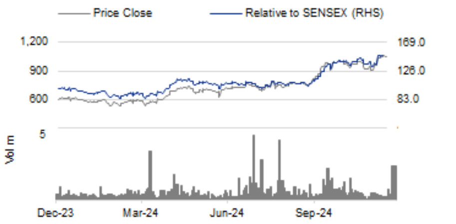
India

ADD *(Initiating coverage)*

Consensus ratings*:	Buy 3	Hold 0	Sell 0

Current price:	Rs1,051
Target price:	Rs1,476
Previous target:	NA
Up/downside:	40.4%
EIP Research / Consensus:	24.4%
Reuters:	
Bloomberg:	LLOYDSME IN
Market cap:	US$7,566m
	Rs549,371m
Average daily turnover:	US$7.8m
	Rs563.2m
Current shares o/s:	505.3m
Free float:	36.5%

Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.5	36.5	74.1
Relative (%)	2.7	36.3	48.8

Major shareholders	% held
Promoters	63.5
FII	2.0
Quant Money Managers Ltd	1.0

Lloyds Metals & Energy Ltd

Set for 76% EPS growth; initiate with ADD

- Newly auctioned iron ore mines are unviable to operate, and steel scrap availability not rising in sync with steel output. Iron ore prices are likely to rise.
- Any shortfall in output (25mt, 62% Fe) by Lloyds Metals could lead to iron ore shortage in FY26F. In our base case, the shortage is likely to begin in FY27F.
- We value the stock at 7.5x FY27F EV/EBITDA to arrive at our target price of Rs1,476. We initiate coverage on it with an ADD rating.

Iron ore riches hit by flawed policies & unviable bidding practices

India has substantial iron ore reserves, but still systemic challenges have impeded the country's full potential. Allegations of corruption in the past led to a policy shift, making auctions the primary mode of mining lease allocation. While aimed at transparency, this move — adopted by both the United Progressive Alliance or UPA and National Democratic Alliance or NDA governments at the Centre despite a 2012 Supreme Court verdict discouraging sole reliance on auctions — has had its unintended repercussions. Overzealous bidding at these auctions has left many mines economically unviable. To cite an example, some bidders committed to paying premiums as high as 140% of the Indian Bureau of Mines' (IBM) prices, effectively pegging operational costs to fluctuating market prices. This results in a paradox: operations become unprofitable unless global iron ore prices rise sharply while domestic prices stay low — a challenging scenario, especially with India's policies allowing iron ore exports. These flawed bids, driven by aggressive assumptions rather than sound financial modeling, have left numerous mines idle. This not only strains India's iron ore supply but also makes the sector heavily reliant on external market dynamics for profitability.

Iron ore biz growth faces deficit despite Lloyd Metals' expansion plan

Lloyds Metals and Energy (Lloyds Metals) primarily produces magnetite iron ore, which has a lower Fe content and requires beneficiation to reach the 62% Fe content standard suitable for Indian steelmakers. Even with Lloyds Metals operating at full capacity (55mt), India is projected to face an iron ore deficit. This shortfall is compounded by stagnant scrap production and imports. Notably, approximately 60mt of electric arc furnace (EAF) capacity relies on scrap or sponge iron as feedstock. Addressing these constraints is crucial for sustaining growth in India's steel industry. Strategies may include enhancing beneficiation processes, diversifying raw material sources, and investing in scrap collection and processing infrastructure to ensure a stable supply for EAFs.

Lloyds Metals is a direct beneficiary of rising iron ore prices

India's soaring steel demand and high iron ore prices have set the stage for Lloyds Metals' growth. Leveraging its mine extension till 2055, economies of scale, and forward integration plans, the company is projected to achieve a remarkable 76% EPS CAGR over FY24-FY27F. Factoring in these growth drivers, we assign an EV/EBITDA multiple of 7.5x at FY27F to arrive at our target price of Rs1,476. We initiate coverage on the stock with an ADD rating. Downside risks: Volatile iron ore & steel prices could negatively impact operations, growth prospects & financial performance.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	33,923	65,217	80,080	181,067	233,314
Operating EBITDA (Rsm)	8,103	17,283	27,451	76,083	93,460
Net Profit (Rsm)	(2,885)	12,429	20,346	60,336	75,046
Core EPS (Rs)	17.9	24.6	40.3	119.4	148.5
Core EPS Growth	347.1%	37.1%	63.7%	196.5%	24.4%
FD Core P/E (x)	(183.84)	42.72	26.10	8.80	7.08
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	65.21	30.56	18.92	6.54	5.43
P/FCFE (x)	(40.74)	(2,176.81)	(54.28)	117.92	(92.22)
Net Gearing	(13.2%)	(10.2%)	(17.2%)	(22.8%)	(10.6%)
P/BV (x)	34.69	18.89	7.88	3.63	2.42
ROE	90.1%	57.3%	42.6%	56.5%	41.1%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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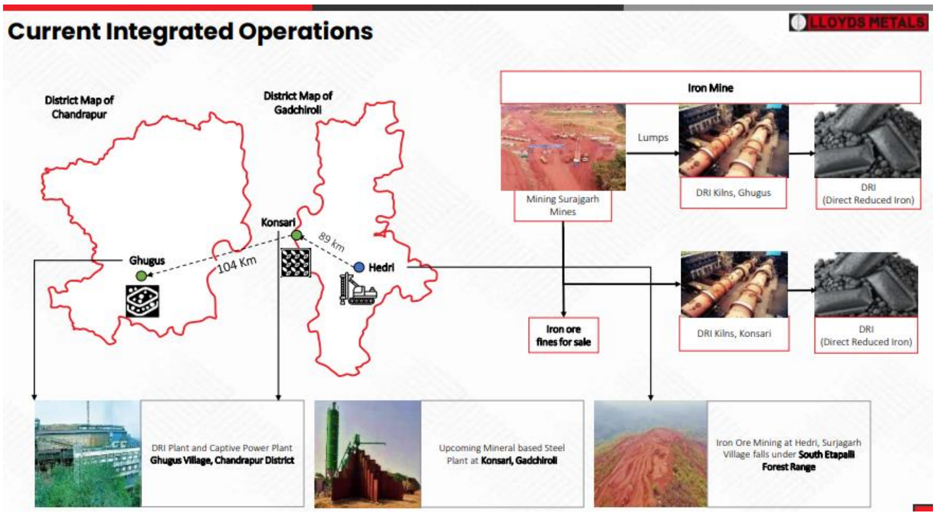
Set for 76% EPS growth; initiate with ADD

Business overview

Lloyds Metals and Energy (Lloyds Metals), established in 1977, has emerged as a key force in India's iron and steel sector. The company's diverse operations span mining, power generation, and steel production, positioning it as a strategic leader. As Maharashtra's sole iron ore miner, the company operates with a robust 10mtpa capacity to be extended to 25mtpa by Mar 2025F, supplemented by ~0.35 mtpa direct reduced iron or DRI production and a 34MW captive power plant or CPP.

A Tata Steel Industrial Consulting (TISC) survey estimates Lloyds Metals' Surjagarh iron ore mine in Gadchiroli holding reserves of 863mmt (million metric tonne), including 157mmt of high-grade iron ore (average grade: 63%) and 706 mmt of banded hematite quartzite (BHQ - low-grade ore). With its mine lease secured until 2057, Lloyds Metals benefits from operating under the earlier royalty framework, avoiding the significantly higher premium obligations introduced after Mar 2020 auctions. The royalty outflow for auctioned mines is estimated to be six times higher than Lloyds Metals' current costs. This favourable cost structure cements the company's status as a low-cost iron ore producer, delivering industry-leading margin and a competitive edge.

Figure 1: Current operations

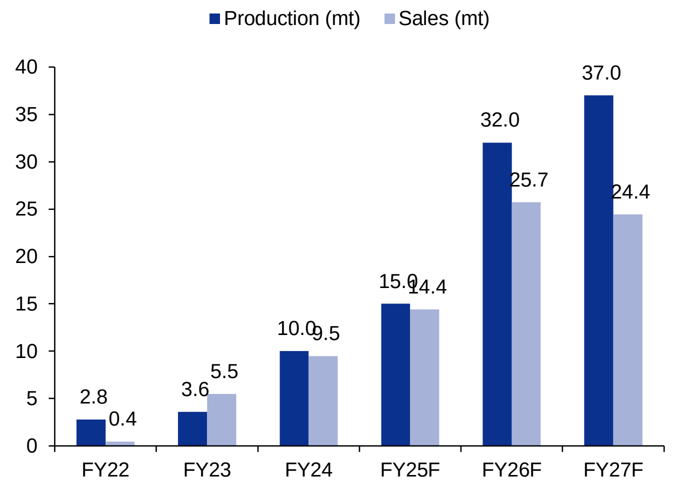


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Higher volume ensures robust cash flow generation ➤

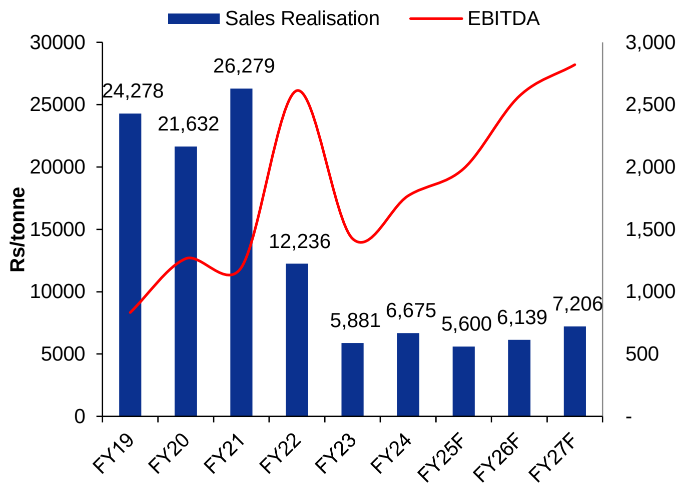
Iron ore production reached 10mt from 3mt and is further planned to rise to 25mt, and the DRI segment produced 260,000t. The power division achieved sales of 188m units in FY24. EBITDA/t in the iron ore segment stood at Rs1,710 in FY24. While the sponge segment recorded its best yearly production due to the new Konsari plant, the iron ore segment maintained its strong performance with a record production of 10mt.

Figure 2: Production versus sales



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sales realization versus EBITDA (Rs/t)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

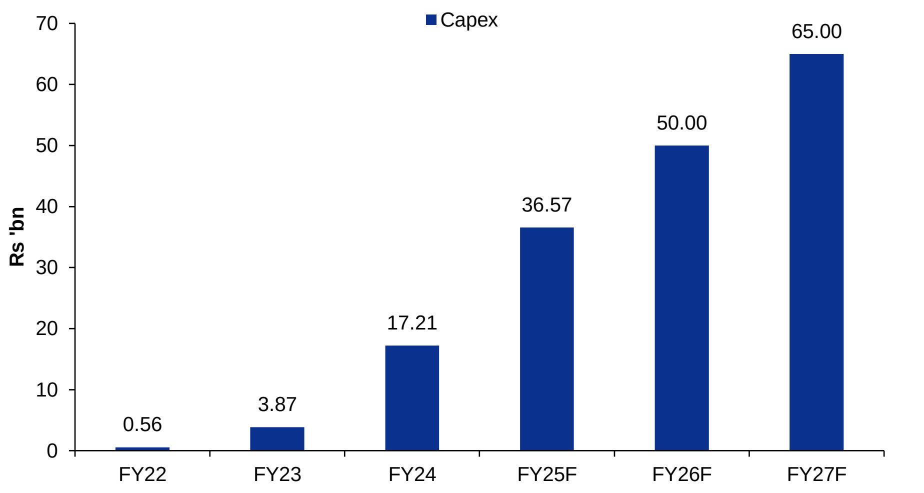
Strategically advancing towards forward integration ➤

Lloyds Metals is moving towards forward integration to become a value-added steelmaker with a total steel capacity of 4.2mt, including 3mt of flat products and 1.2mt of long products. Expanding iron ore production with beneficiation is central to the company’s plans. Addressing logistics in steel-making is crucial. Two slurry pipelines from the mine to both plants have been planned, reducing freight costs, and supporting the commitment to environmental sustainability. Establishing this capacity without debt will be a key differentiating factor.

