

Metals & Mining Q1FY25 Results Preview

Equities | 8th July 2024

Axis Securities Equity Research

MARGIN GROWTH TO MODERATE QoQ OVER SEASONALLY STRONG Q4; YoY PERFORMANCE TO REMAIN ROBUST

For Steel companies under our coverage, EBITDA/t is expected to increase on a YoY basis, led by higher metal sales volumes YoY and lower coking coal consumption costs, partially offset by lower NSRs (Benchmark Steel HRC prices in the traders market ex-Mumbai have declined by 6% YoY and flat QoQ). On a QoQ basis, we expect EBITDA/t growth to moderate or even decline as a decline in coking coal consumption cost is offset by lower NSRs and lower sales volumes over the seasonally strong Q4FY24.

For Aluminium companies, we expect growth in EBITDA margin to moderate on a QoQ basis. This will be due to lower metal sales volume over seasonally strong Q4FY24, partially offset by the benefit of higher LME Aluminium prices and flat energy costs QoQ. On a YoY basis, the EBITDA margins are expected to show robust growth led by higher metal prices and lower energy input costs, while sales volumes marginally improve/stay flat YoY.

For structural steel tube companies, i.e. APL Apollo tubes and JTL Industries, while the sales volumes recover YoY/QoQ, we expect another subdued quarter due to weak steel prices.

Q1FY25 Preview:

Tata Steel: Tata Steel reported its Q1FY25 production. Tata Steel India sales volume stood at 4.94MT, down 9% QoQ (up 3% YoY), vs. the seasonally strong Q4FY24. Europe sales volume stood robust at 2.21MT, up 4.2% QoQ/YoY, led by normal operating levels in the Netherlands. UK BF-5 was decommissioned on 4th July. Consolidated Sales volume de-grew by 5% QoQ (up 4% YoY) over a seasonally strong Q4FY24. Steel HRC prices (trader's market ex-Mumbai) have declined by 6% YoY and flat QoQ. We expect consolidated revenue to rise slightly by 1% QoQ (down 0.4% YoY) led by higher steel price realization in India and Netherlands, partially offset by lower steel sales volumes. We expect consolidated EBITDA to increase by 15% YoY, driven

by lower coking coal consumption costs in India. On a QoQ basis, EBITDA to decline by 10%, led by lower sales volumes in India. We model India EBITDA/t to decline QoQ by 10% (up 4% YoY) to Rs 14,077/t due to lower operating leverage on lower sales volumes in India. EBITDA/t loss in the Europe business to narrow down YoY to ~\$37/t from \$96/t in Q1FY24 and stay flat QoQ. Netherlands to post positive EBITDA vs. weakness in the UK.

SAIL: Steel HRC prices (trader's market ex-Mumbai) have declined by 6% YoY and flat QoQ. We assume saleable steel sales volumes at 4.3 MT, down 5% QoQ, up 12% YoY. Consolidated revenue is expected to decline by 7% QoQ on lower sales volumes and NSRs. On a YoY basis, revenue is expected to rise by 6%, thanks to higher volumes partially offset by lower NSRs. Adj EBITDA (excluding the rail provisional income) to improve 48% YoY, led by lower coking coal consumption cost and higher sales volumes. On a QoQ basis, Adj. EBITDA to increase by 38% led by lower coking coal consumption cost (company guidance of \$30/t QoQ lower cost). In Q4FY24, SAIL booked an exceptional income of Rs 1,714 Cr due to the upward revision of provisional rail prices retrospectively w.e.f. 1st Apr'22. Adj EBITDA/t to improve by 32%/44% YoY/QoQ to Rs 5,592/t led by lower coking coal cost.

