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METALS & MINING Q1FY25 Preview 10 July 2024

Soft volumes in Q1 to offset benefit of lower coking coal costs

- **We expect aggregate EBITDA to decline by 13% sequentially for the four steel majors on seasonal pullback in volume and margin contraction**
- **We believe ferrous majors are largely pricing in volume growth, and we see lower possibility of margin surprise during the early recovery phase**
- **Retain HOLD on TATA, JSTL and JSP and SELL on SAIL; structural resolution of China's surplus capacity is a key upside trigger**

Kirtan Mehta, CFA
research@bobcaps.in

Q1 EBITDA to ease sequentially: We expect aggregate consolidated EBITDA for the four steel majors under our coverage to decline 13% QoQ and 1% YoY in Q1. The sequential decline is the result of a seasonal pullback in volumes as well as a modest margin contraction despite the benefit of reduction in coking coal prices. Among the four majors, we expect players with a focus on long products – JSP and SAIL – to post relatively resilient results this quarter.

Softer volumes: We expect sales volume to be up only 4% YoY for the four majors impacted by a slowdown in the election quarter despite apparent 12% YoY growth in steel consumption for the industry over Apr-May 2024. This translates to a 9% sequential decline in sales volume collectively for the four majors.

Decline in EBITDA margin: We forecast a Rs0.5k/t sequential decline in EBITDA margin to Rs9.9k/t collectively for the four majors. The benefit of reduction in coking coal costs is likely to be offset by the impact of softer volumes, leading to higher per unit overhead costs. While we expect JSP and SAIL to post a relatively resilient EBITDA margin of Rs13.k/t and Rs6.7k/t, benefitting from strength in long products pricing, we also expect TATA's EBITDA margin to be Rs13.5k/t from stable prices.

Key drivers for the sector: Near term, the monsoon is likely to keep steel volumes and margins in check in India. Similarly, continuing weakness in China's property sector as well as slower recovery in the western world has resulted in the softening of global steel prices. Key upside trigger for the sector includes (a) resumption of strong infrastructure investments in India, (b) arresting steel demand decline from China property sector and (c) structural resolution of surplus steel capacity in China.

India's steel sector pricing in volume growth: With the recent 40% rally since Nov'23 vs 26% in NIFTY 50, we believe the four ferrous majors in our coverage are now largely pricing in the benefits of expansion. We retain our HOLD ratings on TATA, JSTL and JSP, and SELL rating on SAIL. We see lower possibility of positive surprise on margin in this economic recovery cycle for the ferrous sector, until China addresses surplus steel capacity in a structured manner.

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	1,008	1,055	HOLD
JSTL IN	925	940	HOLD
SAIL IN	151	110	SELL
TATA IN	168	175	HOLD

Price & Target in Rupees | Price as of 10 Jul 2024

Q1 EBITDA likely to be soft

We expect aggregate consolidated EBITDA for the four steel majors under our coverage to decline 13% QoQ and 1% YoY in Q1FY25. The sequential decline is the result of a seasonal pullback in volumes as well as a modest margin contraction despite the benefit of reduction in coking coal prices. The annual decline is lower due to a modest sales growth YoY.

- **Realisation: flat to modest sequential decline.** For flat products, HRC indicator shows a flattish trend across different data providers. For long products, while rebar prices were up 8% QoQ, we understand from channel checks that other long products prices did not show a similar increase. During the quarter, export realisations were weaker sequentially. Factoring in these factors, we see a flat to a modest sequential decline in realisation. However, players focused on long products were at an advantage relative to flat products.

  Apparent realisation for JSP and SAIL also needs to be adjusted for company-specific factors. While for JSP, Q4 realisation included a non-recurring benefit of sale of raw materials to Rashtriya Ispat Nigam (RINL, NOT RATED), SAIL's apparent realisation was higher due to recognition of prior-period revenue from upward adjustment in rail pricing.

- **Q1 volumes likely to reflect slowdown.** While industry volumes were up 12% YoY over Apr-May'25, we believe sales by majors have likely been impacted by slowdown due to the impact of the election. We currently forecast 3.9% YoY sales growth collectively for the four majors under our coverage, which translates to a 9.2% sequential decline from the seasonally stronger Q4.

- **Coking coal price reduction to flow through cost base.** Steel producers have previously guided for US$ 20-25/t reduction in coking coal costs in Q1 with a pullback in coking coal prices. The actual benefit may turn out to be a bit lower than management guidance due to reversal in coking coal prices in June. Of the four majors, SAIL is likely to benefit the most given its focus on high-cost prime coking coal.

- **Iron ore prices moved up sequentially.** Prices of NMDC iron ore fines increased 4.7% QoQ on average during the quarter. This will have a higher impact on JSTL and JSP due to dependence on external ore.

- **Lower volumes to impact overhead recovery.** A sequential pullback in volume is likely to result in higher per unit overhead cost.

- **EBITDA margin to ease marginally.** We expect profitability of India operations to decline by Rs0.5k/t to Rs9.9k/t collectively for the four majors under our coverage. Benefitting from strength in long products realisation, JSP and SAIL are likely to post resilient EBITDA margins of Rs13.1k/t and Rs6.7k/t. Even TATA India operations are likely to post Rs13.5k/t margin, within a resilient range benefitting from stable prices.