High capex infusion aimed at driving growth and adopting versatility

FY24 investments: Lloyds Metals incurred total capex of around Rs17bn.The first location that we will discuss is Chandrapur, the company's initial plant. In the first phase, two DRI units (each of 500tpd) and a 2x30MW power plant are being established. The power plant will primarily utilize waste products. The plant is expected to be completed by Mar 2025F. The 85km slurry pipeline project is 50% complete, and the DRI and pellet projects are progressing rapidly. Both projects are expected to be completed by FY25F.

Figure 4: Annual capex plan (actual and estimated)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

50-year iron ore lease with 863mt of reserves back in full swing post strategic partnership

Lloyds Metals was awarded a 20-year lease for an iron ore mine in 2007 at Surjagarh village, Gadchiroli, which has now been extended to 50 years under the MMDR Act, 2015, ensuring operations until 2057. Tata Steel Industrial Consulting (TISC) estimates the mine's reserves at 863mt, including 157mt of high-grade iron ore (average 63%) and 706mt of banded hematite quartzite (low-grade ore). These reserves are of premium quality with exceptionally low silica and alumina content, making them ideal for captive use and as a raw material for sponge and steel manufacturers.

Despite the regional instability hampering operations, mining was revitalized in Sep 2021 after a strategic partnership in May 2021 with Thriveni Earthmovers Private Limited, India's leading mine developer & operator and now a co-promoter. Leveraging Thriveni's expertise, the company resumed mining at full capacity, reinforcing its long-term growth trajectory.

Allocation route secures Lloyds Metals' position as India's lowest-cost iron ore producer

Lloyds Metals' Gadchiroli mine, allocated in 2007, provides a unique competitive advantage by exempting the company from additional premiums and royalties tied to the 2015 MMDR Act. This allocation model, unlike the auction route, spares the company from paying a steep premium (~22.5% for NMDC) and positions it as a cost-efficient iron ore producer until its lease expires in 2057. In contrast, Tata Steel will face re-auctions for its mines by 2030, potentially losing its cost advantage.

The recent amendments in the MMDR Act (Mar 2021) introduced transformative reforms but have resulted in exorbitant premiums during mine auctions, with bids for revenue sharing ranging between 90.9% and 155%. Post-2020 auctions have rendered merchant mining economically unviable due to statutory liabilities, with royalties and levies spiking to six times higher than Lloyds Metals' obligations.

Industry data highlights statutory liabilities on sale price varying significantly, from 20% for older allocations like Lloyds Metals to a staggering 175% for recently auctioned mines.

With an effective tax rate (ETR) on mining in India ranging between 45%–50% — significantly higher than the global average of 34%–38% — Lloyds Metals' exemption under the previous royalty structure fortifies its long-term competitive moat, ensuring higher returns and making it a standout performer in India's iron ore sector.

Lloyds Metals' Rs325bn capex plan to boost margin and optimize high-grade iron ore reserves ➤

Lloyds Metals has unveiled an ambitious Rs325bn capex plan for FY23–30F, aiming to enhance value addition and optimize its high-grade ore reserves. The key initiatives include:

- **3mtpa integrated HRC steel plant:** An investment of Rs160bn to establish a 3mtpa integrated hot rolled coil (HRC) steel plant.
- **1.2mtpa wire rod steel plant:** Allocates Rs50bn to set up a 1.2mtpa steel plant dedicated to wire rod production.
- **45mtpa BHQ beneficiation plant:** A Rs50bn investment in a beneficiation plant capable of processing 45mtpa of banded hematite quartzite (BHQ).
- **12mtpa pellet plant with slurry pipeline:** Establishing a 12mtpa pellet plant at a cost of Rs52bn, complemented by a Rs10bn investment in slurry pipeline, grinding, and pumping infrastructure.

These strategic projects are expected to significantly enhance Lloyds Metals' margin profile over the next three-to-four years as downstream capacities become operational, positioning the company as a fully integrated steel producer and enabling optimal utilization of its high-grade ore reserves.

State subsidies to refund 130% of Lloyds Metals' Rs67.5bn capex, enhancing its cash flow ➤

Lloyds Metals is set to benefit from the Maharashtra government's Industrial Promotion Subsidy (IPS), which offers a substantial refund on capital expenditure. Under this scheme, the company will receive 110% of its Chandrapur project's cost and 150% of the Gadchiroli project's cost as subsidy, disbursed through State Goods and Services Tax (SGST) refunds.

With a planned capital expenditure totalling approximately Rs67.5bn between FY24 and FY27F, Lloyds Metals anticipates an average refund rate of 130%, amounting to about Rs87.75bn over FY24–FY38F. This significant reimbursement is poised to enhance operating cash flow and alleviate the financial impact of capital investments on the company's balance sheet.

Figure 5: Capex recovery plan for Lloyds Metals in the form of SGST reimbursement

Fig in INR cr	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36	FY37	FY38	Total
New Capex	1,400	2,200	1,400	2,000												7,000
Annual recovery of FY24 capex	152	152	152	152	152	152	152	152	152	152	152	152				
Annual recovery of FY25 capex		238	238	238	238	238	238	238	238	238	238	238	238			
Annual recovery Of FY26 apex			152	152	152	152	152	152	152	152	152	152	152	152		
Annual recovery of FY27 capex				217	217	217	217	217	217	217	217	217	217	217	217	
Total annual recovery Of capex	152	390	542	759	759	759	759	759	759	759	759	759	607	369	217	9,108

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Industry overview

Global iron ore demand declines by 3% in 2023; India's consumption surges by 9% to 228mt

In 2023, global iron ore demand fell by 3%, totalling approximately 2bnt (bn tonne). China, the largest consumer, witnessed a 1.5% decrease due to reduced domestic steel production amid its property sector downturn. Conversely, India, the second-largest consumer, saw a 9% increase in iron ore demand during FY23–24, touching 228mt, propelled by robust growth in its domestic steel industry.

Iron ore prices plunge 30% in 2024 amid China's property crisis; government stimulus offers potential rebound

Global iron ore demand is projected to remain subdued in 2024F, primarily due to diminished expectations of a recovery in Chinese demand amid the ongoing property sector crisis. Prices have declined by 30% since the start of the year, dipping below US$100/t, reflecting concerns over reduced Chinese steel consumption. However, recent government initiatives aimed at revitalizing China's property market may signal a potential rebound for steel and iron ore industries.

India's iron ore demand to surge by 14% in FY24–25F; NMDC targets 100mt by 2030F

India's iron ore consumption is projected to rise by 14% in FY2024–25F, driven by the expanding domestic steel industry. To meet this growing demand, NMDC plans to increase its production to 100mt by FY30F.

In 2023, global iron ore production touched 2.4bnt, a 1.1% increase from the previous year. Australia remained the largest supplier with 960mt, followed by Brazil at 440mt, bolstered by expansion efforts from major producers like Vale SA.

Global supply expected to surge in 2024F due to new mining projects

Global iron ore production is expected to increase by 3.8% in 2024F, touching 2.6 bnt, driven by investments in new projects and enhancements in global mining operations. Vale SA, Brazil's leading iron ore supplier, intends to ramp up production. Additionally, the launch of projects such as Onslow, Marillana, Western Range, and South Flank is anticipated to bolster Australian iron ore production in CY24F.

Global iron ore production to rise by 3.8% in 2024F, hitting 2.6bnt

Global iron ore production is projected to grow by 3.8% in 2024F, touching 2.6bnt. This increase is driven by investments in new projects and enhancements in mining operations.

- Vale SA's production expansion - Brazil's Vale SA plans to boost its iron ore output, aiming for 323–330mt in 2024F, up from 310–320mt.
- Australia's new projects to bolster supply - Australia's iron ore production is set to rise with the commencement of several key projects:
    - **Onslow Iron Project:** Achieved first ore on ship in May 2024, with plans to ramp up to 35mtpa by Jun 2025.
    - **Marillana Project:** A 50:50 joint venture aiming to unlock significant iron ore deposits in the Pilbara region.
    - **Western Range Project:** Expected to commence production in 2025F, contributing to Australia's iron ore output.
    - **South Flank Project:** Achieved first ore in May 2021 and is ramping up to full capacity, aiming to produce 145mtpa in conjunction with Mining Area C.

Indian iron ore - structural upswing

Delay in mine ramp-up, extremely high-cost bidding, and a very tight global scrap market are likely to result in lower mine-head inventory, thereby driving domestic iron ore prices higher. It is also worth noting that international iron ore prices remain strong relative to steel prices, providing additional support for domestic iron ore prices.

Indian iron ore production is in a tough spot

India has vast iron ore reserves; however, multiple cases of graft and subsequent investigations have led to auctions becoming the preferred route for granting mining leases. In 2012, in the context of a presidential reference, the Supreme Court stated that it did not believe auctions should be the only method for allocating natural resources. Despite this, the fear of graft allegations prompted the UPA government and subsequent administrations to adopt auctions as the preferred method. Unfortunately, overzealous bidders have often bid so aggressively that many iron ore mines won through auctions have become unviable to operate.

In 2012, in view of the presidential reference, the Supreme Court ruled that auction is not the only method for grant of natural resources

The **Presidential Reference on the Auction of Natural Resources in India** is a landmark opinion by the **Supreme Court of India** under Article 143 of the Constitution, addressing the method of allocation for natural resources. This reference was made by the President of India following the controversies surrounding the allocation of natural resources, particularly in the wake of the **2G spectrum case**.

Background:

- **2G spectrum case**: The Supreme Court in 2012 cancelled 122 telecom licences issued in 2008, stating that the allocation of spectrum was arbitrary and unconstitutional. It held that natural resources should be allocated through a transparent method like an auction.
- The judgment raised concerns about whether auctions were mandatory for allocating all natural resources, leading to a Presidential Reference seeking clarity on the matter.

Key questions in the presidential reference:

- Are auctions the only permissible method for allocating natural resources?
- Does the government have the flexibility to use other methods based on economic and social considerations?
- What is the scope of judicial review in such allocation decisions?

Supreme Court's advisory opinion (Sep 2012):

The apex court clarified the following:

1. **Auctions are not mandatory**:
    - While auctions are a transparent and preferable method for maximizing revenue, they are not the only method permissible under the Constitution.
    - The government has the discretion to adopt other methods (e.g. first-come, first-served, or direct negotiations) if they serve broader public interest, such as promoting economic growth or achieving equity.
2. **Public interest is paramount**:
    - The allocation of natural resources must always be guided by public interest.
    - The government should justify its choice of the allocation method with sound reasoning aligned with constitutional principles.