Hindalco: We built in lower Aluminium sales at 345 kt, down 2.3% QoQ (up 3% YoY), Copper at 125kt, down 8% QoQ (up 6% YoY) and Novelis shipments at 945kt, down 0.6% QoQ (up 7.5% YoY on impacted base due to destocking in can segment). LME Aluminum prices were up 11%/15% YoY/QoQ and averaged at \$2,525/t in Q1FY25. We expect consolidated revenue to increase by 9% QoQ (16% YoY) led by higher LME Aluminum prices, partially offset by lower metal sales volumes. EBITDA to increase by 31%/10% YoY/QoQ led by higher LME-driven topline, softer coal prices at India upstream and higher EBITDA/t at Novelis. We expect Novelis EBITDA/t at \$526/t (up 10% YoY/down 3% QoQ) led by firm shipments and softer input costs.

NALCO: We assume lower Alumina sales at 310kt, down 18% QoQ vs. a seasonally strong Q4 (flat YoY). We assume slightly lower metal sales at 117kt, down 3% QoQ, flat YoY. LME Aluminum prices increased by 11%/15% YoY/QoQ to an average of \$2,525/t. We expect consolidated revenue to grow by 19%/5% YoY/QoQ, primarily driven by higher Aluminum and Alumina prices, partially offset by lower sales volumes. We expect EBITDA to increase by a robust 102% YoY, driven by higher topline and lower coal costs. On a QoQ basis, we expect EBITDA to increase by 9%, led by higher metal prices partially offset by lower operating leverage. We expect EBITDA margins to expand YoY/QoQ, mainly driven by higher metal prices and lower power and fuel costs.

Coal India: Coal off-take (already reported) grew by 5% YoY but declined by 2% QoQ. We model 60% e-auction premium (vs. 66% in Q4FY24) and 13% e-auction volumes (vs. 11% in Q4FY24). Lower total off-take and e-auction premium, partially offset by higher e-auction volume will lead to flat revenue growth QoQ. On a YoY basis, higher total off-take will drive revenue growth by 4% YoY, partially offset by a drop in e-auction premiums (our estimate of 60% in Q1FY25 vs. 144% in Q1FY24). We expect Adj EBITDA (excl OBR) to grow by 6% QoQ on account of lower input costs QoQ as employee and other expenses were seasonally higher in Q4FY24. We expect Adj. EBITDA to drop by 7% YoY due to cost inflation YoY.

APL Apollo Tubes: Sales volume (already reported) increased to a new high of 721kt, up 9%/6% YoY/QoQ. We expect consolidated revenue to rise by 6%/1% YoY/QoQ, led by higher sales volume, partially offset by lower realization. EBITDA to improve YoY/QoQ by 4%/14% due to higher sales volume and higher VAP share. Sales volume of super-heavy tubes grew by 146%/44% YoY/QoQ to 10.86kt, and overall VAP share stood at 60% in Q1FY25 (flat QoQ) vs. 57% in the last year. We expect EBITDA/t to decline by 5% YoY to Rs 4,435/t due to lower sales realization and higher input costs but increase by 7% QoQ on account of higher operating leverage.

JTL Industries: JTL's sales volume stood at 85.67kt, up 11%/5% YoY/QoQ. We expect revenue to decline by 4% YoY, led by lower sales realization due to lower steel prices YoY. Revenue is expected to increase by 4% QoQ, driven by higher sales volumes,

partially offset by lower sales realization. The drop in steel prices will lead to a drop in realization by 13%/1% YoY/QoQ. Steel HRC prices (trader's market ex-Mumbai) have declined by 6% YoY and remained almost flat QoQ. We expect EBITDA to decrease by 2% QoQ (up 1.3% YoY), led by lower sales realization. EBITDA/t is expected to drop YoY/QoQ by 9%/6% to Rs 4,200/t due to lower sales realization and higher overhead costs. VAP share stood at 25% in the quarter vs. 24% QoQ and 42% YoY.

Outlook

Steel Sector Outlook: China's steel demand uncertainty continues to linger as its property sector remains sluggish. Despite continued policy support, China's 3MMA YoY growth in 'floor space started' has shown mixed trends, slowly recovering from -45% YoY in Aug'22 to -9.9% in Dec'23. However, it started declining again from Jan'24, and in Apr'24, it stood at -23% (vs. -28% in Mar'24). To stabilize the property sector, China has announced that local governments can now instruct state-owned companies to buy homes at reasonable prices.