- **India operations to post a sequential decline in EBITDA.** We forecast a 13.6% QoQ decline in EBITDA collectively for the four majors. We expect JSP to post a flat EBITDA sequentially as a modest uptick in margin offsets a decline in sales volume. We expect TATA to post a sequential decline of 16.6% and JSTL 10.5% on the back of lower volumes and margins. While an apparent decline in EBITDA for SAIL is higher at 20.8%, the underlying EBITDA is likely to be up 48% after adjusting for the prior period's rail revenue.

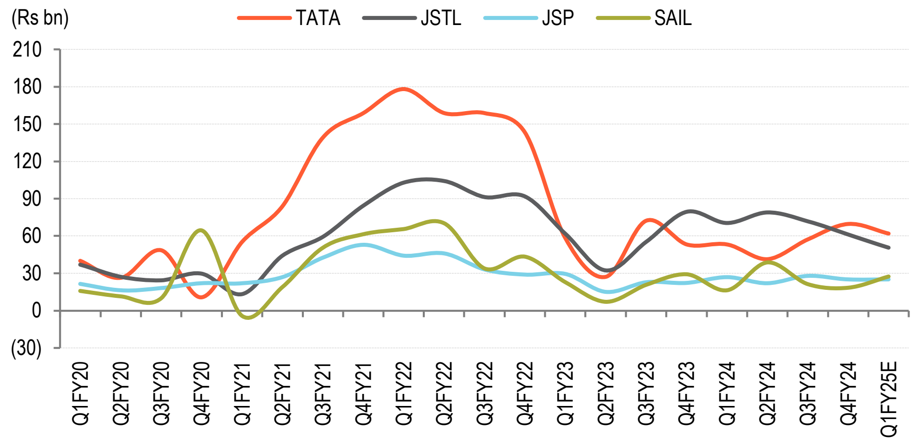
- **TATA's consolidated results to benefit from recovery in Netherlands.** We anticipate a modest 13.5% sequential recovery in EBITDA for TATA's European operations, primarily driven by the recovery in Tata Steel Nederland's (TSN) operation with ramp-up of volume.

Fig 1 – BOBCAPS Ferrous Universe: Q2FY24 estimates

Q2FY24E	Unit	TATA India	JSTL India	JSP India	SAIL	4 majors – India	TATA Europe
Operations							
Production	**mt**	**5.3**	**6.1**	**2.1**	**4.7**	**18.1**	**2.4**
QoQ	%	(2.8)	(5.8)	0.5	(6.6)	(4.5)	12.1
YoY	%	4.6	(1.0)	1.0	0.4	1.2	34.1
Sales	**mt**	**4.9**	**5.8**	**1.9**	**4.1**	**16.8**	**2.2**
QoQ	%	(8.9)	(10.9)	(4.7)	(9.3)	(9.2)	4.2
YoY	%	3.1	2.6	4.1	6.5	3.9	11.1
Per tonne							
Revenue/t	Rs'000/t	68.6	61.5	66.5	60.9	64.0	95.8
QoQ	Rs'000/t	0.0	(2.8)	(2.0)	(0.5)	(0.5)	2.3
EBITDA/t	**Rs'000/t**	**13.5**	**7.7**	**13.1**	**6.7**	**9.9**	**(2.6)**
QoQ	Rs'000/t	(1.6)	(3.4)	0.6	(1.0)	(0.5)	0.5
YoY	Rs'000/t	(0.5)	(2.2)	(1.4)	2.4	(0.4)	5.3
Financials – Indian operations							
Revenue	Rs bn	339.0	354.7	127.4	251.6	1,072.8	211.8
QoQ	%	(8.0)	(12.4)	(7.5)	(10.0)	(9.9)	6.9
EBITDA	**Rs bn**	**68.8**	**44.6**	**25.0**	**27.6**	**165.9**	**(5.7)**
QoQ	%	(16.6)	(10.5)	(0.0)	(20.8)	(13.6)	13.5
YoY	%	2.4	(19.9)	(6.2)	67.2	(0.0)	63.7
Financials – Consolidated operations							
Revenue	Rs bn	568.1	394.7	130.3	251.6	1,344.7	-
QoQ	%	(3.2)	(14.7)	(3.4)	(10.0)	(8.1)	-
EBITDA	**Rs bn**	**62.1**	**50.6**	**25.2**	**27.6**	**165.4**	**-**
QoQ	%	(11.0)	(17.4)	0.4	(20.8)	(13.3)	-
YoY	%	16.3	(28.2)	(6.8)	67.2	(1.2)	-
Net profit	Rs bn	7.6	6.5	11.9	7.9	33.8	-
QoQ	%	36.5	(50.2)	27.0	(52.3)	(24.3)	-

