

We expect international steel prices to sustain at higher levels due to reduced exports from China on the back of reduced production and strong domestic demand. As Indian steel price is at 10% discount to International steel prices we expect Indian exports to increase in FY22E. This is likely to maintain spreads for Indian steel companies. At current price steel companies offer more upside. We recommend 'BUY' on Tata Steel, JSW Steel and SAIL.

Indian Exports to Rise

China has imposed pollution controls measures in Tangshan region which is likely to reduce overall production by 6-7% in China. This is likely to have major impact on exports reducing it by 35-40mnt. We expect this to support international steel prices and exports from India. Indian companies exported 3mnt in 2020. This is likely to increase substantially in FY22E as Indian steel prices trade at discount to international steel prices.

Spreads to be Maintained

Based on February 2021 data, the industry is already running at higher than 80% utilization rates. We estimate that crude steel production will increase at a CAGR of 11% over the next two years, and that utilization rates will rise to more than 90% by F23. With ability to ramp up volumes given support from both domestic and international demand steel prices are expected to remain higher for medium term. Benign coking coal costs, improving supply and stable domestic iron ore prices will maintain spreads for longer periods. This will lead to an accelerated de-leveraging for Indian producers with potential to kick-start capex cycle.

Focus on Debt Reduction

We expect strong cash flow in current cycle to reduce leverage of domestic steel companies. Net debt/EBITDA for the industry is likely to reduce from 6x in FY20 to 2x in FY23E. While debt/equity is likely to reduce from 1x in FY20 to 0.5x in FY23E. We expect as steel companies are likely to utilization level of 90% in FY22E which will kick-start capex cycle.

Valuation & Outlook

Although steel stocks have outperformed market current valuation offer more upside potential with improved outlook. We expect higher volume growth for JSW Steel with Dolvi expansion coming on stream in Q1 FY22. SAIL is likely to have more operating leverage due to high fixed costs which will improve leverage. Tata Steel's focus has been on deleveraging and improving cash flows in current cycle. It is likely to reduce debt/equity of Tata Steel from 1x in FY20 to 0.5x in FY22E. We expect at current prices steel stock offer around 20% upside.

Financial Overview

Particulars (in INR Mn) (FY22E)	TATA STEEL	SAIL	JSW STEEL
Current Price	798	79	467
Market Cap (INR Bn)	916	327	1130
Target Price	951	97	542
Revenue	16,03,528	7,45,033	9,47,205
EBITDA	3,08,440	1,27,665	2,26,957
PAT	11,887	4,42,418	88,593
EPS	99	10	39
P/E	8	8	12
EV/EBITDA	6	5	7
ROE %	14	10	19

Source: Dalal & Broacha Research, Company

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