

September 10, 2024

COMPANY UPDATE | Sector: Metals and Mining

Lloyds Metals & Energy Ltd

Focus on backward integration and cost competitiveness...

We recently met with the management of Lloyds Metals & Energy Ltd (LMEL) and came out positive on the company's operations and its future capacity expansion plans. The conversations surrounded on both the industry dynamics and how LMEL is shaping up in the Indian iron ore space. The key highlights of our conversations can be found in the report.

Lloyds Metals and Energy Ltd currently trades at a 7.2x FY26E EV/EBITDA.

Mining expansions to be the base of future expansion plans

LMEL is currently executing a capacity expansion at its sole mine located in the Gadchiroli region of Maharashtra, with production set to increase from 10.0 million tonnes to 25.0 million tonnes by the fourth quarter of FY25. This expansion forms a critical foundation for the company's long-term strategy of forward integration into the steel sector, which is poised for significant growth in India due to increasing steel demand. While the steel sector is witnessing rapid capacity expansions, similar growth is not being observed in the merchant mining industry. LMEL aims to establish itself as one of the largest merchant iron ore producers in the country through their current expansion program.

Focus on cost-optimization is the key

LMEL's mine was allotted before 2014, allowing it to fall under the older royalty structure, which does not include a royalty premium, thus minimizing the impact on the cost profile. Additionally, the company is in the process of establishing two slurry pipelines from its mines to its manufacturing facilities, significantly reducing transportation costs while enhancing its ESG profile. The slurry pipelines are expected to lower costs by Rs 600-700 per ton, contributing to margin expansion. The company's focus on cost optimization is likely to limit the effects of price volatility on its margin profile.

Forward integrating into steel to be supported through current capex

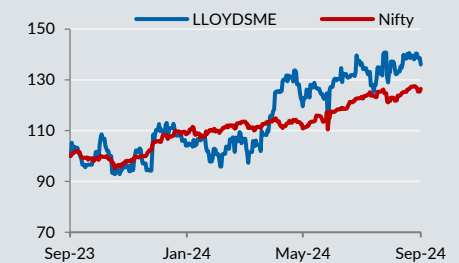
LMEL plans to execute its extensive capital expenditure program of over Rs 30,000 crores over the next 5-6 years entirely through internal accruals. The management has reiterated its commitment to funding the entire capex without resorting to debt. Upon completion of the current phase of expansion, the company intends to forward integrate into steel production. Future projects include the development of a 1.2 (mtpa) wire rod steel plant and a 3.0 mtpa hot-rolled coil (HRC) plant. The 1.2 mtpa wire rod plant is expected to be commissioned by June 2027. LMEL is strategically positioned to capitalize on the rising steel demand in India, leveraging its backward integration initiatives aimed at reducing its cost burden.

Reco	: NOT RATED
CMP	: Rs 753
Target Price	: NA
Potential Upside	: NA

Stock data (as on Sep 10, 2024)

Nifty	25,060
52 Week h/l (Rs)	811 / 492
Market cap (Rs/USD mn)	402319 / 4792
Outstanding Shares (mn)	523
6m Avg t/o (Rs mn):	322
Div yield (%):	-
Bloomberg code:	LLOYDSME IN
NSE code:	LLOYDSME

Stock performance



	1M	3M	1Y
Absolute return	-0.9%	5.1%	36.0%

Shareholding pattern (As of Jun'24 end)

Promoter	63.5%
FII+DII	3.1%
Others	33.4%

Financial Summary

(Rs mn)	FY22	FY23	FY24
Revenue	6,975	33,923	65,217
YoY (%)	175%	386%	92%
EBIDTA	1,455	8,103	17,283
EBITDA (%)	21%	24%	27%
EBIT	1,276	7,873	16,794
EBIT (%)	18%	23%	26%
PAT	973	(2,885)	12,431
EPS	27.8	(47.4)	244.3

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KEY HIGHLIGHTS FROM OUR MEET

Iron ore Industry Overview

- The big steel players are on a strong expansion spree leading to new steel capacities being commissioned in the upcoming years. With nearly 25-30 mtpa of steel capacities coming up in the next two years and a half, iron ore shall be witnessing a strong demand and merchant miners like Lloyds Metals and Energy aim to be well placed to capture this growth.
- Currently, the industry is not seeing a major expansion taking place by the iron ore merchant miners considering the premiums are reaching over 150% in the e-auction space.
- A lot of mines will be up for auctions in 2030, and the premiums are expected to remain high for these mines. These can lead to the iron ore cost curve going up for steel producers.

