



**Top Conviction Ideas: Metals & Mining**

## Q4FY26: Solid Operational Performance Continues; Metal Prices Remain Elevated

### ✓ *Financial Performance*

#### ▪ **For Aluminium companies under coverage:**

- ✓ **Hindalco's** Indian operations stood robust, backed by the resilient performance of Novelis. Consolidated Revenue stood at Rs 78,133 Cr (up 20%/17% YoY/QoQ), 3% ahead of our estimate. EBITDA stood at Rs 10,176 Cr (up 6%/28% YoY/QoQ), exceeding our pre-Novelis results estimate of Rs 8,970 Cr, led by strong upstream aluminium and copper performance.
- ✓ **NALCO's** consolidated revenue stood at Rs 5,013 Cr (down 5% YoY, up 6% QoQ), in line with the consensus estimate. EBITDA stood at Rs 2,349 Cr, down 15% YoY but up 8% QoQ, 3% miss vs. consensus. NALCO delivered superior cost control with employee and power costs under control, but other expenses stood higher (up 31%/18% YoY/QoQ).

#### ▪ **For Steel companies under our coverage:**

- ✓ **Tata Steel's** consolidated EBITDA beat our and consensus estimates by 7%-5% and stood robust at Rs 9,829 Cr (up 50%/20% YoY/QoQ). EBITDA growth was supported by record-high sales volumes at 8.72 MT (up 5%/6% YoY/QoQ), led by KPO-II ramp-up. India Q4 EBITDA/t stood robust at Rs 15,245/t (4% ahead of our estimate, up 20%/16% YoY/QoQ), driven by higher NSRs and volume ramp-up at Kalinganagar Phase II (fully commissioned now). Netherlands EBITDA grew by 9% QoQ (+373% QoQ on the impacted base) to Rs 624 Cr, led by higher steel deliveries, partly offset by lower NSRs. UK Q4 EBITDA Losses Narrowed to -£48 Mn, an improvement of £15 Mn QoQ with EBITDA/t at -£89/t (from -£111/t in Q3).

