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JM FINANCIAL

Lloyds Metals and Energy

Low duty structure, high grade ore to catapult growth

High grade iron ore coupled with lowest duty structure

Transforming iron ore into value-added steel

Initiate BUY with TP of INR1,100 implying ~46% upside

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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

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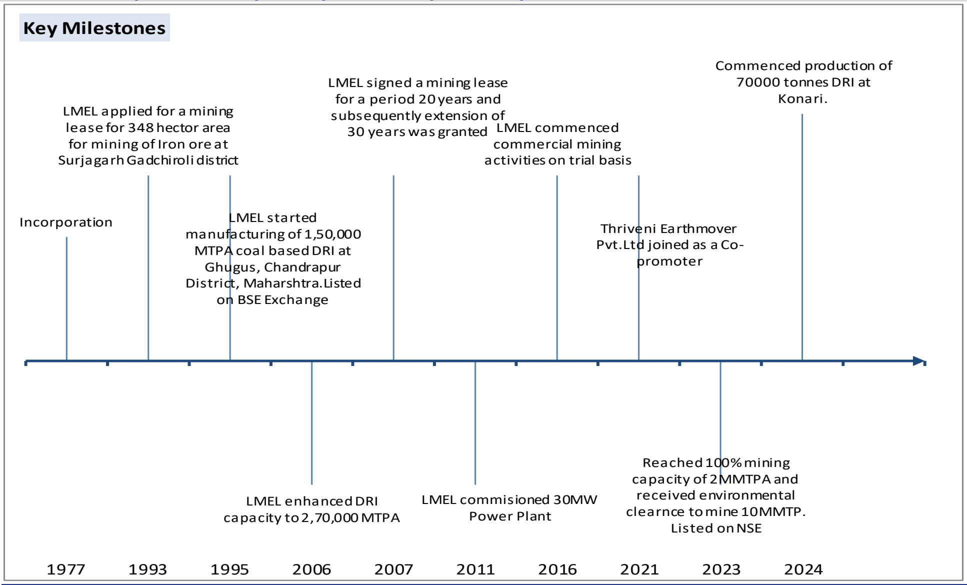
(We acknowledge the support services of **Rajvi Panchmatia** (rajvi.panchmatia@jmfl.com) in preparation of this report)

A) Company Overview

Lloyds Metals and Energy Limited (LMEL) is in the Iron and Steel making industry (listed on BSE since 1995 / listed on NSE in 2023), 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). With LMEL's **mine lease extended until 2057E**, the company continues to operate under the previous royalty structure (allocation route) without any obligation to pay additional premiums on iron ore production. **The outflow of royalties and premiums for mines auctioned after Mar'20 is 6x higher than what LMEL currently pays.** This inherently positions the company as a low-cost iron ore producer, resulting in superior margins.

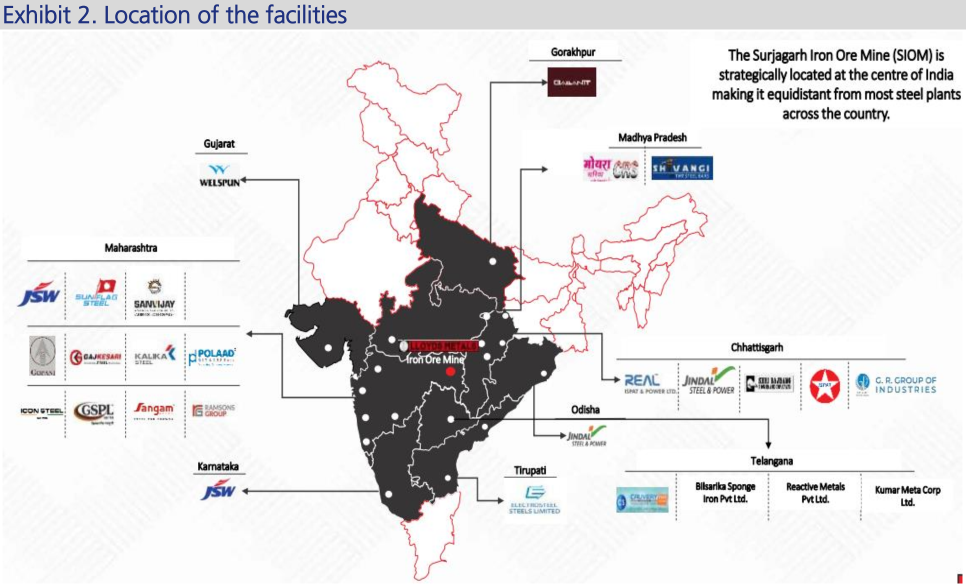
Exhibit 1. Lloyds Metals' journey over the years (key events)



