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METALS & MINING | Q4FY23 Preview | 10 April 2023

Modest Q4 gains point to better year ahead

- **Steel EBITDA recovered 36% QoQ in Q4 on volume pick-up; erasure of domestic price premium paves way for further price uptick**
- **With prices rising in Europe/US and early signs of easing raw material cost, we expect further margin expansion in Q1FY24**
- **Margins likely to settle at mid-cycle level in FY24 and focus to shift to earnings accretion from the next expansion wave. Prefer TATA, JSP**

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Volumes improve in Q4, inventory liquidation likely from April: Sales volume for the four major steel producers – TATA, JSTL, JSP and SAIL – improved 9.3% QoQ to 18mt in Q4FY23, but their inventory was not fully liquidated. Domestic sales were a bit soft despite the Indian steel sector registering 13% YoY demand growth in February and March, owing to higher imports in the first two months of the quarter and seasonal post-festival (Holi) weakness in March. Now that steel prices in Europe and the US are moving up, pressure from imports is reducing and exports have also started to revive in March. This should lead to inventory liquidation from April.

Modest pricing uptick likely as domestic premium erased: We expect realisation to improve modestly by Rs 2.9k/t QoQ on average for the four majors. With a higher pickup in prices of flat vs. long products (due to a reduction in secondary rebar prices driven by the pullback in thermal coal cost), we expect relatively better improvement in TATA's standalone and JSTL's India operations. More importantly, India's pricing premium has gradually turned into a discount in March and the sector is now poised to benefit from any uptick in regional prices amid recovery in China.

EBITDA to recover on volume pick-up: We expect 36% QoQ recovery in EBITDA with a 9% pick-up in sales and a Rs 1.1k/t QoQ rise in EBITDA/t to Rs 10k across the four majors. With the benefit of captive iron ore, TATA (standalone) and SAIL are likely to show higher improvement than peers. We expect margins to gradually stabilise to a mid-cycle level as the China recovery firms up. Coking coal and iron ore prices are showing signs of easing on improving supply post the wet season in Australia and Brazil.

Weakness in TATA Europe continues: With the increase in coking coal and iron ore prices and lag in capture of the pricing uptick, we expect TATA Europe to post an EBITDA loss of US$ 108/t in Q4. We await additional management inputs related to our current assumption of improvement in TATA Europe from Q2FY24.

Constructive on Indian ferrous players: We expect margins to stabilise at mid-cycle level in FY24 as recovery in China takes hold, and the investor focus to shift to delivery of the next wave of expansion projects. BUY TATA (TP Rs 140) and JSP (TP Rs 670).

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	550	670	BUY
JSTL IN	689	715	HOLD
SAIL IN	82	95	HOLD
TATA IN	105	140	BUY

Price & Target in Rupees | Price as of 10 Apr 2023

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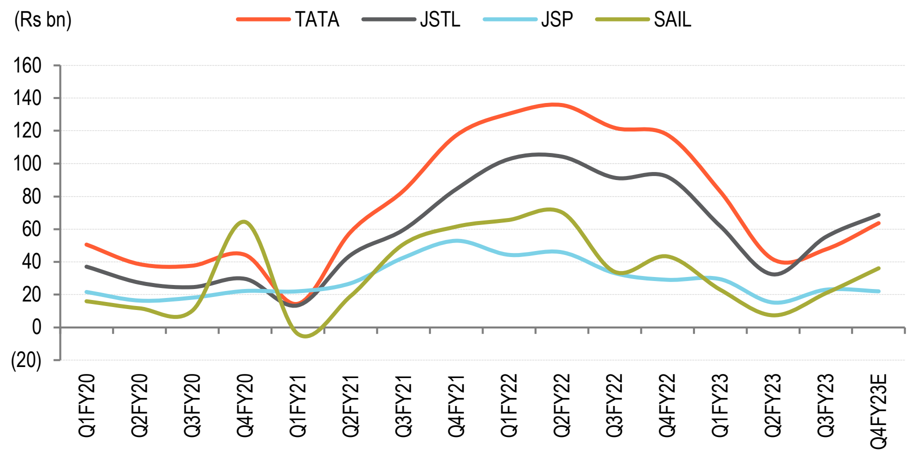
Q4FY23 preview

