Lloyds Metals And Energy Ltd

Initiating Coverage

LLOYDS METALS

Turning around

October 9, 2023

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equirus SECURITIES

Lloyds Metals And Energy Ltd

Turning around

CMP	Target Price
Rs 550	Rs 600 Mar 2025
Rating	**Upside**
ADD	9% (↑)

- As an integrated iron ore producer, Lloyds Metals And Energy's (LLOYDSME) earnings are sensitive to global iron ore prices.
- India's 1HFY24 crude steel output surge boosted domestic iron ore demand, aligning with the country's 300mtpa crude steel capacity target. LLOYDSME is poised for robust iron ore production growth, with a projected 61% CAGR over FY23-FY26E.
- LLOYDSME holds mine leases until 2057E, ensuring its status as a cost-effective iron ore producer beyond 2030E, despite upcoming auctions for captive mines in 2030E.
- We initiate coverage with ADD and a DCF-based Mar'25 TP of Rs 600, implying 8x FY26E EV/EBITDA.

Seaborne iron ore prices to stay firm: Over the last six months, prices of seaborne iron ore have increased sharply, reaching a level of US$ 120/t, primarily as China steel production has remained consistently high. We do not see significant room for further price hikes in iron ore due to pressures affecting Chinese steel profitability; however, it is important to note that global iron ore production capacity remains constrained and China's iron ore stockpiles are currently at their seven-year low. Consequently, we expect seaborne iron ore prices to stay range-bound and remain above the US$ 100/t mark. We believe this is likely to result in elevated iron ore realisations for LLOYDSME.

Rising steel capacities in India to support iron ore volumes: India is demonstrating robust domestic demand and aims to increase its crude steel capacity to 300mtpa by FY30E; it is also targeting crude steel production of 255mt by FY31E. This implies that India's iron ore demand would rise from 255mt in FY23 to 500mt by FY31E, potentially leading to iron ore shortage in the domestic market. Therefore, we believe LLOYDSME is well-positioned for strong iron ore production expansion, with a 61% CAGR over FY23-FY26E.

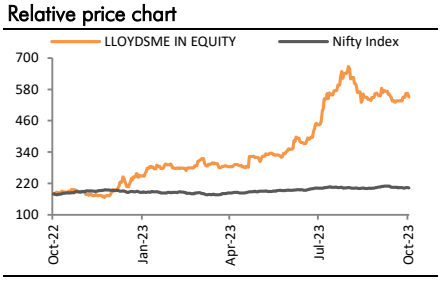
Strong cash flows to fuel steel business investments: We project LLOYDSME to generate Rs 470bn over FY24-FY52E, providing ample financial support for its steel asset investments. In addition, IPS benefits are likely to result in a quicker payback period. Despite a massive capex plan spanning the next 7 years, with a cash outflow of Rs 41bn from FY24-FY26E, we estimate that LLOYDSME will maintain a positive net cash position, with an estimated Rs 12.3bn in net cash by FY26E-end.

Initiate with ADD: Considering the above factors and with mining leases till 2057E, we believe the risk-reward ratio is balanced. While there could be limited upside potential in iron ore prices, LLOYDSME's earnings are likely to be driven by volume growth. Thus, we initiate coverage with ADD and a DCF-based Mar'25 TP of Rs 600, implying 8x FY26E EV/EBITDA. Our iron ore forecasts are 7-17% below spot prices over FY24-FY26E, implying an upside risk to EBITDA and earnings for FY24-FY26E vs. our base case forecast.

Stock Information	
Market Cap (Rs Mn)	2,77,855
52 Wk H/L (Rs)	688/163
Avg Daily Volume (1yr)	3,52,532
Avg Daily Value (Rs Mn)	2.2
Equity Cap (Rs Mn)	15,290
Face Value (Rs)	1
Share Outstanding (Mn)	504.8
Bloomberg Code	LLOYDSME IN
Ind Benchmark	BSE METL

Ownership (%)	Recent	3M	12M
Promoters	65.8	0.0	(8.9)
DII	0.0	0.0	0.0
FII	0.1	(0.1)	(0.1)
Public	34.1	0.1	9.0

Relative price chart



Source: Bloomberg

Financial Summary

YE Mar Rs mn	Sales	EBITDA	Recurring PAT	EPS (Rs)	P/E (x)	P/B (x)	EV/ EBITDA (x)	ROE (%)	Core ROIC (%)	EBITDA Margin (%)
FY23A	33,430	8,103	9,059	(5.7)	(97.0)	18.2	34.4	2.7	79.8	23.9
FY24E	44,093	18,778	14,720	29.2	18.9	9.9	14.9	52.6	113.3	42.6
FY25E	60,824	26,759	19,847	39.3	14.0	6.1	10.6	43.3	101.9	44.0
FY26E	94,920	37,737	29,453	58.3	9.4	3.8	7.4	40.2	79.1	39.8

Source: Company, Equirus Securities

Analysts

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Lloyds Metals and Energy: Initiate with ADD

A good turnaround story

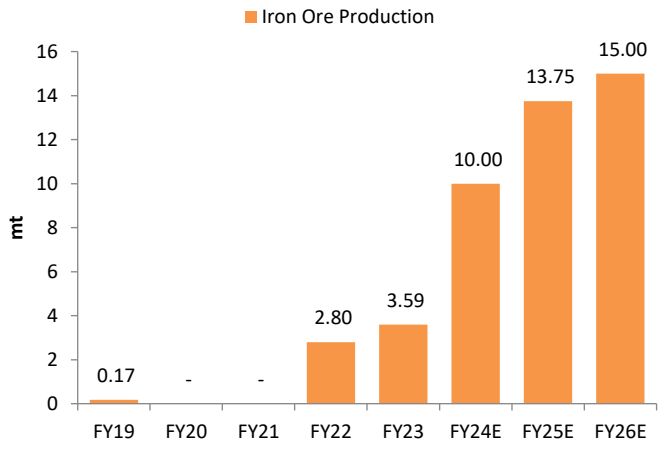
LLOYDSME is a high-quality iron ore producer operating a premium mine at Surjagarh village, Gadchiroli district, Maharashtra. This mine has the highest reserves (180mt, as per preliminary reports) in Maharashtra.

LLOYDSME' iron ore reserves have low silica and alumina content, and thus preferred for captive consumption and third-party sponge iron and steel makers

Iron ore mined from Surjagarh comprises Hematite ore in Maharashtra with avg. Fe grade of 63%

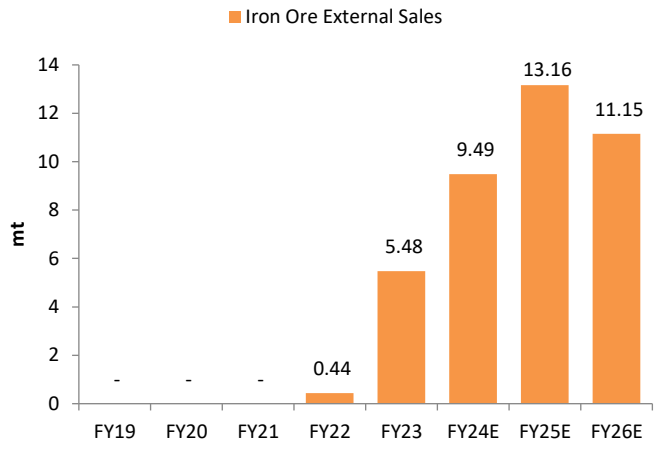
After years of struggle to start production at Surjagarh, LLOYDSME appointed Thriveni Earthmovers (TEMPL) as the Mine Development Operator (MDO) in 2021. LLOYDSME issued 9,00,00,000 equity shares and 1,00,00,000 3% OFCDs on preferential allotment basis to TEMPL for cash with the object of meeting short term and long-term funding requirements, including but not limited to WC requirements and for general corporate purposes. With this investment, TEMPL became a co-promoter of LLOYDSME. Mining activities at Surjagarh started from 25 Sep'21 and are being carried out by TEMPL directly. LLOYDSME could mine 2.8mt in six months of operations against an allowed capacity of 3mtpa in FY22. However, in FY23, the company produced 3.59mt as it got clearance to operate the mine at 10mtpa in 4QFY23.

Exhibit 1: LLOYDSME's iron ore production to touch 15mt by FY26E



Source: Company Data, Equirus

Exhibit 2: We estimate external sales at 11.15mt in FY26E



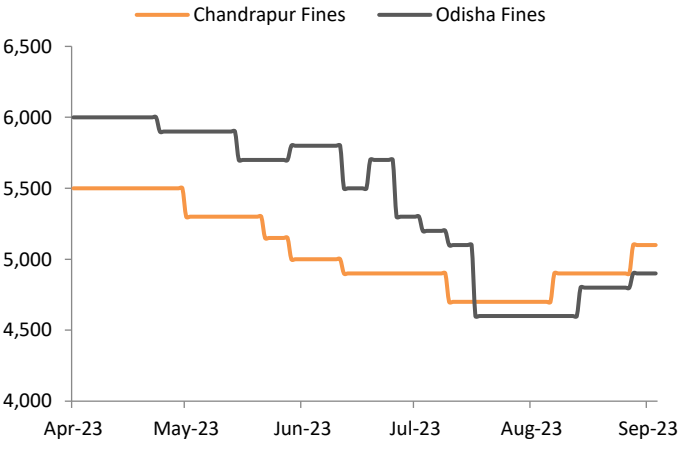
Source: Company Data, Equirus

Aggressive pricing strategy deployed to capture market share

LLOYDSME iron ore pricing remains competitive in the domestic market vs peers.

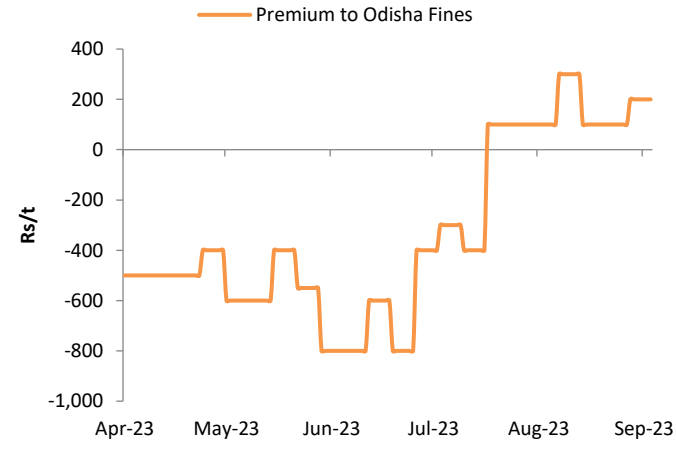
LLOYDSME faces direct competition from miners in Karnataka as it strives to supply to domestic steel producers. Maharashtra, Goa, and Karnataka are home to numerous steel mills and independent sponge iron producers, creating a competitive landscape where merchant miners vie for business. Furthermore, the company must contend with the risk of iron ore imports due to proximity of mines to the port. Consequently, LLOYDSME adopts a competitive pricing strategy, aligning its ore with import parity while also rivalling miners such as NMDC and those from Orissa.

Exhibit 3: LLOYDSME pricing ore aggressively vs. competitors to gain domestic market share



Source: Bloomberg, Equirus, Steelmint

Exhibit 4: On landed basis, LLOYDSME's ore prices would be lower than Odisha miners



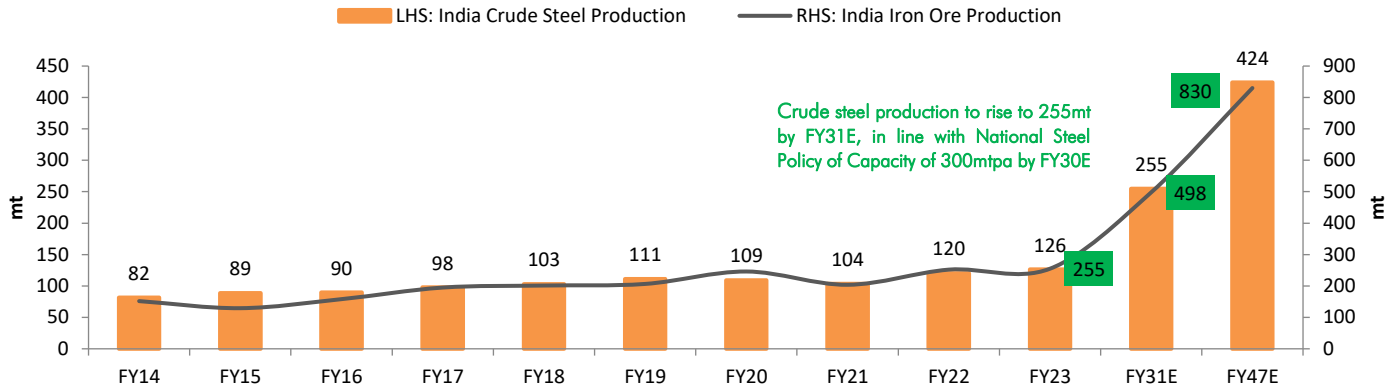
Source: Bloomberg, Equirus, Steelmint

Multiple avenues for iron ore growth…

With domestic steel production set to hit 255mt by FY31E, iron ore demand is likely to increase from 255mt in FY23 to ~500mt by FY31E

With new capacities coming online and rising crude steel utilisation, we expect iron ore demand in India to remain strong and outpace steel demand. Given that India has an ambitious target of reaching 300mtpa of crude steel capacity by FY30E, domestic iron ore demand is also set to rise at a fast pace. India's iron ore production stood at 255mt in FY23E and should touch ~500mt by FY31E as the country eyes 255mt of crude steel production by FY31E.