Amidst announcements of production cuts across provinces, China's YTD steel production until May'24 has declined by 1.4% YoY to 438.6 MT, as per the World Steel Association (WSA). Despite these production cuts, China's steel exports have increased by 23% YoY YTD until May'24 to 44.6 MT, indicating subdued domestic demand. This has led to Chinese HRC (FOB) steel prices declining by 9% YoY and 6% QoQ in Q1FY25. The combination of lower domestic demand and higher exports from China has put pressure on ex-China prices, including Indian HRC prices. Benchmark steel HRC prices in the traders' market ex-Mumbai have declined by 6% YoY and remained flat QoQ.

Iron ore prices have been volatile and in Q1FY25, iron ore prices declined by 8% QoQ (up 1% YoY) and averaged to \$113/t (62% CFR Aus-China) in line with lower steel demand. In the 1st week of Jul'24, iron ore prices have slightly rebounded to spot \$114/t from the lows of \$103/t in Jun'24, led by expectation of stimulus in the upcoming third Plenum meeting in China over 15-18th Jul'24.

Premium Coking Coal prices (FOB Aus) have also declined by 4%/10% YoY/QoQ in Q1FY25, amidst weak Chinese production and demand. Spot Coking coal prices have recently increased to \$256/t from the lows of \$239/t in Jun'24 due to reports of fire at Anglo American's Grosvenor underground mine. In Q2FY25, the lower iron ore and coking coal prices will support the steel spreads; however, much depends on the steel price trajectory, any stimulus from China in the Plenum meeting and how China handles its property sector.

Aluminium sector outlook: Aluminium prices stood robust in Q1FY25 and averaged at \$2,525/t, up 11%/15% YoY/QoQ led by Bauxite supply issues from Guinea, production cuts at Yunnan in China, sanctions on Russian metal at LME and demand push from US and other geographies. With supply-side issues subsiding and the restart of capacity at Yunnan in China during the rainy season, LME Aluminium prices have retreated from the peak of \$2,721/t on 29th May 2024 to the current spot price of \$2,478/t.

Recent data from the US points towards weakening job trends and a rising unemployment rate (at 4.1%) which has increased the probability of a rate cut this year, which could lead to softer dollar-supporting base metal prices. The CME Fed watch now has a 72% probability of a rate cut of 25bps from the existing rate of 525-550bps in its 18th Sept'24 Fed Meeting.

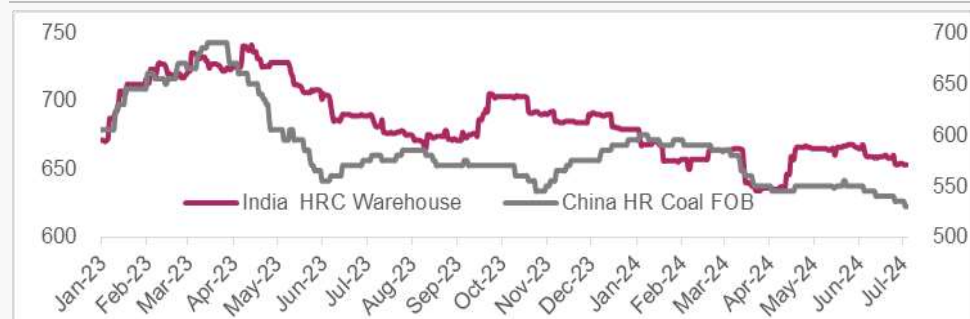
Aluminum Supply/Demand balance - On the supply side, few restarts or new projects are on the horizon and China is holding its capacity cap (45 mtpa). On the demand side, EVs, electrical, packaging and Automotive demand remains robust. For CY24, CRU estimates (as per Norsk Hydro Q1CY24 ppt) primary aluminium global balance to remain in a slight deficit of 0.2 MT (China deficit of 1.7 MT, world ex-China surplus of 1.5 MT).