Fig 1 – BOBCAPS Ferrous Universe: Q4FY23 estimates

	Unit	TATA India	JSTL India	JSP India	SAIL	4 Majors – India	TATA Europe
Operations							
Production	mt	5.2	6.3	2.0	5.0	**18.4**	2.3
QoQ	%	3.0	0.0	(2.1)	6.2	**3.3**	3.1
Sales	mt	5.2	6.3	1.9	4.7	**18.0**	2.1
QoQ	%	8.6	0.0	0.0	13.2	**9.3**	7.0
Per tonne							
Revenue/t	Rs'000/t	72.4	66.0	63.3	62.3	**66.6**	99.2
QoQ	Rs'000/t	3.7	2.9	1.0	2.0	**2.9**	(5.1)
EBITDA/t	Rs'000/t	12.0	10.4	11.1	6.6	**10.0**	(8.9)
QoQ	Rs'000/t	2.7	0.9	(0.3)	1.6	**1.1**	(1.1)
Financials – Indian operations							
Revenue	Rs bn	373.0	412.7	120.2	292.9	**1,198.9**	211.2
QoQ	%	14.5	16.1	1.6	17.0	**14.2**	1.8
EBITDA	Rs bn	61.8	65.2	21.1	31.1	**179.1**	(18.9)
QoQ	%	40.1	21.7	(2.7)	49.6	**23.3**	21.8
Financials – Consolidated operations							
Revenue	Rs bn	627.7	452.7	126.5	292.9	1499.9	-
QoQ	%	10.0	15.7	1.6	17.0	12.2	-
EBITDA	Rs bn	50.5	68.7	22.1	31.1	172.3	-
QoQ	%	85.2	24.2	-4.0	49.6	36.4	-
Net profit	Rs bn	0.8	21.9	9.3	13.8	45.8	-
QoQ	%	103.2	346.7	3.7	467.6	616.2	-

Source: Company, BOBCAPS Research

Fig 2 – Q4 consolidated EBITDA expected to improve by more than 35% QoQ



Source: Company, BOBCAPS Research

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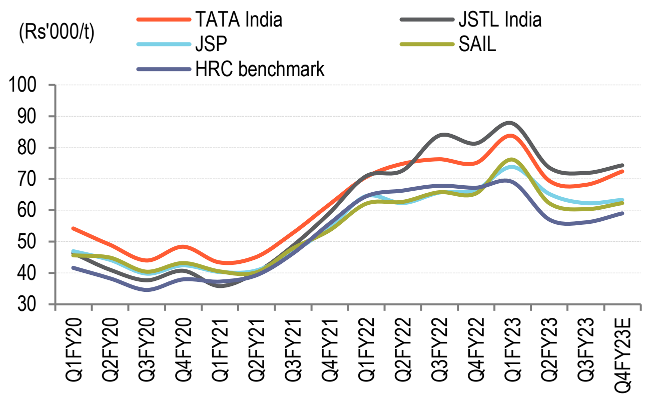
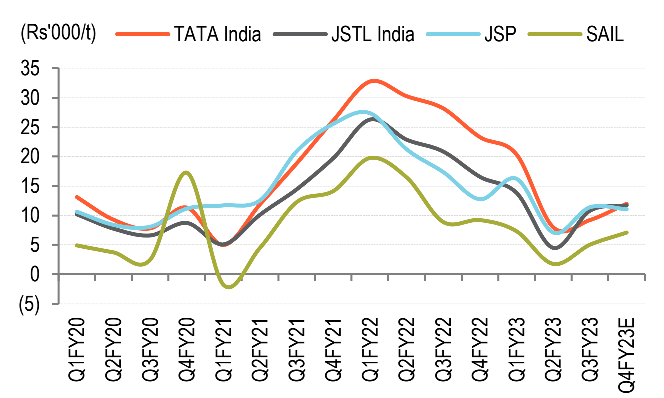
Fig 3 – Modest improvement in realisation…