Exhibit 5: India's crude steel production expected to reach 255MT by FY31E, in line with the National Steel Policy



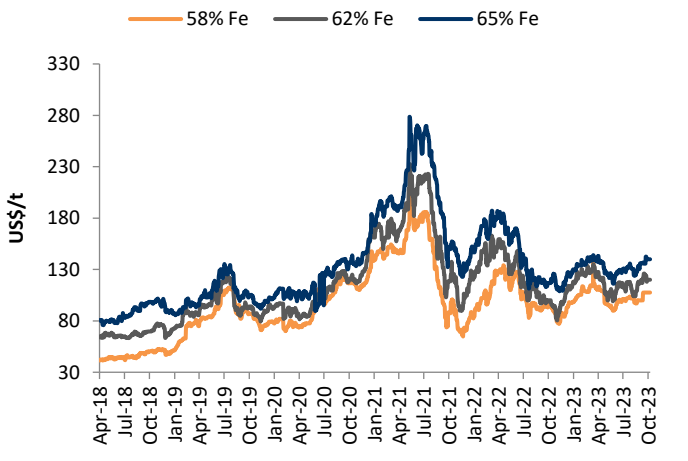
Source: Equirus, Ministry of Steel, Steelmint

…but limited upside in seaborne ore prices likely to cap realisation growth

Pressure on Chinese steel margins to restrict any upside in seaborne ore prices from current levels

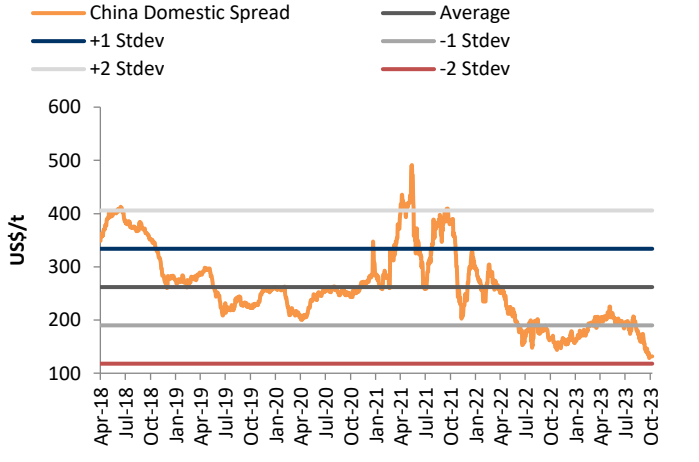
Iron ore prices of >US$ 120/t are unlikely to remain stable for an extended period due to pressure on Chinese steel margins. The combination of a sluggish property market, reduced land sales, and declining new property construction is expected to hurt the profitability of Chinese steel manufacturers, constraining the range of iron ore prices. Meanwhile, on the supply side, there has been limited response following Vale's disruption in 2019. Major seaborne iron ore players are emphasizing higher grades and value-added products, with limited attention to increasing volume; this is anticipated to result in a tight seaborne market in future.

Exhibit 6: Iron ore prices have moved up on limited production cuts in China…



Source: Bloomberg, Equirus, Steelmint

Exhibit 7: …but we see limited upside from current levels due to pressure on Chinese steel mill margins



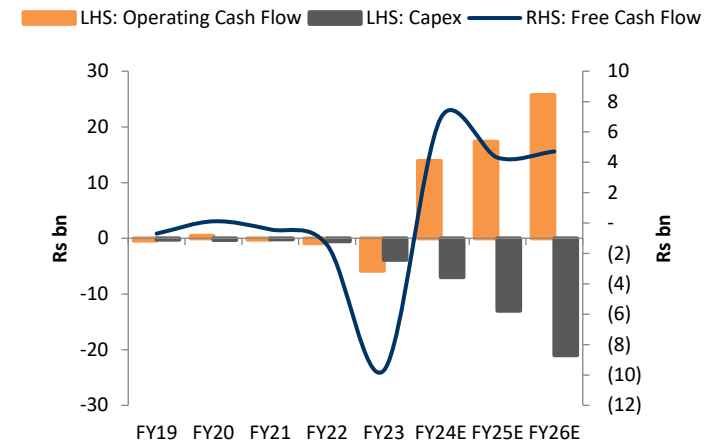
Source: Bloomberg, Equirus, Steelmint

To remain net debt free over FY24-FY26E despite heavy capex

Ambitious multi-year capex aims for growth and financial stability

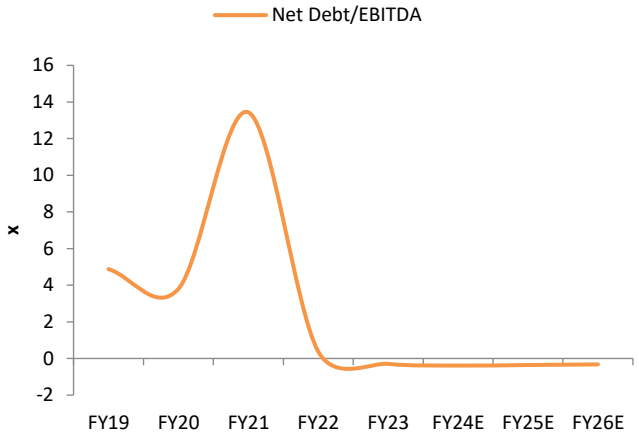
LLOYDSME is embarking on a massive capex plan to be executed in multiple phases, spanning the forthcoming 1-7 years. Despite heavy investments of Rs 7bn, Rs 13bn, and Rs 21bn in FY24E, FY25E, and 26E respectively, we anticipate a healthy net cash position of Rs 12.3bn by FY26E-end. This financial resilience underscores LLOYDSME's strategic approach of balancing its investments for growth while ensuring a strong financial foundation.

Exhibit 8: FCF to remain positive over FY24-FY26E



Source: Company Data, Equirus

Exhibit 9: LLOYDSME to remain a net cash company over FY24-FY26E



Source: Company Data, Equirus

Exhibit 10: Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Global Assumptions								
Iron Ore (US$/t)	72	96	128	155	118	112	105	100
USDINR	69.9	70.9	74.2	74.5	80.4	82.5	83.0	83.0
Production (mt)								
Iron Ore	0.17	-	-	2.80	3.59	10.00	13.75	15.00
Sponge Iron	0.19	0.17	0.09	0.12	0.20	0.28	0.33	0.69
Pellets	-	-	-	-	-	-	-	3.60
Hot Metal	-	-	-	-	-	-	-	-
Wire Rod	-	-	-	-	-	-	-	0.40
External Sales (mt)								
Iron Ore	-	-	-	0.44	5.48	9.49	13.16	11.15
Sponge Iron	0.19	0.17	0.09	0.12	0.20	0.28	0.33	0.33
Pellets	-	-	-	-	-	-	-	2.59
Hot Metal	-	-	-	-	-	-	-	-
Wire Rod	-	-	-	-	-	-	-	0.40
Financials (Rs mn)								
EBITDA	158	211	109	1,455	8,103	18,778	26,759	37,737
Net Debt	768	803	1,461	547	(2,384)	(7,272)	(9,558)	(12,253)

Source: Company Data, Equirus

We see the investment risks as balanced given the sharp stock run-up in the past 12-18 months. Initiate coverage with ADD with a Mar'25 TP of Rs 600

Expensive vs. peers but not when viewed as an annuity

Our iron ore price forecasts for FY24-FY26E are 7-17% below spot prices, implying an upside risk to EBITDA and earnings for FY24-FY26E versus our base case forecast. When we compare LLOYDSME to its closest peer, NMDC, the stock does look expensive. On an EV/EBITDA basis, LLOYDSME is trading at 14.4x on FY24E EV/EBITDA and 10x on FY25E EV/EBITDA whilst NMDC on 3.7x and 3.4x respectively. However, we think the market is yet to recognise the upside potential on investments made over the mine life (FY24E-FY52E) as we estimate LLOYDSME to generate Rs 470bn of cash flows over the next 29 years from iron ore operations itself.

We see the investment risks as balanced given the sharp stock run-up in the past 12-18 months; hence, we initiate coverage on LLOYDSME with ADD and a Mar'25 TP of Rs 600. Our TP is based on a blended methodology, where we value (a) the iron ore business using DCF and applying a WACC of 11%, and (b) the steel business at 6x 1-year forward EV/EBITDA.

Exhibit 11: Target Price Methodology

	Unit	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY40E	FY50E	FY51E	FY52E
Iron Ore Volume	mt	9.49	13.16	11.15	13.35	17.20	20.40	23.60	24.40	14.40	14.40	3.20
Iron Ore EBITDA	Rs/t	1,808	1,902	1,671	1,601	1,601	1,569	1,538	1,256	1,027	1,006	986
Iron Ore EBITDA	Rs mn	17,153	25,028	18,632	21,371	27,539	32,009	36,289	30,656	14,783	14,487	3,155
Capital Expenditure	Rs mn	(7,000)	(13,000)	(21,000)	(1,000)	(1,000)	(1,000)	(1,000)	(500)	(500)	(500)	(500)
Tax Expenses	Rs mn	4,323	6,307	4,695	5,386	6,940	8,066	9,145	7,725	3,725	3,651	795
Free Cash Flow to Firm	Rs mn	6,907	4,306	4,713	14,986	19,599	22,943	26,144	22,431	10,557	10,336	1,860
Present Value of FCF	Rs mn			4,246	12,163	14,331	15,113	15,515	4,688	777	685	111
Years Left				1.00	2.00	3.00	4.00	5.00	15.00	25.00	26.00	27.00
Discount Factor				0.90	0.81	0.73	0.66	0.59	0.21	0.07	0.07	0.06

DCF Summary		
WACC	%	11.00
Present Value of FCF (a)	Rs mn	1,62,769
EBITDA of Ex-Iron Ore Business	Rs mn	21,605
1- year Forward Multiple	x	6.0
End FY25E EV of Ex-Iron Ore Business (b)	Rs mn	1,29,628
Consolidated EV (a)+ (b)	Rs mn	2,92,397
End FY25E Net Debt	Rs mn	(9,558)
End FY25E Equity Value	Rs mn	3,01,956
1-year Forward Price Target	Rs/share	600
Implied 1-year Forward Earnings Multiple	x	8.0

Source: Company Data, Equirus

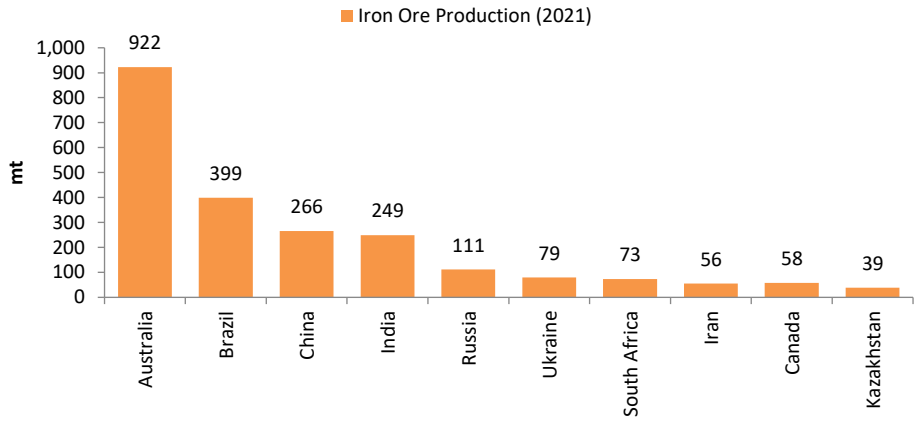
Indian Iron Ore Market: An overview

World's fourth largest iron ore producer

India proudly ranks as the fourth-largest producer of iron ore in the world. With its extensive reserves and a robust mining industry, the country plays a vital role in the global iron and steel market. India's iron ore production has consistently contributed to the growth of its domestic steel industry, making it a significant player in international iron ore trade.

India's rank underscores its importance in meeting own steel production needs and contributing to global supply of this critical raw material

Exhibit 12: Iron ore production – Global comparison



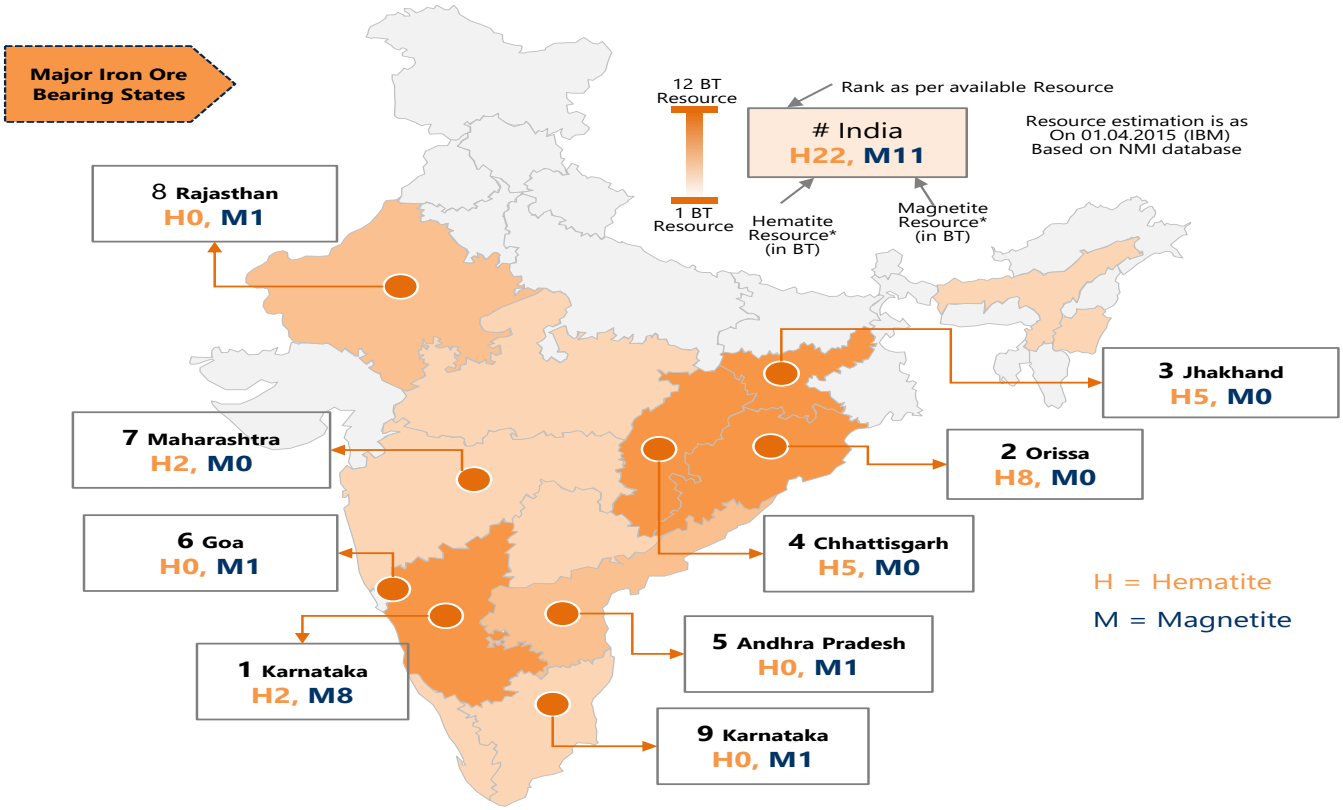
Source: Equirus, Ministry of Steel, Steelmint, World Steel Association

Despite regulatory and environmental issues hurting mining operations and exports, India's iron ore reserves contribute immensely to domestic & global steel production

India has the seventh largest iron ore reserves in the world

India possesses significant iron ore reserves, making it one of the world's key players in the iron & steel industry. These reserves are spread across Odisha (significant share), Jharkhand, Chhattisgarh, Karnataka, and Goa and vary in quality, with some high-grade deposits suitable for export and others serving domestic steel production.