Alumina spot prices (FOB WA) have increased to ~\$502/t (from the levels of \$330/t in Dec'23), led by production curtailment at the Rio alumina refinery in Australia and Chinese refinery curtailments due to domestic bauxite shortage. Demand on the other hand is stable as smelters continue operations. The global Alumina market expects a deficit of 0.2MT in CY24 (as per Norsk Hydro Q1CY24 ppt)

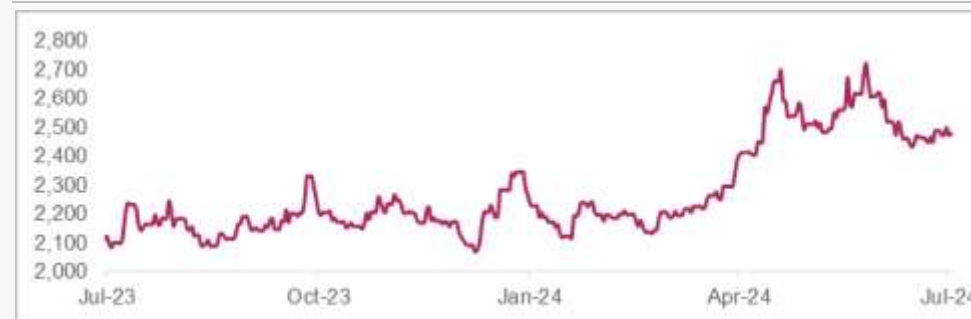
Our Top positive picks are: **Hindalco, NALCO, Coal India, Tata Steel, APL Apollo tubes**

Our Top Earnings positive plays are: **NALCO, Hindalco, SAIL**

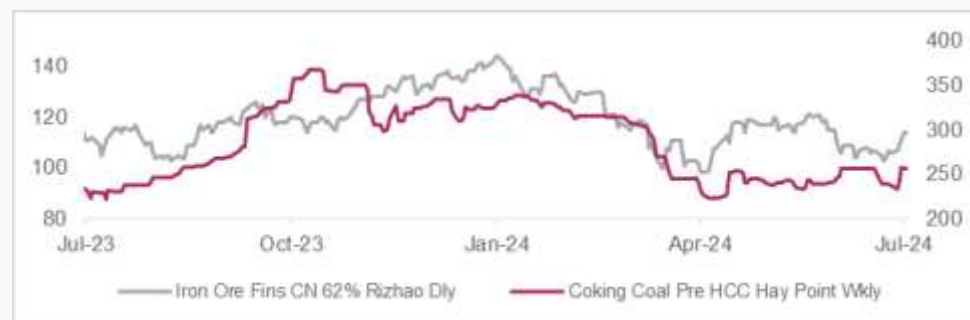
China and Indian HRC prices continue to remain soft led by weak China steel demand



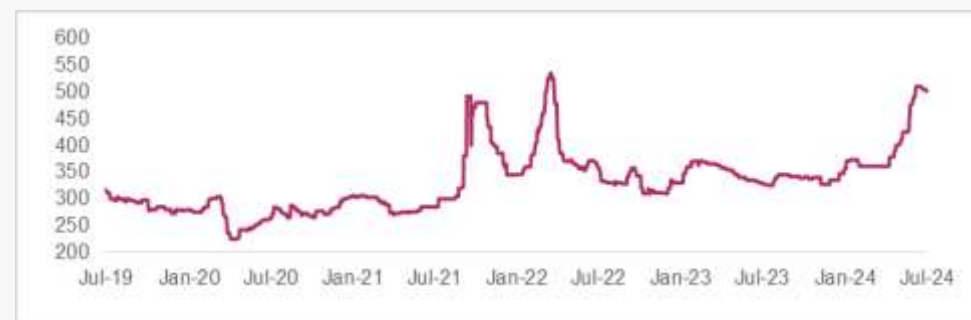
LME Aluminium prices (\$/t) rallied recently