3. **Judicial review**:
   - The judiciary can review allocation decisions to ensure they are not arbitrary or malafide.
   - However, the judiciary will not interfere with the policy decisions of the executive unless there is clear evidence of legal or constitutional violations.
4. **Revenue maximization is not the sole objective**:
   - The government is not bound to maximize revenue at all costs.
   - Factors like economic development, employment generation, and public welfare can also influence allocation methods.

Implications:

- This opinion upheld the principle that natural resources are owned by the public and should be used in a manner that benefits the society as a whole.
- It restored some flexibility to the government in resource allocation, balancing the need for transparency with economic and social considerations.

This presidential reference remains a guiding framework for policymaking on the allocation of natural resources in India.

However, for the fear of graft charges, governments have chosen the path of auction, which is essentially profit maximization

Despite the Supreme Court's opinion on the presidential reference, the UPA government in 2012 and subsequent NDA governments have chosen the path of auctions, which essentially prioritizes profit maximization.

In 2015, the Government of India introduced the MMDR Amendment Act, which established a timeline for the expiry of all old mining leases

The Mines and Minerals (Development and Regulation) Amendment Act, 2015 (MMDR Amendment Act, 2015) brought significant reforms to the allocation and regulation of mining leases in India. One key aspect of the amendment was the establishment of a clear timeline for the expiry of old mining leases, aimed at promoting transparency, efficiency, and fair allocation of mineral resources. Key provisions related to expiry of old mining leases:

A. **Auction as the sole method for grant of mining leases**:

The amendment introduced competitive bidding (auctions) as the only method for granting mining leases for major minerals, ending the earlier first-come, first-served or discretionary allocation process.

This move aligned with the principles laid down in the Supreme Court's judgments, including the presidential reference on natural resources.

B. **Timelines for expiry of existing leases:**

a. Captive and non-captive mines:

The amendment set specific deadlines for the expiry of leases granted before the enactment of the MMDR Act, 1957:

Non-captive mines (mines that sell minerals to third parties): Expiry on 31 Mar 2020.

Captive mines (mines used for specific industries, such as steel and cement): Expiry on 31 Mar 2030.

b. Mandatory re-auction after expiry:

Upon the expiry of these old leases, the mining blocks were to be reallocated through public auctions, ensuring transparency and maximization of government revenue. This marked a shift towards a market-based approach for resource allocation.

c. Transition provisions:

Existing leaseholders were allowed to continue operations until the expiry of their leases, provided they adhered to statutory compliance requirements.

Overzealous and insecure companies have bid too high in iron ore auctions

With the mining ban fresh in their minds, most steel companies bidding in iron ore mine auctions, are bidding at an obnoxious premium to the Indian Bureau of Mines' prices.

Figure 6: Most iron ore blocks with potential for immediate mining have been bid at extremely high premiums; please note that the bid percentages represent the premium over IBM prices (IBM = Indian Bureau of Mines); this is the list of recent auctions which have not happened in Odisha

Name of Block	Preferred Bidder	Date of auction	ML / CL	Area (in ha)	Reserves (in mt)	Final Bid (in %)
Mincheri RF	South-West Mining Limited	11.03.2024	CL	1327	NA	12.6
Basri Ganeshpura Block	Terroso Quartz Private Ltd.	18.04.2024	CL	38.19	6.5	97.01
Dedrauli Iron-ore Block	Pacific Industries Ltd.	29.04.2024	CL	754.38	395.14	211.9
Khora Iron-block	Win Ferro Alloys Private Ltd.	30.04.2024	CL	462.3	354.27	108.2
Todupura Iron-block	Gallantt Ispat Ltd.	02.05.2024	CL	260.71	85.42	175.05
Liloti Block	Ambashakti Udyog Ltd.	16.08.2024	CL	410.94	3.65	77.55
Surjagad – 1 Iron Ore Block	Natural Resources Energy Private Ltd.	09.05.2023	CL	1526	N.A.	126.35
Surjagad – 2 Iron Ore Block	Universal Industrial Equipment and Technical Services Pvt. Ltd.	09.05.2023	CL	886	N.A.	139.75
Surjagad – 3 Iron Ore Block	Omsairam Steels and Alloys Pvt. Ltd.	09.05.2023	CL	640	N.A.	115.1
Surjagad – 4 Iron Ore Block	JSW Steels Ltd.	12.05.2023	CL	397	N.A.	131.05
Surjagad – 6 Iron Ore Block	Sunflag Iron and Steel Company Limited	17.05.2023	CL	658	N.A.	118.45
Block V- Advalpale-Thivim Mineral Block	Fomento Resources Private Limited	21.04.2023	ML	36.22	3.83	58.85
Block VI- Cudnem-Cormolem Mineral Block	JSW Steel Limited	25.04.2023	ML	38.51	9.77	96.65
Block VII-Cudnem Mineral Block	Vedanta Limited	26.04.2023	ML	75.3	8.28	93.15
Block VIII-Thivim-Pirna Mineral Block	K A I International Private Limited	2704.2023.	ML	72.05	1.69	100.12
Block IX-Surla-Sonshi Mineral Block	JSW Steel Limited	28.04.2023	ML	254.51	65.73	109.8
Nayorana-Dandela	Pacific Industries Limited	11.07.2023	CL	16.78	3.3	40.05
Block No. 04, HRG	R Praveen Chnadra	24.07.2023	ML	40.04	5.32	149.1
Lakshmakapalle (North)	JSW Steel Ltd.	28.07.2023	CL	N.A.	N.A.	17.1
Lakshmakapalle (South)	JSW Steel Ltd.	28.07.2023	CL	N.A.	N.A.	16.2
Addankivaripalem	JSW Steel Ltd.	28.07.2023	CL	N.A.	N.A.	14.4
Meralgara-Barabaljori Iron Ore Block	M/s Agrasen Sponge Pvt. Ltd.	10.08.2023	ML	115.22	0.64	250.1
Ladi Ka Bas Block Tehsil Neem ka Thana & District Sikar	Sponge Sales India Pvt. Ltd.	28.08.2023	CL	38.75	N.A.	145.65
Kalakota Block Tehsil Neem ka Thana & District Sikar	Emerald Buildhome Private Ltd.	29.08.2023	CL	34.44	N.A.	275
Toda Block n/v Toda, Tehsil Neem ka Thana, District Sikar	Emerald Buildhome Pvt Ltd	12.09.2023	CL	18.43	N.A.	66
Siluwa and Jhansi Iron Ore Block	Khatri Minerals & Mining Company	13.09.2023	ML	4.59	0.86	822.55
Pindrai Iron Ore Block	Syna Steels Private Limited	14.09.2023	ML	6	2.12	302.52
Jaisinghpura North Block	JSW Steel Limited	21.08.2023	ML	298.59.	17.66.	150.3
Girar	Fomento Resources Pvt. Ltd.	23.11.2023	CL	271.18	Fe-100	4.05
Bharhari	Fomento Resources Pvt. Ltd.	24.11.2023	CL	134.77	14.89	4.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

The premiums mentioned in the above table are a percentage of the declared IBM prices

The premiums at which these mines are bid represent the amount paid over the respective IBM prices of iron ore in that state.

IBM calculates prices for each particular state using the following broad methodology:

IBM (Indian Bureau of Mines) calculates **iron ore prices in India** using a systematic methodology based on market transactions, quality parameters, and government regulations. The key steps and factors involved in the calculation are as follows:

A. Monthly average sale price (MASP):

- The **MASP** is determined for each grade of iron ore and is the average of the prices at which transactions occurred during the previous month.
- IBM collects data on actual **sales prices** reported by mining companies, including dispatch details.

B. Basis of price determination:

The MASP is influenced by several factors:

1. Grade of iron ore:
    - Iron ore is categorized based on **Fe content (iron content)**, typically in bands (e.g., 58%-60%, 60%-62%, etc.).
    - Higher-grade ores fetch higher prices due to greater demand in steel-making.
2. **Form of iron ore:**
    - Prices differ based on whether the ore is sold as **lumps**, **fines**, or **concentrates**.
    - Lumps typically command a premium due to better usability in steel-making.
3. **Transportation and logistics:**
    - The location of mines and proximity to end-users or ports impact transportation costs, which can indirectly influence prices.
4. **Market transactions:**
    - Prices reflect **actual realized sales** from mines to buyers such as steel-makers and traders.
    - IBM ensures that prices reported align with verified invoices.
5. **Reporting and verification:**
    - Mining companies are required to submit monthly returns to IBM with details on:
        - **Quantity sold**
        - **Price per tonne**
        - **Grade**
        - **Destination**
    - IBM audits these returns to ensure accuracy.

In case there are multiple merchant mines in the state, then they take top 10 mines for price calculation

The **Indian Bureau of Mines (IBM)** often prioritizes data from the **top merchant mines** in a state when calculating the **monthly average sale price (MASP)** for iron ore. This approach ensures that the price reflects the **most representative and high-volume transactions** in the region. Here's how this works:

1. **Focus on top merchant mines:**
    - IBM relies on **transaction data** submitted by mining companies. For states with multiple mines, IBM may focus on the **top 10 merchant mines** by production or sales volume.
    - This ensures that the prices reflect the **bulk of the market activity** rather than outliers or smaller-scale operations.
2. **Weightage to high-volume transactions:**
    - IBM assigns a higher weightage to **high-volume transactions** to derive a fair average price.
    - Top merchant mines contribute significantly to overall iron ore sales, making their prices more relevant in determining state-level averages.
3. **Elimination of outliers:**
    - Smaller mines or atypical transactions with unusually high or low prices are often excluded or given lower weightage.
    - By using data from large, active mines, IBM avoids skewing the MASP with anomalies.
4. **State-specific calculation:**
    - MASP is calculated **state-wise**, as iron ore prices can vary significantly across states (e.g., Odisha vs. Karnataka) due to:

- Differences in **grade availability.**
- **Logistics costs** to end-user markets.
- Local **supply-demand dynamics.**

Hence, viability of all these iron ore mines has to seen vis-à-vis respective state - in almost 100% of cases, these mines are unviable for any usage ➤

We make the following broad assumptions for calculation of mine viability.

A. Cost of mining in most of these mines is minimal. In most, recurring opex for mining is less than US$10/t.

B. We have left the mines which require prospecting, etc., which means they are multiple years away from production.

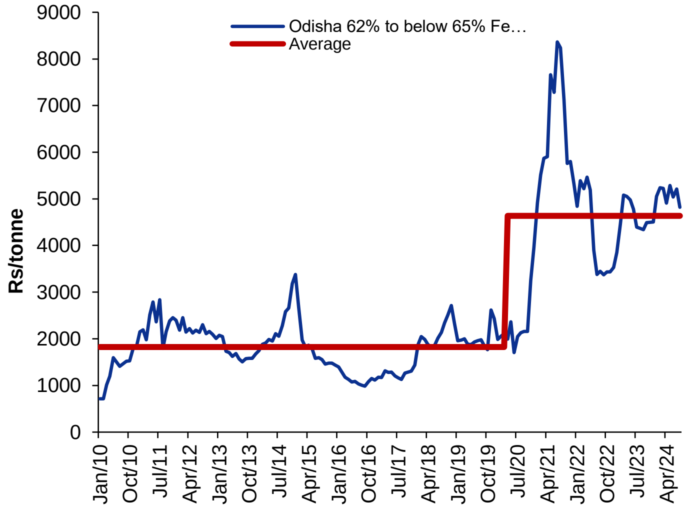
Here, we will analyze the case of Odisha, as this state can export iron ore as well as pellets.