Exhibit 13: India's iron ore reserves

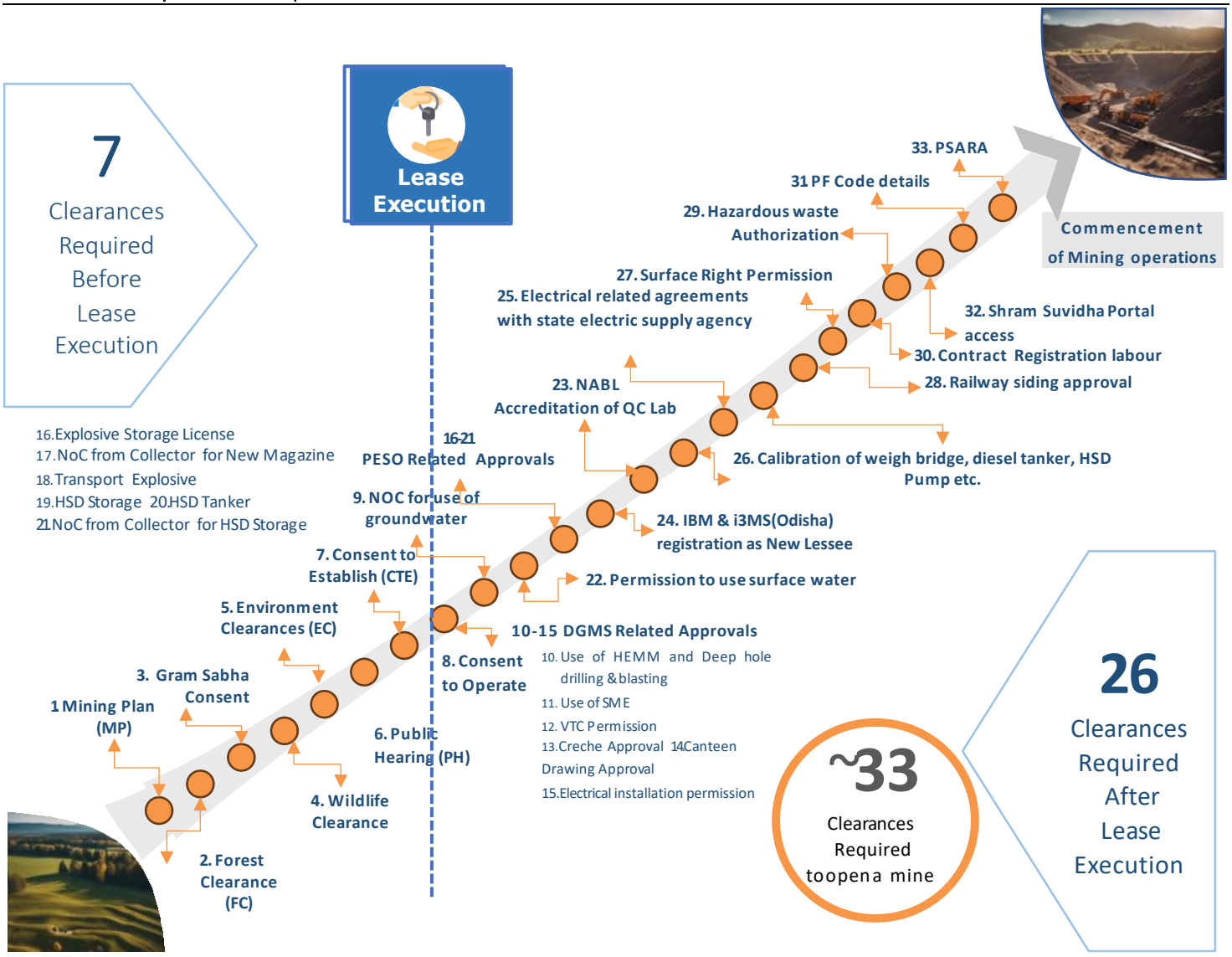


Source: Company Data, Equirus

India requires 33 clearances to open a mine

Opening a mine in India is a complex and heavily regulated process, requiring as many as 33 different clearances from various government authorities and agencies. These clearances encompass a wide range of environmental, safety, land acquisition, and operational considerations, often leading to delays and administrative challenges for prospective mine operators. Streamlining this process has been an ongoing goal for the government to promote ease of doing business in the mining sector.

Exhibit 14: Statutory clearances required for commencement of a mine



Source: Company Data, Equirus

India has the highest royalty rates vis-à-vis global players

India stands out with some of the highest royalty rates (fees that companies pay to the government for use of natural resources such as minerals and oil). Vs. global players in various industries. While these rates are intended to ensure that the government receives a fair revenue share from resource extraction, India's relatively high rates have been a concern among businesses operating in the country. Striking the right balance between government revenue and industry competitiveness remains a challenge in India's resource-based sectors.

Exhibit 15: Comparative overview of royalty rates in iron ore mining

	India	Australia			Brazil	China
		Western Australia	Queensland	Northern Territory		
Royalty	15%	5%, 7.5% (Beneficated Ore, Raw Ore)	~AUD 1.25/t + 2.5% if price > AUD 100	Max of 20% (less AUD 10,000) or 1%,2%,2.5%	3.50%	1-9% (Iron Ore Concentrate)
Royalty Base	Average Sale Price	Sales Revenue	Per Tonne & Sales Revenue	Net Value or Sales Revenue	Sales Revenue	Sales Revenue
Royalty System	Ad-Valorem	Ad-Valorem	Hybrid	Hybrid	Ad-Valorem	Ad-Valorem
Auction Premiums	Yes	No	No	No	No	Yes

Source: Company Data, Equirus, Steelmint

Statutory levies leading to higher royalty outflow for Indian miners

Exhibit 16: Statutory levies paid on base price

Item	Representative Calculations		Amount
Base Price of Iron Ore (A)		-	100
Latest Published ASP of IBM (generally, 3 months old) (B)		-	100
Initital Total Royalty, DMF & NMET (C)	19.8% of B		19.8
Sales Value Reflected as IBM Price (ASP) (D)	A+C		119.8
Final Total Royalty, DMF & NMET (E)	19.8% of D		23.7
Additional Amount Paid (F)	E-C		3.9

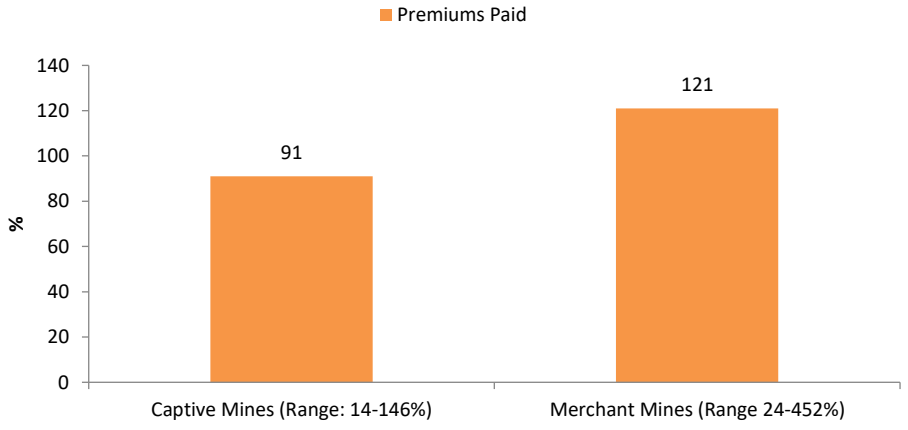
Source: Company Data, Equirus, Steelmint

Mines auctioned post Mar'20 attracted premiums of 90-140%

Mines auctioned post Mar'20 have an elevated cost structure as they attract huge premiums (90-140%). While this showcases the high competitiveness and investor interest in securing mining rights, iron ore mining has become unviable for merchant miners and led to elevated iron ore prices in India.

Amid higher seaborne ore prices, captive and merchant miners are struggling to ramp-up new mines given the elevated cost structure in India

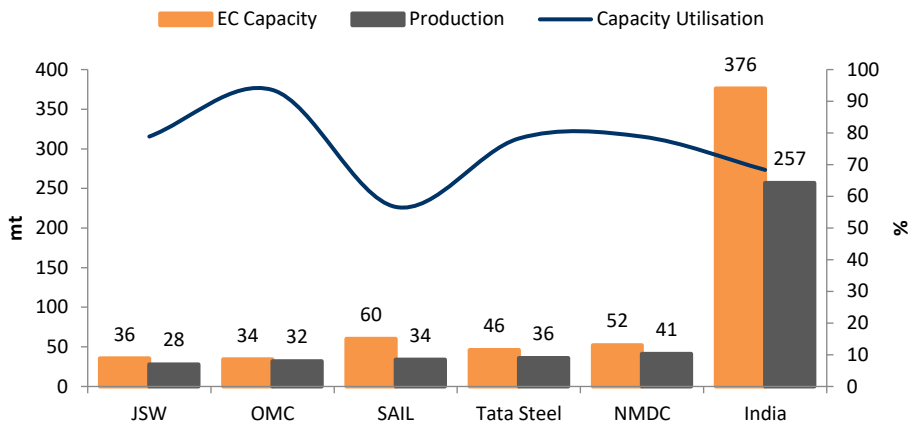
Exhibit 17: Premium paid by captive and merchant mines in India



Source: Company Data, Equirus, Steelmint

Mining reforms drive a transition in iron ore mine ownership over last 5 years from pure play merchant capacities to ones owned by integrated steel players

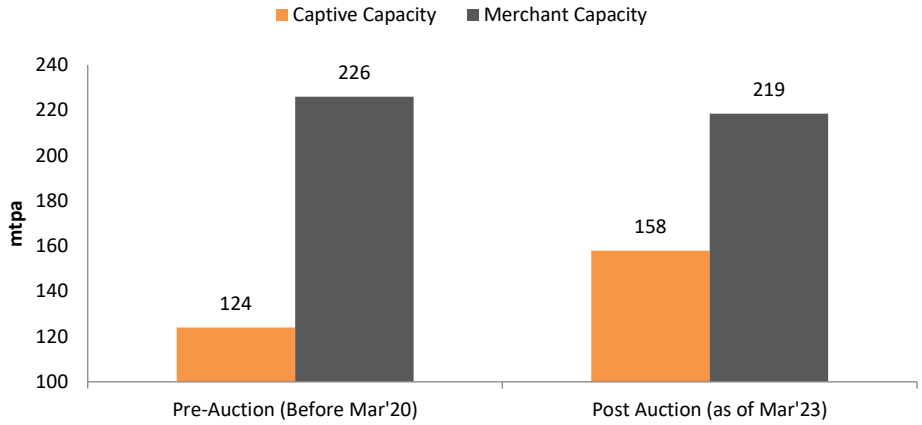
Exhibit 18: Major iron ore producers in FY23 in India



Source: Company Data, Equirus, Steelmint

Exhibit 19: India: Iron ore mines capacity

Share of captive miners up from 35% (pre-Mar'20) to 41% as of Mar'23



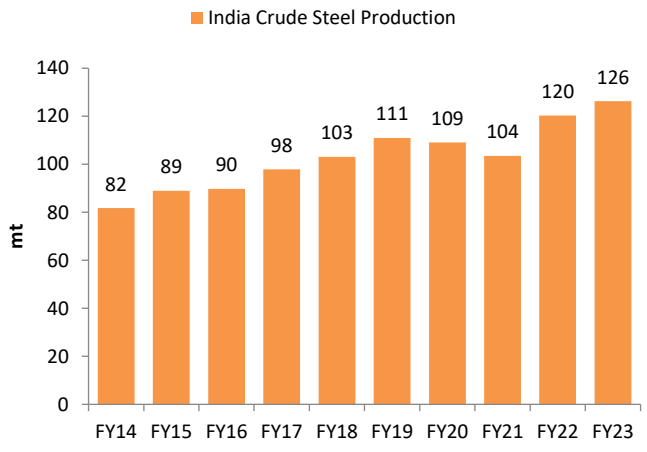
Source: Company Data, Equirus, Steelmint

India's rising steel capacity to support iron ore volumes even beyond FY26E

With domestic steel production likely at 255mt by FY31E, iron ore demand should increase from 255mt in FY23 to ~500mt by FY31E

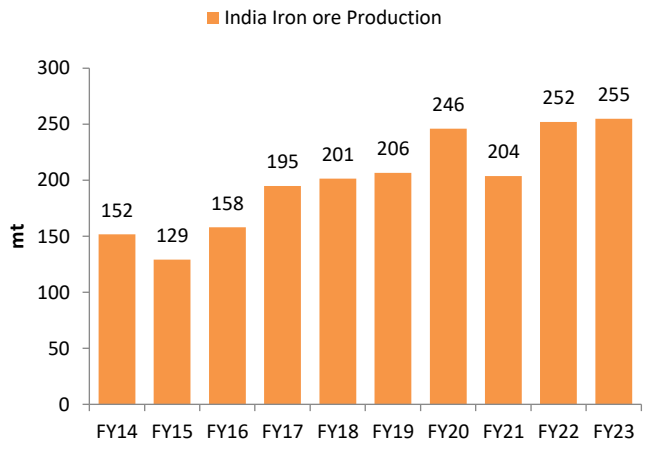
With new capacities coming online and rising crude steel utilisation, we expect iron ore demand in India to remain strong and outpace steel demand. Given that India has an ambitious target of reaching 300mtpa of crude steel capacity by FY30E, domestic iron ore demand is also set to rise at a fast pace. India's iron ore production stood at 255mt in FY23 and should touch ~500mt by FY31E as the country eyes 255mt of crude steel production by FY31E.

