India Equity Analytics

Results Preview Q3FY19- Metals and Minerals

Analyst
Sagar Sharma
sagar.sharma@narnolia.com
+91-22-62701234

APL Apollo Tubes Limited

APAT IN

Metals and Minerals

CMP	**1108**
Target	**1120**
Upside	**1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	20%	19%	15%	18%
Roce%	33%	35%	27%	33%
P/E	18.9	29.4	16.9	11.9
P/B	3.8	5.6	2.5	2.1
EV/Ebdita	8.8	12.9	6.9	5.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Sales (KT)	932	1130	1285	1543	281	304	324
Segmental Volume							
Hollow Section(KT)	475	614	722	866	157	177	184
Black Pipe (KT)	151	164	190	229	39	44	45
GI Pipe (KT)	117	111	104	124	27	20	29
GP Pipe (KT)	189	241	270	324	59	62	66
Financials							
Sales	4,545	5,335	6,798	7,221	1314	1690	1686
Sales Gr	*8%*	*17%*	*27%*	*6%*	*15%*	*26%*	*28%*
Ebdita	324	371	420	531	88	86	94
Ebdita Gr	*15%*	*14%*	*13%*	*26%*	*14%*	*-15%*	*6%*
Net Profits	146	160	158	228	36	27	30
Profit Gr%	*45%*	*10%*	*-1%*	*44%*	*22%*	*-34%*	*-17%*
EbditaM%	7.1%	7.0%	6.2%	7.3%	6.7%	5.1%	5.6%
Net Mgn%	3.2%	3.0%	2.3%	3.2%	2.7%	1.6%	1.8%
D/E	0.79	0.80	0.89	0.65			

Conso/Fig in Rs Cr

❑Sales volume growth in 3QFY19 is expected to be around 15% YoY as 2QFY19 disruptions (due to monsoon, flood in Kerala and truckers strike) gets behind and areas affected by floods would generate additional replacement demand and pick up in construction activities after monsoon would also generate demand.

❑Realization is also expected to be 12% higher YoY due to higher steel prices however we expect realization to fall QoQ due to fall in steel prices QoQ.Net sale is expected to grow by 28% YoY led by 15% YoY growth in sales volume and close to 11% YoY growth in realization.

❑ Gross margin is expected to be lower YoY due to higher steel prices; however QoQ improvement is expected due to steel prices easing off in later part of 3QFY19. In line with QoQ improvement in gross margin, EBITDA margin is also expected to improve by 1% to 6% QoQ.

❑ Company is in process of acquiring controlling stake in Apollo Tricoat. Apollo Tricoat manufacture electrical conduit pipes which are used as a substitute for PVC electrical conduit pipes. It has recently set up a 50000 TPA facility in Bengaluru. Apl Apollo would be spending close to Rs.247 crore to acquire 66.4% share. Rs.172cr is to be infused by promoters through preferential and warrant issue for acquisition of Apollo Tricoat.

Key Trackable this Quarter

❑ Movement in realization and gross margins as steel prices has seen moderation in 3QFY19.

❑ Pick up in volume growth in 3QFY19 after lower volume growth in 2QFY19 due to certain disruptions.

We value the stock at 12x FY20e EPS. NEUTRAL

Astral Poly Technik Limited

ASTRA IN

Metals and Minerals

CMP	**1132**
Target	**1350**
Upside	**19%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	17%	18%	17%	19%
Roce%	22%	23%	24%	26%
P/E	45.5	56.1	64.2	47.0
P/B	7.7	9.9	11.1	9.0
EV/Ebdita	25.3	32.0	34.0	26.9

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity(MT)	137708	152100	175708	250000	137708	174801	175708
Sales(MT)	89449	103991	118550	139889	26764	27250	31582
Segmental Revenues							
Pipes	1474	1607	1960	2312	405	481	537
Adhesives	455	499	605	714	103	158	122
Adjst.	40	(0.11)	18	-	-20	10	-
Total	1889	2106	2546	3027	529	629	659
Financials							
Sales	1,889	2,106	2546	3027	529	629	659
Sales Gr	*13%*	*10%*	*21%*	*19%*	*17%*	*21%*	*25%*
Ebdita	264	317	401	508	74	94	103
Ebdita Gr	*27%*	*17%*	*27%*	*27%*	*16%*	*24%*	*39%*
Net Profits	145	176	211	288	46	46	56
Profit Gr%	*42%*	*18%*	*20%*	*37%*	*43%*	*17%*	*20%*
EbditaM%	14.0%	15.0%	15.7%	16.8%	13.9%	15.0%	15.6%
Net Mgn%	7.7%	8.3%	8.3%	9.5%	8.8%	7.3%	8.4%
D/E	0.19	0.12	0.12	0.10			

Conso/Fig in Rs Cr

❑Astral's 3QFY19 revenue is expected to grow by 25% YoY to Rs.659cr. led by 18% YoY growth in pipe volume to 175708MT and 18% YoY growth in Adhesive business (with upside risk considering last 3 quarters growth rate of 21-25%) and Rex revenue is expected to be around Rs.45cr.

❑ Realization in pipe segment is expected to fall be at Rs.155770/t (up 3% YoY, down 3% QoQ). In line with QoQ fall in PVC prices we expect realization to correct QoQ.

❑ EBITDA margin is expected to be at 15.6% (up 2% YoY, 0.6% QoQ), YoY improvement is due to lower other expenses as 3QFY19 other expenses were higher due to increase in branding and promotional activities.

❑ Rex is expected to report lower margins in next quarter too; however it would be fully integrated with Astral by FY19 and its margins would see improvement from thereon.

❑ Management has maintained the guidance of 15% minimum growth in volume and revenue and EBITDA margins minimum of 15% on yearly basis in pipe business and 20% plus growth in revenue and EBITDA margins in range of 15-17% in Adhesive business.

Key Trackable this Quarter

❑Expenditure in sales and promotional activities particularly in Adhesive business as it can impact EBITDA margins.