Figure 7: The average bid in Odisha has been at 112% to IBM prices

State	Name of the Block	Mineral	Date of auction	ML / CL	Area (in ha)	Reserves (in mt)	Final Bid (in %)	preferred bidder
Odisha	Nuagaon Iron Ore Block	Iron Ore	31.01.2020	ML	776.97	789.05	95.2	JSW Steel
Odisha	Gandhalpada Iron Ore Block	Iron Ore	16.09.2021	ML	241.1	314.37	141.25	Tata Steel Mining Ltd
Odisha	Kasia Iron Ore & Dolomite Block	Iron Ore & Dolomite	16.09.2021	ML	194.19	278.04	118.1	Jindal Steel & Power
Odisha	Balda Iron Ore Block	Iron Ore	03.02.2020	ML	343.98	200.11	118.1	Serajuddin & Co.
Odisha	Guali Iron Ore Block	Iron Ore	17.03.2020	ML	365.03	194.94	144	Jindal Steel & Power (reserved for OMC)
Odisha	Narayanposhi Iron Ore & Manganese Block	Iron Ore & Manganese	01.02.2020	ML	347.01	185.1	98.55	JSW Steel
Odisha	Thakurani Iron Ore Block	Iron Ore	02.02.2020	ML	228.74	179.27	107.6	Arcelor Mittal India Pvt Ltd
Odisha	JumkaPathiriposhiPahar Iron Ore Block	Iron Ore	16.09.2021	ML	158.509	140.28	110.15	Rungta Mines
Odisha	Ganua Iron Ore Block	Iron Ore	04.02.2020	ML	88.516	118.92	132	JSW Steel
Odisha	Kendudhi North Block	Iron ore & Manganese	14.03.2023	ML	187.86	109.76	100	Rungta Mines

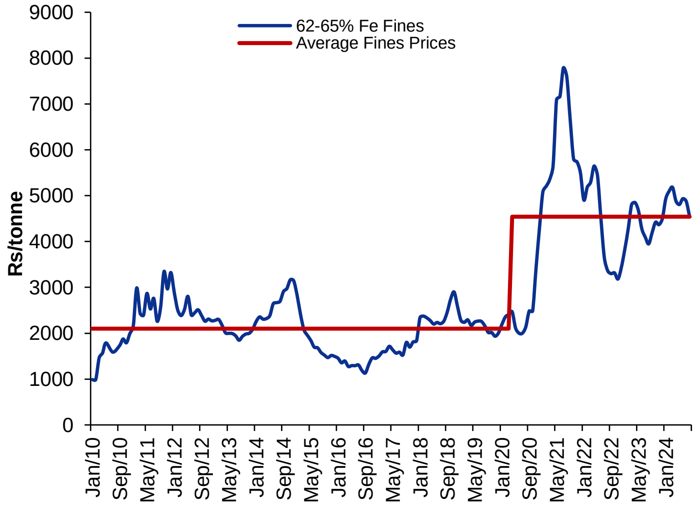
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: The average IBM price in Odisha in the last five years has been Rs4,600/t



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: All-India average price for the same grade has been ~ Rs4,500/t



SOURCE: INCRED RESEARCH, COMPANY REPORTS

It is evident that when market prices are at Rs4,700/t, miners with a minimum production cost of 112% × Rs4,700 + Rs800 = Rs6,064/t cannot operate profitably. As a result, most of these mines have yet to commence production.

Even exports are not viable for these mines, as higher than 58% grade iron ore attracts 30% export duty, which makes them unviable. The other option is to set up a pellet plant to convert iron ore into pellets and then export the same to China. However, as we will see in the calculations, even that is not a viable alternative for Indian iron ore producers.

Figure 10: Selling iron ore from merchant mines won in an auction is not viable

	US$/t	Rs/t
CIF China prices	110	9,240
Freight and insurance charges	10	840
FOB realization	100	8,400
FOB realization adjusted for moisture	90	7,560
Land freight	24	2,000
Ex-mine realization	66	5,560
Premium paid	63	5,264
Ex-mine NSR	4	296
Mining costs	10	840
Net EBITDA loss	-6	-544

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Even converting them into pellets and selling is also a loss-making proposition

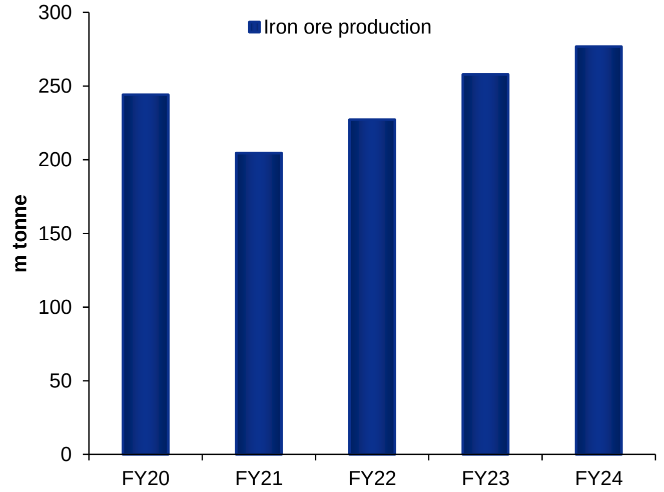
	US$/t	Rs/t
CIF China prices	130	10,920
Freight and insurance charges	10	840
FOB realization	120	10,080
Land freight	24	2,000
Ex-plant realization	96	2,000
Pellet-making costs	23.81	2,000
Iron ore costs	74.36	6,246
Pellet EBITDA	-1.98	-166

SOURCE: INCRED RESEARCH, COMPANY REPORTS

As a result, iron ore production is not growing at the pace envisioned during iron ore mine auctions ›

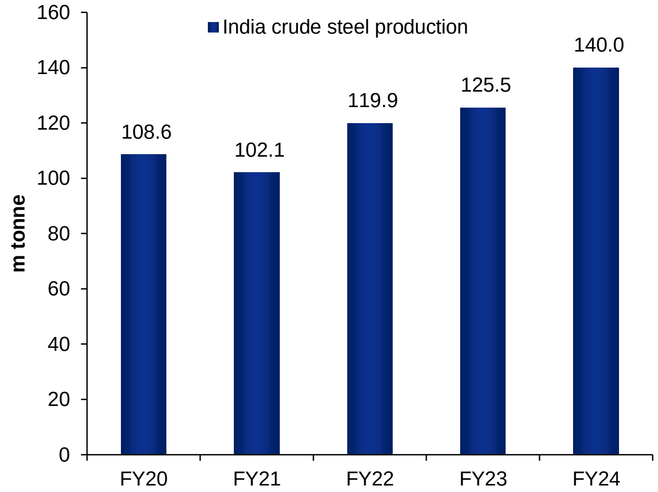
For the past few years, Indian iron ore production has stagnated and failed to keep pace with the growth in crude steel production in the country. This imbalance is causing a decline in India's mine-head inventory.

Figure 12: Despite multiple auctioned mines, iron ore production has only increased by 10% between FY20-24



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 13: However, crude steel production has increased by ~30% during the same period

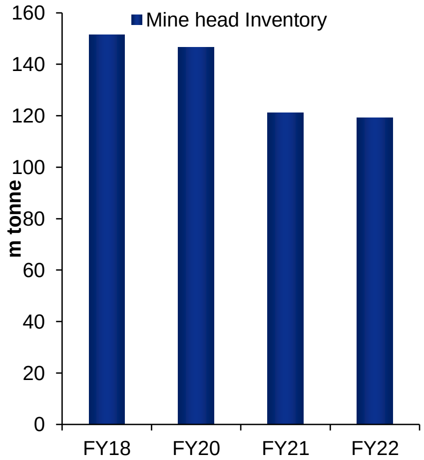


SOURCE: COMPANY REPORTS, INCRED RESEARCH

As a result, India's mine-head inventory is declining rapidly, and the usability of this inventory is also deteriorating ›

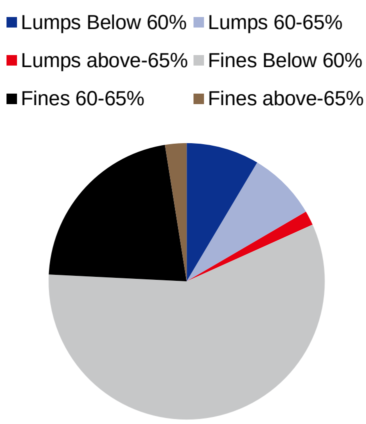
In our estimation, nearly 70% of the mine-head inventory is now unusable for Indian pellet-makers and blast furnaces. Additionally, China has been reducing imports of low-grade iron ore due to environmental concerns in Hebei, rendering this inventory largely unsaleable.

Figure 14: Indian mine head inventory of iron ore is declining



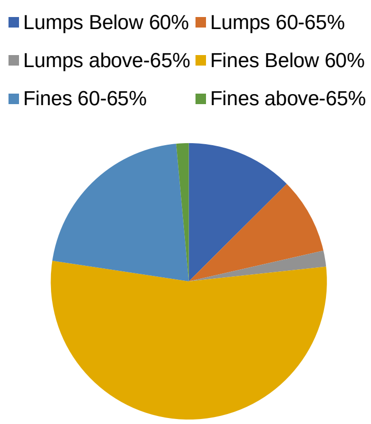
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: Quality of iron ore mines was bad in FY20…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

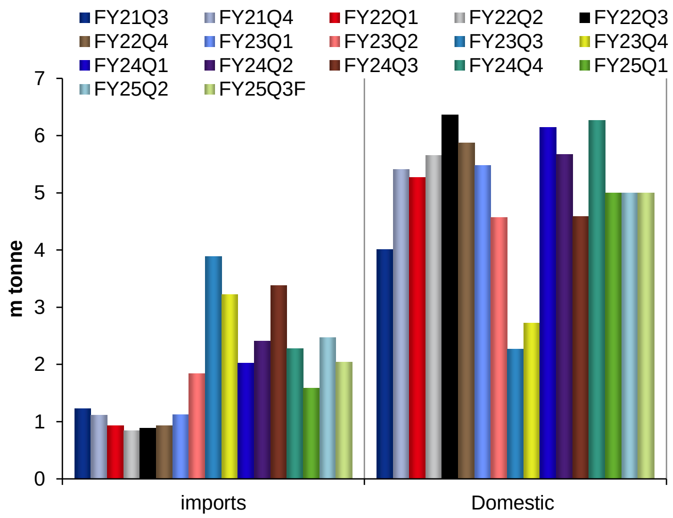
Figure 16: …and it has become worse in FY22