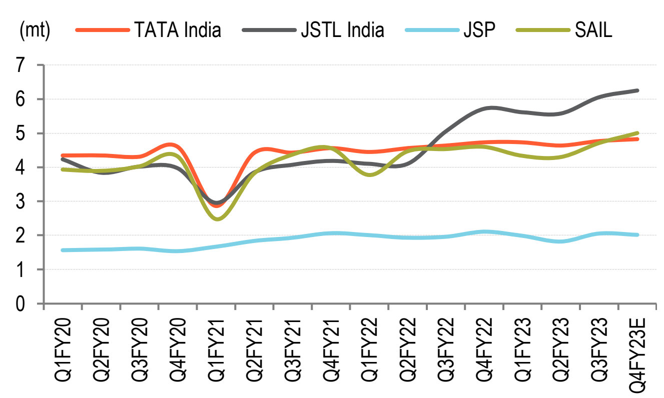
Source: Company, BOBCAPS Research

Fig 4 – …expected to aid slight rise in EBITDA/t with partial offset from cost increase



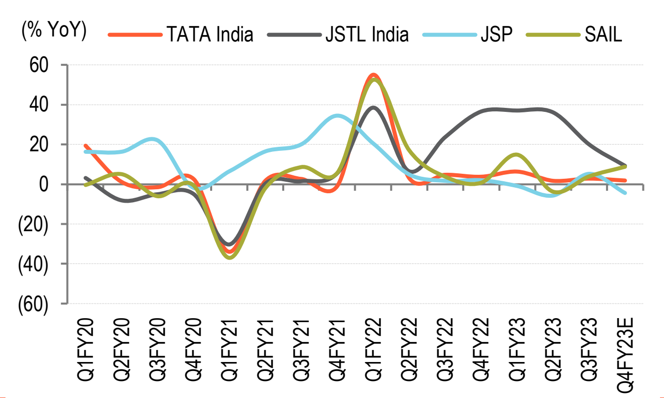
Source: Company, BOBCAPS Research

Fig 5 – Production recovers in Q4



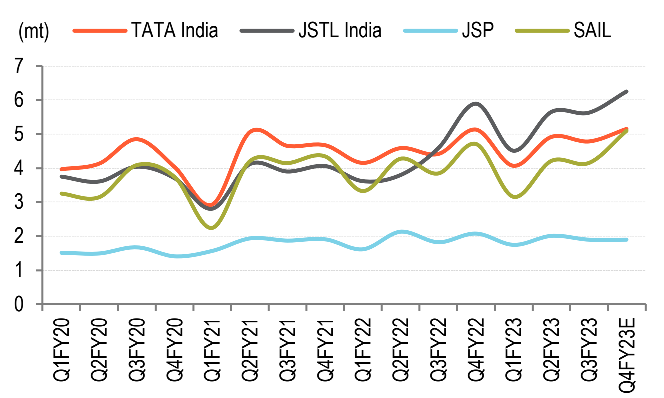
Source: Company, BOBCAPS Research

Fig 6 – Production growth YoY



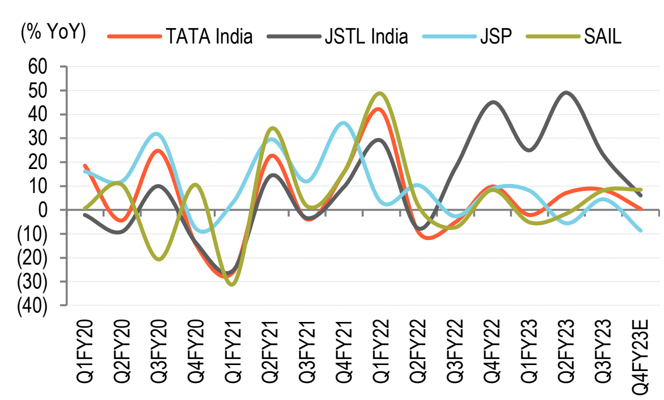
Source: Company, BOBCAPS Research

Fig 7 – Expect sales revival to continue from June lows but inventory normalisation deferred to Q1FY24



