

India

**Underweight** (no change)

**Highlighted Companies**

**JSW Steel**

**REDUCE, TP Rs330, Rs672 close**

We value JSW Steel at +1SD 8x FY22F to arrive at a TP of Rs330. We have valued the stock at +1SD of its long-term mean as its balance sheet is deleveraging, and value-added products are increasing in the portfolio.

**Steel Authority of India**

**REDUCE, TP Rs60, Rs110 close**

Despite having captive iron ore capacities, SAIL's operational cost/t is the highest among its peers. Its mining costs are rising, negating the advantages.

**Tata Steel**

**REDUCE, TP Rs750, Rs1169 close**

We expect the company to fare well based on its value-added offerings but see its profitability falling, leading to a 1% EBITDA CAGR over FY21-24F.

**Summary Valuation Metrics**

P/E (x)	Mar22-F	Mar23-F	Mar24-F
JSW Steel	17.31	50.11	59.65
Steel Authority of India	7.37	102.34	92.7
Tata Steel	4.85	14.45	12.74
P/BV (x)	Mar22-F	Mar23-F	Mar24-F
JSW Steel	3.6	3.47	3.4
Steel Authority of India	0.91	0.91	0.9
Tata Steel	1.4	1.31	1.22
Dividend Yield	Mar22-F	Mar23-F	Mar24-F
JSW Steel	0.97%	0.97%	0.97%
Steel Authority of India	0%	0%	0%
Tata Steel	2.14%	2.14%	2.14%

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# Steel

## Q3FY22F - Beginning of downgrade cycle

- Q3FY22F will mark the beginning of downgrade cycle for steel stocks. Please note that this quarter will still not show the full extent of price decline.
- Falling steel prices, higher raw material costs and sedate export markets are weighing heavily on Indian steel sector.
- On an average, profit should decline by 45% vis-a-vis Q2FY22. Still EPS decline will be only moderate yoy. SAIL & Tata Steel remain our top REDUCE.

### Cost pressure is showing, but price decline to reflect in Q4FY22F

Steel prices have started declining from the middle of Nov 2021, and hence, on an average basis, Indian domestic steel prices in Q3FY22 were still higher than in Q2FY22. It's another matter that because of sales mix and a rapid decline in export prices, steel companies may witness only a 1.5-2% qoq rise in realization in Q3FY22F. Please note that Jan 2022 (Q4 FY22F beginning) prices of HRC/ CRC/GP/ billet/ rebar (BF grade) are down from Q3FY22 average by 6%/8%/9%/ 1% and 5%, respectively. If the prices don't recover in Feb/Mar, then Q4FY22F can be much worse than Q3FY22F. Fall in domestic iron ore prices can be a relief to JSPL and JSW Steel but Tata Steel (standalone) and SAIL won't have such advantage.

### Raw material cost pressure unlikely to ease significantly

Our analysis of coking coal indicates that coal costs are unlikely to ease in the near term. In the very long term, when production processes are changed and H2 becomes the reducing medium, then cost mechanics can change. Lack of mining investment because of low prices and ESG (environmental, social and governance) concerns has become the bane of steel sector. We have given the coking coal problems in detail in our report ([please see the attached link](#)). As argued in the report, Indian demand alone can keep coking coal prices elevated. India lacks high quality coking coal reserves, and the new capacity is coming through the blast furnace or BF route, which needs at least 1t of coking coal mix (hard coking coal or HCC, mid volatility coking coal and pulverized coal injection or PCI grade of coal) per tonne of crude steel. Domestic iron ore prices are falling but we don't think that we are likely to see FY20 price levels. More details on Indian iron ore dynamics and why we cannot see FY20 price levels is given in the note in the [link](#).

### Steel valuations are still way too high, need to correct 30% at least

The changed business dynamics are not reflected in stock prices. Steel stock valuations are still way too high. Our equal weighted steel index is trading near +1SD of the long-term mean. While money is cheap and liquidity is abundant, but still when one the largest steel companies in India (SAIL) is on the verge of barely achieving breakeven in Q4FY22F (unless there is a dramatic recovery in demand or complete collapse in coking coal prices), the valuations have still plenty of downside left.