Source: Company, JM Financial

Appointed Thriveni Earthmovers as MDO in 2021…

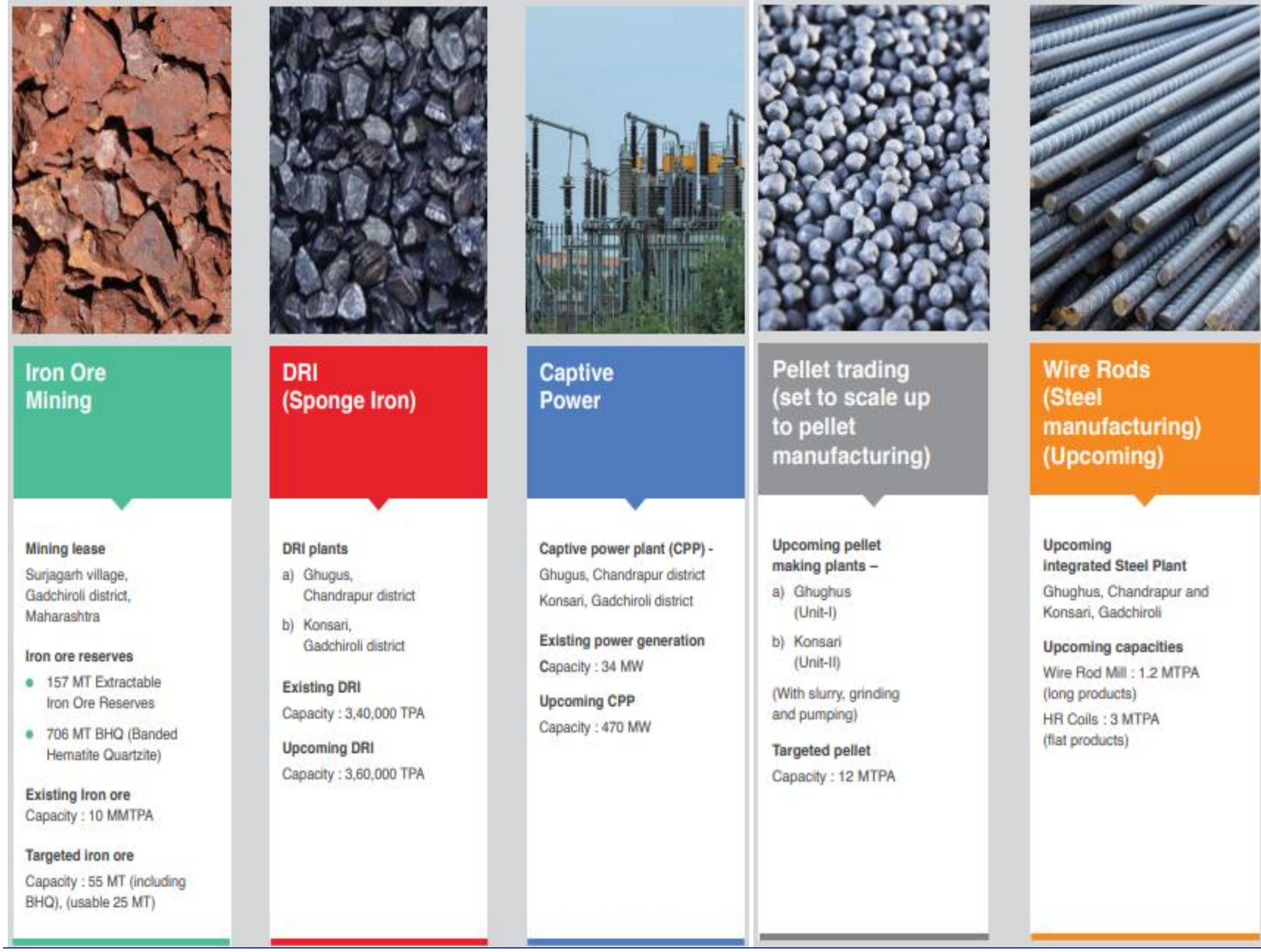
Exhibit 2. Location of the facilities



Source: Company, JM Financial

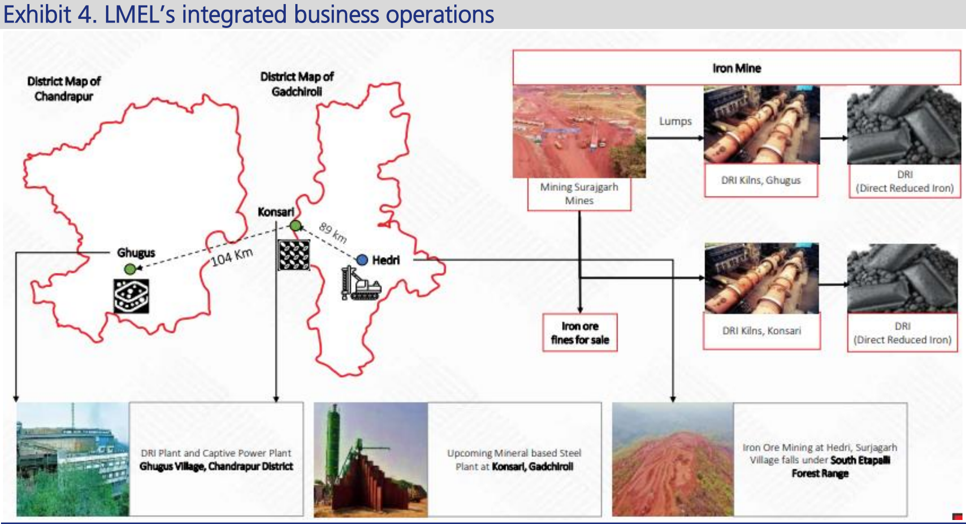
Facilities located strategically around Maharashtra…

Exhibit 3. Existing and upcoming business segments (focus on steel making)



Source: Company, JM Financial

Exhibit 4. LMEL's integrated business operations



Source: Company, JM Financial

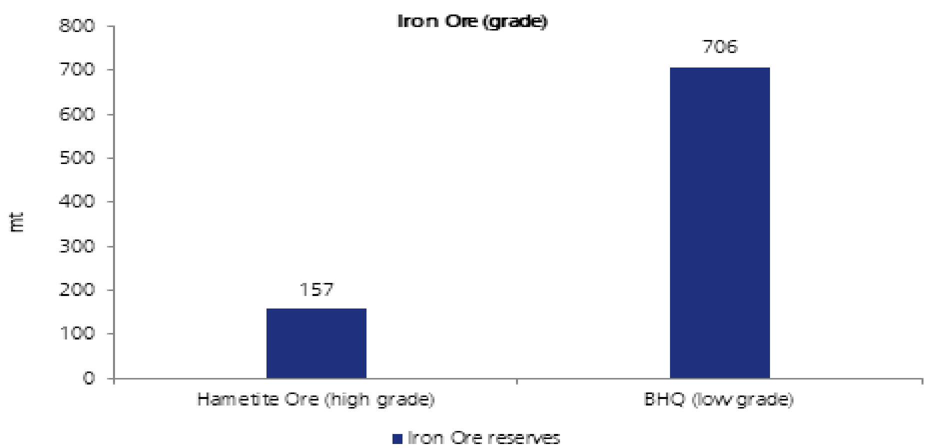
Integrated business operations of LMEL to help transition from mining to steel making…

B) Key Investment arguments

a) High grade iron ore reserves with a long mine life

The Company was awarded a lease for iron ore mines in 2007 at Surjagarh Village, Gadchiroli district. As per a survey by Tata Steel Industrial Consulting (TISC), the estimated reserves stand at 863mt, comprising 157mt of iron ore (average grade 63%) and 706mt 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 initial lease was for a period of 20 years, the same during the year has been extended to a total period of 50 years under MMDR Act, 2015 till 2057E. Due to instability in the region, the Company's mines faced various challenges in operations. In May, 2021, the Company entered into a strategic partnership with the largest Mine Developer & Operator of the Country ("MDO"), Thriveni Earthmovers Private Limited (now a Co-promoter). Thriveni Earthmovers Private Limited, with all its expertise recommenced mining operations from September, 2021 at the mines site in full capacity.