Company Operations

- Post the completion of the current phase of capex, the company's 25 mt of iron ore is expected to shape up in the following manner –
 - 10 mt of iron ore would be consumed captively for the steel and pellet production.
 - The remaining 15 mt is what the company shall be operating with as merchant miners (currently at 10 mt).
- The mine was allocated before 2014 and has a lease up till 2057 – following the old royalty regime.
 - DSO reserves – 157 mt.
 - BHQ reserves – 706 mt.
- Post the completion of the Rs 30,000 crore capex plan – The company shall be selling-
 - 4.2 mt of steel products (Flats and Longs)
 - 6.0 mt of high-grade iron ore pellets and
 - 10 mt of iron ore in the open market.
- Landed costs of Iron Ore breakup –
 - MDO Cost – Rs 900/t
 - Overheads – Rs 400/t
 - Royalties – Rs 800/t
 - Freight (post slurry pipeline) – Rs 100/t (Currently – Rs 700/t)

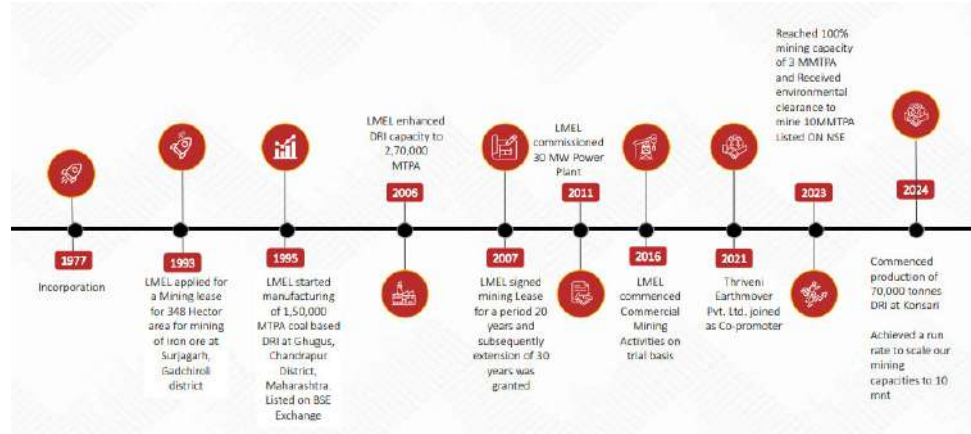
Capex Plans

- All the capex plans are IPS backed and shall be coming back as subsidies.
 - The company will be receiving these subsidies in the form of 'Refund on State GST' as well as 'Royalty payments on iron ore consumed'.
- The management reiterated that the company does not want to resort to debt and shall be meeting the capex only through internal accruals.
- All the capex being undertaken are expected to have a payback period of less than 3.5 years and an ROE of greater than 35%.
- Mine expansion EC is expected to be received by Q4FY25 -

- Slurry pipeline of 85 kms up to Gonsari has been laid down. Currently under the testing phase.
 - The slurry pipeline should save about Rs 600/t on transportation costs and came in at a Rs 550 crores of capex.
- Current ongoing projects include – doubling of the DRI capacity, 85 kms slurry pipeline and the 4 mt pellet plant. These projects are expected to be completed by the end of this financial year. The focus will then shift towards forward integration projects with the beneficiation plants and the 1.2 mtpa wire rod capacity being the priority.
 - The wire rods plant is expected to be completed by June 2027
- The 4mt pellet plant will open export possibilities as well as attract premiums of \$15/t due to being high-grade.