**Figure 1: Metal index has to come to average and then pendulum can swing much below average as well**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

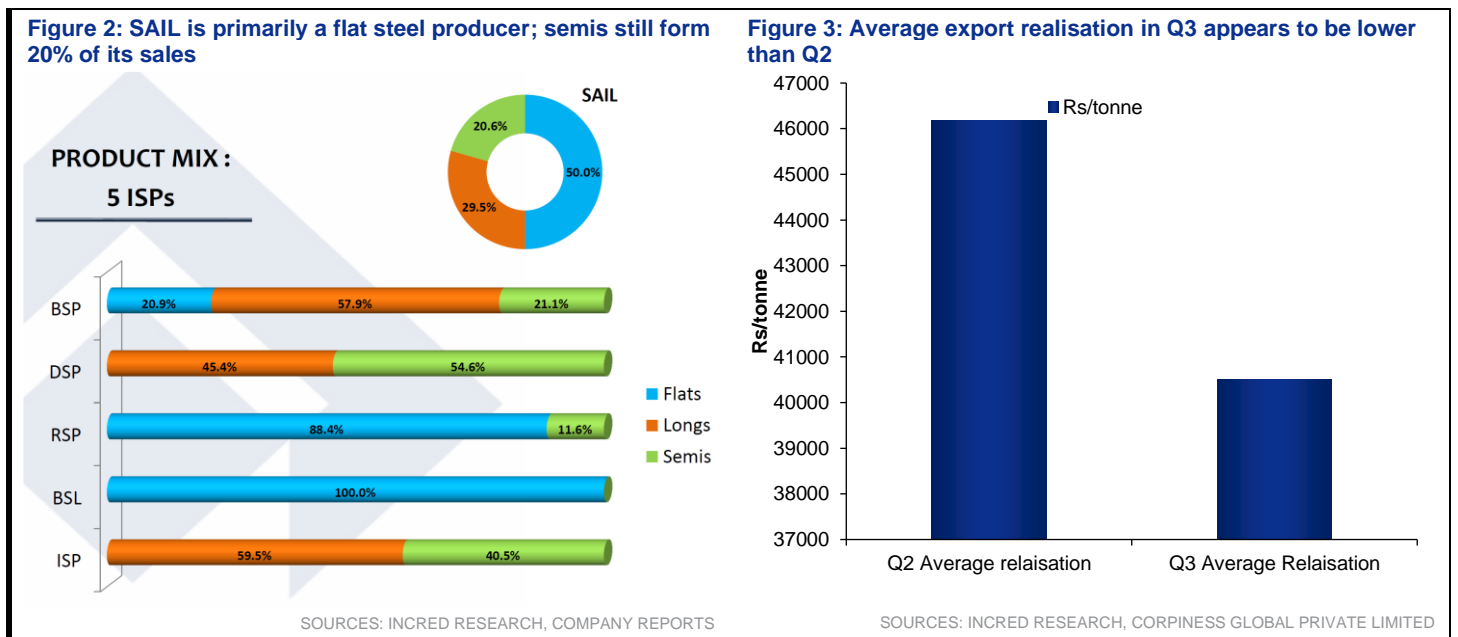
## Beginning of downgrade cycle

Indian steel prices are softening while costs are stubbornly high. Soft global steel demand means there is not much export demand for Indian flat steel and hence, inventories are piling up. Interestingly, steel stocks are still trading way beyond their book value. In effect, they are pricing in a sustained rally in steel prices