### Financial Performance

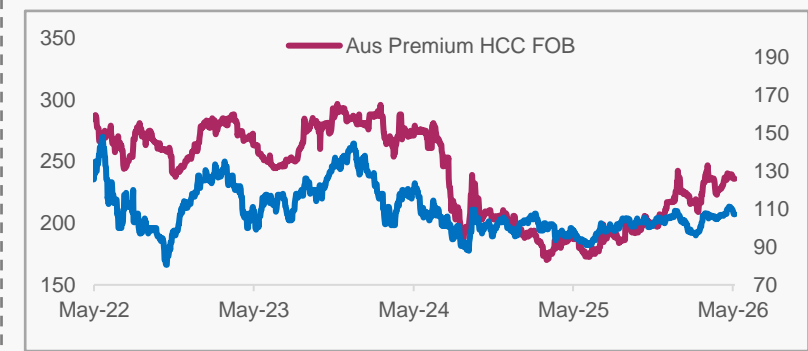
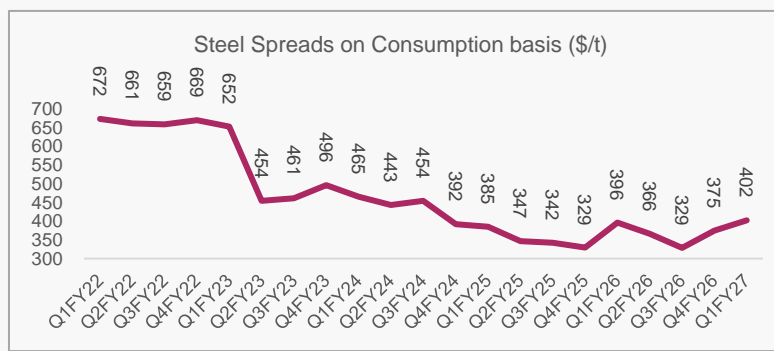
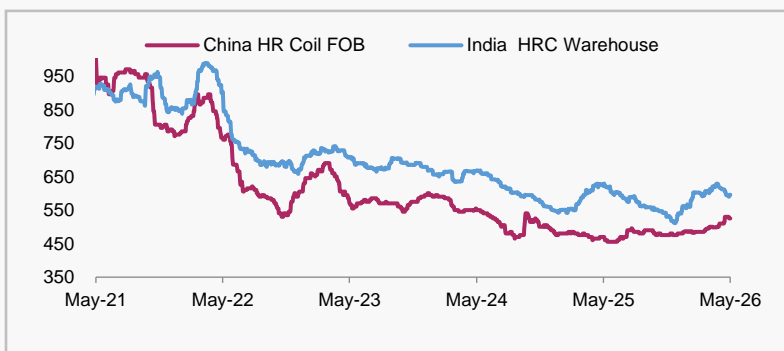
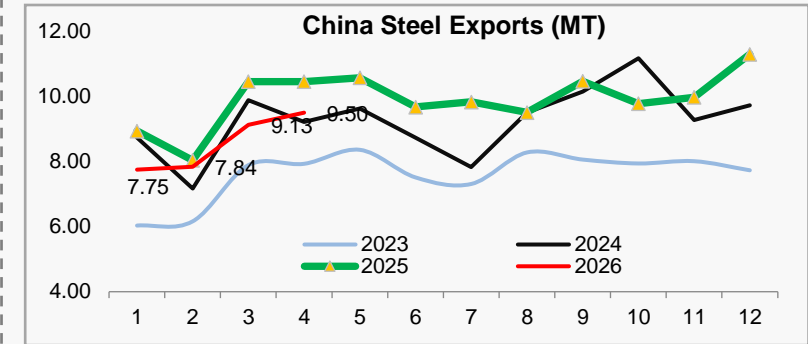
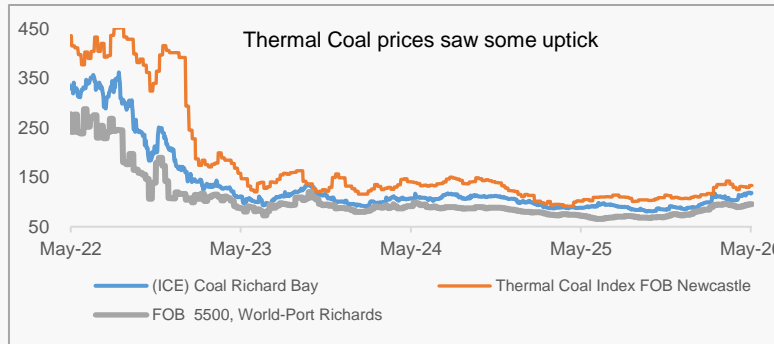
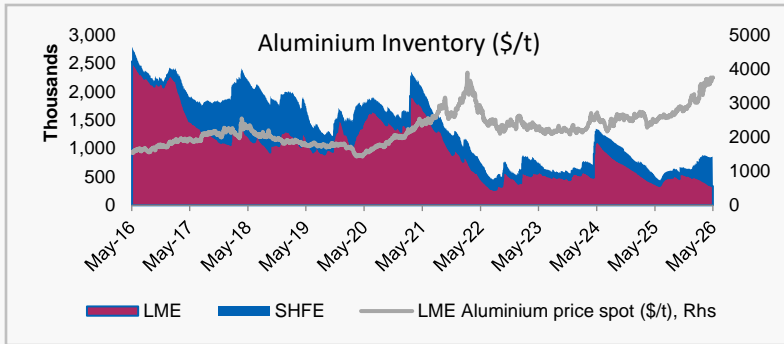
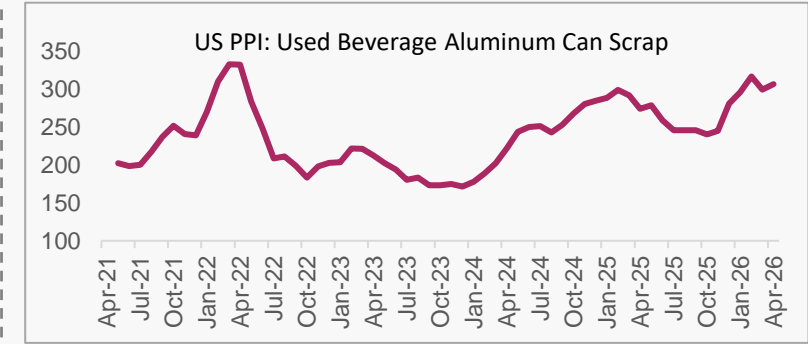
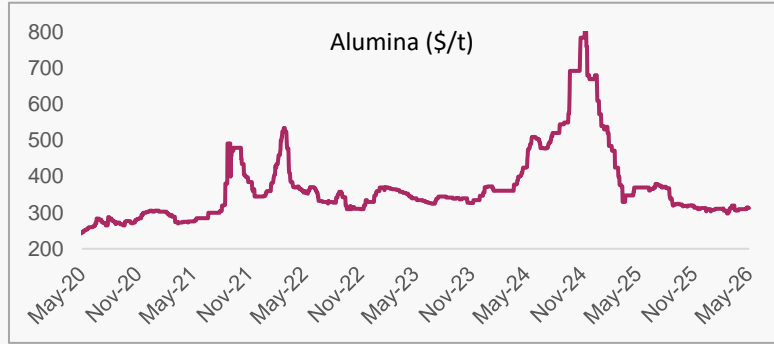
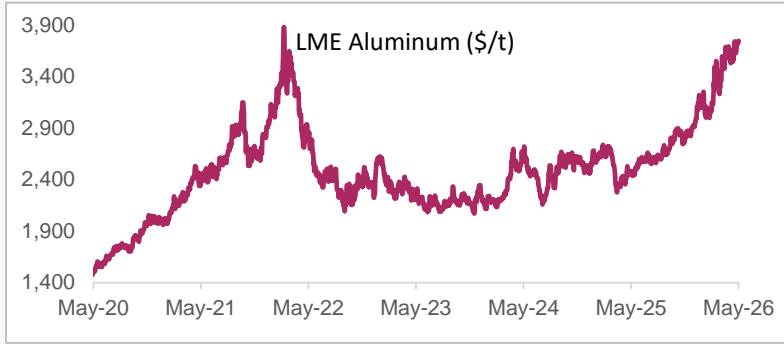
- **SAIL** reported a solid set of numbers with EBITDA beating consensus on stronger spreads. Revenue stood at Rs 30,813 Cr (up 8%/13% YoY/QoQ), beating our estimates by 2%. EBITDA stood at Rs 4,409 Cr, up 58%/92% YoY/QoQ, 11% and 21% beat on consensus estimate and our estimates, driven by lower RM costs and higher sales volume. EBITDA/tonne stood at Rs 8,287/t, up 59%/86% YoY/QoQ, reflecting higher NSR and improving RM cost control, led by superior techno-economic parameters
- **Coal India** reported a weak set of numbers, as was anticipated. Revenue stood at Rs 34,924 Cr, down 2% YoY, but up 16% QoQ (on seasonality), a 3% beat to our estimates. EBITDA excluding stripping activity stood at Rs 7,870 Cr, down 24%, but up 35% QoQ. Reported EBITDA stood at Rs 9,331 Cr (down 24% YoY), 11% miss vs consensus, mainly due to higher employee expenses.
- **APL Apollo Tubes** reported a resilient set of numbers with EBITDA beating our and consensus estimates. EBITDA stood resilient (amidst the backdrop of war's impact) at Rs 511 Cr, up 24%/8% YoY/QoQ, 1%/2% ahead of consensus and our estimate. EBITDA/t stood at Rs 5,525/t, up 14%/7% YoY/QoQ, led by higher sales volumes, which reached 924kt (up 9%/1% YoY/QoQ). VAP share stood resilient at 55% (vs 57% in Q3FY26). Management remains confident of sustaining Rs 5,000-5,500/t EBITDA, even in volatile conditions.

