

Lloyds Metals and Energy

Low duty structure, high grade ore to catapult growth

Lloyds Metals and Energy Limited (LMEL) is in the Iron and Steel making industry, with its operations spread around Nagpur, Maharashtra. LMEL is the sole iron ore miner in the State of Maharashtra, operating at 10mtpa capacity, with ~0.35mtpa DRI capacity and 34MW CPP. Tata Steel Industrial Consulting (TISC) survey estimate the reserves at LLOYD's Surjagarh iron ore mine in Gadchiroli Maharashtra at 863mnt, comprising 157mnt of iron ore (average grade 63%) and 706mnt of Banded Hematite Quartzite (BHQ - low grade ore). The Company's iron ore reserves are high-quality iron ore with very low Silica and Alumina content, making it an ideal choice for its captive consumption as well as other sponge and steel maker. The effective tax rate (ETR) on mining in India ranges from 45% to 50%, while the global average ranges from 34% to 38%. The Gadchiroli mine operated by LMEL since 2007 continues under the previous royalty structure, having been allocated rather than auctioned before the MMDR Act of 2015. As a result, LMEL is exempt from paying an additional premium (Ex: ~22.5% for NMDC) on iron ore production until its lease expires in 2057.

LMEL has embarked on a capital expenditure plan of INR325 bn over FY23-FY30E, focusing on value addition. The company has a net cash balance sheet as at end June'24. We anticipate a Revenue / EBITDA / PAT CAGR of 61%/87%/96% over FY24-26E assuming the grant of environment clearance of ~55mtpa. We bake in capex of INR35bn and 60bn for FY25E/26E. Our target price of INR1,100/ sh is based on 8x EV/EBITDA FY26E, implying an upside of 46%. We initiate coverage with a BUY rating.

High grade iron ore coupled with lowest duty structure: The Company's iron ore reserves are high-quality iron ore with very low Silica and Alumina content, making it an ideal choice for its captive consumption as well as other sponge and steel maker. The Company's iron ore mine has been awarded via the Allocation route which spares the company from paying additional premiums/royalties. The new mines auctioned are entitled to significant additional royalties. This gives an inherent competitive advantage to the company garnering better returns. This remains the moat for the company over a longer-term basis. The effective tax rate (ETR) on mining in India ranges from 45% to 50%, while the global average ranges from 34% to 38%. The Gadchiroli mine operated by LMEL since 2007 continues under the previous royalty structure, having been allocated rather than auctioned before the MMDR Act of 2015. As a result, LMEL is exempt from paying an additional premium (Ex: ~22.5% for NMDC) on iron ore production until its lease expires in 2057. In contrast, Tata Steel is expected to enjoy similar benefits only until 2030, as their mines are set to be re-auctioned. This situation could potentially position LMEL as one of the lowest-cost iron ore producers in India.

Transforming iron ore into value-added steel: LMEL has embarked a capital expenditure of INR 325bn over FY23-FY30E, focusing on value addition; this includes (a) setting up a 3mtpa integrated HRC steel plant – INR160bn; b) setting up of a 1.2mtpa steel plant for wire rod – INR50 bn (c) setting up of a 45mtpa BHQ beneficiation plant – INR50bn d) installing a 12mtpa pellet plant (INR52bn) with slurry pipeline (INR10bn), grinding, and pumping. We anticipate a significant improvement in LMEL's margin profile over the next 3-4 years as downstream capacities come online gradually. Transforming into a steel player will help the company fully utilise its high grade ore reserves. Domestic steel demand grew at a healthy CAGR of 6.6% between fiscals 2020 and 2024 despite the pandemic impact. In the post-pandemic era, rapid recovery due to pent-up demand and increased government spending on infra and related sectors led to three consecutive years of double-digit demand growth.

Recommendation and Price Target

Current Reco	BUY
Current Price Target (12M)	1,100
Upside/(Downside)	46.5%

Key Data – LLOYDSME IN

Current Market Price	INR751
Market cap (bn)	INR392.5/US\$4.7
Free Float	22%
Shares in issue (mn)	522.8
Diluted share (mn)	522.8
3-mon avg daily val (mn)	INR551.5/US\$6.6
52-week range	811/485
Sensex/Nifty	81,921/25,041
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-1.5	26.6	35.2
Relative*	-4.1	13.6	10.8

*To the BSE Sensex

Financial Summary

	(INR mn)					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	6,975	33,923	65,217	94,235	169,642	
Sales Growth (%)	175.2	386.4	92.2	44.5	80.0	
EBITDA	1,455	8,103	17,283	26,363	60,536	
EBITDA Margin (%)	20.9	23.9	26.5	28.0	35.7	
Adjusted Net Profit	1,487	9,059	12,429	19,147	47,962	
Diluted EPS (INR)	4.0	17.9	24.6	36.6	85.7	
Diluted EPS Growth (%)	NA	347.1	37.1	48.9	133.9	
ROIC (%)	31.5	99.2	63.2	42.6	49.5	
ROE (%)	30.9	59.2	44.2	27.7	33.2	
P/E (x)	187.1	41.9	30.5	20.5	8.8	
P/B (x)	57.8	24.8	13.5	5.7	2.9	
EV/EBITDA (x)	261.0	46.5	21.8	14.1	6.0	
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	

Source: Company data, JM Financial. Note: Valuations as of 11/Sep/2024

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet & Visible Alpha

You can also access our portal: www.jmflresearch.com

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

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