Exhibit 20: India Crude steel production



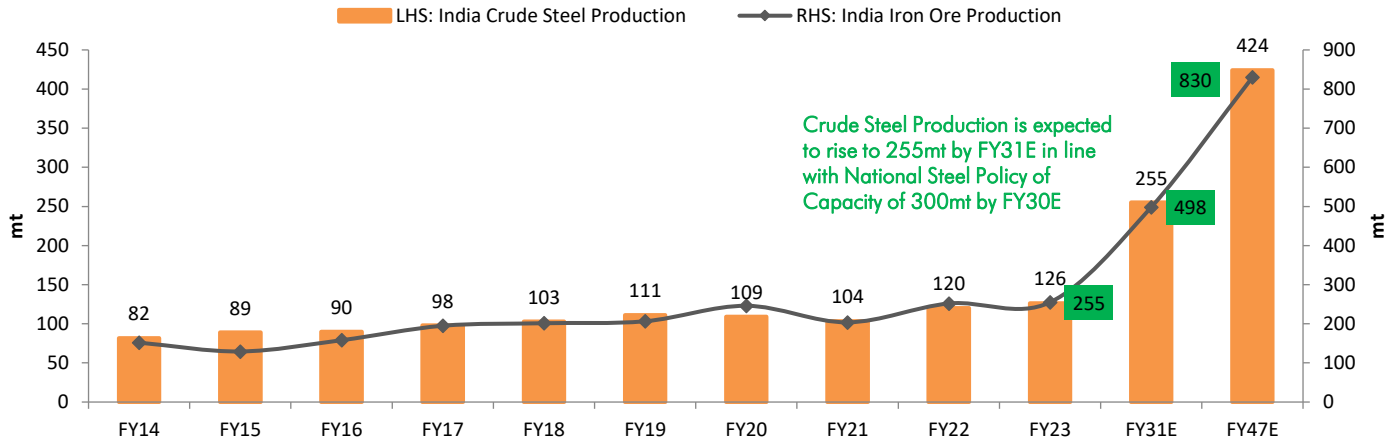
Source: Equirus, Ministry of Steel, Steelmint

Exhibit 21: India Iron ore Production



Source: Equirus, Ministry of Steel, Steelmint

Exhibit 22: India's crude steel production is expected to reach 255mt by FY31E, in line with the National Steel Policy



Source: Equirus, Ministry of Steel, Steelmint

Seaborne Iron ore: An overview

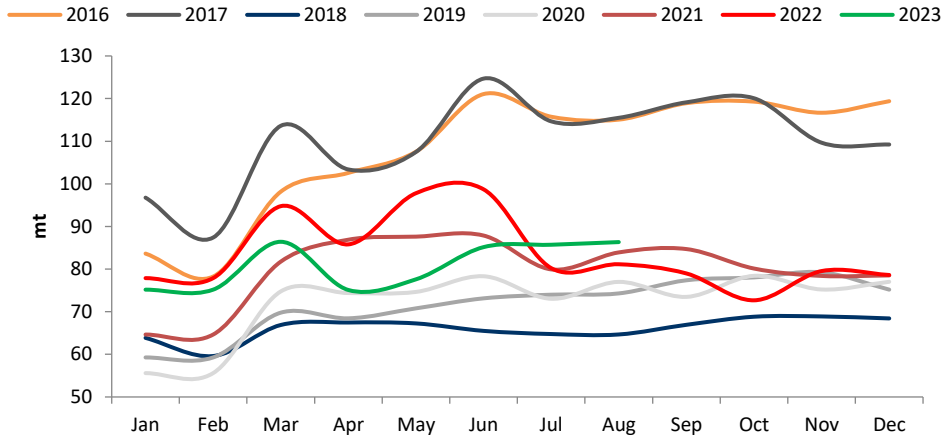
China's iron ore production is high but…

China reports crude ore production with very low iron content. Usable ore normally has Fe content of 56-65%; but for China's crude iron ore, this number is much lower at 20-30%. So, iron ore has to be beneficiated for conversion into usable ore. This is a relatively polluted way to produce high grade ore.

Over the years, China's iron ore production has been declining. During 2016-17, China shuttered c.250mtpa of old/illegal steel capacity to control pollution. Given that domestic iron ore production too was very polluting, low grade iron ore mines were also shut over the last 3-4 years. In 2015, China produced 1.38bn tonnes of iron ore which has fallen to 1.04bn tonne in 2022 – a 27% drop in China's crude ore production over the past seven years.

China's crude ore production has been on a downtrend since 2015 – this is likely to have impacted usable ore production over the years and increased dependence on seaborne iron ore

Exhibit 23: China's iron ore production declined by 6.8% yoy in 8MCY23



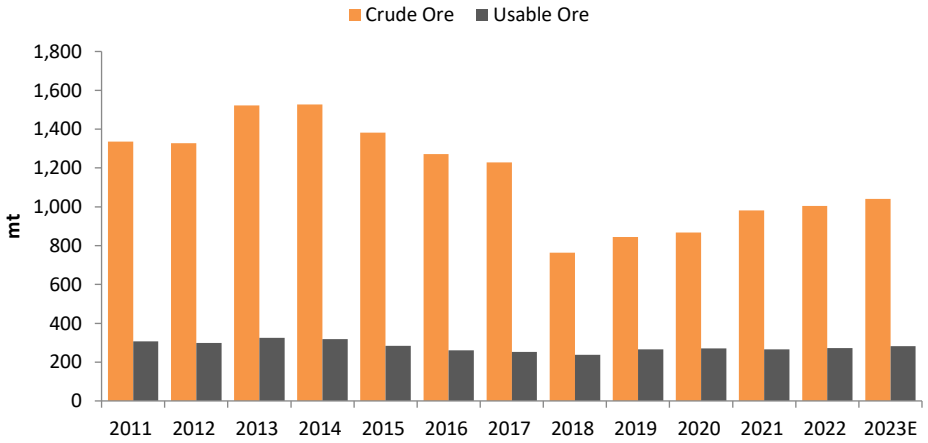
Source: Bloomberg, Equirus

…usable ore is only in the 250-300mt range

Despite high crude ore production in China (1bn tonne+) in the past 5-6 years, usable ore has been in the range of 250-300mt. This implies average grade of c.25% vs. usable iron ore grade of 62%.

Exhibit 24: Usable ore – The comparable number from China

China's iron ore production stood at 647mt in 8MCY23; assuming a similar ratio as 2022, we estimate China's usable ore production at 282mt in 2023E. However, it could be lower by 10-15mt depending on the grade of iron ore mined during the year.



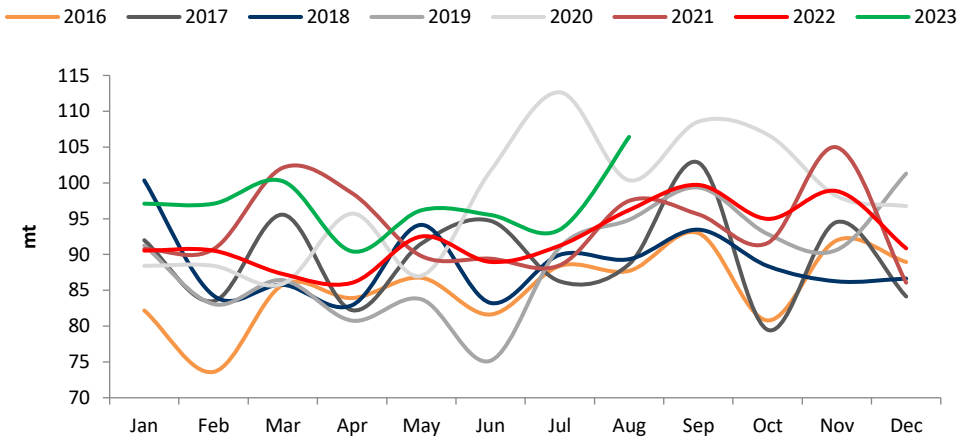
Source: Bloomberg, Equirus, RMG, World Steel Association

China's share in total iron ore trade at 70-75%

During 8MCY23, China imported 776mt of iron ore, up 7.3% yoy. Given that total global iron ore trade is at 1.5-1.6bn tonnes, China's share is at 70-75%. This also indicates China has high dependence on seaborne ore supply.

China's iron ore imports have increased by 7.3% yoy to 776mt in 8MCY23

Exhibit 25: China iron ore imports increased by 7% yoy in 8MCY23



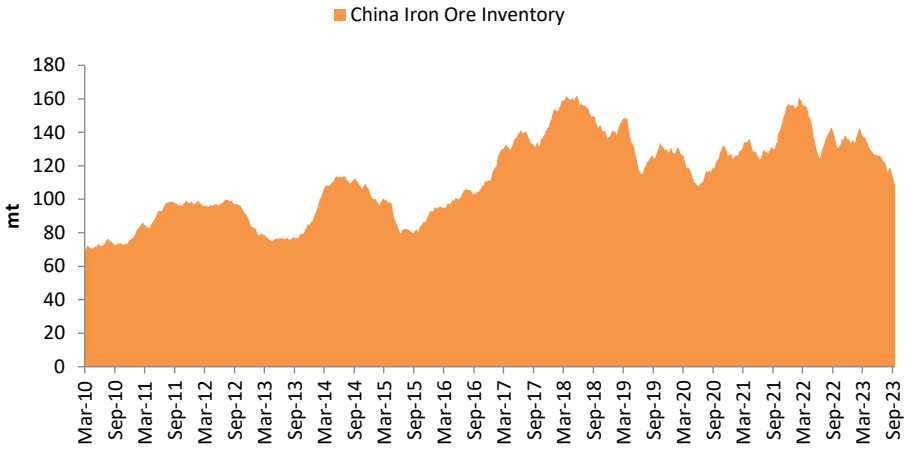
Source: Bloomberg, Equirus

China carries 30-40 days of iron ore inventory at ports

China produced c.54% of global steel production in 2022 and given its dependence on seaborne iron ore, it has 30-45 days of inventory at ports (visible inventory). However, in the past three months iron ore inventories have declined sharply and is down to 108.5mt vs 7-year average of 134mt.

China's iron ore port inventory has been declining steadily since Apr'23 and has been below the 7-year average of 134mt. In Oct'23 iron ore inventories have declined to 108.5mt the lowest level in 7 years.

Exhibit 26: China's port inventory has been range-bound for the past 12 months



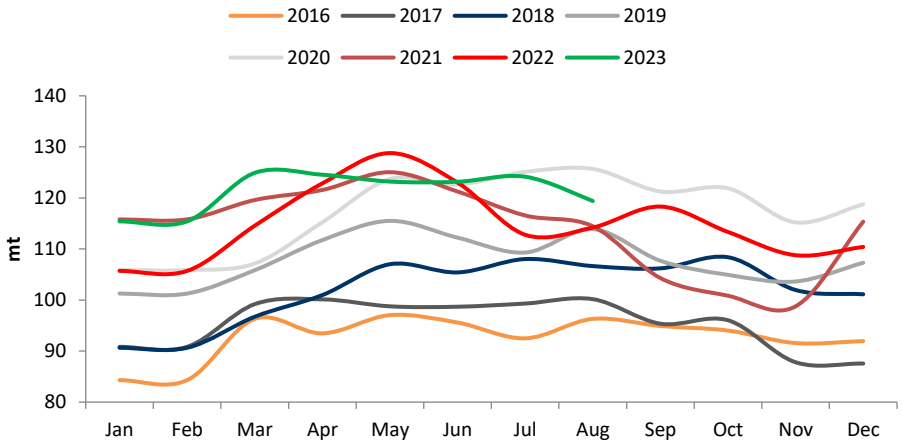
Source: Bloomberg, Equirus

China's iron ore consumption increases in 8MCY23

China iron ore consumption has risen 4.6% yoy to 970mt (adjusted for port inventories/ domestic production and imports) in 8MCY23 while steel production has increased by a 3.4% during the same period. This indicates muted EAF production for the year. China's EAF production has declined by 8.4% yoy to 53mt in 8MCY23 while BOF production has increased by 4.5% yoy to 663mt – this has resulted in higher iron ore consumption during the year.

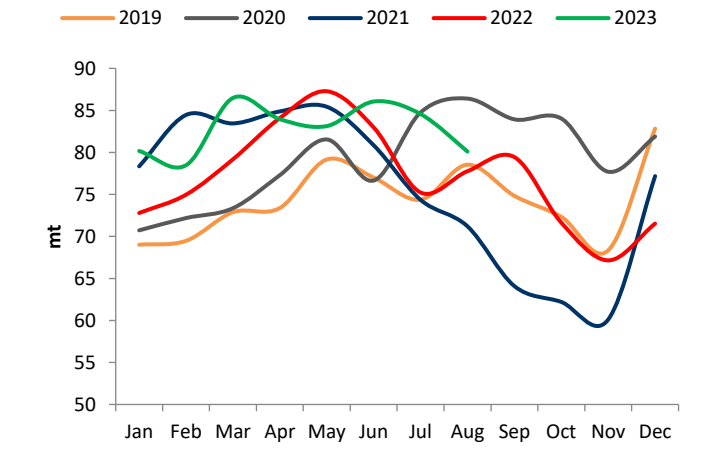
China's iron ore consumption has risen b 4.6% yoy in 8MCY23 as BOF production surged by 4.5% yoy while EAF production declined by 8.4% yoy in 8MCY23.

Exhibit 27: China's iron ore consumption has increased by 4.6% yoy to 970mt in 8MCY23



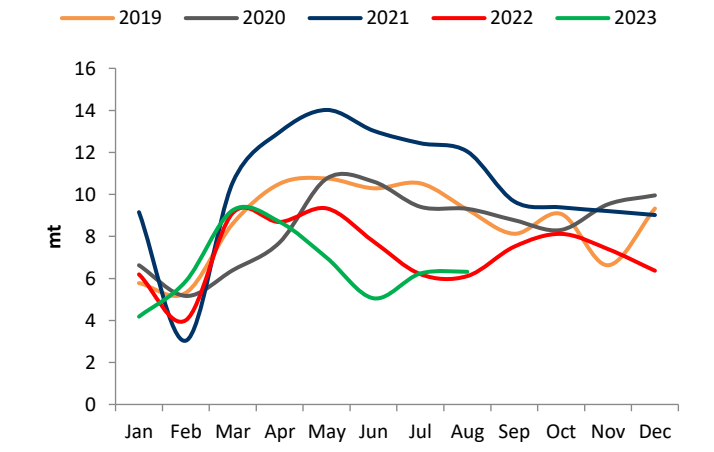
Source: Bloomberg, Equirus

Exhibit 28: China's BOF production increased by 4.5% yoy to 663mt in 8MCY23



Source: Bloomberg, Equirus

Exhibit 29: China's EAF production declined by 8.4% yoy to 53mt in 8MCY23



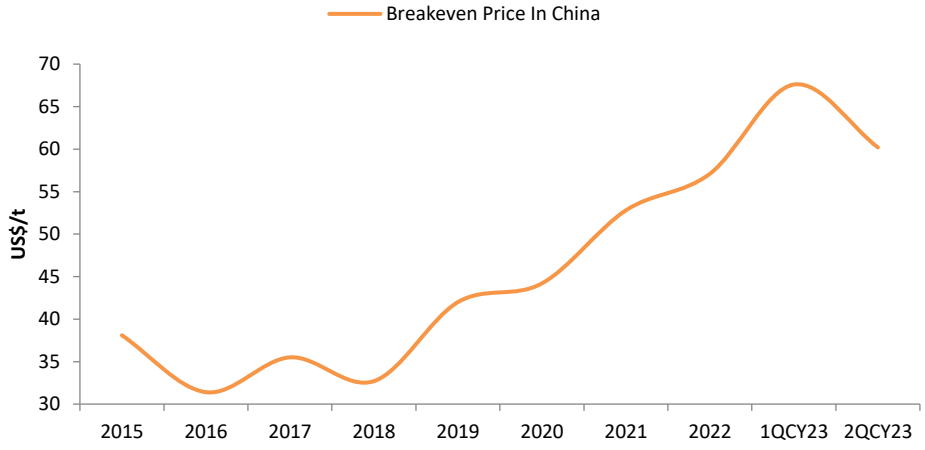
Source: Bloomberg, Equirus

Cost/t for seaborne players more than doubles in past six years

Global seaborne miners have seen a sharp rise in cost of production over past six years driven by rising freight rates and higher unit costs of production, especially among the majors. For Vale, which forms c.18-20% of seaborne supply, the breakeven EBITDA at China port has risen from US$ 31.4/t in 2016 to US$ 58.2/t in 3QCY22 – indicating a sharp jump in all-in cash costs for the company.