Source: Company, BOBCAPS Research

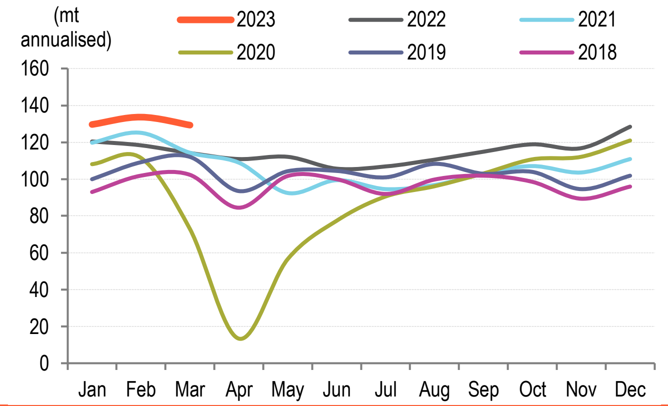
Fig 8 – Sales growth YoY



Source: Company, BOBCAPS Research

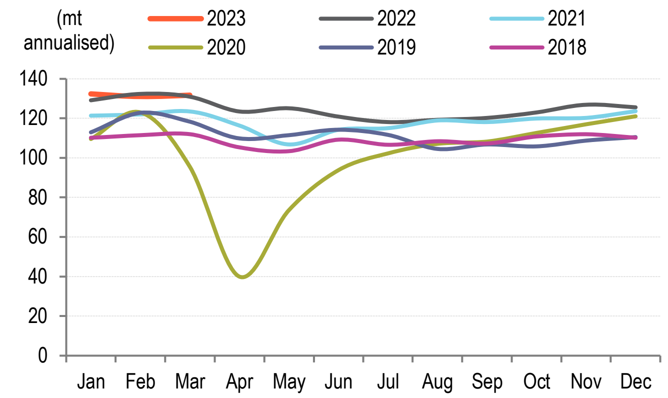
India steel demand-supply and prices

Fig 9 – India steel consumption posts healthy growth in H2 FY23



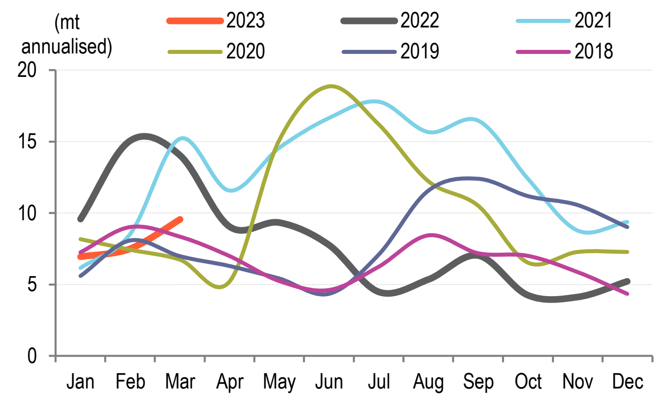
Source: CMIE, BOBCAPS Research

Fig 10 – India steel production recovers sequentially



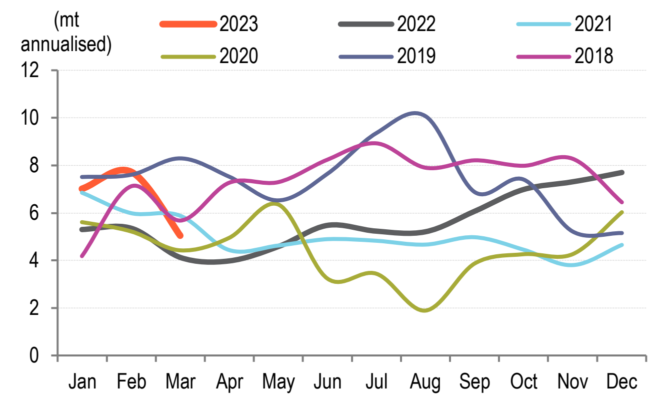
Source: CMIE, BOBCAPS Research

Fig 11 – India steel exports show initial signs of recovery in March



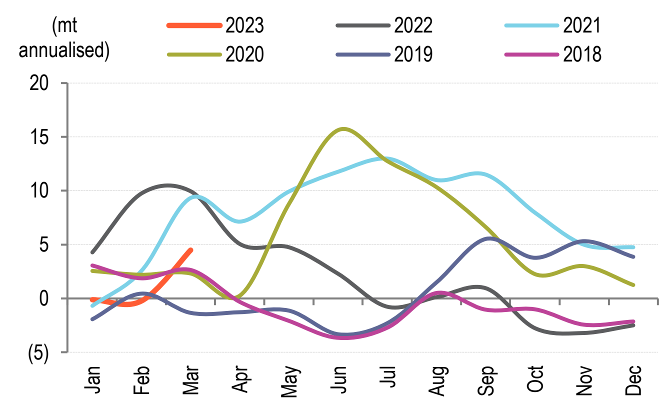
Source: CMIE, BOBCAPS Research

Fig 12 – India steel imports back down in March with improved prices in Europe and US