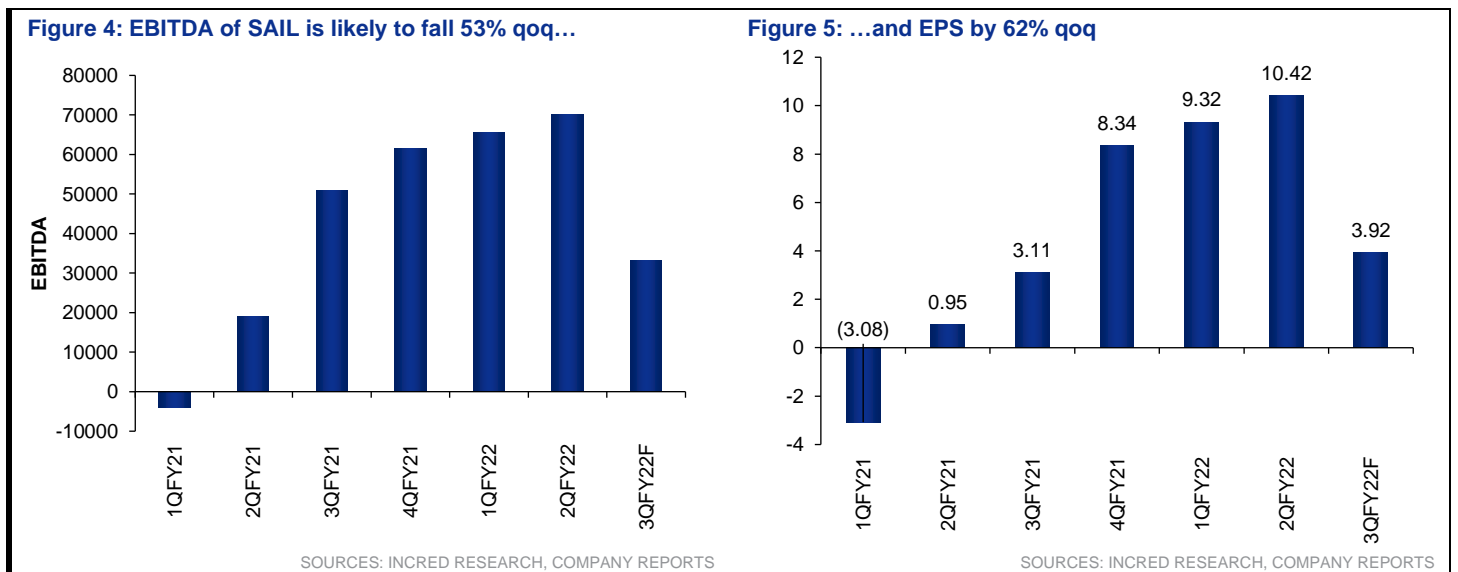
### SAIL: Worst quarter since Q2FY21

Q3FY22F will be the worst quarter for Steel Authority of India Ltd or SAIL since Q1FY21. While the company won't suffer losses in Q3FY22F, profits will be miniscule.

