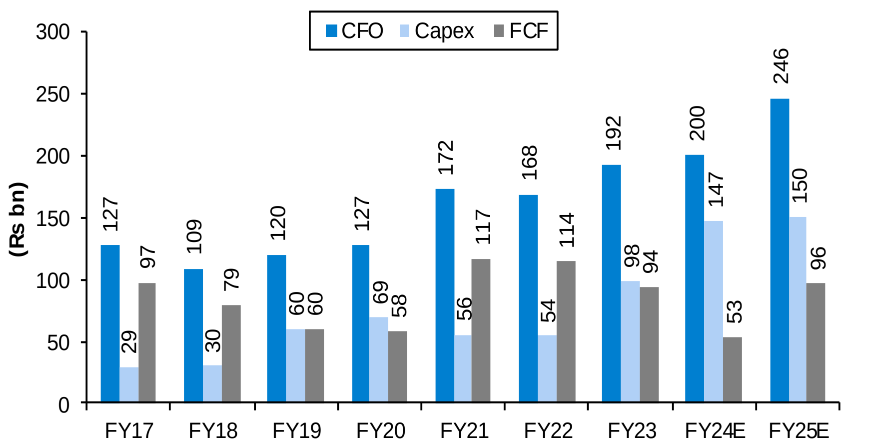
Source: Company, PL

We have assumed ~USD 1.5 bn capex for Novelis per year and Rs 50 bn for FY24 India business (for rolling mills at Hirakud and Aditya + Chakla mine).

We expect strong cashflows to continue from stable Novelis and higher volumes from India business.

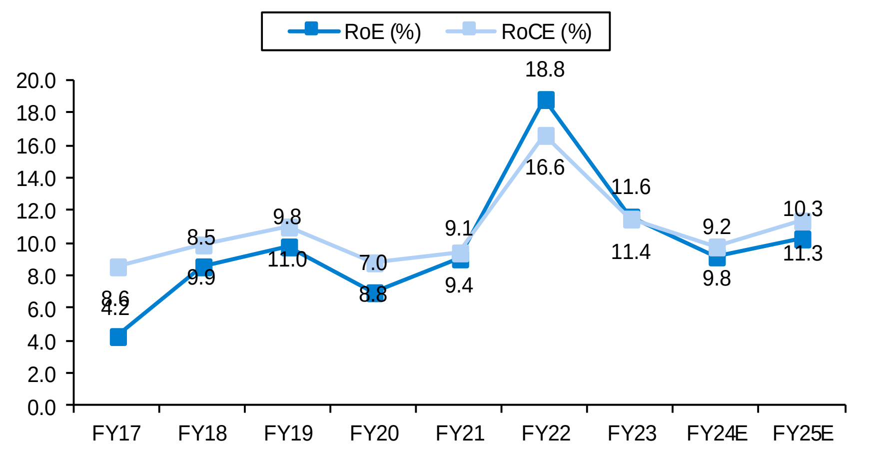
Healthy balance sheet despite significant planned capex

Exhibit 188: Strong cash flows to continue



Source: Company, PL

Exhibit 189: Return ratios to improve gradually as volumes improve

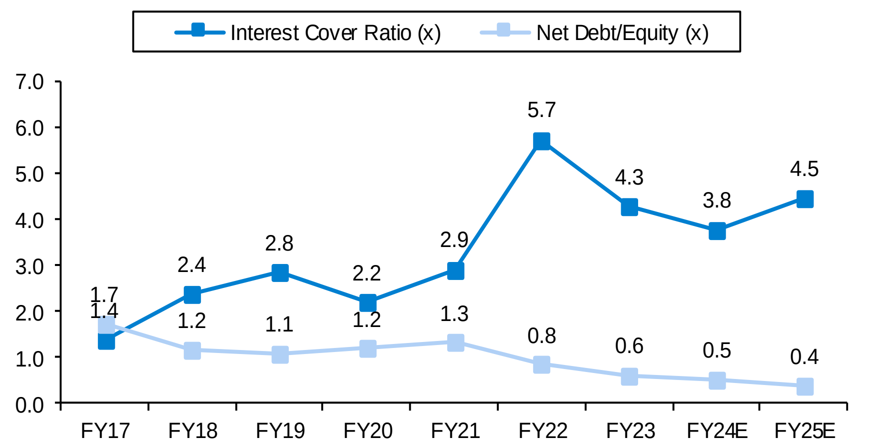


Source: Company, PL

We expect HNDL's balance sheet to remain healthy despite significant capex over next three years.

Interest coverage ratio is expected to rise from 4.3x in FY23 to 4.6x in FY25E.

Exhibit 190: Healthy balance sheet despite significant capex planned



Source: Company, PL

Valuations

HNDL has stepped up investments in high margin downstream units in India and USA, as Novelis has identified undersupplied North American CAN sheet market and aims to cater with indigenous plant. We expect consolidated EBITDA to grow at 10% CAGR over FY23-25E, with similar EPS growth on flat LME prices and Novelis's FY25E EBITDA of USD500/t.

HNDL's consolidated debt on a net basis is Rs 339bn – gross debt of Rs 583bn less cash and equivalents of Rs 243bn keeping net debt to EBITDA at 1.39x at end of FY23. The management intends to fund its USD 4.2bn capex over next two years, largely by cashflows and robust balance sheet.

The stock trades at undemanding EV/EBITDA of 6.1x FY24E and 4.9x FY12E. We recommend 'Buy' at TP of Rs557 (EV/ EBITDA of 5x FY25E for Indian business and 6.5x for Novelis being converter business model). Re-rating for Novelis multiple is likely once volume growth improves due to relatively low volatility in earnings.

Exhibit 191: Target Price Calculation

(In Rs m)	FY25PLe	EV/EBITDA (x)	EV
Novelis EBITDA	1,86,273	6.5	12,10,775
HNDL Standalone EBITDA	74,390	5	3,71,949
Net debt			3,44,509
Equity value			12,38,214
Per share equity value			557

Source: Company, PL

Exhibit 192: LME AL sensitivity to Target Price

FY25 LME avg (USD/t)	2,153	2,253	2,353	2,453	2,553
Consolidated EBITDA	2,33,552	2,47,081	2,60,663	2,74,140	2,87,669
Total EV	14,47,170	15,14,817	15,82,724	16,50,110	17,17,756
Net debt	3,55,412	3,49,971	3,44,509	3,39,090	3,33,649
Target Market Cap	10,91,759	11,64,846	12,38,214	13,11,020	13,84,108
No of Shares	2,222	2,222	2,222	2,222	2,222
Value (Rs/share)	491	524	557	590	623