Exhibit 5. Surjagarh Iron Ore reserves



Source: Company, JM Financial

b) Mining license with the lowest duty structure

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%. At present, in addition to MMDR Act requirement of royalty, payment towards DMF and National Mineral Exploration Trust (NMET), a mine-operator is also required to pay other fees and levies for use of forest-land under the Forest Conservation Act, 1980 and the Indian Forest Act 1927, including forest tax levied on forest produce procured from forest areas and compensatory afforestation charges.

The amendments in the MMDR Act in March 2021 were aimed to bring out transformative reforms in Indian mining sector. Odisha having huge iron ore resources completed its first phase of iron ore auctions in 2020. The 2020 auction gave rise to high winning bids. It witnessed bids in terms of revenue sharing premiums ranging from a low of 90.9% to the highest of 155%. Industry analysis shows that the total statutory liability, after factoring additional royalty, as a percentage of the sale price, is very wide across various categories of mines mentioned above, ranging from as low as around 20% to as high as 175%.

Exhibit 6. Royalties for mines (Allocated vs Auctioned)

INR per tone	Auctioned Mine		PSU Miners (mix of allocation and premium)		Allocated Mine	
Base price Iron ore fines (Fe 62%) (A)		100		100		100
Royalty on base price (B)	15%	15	15%	15	15%	15
DMF on Royalty (D)	10%	1.5	30%	4.5	30%	4.5
NMET on Royalty (D)	2%	0.3	2%	0.3	2%	0.3
Premium on base (E)	120%	120	22.5%	22.5	0.0%	0
Payable to Govt (B+C+D+E)	**136.8**		**42.3**		**19.8**	

Source: Company, JM Financial, *Assumption of auction premium to be @120%, *LMEL is positioned in the allocated mine category

Royalties and Premiums for mines auctioned after Mar'20 is 6x higher than what LMEL currently pays…

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. Post-March 2020, mine auctions have resulted in bids exceeding premiums of 100-150%, making merchant mining economically unfeasible. Furthermore, mines auctioned after March 2020 pay royalties six times higher than those paid by LMEL.

c) Catapulting ore reserves into value added steel –

LMEL has announced a capital expenditure of INR 325bn over FY23-FY30E, focusing on value addition (Exhibit 7); 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.

Capex plan of ~INR325 bn to boost margin profile of LMEL in the next 3-4 years…

Exhibit 7. Project Timelines (INR mn)

Projects	Konsari	Ghugus	Hedri/Mines	Total	Capacity	Project Completion*
Pellet Plant 1	14,500	-	-	14,500	4mnt	FY25-26
Pellet Plant 2	20,950	-	-	20,950	4mnt	FY26-27
Pellet Plant 3	-	17,000	-	17,000	4mnt	FY28-29
Slurry Pipeline- 1	4,750	-	-	4,750	85kms	FY26-27
Slurry Pipeline- 2	-	5,500	-	5,500	110kms	FY28-29
Housing Colony	4,800	1,520	-	6,320		
Steel Plant (Bf-BoF)	160,000	-	-	160,000	3mnt	FY28-29
Beneficiation (15mnt x 3)	-	-	50,000	50,000	45mnt	FY28-29
Mine Upgradation	-	-	8,000	8,000		
DRI	-	5,900	-	5,900	0.36mnt	FY26-27
Power	-	5,750	-	5,750	125MW	FY26-27
SMS	-	7,580	-	7,580	1mnt	FY27-28
Coke Oven	-	5,000	-	5,000	0.4mnt	FY27-28
BF	-	5,750	-	5,750	0.5mnt	FY27-28
WRM	-	10,000	-	10,000	1.2mnt	FY27-28
Total	**205,000**	**64,000**	**58,000**	**325,000**		

Source: Company, JM Financial.

d) De-leveraged balance sheet leaves room to fuel growth

The company has a net cash balance sheet as at end June'24, post the fund raise via preferential and QIP routes. The company allotted 17.5 mn shares via the QIP to raise INR12.18bn and also issued and alloted ~40mn convertible warrants of the Company on a preferential basis at a price of INR740/sh (to be converted into Equity Shares) ("Preferential Issue") of which ~15mn convertible warrants are proposed to be issued to the promoters and balance to others / non-promoters of the Company. Proceeds of this will be used for another 4mn ton pellet plant, taking the total to 8mn ton. Also, additional DRI and power capacities at Chandrapur will be setup with these proceeds. 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.

Exhibit 8. SOTP table

	FY26E
FY26E EBITDA (INR bn)	61
IPS Benefits	8
Multiple (x)	8
Enterprise Value (INR bn)	545
Net debt (INR bn)	-19
Implied Mcap (INR bn)	564
CWIP (INR bn)	47
Total Mcap (INR bn)	611
Target price INR/sh	**1,100**

Source: JM Financial

Key Risks

- **Volatility in global iron ore prices:** LMEL is recognized as one of the most cost-effective iron ore producers in India, adopting an aggressive pricing strategy to enhance volume. However, the volatility of global seaborne iron ore prices poses a risk; should these prices fall below USD 60 per ton, the export of high-quality ore could become economically unfeasible

- **Stringent laws and delay in approvals:** The Company's operations and profitability may face challenges from delays in approvals, procedural hurdles, and unfavorable changes in mining policies, allocations, and tariffs. The mining and steel sectors are also subject to stringent labor laws and safety regulations; any lapses in safety could cause substantial damage to property, assets, and personnel. Additionally, labor shortages could impact the Company's operations and ongoing projects.

- **Structural downside risk in long-term:** China is gradually transitioning from Blast Oxygen Furnaces (BOF) to Electric Arc Furnaces (EAF), which are less polluting and utilize a higher proportion of steel scrap. This shift is expected to reduce demand for iron ore and coking coal over the next 5-7 years. Although China has been reducing domestic iron ore production to maintain balance, a more rapid transition could lead to a sharper decline in ore prices.