### SAIL's product profile is weighed heavily towards flat steel ➤



### EPS likely to decline 62% qoq ➤



## Our earnings projections

**Figure 6: We assume same staff cost and other expenditure to project an EPS of Rs 3.92**

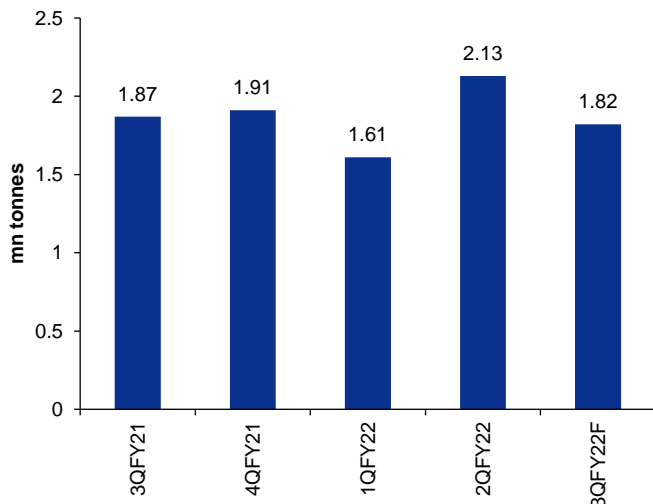
	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22F
<b>Net Revenue</b>	<b>1,98,329</b>	<b>2,32,860</b>	<b>2,06,424</b>	<b>2,68,269</b>	<b>2,63,255</b>
<b>Expenses</b>					
<b>Total Cost of Goods Sold</b>	<b>75,157</b>	<b>71,393</b>	<b>55,572</b>	<b>91,671</b>	<b>1,23,557</b>
Employee Cost	23,435	40,708	27,695	33,343	33,343
Other Expenses	48,963	59,229	57,521	73,086	73,086
<b>Total Expenses</b>	<b>1,47,555</b>	<b>1,71,331</b>	<b>1,40,788</b>	<b>1,98,100</b>	<b>2,40,387</b>
<b>EBITDA</b>	<b>50,775</b>	<b>61,529</b>	<b>65,636</b>	<b>70,169</b>	<b>33,628</b>
Other Income	2,163	3,201	1,104	2,306	2,306
Operating Profit	52,938	64,730	66,739	72,475	28,534
Depreciation	9,813	11,577	10,261	10,556	10,556
EBIT	43,125	53,153	56,479	61,919	17,978
Interest Expenses	6,701	5,404	5,030	4,390	3,390
Extraordinary Items	25	-1,664	0	0	0
Profit Before Tax	36,449	46,085	51,449	57,529	21,628
<b>Total Tax Expense</b>	<b>23,617</b>	<b>11,647</b>	<b>12,949</b>	<b>14,493</b>	<b>5,450</b>
<b>Profit After Tax</b>	<b>12,832</b>	<b>34,438</b>	<b>38,500</b>	<b>43,036</b>	<b>16,178</b>
Other Comprehensive Income	100	2,677	-243	512	0
Total Comprehensive Income	12,932	37,115	38,257	43,548	16,178
EPS	3.11	8.34	9.32	10.42	3.92

SOURCES: INCRED RESEARCH, COMPANY REPORTS

## JSPL: EBITDA/t to touch Rs11,000

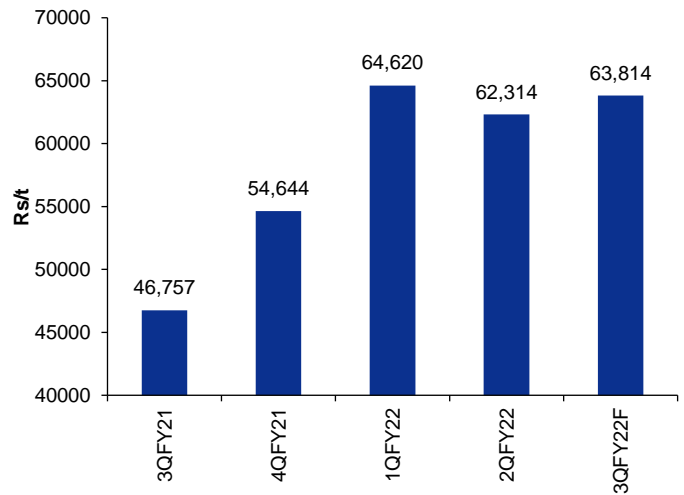
While we expect sales realization to remain flattish on a qoq basis, we expect raw material cost to increase by ~Rs7,000/t qoq because of higher coking coal cost. This leads to EBITDA/t of Rs11,131.

**Figure 7: We expect delivery volume to be lowest since Q3FY21, at 1.82mt**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

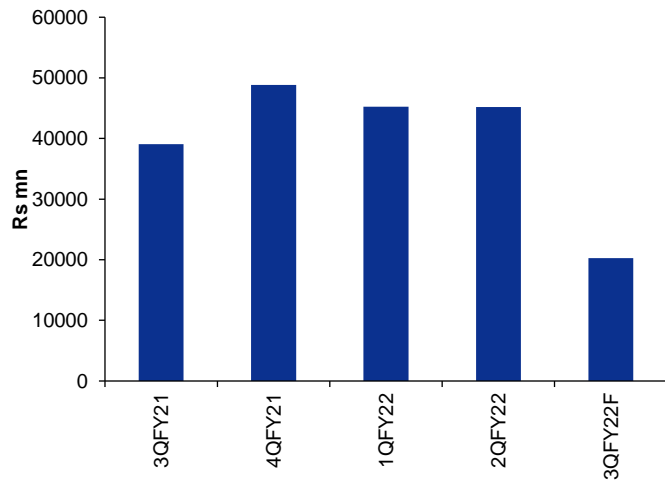
**Figure 8: We expect realization to be flattish on a qoq basis, at Rs63,814/t**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