Source: PL

Key Risks

- Delays in commissioning of new facility of Novelis may restrict volume growth.
- Delays in commissioning of captive coal mine may impact margins in case of sharp rise in coal prices.
- Weak global demand situation can affect Novelis volumes and profitability.
- LME volatility can impact standalone business performance.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**19,50,590**	**22,32,020**	**21,58,406**	**23,09,111**
YoY gr. (%)	-	-	-	-
Cost of Goods Sold	11,75,400	14,07,700	17,12,860	18,34,395
Gross Profit	7,75,190	8,24,320	4,45,546	4,74,716
Margin (%)	*39.7*	*36.9*	*20.6*	*20.6*
Employee Cost	1,20,230	1,30,630	23,289	24,453
Other Expenses	3,68,390	4,64,840	2,00,231	1,89,652
EBITDA	**2,86,570**	**2,28,850**	**2,22,026**	**2,60,611**
YoY gr. (%)	*62.1*	*(20.1)*	*(3.0)*	*17.4*
Margin (%)	*14.7*	*10.3*	*10.3*	*11.3*
Depreciation and Amortization	70,390	73,050	81,854	91,641
EBIT	**2,16,180**	**1,55,800**	**1,40,172**	**1,68,970**
Margin (%)	*11.1*	*7.0*	*6.5*	*7.3*
Net Interest	37,680	36,460	37,143	37,939
Other Income	11,360	12,570	12,611	12,731
Profit Before Tax	**1,95,680**	**1,32,320**	**1,15,641**	**1,43,762**
Margin (%)	*10.0*	*5.9*	*5.4*	*6.2*
Total Tax	53,730	31,440	24,904	32,205
Effective tax rate (%)	*27.5*	*23.8*	*21.5*	*22.4*
Profit after tax	**1,41,950**	**1,00,880**	**90,737**	**1,11,557**
Minority interest	-	-	2	3
Share Profit from Associate	60	90	90	90
Adjusted PAT	**1,36,190**	**1,00,560**	**90,825**	**1,11,644**
YoY gr. (%)	*140.0*	*(26.2)*	*(9.7)*	*22.9*
Margin (%)	*7.0*	*4.5*	*4.2*	*4.8*
Extra Ord. Income / (Exp)	1,110	410	-	-
Reported PAT	**1,37,300**	**1,00,970**	**90,825**	**1,11,644**
YoY gr. (%)	*294.2*	*(26.5)*	*(10.0)*	*22.9*
Margin (%)	*7.0*	*4.5*	*4.2*	*4.8*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,37,300	1,00,970	90,825	1,11,644
Equity Shares O/s (m)	**2,220**	**2,220**	**2,220**	**2,220**
EPS (Rs)	**61.3**	**45.3**	**40.9**	**50.3**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**14,59,460**	**15,67,050**	**16,40,490**	**17,15,399**
Tangibles	13,15,540	14,09,770	14,83,210	15,58,119
Intangibles	1,43,920	1,57,280	1,57,280	1,57,280
Acc: Dep / Amortization	**6,30,370**	**7,18,240**	**8,00,094**	**8,91,734**
Tangibles	5,50,630	6,24,270	7,06,124	7,97,764
Intangibles	79,740	93,970	93,970	93,970
Net fixed assets	**8,29,090**	**8,48,810**	**8,40,396**	**8,23,665**
Tangibles	7,64,910	7,85,500	7,77,086	7,60,355
Intangibles	64,180	63,310	63,310	63,310
Capital Work In Progress	49,450	77,000	1,50,440	2,25,349
Goodwill	2,39,650	2,57,450	2,57,450	2,57,450
Non-Current Investments	98,080	1,15,560	1,15,560	1,15,560
Net Deferred tax assets	(44,240)	(73,220)	(73,220)	(73,220)
Other Non-Current Assets	16,850	42,960	42,960	42,960
Current Assets				
Investments	54,520	58,570	58,570	58,570
Inventories	4,44,830	4,29,580	4,13,941	4,11,212
Trade receivables	2,10,760	1,62,140	1,77,403	1,89,790
Cash & Bank Balance	1,73,920	1,53,680	1,35,752	1,48,820
Other Current Assets	44,860	57,480	57,480	57,480
Total Assets	**22,30,620**	**22,48,170**	**22,94,892**	**23,75,795**
Equity				
Equity Share Capital	2,220	2,220	2,220	2,220
Other Equity	7,79,690	9,45,840	10,30,005	11,33,657
Total Networth	**7,81,910**	**9,48,060**	**10,32,225**	**11,35,877**
Non-Current Liabilities				
Long Term borrowings	5,16,350	5,14,340	4,74,340	4,24,340
Provisions	6,610	5,860	5,860	5,860
Other non current liabilities	80,220	71,190	71,190	71,190
Current Liabilities				
ST Debt / Current of LT Debt	1,16,000	69,010	69,010	69,010
Trade payables	4,13,820	3,58,600	3,54,806	3,79,580
Other current liabilities	2,43,540	1,76,960	1,83,311	1,85,788
Total Equity & Liabilities	**22,30,620**	**22,48,170**	**22,94,892**	**23,75,795**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	1,95,740	1,32,410	1,15,641	1,43,762
Add. Depreciation	67,290	70,860	81,854	91,641
Add. Interest	37,680	36,460	37,143	37,939
Less Financial Other Income	11,360	12,570	12,611	12,731
Add. Other	(3,280)	(15,750)	(12,503)	(12,644)
Op. profit before WC changes	2,97,430	2,23,980	2,22,134	2,60,698
Net Changes-WC	(91,320)	(4,570)	2,933	17,593
Direct tax	(37,730)	(27,330)	(24,904)	(32,205)
Net cash from Op. activities	**1,68,380**	**1,92,080**	**2,00,163**	**2,46,086**
Capital expenditures	(57,020)	(97,350)	(1,46,880)	(1,49,818)
Interest / Dividend Income	2,390	4,790	12,611	12,731
Others	(16,110)	11,350	-	-
Net Cash from Invt. activities	**(70,740)**	**(81,210)**	**(1,34,269)**	**(1,37,087)**
Issue of share cap. / premium	60	-	-	-
Debt changes	(45,990)	(81,870)	(40,000)	(50,000)
Dividend paid	(6,670)	(8,900)	(6,660)	(7,992)
Interest paid	(32,500)	(38,450)	(37,143)	(37,939)
Others	20,460	30,340	-	-
Net cash from Fin. activities	**(64,640)**	**(98,880)**	**(83,803)**	**(95,931)**
Net change in cash	**33,000**	**11,990**	**(17,908)**	**13,068**
Free Cash Flow	1,14,120	93,660	53,283	96,268

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	61.3	45.3	40.9	50.3
CEPS	93.1	78.2	77.8	91.6
BVPS	352.2	427.1	465.0	511.7
FCF	51.4	42.2	24.0	43.4
DPS	4.0	3.0	3.6	4.3
Return Ratio(%)				
RoCE	16.6	11.4	9.8	11.3
ROIC	13.7	9.4	8.1	9.4
RoE	18.8	11.6	9.2	10.3
Balance Sheet				
Net Debt : Equity (x)	0.5	0.4	0.3	0.3
Net Working Capital (Days)	45	38	40	35
Valuation(x)				
PER	7.3	9.9	11.0	8.9
P/B	1.3	1.1	1.0	0.9
P/CEPS	4.8	5.8	5.8	4.9
EV/EBITDA	4.9	6.0	6.1	4.9
EV/Sales	0.7	0.6	0.6	0.6
Dividend Yield (%)	0.9	0.7	0.8	1.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**1,83,820**	**1,89,830**	**1,99,950**	**1,99,040**
YoY gr. (%)	*6.3*	*4.9*	*5.4*	*2.0*
Raw Material Expenses	1,10,120	1,24,600	1,34,320	1,35,450
Gross Profit	73,700	65,230	65,630	63,590
Margin (%)	*40.1*	*34.4*	*32.8*	*31.9*
EBITDA	**13,770**	**13,430**	**17,750**	**15,610**
YoY gr. (%)	*(54.7)*	*(52.0)*	*(45.6)*	*(46.7)*
Margin (%)	*7.5*	*7.1*	*8.9*	*7.8*
Depreciation / Depletion	4,490	4,640	5,100	4,820
EBIT	**9,280**	**8,790**	**12,650**	**10,790**
Margin (%)	*5.0*	*4.6*	*6.3*	*5.4*
Net Interest	3,220	3,090	3,360	3,520
Other Income	1,900	1,370	1,660	2,250
Profit before Tax	**7,960**	**7,070**	**10,950**	**9,400**
Margin (%)	*4.3*	*3.7*	*5.5*	*4.7*
Total Tax	2,480	2,090	2,630	3,400
Effective tax rate (%)	*31.2*	*29.6*	*24.0*	*36.2*
Profit after Tax	**5,480**	**4,980**	**8,320**	**6,000**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**5,480**	**4,980**	**8,320**	**6,000**
YoY gr. (%)	*(65.9)*	*(64.1)*	*(48.0)*	*(58.6)*
Margin (%)	*3.0*	*2.6*	*4.2*	*3.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**5,480**	**4,980**	**8,320**	**6,000**
YoY gr. (%)	*(65.9)*	*(64.1)*	*(48.0)*	*(58.6)*
Margin (%)	*3.0*	*2.6*	*4.2*	*3.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**5,480**	**4,980**	**8,320**	**6,000**
Avg. Shares O/s (m)	2,222	2,222	2,222	2,222
EPS (Rs)	**2.9**	**2.6**	**4.3**	**3.1**