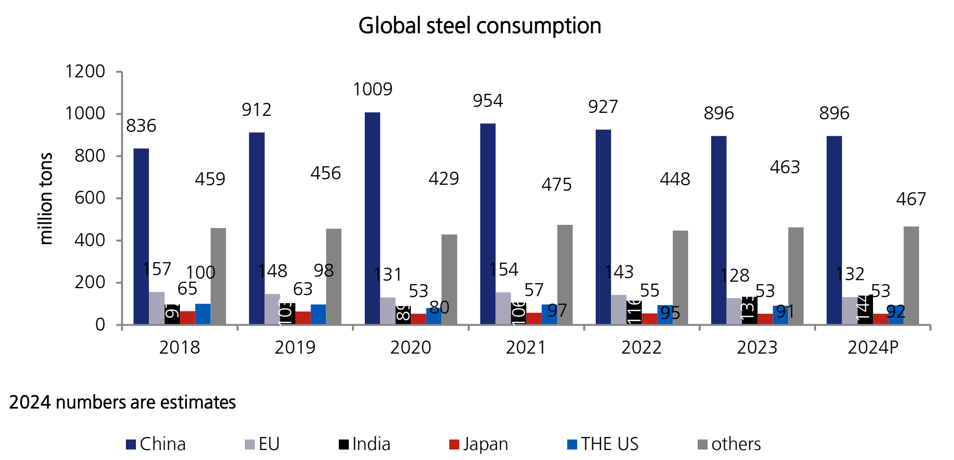
C) Industry Overview

a) Global Overview And Outlook

- **Global demand declined in 2023 amidst weak Chinese demand - property sector woes –** Global iron ore demand declined by 3% in 2023 to approximately 2 billion tons, with China remaining the largest consumer despite a 1.5% decrease in demand due to reduced domestic steel production amidst a property sector crisis. India, the second-largest consumer, witnessed a 9% increase in iron ore demand during the fiscal year 2023-2024, reaching 228 mn tons, driven by growth in the domestic steel sector.

Increasing Iron ore demand in India amidst a decline in demand globally…

Exhibit 9. Global steel consumption



Source: WSA, JM Financial

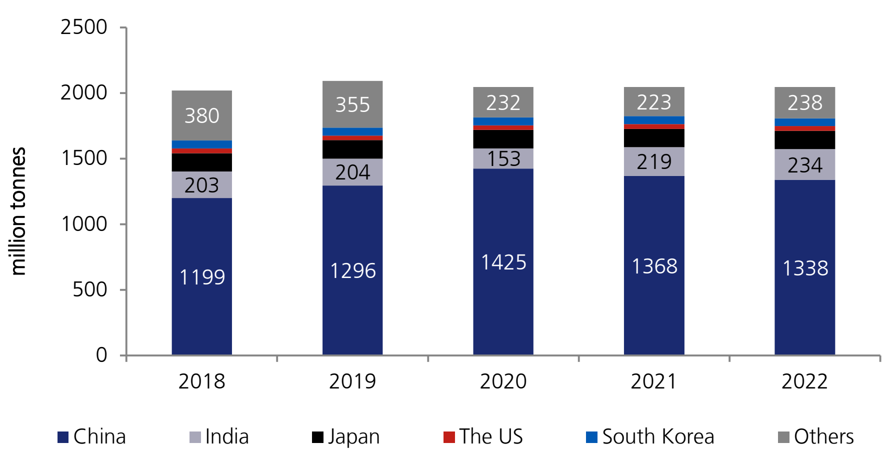
Exhibit 10. Global finished steel consumption growth (2018-2024)

Global demar	2018	2019	2020	2021	2022	2023E	2024P
Total	5%	4%	1%	3%	-4%	0%	2%
China	8%	9%	11%	-5%	-3%	-3%	-1%
The EU	-4%	-6%	-12%	18%	-10%	-1%	3%
India	9%	6%	-13%	19%	8%	16%	6%
Japan	2%	-3%	-17%	9%	-4%	-4%	1%
The US	2%	-2%	-18%	21%	-3%	-4%	2%
others	3%	-1%	-8%	12%	-6%	1%	5%

Source: WSA, JM Financial; Note: 2024 numbers are estimates

Higher steel consumption growth in India…

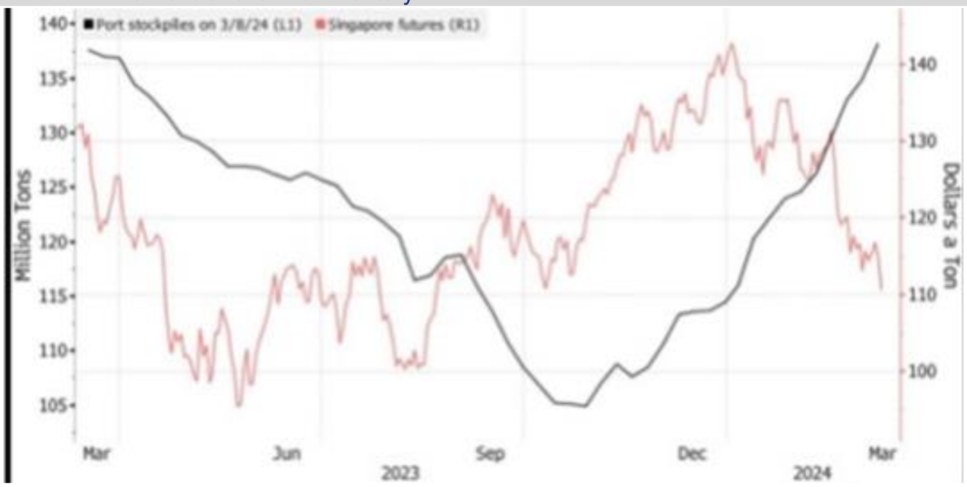
Exhibit 11. Apparent consumption of Global Iron Ore



Source: Industry, JM Financial

- **Global demand expected to remain muted in 2024 - contingent on Chinese demand recovery –** Global demand expected to remain muted in 2024 - primarily due to dampened hopes of Chinese demand recovery amidst the on-going property sector crisis. Iron ore prices have fallen by 30% since the beginning of 2024, reaching a low of below $100 per ton, reflecting concerns over reduced Chinese steel demand. However, recent measures by the Chinese Government to revive its ailing property sector augur a possible recovery for steel / iron ore sector.