SOURCE: INCRED RESEARCH, COMPANY REPORTS

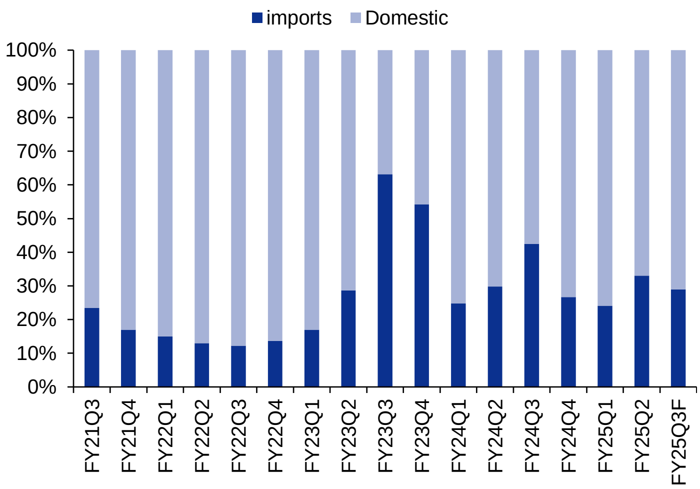
To counter the unavailability, Indian domestic scrap production has risen fast

Figure 17: Indian production of scrap has risen



SOURCE: INCRED RESEARCH, COMPANY REPORTS

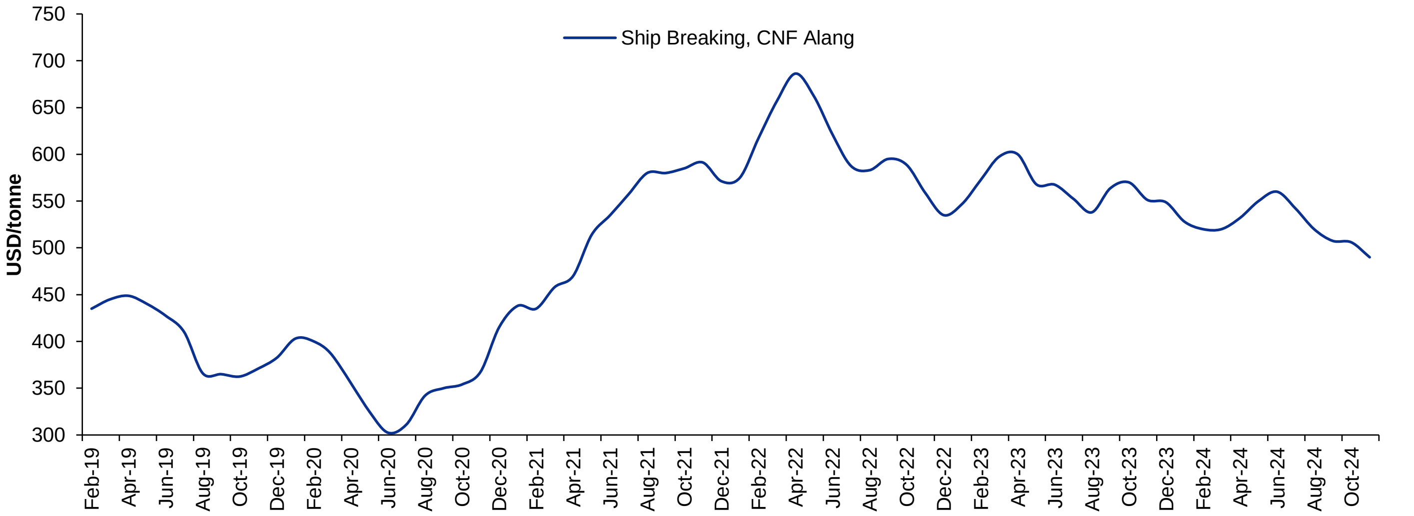
Figure 18: However, imports are becoming costlier and hence, its share in Indian scrap consumption is falling



SOURCE: INCRED RESEARCH, COMPANY REPORTS

However, domestic production of scrap seems to be peaking, as evidenced by declining prices in the ship-breaking industry

Figure 19: Indian ship-breaking yards are struggling to keep themselves occupied and hence, they are ready to operate at lower prices, which is bad news for Indian domestic scrap production



SOURCE: INCRED RESEARCH, COMPANY REPORTS

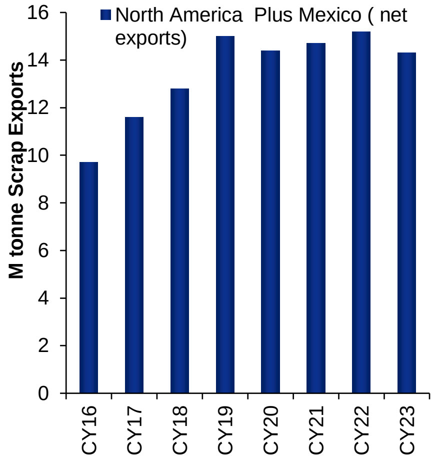
International scrap trade is not rising as scrap-producing countries are using the same for internal consumption

Notably, in the US, scrap exports are declining, while imports in Asia (excluding China) are rising. In this scenario, it seems unlikely that India will be able to import ferrous scrap at competitive prices.

Figure 20: CIS countries' net scrap exports are falling

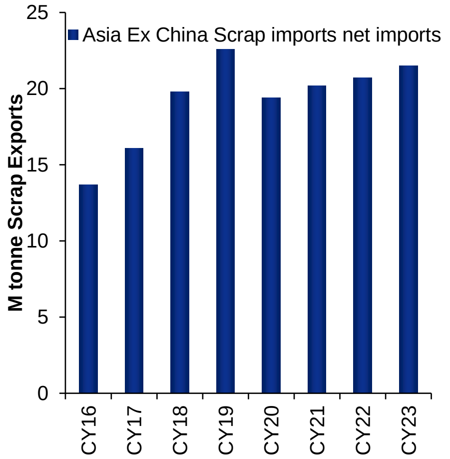
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 21: North America + Mexico's scrap exports are also stagnating



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 22: Asia ex-China scrap imports are rising



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Indian metallic balance looks precarious unless something dramatic happens on the iron ore production front

Notably, in the US, scrap exports are declining, while imports in Asia (excluding China) are rising. In this scenario, it seems unlikely that India will be able to import ferrous scrap at competitive prices. A lot will depend how Lloyds Metals will be able to ramp up production in the company's mines in Maharashtra and as well as the fact whether iron ore will be usable in existing furnaces. If that doesn't happen, then we can see India importing iron ore and later may be Indian merchant mines can start production of iron ore.

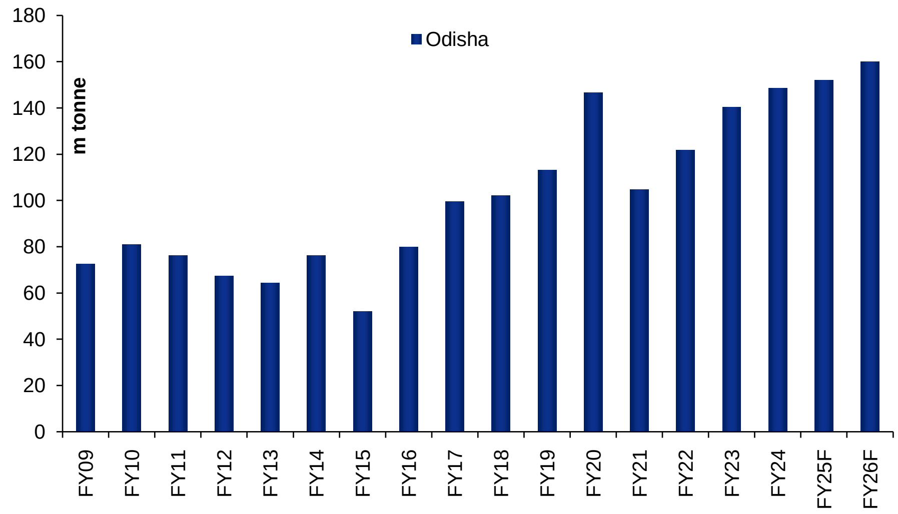
India's metallic balance - a lot depends on Lloyds Metals' ramp-up plan

With production ramp-up in Odisha looking unlikely, the Indian steel industry's hopes rest on Lloyds Metals' iron ore mines in Maharashtra. It is important to note that Lloyds Metals is mining magnetite ore in Maharashtra, which has a low Fe content and requires advanced beneficiation techniques to make it suitable for industrial use.

We don't expect any major iron ore production ramp-up in Odisha

While numerous mines have been auctioned in Odisha, we do not anticipate any production ramp-up in the state due to the unviable nature of operations, as discussed earlier in this report.

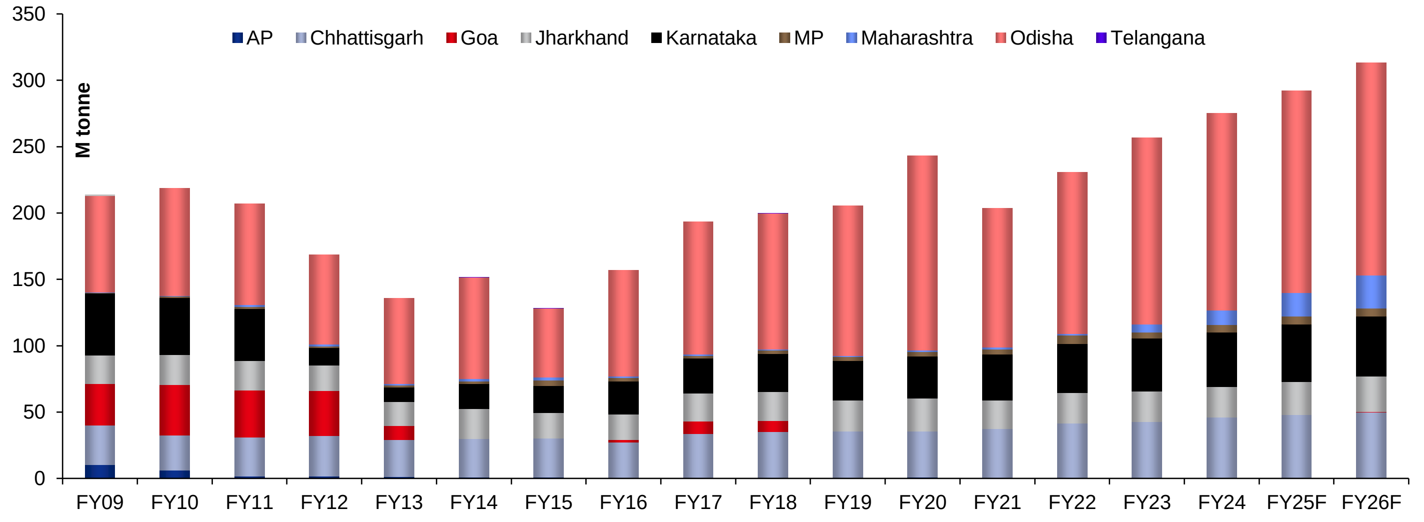
Figure 23: Odisha iron ore production is likely to rise at a sedate pace



SOURCE: INCRED RESEARCH, COMPANY REPORTS

India's hopes for a production ramp-up now rest solely on Lloyds Metals and its mining plans in Maharashtra ➤