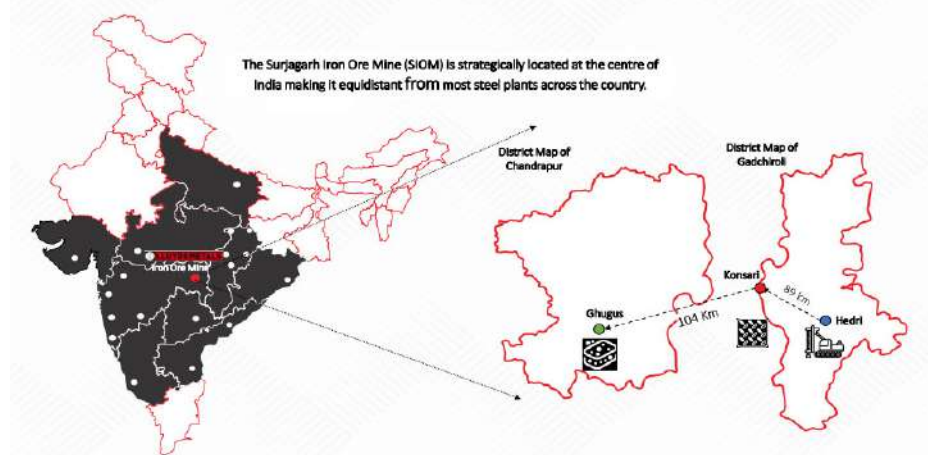
STORY IN CHARTS

Exhibit 1: Company Timeline



Source: Company; YES Sec

Exhibit 2: Company Timeline



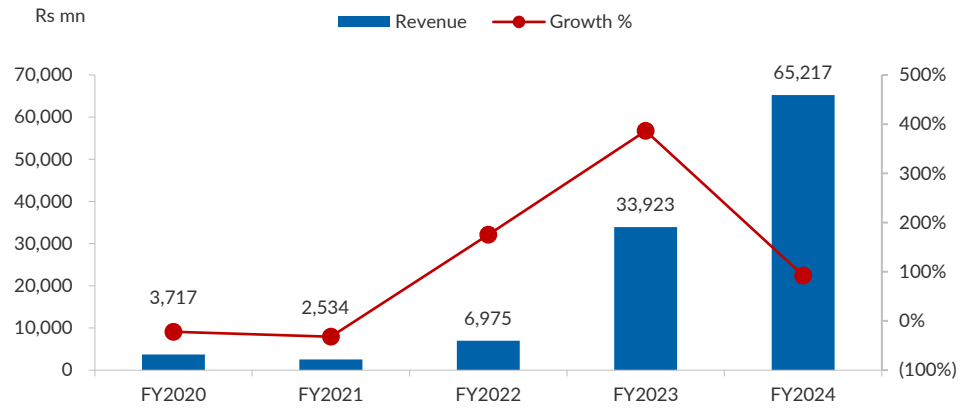
Source: Company; YES Sec

Exhibit 3: Expansion Plans

	Existing		Post Expansion		Ghugus/Chandrapur		Konsari/ Gadchiroli	
	Existing	Post Expansion	Existing	Post Expansion	Existing	Post Expansion	Existing	Post Expansion
Iron Ore (saleable/processed)	10 MNT	25 MNT	-	-	10 MNT	25 MNT	-	-
BHQ Beneficiation	-	45 MNT	-	-	-	45 MNT	-	-
Pellets	-	12 MNT	-	4 MNT	-	8 MNT	-	-
Slurry Pipeline	-	85 Kms & 190 Kms	-	190 kms	-	85 kms	-	-
Sponge/ DRI	0.34 MNT	0.70 MNT	0.27 MNT	0.63 MNT	0.07 MNT	0.07 MNT	-	-
Steel & Power	34 MW	Wire Rods: 1.2MNT HRC: 3 MNT (backed by 504 MW Power)	-	Wire Rod: 1.2 MNT	-	HRC: 3.0 MNT	-	-