Major seaborne miners have seen a sharp cost increase over past six years as producer cash costs fluctuate with commodity prices, esp. energy, for which prices remain elevated. Other influencing factors are commodity currencies, freight rates and iron ore price itself – which affects direct cost components (royalty payments) and indirect ones (value-in-use adjustments)

Exhibit 30: Vale's cost of production has increased to US$ 60.2/t in 2QCY23 vs US$ 31.4/t in 2016, translating into an 92% increase over past seven years

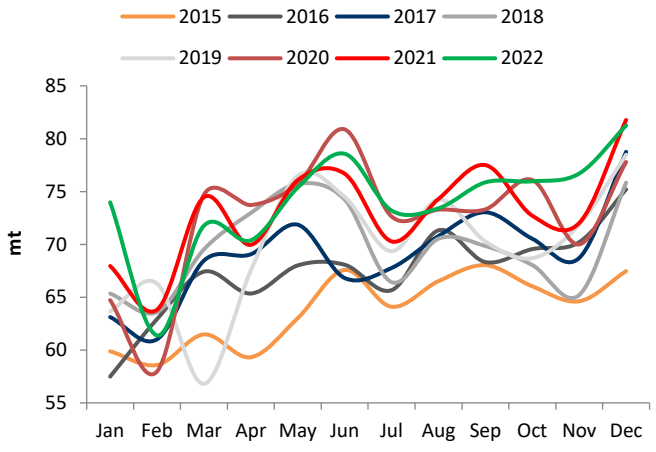


Source: Company Data, Equirus

Australia and Brazil – key players in seaborne ore market

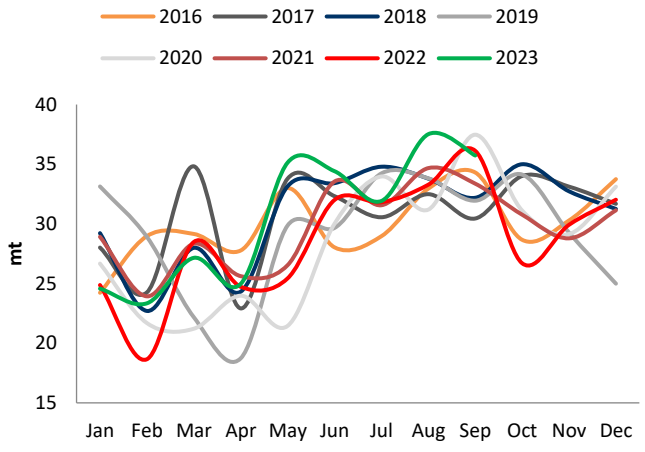
Of the 1.5-1.6bn tonne seaborne ore market, Australia and Brazil remain key suppliers with a 75-80% share. Any disruption in shipments from these two geos can materially impact iron ore prices.

Exhibit 31: Australia iron ore shipments increased by 2.6% yoy to 593mt in 8MCY23



Source: Bloomberg, Equirus

Exhibit 32: Brazil iron ore shipments increased by 7.6% yoy to 275nt in 9MCY23



Source: Bloomberg, Equirus

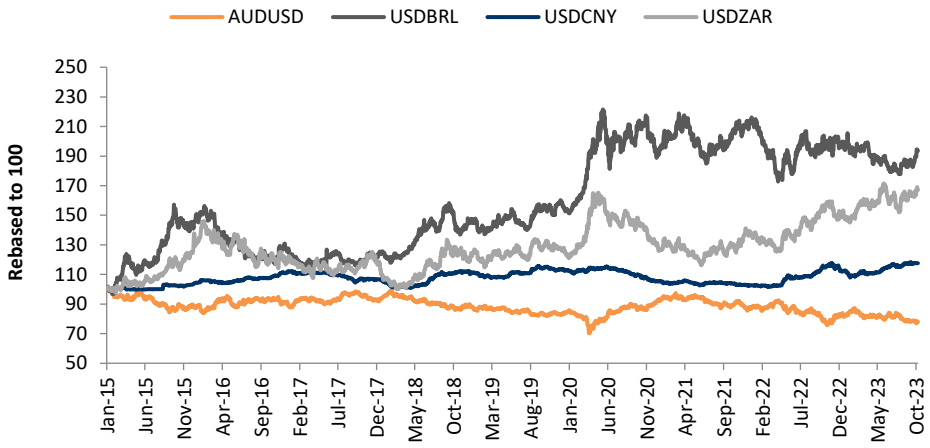
Cost pressures visible for major players

Iron ore mining has key cost components absorbed in employee and fuel costs. Employee costs are sticky and affected by the exchange rate. Given that both Brazil and Australia are key players in the seaborne iron ore market (80-85% share), appreciation/depreciation in the Brazilian real and Australian dollar relative to the US dollar would raise costs (in US$ terms) for the raw material.

The cost curve has moved higher, partly due to rising cash costs of production for the Majors

Supply disruptions have played a role, but there's also evidence of input cost inflation, especially in Australia, coupled with a tight labour market which could see more persistent upward pressure on wages for mines to keep existing/attracting new workers

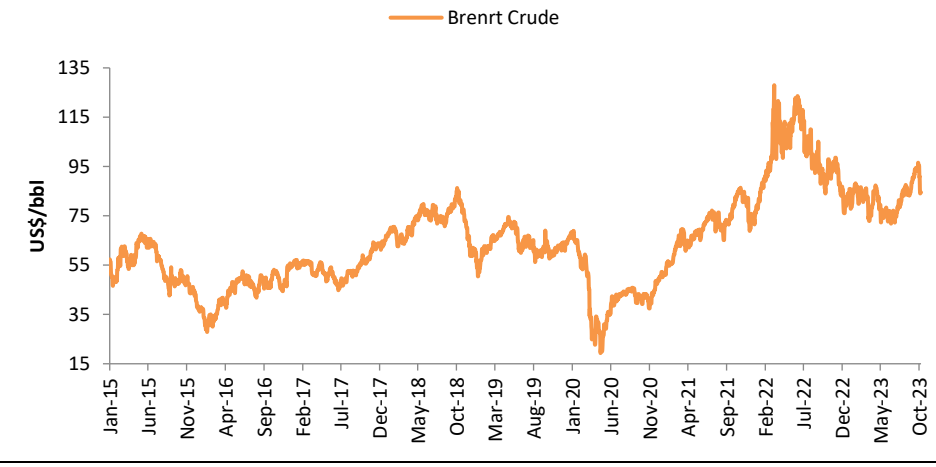
Exhibit 33: Currency movement also plays an important role in the cost curve



Source: Bloomberg, Equirus

Another major cost is fuel charges, derived from international crude prices. Given a sharp rise in crude prices over past six years, this could have a marginal impact on the cost curve

Exhibit 34: Crude price increase also has impacted variable costs for miners



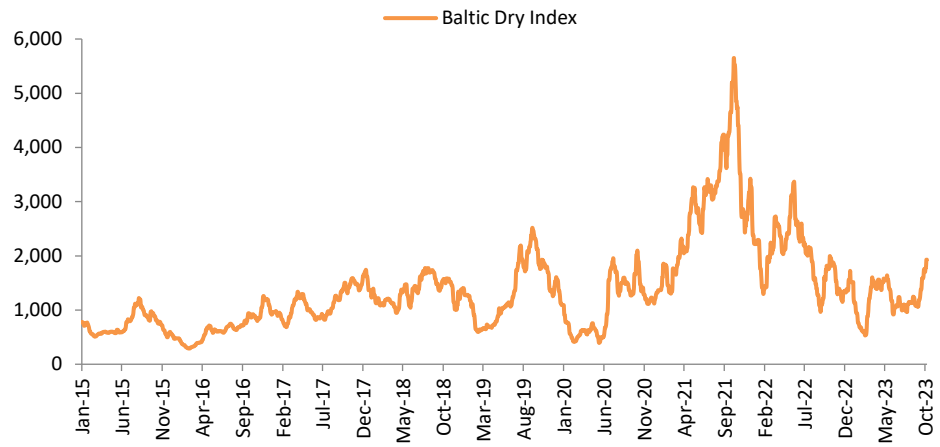
Source: Bloomberg, Equirus

Falling freight costs to have limited impact on cost curve

One can argue that given a surge in freight costs globally, cost curves for major seaborne players have increased. However, a breakup of Vale's EBITDA bridge indicates that the freight increase is a very small part of the overall cost increase and falling freight costs are likely to have limited impact on the cost curve.

Baltic Dry Index spiralled up post Jun'20 and has corrected form the highs, however, the index has recently moved up

Exhibit 35: Baltic Dry Index spiralled up post Jun'20 and has corrected form the highs, however, the index has recently moved up



Source: Bloomberg, Equirus

Exhibit 36: Despite sharp fall in freight rates cost curve for Vale remains elevated

	Unit	2015	2016	2017	2018	2019	2020	2021	2022	1QCY23	2QCY23
Cash Cost	US$/t	14.9	13.3	14.8	13.6	15.3	15.8	19.8	22.5	26.7	26.5
Freight Cost	US$/t	16.0	12.2	15.4	18.0	17.8	15.3	18.8	20.2	17.8	17.6
Distribution Cost	US$/t	0.4	0.3	0.6	0.8	1.1	0.9	1.2	2.0	3.2	2.5
Expenses & Royalties	US$/t	3.9	3.6	3.4	3.1	3.7	4.6	7.3	6.9	7.6	6.2
Moisture Adjustment	US$/t	3.0	2.6	3.0	3.1	3.5	3.4	4.1	4.6	5.0	4.7
Quality Adjustment & Stoppage Expenses	US$/t	(1.9)	(1.7)	(3.4)	(7.3)	(1.2)	(2.3)	(2.9)	(1.8)	1.4	(0.6)
Pellet Adjustment	US$/t	(1.6)	(1.5)	(1.5)	(2.9)	(3.7)	(1.2)	(4.0)	(5.1)	(3.5)	(3.9)
Delivered Cash Cost in China	US$/t	34.7	28.8	32.3	28.4	36.5	36.5	44.3	49.3	58.2	53.0
Sustaining Capex	US$/t	3.4	2.6	3.2	4.3	5.5	7.7	8.5	7.8	9.4	7.2
Breakeven Price In China	US$/t	38.1	31.4	35.5	32.7	42.0	44.2	52.8	57.1	67.6	60.2

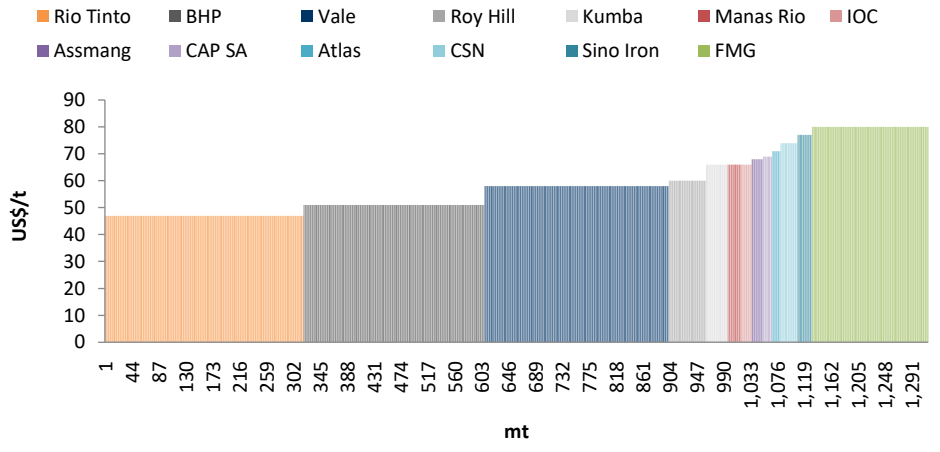
Source: Company Data, Equirus

Iron ore cost curve has moved up sharply in past six years

Unlike 2015-17 – where the seaborne cost curve was at US$ 30-60/t with 90th percentile producers in the range of US$ 40-60/t – iron ore prices had bottomed out at ~US$ 40/t during that period. However, cost curve for 90th percentile producers has moved into the US$ 90-100/t range and tier-3 supply cost curve remains at US$ 100-150/t; this is likely to support iron ore prices in 2023E.

All-in cash costs have moved up sharply in past six years with 90th percentile cost curve at US$ 90-100/t

Exhibit 37: Iron ore cost curve has moved up sharply in the past six years



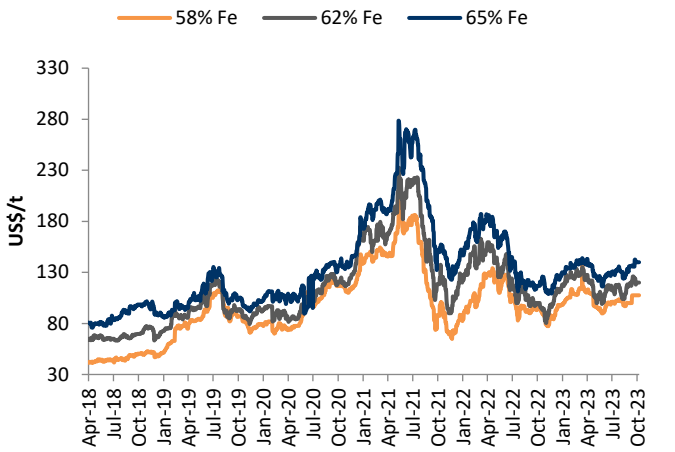
Source: Bloomberg, Company Data, Equirus

A sluggish property market, reduced land sales, and declining new property construction to hit profitability of Chinese steel players, constraining iron ore prices

Limited upside in seaborne ore prices to cap realisation growth.. however, low inventories in China are likely to cap downside

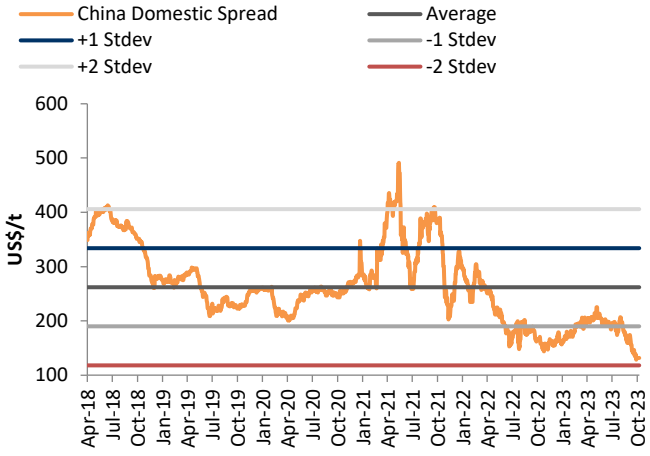
Iron ore prices exceeding US$ 120/t are unlikely to remain stable for an extended period due to the pressure on Chinese steel margins. The combination of a sluggish property market, reduced land sales, and declining new property construction is expected to negatively impact the profitability of Chinese steel manufacturers, thereby constraining the range of iron ore prices. Meanwhile, on the supply side, there has been limited response following Vale's disruption in 2019. Major seaborne iron ore players are emphasizing higher grades and value-added products, with limited attention to increasing volume; this would lead to a tight seaborne market in future.