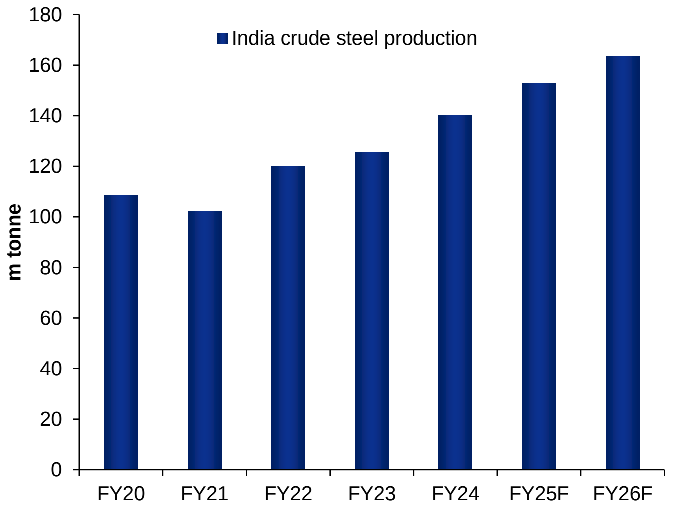
Figure 24: Maharashtra has the potential to emerge as a major iron ore production hub in India soon; for Lloyds Metals, production figures have been converted into percentages equivalent to 62%-grade iron ore for comparison



SOURCE: INCRED RESEARCH, COMPANY REPORTS

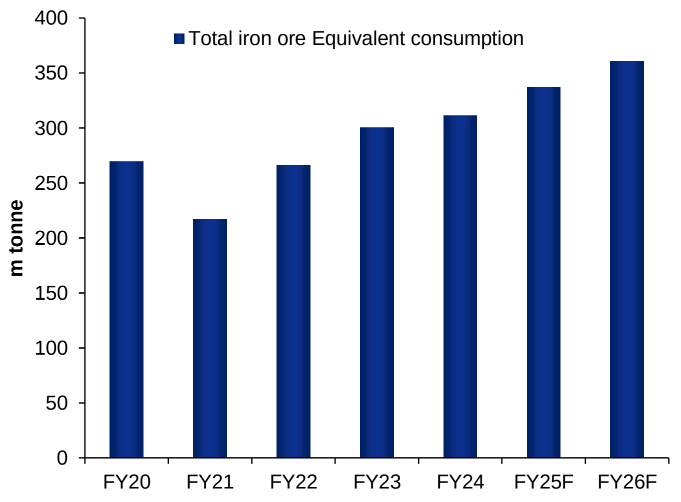
We expect India's crude steel production to post a 9% CAGR over the next few years, which will cause iron ore shortage ➤

Figure 25: Indian crude steel production can grow at a 9% CAGR…



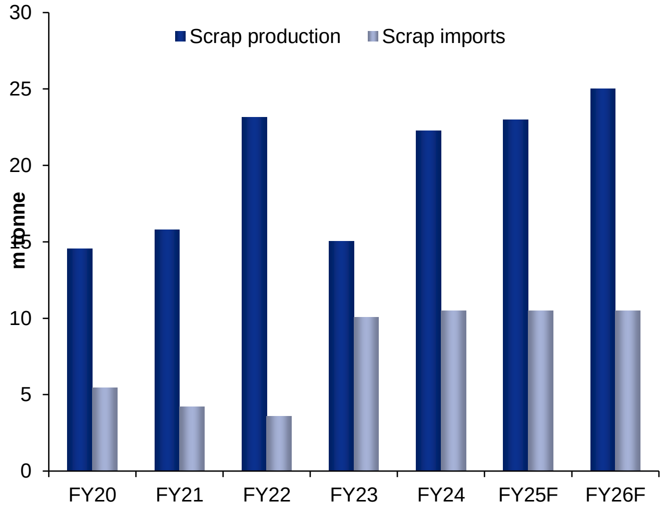
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: …which means iron ore equivalent requirement will be ~ 317mt in FY26F



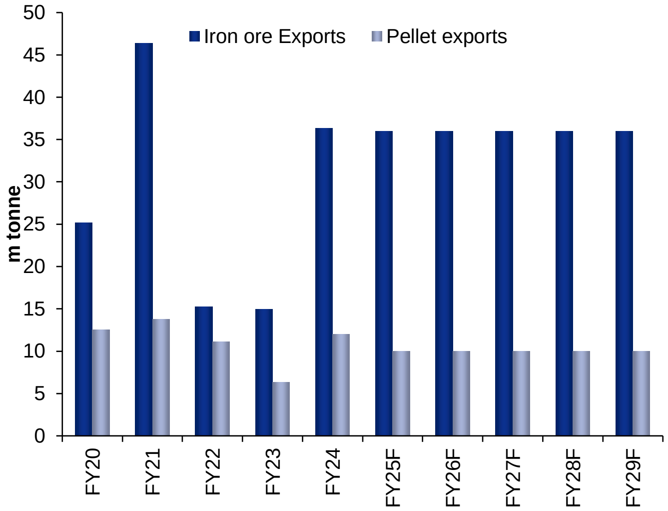
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 27: Scrap imports as well as domestic production are likely to stagnate…



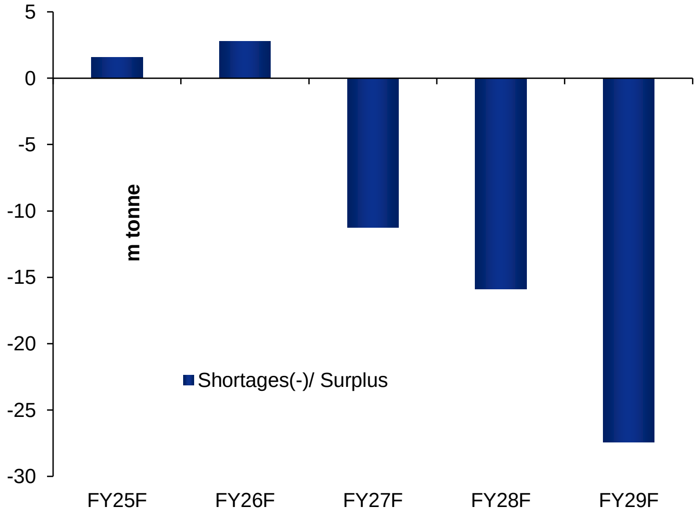
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 28: …if India allows unabated exports of iron ore and pellets



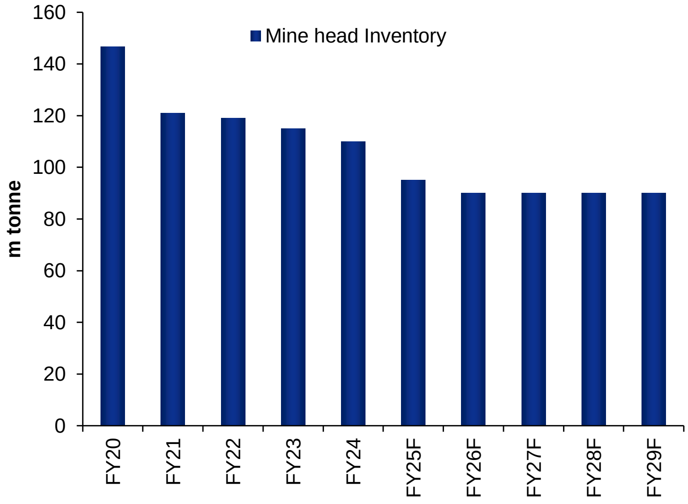
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: …then we will have iron ore shortage in FY26/27F…



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: …as Indian mine head inventory is at a minimal level in multi-decade, and the quality is poor



SOURCE: INCRED RESEARCH, COMPANY REPORTS

May be the government will intervene in the next few months to curb exports of iron ore, which is the only way to curb the massive rise in iron ore prices

In the past, the government of India has always intervened to protect the steel industry from skyrocketing iron ore prices and we can expect the same in coming months.

If that doesn't happen, then Odisha fine can touch Rs8,000/t

Figure 31: At current global prices, iron ore import costs for Indian users are estimated to be around Rs11,000/t, indicating that Odisha iron ore prices could reach Rs8,000-8,500/t

	Value	Unit
FOB Australia prices	100	US$/t
Freight charges	8	US$/t
Import duty	10.8	US$/t
Handling charges	5	US$/t
Landed cost	123.8	US$/t
Inland freight charges	10	US$/t
Overall landed cost at factory gate	133.8	US$/t
Landed cost in INR	11,239	Rs/t

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Domestic steel demand – review and outlook

Domestic steel demand grew at a healthy CAGR of 6.6% between fiscals 2020 and 2024 despite the Covid-19 pandemic impact, wherein domestic demand momentum declined to 1% in fiscal 2020 and to -5% in fiscal 2021. In the post-pandemic era, rapid recovery due to pent-up demand and increased government spending on infrastructure and related sectors led to three consecutive years of double-digit demand growth. Demand rose by 11.4% in fiscal 2022, 13.4% in fiscal 2023 and 13.4% (provisional) in fiscal 2024. While the growth momentum is expected to slow down in fiscal 2025F to 5-6%, it should remain healthy at a 6-8% CAGR over fiscals 2025F to 2028F. Capex in the infrastructure sector continues to be in an upward trajectory. For the period Apr-Dec 2023, the central government's capital expenditure rose by ~47% for the road ministry and ~52% for railways compared with the same period in the previous fiscal. The strong momentum in infrastructure is likely to continue, led by government spending, primarily through flagship schemes such as PM Gati Shakti and the National Infrastructure Pipeline.

India's iron ore production

In FY23, production of iron ore, including lumps, fines and concentrates, increased by a notable ~23.86% year-on-year to 257.6mt. In FY22, the number of reporting mines decreased to 245 from 280 in the preceding year, with 43 mines in the public sector and 202 in the private sector. Additionally, 10 mines reported iron ore production as an associated mineral in fiscal 2022, one more than in the previous year. Odisha led iron ore production (accounting for ~53.82% of the country's production), followed by Chhattisgarh (~16.27%), Karnataka (~15.88%) and Jharkhand (~9.74%). The remaining production came from Andhra Pradesh, Madhya Pradesh, Maharashtra and Rajasthan. The mine-head closing stocks of iron ore for fiscal 2022 stood at 119.19mt, compared with 121.17mt in the previous year.

Auctions pick up pace

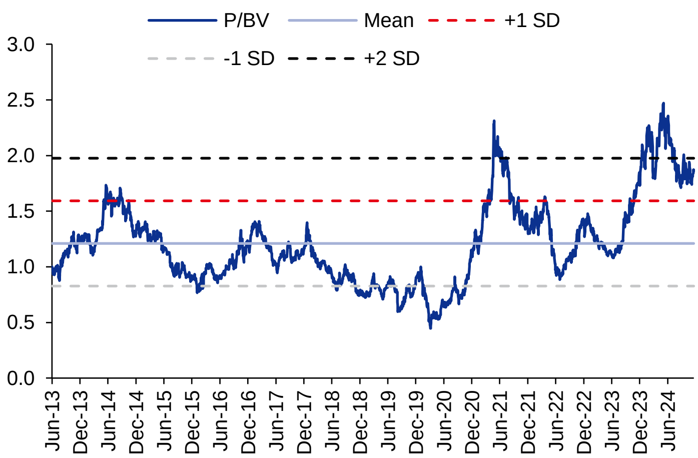
The auction premium paid under the Mines and Minerals (Development and Regulation) Act (MMDR Act) mine auction system is a key component of the auction process. When mineral blocks, including iron ore mines, are put up for auction by the government, bidders are required to pay an amount known as the auction premium, in addition to the royalty for the mined mineral along with other statutory payments. The auction premium serves multiple purposes within the framework of mineral resource management. Firstly, it acts as a revenue source for the government, generating substantial funds that can be utilized for various developmental initiatives, infrastructure projects, and social welfare programmes. This revenue contributes to the public exchequer, enhancing the financial capacity of the government to address societal needs and promote economic growth. Secondly, the auction premium reflects the market value of the mineral block being auctioned and the willingness of bidders to invest in its development.