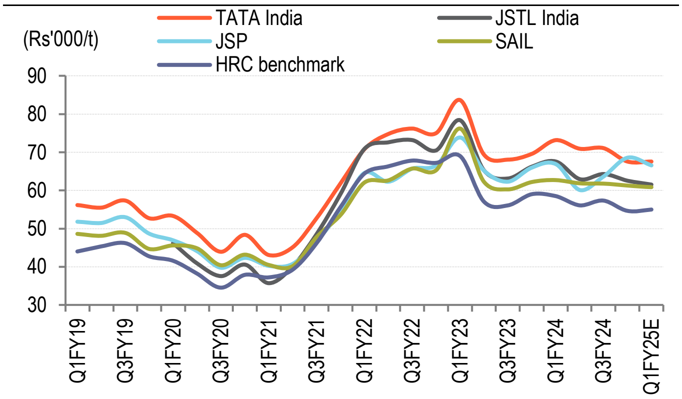
Source: Company, BOBCAPS Research

Fig 2 – Q1FY25E consolidated EBITDA for 4 majors: Sequential decline on seasonal pullback in volume



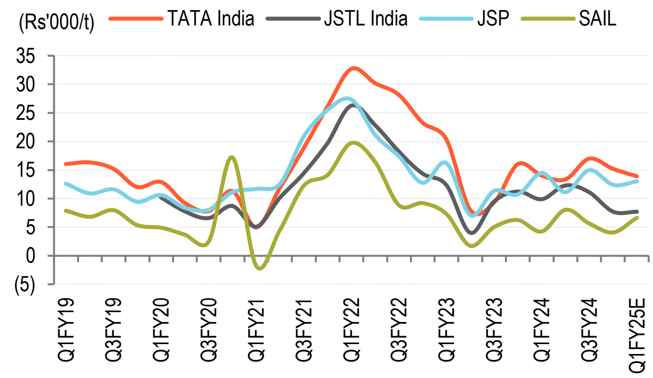
Source: Company, BOBCAPS Research

Fig 3 – Q1FY25E realisations: flat to modest decline QoQ



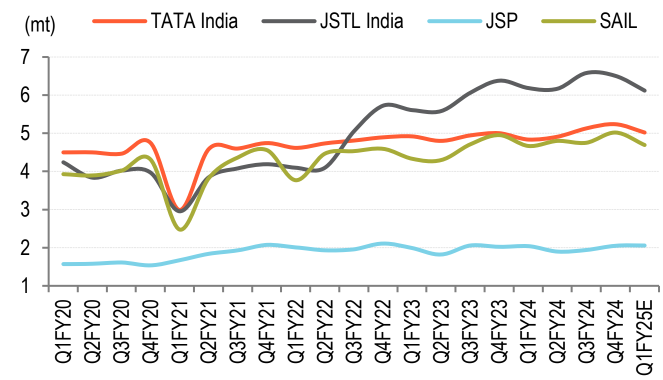
Source: Company, BOBCAPS Research

Fig 4 – Q1FY25E EBITDA/t also declines on seasonal pullback and soft demand



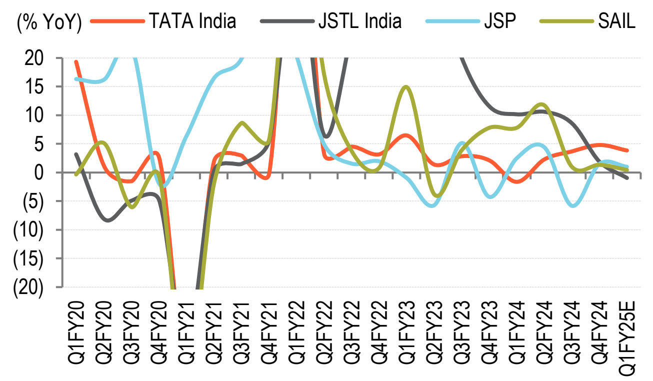
Source: Company, BOBCAPS Research

Fig 5 – Q1 production likely to be soft…



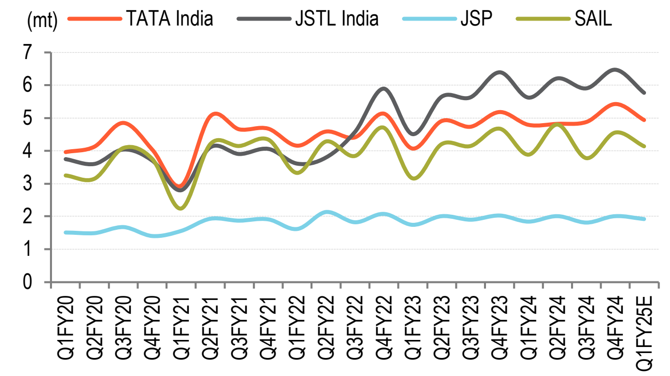
Source: Company, BOBCAPS Research

Fig 6 – … and set to clock only modest YoY growth



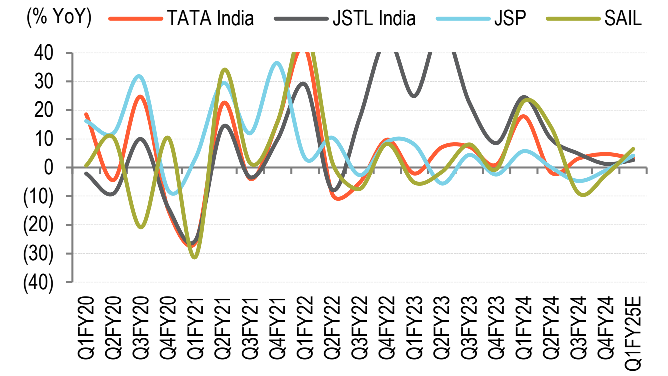
Source: Company, BOBCAPS Research

Fig 7 – Q1 sales likely to be soft in an election quarter…



Source: Company, BOBCAPS Research

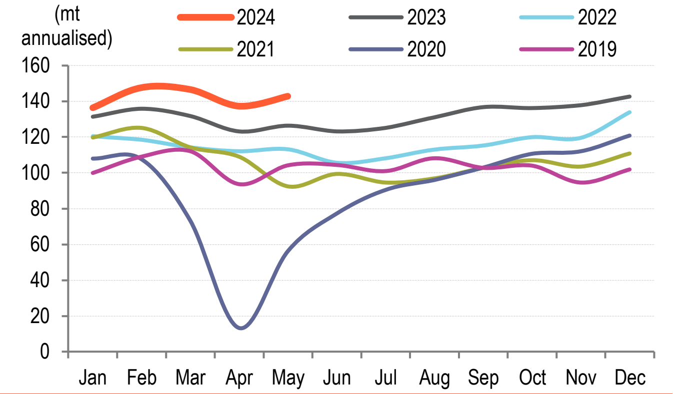
Fig 8 – ... and set to clock only modest YoY recovery