- Steel prices remains elevated:** Steel prices increased further in Q1FY27 so far (Apr-May'26) and averaged at Rs 58,777/t, up 9% from the Q4FY26 average level of Rs 53,939/t. Steel prices have been on an increasing trend, with Q4FY26 prices up 11%/14% YoY/QoQ, followed by the onset of the construction season post-extended monsoon and the safeguard duty announcement of 12% in Dec'25. Chinese HRC prices (FOB China SS400 Rizhao) also increased in Apr-May'26 so far and averaged \$510/t, up 8% vs. Q4FY26 average. Domestic HRC prices are now trading at a 12% discount to Chinese landed prices, aided by a 12% safeguard duty and depreciation of the rupee. However, going forward, steel prices could remain range-bound amidst some demand moderation due to the heatwave, and as the monsoon approaches, the prices could see some correction from higher levels.
- Steel raw material prices:** Coking coal prices in Apr-May'26 averaged at \$233/t, up 3.7% vs. Q4FY26 average. Coking coal futures in China surged to an 18-month high on 26<sup>th</sup> May'26 after a gas explosion at a mine in Shanxi province triggered sweeping production halts and intensified safety inspections across the country's top coal-producing region. Iron ore prices averaged \$107/t in Apr-May'26 an increase of 4.3% vs. Q4FY26. Both iron ore and coking coal prices found support from the seasonal steel demand. **Steel spreads** on a consumption basis are expected to increase by ~11% QoQ in Q1FY27, mainly led by an increase in HRC prices in Q1FY27 so far, which are up by 9% vs. Q4FY26 average, partly offset by higher coking coal prices, which averaged at \$225/t in Q4FY26, up 11% QoQ and which will be consumed in Q1FY27 (1 quarter lag).
- Company outlook:** In Q1FY27, the steel company's margins will find support from higher steel prices and sales volumes, partly offset by higher coking coal costs. **Tata Steel** – India NSR will be up by ~Rs 6,000/t QoQ in Q1FY27, while coking coal is also likely to rise ~\$15/t QoQ; volumes are guided to increase by 2mt+ YoY in FY27, led by Kalinganagar ramp-up, supporting margin expansion. Europe will be a mixed bag with NSR at the UK likely to be higher by ~£80/t QoQ and EBITDA losses coming down QoQ. In the Netherlands, NSR ~€80/t higher QoQ; coking coal up ~\$10/t, and iron ore will be up by \$5/t. EBITDA is expected to be positive but below Q4FY26 due to DSP downtime impact. **SAIL:** Pricing outlook for Q1FY27 appears more robust; Prices have improved meaningfully in Apr–May'26, with longs NSR at Rs 57,600–57,800/t and flats at Rs 56,000–56,700/t, reflecting a net increase of ~Rs 4,000–5,000/t over Q4FY26 levels, providing a favourable margin tailwind heading into Q1FY27. Coking coal, on the other hand, will impact spreads with a net impact of Rs 1,400–1,500/t due to an increase in coking coal prices. **APL Apollo tubes:** Earlier 20% YoY volume growth guidance for FY27 was revised towards the lower end of 15-20% (at risk near term). Management emphasised that margin guidance is more reliable than volume guidance in current macro conditions and maintained its EBITDA/t guidance at Rs 5,000-5,500/t. FY27 EBITDA growth guidance is 20-25%, and PAT growth will be 25-30% YoY.