❑ Growth in overall revenue of Adhesive operation (Resinova + SEAL IT).

We value the stock at 32x FY20e EV/EBITDA. BUY

Coal India Limited

COAL IN

Metals and Minerals

CMP	**241**
Target	**309**
Upside	**28%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	37%	35%	73%	71%
Roce%	37%	31%	72%	68%
P/E	19.6	25.1	9.8	9.5
P/B	7.3	8.7	7.1	6.8
EV/Ebdita	14.9	18.5	6.2	5.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Production (mt)	554.14	567.37	604.8	635.0	152.1	119.6	162.1
Offtake (mt)	543.32	580.29	609.9	640.4	151.7	137.5	158.8
Operating Matrix							
FSA Vol. (mt)	429.8	460.0	533.3	551.4	121.9	116.8	144.7
FSA Realiz.	1301	1257	1326	1326	1182	1308	1300
E-Auc Vol. (mt)	94.2	106.2	64.3	76.8	26.4	17.7	11.1
E-Auc Realiz.	1536	1839	2545	2487	1998	2592	2618
Washed Coal Vol. (mt)	14.0	11.5	9.9	9.8	2.8	2.4	2.4
Washed Coal Realiz.	3049	3022	2525	2543	2975	2602	2515
Othr. Prodt. Vol. (mt)	3.4	2.9	2.5	2.4	0.7	0.6	0.6
Othr. Prodt. Realiz.	2915	3249	3271	3344	3179	3550	3247
Financials							
Sales	78,221	85,862	95,470	99,459	21,643	22,198	23,456
Sales Gr	*0%*	*10%*	*11%*	*4%*	*6%*	*22%*	*8%*
Employee Cost	33,514	42,634	36,660	37,393	8,753	8,953	8,798
Ebdita	12,240	9,565	19,073	19,864	4,618	3,914	4,618
Ebdita Gr	*-35%*	*-22%*	*99%*	*4%*	*20%*	*378%*	*0%*
Net Profits	9,266	7,019	15,261	15,692	3,005	3,085	3,782
Profit Gr%	*-35%*	*-24%*	*117%*	*3%*	*4%*	*733%*	*26%*
EbditaM%	15.6%	11.1%	20.0%	20.0%	21.3%	17.6%	19.7%
Net Mgn%	11.8%	8.2%	16.0%	15.8%	13.9%	13.9%	16.1%

Conso/Fig in Rs Cr

❑Volume in 3QFY19 is expected to be around 158.8mt (up 5% YoY, 15% QoQ), volume is expected to pick up after monsoon in 2HFY19, however volume growth in large subsidiaries like SECL and MCL has witnessed significant slowdown in the month of Nov and Dec'18.

❑ Revenue growth is expected to grow by 8.4% YoY to Rs.22529cr. primarily driven by growth in FSA revenue share of 31%, whereas E-Auction revenue is expected to decline by 45% YoY due to higher allocation towards power sector through FSA.

❑ On realization front we expect FSA realization to grow by 10% YoY to Rs.1300/t due to the effect of price hike taken in 4QFY18 and is expected to be flat QoQ. E-Auction realization is expected to be around Rs.2618/t (up 31% YoY and 1% QoQ), E-Auction realization is expected to sustain at high level due to coal shortage in domestic market and decreased share of E-Auction volume.

❑ EBITDA is expected to decline by 1% YoY to 20% due to change in FSA and E-Auction mix and is expected to improve QoQ primarily on account of higher volume, as realizations are expected to remain same and FSA and E-Auction mix trend is also expected to be same.

Key Trackable this Quarter

❑ E-Auction allocation, as higher E-Auction volume can improve margins.

❑ E-auction realization trend as international non-coking coal prices have moderated QoQ.

We value the stock at 7.2x FY20e EV/adj. EBITDA. BUY

Finolex Industries Limited

FNXP IN

CMP	**548**
Target	**540**
Upside	**-1%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	15%	11%	12%	12%
Roce%	22%	15%	18%	16%
P/E	20.2	27.6	19.3	17.9
P/B	3.1	3.0	2.3	2.1
EV/Ebdita	12.7	17.0	11.3	11.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Pipes and Fittings	209339	252036	279760	310534	61514	45273	68281
PVC Resin	235104	258767	258769	287863	71107	43461	64125
Power (MWH)	202890	208747	217694	246888	56559	41750	54275
Segmental Revenues							
PVC	1754	1778	1868	1972	460	327	447
PVC Pipes & Fittings	2211	2329	2725	2947	532	471	659
Power	145	142	154	176	38	30	39
Less:Int Seg. Rev.	1131	1418	1549	1596	307	284	357
Total	2979	2831	3198	3499	723	543	788
Financials							
Sales	2,988	2,738	3199	3499	723	543	788
Sales Gr	*5%*	*-8%*	*17%*	*9%*	*25%*	*14%*	*9%*
Ebdita	563	484	598	599	113	125	136
Ebdita Gr	*39%*	*-14%*	*24%*	*0%*	*-13%*	*152%*	*20%*
Net Profits	355	299	381	379	70	76	84
Profit Gr%	*38%*	*-16%*	*28%*	*0%*	*-3%*	*170%*	*21%*
EbditaM%	18.8%	17.7%	18.7%	17.1%	15.7%	23.0%	17.3%
Net Mgn%	11.9%	10.9%	11.9%	10.8%	9.6%	14.1%	10.7%
D/E	0.04	0.04	0.05	0.05			

Std/Fig in Rs Cr

❑Pipes & Fittings volume in 3QFY19 is expected to grow by 11% YoY and 51% QoQ to 68281 MT, volume growth in 2HFY19 is expected to significantly higher as monsoon effect of 2Q gets behind. However, higher pipes & fittings sales would lead to lower external PVC resin sales as more would be consumed for captive purpose, PVC resin sales is expected to be 10% lower YoY at 64125 MT in 3QFY19 and 3% YoY higher in 2HFY19 at 146866 MT.