Exhibit 12. Iron Ore and China inventory

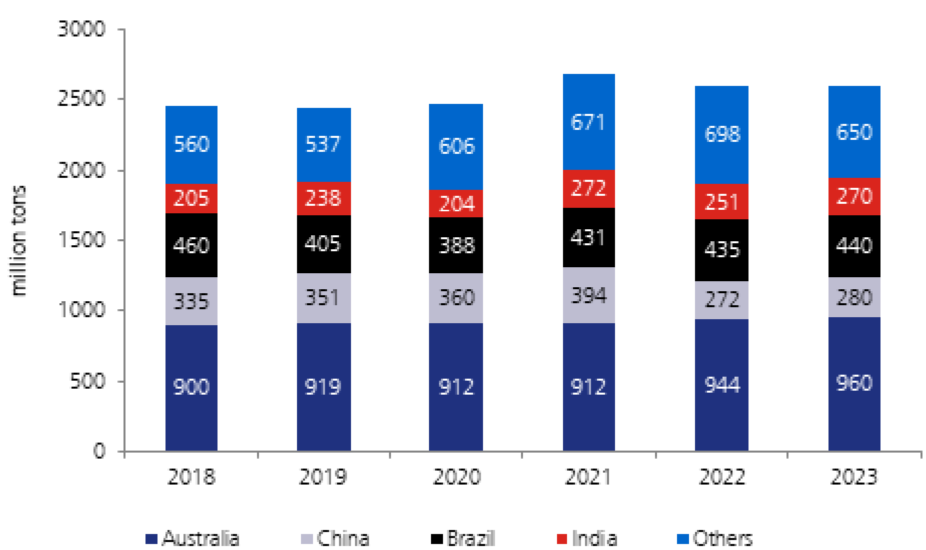


Source: Industry, JM Financial

- **India remains a bright spot for demand outside China-** India's iron ore demand is anticipated to continue increasing in 2024 to meet the rising demand from the domestic steel industry, with projected consumption to grow by 14% in fiscal year 2024-2025. NMDC, a key player catering to India's iron ore demand, aims to ramp up production to 100 million tons by fiscal year 2030 to address the surge in demand from domestic steelmakers.

  Global supply rose in 2023 driven by increased Australian and Brazilian output – Global iron ore production reached 2.4bn tons in 2023, marking a 1.1% increase from the previous year, with Australia leading as the largest supplier, producing 960 mn tons, and Brazil following closely behind with a supply of 440 mn tons, driven by expansion initiatives from key producers like Vale SA

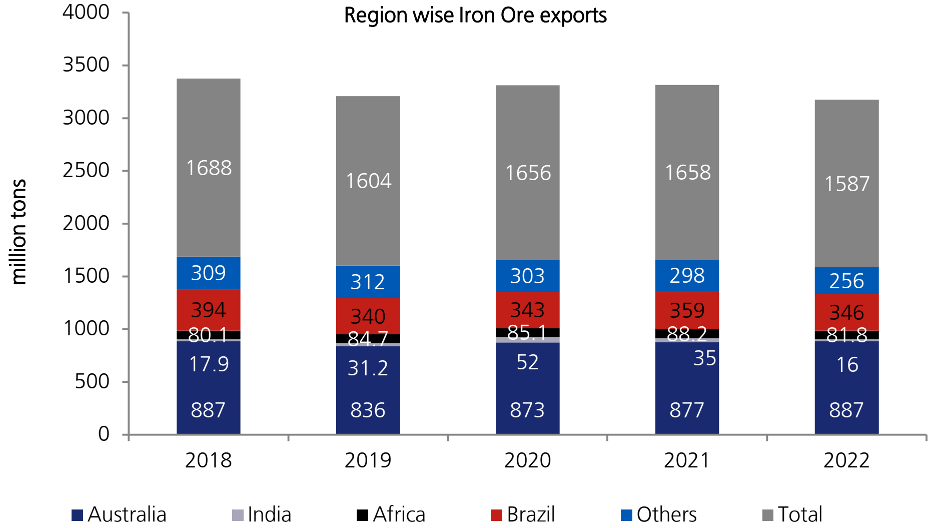
Exhibit 13. Production of Iron Ore (2018-2023)



Source: WSA, JM Financial

Production of Iron ore over 2018-23 globally…

Exhibit 14. Region wise Iron ore exports



Source: WSA, JM Financial

- **Global supply expected to surge in 2024 due to new mining projects** – Global iron ore production is expected to increase by 3.8% in 2024, reaching 2.6 bn tons, 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 CY2024.
- **Outlook - Iron Ore prices to be range bound** – Iron ore prices are poised to be range-bound in the short-to-medium term due to weak Chinese demand and increasing global supply, with port inventories growing globally. Investments in new mining projects and improved operations will further boost supply, including key projects in Australia and capacity expansions in Brazil. Consequently, we forecast 62% fines iron ore prices to be in the range of U$100 per ton in the mid-term.

Exhibit 15. China CFR Iron ore price (USD/t) (in %)

China CFR iron ore prices continue to witness decline…

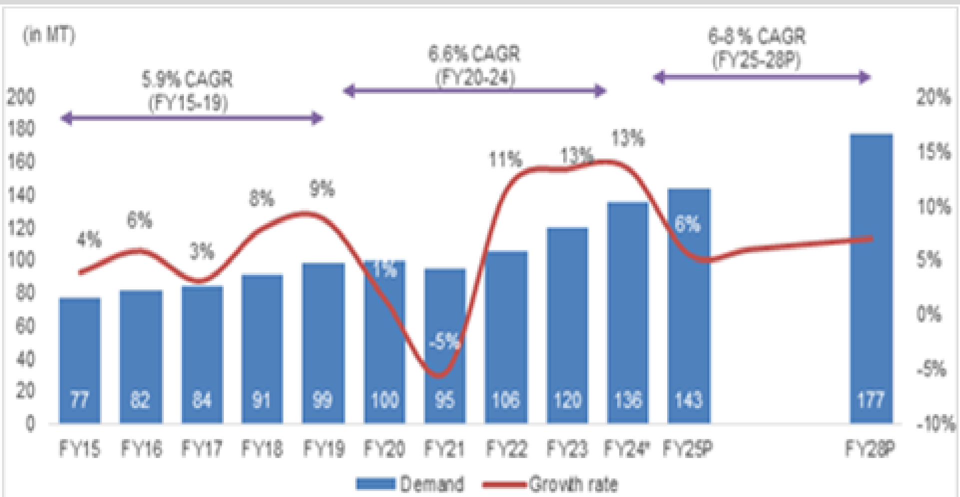
Source: Company, JM Financial

b) Domestic Overview And Outlook

i. Domestic steel demand – review and outlook

Domestic steel demand grew at a healthy CAGR of 6.6% between fiscals 2020 and 2024 despite the pandemic impact, wherein domestic demand momentum declined to 1% in fiscal 2020 and -5% in fiscal 2021. 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. Demand rose 11.4% in fiscal 2022, 13.4% in fiscal 2023 and 13.4% (provisional) in fiscal 2024. While growth momentum is expected to slow down in fiscal 2025 to 5-6%, it should remain healthy at a 6-8% CAGR over fiscals 2025 to 2028. Capex towards the infrastructure sector continues to be an upward trajectory. From April to December 2023, the central government's capital expenditure rose ~47% for road ministry and ~52% for railways compared with the same period the previous fiscal. The strong momentum of infrastructure is likely to continue, led by government spending, primarily across its flagship schemes such as PM Gati Shakti and the National Infrastructure Pipeline.