## Aluminium Sector Outlook

- **Aluminum near 4-year high:** LME aluminium spot prices have rallied around \$3,700/t to touch four-year highs, led by Geopolitical tensions in the Middle East. A prolonged supply disruption in the Middle East, where a naval blockade has sidelined 9% of global supply, operations at Bahrain's ALBA are suspended, and EGA's flagship refining capacity is offline for an expected twelve months due to direct attacks. Upward price pressure is further exacerbated by reports that China may enforce production caps on domestic smelters to curb industrial emissions. This tight fundamental backdrop pushed LME aluminium prices to an average of \$3,623/t in Apr-May'26, a 13% sequential increase from the Q4FY26 average of \$3,193/t and a 48% YoY increase.
- **Alumina prices range-bound at lower levels:** Alumina prices in Q1FY27 till date (Apr-May'26) averaged at \$311/t and remained flat QoQ, but have declined by 13% YoY. The relative weakness continues as the ongoing Middle East conflict has reduced demand. China curtailed ~4 Mmtpa of refining capacity in Q1CY26 as the domestic Chinese demand came under pressure due to policy-related disruptions and higher alumina imports from the rerouted Middle East cargoes. Ongoing refining expansions/ramp-ups in China, Indonesia and India continue to weigh on the market; however, new smelter capacity, mainly from Indonesia, should begin to absorb surplus alumina in late 2026.
- **Bauxite prices remain subdued:** CIF China bauxite prices declined in Q1FY26 following increased Guinea supply. While elevated freight provides some support, Guinea's export policy remains the key variable – recent reports indicate that Guinea, the world's biggest bauxite producer, is taking steps to control bauxite exports in Jun'26.
- **Company outlook: Hindalco** - Aluminium cost of production (CoP) rose ~2% QoQ in Q4FY26 and is guided to rise by ~5% QoQ in Q1FY27. Novelis adj EBITDA could remain impacted due to the Oswego fire. The estimated impact from both fires on total free cash flow, before insurance, will be ~\$1.7 bn, including Adjusted EBITDA impact of ~\$100-150 Mn. Shipments' impact will be ~150-200kt. Estimated ~70-75% of cash flow and Adjusted EBITDA impact will be recoverable through insurance; a majority to be received in future periods. Long-term EBITDA/t potential is \$600/t once Bay Minette ramps up. Bay Minette project remains on track for commissioning in H2CY26; seen as key driver for >\$600/t long-term EBITDA ambition. **NALCO:** FY27 Alumina production guidance is ~25 Lc tonnes, +2 Lc tonnes YoY, led by the new 5th stream refinery. Aluminium production will continue to be near peak capacity at ~4.73 Lc tonnes. Higher LME Aluminium prices and INR depreciation will aid NALCO's profitability in Q1FY27.