❑ Realization in pipes and fitting segment is expected to be at Rs.96508/t (up 12% YoY, down 7%QoQ) and in PVC resin realization is expected to be around Rs.69780/t (up 8% YoY, down 7% QoQ). We expect quarterly fall in realization on account of 7% fall in PVC prices.

❑ Margins are expected to improve YoY but QoQ contraction is expected due to decline in PVC price (down 7% QoQ) and increase in EDC (raw material) prices (up 10% QoQ).Furthermore, 2QFY19 also had inventory gain which had improved margins, however the same is not expected in 3QFY19.

❑ Management maintained its guidance of double digit volume growth annually.

Key Trackable this Quarter

❑ PVC-EDC spread as PVC prices have declined and EDC prices have increased which will impact margins.

❑ Pick up in volume after monsoon season.

We value the stock at 11x FY20e EV/EBITDA. NEUTRAL

Hindalco Industries Limited

Metals and Minerals

HNDL IN

CMP	**226**
Target	**290**
Upside	**28%**
Rating	**BUY**

	FY17	FY18	FY19E	FY 20E
Roe%	4%	11%	10%	9%
Roce%	2%	6%	5%	5%
P/E	23.3	11.2	8.7	8.2
P/B	1.0	0.9	0.8	0.8
EV/Ebdita	7.0	6.3	6.1	6.1

Ratios on consolidated basis

Volume (kt)	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Alumina	2887	2880	2937	3000	734	701	749
Aluminium	1265	1290	1290	1305	325	326	329
Copper	376	411	390	411	102	79	109
Novelis Shipments	3067	3189	3253	3334	796	807	818
Segmental Revenues							
Aluminium	19,986	21,062	22,958	21,853	5323	6135	5760
Copper	19,408	22,371	23,285	24,406	5701	4710	6572
Financials (Standalone)							
Sales	36,937	42,798	46,226	46,258	11023	10833	12332
Sales Gr	*8%*	*16%*	*8%*	*0%*	*11%*	*5%*	*12%*
Ebdita	4,814	5,124	5,064	5,693	1312	1091	1344
Ebdita Gr	*44%*	*6%*	*-1%*	*12%*	*11%*	*-22%*	*2%*
Net Profits	1,557	1,438	1,674	2,185	376	309	490
Profit Gr%	*182%*	*-8%*	*16%*	*31%*	*18%*	*-21%*	*30%*
Novelis Ebitda(USDmn)	1001	1181	1272	1261	294	335	294
Utkal EBITDA	673	1084	2143	1939	247	620	518
EbditaM%	13.0%	12.0%	11.0%	12.3%	11.9%	10.1%	10.9%
Net Mgn%	4.2%	3.4%	3.6%	4.7%	3.4%	2.8%	4.0%

Std/Fig in Rs Cr

❑Hindalco standalone revenue is expected to grow by 12% YoY led by 8% growth in Aluminium business and 15% growth in Copper business. Growth in Aluminium business is primarily on account of rupee depreciation and growth in Copper business is led by higher volume and rupee depreciation as well.

❑ Hindalco standalone EBITDA is expected to be lower by 1% YoY to 11% due to higher alumina and power cost YoY. However, margins are expected to improve QoQ from 10% to 11% led by QoQ decline in alumina prices but power cost would still remain on higher side due to high non coking coal prices. Utkal EBITDA is expected to be around Rs.518cr over 2x 3QFY18 due to higher YoY Alumina prices, however QoQ it is expected to decline by 16% due to softening in Alumina prices on QoQ basis.

❑ Novelis revenue is expected to grow by 4% led by 3% volume growth and 1% growth in realization. EBITDA margin is expected to remain flat YoY at 10%.

Key Trackable this Quarter

❑ Volume ramp up in copper business as facilities operate at full capacity after maintenance shutdown in 1QFY19 and for some days in 3QFY19.

❑ Movement in power and fuel cost due to high non coking coal prices.

We value the stock at 7x FY20e EV/EBITDA. BUY

Hindustan Zinc Limited

Metals and Minerals

HZ IN

CMP	**278**
Target	**286**
Upside	**3%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	27%	26%	23%	25%
Roce%	26%	30%	27%	29%
P/E	14.6	13.8	14.9	12.4
P/B	4.0	3.5	3.5	3.1
EV/Ebdita	9.2	8.6	9.0	7.3

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Zinc & Lead(KT)	907	947	966	1149	240	232	256
Refined Metal							
Zinc (KT)	672	792	759	922	200	162	201
Lead (KT)	144	169	202	218	46	49	52
Total	816	961	960	1140	246	211	254
Sliver (MT)	480	557	658	775	132	172	165
Realization							
Silver LBMA ($/oz.)	16	17	15	15	17	14	14
Zinc LME ($/MT)	3038	3271	2887	2745	3424	2760	2787
Lead LME ($/MT)	2379	2655	2293	2303	2646	2314	2198
Financials							
Sales	17273	22084	21608	25188	5922	4777	5457
Sales Gr	*22%*	*28%*	*-2%*	*17%*	*19%*	*-10%*	*-8%*
Ebdita	9739	12272	10941	13042	3244	2334	2790
Ebdita Gr	*46%*	*26%*	*-11%*	*19%*	*17%*	*-23%*	*-14%*
Net Profits	8316	9276	7856	9493	2230	1815	1944
Profit Gr%	*2%*	*12%*	*-15%*	*21%*	*-4%*	*-29%*	*-13%*
EbditaM%	56.4%	55.6%	50.6%	51.8%	54.8%	48.9%	51.1%
Net Mgn%	48.1%	42.0%	36.4%	37.7%	37.7%	38.0%	35.6%

Std/Fig in Rs Cr

❑Company's revenue is expected to decline by 8% YoY to Rs.5457cr. primarily on account of 19% YoY fall in realization. Volume is expected to be flat YoY at 201kt but is expected to increase significantly QoQ .

