

## RESEARCH

### METALS & MINING | Q4FY23 PREVIEW

Modest Q4 gains point to better year ahead

### AUTOMOBILES

Growing shift towards high-end segment

## SUMMARY

### METALS & MINING: Q4FY23 PREVIEW

- Steel EBITDA recovered 36% QoQ in Q4 on volume pick-up; erasure of domestic price premium paves way for further price uptick
- With prices rising in Europe/US and early signs of easing raw material cost, we expect further margin expansion in Q1FY24
- Margins likely to settle at mid-cycle level in FY24 and focus to shift to earnings accretion from the next expansion wave. Prefer TATA, JSP

[Click here for the full report.](#)

### AUTOMOBILES

- Industry volumes indicate a shift towards high-end vehicles, especially in the PV segment
- 2Ws remain a relatively weak spot with continued demand challenges in export markets
- Current price hikes are only pass-through, helping to maintain margins. Margin expansion may be protracted

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### Daily macro indicators

Ticker	06-Apr	07-Apr	Chg (%)
US 10Y yield (%)	3.31	3.39	9bps
India 10Y yield (%)	7.27	7.20	(6bps)
USD/INR	82.00	81.90	0.1
Brent Crude (US\$/bbl)	85.0	85.1	0.2
Dow	33,483	33,485	0.0
Hang Seng	20,275	20,331	0.3
Sensex	59,689	59,833	0.2
India FI (US\$ mn)	03-Apr	05-Apr	Chg (\$ mn)
FI-D	(70.0)	(138.4)	(68.4)
FI-E	67.8	100.1	32.3

Source: Bank of Baroda Economics Research



## Modest Q4 gains point to better year ahead

- **Steel EBITDA recovered 36% QoQ in Q4 on volume pick-up; erasure of domestic price premium paves way for further price uptick**
- **With prices rising in Europe/US and early signs of easing raw material cost, we expect further margin expansion in Q1FY24**
- **Margins likely to settle at mid-cycle level in FY24 and focus to shift to earnings accretion from the next expansion wave. Prefer TATA, JSP**

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**Volumes improve in Q4, inventory liquidation likely from April:** Sales volume for the four major steel producers – TATA, JSTL, JSP and SAIL – improved 9.3% QoQ to 18mt in Q4FY23, but their inventory was not fully liquidated. Domestic sales were a bit soft despite the Indian steel sector registering 13% YoY demand growth in February and March, owing to higher imports in the first two months of the quarter and seasonal post-festival (Holi) weakness in March. Now that steel prices in Europe and the US are moving up, pressure from imports is reducing and exports have also started to revive in March. This should lead to inventory liquidation from April.

**Modest pricing uptick likely as domestic premium erased:** We expect realisation to improve modestly by Rs 2.9k/t QoQ on average for the four majors. With a higher pickup in prices of flat vs. long products (due to a reduction in secondary rebar prices driven by the pullback in thermal coal cost), we expect relatively better improvement in TATA's standalone and JSTL's India operations. More importantly, India's pricing premium has gradually turned into a discount in March and the sector is now poised to benefit from any uptick in regional prices amid recovery in China.

**EBITDA to recover on volume pick-up:** We expect 36% QoQ recovery in EBITDA with a 9% pick-up in sales and a Rs 1.1k/t QoQ rise in EBITDA/t to Rs 10k across the four majors. With the benefit of captive iron ore, TATA (standalone) and SAIL are likely to show higher improvement than peers. We expect margins to gradually stabilise to a mid-cycle level as the China recovery firms up. Coking coal and iron ore prices are showing signs of easing on improving supply post the wet season in Australia and Brazil.

**Weakness in TATA Europe continues:** With the increase in coking coal and iron ore prices and lag in capture of the pricing uptick, we expect TATA Europe to post an EBITDA loss of US\$ 108/t in Q4. We await additional management inputs related to our current assumption of improvement in TATA Europe from Q2FY24.

**Constructive on Indian ferrous players:** We expect margins to stabilise at mid-cycle level in FY24 as recovery in China takes hold, and the investor focus to shift to delivery of the next wave of expansion projects. BUY TATA (TP Rs 140) and JSP (TP Rs 670).

### Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	550	670	BUY
JSTL IN	689	715	HOLD
SAIL IN	82	95	HOLD
TATA IN	105	140	BUY

Price & Target in Rupees | Price as of 10 Apr 2023




**AUTOMOBILES**

10 April 2023

**Growing shift towards high-end segment**

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- 2Ws remain a relatively weak spot with continued demand challenges in export markets
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**PV demand shifts towards high-end products:** India's PV industry grew 8% YoY in Mar'23. Automakers' focus has tilted towards producing more high-end PV models and launching new SUVs, with the thrust on low-end entry variants fading, as indicated by MSIL's monthly volume growth of 39% YoY in the premium segment. With global macro headwinds having little bearing on the demand for premium vehicles, the segment continues to have a healthy order book, aiding overall growth for PV players.

**2W segment remains a spot of bother, focus now on EVs:** The 2W segment remains the weakest in the automobile space owing to a demand slowdown in export markets. Volumes of 2W manufacturers TVSL/EIM/HMCL grew by 5%/7%/15% YoY in Mar'23, contributed by domestic volume growth of 22%/2%/21% while exports continued to lag. Market leader BJAUT's aggregate sales fell ~4% YoY. All the OEMs are continuing to ramp up EV volumes, after seeing good traction and robust monthly sales in Q3FY23.

**Sentiment improving in tractor segment:** Farm equipment sales point to improved rural sentiments, primarily driven by strong *Rabi* (winter crop) sowing and increased union budget allocations to the rural and agricultural sector. Total sale volumes of key manufacturers such as MM/ESCORTS/VSTT grew by 18%/2%/28% YoY. Tractors have also seen a shift in demand toward the high-end valued-added segment.

**Mixed trend in CVs:** TTMT clocked steady growth in M&HCVs, at 10% YoY in Mar'23, whereas AL's sales were steered by the bus segment which grew 72%.

**Regulatory framework to impact pricing:** Our interactions with industry experts indicate that the introduction of new regulations (BS6, OBD and RDE) will lead to an increase in prices of vehicles from 1 Apr 2023 (**Refer Regulatory Framework details on Page 8**)



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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