Source: Company, BOBCAPS Research

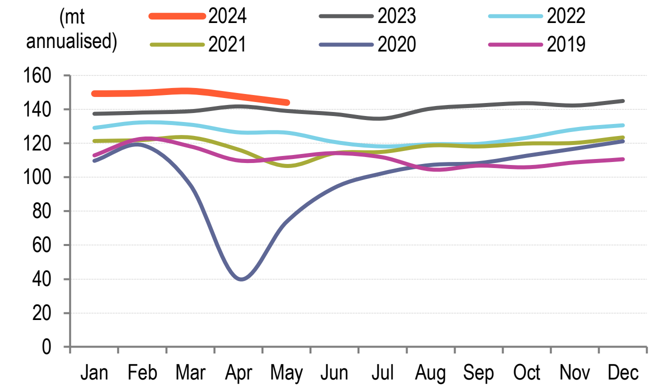
India steel demand-supply and prices

Fig 9 – India steel consumption up 12% YoY over Apr-May'24



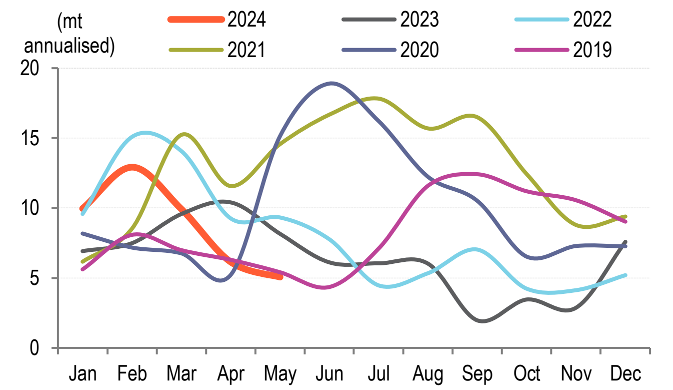
Source: CMIE, BOBCAPS Research

Fig 10 – India steel production up 4% YoY over Apr-May'24



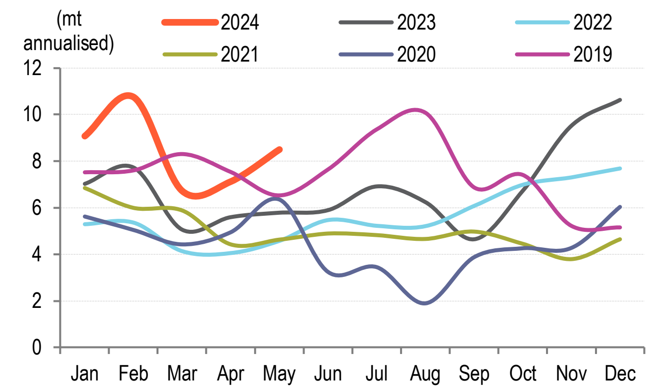
Source: CMIE, BOBCAPS Research

Fig 11 – India steel exports weak during Apr-May'24



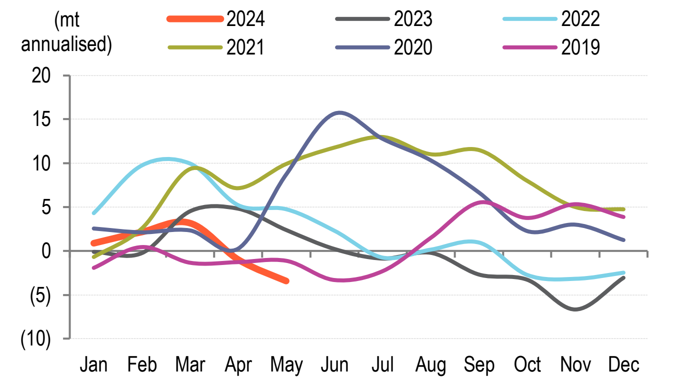
Source: CMIE, BOBCAPS Research

Fig 12 – India steel imports pressure picked up in May'24



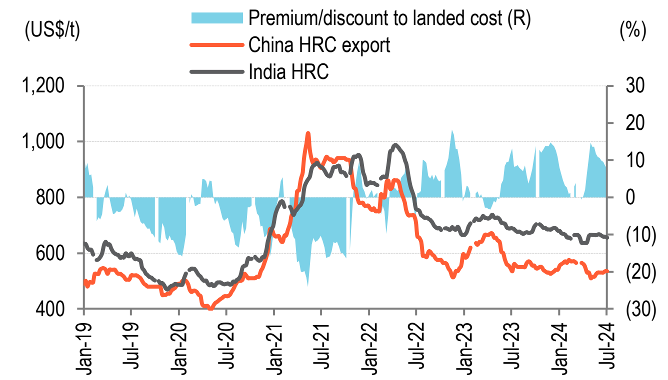
Source: CMIE, BOBCAPS Research

Fig 13 – India's lower net steel exports a result of weaker overseas demand



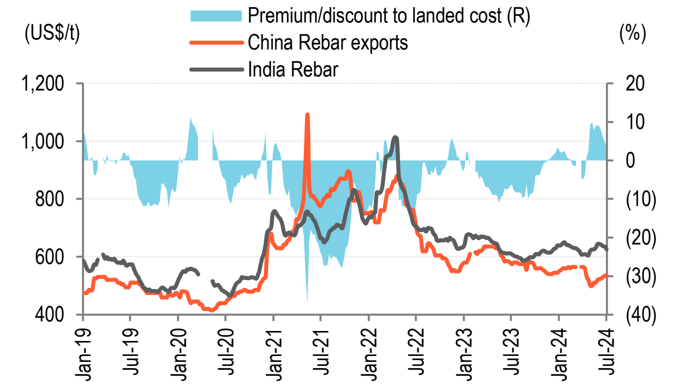
Source: CMIE, BOBCAPS Research

Fig 14 – Indian HRC prices maintained a premium to landed prices during Q1



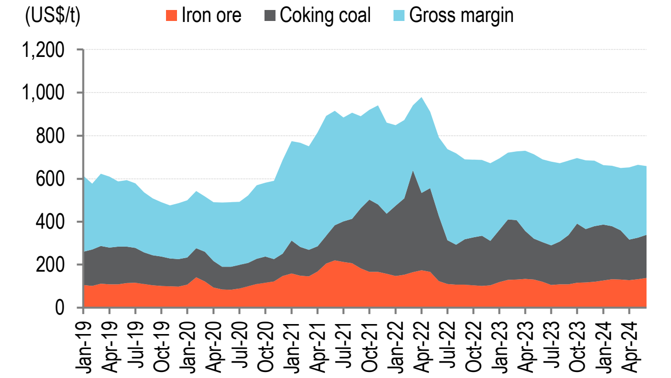
Source: CMIE, BOBCAPS Research

Fig 15 – Indian rebar prices turned to premium on landed price of imports during Q1



Source: CMIE, BOBCAPS Research

Fig 16 – India HRC gross margin proxy (spot) indicates improvement on pullback in coking coal prices



Source: Bloomberg, BOBCAPS Research

Forecasts and valuation