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Novelis volumes (mt)	4	4	4	4
Novelis EBITDA/t	537	453	460	500
Aluminium Price (USD/t)	2,766	2,491	2,296	2,353
Standalone EBITDA (Rs bn)	112	74	60	74

Source: Company Data, PL Research

Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

National Aluminium Co. (NACL IN)

Rating: ACCUMULATE | CMP: Rs88 | TP: Rs97

Pure play on Aluminium prices

August 28, 2023

Company Initiation

Key Financials - Standalone

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	1,41,808	1,42,337	1,32,510	1,39,130
EBITDA (Rs. m)	45,172	24,293	28,085	30,978
Margin (%)	*31.9*	*17.1*	*21.2*	*22.3*
PAT (Rs. m)	29,520	15,574	17,263	18,697
EPS (Rs.)	16.1	8.5	9.4	10.2
Gr. (%)	*127.2*	*(47.2)*	*10.8*	*8.3*
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	*25.4*	*12.1*	*12.6*	*12.6*
RoCE (%)	*34.2*	*15.3*	*16.7*	*16.8*
EV/Sales (x)	0.9	1.0	1.1	1.0
EV/EBITDA (x)	2.8	5.8	5.1	4.7
PE (x)	5.5	10.4	9.4	8.7
P/BV (x)	1.3	1.2	1.1	1.1

Key Data	NALU.BO | NACL IN
52-W High / Low	Rs.98 / Rs.67
Sensex / Nifty	64,887 / 19,266
Market Cap	Rs.162bn/ $ 1,961m
Shares Outstanding	1,837m
3M Avg. Daily Value	Rs.800.33m

Shareholding Pattern (%)

Promoter's	51.28
Foreign	14.96
Domestic Institution	15.39
Public & Others	18.38
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.0)	12.7	10.9
Relative	(4.9)	3.3	0.4

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We initiate coverage on National Aluminium co. Ltd. (NACL IN) with 'Accumulate' rating and TP of Rs97 based on 5x FY25E EV/EBITDA. NACL is well placed to benefit from any uptick in aluminium prices given a) its nearly 100% capacity utilization rate and b) incremental alumina volumes expected to flow from 4QFY25. Moreover, timely opening of coal mine would accelerate cost savings in near term and development of strategic minerals to benefit over the long run. NACL has stepped up investments in its upstream smelting and refining units with plans to double the smelting capacity from 460ktpa to 960ktpa and add 1mtpa refining capacity to reach ~3.3mtpa capacity. Over next two years, we expect consolidated EBITDA at 13% CAGR with 10% CAGR in EPS on muted LME price assumption. There remains an upside risk to our estimates if coal block commences earlier than Nov-23 and there are no further delays in overall capex. The stock is currently trading at 5.1x/4.7x EV of FY24E/FY25E EBITDA. Initiate 'Accumulate'.

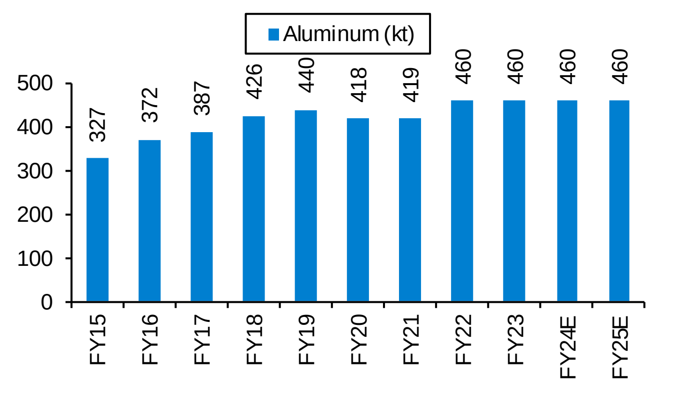
Pure play on aluminium prices as alumina capacity is delayed: NACL has announced a brownfield capacity expansion of Rs300bn for next five years which would take its smelting capacity to 960ktpa along with 1200MW CPP and incremental 1mtpa refinery capacity addition. In the first phase 1mtpa refinery expansion at Damanjodi was expected to get commissioned by Dec-23, however it got delayed by one year and NACL expects mechanical completion by Dec-24. We believe that delays in capacity addition would make NACL a pure play on aluminium and alumina prices in the near term, as its existing capacities are running at 100% capacity utilization over last few years and incremental production is expected from brownfield expansion of refinery only.

Early commissioning of coal mine would be an upside risk to earnings: NACL's existing coal requirement is sourced from mix of Mahanadi Coalfields and Coal auction (Spot/Exclusive) route. NACL is banking on captive coal blocks which were allotted (Utkal D & E) to it from Ministry of Coal in May-16. Post receiving mining leases for Utkal D in April-20, NACL was expecting coal production to start from 1QFY22. However, there were delays in commencing production due to obtaining of forest and environmental clearances, land acquisition and fierce agitation by affected tenants in Raijharan area in Angul. Stage-I forest clearance has been obtained and land compensation has also been deposited with State Government by NACL. We believe further delays cannot be ruled out as we are heading towards election year in 2024 and we have not considered benefits from captive coal in FY25 earnings. However, early commencing of coal mine would be an upside risk to our earnings assumptions.

Other value added projects can add value over long term: NACL is developing various other value added projects by forming Joint Venture (JV) with other corporates, some of which will start contributing to main operations over next few quarters. We believe caustic soda and alloy plant projects are value accretive directly to main aluminium operations in medium term while others can get delayed similar to its earlier decades' JV projects viz. Indonesia, nuclear power, titanium, etc. NACL's intention of getting into unrelated project (with the help of JV partner) is not worrisome as long as required investment is insignificant.