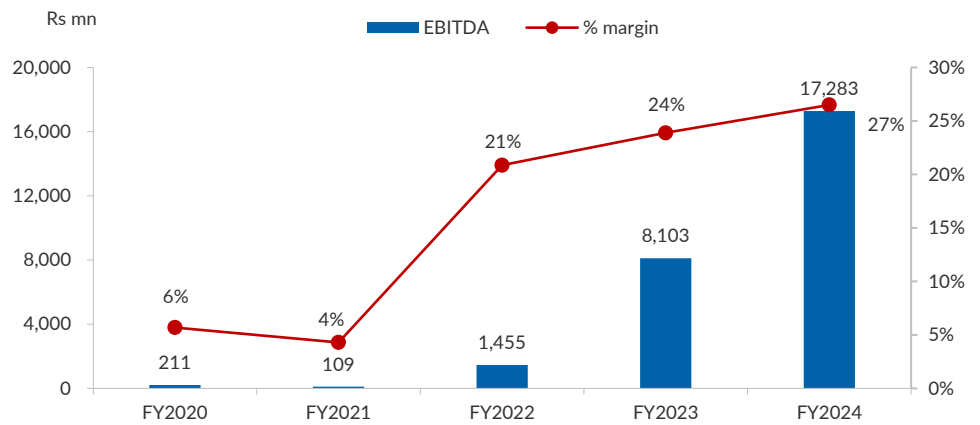
Source: Company; YES Sec

Exhibit 4: Revenue growth over the years



Source: Company; YES Sec

Exhibit 5: EBITDA profile



Source: Company; YES Sec

FINANCIALS

Exhibit 6: Standalone Income Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24
Revenue	2,534	6,975	33,923	65,217
Cost of goods sold	2,030	3,129	22,918	41,317
Employee cost	147	184	543	1,178
Other expenses	249	2,207	2,360	5,439
EBITDA	109	1,455	8,103	17,283
% Margin	4.3%	20.9%	23.9%	26.5%
Depreciation	138	180	230	489
Other income	199	298	745	529
Finance costs	168	182	650	56
Exceptional items	-	514	11,944	-
Profit before tax	1	878	(3,977)	17,267
Taxes	-	(95)	(1,091)	4,836
Profit after tax	1	973	(2,885)	12,431
EPS	0.05	27.80	(47.40)	244.28

Source- Company, YES Sec

Exhibit 7: Standalone Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24
Assets				
PPE	3,609	3,991	4,817	11,568
CWIP	847	859	2,979	12,682
Non-current assets	4,660	5,148	11,041	28,094
Inventories	1,157	1,668	2,698	2,311
Trade receivables	69	237	245	799
Cash and equivalents	4	137	276	24
Bank	76	81	2,370	2,845
Current assets	2,543	3,089	9,217	11,270
Total assets	7,203	8,237	20,258	39,364
Equity and liabilities				
Equity share capital	254	370	505	505
Other equity	1,568	4,445	14,784	27,604
Non-current liabilities	3,817	2,239	248	1,400
Current liabilities	1,564	1,182	4,722	9,855
Total equity and liabilities	7,203	8,237	20,258	39,364

Source- Company, YES Sec

Exhibit 8: Standalone Cash Flow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24
Profit before taxes	1	878	(3,977)	17,265
Depreciation & amortization	138	180	230	490
Finance costs	168	181	650	57
Cash generated from operations	(149)	(779)	(5,132)	19,282
Taxes paid	(1)	(3)	(33)	(2,273)
Net CFO	(149)	(782)	(5,164)	17,009
Purchase of PPE	(189)	(562)	(996)	(7,239)
Others	(433)	(11)	(5,126)	(10,016)
Net CFI	(622)	(574)	(6,123)	(17,255)
Net CFF	657	1,489	11,425	(6)
Net change in cash	(114)	133	138	(252)
Cash at beginning	118	4	137	275
Cash at end	4	137	275	24

Source- Company, YES Sec

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