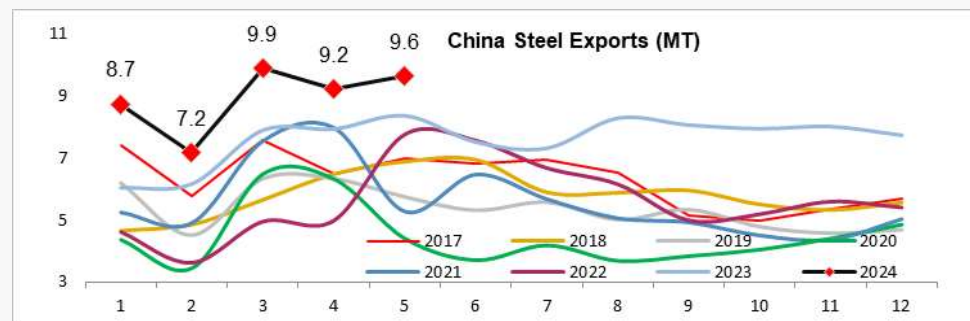
Coking coal and iron ore still softer led by weak China steel demand; slight rebound recently



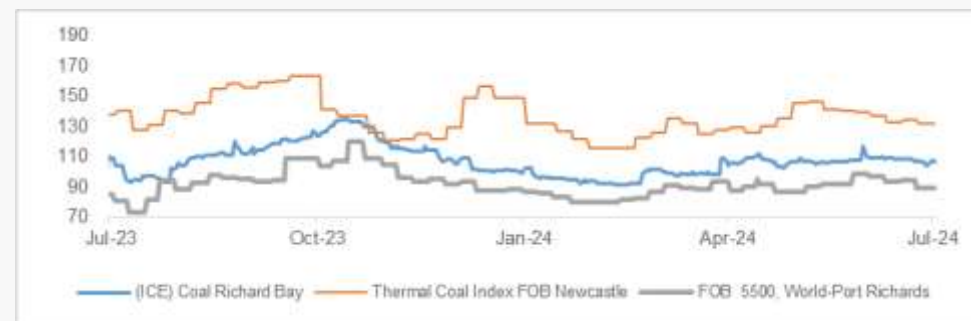
Alumia prices (\$/t) rallied recently



China Steel Exports have stood elevated in CY2024 putting pressure on ex-China prices