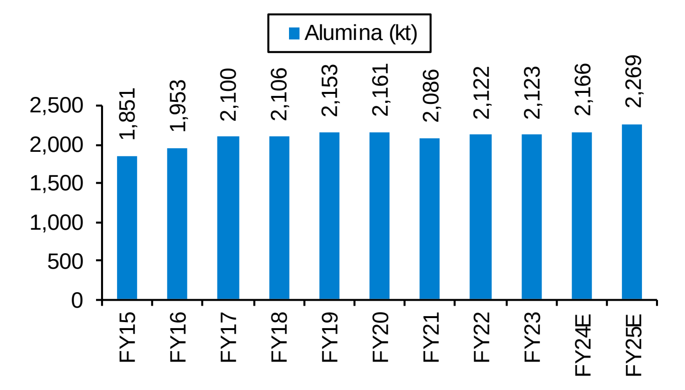
Story in charts

Exhibit 193: Running at 100% capacity utilization



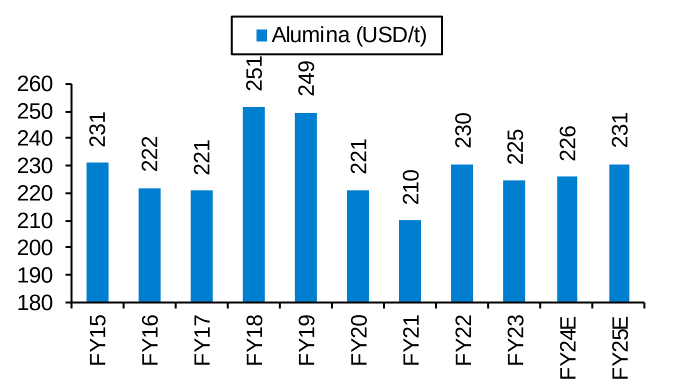
Source: Company, PL

Exhibit 194: Volume growth expected post refinery expansion



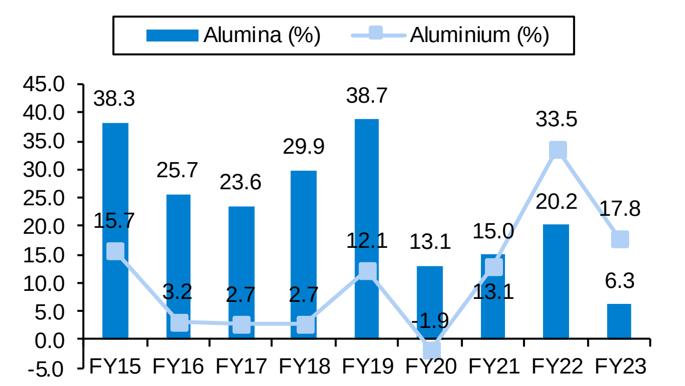
Source: Company, PL

Exhibit 195: Lowest cost producer of alumina



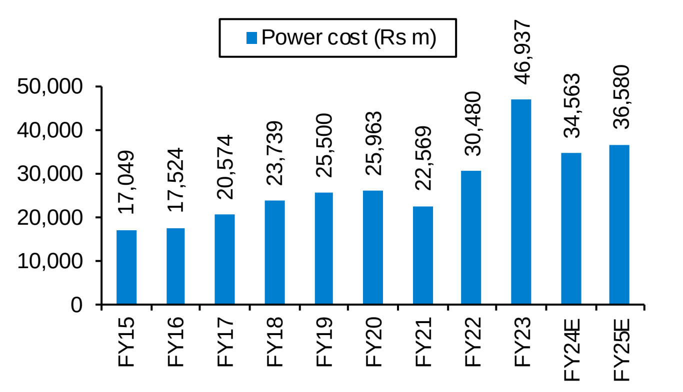
Source: Company, PL

Exhibit 196: Alumina segment has better EBIT margins



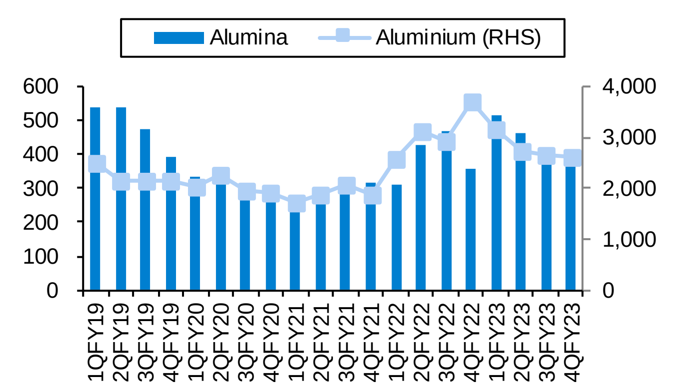
Source: Company, PL

Exhibit 197: Costs to reduce once coal mining commences



Source: Company, PL

Exhibit 198: Segmental realizations in USD/t



Source: Company, PL

National Aluminum - Slow and steady growth

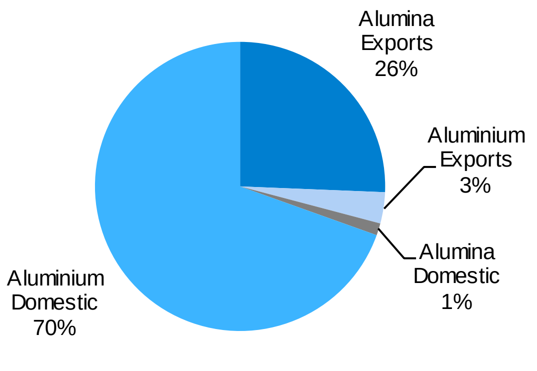
National Aluminium Co. Ltd. (NACL) is a Navratna Central Public Sector Enterprise of Government of India having one of the largest integrated aluminium manufacturing operations in Odisha. NACL's operations consist of 1) Bauxite mining at its captive Panchpatmali Bauxite Mines (7.5mtpa) for the pit head Alumina refinery (2.28mtpa) and 2) Aluminium Smelter (460ktpa) & Captive Power Plant (1200MW) at Angul.

Proximity to mines makes it lowest cost producer of alumina: NACL's alumina refinery is located at Damanjodi-Odisha ~14km distance from Bauxite mine at Panchpatmali. The mined-out bauxite is transported from captive mine to refinery by a single-light multi-curve 1800 tonnes per hour capacity cable belt conveyor. Panchpatmali Bauxite Mines (Central & North Block) and South Block have all statutory clearances with lease validity up to year 2032 and 2029 respectively. Plus both these mines are in operation. NACL also has excess alumina refining capacity which is sold in international markets. The alumina produced is transported to aluminium smelter at Angul and to Vizag port by rail.

Integrated operations: NACL has 5*18.5MW co-gen captive Steam & power plant (SPP) for refinery at Damanjodi as well as 1200MW Thermal Captive power plant for smelter at Angul. For sustainable supply of coal to SPP, NACL is having 1.34mtpa Fuel Supply Agreement (FSA) with CIL Subsidiaries. For 6.8mtpa coal required for CPP, coal is sourced from nearby coal mines of M/s. Mahanadi Coalfields Limited. NACL is having FSA with MCL for 4.72mtpa coal and 0.9mtpa Bridge Linkage coal MoU with MCL. Balance shortfall quantities are sourced through Coal auction (Spot/Exclusive) route.

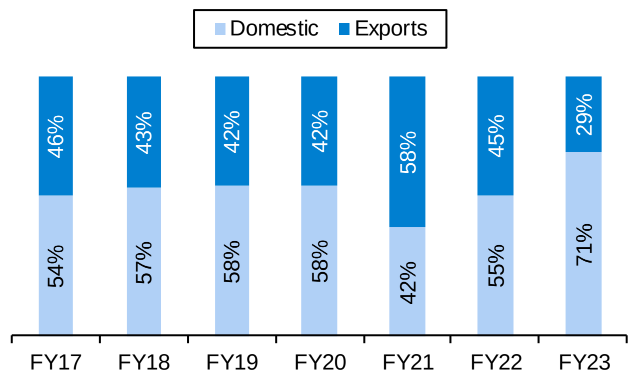
Green energy: Over last few years, the company invested in wind power at four different locations and built 198MW capacity. As a part of Green initiative, NACL has also installed 800 kWp roof top Solar Power Plants at its premises.

Exhibit 199: Revenue mix: FY23



Source: Company, PL

Exhibit 200: Export share in overall revenue



Source: Company, PL

1mtpa refinery expansion at Damanjodi to get commissioned by 3QFY25

Investment Arguments

A pure play on aluminium prices as capacity is delayed

- NACL has announced a Brownfield capacity expansion of Rs 300 bn for next five years which would take its smelting capacity to ~1mtpa along with 1200MW CPP and incremental 1mtpa refinery capacity addition.
- In the first phase, 1mtpa refinery expansion at Damanjodi was expected to get commissioned by Dec-23 however it is delayed by one year and NACL expects to get mechanical completion by Dec-24.
- We believe that delays in capacity addition would make NACL a pure play on aluminium and alumina prices in the near term as its existing capacities are running at 100% utilization over last few years and incremental production is expected from brownfield expansion of refinery only.

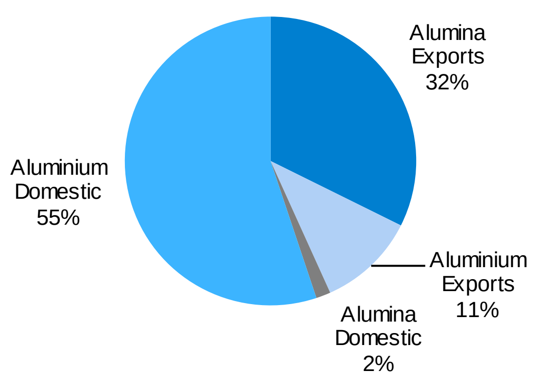
Exhibit 201: Rs 300 bn Capex plan envisaged to double smelting capacity

Project Segment	Present Capacity	FY28E Capacity
Bauxite Mines	~10 mtpa	~13.5 mtpa
Alumina Refinery	2.275 mtpa	3.275 mtpa
Aluminium Smelter	460 ktpa	960 ktpa
Coal Mines	-	~4 mtpa
Captive Power Plant	1200 MW	2,400 MW

Source: Company, PL

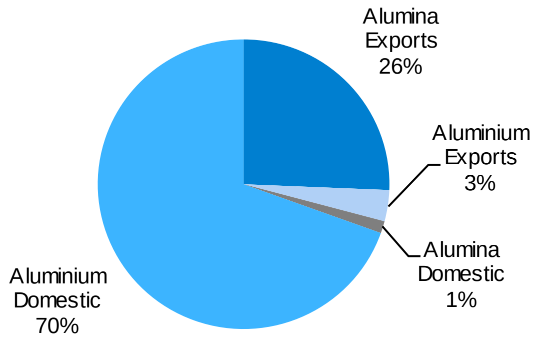
- Smelting capacity is almost being doubled from 460ktpa to 960ktpa over next few years when its peers have not announced upstream capacities, due to high cost of production led by power cost. Although we expect demand to remain strong in domestic markets, power cost being ~30%+ of the total cost of production inducting renewable energy in smelting or early commissioning of captive coal blocks would be earnings accretive.
- Alumina prices globally have disappointed over last few years due to higher supplies and LME aluminium have performed better on demand supply gap. We believe higher excess alumina capacity may also become a cause of concern as first phase is expected to add 1mtpa refining capacity by 4QFY25.