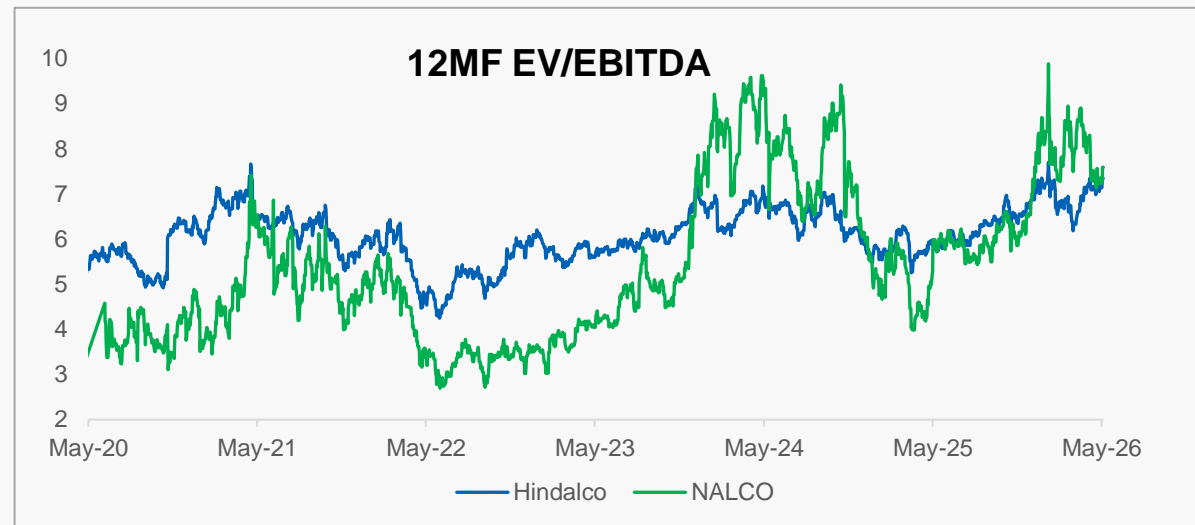
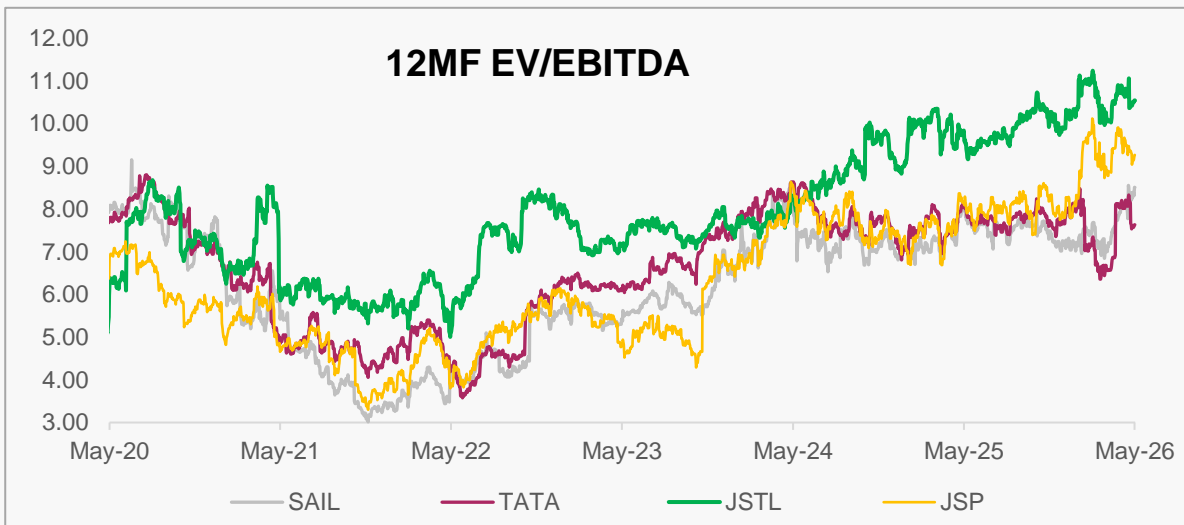
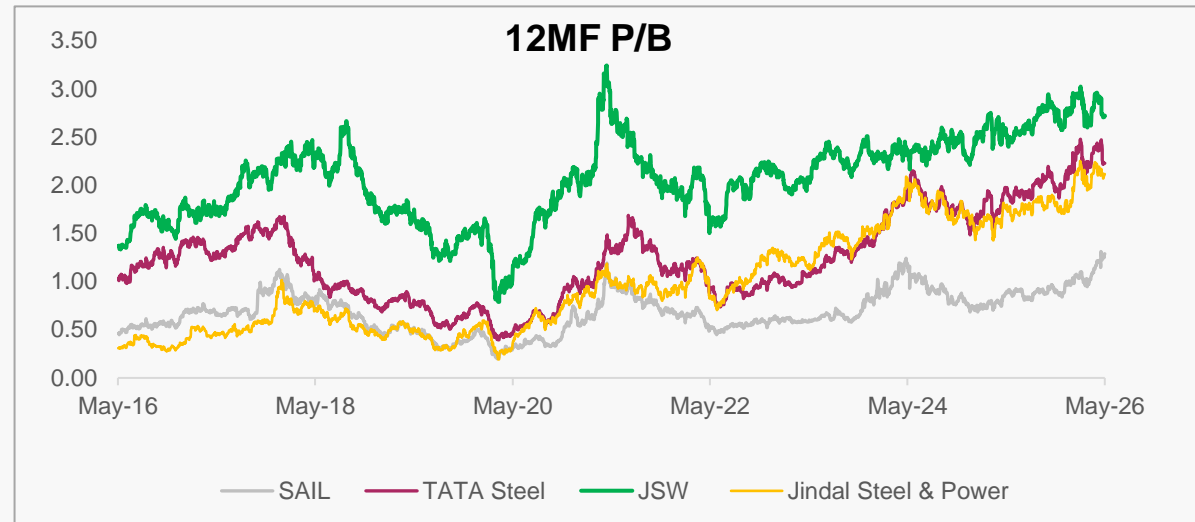
# Metals & Mining Key Charts




# Steel Valuations above +1 SD over LT average P/B

- SAIL is trading at P/B of 1.29x vs LT average of 0.68x
- Tata Steel is trading at P/B of 2.23x vs LT average of 1.25x
- Jindal Steel is trading at P/B of 2.12x vs LT average of 0.99x
- JSW Steel is trading at P/B of 2.72x vs LT average of 2.07x


Both Steel and Aluminium companies' valuations have factored in the positive price outlook, and the risk-reward at this juncture looks balanced.