Lloyds Metals to emerge as the lowest-cost iron ore producer beyond 2030F - expiry of existing iron ore mining leases (2024 to 2030)

As number of mining leases in India approach their expiry dates leading up to 2030, the industry faces a critical juncture marked by both challenges and opportunities. The expiration of these leases raises concerns about the continuity of iron ore supply, given that India is one of the world's leading producer and consumer of iron ore. One of the primary challenges associated with the expiry of mining leases is the potential disruption to iron ore production. If existing leases are not extended or auctioned in a timely manner, it could lead to a shortfall in iron ore supply, impacting various downstream industries including steel manufacturing and downstream end-user industries. However, the expiry of mining leases also presents an opportunity for miners and end-users to acquire new assets available in the auction after the lease expiry and gain market share. With Lloyds Metals' mine lease extended until 2057, the company will continue operating under the previous royalty structure without any obligation to pay premiums on iron ore production. In contrast, mines auctioned after Mar 2020 saw bids exceeding premiums of 100-150%, rendering merchant mining economically unfeasible in the domestic market. The outflow of royalties and premiums for mines auctioned after Mar 2020 is 6x higher than what Lloyds Metals currently pays. This inherently positions the company as a low-cost iron ore producer, resulting in superior margin. Captive players like Tata Steel are likely to enjoy these benefits only until 2030, as their mines are to be re-auctioned. Post 2030, Lloyds Metals could emerge as one of the lowest-cost iron ore producers in India. Although around 110mtpa of mining leases are estimated to expire between 2024 and 2030F, the total iron ore production from these mines is estimated at 50-60mt for fiscal 2024F. Some of these mines are owned by Steel Authority of India (SAIL), which is expected to get a preferential treatment under the MMDR Amendment Act 2021, for renewal of mining leases.

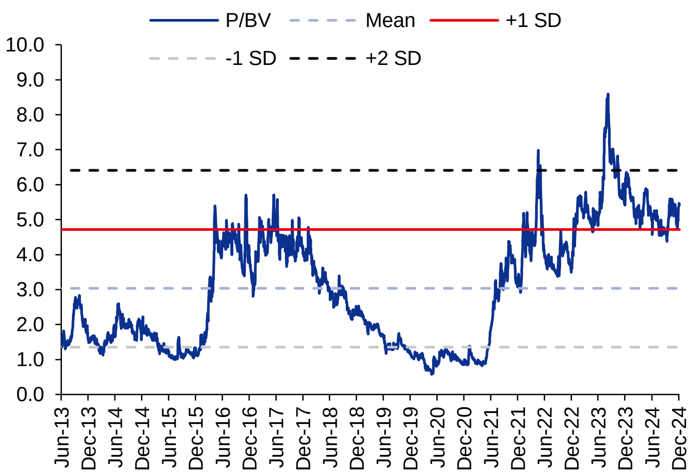
NMDC and Lloyds Metals - valuation benchmarking

Figure 32: NMDC's P/BV



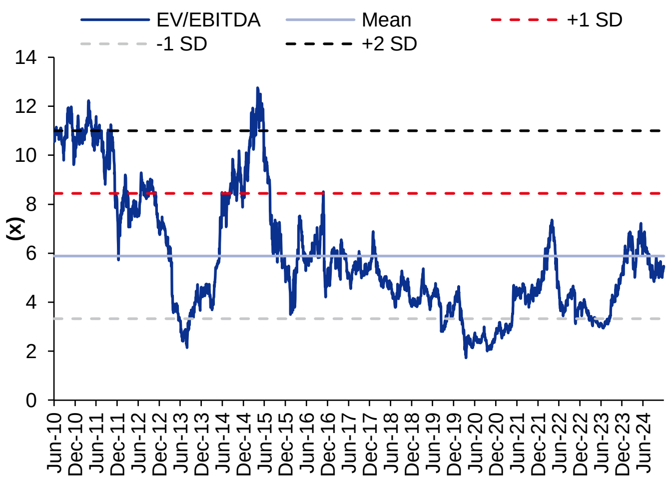
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 33: Lloyds Metals' P/BV



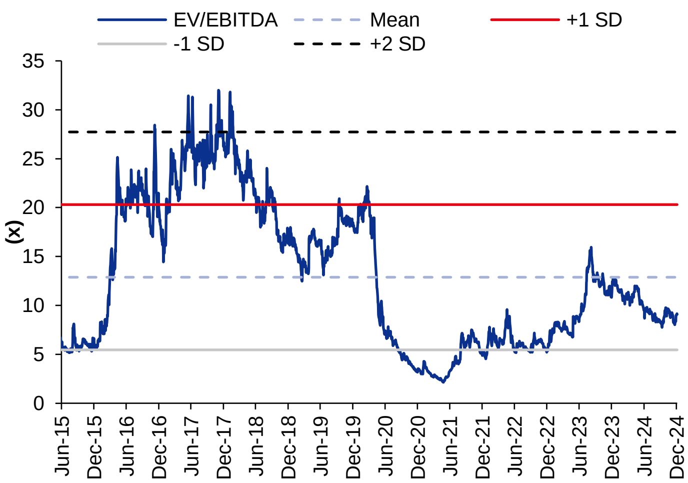
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 34: NMDC's EV/EBITDA



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 35: Lloyds Metals' EV/EBITDA



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 36: Capex break-up

Projects	Capex (in Rsbn)	Year
Slurry pipeline - 85km, pellet plant - 4mtpa, DRI [doubling the capacity to 7,00,000t]	16.9	FY24
Enhanced EC, slurry pipeline, pellet plant, DRI, mine upgradation	34	FY25F
1st beneficiation plant -15mtpa, 2nd pellet plant - 4mtpa, wire rod mill - 1.2mtpa, 125MW coal-based power plant	65	FY26F
Steel plant - HRC - 3mtpa, 2nd beneficiation plant, steel melting, coke oven, 3rd pellet plant, blast furnace	120	FY27F-28F
3rd beneficiation plant, slurry pipeline - 185km	90	
Total	325.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Regulatory overview

MMDR Amendment Act, 2015 ›

- Mine auction was made the only mode for mine allocation, and the auction was made completely online. This increased the transparency significantly.
- Mine blocks were given for a 50-year lease to the successful bidder.
- Captive players were allowed to bid for mines previously held by non-captive players. However, captive players could not sell non-required iron ore production to external buyers.
- Captive players had the first right of refusal after the lease expired and could get a 15-year extension.

Mineral Laws (Amendment) Act, 2020 ›

- The government abolished restrictions related to end-use for captive and non-captive mine leases.
- A new composite licence reconnaissance permit (RP)-cum-PL-cum-ML was introduced for virgin blocks.
- The Central government directed state governments to auction mines with pre-embedded clearances to shorten the lead time before the start of mining operations. Here, state governments were made responsible for obtaining the necessary clearances.

MMDR Amendment Act, 2021 ›

- Captive mines were allowed to sell up to 50% of the production to external buyers.
- Statutory clearances remained valid even after the expiry of the lease. This promoted ease of doing business.
- The lessee, who could not undertake mining operations, could transfer the lease to the interested party without any additional charges, thus ensuring continuation of mine production.
- These changes promoted ease of doing business and boosted mine production.

Board of directors & key managerial personnelc

Figure 37: Key management personnel

Key Person	Designation	Background
Mr. Mukesh Gupta	Chairman and Promoter Director	Mr. Mukesh Gupta has a vast and varied experience of over 44 years in the field of project implementation, finance, marketing and other areas in steel, power and real estate industry. He is the founder board member of the Lloyds Group.
Mr. Babulal Agarwal	Managing Director	Mr. Babulal Agarwal has rich experience of over 54 years in steel trading and industry. He is associated with day-to-day affairs of the company and has expertise in legal, administration and management fields.
Mr. Rajesh Gupta	Non-Executive Promoter Director	Mr. Rajesh Gupta is a successful industrialist having vast knowledge and rich experience of over 35 years in production, management, consultancy and other areas in steel, power and trading industry. Under his leadership, the company along with other group companies, has implemented several projects in the steel sector, including the power plant. He is the founder board member of the Lloyds Group.
Mr. Balasubramanian Prabhakaran	Non-Executive Promoter Director	Mr. B. Prabhakaran is the Managing Director of Thriveni Earthmovers Private Limited (co-promoter & MDO of the company). He started Thriveni Earthmovers Private Limited in 1994. Mr. Prabhakaran is a visionary leader with passion for technology, engineering and flawless execution. Mr. Prabhakaran has a unique way of integrating community with business, which is one of the core reasons for the success in complex mining projects.
Mr. Madhur Gupta	Non-Executive Promoter Director	Mr. Madhur Gupta has an experience of over eight years in real estate and infrastructure. Mr. Gupta has a sharp acumen and expertise in areas of project execution, planning, finance and business development. With a firm passion for technology and operation excellency, he ensures that the productivity and efficiency of the company reaches new heights
Mrs. Bhagyam Ramani	Independent Woman Director	Mrs. Bhagyam Ramani is a Postgraduate in Economics (Hons.) from Bombay University with specialization in Industrial & Monetary Economics and was Ex – Director & GM of General Insurance Corporation of India (GIC- Re). She had commenced her career in General Insurance Corporation of India, a Government of India Undertaking, as a Direct Recruit Officer and worked in various capacities with the company before assuming the office of General Manager - in charge of finance and accounts department of the corporation. She also has expertise in treasury & corporate credit. She was elevated to the position of director on the board of GIC – Re in 2009, which she held until her retirement.
Mr. Jagannath Dange	Independent Director	Mr. J. Dange is a Commerce and Law Graduate, has done his Post-Graduation in Business Administration Development from Nagpur University, Pune University and Bath University from the UK. He commenced his career as an IAS officer in 1973 in Maharashtra Cadre. Mr. Dange has served for more than 38 years in different positions including districts, Government of Maharashtra and Government of India and gained hands-on experience in the management of government organizations, public sector undertakings and NGOs, and has also handled various judicial and quasi-judicial matters in various positions held by him.
Mr. Devidas Kamble	Independent Director	Mr. D. Kambale has more than 30 years of experience in the banking sector and has worked with IDBI at senior levels. During his long tenure with IDBI, he has worked in all the operational departments like Project Appraisal, Corporate Finance Department and Rehabilitation Department and also headed the Corporate Debt Restructuring Cell (CDR). He was involved in appraisal of various major green projects. Mr. Kambale has rich exposure in the areas like project monitoring & follow-up, recovery, CDR, Priority Sector Dept, and he also represented as a nominee of IDBI on the boards of various major companies.
Mr. Ramesh Luharuka	Independent Director	Mr. R. Luharuka started his career in 1979. Currently he is a practicing-chartered accountant under the name of M/s R. V. Luharuka & Co LLP. He has an experience of over 40 years in corporate finance, capital market, investment banking and other related activities
Dr. Seema Saini	Independent Director	Dr. S.Saini is the CEO of N. L. Dalmia Educational Society which runs three Schools of Excellence. She brings with her an extensive experience of 30 years in the field of education. Dr. Saini is a Honorary Member of National Advisory Council of the SME Chamber of India. While in the US, Dr. Saini was on the board of Cincinnati Chapter of American Society of Training and Development (A.S.T.D.) and she also holds the position of Vice President of Association of ICSE Schools of Maharashtra region. She is also on the Panel of Inspectors of the Council for the Indian Certificate School Exams. Furthermore, Dr. Saini, carries forward the vision of the trustees of N. L. Dalmia Educational Society by promoting CSR activities under which the society has adopted Kondgaon village to improve the health, hygiene, education, environment and the livelihood for sustainable development of the people.
Dr. Satish Wate	Independent Director	Dr. S. Wate joined as a scientist at CSIR-NEERI, Nagpur and rose to the position of director in Aug 2010. He was also assigned an additional charge as a director of Central Leather Research Institute, Chennai in Mar 2015. Dr. Wate has several years of experience in environmental impact and risk assessment, water resource management, environmental systems design, modelling and optimization, carrying capacity-based developmental planning, environmental biotechnology, wastewater treatment and environmental materials for field applications. He has successfully handled large number of projects with national and international agencies / organizations like the World Bank, UNDP, UNEP, WHO, UNICEF, and Asian countries viz. UAE, Kuwait, Qatar and Philippines. Dr. Wate has been nominated on various National Advisory Committees of Ministries viz. DST; MOEF&CC; MWR, RD and Ganga Rejuvenation; MDWS etc. either as chairman or member. He has signed MOUs with many international and national academic and R&D institutions for bilateral co-operation.
Mr. Subbarao Munnang	Independent Director	Mr. Subbarao was the chairman-cum-managing director of KIOCL Limited, (Schedule A listed PSU company under the Ministry of Steel, Government of India) Bengaluru. He has also been associated with NMDC Limited, JSPL Limited, as an advisor for global procurement of bulk minerals, mining, palletisation, arbitration, recruitment etc. He has attended as a speaker in various National and International Seminars and published Technical Papers on Iron & Steel in several Indian Journals. He has received Best CEO award from World HRD Congress, Udyog Rattan Award from Institute of Economic Studies, distinguished Alumni Award from NIT, Warangal. Best CMD Corporate Management Innovative Excellence Award from GEOMINETECH, and outstanding contribution to the Indian public sector industry award from Indian Chamber of Commerce.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Earnings and valuation