Exhibit 202: Alumina share of 34% in FY18 revenue



Source: Company, PL

Exhibit 203: Alumina share of 27% in FY23 revenue



Source: Company, PL

Early commissioning of coal mine would be an upside risk

Early resolution and opening of captive coal blocks (Utkal D & E) can be a strong positive trigger

- NACL's CPP requires ~6.8mn tonnes coal per annum which is sourced from nearby coal mines of Mahanadi Coalfields. NACL is having FSA with MCL for 4.72mtpa coal and 0.9mtpa Bridge Linkage coal MoU with MCL. Balance shortfall quantity is sourced through Coal auction (Spot/Exclusive) route. With falling global thermal coal prices and better availability of coal in domestic market, we expect NACL to benefit from lower coal prices in the near term.
- For long term coal sourcing, NACL is banking on captive coal blocks which were allotted (Utkal D & E) to it from Ministry of Coal in May-16. Post obtaining mining leases for Utkal D in Apr-20, NACL was expecting coal production to start from 1QFY22. However, there were delays in commencing production due to obtaining forest and environmental clearances, land acquisition and fierce agitation by the affected tenants in Raijharan area in Angul. Stage-I forest clearance has been obtained and land compensation has also been deposited with State Government by NACL.
- NACL has outsourced the work of coal extraction, infrastructure development and dispatch of coal to its CPP to a private operator - Mythri Infrastructure and Mining India P. Ltd. We believe further delays can-not be ruled out as we are heading towards election year in 2024 and have not considered benefits from captive coal in FY25 earnings. With our assumption of Rs 700-800 per tonne savings, we expect savings of Rs 1.4 bn per year from one mine on full commissioning.
- Though NACL's assets are one of the best in world, with strategic location of alumina refinery close to captive bauxite mines and smelter's location close to coal mines, it is still unable to contain costs. We believe with commissioning of these two coal blocks, NACL will be able to contain power cost per ton resulting in higher operating efficiencies.

Exhibit 204: Timeline of captive coal blocks

Date	Progress
May-16	Utkal D & E coal mines allotted to NACL by Ministry of Coal
Apr-20	Received 30 year mining lease for Utkal D (102mt mineable reserves)
Apr-21	Received 30 year mining lease for Utkal E (70mt mineable reserves)
May-21	Mine opening permission received for Utkal D
Mar-23	NACL deposited annual mine closure cost for FY22 & 23
Mar-23	Stage-I FC issued by MoEF for Utkal D on 29th March
Nov-23	Revised anticipated date of commissioning

Source: Company, PL

Other value added projects can add value over long term

NACL is developing various other value added projects along with Joint Venture (JV) with other corporates, some of which will start contributing to main operations over next few quarters. We believe caustic soda and alloy plant projects are value accretive directly to main aluminium operations in medium term while others can get delayed similar to its earlier decades' JV projects viz. Indonesia, nuclear power, titanium, etc. NACL's intention of getting into unrelated project (with the help of JV partner) is also worrisome if it draws mgmt. bandwidth and significant investment.

- **Caustic Soda Project in JV with Gujarat Alkalies and Chemicals Ltd. (GACL):** NACL has formed a JV company for 40% equity participation with GACL to set up a 2.7 lakh tpa Caustic Soda plant along with 130 MW Captive Power Plant at Dahej in Gujarat to meet the Caustic Soda requirement of Alumina Refinery, as a part of raw material securitisation. NACL and GNAL executed Caustic Soda Supply Agreement in September, 2021. The project has been successfully commissioned and trial production started from May-22. NACL has released Rs 2.76 bn towards full equity contribution. We expect this project to contribute to EBITDA, as caustic soda prices saw sharp uptick in FY23 affecting NACL's cost of production.

- **High End Aluminium Alloy Plant in JV with MIDHANI:** NACL and Mishra Dhatu Nigam Ltd. (MIDHANI) have formed a JV Company named Utkarsha Aluminium Dhatu Nigam Limited (UADNL) in August, 2019 to set up first of its kind 60ktpa integrated facility in the country. Total capex for this project is Rs 45bn over three years with a revenue potential of Rs 20bn. This unit will produce High End Aluminium Alloys of various types including Al-Li alloys in form of Flat Rolled Products to meet requirement of strategic and other critical sectors such as Defence, Aerospace and Automobile sectors as a part of import substitution. NACL has released ~Rs 200 mn towards its share of equity contribution. The plant is being set up in Nellore district of Andhra Pradesh. The project activities have been started and are expected to be commissioned by FY25. We believe meaningful contribution from this project to flow only FY26 onwards.

- **Angul Aluminium Park in JV with IDCO:** NACL (49% stake) and Odisha Industrial Infrastructure Development Corporation (IDCO) have developed Angul Aluminium Park for promotion of Aluminium downstream industries in Odisha. NACL has released Rs 162.2 mn towards full equity contribution. Internal infrastructure development of the Park almost completed and various industrial promotion events are being held there.

New projects especially Lithium exploration can be good LT trigger but overseas projects have not yielded desired results historically

- **Acquisition of Strategic minerals in overseas in JV with HCL and MECL:** NACL has formed a JV Company named Khanij Bidesh India Ltd (KABIL) with Hindustan Copper Ltd (HCL) and Mineral Exploration Corporation Ltd (MECL) in August, 2019 for acquisition of some strategic minerals in overseas locations to promote "Make in India" initiative. Study on 12 shortlisted minerals completed. KABIL has signed two Memorandum of Understandings (MoU) with JEMSE and YPF (Government Companies of Argentina) in July, 2020 and September, 2020 respectively to explore sourcing of lithium and other mineral assets. JWG meeting (Government to Government and Business to Business) with Australia, Bolivia was held in September, 2021 and April, 2022 respectively to explore sourcing of lithium and other mineral assets. NACL has released Rs130mn so far towards its share of equity contribution in KABIL. NACL's intention to enter in unrelated projects can affect valuation multiples.

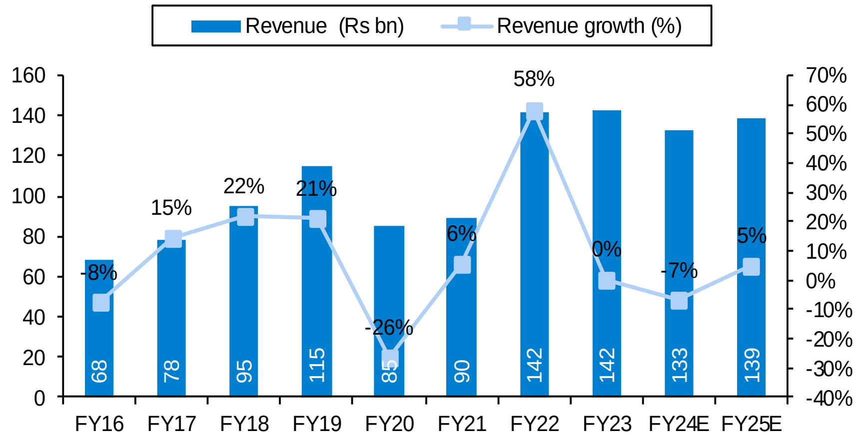
Revenue is expected to remain flattish over FY23-25E with flattish LME assumptions and absence of volume growth in near term.