Our aggregate EBITDA forecasts are broadly within -3% to +5% of Bloomberg consensus for FY25-FY26. For details on our forecasts and valuations, please refer to **Steel sector risk-reward has turned unfavourable**, 21 Jun.

Fig 17 – BOBCAPS vs Consensus estimates

(Rs bn)	Actuals	BOBCAPS		Consensus		Delta to consensus (%)	
	FY24P	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue							
TATA	2,273	2,323	2,507	2,375	2,578	(2.2)	(2.8)
JSTL	1,750	1,927	2,076	1,911	2,149	0.9	(3.4)
JSP	500	532	735	556	667	(4.3)	10.1
SAIL	1,054	1,100	1,069	1,106	1,151	(0.5)	(7.1)
Aggregate	**5,577**	**5,883**	**6,387**	**5,948**	**6,546**	**(1.1)**	**(2.4)**
YoY growth (%)	**(1.2)**	**5.5**	**8.6**	**6.7**	**10.0**	**-**	**-**
EBITDA							
TATA	223	341	422	348	415	(2.2)	1.9
JSTL	282	350	406	345	404	1.3	0.4
JSP	102	127	169	128	162	(1.2)	4.7
SAIL	111	123	133	119	131	3.4	1.4
Aggregate	**719**	**940**	**1,131**	**941**	**1,112**	**(0.1)**	**1.7**
YoY growth (%)	**4.5**	**30.8**	**20.2**	**30.9**	**18.2**	**-**	**-**
Net income adjusted							
TATA	(44)	128	189	126	177	1.0	6.4
JSTL	88	137	171	138	175	(0.6)	(1.7)
JSP	59	66	97	64	87	2.5	11.3
SAIL	31	45	53	39	47	14.3	11.0
Aggregate	**134**	**375**	**509**	**367**	**486**	**2.1**	**4.8**
YoY growth (%)	**(26.6)**	**180.2**	**35.9**	**174.5**	**32.4**	**-**	**-**