Thermal Coal prices rangebound



Source: Bloomberg, LSEG Workspace

Quarterly Preview – Q1FY25

Metals & Mining

Year-end March (Rs Cr)	Q1FY25E	Q4FY24	QoQ (%)	Q1FY24	YoY (%)	Result expectations
Hindalco Industries						→ We assume lower Aluminium sales QoQ. We expect Novelis shipments to remain firm at 945kt, up 8% YoY but slightly down by 0.6% QoQ. We assume lower copper sales QoQ over the high base of Q4.
Aluminum sales (kt)	345	353	-2.3%	336	2.6%	
Novelis Shipments (kt)	945	951	-0.6%	879	7.5%	→ LME Aluminum prices were up 11%/15% YoY/QoQ. We expect Consolidated Revenue to increase QoQ due to higher LME Aluminum prices, partially offset by lower metal sales volumes.
Copper sales (Kt)	125	135	-7.6%	118	5.8%	
LME Aluminum (\$/t)	2,525	2,202	14.6%	2,269	11.3%	→ EBITDA to increase YoY/QoQ due to higher LME, driven by topline and higher EBITDA/t at Novelis. EBITDA margins to improve on a YoY basis on account of easing coal costs at Indian operations and higher operating leverage at Novelis. On a QoQ basis, we expect only a slight increase in margins due to lower operating leverage at Indian operations which offsets gains from higher metal prices.
Revenues	61,186	55,994	9.3%	52,991	15.5%	
EBITDA	7,535	6,838	10.2%	5,733	31.4%	
EBITDA margin (%)	12.3	12.2	10	10.8	150	
Novelis EBITDA/t (\$/t)	526	540	-2.7%	479	9.8%	→ We expect Novelis EBITDA per tonne to slightly decline QoQ due to slightly lower metal sales volumes. On a YoY basis, we anticipate improvement driven by higher shipments.
PAT	3,784	3,174	19.2%	2,454	54.2%	
EPS (Rs)	17.0	14.3	19.2%	11.1	54.2%	
Nalco						→ We assume lower Alumina sales QoQ vs. a seasonally strong Q4. We assume slightly lower metal sales at 117kt, down 3% QoQ but flat YoY.
Alumina sales (kt)	310	378	-18.1%	310	0.0%	
Aluminum sales (kt)	117	121	-3.2%	117	0.0%	→ LME Aluminum prices inched up by 11%/15% YoY/QoQ. We expect revenue to grow by 19%/5% YoY/QoQ, mainly led by higher Aluminum and Alumina prices, partially offset by lower sales volumes.
LME Aluminum (\$/t)	2,525	2,202	14.6%	2,269	11.3%	
Revenues	3,769	3,579	5.3%	3,178	18.6%	→ We expect EBITDA to increase by 102% YoY due to higher topline and lower coal costs. On a QoQ basis, we expect EBITDA to increase by 9% due to higher metal prices, partially offset by lower operating leverage.
EBITDA	1,203	1,108	8.6%	594	102.4%	
EBITDA margin (%)	31.9	30.9	97	18.7	1,322	→ We expect margins to expand on a YoY basis, mainly led by higher metal prices and lower power and fuel costs. On a QoQ basis, we expect a slight increase in margins due to lower operating leverage.
PAT	804	570	41.0%	334	140.8%	
EPS (Rs)	4.4	5.4	-19.4%	1.8	140.8%	

Year-end March (Rs Cr)	Q1FY25E	Q4FY24	QoQ (%)	Q1FY24	YoY (%)	Result expectations
SAIL						→ Steel HRC prices (trader's market ex-Mumbai) have declined by 6% YoY but stood flat QoQ. We assume saleable steel sales volumes at 4.3 MT, down 5% QoQ, up 12% YoY
HRC Ex-Mumbai (Rs/t)	54,972	54,539	0.8%	58,472	-6.0%	
Sales Volume (MT)	4.3	4.6	-4.6%	3.9	12.0%	→ Revenue to decline by 7% QoQ on lower volumes and NSR. On a YoY basis, revenue is to rise driven by higher volumes partially offset by lower realizations
Revenues	25,900	27,959	-7.4%	24,359	6.3%	
Adj. EBITDA (Exl Rail benefits)	2,431	1,769	37.5%	1,649	47.5%	→ Adjusted EBITDA (excluding the rail provisional income) is expected to improve YoY, driven by lower coking coal consumption costs and higher sales volumes. On a QoQ basis, Adjusted EBITDA is anticipated to increase, primarily due to lower coking coal consumption costs. In Q4FY24, SAIL booked an exceptional income of Rs 1,714 Cr due to the upward revision of provisional rail prices retrospectively, effective from 1 Apr'22.
EBITDA margin (%)	9.4	6.3	306	6.8	262	
Adj. EBITDA/t (Rs/t)	5,592	3,879	44.2%	4,245	31.7%	
PAT	478	1,126	-57.6%	212	124.8%	→ We expect EBITDA/t to improve YoY/QoQ led by lower coking coal cost
EPS (Rs)	1.2	2.7	-57.6%	0.5	124.8%	
Tata Steel						→ Tata Steel reported its Q1FY25E production figures. Tata Steel India's sales volume stood at 4.94 MT, down 9% QoQ, compared to the seasonally strong Q4FY24. In Europe, sales volume was robust at 2.21 MT, up 4.2% QoQ, driven by normal operating levels in the Netherlands. The UK BF-5 was decommissioned on 4th July. Consolidated sales volume decreased by 5% QoQ from the seasonally strong Q4FY24.
India Sales Volume (MT)	4.94	5.41	-8.6%	4.79	3.1%	
Europe Sales Volume (MT)	2.21	2.12	4.2%	2.12	4.2%	
Consolidated sales volume (MT)	7.46	7.85	-4.9%	7.18	3.9%	→ Steel HRC prices (trader's market ex-Mumbai) have declined by 6% YoY and remained flat QoQ. Consolidated revenue is expected to rise slightly QoQ, driven by higher steel price realization in India and the Netherlands, partially offset by lower steel sales volumes.
HRC Ex-Mumbai (Rs/t)	54,972	54,539	0.8%	58,472	-6.0%	
Revenues	59,242	58,687	0.9%	59,490	-0.4%	
EBITDA	5,928	6,601	-10.2%	5,174	14.6%	→ EBITDA is expected to increase YoY, driven by lower coking coal consumption costs in India. However, on a QoQ basis, EBITDA is projected to decline by 10%, primarily due to lower sales volumes in India.
EBITDA margin (%)	10.0	11.2	(124)	8.7	131	
India EBITDA/t (Rs/t)	14,077	15,685	-10.2%	13,488	4.4%	→ India's EBITDA per tonne is expected to decline QoQ, primarily due to lower operating leverage resulting from reduced sales volumes. EBITDA per tonne losses in Europe are expected to narrow YoY, remaining nearly flat QoQ. Specifically, the Netherlands is anticipated to post positive EBITDA, contrasting with weakness expected at UK operations.
Europe EBITDA/t (\$/t)	(37)	(37)		(96)		
PAT (excl. exceptional, attr. to shareholders)	1,190	1,206	-1.3%	283	321.4%	
EPS (Rs)	1.0	1.0	-1.3%	0.2	312.5%	