Financial Analysis

Revenue to remain flat over FY23-25E

- Volume growth in alumina will come from 4QFY25, however we have assumed lower utilization of new capacities as ramp up would take time.
- LME aluminium prices corrected sharply from 4QFY23 and remained sluggish in YTDFY24 which would lead to FY24 revenue decline of 5%.

Exhibit 205: Revenue dependent on LME prices in absence of volume growth

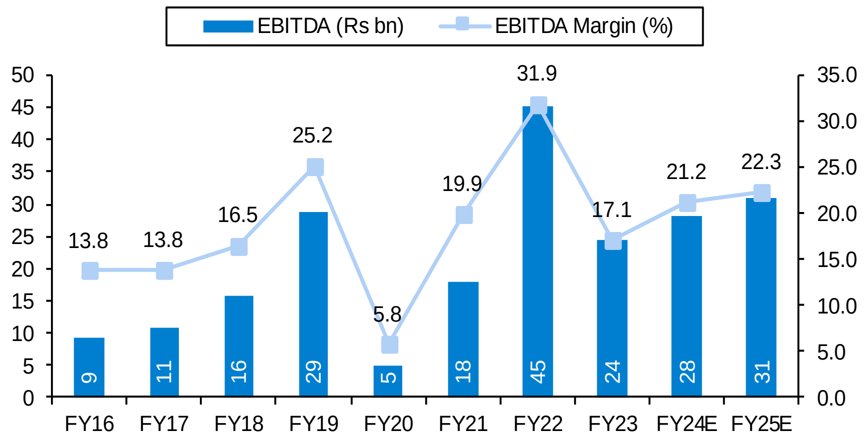


Source: Company, PL

EBITDA/PAT CAGR of 13%/10% over FY23-25E

- EBITDA margin is expected grow from 17% to 22% in FY25E on softening raw material prices, mainly coal.
- Starting of coal mine would prepone this improvement as we expect ~Rs 700 per ton savings in captive coal cost depending upon market prices.

Exhibit 206: Margins to improve on lower coal costs



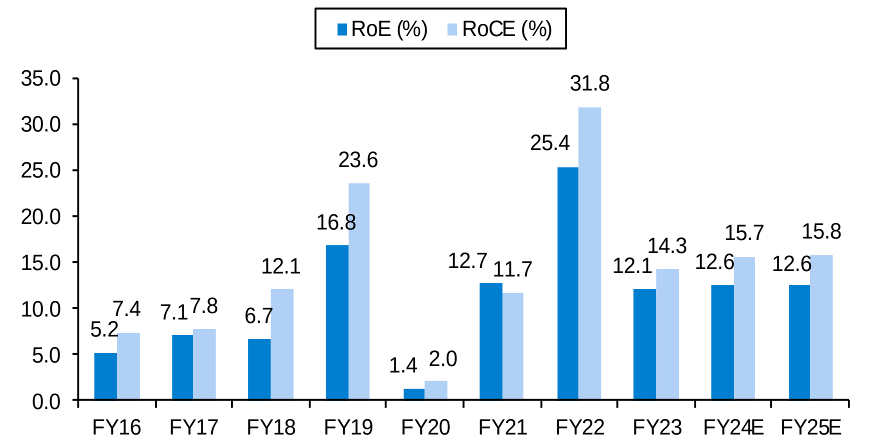
Source: Company, PL

Post sharp fall in FY23 ROE, we expect gradual improvement (from 12% to 14%) over next two years as profitability would improve on fall in coal and other raw material prices.

ROCE is expected to improve from 14.3% to 17.5% in FY25E as EBIT would grow faster than capital employed; large part of it would come in FY26E.

Return ratios to improve gradually over FY23-25E

Exhibit 207: Return ratios to improve gradually from low base of FY23



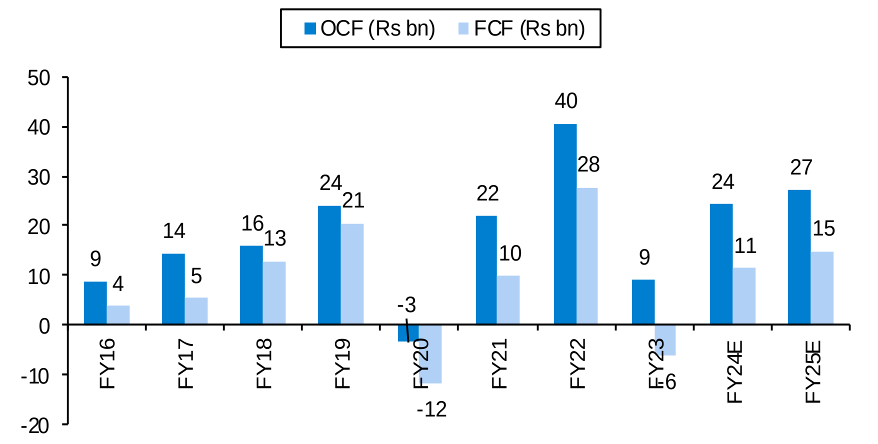
Source: Company, PL

Free cash flows to improve on working capital release in FY24, margin improvement and slow intensity of Capex. We have assumed Rs 20 bn capex each year.

We expect capex intensity to improve sharply as mgmt. has planned for Rs 300 bn capex over next 5-6 years which would reduce FCF.

Free cash flow to improve on higher margin & slow capex

Exhibit 208: FCF to improve on higher cash flow generation

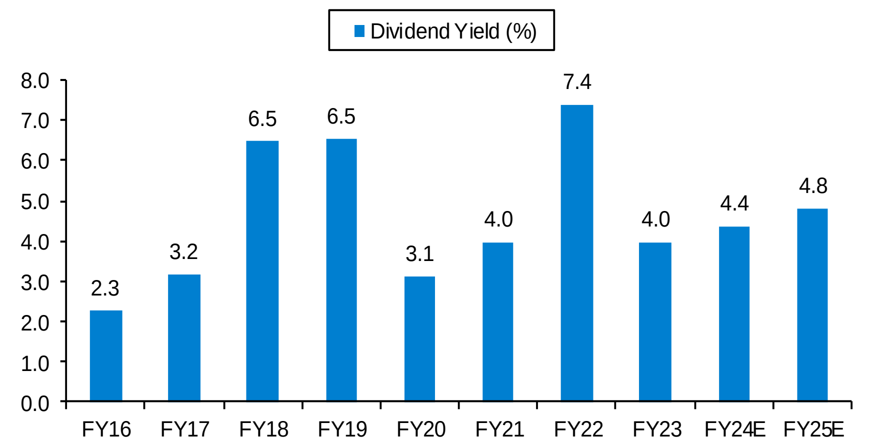


Source: Company, PL

Being a Navratna PSE, NACL is giving good dividends to its shareholders and we expect this to continue. However, as capex intensity would increase and dividend rate may reduce.

Mgmt. is working on revised development project report (DPR) for its earlier announced Rs 300 bn capex.

Exhibit 209: Strong dividend payout



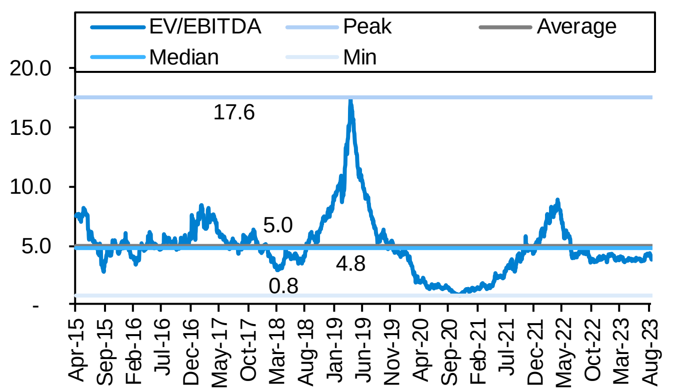
Source: Company, PL

Valuations

NACL has stepped up investments in its upstream smelting units and is planning to double smelting capacity from 460ktpa to 960ktpa. We expect capex intensity to increase over two years. Consolidated EBITDA to be at 16-18% CAGR over FY23-25E and similar EPS growth on flat LME prices is expected. We believe that there will be an upside risk to our estimates if coal block commences earlier than Nov-23 and there are no further delays.