Exhibit 16. Steel demand and outlook



Source: Industry, JM Financial

Healthy demand growth expected for steel sector…

Exhibit 17. Crude steel capacity addition by Indian players

Crude Steel capacities (in MT)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	Comments
Tata Steel	19.6	20.6	21.6	21.6	26.6	27.4	27.4	Tata Steel is expected to complete 5 MTPA capacity expansion at Kalinganagar by FY25. 0.85 MTPA EAF to start in Ludhiana by 2026
JSW Steel (including BPSL)	20.5	27.0	27.7	33.2	37	37	37	5 MTPA capacity at Vijaynagar plant is expected to be completed by FY24E (end) so assumed in FY25E. 1.5 mtpa at BSPL to come in effect in FY24E itself 2mtpa expansion at Vijaynagar and 0.3mtpa at JISPL during FY25E (from ppt)
JSPL	8.6	9.6	9.6	10.0	16.3	16.3	16.3	Angul expansion by 6.3mtpa (Based on PPT)
AM/NS (Essar Steel)	9.6	9.6	9.6	9.6	9.6	15.0	15.0	Arcelor Mittal intends to increase Essar steel capacity to 15 mtpa by 2026
SAIL	21.4	21.4	21.4	21.4	21.4	21.4	21.4	
RINL	7.3	7.3	7.3	7.3	7.3	7.3	7.3	
NMDC	-		3.0	3.0	3.0	3.0	3.0	NMDC greenfield capacity of 3 MTPA at Nagarnar, Chhattisgarh is expected to come on stream in 2023
Others*	55.0	55.0	57.0	59.0	61.0	63.0	63.0	
India's total crude steel capacity	142.0	150.5	157.2	165.1	182.2	190.4	190.4	

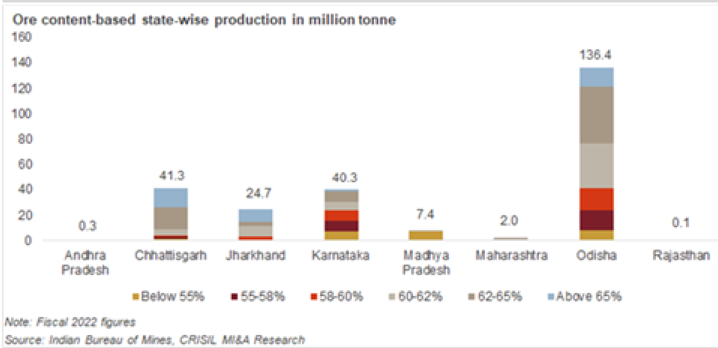
Source: JM Financial

ii. Indian iron ore production

In FY23, production of iron ore, including lumps, fines and concentrates, increased a notable ~23.86% on-year to 257.6 mn tonne. 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 the previous year.

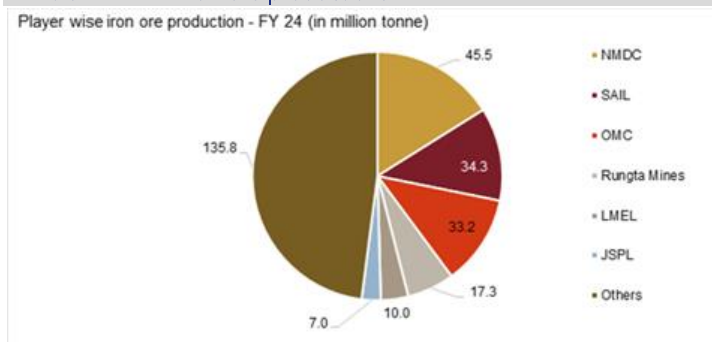
Odisha led iron ore production (accounting for ~53.82% of the country's production), followed by Chhattisgarh (~16.27%), Karnataka (~15.88%) and Jharkhand (~9.74%). The remaining production came from Andhra Pradesh, Madhya Pradesh, Maharashtra and Rajasthan. The mine-head closing stocks of iron ore for fiscal 2022 stood at 119.19 mn tonne, compared with 121.17 mn tonne in the previous year.

Exhibit 18. Ore content state wise



Source: Company, JM Financial

Exhibit 19. FY24 iron ore productions



Source: Company, JM Financial

Exhibit 20. Iron ore mining sector before 2015

Source: Industry, JM Financial

iii. Regulatory overview

1.1.1 MMDR Amendment Act, 2015

The Act was aimed at curbing illegal mining and making the allocation process more transparent. Major changes made to the Act were as follows:

- Mine auction was made the only mode for mine allocation, and the auction was made completely online. This increased 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

1.1.2 Mineral Laws (Amendment) Act, 2020

- The MMDR Amendment Act, 2015, garnered a positive response from the steel industry. To make the auction process easier, further changes were introduced in 2020. Major changes include the following:
- The government abolished restrictions related to end use for captive and non-captive 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 necessary clearances

1.13 MMDR Amendment Act, 2021

- Post the amendments introduced in 2020, the government introduced new amendments in 2021 to improve the availability of high-grade iron ore for the Indian market:
- 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

iv. Auctions picked 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. First, it acts as a revenue source for the government, generating substantial funds that can be utilised for various developmental initiatives, infrastructure projects, and social welfare programs. 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.

Exhibit 21. Average premium for auctioned leases in the year

FY	Average Auction premium (% of IBM notified prices)
2016	86.14
2017	93.62
2018	98.98
2019	85.92
2020	115.15
2021	116.58
2022	105.29
2023	130.86

Source: Ministry of Mines, JM Financial

v. LMEL to emerge as the lowest cost iron ore producer beyond 2030E- 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-use industries. However, the expiry of mining leases also presents an opportunity for miners and end users to acquire new assets available in the auction post the lease expiry and gain market share.

With LMEL's mine lease extended until 2057E, 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'20 saw bids exceeding premiums of 100-150%, rendering merchant mining economically unfeasible in the domestic market. According to our calculations, the outflow of royalties and premiums for mines auctioned after Mar'20 is 6x higher than what LMEL currently pays. This inherently positions LMEL as a low-cost iron ore producer, resulting in superior margins. Captive players like Tata Steel are likely to enjoy these benefits only until 2030E, as their mines are to be re-auctioned. Post 2030E, LMEL could emerge as one of the lowest cost iron ore producers in India. Although around 110 million tonne per annum of mining leases are estimated to expire between 2024 and 2030, the total iron ore production from these mines is estimated at 50-60 million tonne for the fiscal 2024. Few of the mines are owned by Steel Authority of India Ltd (SAIL), which is expected to get a preferential treatment, under MMDR amendment act 2021, for renewal of mining leases.