Year-end March (Rs Cr)	Q1FY25E	Q4FY24	QoQ (%)	Q1FY24	YoY (%)	Result expectations
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APL Apollo Tubes

HRC Ex-Mumbai (Rs/t)	54,972	54,539	0.8%	58,472	-6.0%	→ APL Apollo's sales volume reached a new high of 721 kt, marking a 9% increase YoY and a 6% increase QoQ.
Sales Volume (kt)	721	679	6.3%	662	9.0%	→ Revenue is expected to rise YoY and QoQ, driven by higher sales volumes, partially offset by lower realization.
Revenues	4,809	4,766	0.9%	4,545	5.8%	
Realization (Rs/t)	66,690	70,234	-5.0%	68,706	-2.9%	→ EBITDA is anticipated to improve YoY and QoQ, supported by higher sales volume and an increased share of value-added products (VAP). Super heavy tubes sales volume stood at 10.86 kt, up 146% YoY and 44% QoQ, with the overall VAP share maintaining at 60% in Q1FY25E (unchanged QoQ) compared to 57% last year.
EBITDA	320	280	14.1%	307	4.1%	
EBITDA margin (%)	6.7	5.9		6.8		
EBITDA/t (Rs/t)	4,435	4,132	7.3%	4,645	-4.5%	→ EBITDA per tonne is projected to decline by 5% YoY, primarily due to lower sales realization and higher input costs. However, QoQ, there is expected to be an increase in EBITDA per tonne driven by higher operating leverage.
PAT	197	170	15.4%	194	1.6%	
EPS (Rs) Diluted	7.09	6.14	15.5%	6.98	1.6%	