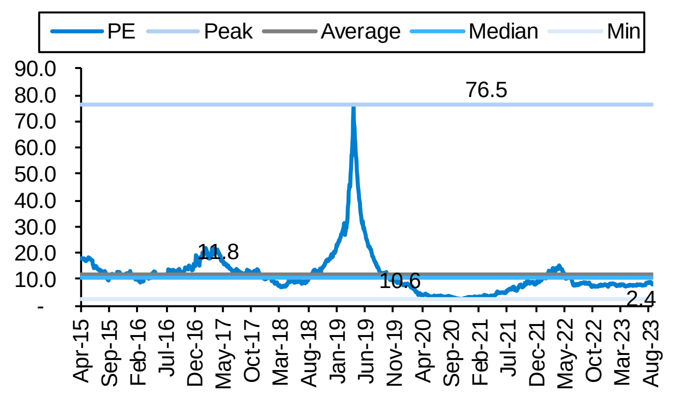
NACL is debt free company with no debt on balance sheet since 2005. The stock trades at an undemanding EV/EBITDA of 5.1x FY24E and 4.7x FY25E. We expect re-rating if there are no delays in expansion plans and coal block opening. However, with past experience we see limited scope for early commissioning of entire Capex. <u>We initiate 'Accumulate' rating on the stock at a TP of Rs97 assigning EV/EBITDA of 5x FY25E; 20% discount to long term median of 1 year forward EV/EBITDA.</u>

Exhibit 210: 1-Year forward EV/EBITDA chart



Source: Bloomberg, PL

Exhibit 211: 1-Year forward PER chart



Source: Bloomberg, PL

Exhibit 212: Target Price Calculation

EBITDA (Rs mn)	30,978
Target EBITDA multiple (x)	5
Target EV (Rs mn)	1,54,892
Net Debt (Rs mn)	-22,457
Residual Market Cap (Rs mn)	1,77,350
Target price (Rs)	97

Source: PL

Key Risks

- Delays in commissioning of new facilities can restrict volume growth as NACL's past track record of expansion is weak.
- Delays in commissioning of captive coal mines may impact margins in case of sharp rise in coal prices.
- Weak global demand situation can affect Alumina export volumes & profitability.
- LME volatility can impact overall business performance.

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	**1,41,808**	**1,42,337**	**1,32,510**	**1,39,130**
YoY gr. (%)	*58.3*	*0.4*	*(6.9)*	*5.0*
Cost of Goods Sold	18,543	31,555	27,782	27,191
Gross Profit	1,23,265	1,10,783	1,04,728	1,11,940
Margin (%)	*86.9*	*77.8*	*79.0*	*80.5*
Employee Cost	23,558	18,321	19,786	20,973
Other Expenses	54,536	68,169	56,856	59,988
EBITDA	**45,172**	**24,293**	**28,085**	**30,978**
YoY gr. (%)	*153.4*	*(46.2)*	*15.6*	*10.3*
Margin (%)	*31.9*	*17.1*	*21.2*	*22.3*
Depreciation and Amortization	8,366	7,158	7,138	7,781
EBIT	**36,806**	**17,135**	**20,947**	**23,198**
Margin (%)	*26.0*	*12.0*	*15.8*	*16.7*
Net Interest	231	-	-	-
Other Income	2,974	2,544	2,071	1,731
Profit Before Tax	**39,549**	**19,679**	**23,018**	**24,929**
Margin (%)	*27.9*	*13.8*	*17.4*	*17.9*
Total Tax	10,029	4,105	5,754	6,232
Effective tax rate (%)	*25.4*	*20.9*	*25.0*	*25.0*
Profit after tax	**29,520**	**15,574**	**17,263**	**18,697**
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	**29,520**	**15,574**	**17,263**	**18,697**
YoY gr. (%)	*127.2*	*(47.2)*	*10.8*	*8.3*
Margin (%)	*20.8*	*10.9*	*13.0*	*13.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**29,520**	**15,574**	**17,263**	**18,697**
YoY gr. (%)	*127.2*	*(47.2)*	*10.8*	*8.3*
Margin (%)	*20.8*	*10.9*	*13.0*	*13.4*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	29,520	15,574	17,263	18,697
Equity Shares O/s (m)	**1,837**	**1,837**	**1,837**	**1,837**
EPS (Rs)	**16.1**	**8.5**	**9.4**	**10.2**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	**1,15,200**	**1,22,480**	**1,42,480**	**1,62,480**
Tangibles	1,15,200	1,22,480	1,42,480	1,62,480
Intangibles	-	-	-	-
Acc: Dep / Amortization	**37,054**	**44,212**	**51,350**	**59,131**
Tangibles	37,054	44,212	51,350	59,131
Intangibles	-	-	-	-
Net fixed assets	**78,146**	**78,268**	**91,130**	**1,03,349**
Tangibles	78,146	78,268	91,130	1,03,349
Intangibles	-	-	-	-
Capital Work In Progress	17,634	27,450	27,450	27,450
Goodwill	-	-	-	-
Non-Current Investments	3,773	4,708	4,708	4,708
Net Deferred tax assets	(8,682)	(9,578)	(9,578)	(9,578)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	16,462	18,402	14,522	15,247
Trade receivables	753	913	1,815	1,906
Cash & Bank Balance	37,061	21,175	18,375	17,749
Other Current Assets	20,990	26,471	26,471	26,471
Total Assets	**1,74,817**	**1,77,387**	**1,84,470**	**1,96,880**
Equity				
Equity Share Capital	9,183	9,183	9,183	9,183
Other Equity	1,16,363	1,23,201	1,33,394	1,44,312
Total Networth	**1,25,546**	**1,32,385**	**1,42,577**	**1,53,495**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	34,670	32,948	29,839	31,329
Other current liabilities	5,919	2,477	2,477	2,477
Total Equity & Liabilities	**1,74,817**	**1,77,387**	**1,84,470**	**1,96,880**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	39,549	19,550	23,018	24,929
Add. Depreciation	8,366	7,158	7,138	7,781
Add. Interest	-	-	-	-
Less Financial Other Income	2,974	2,544	2,071	1,731
Add. Other	(1,449)	(1,333)	-	-
Op. profit before WC changes	46,466	25,375	30,156	32,710
Net Changes-WC	1,585	(8,825)	(130)	675
Direct tax	(7,555)	(7,467)	(5,754)	(6,232)
Net cash from Op. activities	**40,496**	**9,082**	**24,271**	**27,152**
Capital expenditures	(12,760)	(15,248)	(12,862)	(12,219)
Interest / Dividend Income	-	-	-	-
Others	(14,599)	11,906	-	-
Net Cash from Invt. activities	**(27,359)**	**(3,343)**	**(12,862)**	**(12,219)**
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(11,020)	(9,183)	(7,071)	(7,778)
Interest paid	-	-	-	-
Others	(124)	(52)	-	-
Net cash from Fin. activities	**(11,144)**	**(9,235)**	**(7,071)**	**(7,778)**
Net change in cash	**1,993**	**(3,495)**	**4,338**	**7,155**
Free Cash Flow	27,736	(6,166)	11,409	14,933

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	**34,896**	**32,900**	**36,709**	**31,784**
YoY gr. (%)	-	-	-	-
Raw Material Expenses	8,705	7,544	9,474	5,916
Gross Profit	26,191	25,356	27,234	25,868
Margin (%)	*75.1*	*77.1*	*74.2*	*81.4*
EBITDA	**3,344**	**4,598**	**7,665**	**5,943**
YoY gr. (%)	-	-	-	-
Margin (%)	*9.6*	*14.0*	*20.9*	*18.7*
Depreciation / Depletion	1,537	1,571	2,554	1,697
EBIT	**1,807**	**3,027**	**5,111**	**4,247**
Margin (%)	*5.2*	*9.2*	*13.9*	*13.4*
Net Interest	41	42	7	23
Other Income	693	663	559	485
Profit before Tax	**2,459**	**3,648**	**5,663**	**4,709**
Margin (%)	*7.0*	*11.1*	*15.4*	*14.8*
Total Tax	758	910	444	1,215
Effective tax rate (%)	*30.8*	*24.9*	*7.8*	*25.8*
Profit after Tax	**1,701**	**2,739**	**5,219**	**3,494**
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	**1,701**	**2,739**	**5,219**	**3,494**
YoY gr. (%)	*(77.2)*	*(67.0)*	*(49.1)*	*(39.6)*
Margin (%)	*4.9*	*8.3*	*14.2*	*11.0*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**1,701**	**2,739**	**5,219**	**3,494**
YoY gr. (%)	-	-	-	-
Margin (%)	*4.9*	*8.3*	*14.2*	*11.0*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	**1,701**	**2,739**	**5,219**	**3,494**
Avg. Shares O/s (m)	1,837	1,837	1,837	1,837
EPS (Rs)	**0.9**	**1.5**	**2.8**	**1.9**