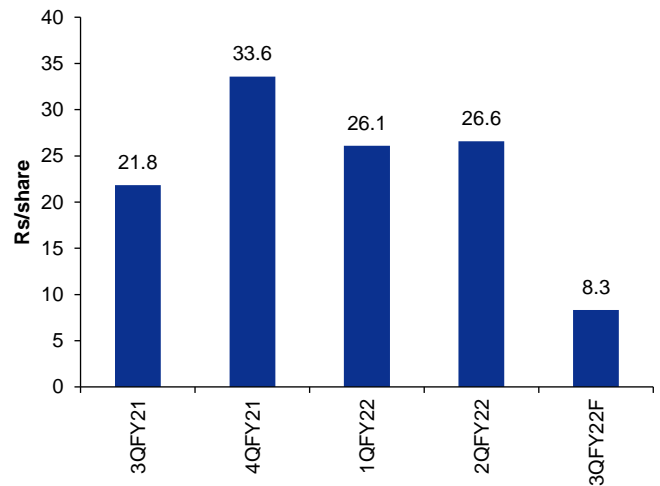
### EPS likely to decline 69% qoq ➤

Figure 9: EBITDA of JSPL is likely to fall 55% qoq...



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 10: ...and EPS by 69% qoq



SOURCES: INCRED RESEARCH, COMPANY REPORTS

### Our earnings projections ➤

Figure 11: We assume same staff cost and depreciation to project an EPS of Rs8.3

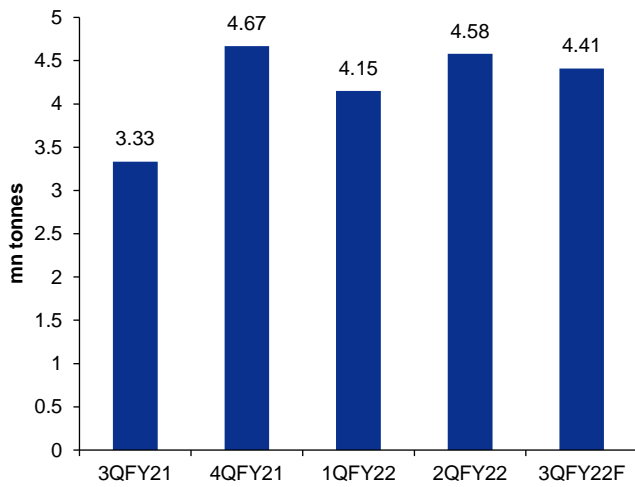
	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22F
<b>Net Revenue</b>	<b>87,379</b>	<b>1,04,298</b>	<b>1,03,846</b>	<b>1,32,612</b>	<b>1,16,025</b>
<b>Expenses</b>					
<b>Total Cost of Goods Sold</b>	<b>23,531</b>	<b>27,901</b>	<b>28,733</b>	<b>52,832</b>	<b>57,883</b>
Employee Cost	1,669	1,667	1,778	1,777	1,777
Other Expenses	23,152	25,967	28,291	32,931	36,224
Less intersegmental	-56	-73	-193	-117	-117
<b>Total Expenses</b>	<b>48,297</b>	<b>55,462</b>	<b>58,609</b>	<b>87,423</b>	<b>95,767</b>
<b>EBITDA</b>	<b>39,083</b>	<b>48,836</b>	<b>45,237</b>	<b>45,189</b>	<b>20,258</b>
Depreciation	5,664	5,476	5,560	5,623	5,623
EBIT	33,419	43,360	39,678	39,567	14,635
Other Income	14	6,532	306	192	192
Interest Expenses	5,286	5,003	4,443	3,501	3,501
Extraordinary Items	-1,718	0	0	0	0
Profit Before Tax	26,429	44,889	35,541	36,257	11,326
<b>Total Tax Expense</b>	<b>4,173</b>	<b>10,629</b>	<b>8,934</b>	<b>9,144</b>	<b>2,831</b>
<b>Profit After Tax</b>	<b>22,256</b>	<b>34,260</b>	<b>26,607</b>	<b>27,114</b>	<b>8,494</b>
Other Comprehensive Income					
Total Comprehensive Income	22,256	34,260	26,607	27,114	8,494
EPS	21.8	33.6	26.1	26.6	8.3