Exhibit 22. Royalty structure for various miners

Indicative payment of royalty, DMF, NMET, Auction Premium by iron ore miners

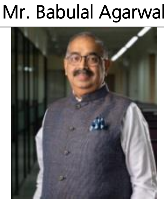
	Average for mines auctioned in the last 5 years		For NMDC's iron ore mines (in Chhattisgarh)		For mines allocated before MMDR Amendment Act 2015	
A	IBM notified price for 62%-65% Fe fines (March 2024)	5,180	IBM notified price for 62%-65% Fe fines (March 2024)	5,180	IBM notified price for 62%-65% Fe fines (March 2024)	5,180
B	Royalty @15%	777	Royalty @15%	777	Royalty @15%	777
C	DMF @10% of royalty	78	DMF @30% of royalty	233	DMF @30% of royalty	233
D	NMET Fund @2% of royalty	16	NMET Fund @2% of royalty	16	NMET Fund @2% of royalty	16
E	Auction Premium (avg. premium of last 5 years considered) @ 110.8%	5,737	Additional royalty @ 22.5%	1,166	Premium @ 0%	-
F	**Total (B+C+D+E)**	**6,610**	**Total (B+C+D+E)**	**2,191**	**Total (B+C+D+E)**	**1,026**

Source: IBM, JM Financial, Note: All values in INR/t, Average auction premium is considered for the table above; however, miners must pay the auction premium based on the specific bid rate they offered for each individual mine.

Higher royalty structure for miners operating through Auction route…

D) Details of Key management personnel

Exhibit 23. Key management personnel

Name	Designation	Description
 Mr. Mukesh Gupta	Chairman	He is a commerce graduate and has vast and varied experience over 44 years in the field of project implementation, finance, marketing, and other areas in the Steel, Power, and Real Estate Industries. Under his Leadership, the Company and Uttam Value Steels Ltd. (Formerly Lloyds Steel Industries Ltd.) implemented several projects in Steel Sector, including a power plant. He is a Founder and Board Member of Lloyds Group.
 Mr. Babulal Agarwal	Vice Chairman	He is a commerce & Law graduate and has rich experience over 54 years in Steel Trading & Industry, associated with day to day affairs of the Company. He has expertise in the legal, administration, and management fields. He is a Founder and Board Member of Lloyds Group.
 Mr. Rajesh Gupta	Managing Director	He is a commerce graduate and a successful industrialist having vast knowledge and rich experience of over 35 years in Production, Management, Consultancy, and other areas in the Steel, Power Industries. He is a Founder and Board Member of Lloyds Group.
 Mr.Balasubramanian Prabhakaran	Managing Director	Mr. Prabhakaran is the Managing Director of Thriveni Earthmovers Private Limited. He started Thriveni Earthmovers Pvt. Ltd. in 1994 after completing his graduation in Computer Science. Mr. Prabhakaran is a visionary leader with a passion for technology, engineering, and flawless execution and has led the Company to become the largest private mine developer and operator in India. In 2021, Thriveni invested in LMEL thereby becoming a co-promoter in the company.

Source: Company, JM Financial

Exhibit 24. Valuation table

	FY26E
FY26E EBITDA (INR bn)	61
IPS Benefits	8
Multiple (x)	8
Enterprise Value (INR bn)	545
Net debt (INR bn)	-19
Implied Mcap (INR bn)	564
CWIP (INR bn)	47
Total Mcap (INR bn)	611
Target price INR/sh	**1,100**

Source: JM Financial

Exhibit 25. Comparative Valuation

	PE (x)			PB (x)			EV/EBITDA (x)			ROE (x)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Lloyds Metals & Energy Ltd	17.9	8.1	7.0	7.8	4.0	2.5	13.6	6.8	6.0	30.8	36.1	30.1
NMDC Ltd	9.1	8.5	8.8	2.3	1.9	1.5	5.9	5.3	5.6	25.2	22.9	21.1
Tata Steel Ltd	14.3	12.5	10.5	2.1	1.9	1.5	7.4	6.9	6.3	14.1	14.3	15.1
Steel Authority Of India	20.3	17.8	7.6	1.2	1.1	0.9	7.3	6.6	6.1	5.9	6.3	7.8
JSW Steel Ltd	17.0	15.2	13.2	2.5	2.2	2.0	8.7	7.7	7.5	14.8	14.4	15.7
Vedanta Ltd	12.0	9.1	8.0	4.3	3.7	3.5	5.5	4.7	4.4	41.4	45.3	46.3
GMDC	17.6	17.6	NA	1.8	1.7	NA	14.4	13.0	11.4	10.5	9.8	NA
Global Players-												
BHP Group Ltd	10.2	10.9	12.5	2.6	2.4	2.4	5.0	5.2	5.6	27.6	24.2	21.2
Vale	4.6	4.8	5.4	0.9	0.9	NA	2.8	2.8	2.8	22.7	20.3	17.6
Rio Tinto Plc	8.3	8.6	8.8	1.5	1.4	1.2	4.3	4.5	4.4	20.5	18.9	16.8

Source: Bloomberg, JM Financial, Note: Valuation at close of 11/09/2024

E) 1QFY25 Result update

Exhibit 26. Consolidated – quarterly financial performance (INR mn)