❑ QoQ volume growth is expected to be strong led by commissioning of mid shaft loading system at Rampura Agucha mine at the end of 2QFY19 which is now hoisting waste through the shaft and will facilitate higher volume, expected commissioning of 1.5mtpa mill at SK mine (trial run of which had already started in Oct'18) and Sep'18 exit run rate of 245kt of quarterly production.

❑ EBITDA margin is still expected to decline YoY due to lower zinc realization (lower by 19% YoY) on the back of fall in LME Zinc and flat volume. However, margin is expected to improve QoQ on the back of significantly higher refined zinc volume. Lead volume is expected to grow 14% YoY and 7% QoQ but realization is expected to fall 17% YoY and 5% QoQ on the back of fall in LME Lead.

❑ Silver volume is expected to register robust growth of 25% YoY on the back of increased production from SK mine (Silver rich).

Key Trackable this Quarter

❑ Volume growth in Zinc refined metal.

❑ Contribution of other income.

We value the stock at 7x FY20e EV/EBITDA. NEUTRAL

Jindal Steel & Power Limited

JSP IN

CMP	**165**
Target	**210**
Upside	**27%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	-8%	-5%	2%	2%
Roce%	1%	4%	8%	8%
P/E	-4.4	-13.1	33.4	20.5
P/B	0.4	0.7	0.5	0.5
EV/Ebdita	9.3	8.3	5.1	4.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Ttl. Steel Capcty (mt)	7.1	10.6	10.6	10.6			
Power Capacity (MW)	3400	3400	3400	3400			
Stdln. Steel Sales (mt)	3.35	3.76	5.64	6.20	0.94	1.28	1.51
Oman Steel Sales (mt)	1.31	1.67	1.74	1.81	0.42	0.47	0.42
Power (mill unit)	9176	10905	11123	12792	2982	2427	2892
Financials (Consol.)							
Sales	21,051	27,383	41,257	40,456	6,993	9,982	10,695
Sales Gr	*15%*	*30%*	*51%*	*-2%*	*29%*	*63%*	*53%*
Ebdita	4,658	6,469	9,134	9,548	1,607	2,207	2,317
Ebdita Gr	*36%*	*39%*	*41%*	*5%*	*26%*	*61%*	*44%*
Finance Cost	3,390	3,866	4,116	3,878	967	1086	1029
PBT	(2,671)	(1,277)	692	1,163	(323)	91	160
PBT Gr	-	-	-	*68%*	-	-	-
Net Profits	(2,538)	(1,616)	222	779	(273)	279	42
Profit Gr%	-	-	-	*252%*	-	-	-
EbditaM%	22.1%	23.6%	22.1%	23.6%	23.0%	22.1%	21.7%
Net Mgn%	-12.1%	-5.9%	0.5%	1.9%	-3.9%	2.8%	0.4%
D/E	1.33	1.29	1.27	1.15	-	-	-
Intrst. Covrge. Ratio	0.21	0.67	1.17	1.30	0.67	1.08	1.15

Conso/Fig in Rs Cr

❑Revenue is expected to grow by 57% YoY led by robust volume growth of 61% in Indian business due to ramp up of Angul plant and volume at Oman business is expected to be flat. On realization front we expect YoY realization to be up by 35% in domestic business and flat in Oman business. However, QoQ we expect realization to fall in both the business due to QoQ fall in domestic and international steel prices.

❑ In Power business we expect power generation at 2892 mn unit (down 3%, up 19% QoQ). Due to improvement in coal availability as compare to 1HFY19, we expect significant QoQ improvement in power generation. Realization is expected to be flat YoY but 5% QoQ improvement is expected on account of close to 11% QoQ improvement in spot power prices.

❑ Margins are expected to be lower YoY primarily on account of higher iron ore prices, highly volatile coking coal prices and significantly higher non coking coal prices; gross margin is expected to fall by 9% to 57%, however at EBITDA level the fall is contained to only 1% leading to EBITDA of 22% due to robust volume growth.

Key Trackable this Quarter

❑ Volume ramp up at Angul plant.

❑ Deviation in gross margin due to high iron ore, coking coal and non-coking coal prices.

❑ Cautious about exceptional items (no provision for couple of contingent liabilities).

We value the stock at 5x FY20e EV/EBITDA. BUY

Jindal Stainless Limited

JDSL IN

Metals and Minerals

CMP	**34**
Target	**45**
Upside	**31%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	4%	14%	11%	16%
Roce%	16%	17%	19%	21%
P/E	34.8	10.9	5.5	3.2
P/B	1.6	1.5	0.6	0.5
EV/Ebdita	5.3	5.4	3.3	2.7

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity (ton)	800000	800000	800000	1100000			
Sales volume (ton)	641333	778933	895773	1021181	213334	206644	232901
SS Price (USD/t)	1906	2097	2202	2200	2102	2177	1987
Nickel Price (Rs/t)	670983	727700	927550	810000	758900	923733	900000
Ferrochrome (Rs/t)	79750	78229	78000	80000	75667	76667	82000
Financials (Consol.)							
Sales	9,279	11,638	13,955	14,996	2,989	3,081	3,334
Sales Gr	*30%*	*25%*	*20%*	*7%*	*43%*	*18%*	*12%*
Ebdita	1,166	1,340	1,441	1,648	386	231	404
Ebdita Gr	*15%*	*15%*	*8%*	*14%*	*13%*	*-10%*	*5%*
Finance Cost	788	566	623	585	154	157	*151*
PBT	78	499	518	747	166	1	188
PBT Gr	-	*539%*	*34%*	*31%*	*177%*	*-96%*	*13%*
Net Profits	82	346	298	519	135	(36)	120
Profit Gr%	-	*324%*	*30%*	*36%*	*2.33*	-	*-11%*
EbditaM%	12.6%	11.5%	10.3%	11.0%	12.9%	7.5%	12.1%
Net Mgn%	0.9%	3.0%	2.1%	3.5%	4.5%	-1.2%	3.6%
D/E	2.96	1.86	1.50	1.19			

*Yearly Consolidated and Quarterly Standalone — Fig in Rs Cr

❑Revenue is expected to grow at 20% YoY in 2QFY19 led by volume growth of 11%YoY (management expects 15% Volume growth in FY19) and 8% YoY growth in realization.