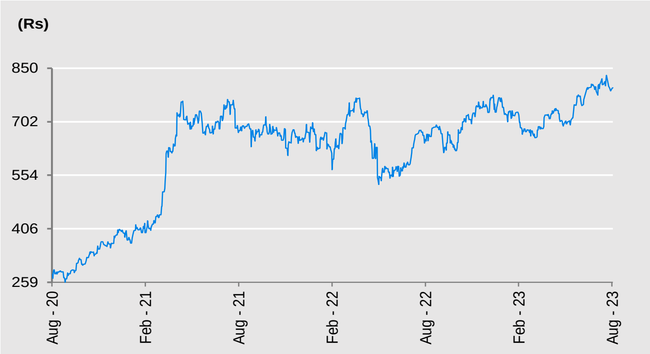
Source: Company Data, PL Research

Key Financial Metrics

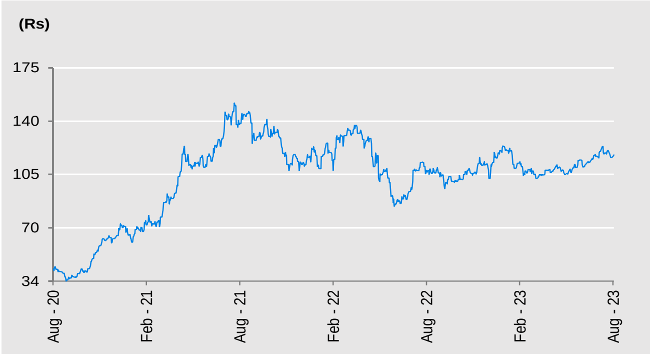
Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	16.1	8.5	9.4	10.2
CEPS	20.6	12.4	13.3	14.4
BVPS	68.4	72.1	77.6	83.6
FCF	15.1	(3.4)	6.2	8.1
DPS	-	-	-	-
Return Ratio(%)				
RoCE	34.2	15.3	16.7	16.8
ROIC	34.7	12.6	13.2	13.4
RoE	25.4	12.1	12.6	12.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.1)	(0.1)
Net Working Capital (Days)	(45)	(35)	(37)	(37)
Valuation(x)				
PER	5.5	10.4	9.4	8.7
P/B	1.3	1.2	1.1	1.1
P/CEPS	4.3	7.1	6.6	6.1
EV/EBITDA	2.8	5.8	5.1	4.7
EV/Sales	0.9	1.0	1.1	1.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

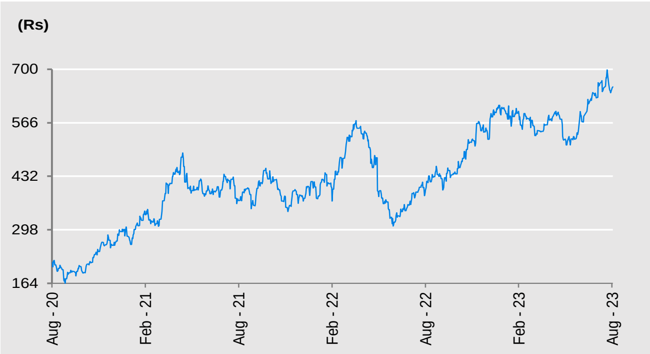
JSW Steel



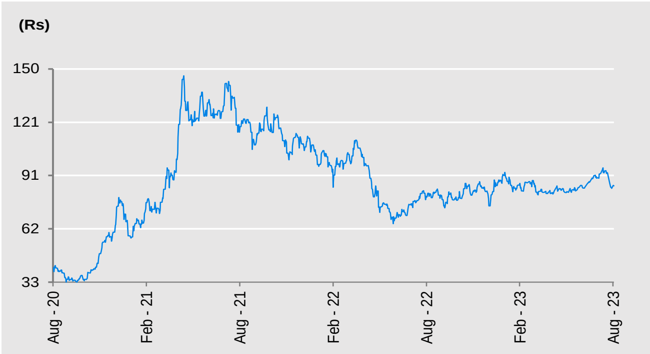
Tata Steel



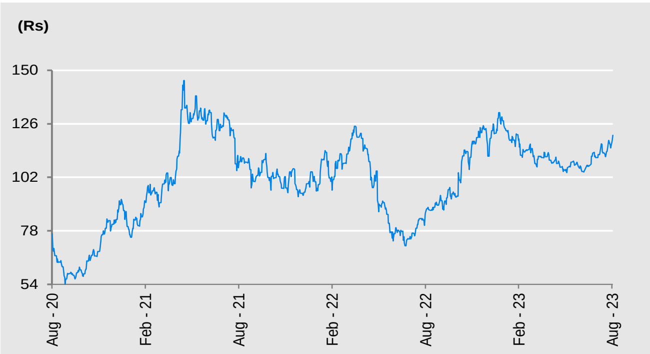
Jindal Steel & Power



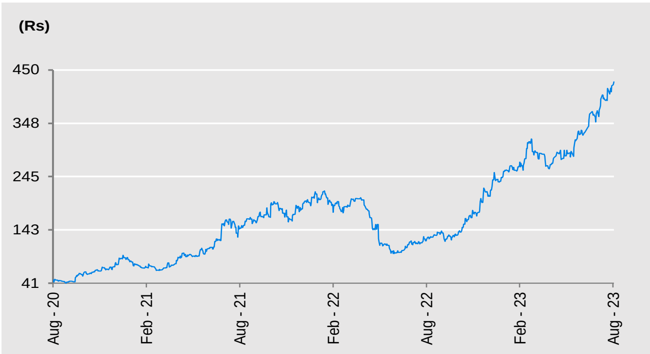
Steel Authority of India



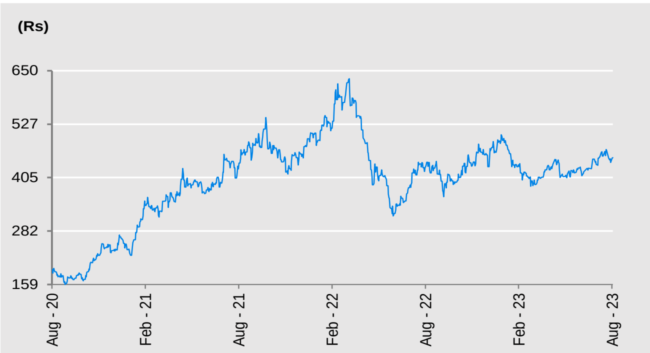
NMDC



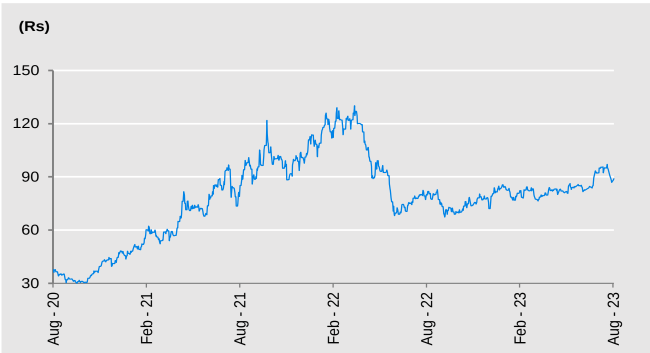
Jindal Stainless



Hindalco Industries



National Aluminium Co.



PL's Recommendation Nomenclature

Buy	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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(Indian Clients)

We/I, Mr. Tushar Chaudhari- MMS-Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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