Source: LSEG Workspace

Stock	Reco.	TP	Recommendation Rationale
 <p><b>APL Apollo tubes</b></p>	<p><b>BUY</b></p>	<p><b>Rs 2,250*</b></p>	<ul style="list-style-type: none"> <li>✓ <b>Resilient Q4FY26 Despite Disruptions:</b> Despite late-quarter disruptions (war impact, energy shortages, destocking), the company delivered ~Rs 5,500+/t EBITDA, driven by strong brand premium and better product mix amidst supply tightness in steel tubes. Management remains confident of sustaining Rs 5,000-5,500/t EBITDA, even in volatile conditions.</li> <li>✓ <b>Strategic Shift: Profitability Over Volume in the Near Term:</b> Given demand uncertainty and macro headwinds, management highlighted a clear pivot. The focus will be on protecting margins and absolute EBITDA rather than volumes. Volume growth will be volatile and could be below guidance in the near term as Apr-May'26 trends indicate weak volumes but strong profitability.</li> <li>✓ <b>Strong Cash Generation &amp; Balance Sheet Strength:</b> FY26 Operating Cash Flow stood robust at ~Rs 2,000 Cr (up 65% YoY), Free Cash Flow at ~Rs 1,336 Cr (from Rs 374 Cr in FY25), Net Cash at ~Rs 1,500 Cr+ (jump from Rs 304 Cr in FY25). A significant ~Rs 1,000 Cr cash build-up in Q4 alone was driven by Inventory reduction (30-40k tonnes) and working capital efficiency. This strong balance sheet enables self-funded capex, higher dividends, and potential buybacks.</li> <li>✓ <b>Capacity Vision 2030 Underpins Growth:</b> The company plans to raise its total capacity to 10 MT by FY30 from the current 5 MT. (FY27: 6.0-6.5 MT, FY28: 8 MT). Management is confident in demand, supported by brand acceptance across price points (from SG premium to Apollo). Capacity expansion will be mainly in new markets, along with new products, funded internally through a capex of Rs 1,500 Cr. It will be a combination of greenfield capacity (2 MT by FY28) plus de-bottlenecking (1 MT by FY28) and the rest 2 MT by FY30 will be of speciality tubes.</li> </ul>

\* Note: Target Price is based on our Q4FY26 Result Update Report

Stock	Reco.	TP	Recommendation Rationale
 <b>Hindalco Industries Ltd</b>	<b>BUY</b>	<b>Rs 1,220*</b>	<ul style="list-style-type: none"> <li>✓ <b>List of expansion projects:</b> Hindalco has a list of expansion projects lined up for the future. Aditya alumina refinery (850 ktpa), 180 ktpa phase I Aluminium smelter at Aditya, and the copper recycling (50 ktpa) plant are on track for FY28 commissioning. The company announced a 193 ktpa Phase II expansion at Aditya Aluminium (to be operational by FY29). FY26 consolidated capex rose 47% YoY to Rs 31,619 Cr, driven by Novelis' Bay Minette project and India expansions. Consolidated capex to remain elevated at ~Rs 30,000 Cr in FY27, led by India capex at ~Rs 12,000 Cr and Novelis at \$2.3-2.4 Bn. Consolidated capex will be moderating in FY28, despite a rise in Indian capex towards ~Rs 15,000–17,000 Cr, led by a sharp cut in Novelis capex as Bay Minette commissions. Net debt/EBITDA rose to 1.83x (1.73x in Dec'25); management reiterated leverage at 2.0x during the expansion phase, with consolidated net debt peaking around Rs 80,000-90,000 Cr levels over the next two years.</li> <li>✓ <b>Copper business:</b> The company's 300 ktpa brownfield copper smelter expansion is expected to be commissioned by FY29 in Gujarat, and management envisages that the Tc/Rcs will improve from the current low levels in the next few years as it embarks on the smelter capex. Copper smelting capacity will rise to 721kt from 421kt post this 300kt expansion. In line with the smelting capacity, the CCR expansion of 300 KT is also under execution over and above the existing 540 ktpa rods capacity. This will lead to a \$100/t addition to EBITDA/t over the base of FY24.</li> <li>✓ <b>Novelis:</b> The Bay Minette project is on track with full commissioning expected by H2CY26. The projected IRR has now dropped from mid-teens to higher single digits, though management expects it to remain better than the cost of capital.</li> </ul>

\* Note: Target Price is based on our Q4FY26 Result Update Report

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