Exhibit 38: Iron ore prices have moved up on limited production cuts in China…



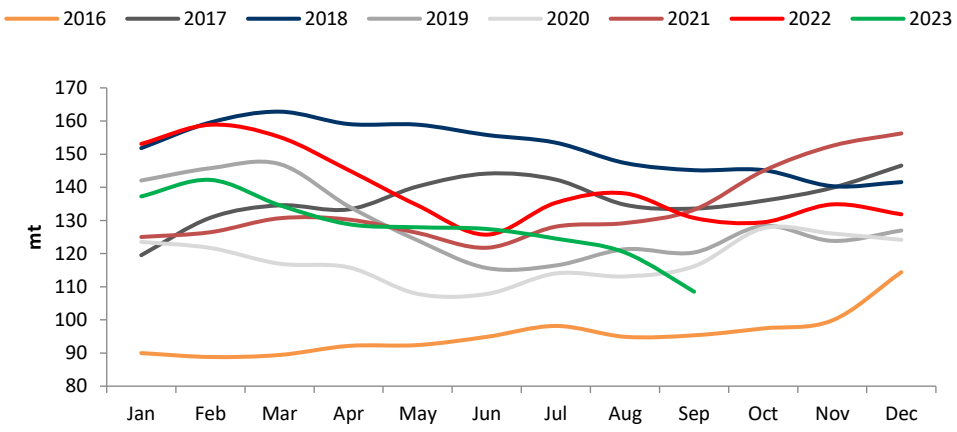
Source: Bloomberg, Equirus, Steelmint

Exhibit 39: …but we see limited upside from current levels due to pressure on Chinese steel mill margins



Source: Bloomberg, Equirus, Steelmint

Exhibit 40: Sharp decline in China port inventory is likely to limit downside in iron ore prices globally



Source: Bloomberg, Equirus

Investment Rationale

High grade deposits with substantial mine life

LLOYDSME's iron ore reserves have low levels of silica and alumina, while iron ore extracted from Surjagarh is primarily hematite ore with an average Fe grade of 63%

LLOYDSME is a high-quality iron ore producer operating a premium mine in Surjagarh village, Gadchiroli district, Maharashtra. This mine has the highest reserves (180mt, as per preliminary reports) in Maharashtra. An extra 550mt of BHQ (banded hematite quartz) deposits have been identified in the vicinity. These reserves offer an extensive mine life of 36 years at the present production rate of 10mtpa. LLOYDSME holds valid forest and environmental clearances, along with a mine lease that remains in effect until 2057E.

The company's iron ore reserves consist of high-quality ore with remarkably low levels of silica and alumina, rendering it an excellent choice for internal consumption and third-party sponge iron producers and steel manufacturers. Iron ore extracted from Surjagarh is primarily hematite ore found in Maharashtra, featuring an average iron (Fe) grade of 63%. The Fe content significantly influences the realized value, with each additional 1% Fe potentially commanding a premium of US$ 5-7/t.

Exhibit 41: Surjagarh iron ore mine – A snapshot

Surjagarh Mine	
Lease Holder	Lloyds Metal & Energy Ltd
Lease Type	Mining of Iron Ore
Total Lease Area	348.09 Ha
Lease Commencement	03.05.2007
Lease Period	50 Years
MOEF Clearance	Obtained
Forest Clearance	Obtained over Area of 374.90 Ha
Surface Right	Obtained
MPCB Consent	Obtained
Iron Ore Type	Hematite (63% Fe)
Method of Mining	Fully Mechanized and Open Cast Mining
Capacity	10mtpa, awaiting clearnace for another 2mtpa

Source: Company Data, Equirus

A tough past…

Challenges in ramping up mining operations – a setback for LLOYDSME

In 1997, LLOYDSME and Sunflag Iron decided to jointly develop and manage the Surjagarh iron ore mine, with LLOYDSME receiving 60% of the extracted ore and Sunflag providing for capital and operational expenses

In FY18, LLOYDSME resumed iron ore mining operations at Gadchiroli district, deploying 200 security personnel due to Naxalite threats. It obtained necessary approvals and a preliminary 30-year extension to a 20-year mining lease, totalling 50 years, focused on surface mining for internal consumption

In 1993, LLOYDSME was issued a Letter of Intent (LOI) for the Surjagarh mine. In **1997**, the company forged an agreement with Sunflag Iron (Sunflag) to facilitate the mine's development. Starting **2004**, LLOYDSME and Sunflag consistently entered into various agreements to jointly manage the iron ore mine on an equal basis. They decided to divide the extracted iron ore, with 60% going to LLOYDSME and 40% to Sunflag; the latter provided the necessary funding for capital and operational expenses.

Initially, the company had plans to start mining operations in the near future but was unable to do so due to regional instability. Additionally, a tragic incident involving the killing of one of the company's officials by Naxals near the Surjagarh mine led to the temporary suspension of mining operations starting **Jul'13**.

During **FY18**, LLOYDSME resumed its iron ore mining operations with police protection, a necessary precaution due to the Naxalite threat. Approximately 200 security personnel were deployed in the area to ensure the safe transportation of iron ore from the mines.

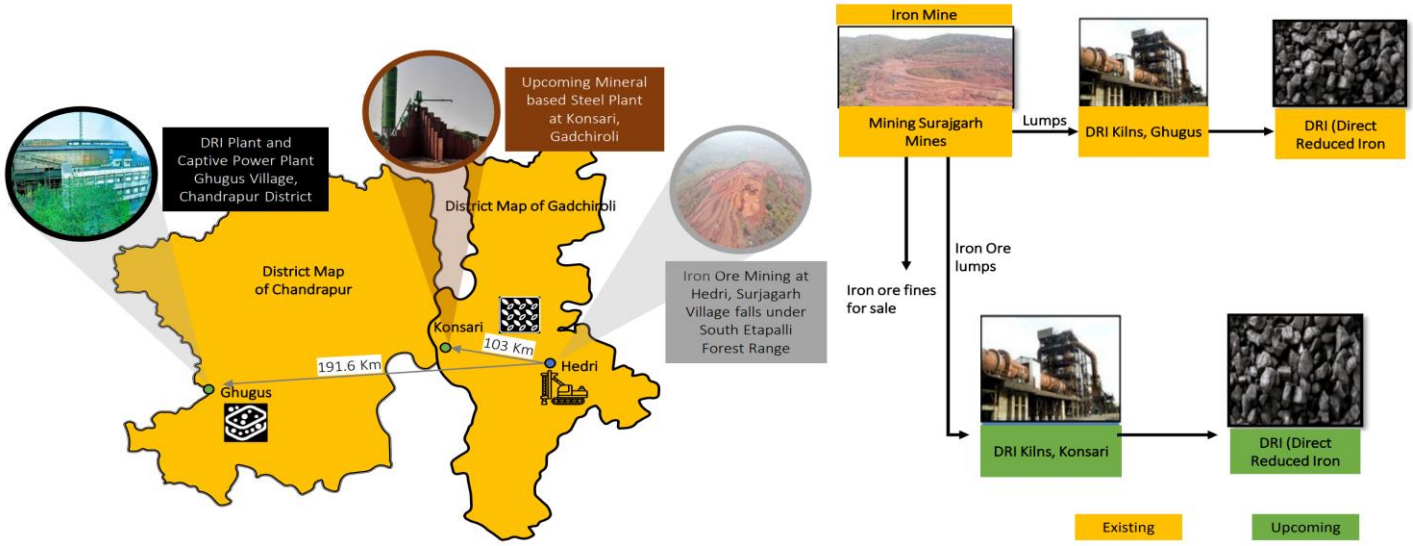
In 2007, LLOYDSME secured a 20-year lease for the Surjagarh mine, obtaining all requisite approvals and permissions from relevant authorities to commence mining operations. It also obtained a preliminary extension of the 20-year mining lease for an additional 30 years, making it a total of 50 years in principle, under the MMDR Act of 2018. The company's mining activities were exclusively focused on surface mining, and all the iron ore extracted was used for internal consumption.

Things were heavily dependent on the iron ore mine ramp-up, essential for maximizing the potential of sponge iron production units, including the Ghugus unit

Profitability and prospects hinged on iron ore mine ramp-up

In 1994, LLOYDSME started operations of the initial segment of its Ghugus Unit, known as Unit 1, with an annual sponge iron production capacity of 150,000 tonnes. Subsequently, in 2007, it expanded this capacity, boosting its annual production capability to 270,000 tonnes. Besides, a captive power plant of 30MW was also introduced. However, profitability of these units hinged on the availability of iron ore from the Surjagarh mine. Due to challenges encountered in scaling up production at the mine, LLOYDSME was unbale to fully realize the potential of its sponge iron facility.

Exhibit 42: LLOYDSME had planned integrated operations with the iron ore mine



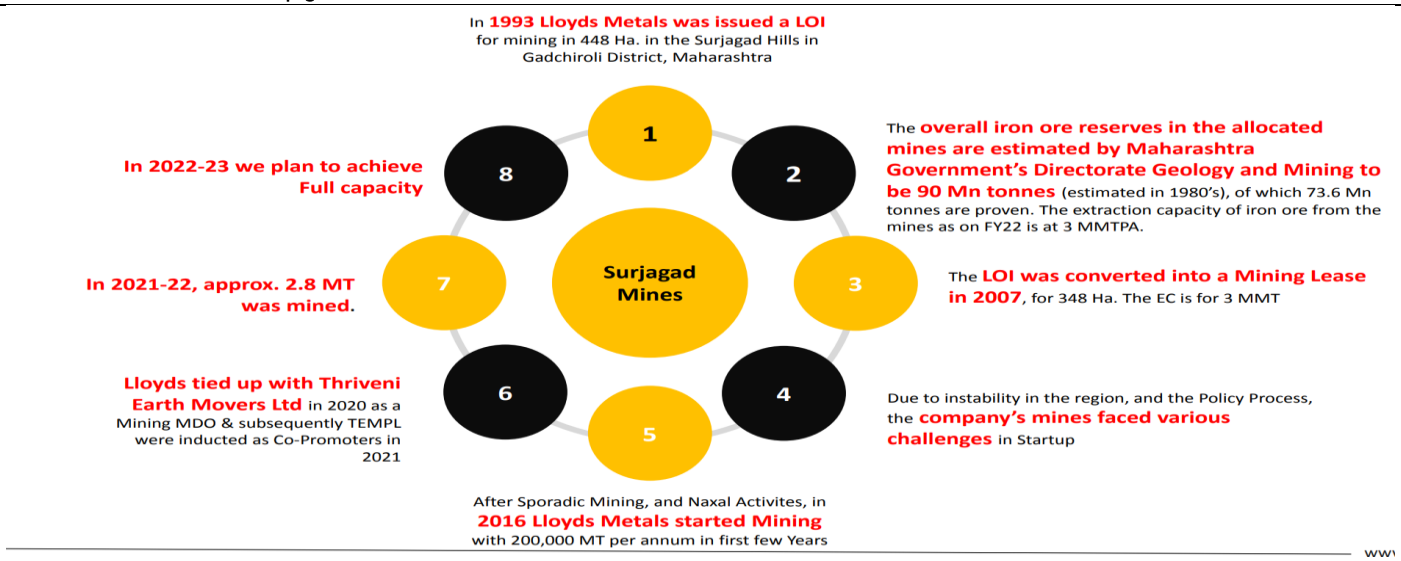
Source: Company Data, Equirus

but out of the woods now…

Partnership with Triveni helped restart iron ore mine

In 2021, LLOYDSME entered into a strategic partnership with TEMPL as MDO and terminated the agreements with Sunflag. With investments made in LLOYDSME during FY22, TEMPL became its co-promoter. Mining activities commenced on 25 Sep'21 and are carried out by TEMPL. In FY22, LLOYDSME extracted 2.9mt during six months of operations, slightly below the allowed capacity of 3mtpa. TEMPL has deployed all necessary machinery for conducting mining activities.

Exhibit 43: Timelines for the Surjagarh iron ore mine



Source: Company Data, Equirus

As of FY23, the company has initiated the process of mobilizing all essential equipment and machinery required to exploit the expanded capacity. It has received an upgraded capacity allocation, increasing it from 3mtpa to 10mtpa. Furthermore, preliminary findings from Tata Steel Industrial Consulting suggest that the initially estimated reserves of 90mt are significantly larger, now estimated to be double at ~180mt. There is an additional 550mt of BHQ identified in the region.

Significant capex plans announced over next 3-7 years

LLOYDSME plans a 72,000-ton sponge iron expansion in FY24E

In FY23, LLOYDSME announced a new sponge iron capacity of 72,000 tonnes to be established in Konsari, Gadchiroli district, with plans to commence operations in 2HFY24E. Additionally, the company has structured its capex into three distinct phases:

Capital expenditure structured in three phases for growth

Phase 1: In this phase, LLOYDSME will undertake several initiatives, including (a) setting up a 396,000-tonne sponge iron capacity in Ghugus, Chandrapur, to be commissioned in FY26E, (b) constructing a 4mtpa pellet plant in Konsari, Gadchiroli (anticipated in FY26E), (c) establishing a 0.5mtpa wire rod mill (expected in FY26E), (d) constructing a 0.5mtpa steel melting shop (expected in FY27E), and (f) developing a 100MW captive power plant (expected in FY26E).

Phase 2: LLOYDSME intends to double its pellet production capacity from 4mtpa to 8mtpa by establishing a new 4mtpa pellet plant in Konsai, Gadchiroli, and simultaneously constructing an 85km slurry pipeline – a pioneering effort of its kind in the western region of India.

Phase 3: The company is currently evaluating the feasibility of setting up integrated steel-making facilities, including beneficiation, to maximize the value of BHQ. It is actively conducting feasibility studies, and as of now, no financial closure has been confirmed for this phase.