Source: Company, Bloomberg, BOBCAPS Research

Fig 18 – Sector: Key assumptions

Parameter	Actuals	New		Old		Change (%)	
	FY24P	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
USD/INR exchange rate	82.8	83.5	83.5	82.0	83.7	1.8	(0.2)
Steel prices							
China HRC export (US$/t)	557	564	549	566	549	(0.4)	0.0
India HRC (US$/t)	684	627	595	614	595	2.1	0.0
YoY change (%)	(9.0)	(8.4)	(5.0)	(0.1)	0.0	-	-
India HRC (Rs'000/t)	56.6	52.3	49.7	50.3	49.8	3.9	(0.2)
YoY Change (%)	(6.1)	(7.6)	(5.0)	(0.1)	0.0	-	-
India rebar (Rs'000/t)	51.3	50.1	47.2	47.8	47.3	4.8	(0.2)
YoY change (%)	(8.7)	(2.4)	(5.8)	(0.1)	0.0		
Raw material prices							
Iron ore CFR China (US$/t)	115	101	95	95	95	6.6	0.0
Iron ore India indicator (Rs'000/t)	4.7	4.4	4.2	4.1	4.2	8.5	(0.2)
Coking Coal Australia FOB (US$/t)	288	250	225	250	225	0.0	0.0

Source: Bloomberg, BOBCAPS Research

Fig 19 – TATA: Key assumptions

Parameter	FY24P	FY25E	FY26E
Sales India business (mt)	20.5	21.9	24.9
Sales Europe (mt)	8.0	8.0	9.0
India HRC benchmark price (US$/t)	684	627	595
EBITDA/t India business (Rs'000/t)	14.6	14.8	15.4
EBITDA/t Europe (US$/t)	(115)	19	46

Source: Company, BOBCAPS Research

Fig 20 – JSTL: Key assumptions

Parameter	FY24P	FY25E	FY26E
Crude steel production - India operations (mt)	25.4	27.4	30.6
India HRC (US$/t)	684	627	595
Realisation India operations (US$/t)	777	752	737
EBITDA/t India operations (US$/t)	124	143	152
Realisation India operations (Rs '000/t)	64.3	62.8	61.6
EBITDA/t India operations (Rs '000/t)	10.2	12.0	12.7

Source: Company, BOBCAPS Research

Fig 21 – JSP: Key assumptions

Parameter	FY24P	FY25E	FY26E
Sales (mt)	7.7	8.5	12.0
India HRC (US$/t)	684	627	595
Realisation (Rs'000/t)	62.3	59.2	58.9
EBITDA/tonne (Rs'000/t)	13.3	14.6	14.0

Source: Company, BOBCAPS Research

Fig 22 – SAIL: Key assumptions

Parameter	FY24P	FY25E	FY26E
Sales	17.0	19.0	19.0
India HRC (US$/t)	684	627	595
Realisation (Rs '000/t)	61.9	57.9	56.4
EBITDA/tonne (Rs '000/t)	6.5	6.5	7.0

Source: Company, BOBCAPS Research

Valuation

We believe risk-reward has turned unfavourable at this stage after a sharp run-up across the ferrous majors we cover. We remain constructive on earnings growth ahead. Within our coverage, we retain our ratings – HOLD on JSP, JSTL and TATA, and SELL on SAIL.

Our valuations factor in (a) the full benefit of committed expansion, ie, even incremental EBITDA beyond our FY26 valuation base, (b) valuation uplift in the early economic recovery period with sector target multiple of 6.5x (vs cycle average of 6.0x), (c) and valuation as of Jun'25. We apply a graded target multiple across the four stocks with JSTL at 7x (for aggressive growth delivery), TATA India at 6.5x (sector), JSP at 6x (still to demonstrate delivery on growth) and SAIL at 5x (weaker margin and growth prospects).

Fig 23 – Peer comparison

Ticker	CMP (Rs)	Rating	Target price (Rs)	Upside (%)	EV/Sales (x)		EV/EBITDA (x)		Net income (Rs bn)		P/B (x)		P/E (x)	
					FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY25E	FY26E
TATA IN	168	HOLD	175	4.2	1.2	1.1	8.3	6.5	116	183	2.3	1.9	16.4	11.1
JSTL IN	925	HOLD	940	1.6	1.6	1.4	8.6	7.4	137	171	2.9	2.2	16.5	13.2
JSP IN	1,008	HOLD	1,055	4.7	2.1	1.5	8.9	6.6	66	97	2.3	1.7	15.7	10.6
SAIL IN	151	SELL	110	(27.1)	0.8	0.8	7.3	6.6	45	53	1.1	1.0	14.0	11.8