❑ EBITDA is expected to fall by 13% QoQ led by increase in COGS due to rupee depreciation (company imports 50-60% of raw material) and also on account of increase in power and fuel cost as prices of non coking coal have increased both in domestic as well as international markets.

❑ Though EBITDA margin is expected to be flat YoY and down 2% QoQ on PAT level we expect margin to be at 3%. We expect finance cost to be lower YoY and QoQ led by company's initiatives to reduce debt on books and management also has a guidance of Rs.550-570 crores for finance cost in FY19.

❑ There can be a downside risk to cost of material consumed due to INR depreciation and also to finance cost as company has exposure to FC loans.

❑ Management expects better 2HFY19 due to higher volume. Management has maintained guidance of 15% volume growth in FY19. Debt repayment of Rs.430 crore expected in FY19 out of which company has paid Rs.135 crore in 1HFY19 and for FY20 Rs.500 crore of debt repayment is expected.

Key Trackable this Quarter

❑USD/INR-Raw material Import (50-60%) and FC loan of Rs.750 crore (LT debt of Rs.3508 crore).

❑ Volume growth rate in 3QFY19 considering low growth of 2% in 2QFY19.

We value the stock at 3x FY20e EV/EBITDA. BUY

JSW Steel Limited

JSTL IN

Metals and Minerals

CMP	**306**
Target	**336**
Upside	**10%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	15%	22%	23%	14%
Roce%	16%	19%	23%	16%
P/E	13.1	11.4	8.9	13.2
P/B	2.0	2.5	2.1	1.9
EV/Ebdita	6.3	6.8	5.4	7.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Capacity (mt)	18.00	18.00	18.00	18.00	-	-	-
Steel Sales stdln.(mt)	14.77	15.62	16.06	16.57	3.97	3.96	4.01
Avg.HRC (Rs./t)	39075	40340	44667	42000	39833	45833	45000
Financials (Consol.)							
Sales	55,605	70,225	84,945	80,135	17,861	21,552	21,355
Sales Gr	*34%*	*26%*	*21%*	*-6%*	*27%*	*28%*	*20%*
Ebdita	12,174	14,794	19,388	15,635	3,851	4,906	4,438
Ebdita Gr	*90%*	*22%*	*31%*	*-19%*	*34%*	*62%*	*15%*
Finance Cost	3,768	3,701	3,885	4,069	923	963	1,018
PBT	5,128	7,873	12,042	8,164	2,118	3,025	2,573
PBT Gr	-	*54%*	*53%*	*-32%*	*99%*	*137%*	*21%*
Net Profits	3,467	6,113	8,309	5,614	1,774	2,087	1,769
Profit Gr%	-	*76%*	*36%*	*-32%*	*143%*	*150%*	*0%*
EbditaM%	21.9%	21.1%	22.8%	19.5%	21.6%	22.8%	20.8%
Net Mgn%	6.2%	8.7%	9.8%	7.0%	9.9%	9.7%	8.3%
D/E	1.65	1.21	1.02	1.03	-	-	-

Conso/Fig in Rs Cr

❑Revenue is expected to grow by 20% YoY to Rs.20700cr primarily on account of 17% YoY increase in realization as volume growth is expected to be flat (up 1% YoY) in standalone operations and revenue is expected to be flat QoQ led by 1% growth in volume and 2% fall in realization in standalone operations.

❑ Coated business revenue is expected to be flat YoY at Rs.3042cr. primarily led by 15% growth in realization which offsets 13% fall in volume (volume growth has been impacted by higher imports in coated business). QoQ revenue is expected to fall by 3% due to 2% decline in realization and 1% fall in volume. US plate and pipe mill's revenue is expected to grow over 2x YoY led by increased capacity utilization at plate mill (34% in 3QFY19 vs.24% in 3QFY18) and 26% growth in realization.

❑ EBITDA margin is expected to be around 21%, down 1% YoY and 2% QoQ, QoQ fall in the margins are primarily in account of higher cost of coking coal iron ore and elevated power and fuel cost due to high non coking coal prices. Further, falling realization is also weighing in on margins.

❑ Company also has lined up capex of Rs.44450 crores for 4 years (including FY18) to increase capacity by 6.7mt from current 18mt to over 24mt by the end of FY21.

Key Trackable this Quarter

❑ Impact of Coking coal and Iron ore input cost on the margins.

❑ Impact of increase in imports on Coated business volume growth.

We value the stock at 7.5x FY20e EV/EBITDA. HOLD

National Aluminium Company Ltd

Metals and Minerals

NACL IN

CMP	**66**
Target	**74**
Upside	**12%**
Rating	**ACCUMULATE**

	FY17	FY18	FY19E	FY20E
Roe%	7%	13%	16%	12%
Roce%	6%	9%	23%	17%
P/E	22.1	9.6	6.7	8.3
P/B	1.4	1.2	1.1	1.0
EV/Ebdita	11.6	7.3	3.1	4.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Segmental Revenues							
Alumina	4046	5162	7583	6908	1223	1899	1752
Aluminium	5537	6409	6869	6825	1689	1745	1687
Others	109	127	207	163	16	77	41
Total	9692	11698	14660	13896	2928	3722	3480
Less: Intr. Segmt. Rvn.	1642	2079	3039	2812	539	681	729
Net Sales	8050	9618	11621	11084	2389	3041	2751
Financials							
Sales	8,050	9,618	11,622	11,084	2389	3041	2751
Sales Gr	*11%*	*28%*	*21%*	*-5%*	*29%*	*24%*	*15%*
Ebdita	1,080	1,397	3,063	2,479	344	851	571
Ebdita Gr	*13%*	*29%*	*119%*	*-19%*	*20%*	*154%*	*66%*
Net Profits	668	1,342	1,915	1,479	722	510	341
Adjt. PAT	709	874	1,824	1,479	276	510	341
Profit Gr%	*-3%*	*23%*	*109%*	*-19%*	*53%*	*134%*	*23%*
EbditaM%	13.4%	14.5%	26.4%	22.4%	14.4%	28.0%	20.8%
Net Mgn%	8.8%	9.1%	15.7%	13.3%	11.6%	16.8%	12.4%

Std/Fig in Rs Cr

- Nalco's revenue for the quarter is expected to grow by 15% YoY primarily on account of 22% sales growth in total Alumina volume YoY and 16% growth in Alumina realization which is partly offset by flattish volume growth in Aluminium business and 7% fall in Aluminium realization.