Exhibit 44: Investing in significant capacity expansion post restart of the Surjagarh mine

Capacity (mt)	FY23	FY24E	FY25E	FY26E
Iron Ore (Surajgarh, Gadchiroli)	10.00	12.00	14.00	16.50
Sponge Iron (Ghugus, Chandrapur)	0.27	0.27	0.27	0.66
Sponge Iron (Konsari, Gadchiroli)		0.07	0.07	0.07
Pellet (Konsari, Gadchiroli)				4.00
Wire Rod (Ghugus, Chandrapur)				0.50
Power (MWs)	30.00	30.00	30.00	100.00

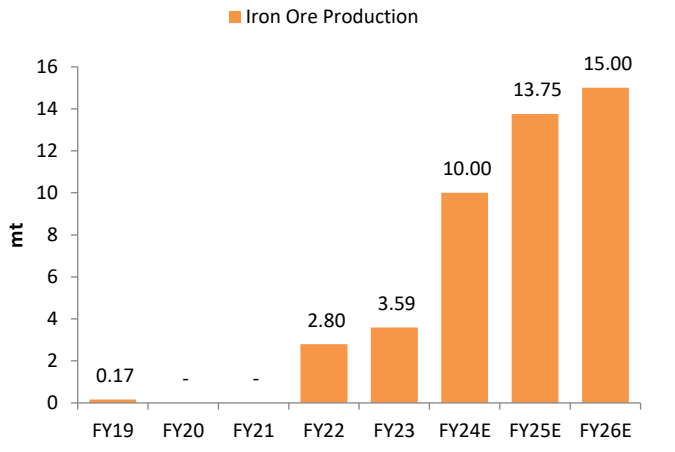
Source: Company Data, Equirus

Iron ore volumes to drive growth; downstream business to buoy profits

Iron ore business growth to be volume-led

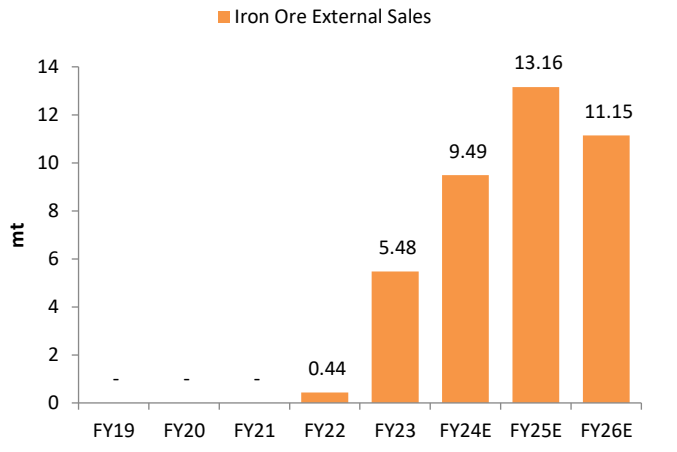
We estimate LLOYDSME's iron ore production to jump from 3.59mt in FY23 to 15mt in FY26E, likely supported by rising domestic crude steel production/demand. In addition, elevated seaborne ore prices are also remunerative for exports.

Exhibit 45: LLOYDSME's iron ore production to touch 15MT by FY26E



Source: Company Data, Equirus

Exhibit 46: We estimate external sales at 11.15MT in FY26E



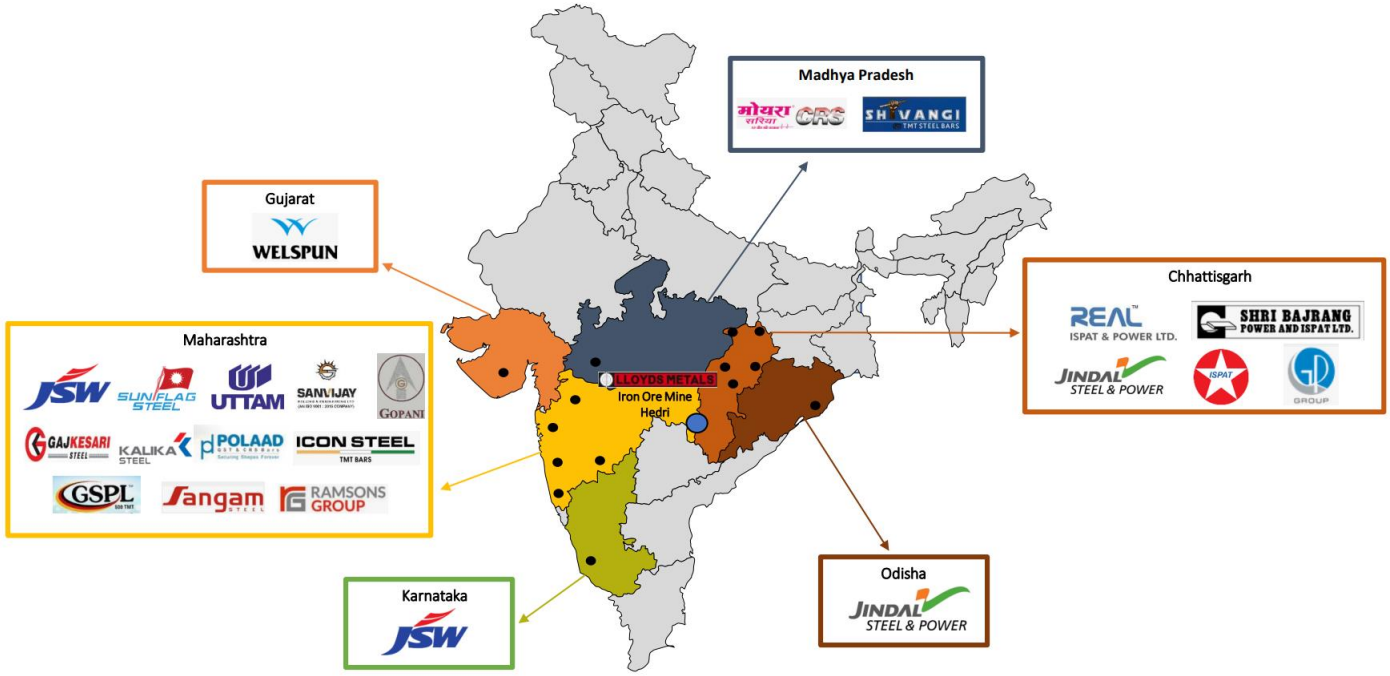
Source: Company Data, Equirus

Aggressive pricing in a bid to capture market share

LLOYDSME's domestic iron ore pricing remains vs peers

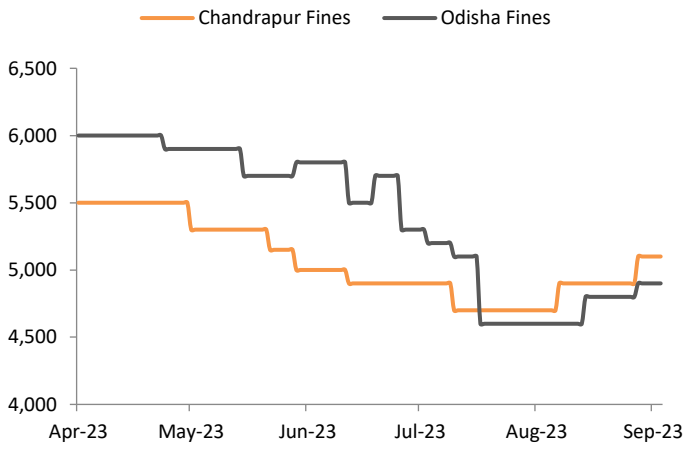
LLOYDSME faces direct competition from miners based in Karnataka as it strives to supply to domestic steel producers. Maharashtra, Goa, and Karnataka are home to numerous steel mills and independent sponge iron producers, creating a competitive landscape where merchant miners vie for business. Furthermore, the company must contend with the risk of iron ore imports due to the proximity of mines to the port. Consequently, LLOYDSME has adopted a competitive pricing strategy for its ore, aligning it with import parity while also rivalling miners such as NMDC and those from Orissa.

Exhibit 47: LLOYDSME has the lowest duty structure among peers, which should result in higher profitability than industry



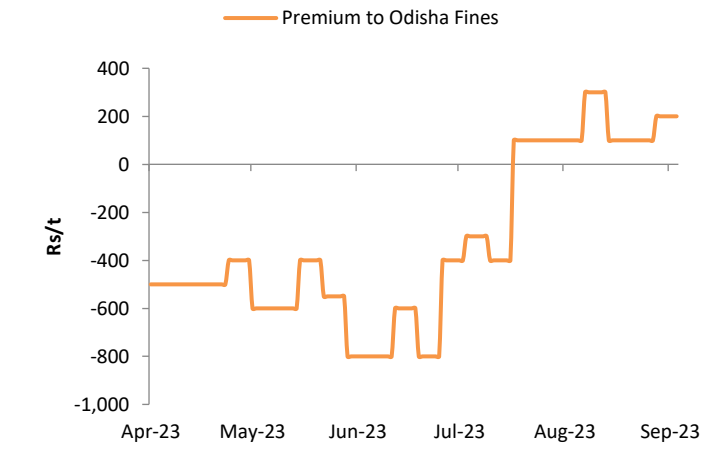
Source: Equirus, Ministry of Steel, Steelmint

Exhibit 48: LLOYDSME has been pricing ore aggressively vs peers to gain domestic market share



Source: Bloomberg, Equirus, Steelmint

Exhibit 49: On landed basis, LLOYDSME's ore prices would be lower than Odisha miners



Source: Bloomberg, Equirus, Steelmint

To continue enjoying low duty structure vs. peers well beyond 2030E

LLOYDSME does not have to pay any premium to the government till 2057E, and would be among the lowest cost iron ore producers in India post 2030E

LLOYDSME holds a mining lease valid until 2057E, thanks to a 30-year extension granted in 2018. This extension allows it to maintain cost-efficient mining operations without incurring premiums to the state government. In contrast, mines auctioned post Mar'20 witnessed bids surpassing 100% premiums, rendering merchant mining economically unviable in the domestic market. Consequently, LLOYDSME is expected to remain among the few miners benefiting from captive iron ore without any premium charges. NMDC, having renewed all its mines post-2017, is obligated to pay premiums of 22.5% on the IBM price to the state government. Captive players like Tata Steel are likely to enjoy these benefits only until 2030E, as their mines are to be re-auctioned. Post 2030E, LLOYDSME could emerge as one of the lowest cost iron ore producers in the country.

Exhibit 50: LLOYDSME has the lowest duty structure among peers, which should result in higher profitability than industry

Iron Ore Cost	Unit	Value	Iron Ore Cost	Unit	Value	Iron Ore Cost	Unit	Value
IBM Price	Rs/t	5,000	IBM Price	Rs/t	5,000	IBM Price	Rs/t	5,000
Royalty @ 15%	Rs/t	750	Royalty @ 15%	Rs/t	750	Royalty @ 15%	Rs/t	750
DMF	Rs/t	248	DMF	Rs/t	248	DMF	Rs/t	248
Premium @ 110%	Rs/t	5,500	Premium @ 22.5%	Rs/t	1,125	Premium @ 0%	Rs/t	-
Duty Structure for Miners who won mines post Mar'20	Rs/t	6,498	Duty Structure for NMDC	Rs/t	2,123	Duty Structure for Lloyd	Rs/t	998

Source: Equirus, Ministry of Steel, Steelmint

Sponge iron profitability to remain elevated due to captive iron ore benefits

Sponge iron prices have moved up sharply due to a considerable increase in domestic iron ore and coal prices. Sponge iron prices are trading around Rs 32,000/t in the domestic market and findings from our analysis indicate production cost of Rs 29,000/t. Hence, we estimate sponge producers to make an EBITDA of Rs 4,500/t.

We estimate LLOYDSME's sponge iron cost to be lower by Rs 6,000-7,000/t due to captive iron ore benefits, resulting in higher profitability than merchant sponge iron players.

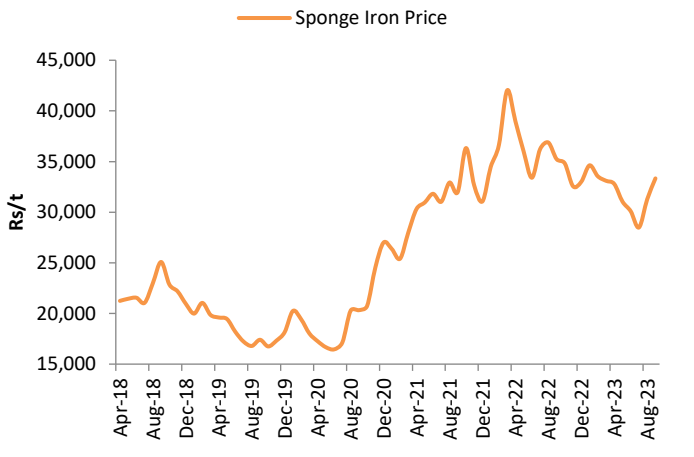
Exhibit 51: We estimate Sponge iron players to generate EBITDA of Rs 4,500/t, based on our estimates

Iron Ore Cost	Unit	Value	Coal Cost	Unit	Value
Ex-mine Price	Rs/t	4,460	Coal Cost	Rs/t	8,000
Freight	Rs/t	1,500	Freight	Rs/t	1,500
Wastage @ 5%	%	5.0	Wastage @ 5%	%	5.0
Plant Head Price	Rs/t	6,274	Landed Cost	Rs/t	10,000
Lump Recovery Factor	%	80	Coal Required	x	1.4
Effective Lump Price	Rs/t	7,842	Coal Cost (b)	Rs/t	14,000
Fines Sales	Rs/t	782	Processing Cost (c)	Rs/t	1,500
Adjusted Lump Prices	Rs/t	7,060	Sponge Iron Production Cost (a) + (b) + (c)	Rs/t	28,208
Lump Required	x	1.8	Sponge iron Price	Rs/t	32,000
Iron Ore Cost (a)	Rs/t	12,708	Sponge Iron Profitability	Rs/t	3,792

Source: Company Data, Equirus

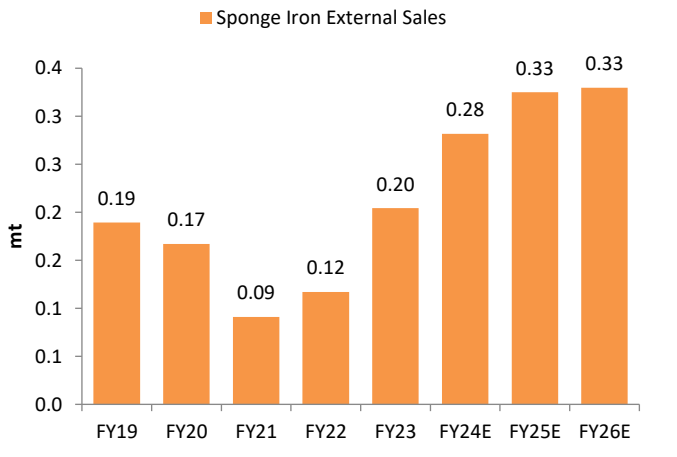
We estimate the company's sponge iron manufacturing costs to be lower by Rs 6,000-7,000/t due to captive iron ore benefits, leading to higher profitability than any sponge iron player who purchases iron ore from merchant miners.