Source: Bloomberg, BOBCAPS Research

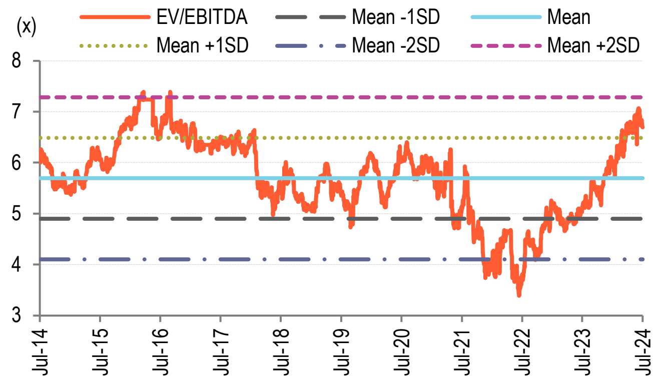
Tata Steel – HOLD with a TP of Rs 175

Fig 24 – TATA: Valuation summary

(Rs bn)	Tata Steel India	Tata Steel Europe	Tata Steel
FY26E EBITDA	388	34	422
Target EV/EBITDA (x)	6.5	5.5	6.7
Incremental valuation from full ramp-up of TSK2- Kalinganagar expansion	33	-	33
Incremental EV from UK transition	0	70	70
EV Mar'25E	**2,555**	**260**	**2,815**
FY25E Net debt	-	-	741
Equity value Mar'25E	**-**	**-**	**2,074**
Fair value Mar'25E (Rs)	-	-	170
Fair value May'25E (Rs)	-	-	174
Target price May'25 (rounded to nearest Rs 5)	**-**	**-**	**175**

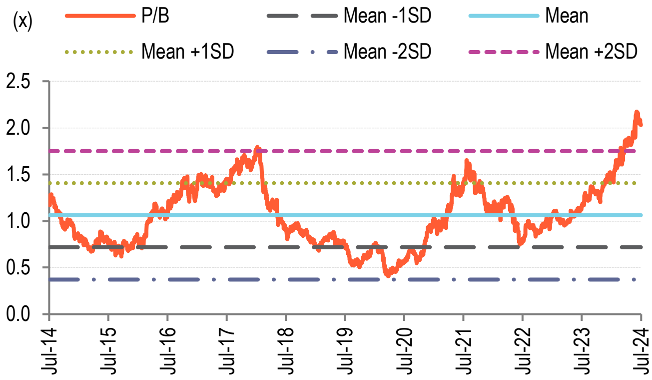
Source: Company, BOBCAPS Research

Fig 25 – TATA EV/EBITDA 2Y fwd



Source: Bloomberg, Company

Fig 26 – TATA P/B 1Y fwd



Source: Bloomberg, Company

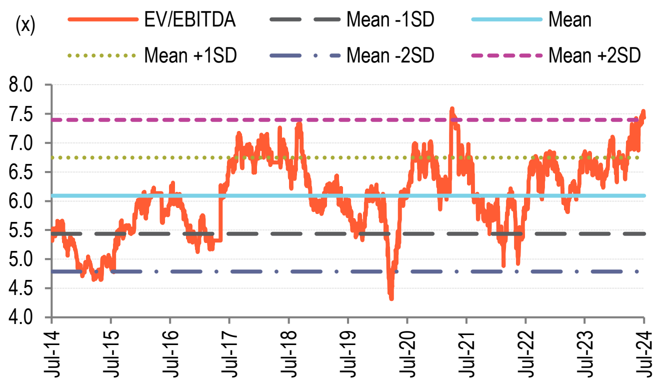
JSTL – HOLD with a TP Rs 940

Fig 27 – JSTL: Valuation summary

(Rs bn)	Value
FY26E EBITDA	406
Target EV/EBITDA (x)	7
EV Mar'25	**2,841**
Incremental EV from full ramp-up	137
EV including benefit of full ramp-up Mar'25	2,978
FY25E net debt	729
Equity Value Mar'25E	**2,249**
Fair value per share Mar'25E (Rs)	920
Fair value per share Jun'25E (Rs)	942
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**940**

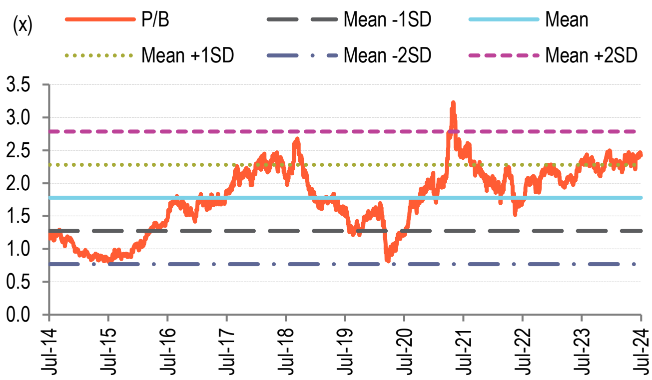
Source: BOBCAPS Research

Fig 28 – JSTL EV/EBITDA 2Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 29 – JSTL P/B 1Y fwd



Source: Bloomberg, BOBCAPS Research

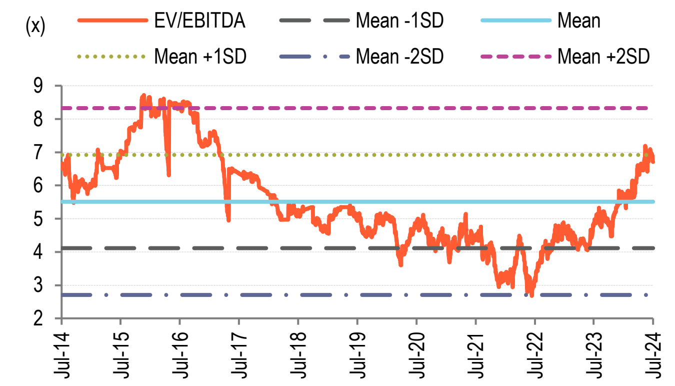
JSP – HOLD with a TP of Rs 1,055

Fig 30 – JSP: Valuation summary

(Rs bn)	Value
FY26E EBITDA	169
Target EV/EBITDA (x)	6
EV	**1015**
Incremental value from full ramp-up	139
EV including benefit of full ramp-up as of Mar'25	**1,154**
FY25E Net debt	103
Equity Value Mar'25E	**1,051**
Fair value per share Mar'25E (Rs)	1,031
Fair value per share Jun'25E (Rs)	1,056
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**1,055**