SOURCES: INCRED RESEARCH, COMPANY REPORTS

### Tata Steel India business: EBITDA/t to decline by ~33% qoq

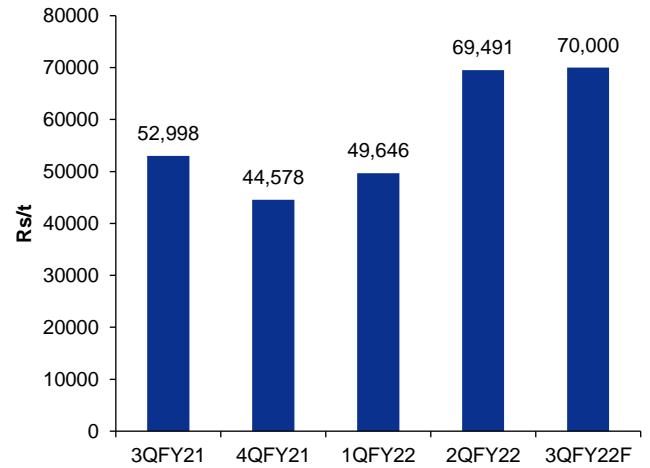
All steel companies will report a significant decline in EBITDA/t in Q3FY22F, in our view. The company reported its quarterly volume at 4.41mt and while we expect the realization to remain flatish, EBITDA/t is likely to decline by ~36% due to higher coking coal prices.

**Figure 12: Sales volume for Q3FY22F stands at 4.41mt**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

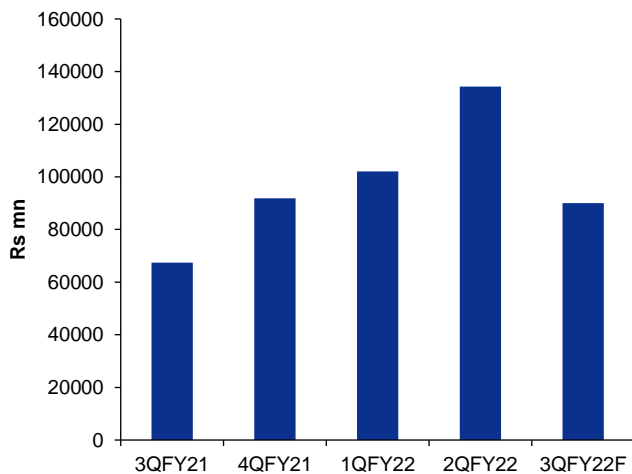
**Figure 13: We expect sales realization to remain flattish qoq at Rs70,000/t**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

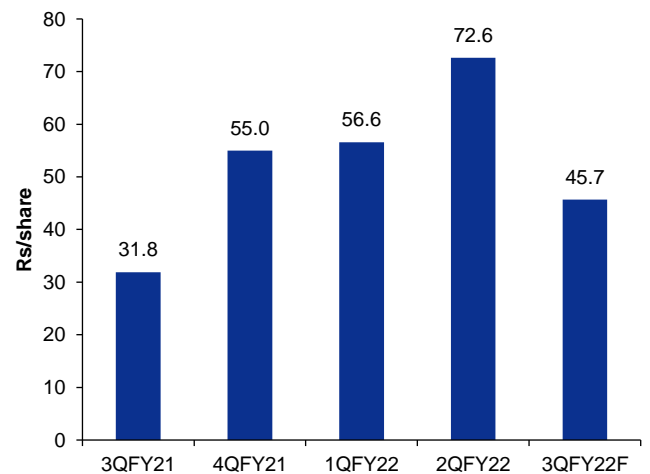
**EPS likely to decline 41% qoq ➤**

**Figure 14: EBITDA of Tata Steel is likely to fall 33% qoq...**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 15: ...and EPS by 37% qoq**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 16: Tata Steel management had highlighted in the last con-call regarding effective increase in coking coal prices qoq, and we have factored that in our estimates**