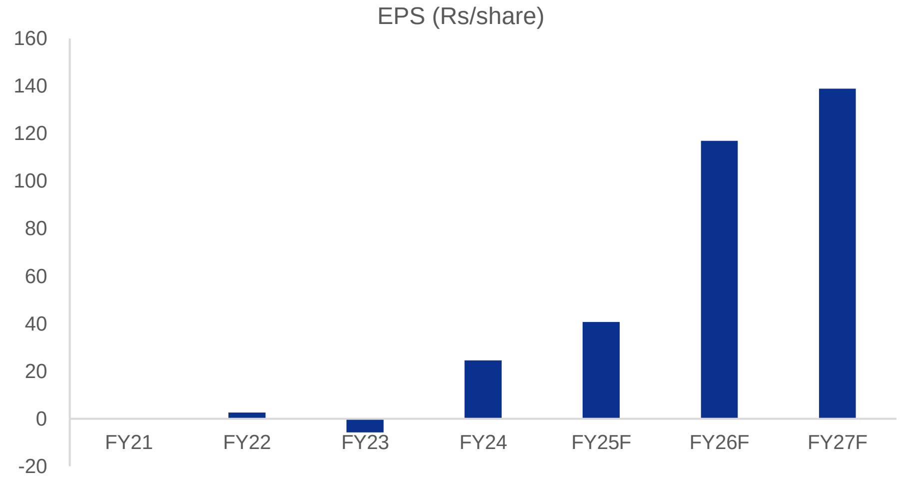
India's steel demand is set to outpace supply, with limited availability of scrap at competitive prices pushing iron ore prices higher. The aggressive bidding for merchant mines has rendered operations economically unviable without a price upswing. Amid this landscape, Lloyds Metals stands out with its competitive cost advantage, bolstered by a mine extension until 2055, economies of scale, and ambitious forward integration plans. These factors are expected to drive an impressive 76% CAGR in the company's EPS over FY24-27F. We are giving a premium to Lloyds Metals over NMDC due to an earnings boom driven by the expected short supply and higher demand leading to the market rewarding players like Lloyds Metals.

Figure 38: We have factored in growth from integration plans while giving EV/EBITDA multiple of 7.5x to achieve our target price of Rs1,476; initiate coverage with an ADD rating

Item	Unit	Valuation
Core FY27F EBITDA	Rs m	93,460
IPS benefits	Rs m	12,881
One- year forward multiple	x	7.5
End FY26F EV	Rs m	7,97,557
End FY26F net debt	Rs m	(33,586)
End FY26F equity value	Rs m	8,31,143
End FY26F equity value	Rs/share	1,476.80
One-year forward target price	Rs/share	1,476

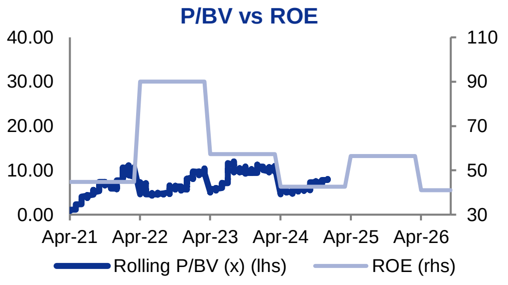
SOURCE: INCRED RESEARCH, COMPANY REPORTS

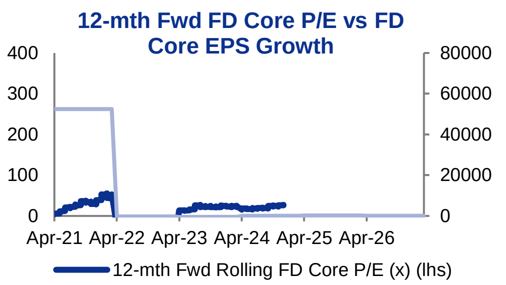
Figure 39: Lloyds Metals' EPS to post ~78% CAGR over FY24-27F



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	**33,923**	**65,217**	**80,080**	**181,067**	**233,314**
Gross Profit	**28,522**	**56,297**	**74,990**	**165,296**	**218,597**
Operating EBITDA	**8,103**	**17,283**	**27,451**	**76,083**	**93,460**
Depreciation And Amortisation	(230)	(490)	(786)	(1,737)	(3,797)
Operating EBIT	**7,873**	**16,793**	**26,665**	**74,346**	**89,663**
Financial Income/(Expense)	(650)	(57)	(451)	(1,353)	(2,255)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	745	529	976	7,638	12,881
Profit Before Tax (pre-EI)	**7,967**	**17,265**	**27,190**	**80,631**	**100,289**
Exceptional Items	(11,944)				
Pre-tax Profit	**(3,977)**	**17,265**	**27,190**	**80,631**	**100,289**
Taxation	1,091	(4,836)	(6,844)	(20,295)	(25,243)
Exceptional Income - post-tax					
Profit After Tax	**(2,885)**	**12,429**	**20,346**	**60,336**	**75,046**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**(2,885)**	**12,429**	**20,346**	**60,336**	**75,046**
Recurring Net Profit	9,059	12,429	20,346	60,336	75,046
Fully Diluted Recurring Net Profit	**9,059**	**12,429**	**20,346**	**60,336**	**75,046**

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	8,103	17,283	27,451	76,083	93,460
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(2,538)	1,538	895	6,078	3,144
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(9,923)	751	4,918	8,991	15,136
Net Interest (Paid)/Received	(774)	(288)	(451)	(1,353)	(2,255)
Tax Paid	(33)	(2,273)	(6,844)	(20,295)	(25,243)
Cashflow From Operations	**(5,164)**	**17,010**	**25,969**	**69,503**	**84,242**
Capex	(3,869)	(17,207)	(35,751)	(65,000)	(90,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(2,254)	(47)			
Cash Flow From Investing	**(6,123)**	**(17,254)**	**(35,751)**	**(65,000)**	**(90,000)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares	13,059	2	21,180	20,600	
Shares Repurchased					
Dividends Paid	(222)		(2,251)	(2,021)	(2,021)
Preferred Dividends					
Other Financing Cashflow	(1,411)	(8)	4,549	3,647	2,745
Cash Flow From Financing	**11,426**	**(6)**	**23,478**	**22,226**	**724**
Total Cash Generated	139	(250)	13,696	26,729	(5,034)
Free Cashflow To Equity	**(11,287)**	**(244)**	**(9,782)**	**4,503**	**(5,758)**
Free Cashflow To Firm	**(10,636)**	**(187)**	**(9,331)**	**5,856**	**(3,503)**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	2,646	2,871	16,567	43,296	38,262
Total Debtors	245	799	981	2,219	2,859
Inventories	2,698	2,311	2,838	6,416	8,267
Total Other Current Assets	3,512	5,000	5,000	5,000	5,000
Total Current Assets	**9,100**	**10,982**	**25,387**	**56,931**	**54,389**
Fixed Assets	9,055	24,249	59,213	122,477	208,680
Total Investments	368	290	290	290	290
Intangible Assets					
Total Other Non-Current Assets	1,737	3,854	364	364	364
Total Non-current Assets	**11,160**	**28,394**	**59,868**	**123,131**	**209,334**
Short-term Debt	630				
Current Portion of Long-Term Debt					
Total Creditors	745	3,951	4,851	10,969	14,134
Other Current Liabilities	3,227	5,718	6,421	11,197	13,667
Total Current Liabilities	**4,602**	**9,669**	**11,273**	**22,166**	**27,802**
Total Long-term Debt			5,000	10,000	15,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	22	1,158	1,158	1,158	1,158
Total Non-current Liabilities	**22**	**1,158**	**6,158**	**11,158**	**16,158**
Total Provisions	347	439	439	439	439
Total Liabilities	**4,971**	**11,266**	**17,870**	**33,763**	**44,399**
Shareholders Equity	15,290	28,109	67,384	146,299	219,324
Minority Interests					
Total Equity	**15,290**	**28,109**	**67,384**	**146,299**	**219,324**

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	386.4%	92.2%	22.8%	126.1%	28.9%
Operating EBITDA Growth	456.8%	113.3%	58.8%	177.2%	22.8%
Operating EBITDA Margin	23.9%	26.5%	34.3%	42.0%	40.1%
Net Cash Per Share (Rs)	3.99	5.68	22.89	65.89	46.04
BVPS (Rs)	30.29	55.63	133.36	289.53	434.05
Gross Interest Cover	12.10	295.65	59.12	54.95	39.76
Effective Tax Rate		28.0%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio					
Accounts Receivables Days	2.60	2.92	4.06	3.23	3.97
Inventory Days	147.52	102.47	184.61	107.08	182.08
Accounts Payables Days	30.31	96.09	315.62	183.08	311.30
ROIC (%)	44.4%	47.3%	34.9%	48.6%	34.0%
ROCE (%)	73.2%	76.3%	53.1%	65.0%	45.9%
Return On Average Assets	67.0%	41.8%	33.2%	46.2%	34.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.