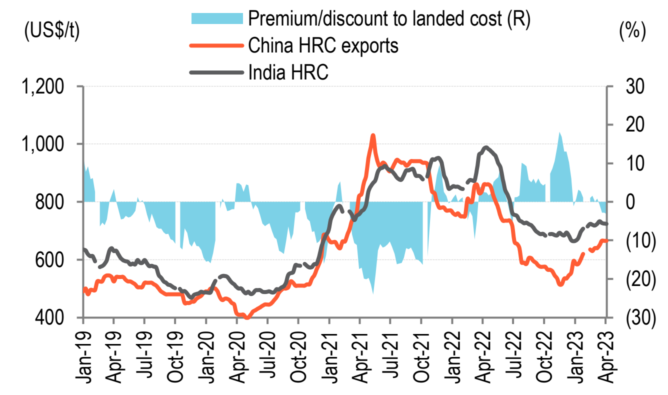
Source: CMIE, BOBCAPS Research

Fig 13 – India's net steel exports lower pressure on domestic market in March



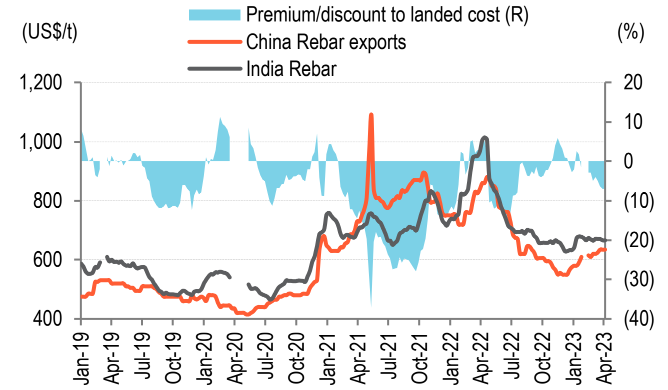
Source: CMIE, BOBCAPS Research

Fig 14 – India HRC premium gradually turns into a discount



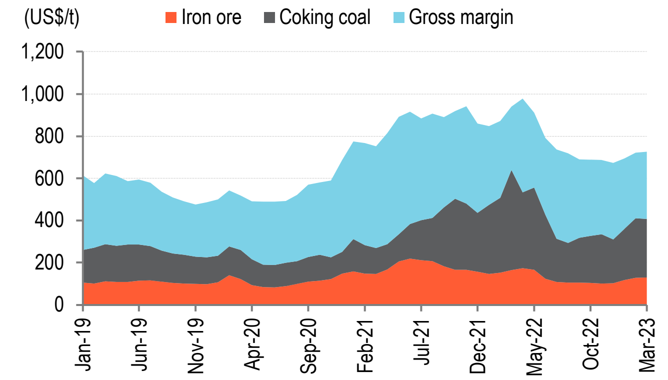
Source: Bloomberg, BOBCAPS Research

Fig 15 – India rebar also at a discount



Source: : Bloomberg, BOBCAPS Research

Fig 16 – India HRC gross margin proxy on spot prices (monthly) still healthy



Source: Bloomberg, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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