

Metals and Mining

Better realisations to aid 3Q margins; Chinese demand key monitorable



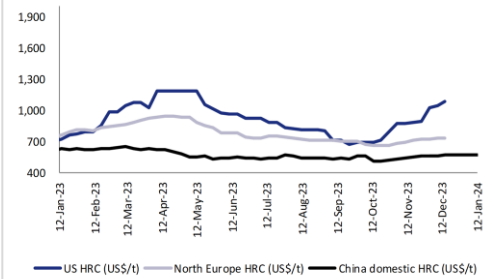
Ferrous companies in our coverage universe are likely to report sequentially higher spreads on account of improved realisations off-setting higher coking coal cost. Volumes across steel companies are expected to be lower sequentially, primarily on account of seasonally weak quarter. Net realisations during the quarter are likely to witness an average increase of ~INR1-1.2k/t QoQ while coking coal costs are likely to increase by US\$10-30/t QoQ. This will result in marginal increase in margins across players. We expect the non-ferrous companies to be positively impacted by sequentially higher realisations. China property market continues to play spoil sport with minimal sign of resurgence despite Government efforts. Further, higher imports from China at competitive prices continue to weigh on domestic realisations. Uptick in chinese demand and resumption of exports from India remain key monitorables going forward. We remain constructive on the metals space with HNDL/JSP being our preferred picks.

- Improved realisations likely to offset higher RM cost:** Ferrous companies in our coverage universe are likely to report sequentially higher spreads on account of improved realisations offsetting higher coking coal costs. Volumes across steel companies are expected to come in lower sequentially, primarily on account of seasonally weak quarter. Net realisations during the quarter are likely to witness an average increase of ~INR1-1.2k/t QoQ while coking coal costs are likely to increase by US\$10-30/t QoQ. This will result in marginal increase in margins across players.
- Higher LME to positively impact margins in non – ferrous space:** We expect the non-ferrous companies to be positively impacted by sequentially higher realisations. Hindalco is likely to witness steady margins during the quarter with Indian operations expected to be negatively impacted by lower volumes while Novelis spreads are expected to decline sequentially to US\$475/t due to planned shutdown in Oswego, US. We therefore expect Novelis volumes to decline sequentially by ~1%. We expect Hindustan Zinc EBITDA to increase by 9% QoQ primarily due to higher volumes and flattish CoP.
- Chinese demand continues to be a mixed bag:** Chinese property market remains a drag, showing little sign of recovery despite government stimulus in the form of rate cuts. On the contrary, demand from the automotive sector remains robust. Overall muted demand scenario in china and consequent increase in exports at competitive prices continue to weigh on domestic realisations. Resurgence of chinese demand and resumption of exports from india to remain key monitorable going ahead.
- HNDL / JSP preferred name in metal space:** Margins for steel companies are expected to improve sequentially in 3Q largely tracking increase in realisations. Any correction in coking coal prices going forward is likely to aid spreads for steel majors. We remain constructive on the metals space with HNDL/JSP being our preferred picks.

Ashutosh Somani

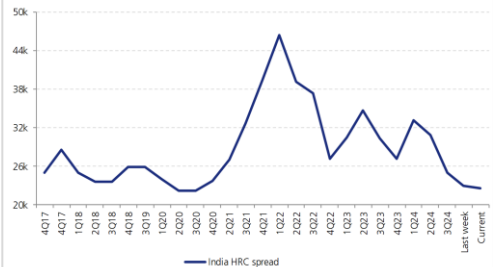
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Divergence in China & US, Europe HRC prices (US\$/t)



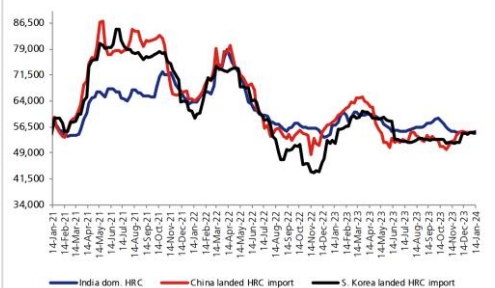
Source: Bloomberg, JM Financial

India steel spreads (INR/t)