**A - TV Narendran** {BIO 7455383 <GO>}

So Amit, the increase from Q2 to Q3 in coking coal cost for India will be roughly about \$100 a tonne. Okay, and for Europe. Europe, I think it's going to be about EUR55 a tonne.

SOURCES: INCRED RESEARCH, BLOOMBERG

### Our earnings projections ►

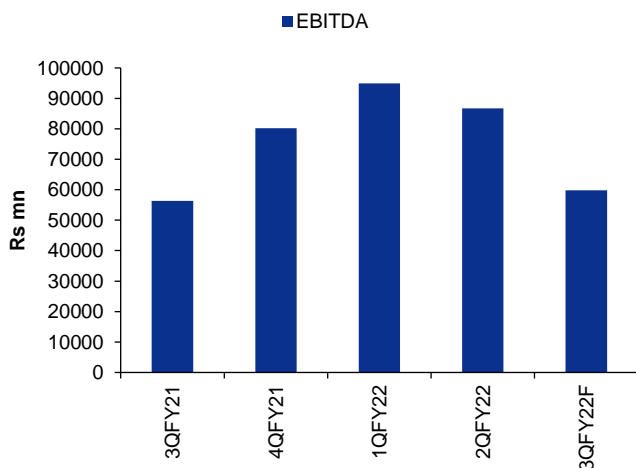
**Figure 17: We assume same staff cost and depreciation to project an EPS of Rs42.9**

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22F
<b>Net Revenue</b>	<b>1,79,657</b>	<b>2,12,026</b>	<b>2,07,983</b>	<b>3,25,823</b>	<b>3,16,252</b>
<b>Expenses</b>					
<b>Total Cost of Goods Sold</b>	<b>44,378</b>	<b>42,716</b>	<b>35,071</b>	<b>81,810</b>	<b>1,11,848</b>
Employee Cost	13,409	13,526	13,783	15,431	15,431
Other Expenses	54,500	63,907	57,079	94,282	98,996
<b>Total Expenses</b>	<b>1,12,287</b>	<b>1,20,148</b>	<b>1,05,933</b>	<b>1,91,522</b>	<b>2,26,275</b>
<b>EBITDA</b>	<b>67,370</b>	<b>91,878</b>	<b>1,02,050</b>	<b>1,34,300</b>	<b>89,977</b>
Depreciation	9,711	10,410	9,749	13,520	13,520
EBIT	57,659	81,468	92,301	1,20,781	76,457
Other Income	1,407	1,898	2,642	3,821	3,821
Interest Expenses	8,001	8,297	6,685	7,298	7,298
Extraordinary Items	-2,259	9,493	1,527	-1,307	0
Profit Before Tax	48,807	84,561	89,785	1,15,997	72,981
<b>Total Tax Expense</b>	<b>12,306</b>	<b>18,626</b>	<b>21,985</b>	<b>28,914</b>	<b>18,245</b>
<b>Profit After Tax</b>	<b>36,501</b>	<b>65,935</b>	<b>67,800</b>	<b>87,083</b>	<b>54,736</b>
EPS	31.8	55.0	56.6	72.6	45.7