- EBITDA margin in 3QFY19 is expected to be at 21% (vs.14.4% in 3QFY18 and 28% in 2QFY19), 3QFY18 margin were lower because of higher employee cost (pay revision and enhancement of gratuity ceiling), QoQ fall in margin is because of higher cost of raw material and power and fuel expense due to increase in non-coking coal prices.

- Management expects 2HFY19 EBITDA margin to be around 22% and FY19 margin at 26%, expected decline in margins in 2HFY19 is primarily on account of fall in both Alumina and Aluminium prices.

Key Trackable this Quarter

- Impact of INR depreciation.

- Impact of power and fuel cost on EBITDA margins.

We value the stock at 1.2x FY20e Book Value. ACCUMULATE

NMDC Limited

NMDC IN

CMP	**97**
Target	**88**
Upside	**-9%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	11%	16%	14%	11%
Roce%	15%	23%	21%	16%
P/E	16.3	9.9	8.3	10.0
P/B	1.9	1.5	1.2	1.1
EV/Ebdita	10.2	5.5	4.6	6.2

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Chhatisgarh(mn tonne)	23.01	23.17	23.17	25.00	5.07	3.78	5.84
Karnataka	12.62	12.91	7.50	7.00	2.99	2.93	2.10
Total	35.62	36.08	30.67	32.00	8.06	6.71	7.94
Realization/Cost(Rs/t)							
Realization	2478	3220	3503	2933	3014	3576	3934
Cost	1467	1609	1653	1501	1563	1757	1484
EBITDA/tonne	1011	1610	1850	1432	1501	1878	2138
Iron ore price (Rs/t)	2344	2953	3830	3400	2810	4077	4358
Financials							
Sales	8,828	11,615	10,743	9,384	2469	2438	3164
Sales Gr	*37%*	*32%*	*-8%*	*-13%*	*-1%*	*1%*	*28%*
Ebdita	3,602	5,809	5,674	4,581	1210	1259	1698
Ebdita Gr	*31%*	*61%*	*-2%*	*-19%*	*18%*	*5%*	*40%*
Net Profits	2,589	3,806	3,677	3,073	887	636	1164
Profit Gr%	*-5%*	*47%*	*-3%*	*-16%*	*49%*	*-25%*	*31%*
EbditaM%	40.8%	50.0%	52.8%	48.8%	49.0%	51.7%	53.7%
Net Mgn%	29.3%	32.8%	34.2%	32.7%	35.9%	26.1%	36.8%

Std/Fig in Rs Cr

❑ NMDC's 3QFY19 revenue is expected to increase by 28% YoY primarily led by 31% YoY increase in realization as volume is expected to report flattish growth due to decline in contribution from Karnataka because of Donimalai mine not being in operation from 3rd of Nov'18.

❑ Volume from Chhattisgarh is expected to grow by 15% YoY and 55% QoQ (lower volume in 2QFY19 due to monsoon). However, volume from Karnataka is expected to decline by 30% and 28% YoY and QoQ respectively due to halting of operation at Donimalai mine on account of NMDC and Government of Karnataka not agreeing on terms of premium being charged on sale of ore for extension of mining lease.

❑ EBITDA margin is expected to improve 54% (up 5% YoY and 2% QoQ), primarily on account of higher realization and most of the cost being fixed in nature.

❑ NMDC in month of Dec'18 have reduced prices significantly in range of 14-16% from Rs.3850 and Rs.3310 for lump and fines respectively at the end of Oct'18 to Rs.3250/t and Rs.2860/t in Dec'18.

Key Trackable this Quarter

❑ Volume growth rate at Chhattisgarh.

❑ Growth in realization as it has sustained at higher levels for last four quarters.

We value the stock at 5.5x FY20e EV/EBITDA. NEUTRAL

Ratnamani Metals & Tubes Ltd

Metals and Minerals

RMT IN

CMP	**945**
Target	**1225**
Upside	**30%**
Rating	**BUY**

	FY17	FY18	FY19E	FY20E
Roe%	12%	12%	15%	15%
Roce%	17%	16%	19%	19%
P/E	24.9	26.3	18.9	17.3
P/B	3.0	3.1	2.9	2.6
EV/Ebdita	13.8	15.0	11.7	10.0

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
SS Volume (MT)	18228	21054	21564	24798	5427	5651	5916
Realization (Rs/t)	311554	299791	363867	332106	290035	364442	364442
CS Volume (MT)	179655	201027	255425	301402	70034	76653	50150
Realization(Rs/t)	44302	51299	67243	61587	50435	68430	68430
Segmental Revenues							
SS Sales	568	631	785	824	157	206	216
CS Sales	796	1031	1718	1856	353	525	343
Other	48	107	9	0	27	0	0
Total	1412	1769	2511	2680	538	730	559
Financials							
Sales	1,412	1,767	2511	2680	536	730	559
Sales Gr	*-18%*	*25%*	42%	7%	*48%*	*130%*	*4%*
Ebdita	257	266	393	447	84	116	90
Ebdita Gr	*-10%*	*3%*	48%	14%	*10%*	*127%*	*7%*
Net Profits	144	152	234	256	46	69	51
Profit Gr%	*-13%*	*7%*	54%	9%	*2%*	*162%*	*12%*
EbditaM%	18.2%	15.1%	15.7%	16.7%	15.7%	15.9%	16.1%
Net Mgn%	10.2%	8.6%	9.3%	9.5%	8.5%	9.5%	9.2%
D/E	0.00	0.06	0.17	0.12			

Std/Fig in Rs Cr

❑Ratnamani's 3QFY19 volume in Stainless Steel (SS) division is expected to be around 5916 MT, up 9% YoY after falling by 6% in 1HFY19, yearly volume growth in SS is expected to be in low single digit due to low activity in pet-chem., refineries and power sector. Carbon Steel (CS) volume is expected to be around 50150 MT (down 28% YoY and 35% QoQ), even after assuming 30% of annual growth in CS volume ,considering robust volume in 1HFY19 (up 163% YoY), volume in 2HFY19 would only register de-growth.