Source: SteelMint, Bloomberg, JM Financial

Steel landed import parity trend (INR/t)



Source: SteelMint, Bloomberg, JM Financial

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Exhibit 1. Metals universe – preview 3QFY24

Company Name	Net Sales (INR bn)			EBITDA (INR bn)			PAT (INR bn)			Comments
	2Q24	3Q24E	QoQ%	2Q24	3Q24E	QoQ%	2Q24	3Q24E	QoQ%	
Tata Steel (Cons.)	557	585	5%	41	47	13%	6	2	-64%	We estimate 3Q volumes (standalone) to grow by ~2% QoQ to 4.9mn tons. We expect realisations to increase by ~INR1,200/t while EBITDA/ton (standalone) is expected to increase by ~10% QoQ to INR 14.7k/t. Corus EBITDA/ton is expected at negative USD 177/t
JSW Steel (Cons.)	446	445	-0%	79	68	-14%	21.7	21.5	-1%	JSW 3Q volumes (standalone) are expected to remain flat QoQ at 5.4mn tons. We estimate realisations to remain flat sequentially while EBITDA/ton (standalone) is expected to decrease by 10.5% to INR11.4k/t.
SAIL (Cons.)	280	284	2%	21	30	39%	(0.2)	11	NA	SAIL 3Q volumes expected to decrease by 3.6% QoQ to 4.6mn ton. EBITDA/ton is expected to increase from INR4.5k/t to INR6.4k/t
JSPL (Cons.)	123	117	-4%	23	25	10%	14	12	-11%	We estimate JSP's 3Q volumes (standalone) to decline 6% QoQ to 1.9mn tons. EBITDA/ton (standalone) is expected to increase by ~INR1,000 at INR12.4k.
NMDC	40	51	28%	12	19	63%	10	16	59%	NMDC 3Q volumes are expected to increase 17% QoQ to 11.2mn tons. We expect realisations to increase by 9.5% QoQ to INR4.6k. EBITDA/ton is expected to increase by INR485 at INR1.7k/t.
SMEL (Cons.)	29	32	10%	3	3.5	14%	1.2	1.4	13%	We estimate SMEL 3Q volumes to increase by 10% QoQ at 0.56mn tons. EBITDA/ton is expected to increase marginally at INR6.3k on the back of lower RM cost.
Hindustan Zinc	68	72	6%	31	34	9%	17	19	11%	Marginal rise in LME and 7% QoQ increase in volumes to positively impact revenues. EBITDA expected to increase by 9% QoQ primarily due to higher volumes and flattish CoP.
Hindalco (Cons.)	542	505	-7%	56	60	6%	22	25	13%	We estimate 3Q Aluminium volumes to remain flat at 0.33mt whereas copper volumes (standalone) to decline sequentially by ~10% at 0.12 mn tons. India AL EBITDA (inc. Utkal) is expected at INR21bn (-6.4% QoQ). Novellis EBITDA/t expected at USD475/t.
Kirloskar Ferrous (Cons.)	16	17	11%	2.5	2.8	10%	1.0	1.1	7%	We estimate KFL's 3Q volumes (standalone) to increase by 9.3% QoQ to 0.15mn tons. EBITDA/ton (standalone) is expected to decline marginally at INR9.4k/t
Welspun Corp (Cons.)	41	49	21%	4.5	5.3	18%	2.9	3.3	15%	We estimate WLCO 3Q volumes (standalone) to increase by 50% QoQ to 0.15mn tons. EBITDA/ton (standalone) is expected to increase by INR 5.8k/t to 17.8k/t.

Source: Company, JM Financial

Exhibit 2. Metal companies - target price

Company	Rating
Tata Steel	BUY
JSW Steel	BUY
Jindal Steel and Power	BUY
SAIL	SELL
Shyam Metalics and Energy	BUY
Hindalco Industries	BUY
Hindustan Zinc	BUY
NMDC	HOLD
Kirloskar Ferrous	BUY
Welspun Corp	BUY

Source: JM Financial

APPENDIX I

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