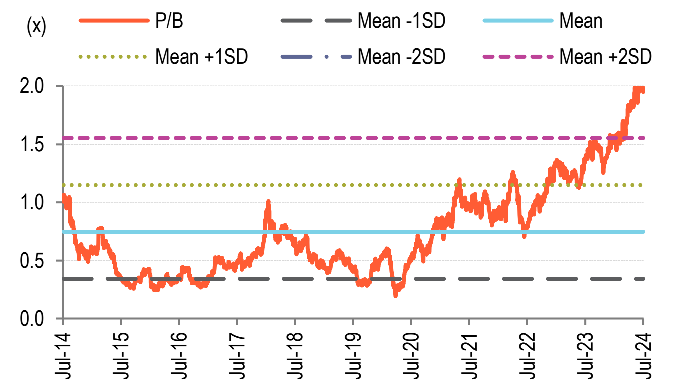
Source: Company, BOBCAPS Research

Fig 31 – JSP EV/EBITDA 2Y fwd



Source: Bloomberg, BOBCAPS Research

Fig 32 – JSP P/B 1Y fwd



Source: Bloomberg, BOBCAPS Research

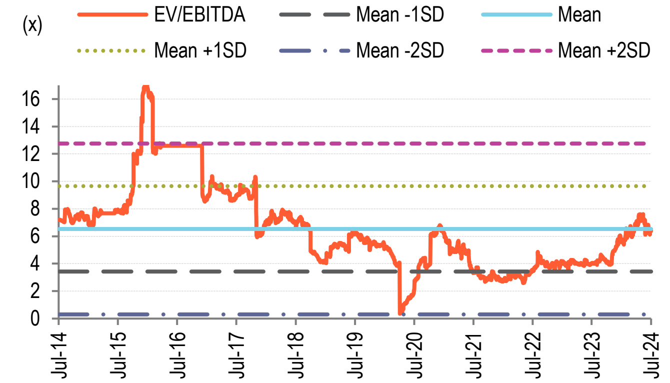
SAIL –SELL with TP of Rs 110

Fig 33 – SAIL: Valuation summary

(Rs bn)	Value (Rs bn)
FY26E EBITDA	133
Target EV/EBITDA (x)	5.5
EV Mar'25	**733**
FY25E Net debt	283
Equity Value Mar'25E	**449**
Fair value per share Mar'25E (Rs)	109
Fair value per share Jun'25E (Rs)	111
Target price Jun'25E (Rs) (rounded to nearest Rs 5)	**110**

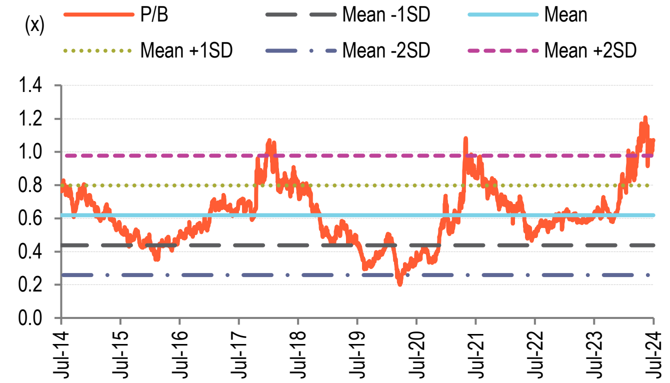
Source: Company, BOBCAPS Research

Fig 34 – SAIL's EV/EBITDA 2Y forward



Source: Bloomberg, BOBCAPS Research

Fig 35 – SAIL's P/B 1Y forward



Source: Bloomberg, BOBCAPS Research

Key risks

Key downside risks to our HOLD calls for JSP, JSTL and TATA are:

- Steel producer valuations are highly sensitive to product and raw material prices. Key downside risks to our estimates are unfavourable changes in global demand-supply balance for steel and its raw materials, leading to lower prices and margins than assumed.
- TATA, JSTL and JSP are exposed to the risk of delayed implementation of their capital investment plans, including expansion, which could impact earnings growth.
- TATA is exposed to the risk of delays in the implementation of the UK decarbonisation plan, higher restructuring costs for transition and higher operational costs during the transition period.
- JSTL is relatively more vulnerable than its peers in the event of a protracted downturn in the steel cycle considering its aggressive growth policy.

Key upside risks to our HOLD calls for JSP, JSTL and TATA and SELL call on SAIL:

- Key upside risks to our estimates are favourable changes in global demand-supply balance for steel and its raw materials, leading to higher prices and margins than our assumptions.
- Similarly, the faster implementation of capital investment plans (including expansion) than our conservative assumptions could lead to upside risks to our earnings.
- JSTL could derive higher benefits than peers from its accelerated expansion drive in the event of an upward turn in the steel cycle.

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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