Y/E March (INR mn)	1QFY25	1QFY24	YoY %	4QFY24	QoQ %
Net Sales	**24,172**	**19,655**	**23.0**	**15,543**	**55.5**
Sales Volume (mn tons)	3.6	3.4	5.9	2.0	81.8
Blended Realisation (INR/t)	6,715	5,781	16.1	7,850	-14.5
Manufacturing Exp. (incl. inventory)	2,433	1,032		3,212	
Manufacturing Exp./t	676	303		1,622	
Gross profit	**21,740**	**18,624**	**16.7**	**12,331**	**76.3**
Gross profit/t	6,039	5,478		6,228	
Mining, Royalty & Freight Expenses	12,755	11,675	9.3	6,143	107.6
Royalty & Cess/t.	3,543	3,434		3,103	
Mining, Royalty & Freight Expenses (as % of sales)	52.8	59.4		39.5	
Staff Costs	338	226	49.6	295	14.5
Staff Costs/t.	94	66		149	
Other Costs	1,460	1,364	7.0	1,309	11.5
Other Costs/t.	406	401		661	
Total expenditure	**16,986**	**14,297**	**18.8**	**10,959**	**55.0**
EBITDA	**7,187**	**5,359**	**34.1**	**4,584**	**56.8**
EBITDA margin (%)	29.7	27.3		29.5	
EBITDA/ton	1,996	1,576		2,315	
Other income	58	119	-51.0	81	-27.8
Depreciation	187	76		165	
EBIT	**7,058**	**5,402**	**30.7**	**4,500**	**56.9**
Interest	19	5		23	
PBT	**7,039**	**5,397**		**4,476**	
Tax	1,465	1,364		1,707	
Eff. Tax rate (%)	20.8	25.3		38.1	
XO items	-	-		-	
Reported PAT	**5,574**	**4,033**		**2,769**	
Adjusted PAT	**5,574**	**4,033**	**38.2**	**2,769**	**101.3**
EPS (INR)	**10.7**	**7.7**		**5.3**	

Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	6,975	33,923	65,217	94,235	1,69,642
Sales Growth	175.2%	386.4%	92.2%	44.5%	80.0%
Other Operating Income	0	0	0	0	0
Total Revenue	**6,975**	**33,923**	**65,217**	**94,235**	**1,69,642**
Cost of Goods Sold/Op. Exp	3,129	5,401	8,920	7,553	10,966
Personnel Cost	184	543	1,178	1,237	1,298
Other Expenses	2,207	19,876	37,837	59,083	96,842
EBITDA	**1,455**	**8,103**	**17,283**	**26,363**	**60,536**
EBITDA Margin	20.9%	23.9%	26.5%	28.0%	35.7%
EBITDA Growth	1,238.6%	456.8%	113.3%	52.5%	129.6%
Depn. & Amort.	180	230	490	870	1,680
EBIT	1,275	7,873	16,793	25,492	58,856
Other Income	298	745	529	1,100	7,712
Finance Cost	181	650	57	0	0
PBT before Excep. & Forex	1,392	7,967	17,265	26,593	66,569
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,392	7,967	17,265	26,593	66,569
Taxes	-95	-1,091	4,836	7,446	18,639
Extraordinary Inc./Loss(-)	-514	-11,944	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	973	-2,885	12,429	19,147	47,929
Adjusted Net Profit	**1,487**	**9,059**	**12,429**	**19,147**	**47,929**
Net Margin	21.3%	26.7%	19.1%	20.3%	28.3%
Diluted Share Cap. (mn)	370.4	504.8	505.3	522.8	559.8
Diluted EPS (INR)	**4.0**	**17.9**	**24.6**	**36.6**	**85.6**
Diluted EPS Growth	80,124.4%	347.1%	37.1%	48.9%	133.8%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (INR)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	4,817	15,290	28,109	69,019	1,44,328
Share Capital	370	505	505	523	560
Reserves & Surplus	4,446	14,785	27,603	68,496	1,43,768
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	765	44	331	331	331
Def. Tax Liab. / Assets (-)	-282	-1,374	864	864	864
Total - Equity & Liab.	**5,299**	**13,959**	**29,304**	**70,213**	**1,45,523**
Net Fixed Assets	4,855	8,302	25,029	59,158	1,17,478
Gross Fixed Assets	7,615	9,172	16,685	44,685	77,685
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,618	3,848	4,338	5,208	6,888
Capital WIP	859	2,979	12,682	19,682	46,682
Investments	2	368	291	291	291
Current Assets	3,098	10,216	14,056	22,026	43,148
Inventories	1,668	2,698	2,311	3,856	6,955
Sundry Debtors	237	245	799	1,799	3,246
Cash & Bank Balances	219	2,645	2,871	8,659	19,037
Loans & Advances	974	4,628	8,075	7,712	13,910
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	2,656	4,927	10,071	11,262	15,394
Current Liabilities	152	745	3,951	5,141	9,273
Provisions & Others	2,504	4,182	6,121	6,121	6,121
Net Current Assets	442	5,289	3,984	10,764	27,754
Total – Assets	**5,299**	**13,959**	**29,304**	**70,213**	**1,45,523**

Source: Company, JM Financial

Cash Flow Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	1,392	7,967	17,265	26,593	66,569
Depn. & Amort.	180	230	490	870	1,680
Net Interest Exp. / Inc. (-)	0	0	0	0	0
Inc (-) / Dec in WCap.	-1,939	-2,538	2,140	-992	-6,611
Others	-514	-11,944	0	0	0
Taxes Paid	95	1,091	-4,836	-7,446	-18,639
Operating Cash Flow	**-786**	**-5,193**	**15,059**	**19,025**	**42,999**
Capex	-563	-3,869	-16,464	-35,000	-60,000
Free Cash Flow	-1,349	-9,061	-1,405	-15,975	-17,001
Inc (-) / Dec in Investments	-1	-366	78	0	0
Others	247	311	1,265	0	0
Investing Cash Flow	**-316**	**-3,924**	**-15,121**	**-35,000**	**-60,000**
Inc / Dec (-) in Capital	2,016	13,059	1	21,763	27,380
Dividend + Tax thereon	0	-222	0	0	0
Inc / Dec (-) in Loans	-776	-722	288	0	0
Others	0	-571	0	0	0
Financing Cash Flow	**1,240**	**11,543**	**288**	**21,763**	**27,380**
Inc / Dec (-) in Cash	**138**	**2,427**	**226**	**5,788**	**10,379**
Opening Cash Balance	80	219	2,645	2,871	8,659
Closing Cash Balance	219	2,645	2,871	8,659	19,037

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	21.3%	26.7%	19.1%	20.3%	28.3%
Asset Turnover (x)	1.6	3.5	3.0	1.9	1.6
Leverage Factor (x)	1.3	1.0	1.0	1.0	1.0
RoE	44.8%	90.1%	57.3%	39.4%	44.9%

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (INR)	13.0	30.3	55.6	132.0	257.8
ROIC	31.5%	99.2%	63.2%	42.6%	45.5%
ROE	30.9%	59.2%	44.2%	27.7%	33.2%
Net Debt/Equity (x)	0.1	-0.2	-0.1	-0.1	-0.1
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
EV/Sales (x)	54.5	11.1	5.8	3.9	2.1
Debtor days	12	3	4	7	7
Inventory days	87	29	13	15	15
Creditor days	10	11	30	28	31

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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