❑ Realization in both SS and CS division are expected to be significantly higher YoY at Rs.364442/t (up 26% YoY) and Rs.68430/t (up 36% YoY) due to deliveries of orders booked at higher steel prices. Management expects 2QFY19 realization to sustain in 3QFY19 as well.

❑ EBITDA margin are expected to be around 16% (vs.15.7% in 3QFY18). Due to higher share of water pipeline orders (CS division) in total order book, margins have remained in the range of mid teens and are expected to remain in that range for near future. However, with pickup in pet-chem., refinery and power sector which will lead to increase in SS orders, margins would start improving.

❑ Management expects 2HFY19 revenue to be in range of Rs.1100-1200 crore and EBITDA margins to be in range of 16-18% over long term.

Key Trackable this Quarter

❑ Sustainability of 2QFY19 realization in both CS and SS into 3QFY19.

❑ Volume in CS division, considering substantially better volumes in 1HFY19.

We value the stock at 13x FY20e EV/EBITDA. BUY

Tata Metaliks Limited

Metals and Minerals

TML IN

CMP	**621**
Target	**673**
Upside	**8%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	56%	44%	33%	26%
Roce%	52%	41%	42%	35%
P/E	12.8	11.7	9.1	8.7
P/B	7.2	5.2	3.0	2.3
EV/Ebdita	7.3	7.4	5.3	5.1

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Pig Iron (MT)	379434	500600	510621	510621	135226	134718	122549
Realization(Rs/t)	25357	27817	32495	31205	27772	33169	33169
DI Pipes (MT)	183947	209600	213627	218837	50180	50734	51270
Realization(Rs/t)	46218	47695	47984	47252	48294	49296	49296
Segmental Revenues							
Pig Iron	962	1393	1659	1593	376	447	406
Ductile Pipe	850	1000	1025	1034	242	250	253
Inter Segment/Others	-494	-519	-583	-585	-128	-150	-141
Total Sales	1318	1873	2101	2043	490	547	518
Financials							
Sales	1,318	1,873	2,101	2,043	490	547	518
Sales Gr	*0%*	*42%*	*12%*	*-3%*	*63%*	*22%*	*6%*
Ebdita	225	277	315	327	73	86	69
Ebdita Gr	*4%*	*23%*	*14%*	*4%*	*69%*	*28%*	*-5%*
Net Profits	116	159	173	181	40	48	37
Profit Gr%	*3%*	*37%*	*8%*	*5%*	*107%*	*42%*	*-7%*
EbditaM%	17.1%	14.8%	15.0%	16.0%	14.8%	15.7%	13.3%
Net Mgn%	8.8%	8.5%	8.2%	8.9%	8.2%	8.7%	7.2%
D/E	1.60	1.16					

Std/Fig in Rs Cr

❑Total pig iron (PI) volume is expected to be around 122549 tonnes, declining 9% YoY and QoQ too. The declining trend is primarily on account of higher production in 2QFY19 as management was expecting slow down in 3QFY19 due to festivals in West Bengal (company's operates in West Bengal). DI pipe volume is expected to be around 51270 tonnes (up 2% YoY, 1% QoQ).

❑ Realization in PI is expected to be around Rs.33169/t, up 19% YoY and flat QoQ in line with foundry grade PI prices, realization in DI is expected to be at Rs.49296 (up 2% YoY, flat QoQ). However, management is focusing on increasing realization in DI to pass on the increased cost. Revenue for 3QFY19 is expected to grow by 6% YoY to Rs.518cr. primarily on account of higher pig iron realization and revenue is expected to fall by 5% QoQ due to lower volume.

❑ EBITDA margin is expected to be at 13% (vs.15% in 3QFY18, 16% in 2QFY19). Margin is expected to fall YoY due to higher raw material prices (iron ore and coking coal price) and QoQ fall is also because of increase in raw material prices and flat QoQ realization growth.

❑ Company is expected to face cost pressure due to increasing coking coal prices and INR depreciation adding on to it. Furthermore, reduction in iron ore sourcing from Tata Steel from 90% to 70-75% due to acquisition made by Tata Steel, rest is now sourced from open market.

Key Trackable this Quarter

❑ Volume growth in 3QFY19.

❑ Impact of higher iron and coking coal prices and rupee depreciation on margins.

We value the stock at 5.5x FY20e EV/EBITDA. NEUTRAL

Tata Sponge Iron Limited

TTSP IN

CMP	**856**
Target	**945**
Upside	**10%**
Rating	**HOLD**

	FY17	FY18	FY19E	FY20E
Roe%	7%	14%	13%	13%
Roce%	6%	17%	15%	15%
P/E	18.3	12.5	8.9	8.3
P/B	1.2	1.8	1.2	1.1
EV/Ebdita	12.5	7.3	4.9	4.4