JTL Industries Ltd

HRC Ex-Mumbai (Rs/t)	54,972	54,539	0.8%	58,472	-6.0%	→ Sales volume grew by 11%/5% YoY/QoQ to 85.67 kt
Sales Volume (kt)	85.67	81.91	4.6%	77.34	10.8%	→ Revenue to decline by 4% YoY led by lower realization. Revenue to increase by 4% QoQ led by higher sales volumes partially offset by lower sales realization.
Revenues	484	466	3.9%	505	-4.1%	
Realization (Rs/t)	56,500	56,882	-0.7%	65,269	-13.4%	→ A drop in steel prices will lead to a drop in realization by 13%/1% YoY/QoQ
EBITDA	36	37	-2.0%	36	1.3%	→ EBITDA to de-grow by 2% QoQ (up 1.3% YoY) led by lower sales realization.
EBITDA margin (%)	7.4%	7.9%		7.0%		→ EBITDA/t to drop YoY/QoQ due to lower sales realization. VAP share stood at 25% in the quarter vs. 24% QoQ and 42% YoY.
EBITDA/t (Rs/t)	4,200	4,485	-6.3%	4,594	-8.6%	
PAT	27	30	-7.2%	25	8.1%	
EPS (Rs) Diluted	1.6	1.7	-7.2%	2.6	-40.3%	

Year-end March (Rs Cr)	Q1FY25E	Q4FY24	QoQ (%)	Q1FY24	YoY (%)	Result expectations
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Coal India

Offtake (MT)	197	202	-2.4%	187	5.4%	➔ Coal India Limited (CIL) coal off-take grew by 5.4% YoY but declined by 2% QoQ.
Revenues	37,372	37,410	-0.1%	35,983	3.9%	➔ We project a 60% e-auction premium (compared to 66% in Q4FY24) and 13% e-auction volumes (compared to 11% in Q4FY24). Lower total off-take and e-auction premiums are expected to lead to a marginal decline in revenue QoQ, partially offset by higher e-auction volumes. On a YoY basis, higher total off-take will drive revenue growth, partially offset by a drop in e-auction premiums (60% in Q1FY25E vs. 144% in Q1FY24).
Adj. EBITDA (exl OBR)	10,382	9,844	5.5%	11,160	-7.0%	
EBITDA	9,688	11,338	-14.6%	10,514	-7.9%	
Adj. EBITDA margin (%)	27.8	26.3	147	31.0	(323)	
PAT	6,881	8,682	-20.7%	7,971	-13.7%	➔ We anticipate Adjusted EBITDA (excluding Other Operating Revenue) to grow by 6% QoQ, driven by lower input costs compared to Q4FY24 when employee and other expenses were seasonally higher. Adjusted EBITDA is expected to decline by 7% YoY due to cost inflation compared to the previous year.
EPS (Rs)	11.2	14.1	-20.7%	12.9	-13.7%	

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Sr. No	Name	Designation	E-mail
1	Neeraj Chadawar	Head of Research	neeraj.chadawar@axissecurities.in
2	Preeyam Tolia	Research Analyst	preeyam.tolia@axissecurities.in
3	Omkar Tanksale	Research Analyst	omkar.tanksale@axissecurities.in
4	Uttamkumar Srimal	Research Analyst	uttamkumar.srimal@axissecurities.in
5	Ankush Mahajan	Research Analyst	ankush.mahajan@axissecurities.in
6	Dnyanada Vaidya	Research Analyst	dnyanada.vaidya@axissecurities.in
7	Aditya Welekar	Research Analyst	aditya.welekar@axissecurities.in
8	Sani Vishe	Research Analyst	sani.vishe@axissecurities.in
9	Eesha Shah	Research Analyst	eesha.shah@axissecurities.in
10	Shridhar Kallani	Research Associate	shridhar.kallani@axissecurities.in
11	Shikha Doshi	Research Associate	shikha.doshi@axissecurities.in
12	Suhanee Shome	Research Associate	suhanee.shome@axissecurities.in
13	Shivani More	Research Associate	shivani.more@axissecurities.in
14	Pranav Nawale	Research Associate	pranav.nawale@axissecurities.in
15	Darsh Solanki	Research Associate	darsh.solanki@axissecurities.in
16	Aman Goyal	Research Associate	aman.goyal@axissecurities.in

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