SOURCES: INCRED RESEARCH, COMPANY REPORTS

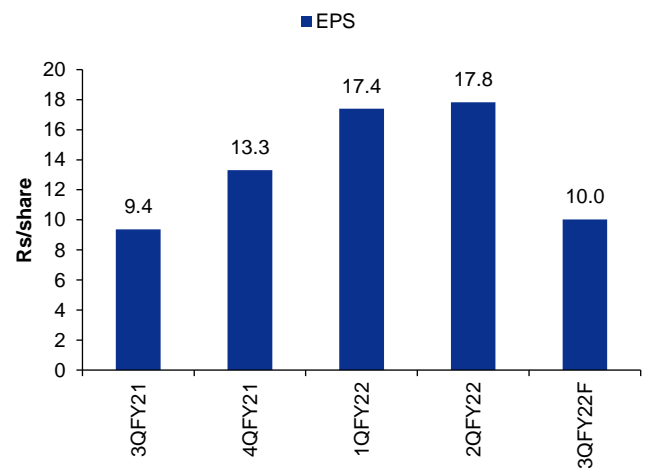
### JSW Steel India business (standalone): EBITDA/t to come down to Rs15,731

**Figure 18: EBITDA of JSW Steel is likely to fall 31% qoq...**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 19: ...and EPS by 45% qoq**



SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 20: JSW Steel management also gave guidance of an increase of US\$100/t in coking coal prices in Q3FY22F, and we have factored the same in our numbers**

**A - Jayant Acharya** {BIO 15451696 <GO>}

So on the coking coal side numbers which we had guided last time for quarter two was \$30 to \$35 more than the previous quarter and that has played out. We were in the range of \$158 for quarter two. We expect that the coking coal price impact for quarter three will be higher by about \$95 per tonne to \$100 per tonne. As you said rightly, the impact of the

SOURCES: INCRED RESEARCH, BLOOMBERG

## Our earnings projections▶

**Figure 21: We assume same staff cost and power & fuel cost to project an EPS of Rs8.3**

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22F
<b>Net Revenue</b>	<b>1,92,390</b>	<b>2,43,980</b>	<b>2,59,590</b>	<b>2,80,000</b>	<b>2,80,726</b>
<b>Expenses</b>					
<b>Total Cost of Goods Sold</b>	<b>63,720</b>	<b>81,080</b>	<b>59,800</b>	<b>1,08,850</b>	<b>1,36,569</b>
Employee Cost	3,930	3,910	4,410	4,540	4,500
Power & Fuel Cost	12,900	15,880	17,330	20,210	20,210
Other Expenses	55,510	62,900	83,140	59,670	59,670
<b>Total Expenses</b>	<b>1,36,060</b>	<b>1,63,770</b>	<b>1,64,680</b>	<b>1,93,270</b>	<b>2,32,349</b>
<b>EBITDA</b>	<b>56,330</b>	<b>80,210</b>	<b>94,910</b>	<b>86,730</b>	<b>59,777</b>
Depreciation	9,790	10,110	9,980	10,510	10,510
EBIT	46,540	70,100	84,930	76,220	41,267
Other Income	1,690	1,950	2,000	9,190	2,000
Interest Expenses	8,790	8,680	8,430	8,020	8,020
Extraordinary Items		-3,860			
Profit Before Tax	39,440	59,510	78,500	77,390	43,247
<b>Total Tax Expense</b>	<b>11,150</b>	<b>19,330</b>	<b>25,920</b>	<b>23,560</b>	<b>12,974</b>
<b>Profit After Tax</b>	<b>28,290</b>	<b>40,180</b>	<b>52,580</b>	<b>53,830</b>	<b>30,273</b>
Other Comprehensive Income	1,190	1,470	5,330	16,980	0
Total Comprehensive Income	29,480	41,650	57,910	70,810	30,273
EPS	9.4	13.3	17.4	17.8	10.0

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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**Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021**

**ADVANC** – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

**Recommendation Framework**

**Stock Ratings**

Definition:

<b>Add</b>	The stock's total return is expected to exceed 10% over the next 12 months.
<b>Hold</b>	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
<b>Reduce</b>	The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

**Sector Ratings**

Definition:

<b>Overweight</b>	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
<b>Neutral</b>	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
<b>Underweight</b>	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

**Country Ratings**

Definition:

<b>Overweight</b>	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
<b>Neutral</b>	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
<b>Underweight</b>	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.