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Sales/Realization							
Sponge Iron (MT)	392000	413500	420000	450000	115000	93000	111300
Realization (Rs/t)	14389	18409	21986	21411	17330	22047	22488
Power (MKWH)	132	144	143	154	53	46	55
Realization (Rs/unit)	4.89	5.03	4.86	4.79	5.21	4.58	4.88
Financials							
Sales	557	800	970	1006	214	216	261
Sales Gr	*-3%*	*44%*	*21%*	*4%*	*49%*	*29%*	*22%*
COGS	373	496	661	674	*137*	*150*	*181*
COGS % of Sales	*67%*	*62%*	*68%*	*67%*	*64%*	*70%*	*69%*
Ebdita	62	183	183	199	48	30	50
Ebdita Gr	*157%*	*196%*	*0%*	*9%*	*347%*	*-13%*	*3%*
Net Profits	59	141	148	159	36	28	40
Profit Gr%	*84%*	*140%*	*5%*	*8%*	*228%*	*0%*	*10%*
EbditaM%	11.1%	22.8%	18.8%	19.8%	22.4%	13.8%	19.1%
Net Mgn%	10.5%	17.6%	15.3%	15.8%	16.8%	12.8%	15.2%

Conso/Fig in Rs Cr

- ❑Tata Sponge's volume in 3QFY19 is expected to be around 111300MT (-3% YoY and up 20% QoQ), QoQ growth is led by all the three kilns coming into operation after maintenance shutdown in 2QFY19.No maintenance shutdown is planned in 3QFY19 but there will be some in 4QFY19.

- ❑ Realization for 3QFY19 is expected to be close to Rs.22500/t (up 30% YoY, 3%QoQ). Significant YoY rise in realization is due to higher YoY sponge iron prices, however we expect realization to soften going ahead in line with decline seen in commodity prices. Revenue for the quarter is expected to grow by 22% YoY primarily driven by higher YoY sponge iron realization.

- ❑ Gross margin is expected to remain flat QoQ as some amount of higher priced iron ore inventory would still come in 3QFY19 and coal prices had also increased towards end of 2QFY19 and 1H of 3QFY19. However, EBITDA and PAT margins are expected to improve QoQ, as we factor in lower other expenses than 2QFY19 (which included Rs.10cr of maintenance cost).

- ❑ MoEFCC has considered company's application and subject to certain condition, decided to accord environmental clearance to expand capacity to 465000TPA from current 425000TPA.

- ❑ Company will acquire Usha Martin for Rs.4300-4700cr. It has 1mtpa capacity to manufacture long products in Jamshedpur. Funding will be done by Rights issue (up to Rs.1800cr), external borrowings (Rs.2500cr) and Non-Convertible redeemable preference share (up to Rs.1000cr).

Key Trackable this Quarter

- ❑ As iron ore supply from Tata Steel has been resumed, the impact of it on gross margin is to be seen.

- ❑ Volume pick up in 3QFY19 after maintenance shutdown in 2QFY19.

We value the stock at 5x FY20e EV/EBITDA. HOLD

Vedanta Limited

VEDL IN

Metals and Minerals

CMP	**202**
Target	**202**
Upside	**0%**
Rating	**NEUTRAL**

	FY17	FY18	FY19E	FY20E
Roe%	12%	13%	10%	15%
Roce%	14%	18%	15%	19%
P/E	11.2	13.0	12.1	7.8
P/B	1.3	1.6	1.2	1.2
EV/Ebdita	4.6	5.0	4.3	3.5

	FY17	FY18	FY19E	FY20E	Q3FY18	Q2FY19	Q3FY19E
Zinc (kt)	672	791	759	922	200	162	201
Zinc Intl. (kt)	140	171	176	310	47	29	56
Lead (kt)	138	169	202	218	46	49	52
Refined Silver (tons)	453	558	658	775	132	172	165
Aluminium (mt)	1209	1672	1975	2000	441	489	504
Oil & Gas (kboepd)	189926	185587	200000	235000	184133	185926	198433
Financials (Consol.)							
Sales	72,225	91,866	89,519	94,863	24,361	22,705	21,909
Sales Gr	*12%*	*27%*	*-3%*	*6%*	*25%*	*5.16%*	*-10%*
Ebdita	21,332	25,164	24,403	31,244	6,763	5,208	6,348
Ebdita Gr	*41%*	*18%*	*-3%*	*28%*	*15%*	*-8%*	*-6%*
PBT	13,766	16,672	13,657	19,827	4,481	2,298	3,892
Net Profits	9,873	13,692	8,860	13,265	2,959	1,900	2,604
Adj PAT*	7,271	7,983	6,220	9,643	2,211	1,023	1,760
PAT Gr	*29%*	*10%*	*-22%*	*55%*	*18%*	*-46%*	*-20%*
EbditaM%	30%	27%	27%	33%	28%	23%	29%
Net Mgn%	14%	15%	10%	14%	12%	8%	12%
D/E	1.03	0.77	0.79	0.79			

**Excluding non controlling interest and before exceptional item* Conso/Fig in Rs Cr

❑Overall revenue is expected to fall by 10% YoY, primarily on account of no contribution from copper segment and close to 6% fall in Hind Zinc revenue due to low relaization. However, Zinc International, Oil & Gas and Aluminium segment are expected to register a healthy YoY revenue growth of 13%, 58% and 20% respectively.

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❑ Hind Zinc EBITDA is expected to decline by 14%; Zinc International EBITDA is expected to decline YoY by 57% to Rs.193 due to higher CoP, Aluminium EBITDA is expected to fall by 13% YoY to Rs.530cr due to higher power and Alumina cost. Power EBITDA is expected to decline by 38% to Rs.369cr due to higher coal cost. However, Oil & Gas EBITDA is expected to grow by 68% to Rs.2214cr.

❑ NGT allowed company to resume operations of copper smelter at Tuticorin. However, Tamil Nadu government would challenge the NGT order in the Supreme Court.

Key Trackable this Quarter

❑ CoP in Zinc International and Almininum business.

❑ Production and volume growth in Oil & Gas and Aluminium business.

We value the stock at 3.5x FY20e EV/EBITDA. NEUTRAL

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.
Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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Narnolia Financial Advisors Ltd.
803 & 703, A Wing, Kanakia Wall Street
Andheri Kurla Road, Andheri (E)
Mumbai-400093
T: +912262701200
D: +912262701236
www.narnolia.com