Exhibit 52: Sponge iron prices remain elevated



Source: Company Data, Equirus

Exhibit 53: We estimate external sponge iron sales at 0.33MT in FY26E



Source: Company Data, Equirus

Pellets – Properties, drivers

Pellet 101

There are three commercially traded forms of iron ore: fines (incl. subsets of sinter fines + pellet fines/concentrates), lump (equivalent to fines; occurring as large pieces) and pellet (processed from fines, either as blast furnace 'BF' or direct reduction 'DR' pellet). These forms feature a wide range of Fe-grades (most within 57-67%), impurities (sulphur, phosphorus, silica, etc.) and physical properties (competency, hardness). Key properties are presented in Exhibit below.

Exhibit 54: Iron ore: Commercial product forms

Fines

Fines: Two Types:

Sinter Fines: >150 micron size; 57%-65% Fe; various impurities; produced from hematite deposits

Pellet Fines/ Feed: <150 micron; 62-67% Fe; typically less impurities vs sinter fines; delivered from magnetite; also called "concentrate"

Lump

Lump: 58-64% Fe, various impurity content. Mostly produced from hematite deposits.

Pellet

Pellet: Two Types:

BF Pellet: 63-65% Fe, various Si and Ai content, used in production of hot metal

DR Pellet: 63-65% Fe, Si/Ai content <2.5%; used to produce Direct Reduction iron (Alternative to scrap, For EAF)

Source: Company Data, Equirus

There are two major types of iron ore pellet, although in practice a variety of pellet products exist, depending on both chemical and physical characteristics of the products:

BF pellet: *used in hot metal production by integrated steel producers (BF/BOF route). These typically have an average grade of ~65% Fe.*

DR pellet: *used as feedstock for direct reduced iron (DRI) production. Higher grades (~67% Fe) and lower impurities (esp. for silica and alumina) are required for DR pellets, which tend to attract an additional premium vs BF pellet).*

Fines: The most common form of iron ore occurs in the form of a coarse sand, 'fines'. Most fines are derived from the drill/blast mining process of massive haematite formations; a small portion is produced from the mining/crushing/magnetic separation process of thinly-bedded magnetite formations. Together, they support three quarters of the global ore trade. Unlike lump and pellet (described below), fines cannot be charged directly into a blast furnace, because the conversion process would disrupt/blow the furnace's ore contents. So fines first need to be somehow agglomerated', either by sintering (fused/melted into a mat) or pelletizing (described below). Note, sintering is typically done on-site by the mills (highly polluting, coal-intensive activity); the sinter is then loaded into the furnace (i.e. there is no significant sinter 'trade').

Lump: Mining of massive haematite formations not only produces fines, but also lump (typically 30:70, lump:fines), essentially featuring more competent rock that has been extracted from the same geology as the fines. Being naturally agglomerated, lump is a preferred feedstock for steel production, since it can be loaded directly into the furnace (no sintering/pelletizing required).

Pellet: Agglomerating fines (from both haematite and magnetite geologies) basically involves wet mixing the ore with clay/reagents; stamping out pellets; baking. While global pellet production capacity is massive (>300Mtpa; China, US, Russia), the global trade is relatively small (120Mt (8%), with its demand-side dominated by Europe and Japan; supply-side majors include Canada, India and CIS. As China maintains >200MTPA of pelletizing capacity, it is only a small player in the global pellet market. Converts locally produced and imported fines to either sinter or pellets.

Drivers of pellet premium

Steel mills' profitability: Pellet is as a high-yield feed (high grade; homogenous form), such that demand for it typically changes in-line with the industry's profitability.

Coke prices: mills can partly offset high/rising coke prices with a boost in pellet consumption. Higher grade, lower impurities of pellet vs. lump/sinter reduces the required coke. Pellet can also help support the burden prior to firing, a key function of coke in the BF.

Environmental policy: Sintering is a highly polluting (& coal-consuming) intermediate process of the global steel industry. It has been under review by China's authorities (coal supply management; pollution) for several years now. Sintering constraints has prompted mills to switch to direct charge ore (pellet or lump).

DRI market: Production of direct reduced iron in MENA/Gulf states relies on seaborne pellet supply. Environmental controls/rising steel demand in China have seen a lift in DRI demand (again, as a fines/sinter substitute).

Availability: Supply side issues like the Samarco disaster (late 2015) and Vale disaster (Early 2018) disrupted the supply of pellets in the market resulting in spike in pellet premiums.

Long-term drivers for high grade pellet: Decarbonisation

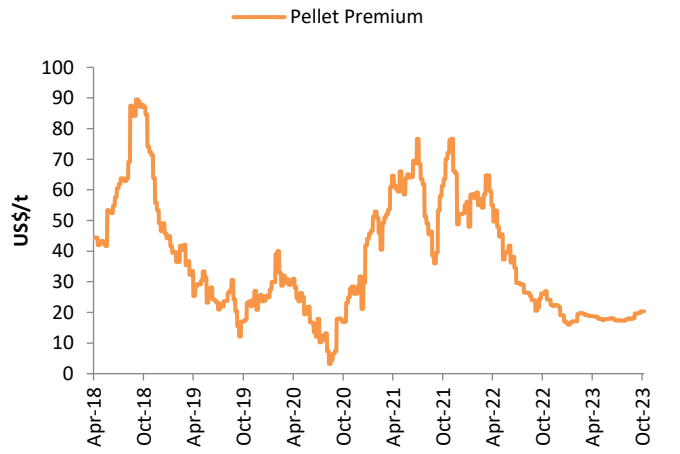
Most of the global production of DRI today is concentrated in regions with access to cheaper gas (like the Middle East) or India, where domestic thermal coal is used as a reductant (resulting in a carbon intensive type of DRI).

Direct reduction iron (DRI) is likely to be one of the fastest-growing routes for low-carbon steel making in the next decade, with plenty of new natural gas-based capacity planned to come online, often with the aim to be converted to hydrogen at some point in the future.

DRI is also sometimes referred to as "sponge iron" and can be converted into hot briquetted iron (HBI) when put under high pressure and temperatures, making it easier to transport. DRI production uses natural gas (and in the future, hydrogen) as a reducing agent for iron ore. DRI and HBI use iron ore pellets as in input, rather than sinter fines, and is then most often fed into EAFs to supplement scrap but can also be used in the BF/BOF.

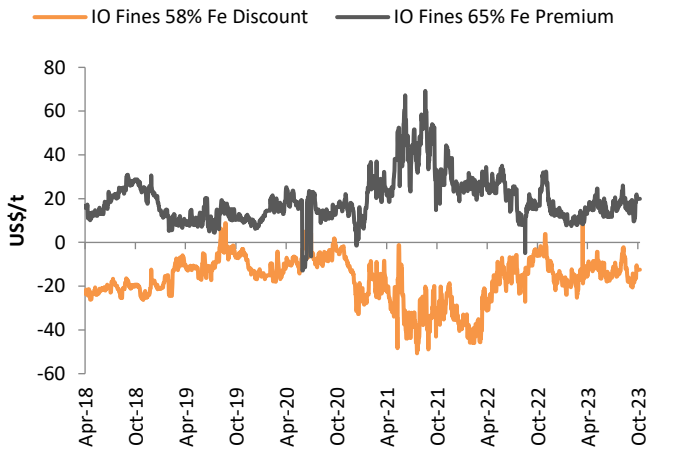
Notably, almost all new pellet demand volumes will come from the DRI segment, which typically requires higher grade and lower impurity pellets than blast furnaces. This highlights the need of investment in new, higher grade pellet feed supply although research is being conducted to utilize higher blends of lower quality pellets in the production of DRI.

Exhibit 55: New DRI capacities should support pellet premiums…



Source: Bloomberg, Company Data, Equirus, Steelmint

Exhibit 56: .. and in turn high grade iron ore prices



Source: Bloomberg, Company Data, Equirus, Steelmint

LLOYDSME to emerge as a low-cost pellet producer in India

LLOYDSME expects to commission its 4mtpa pellet plant in Konsari, Gadchiroli, in FY26E and further expand it to 8mtpa by FY27E. Assuming the company sells its entire pellet volumes externally, this would translate into an EBTIDA of Rs 40bn based on our estimates, as the company's iron ore costs would be lower than peers.

Exhibit 57: Pellet processing cost

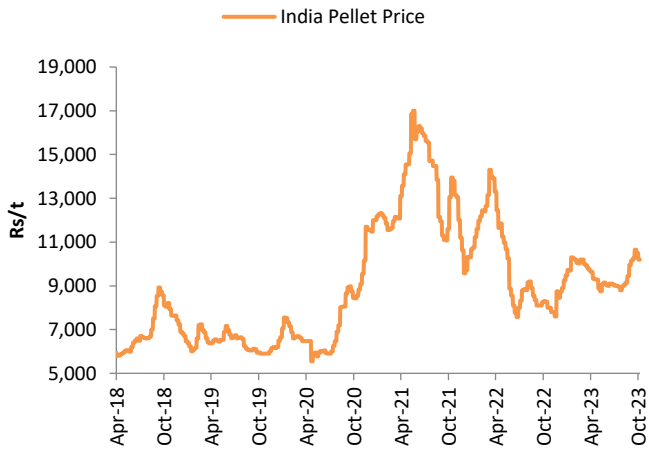
Item	Unit	Value
Consumption Ratio		
Power Consumption	KWh/t pellets	65
Furnace Oil Consumption	kg/t pellets	18
Coal Consumption	kg/t pellets	10
Bentonite Consumption	kg/t pellets	10
Iron Ore	tonne/tonne	1.1
Price		
Power Price	Rs/kWh	6.0
Price of Furnace Oil	Rs/kg	40
Price of Coal	Rs/kg	11
Price of Bentonite	Rs/kg	20
Iron Ore Price	Rs/t	6,000
Costs		
Power Cost	Rs/t pellets	390
Furnace Oil Cost	Rs/t pellets	720
Coal Cost	Rs/t pellets	110
Bentonite Cost	Rs/t pellets	200
Labour & Maintenance	Rs/t pellets	100
Stores & Repairs	Rs/t pellets	100
Iron Ore Cost	Rs/t pellets	6,600
Total Pellet Processing Cost	Rs/t pellets	8,220
Pellet Price	Rs/t pellets	10,000
Profitability	Rs/t pellets	1,780

Source: Company Data, Equirus

Exhibit 58: Seaborne pellet price trends

Source: Company Data, Equirus

Exhibit 59: India pellet price trends



Source: Company Data, Equirus

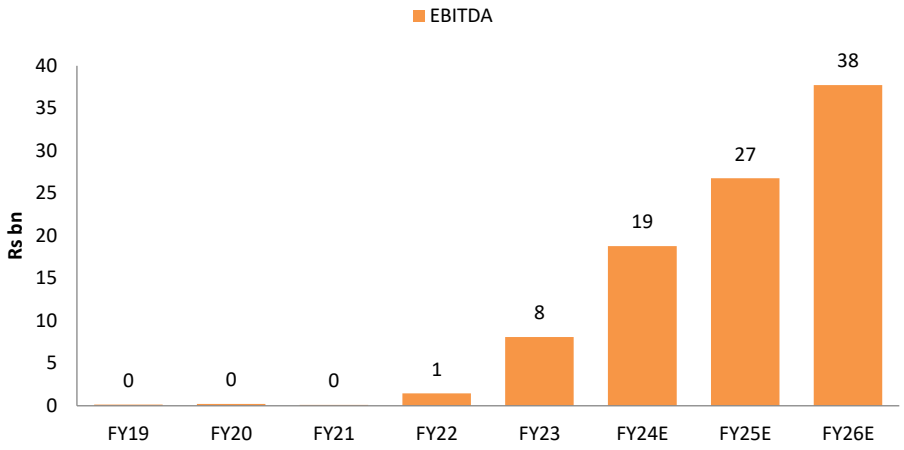
Improving Financials Ignite Hope

Expect a whopping 67% EBITDA CAGR over FY23-FY26E

Anticipated growth in iron ore and sponge iron volumes along with commissioning and ramp-up of new projects between FY24-FY26E should boost LLOYDSME's EBITDA. We forecast an increase from Rs 8.1bn in FY23 to Rs 37.7bn in FY26E, representing an impressive 67% CAGR during this period.

EBITDA to increase from Rs 8.1bn in FY23 to Rs 37.7bn in FY26E

Exhibit 60: EBITDA trends



Source: Company Data, Equirus

Despite capex, LLOYDSME to remain net debt free over FY24-FY26E

LLOYDSME is undertaking significant capex in multiple phases, to be spread over the next 3-7 years. Even after considering the aggressive capex schedule of Rs 7bn/13bn/21bn in FY24E/FY25E/FY26E, we expect the company to remain in a net cash position of Rs 12.3bn at end-FY26E.

LLOYDSME plans a 72,000-ton sponge iron expansion in FY24E

Capex structured in three phases for growth

In FY23, LLOYDSME announced a new sponge iron capacity of 72,000 tonnes in Konsari, Gadchiroli district, with plans to commence operations in 2HFY24E. Additionally, the company has structured its capex into three distinct phases with phase 1 comprising setting up a sponge iron capacity, a pellet plant, and a captive power plant, among other things. Under phase 2, it would double its pellet capacity from 4mtpa to 8mtpa while under phase 3 (still under feasibility study), LLYODSME would look at setting up integrated steel-making facilities.

IPS to improve project RoCEs

LLOYDSME is expected to get back 110% of the Chandrapur project (Ghugus) and 150% of the Gadhchiroli project (Konsari) as a subsidy from the state government (in the form of SGST refunds) on its INR capex spread over 12 years. This expected recovery will enhance operating cash flows and alleviate the company's balance-sheet burden. It would also shorten its payback period commensurately. The company has regularly received Industrial Promotion Subsidy (IPS) till FY23 on its earlier capex from the state government.

IPS to improve project RoCEs

Constructing a 1mtpa steel plant requires a capex of Rs 5bn-6bn. Steel products in India are subject to 18% GST, which includes 9% Central GST (CGST) and 9% State GST (SGST). Assuming steel prices at Rs 50,000/t, GST would amount to Rs 9,000/t (Rs 4,500/t CGST and Rs 4,500/t SGST). In contrast, LLOYDSME would be eligible to receive a per-tonne per-annum benefit (Exhibit 61-62).

Exhibit 61: LLOYDSME eligible to claim Rs 5,400/t on a capex of 1MTPA steel plant

Item	Unit	Value
1mtpa Steel Plant	Rs/t	50,000
Average IPS	%	130
Total IPS to be claimed	Rs/t	65,000
Period	Year	12
Claim Eligibility Per Year	Rs/t	5,417

Source: Company Data, Equirus

Exhibit 62: LLOYDSME would receive Rs 5,500/t of IPS claim once steel plant commissions post FY27E

Item	Unit	Value
Steel Price	Rs/t	50,000
SGST	%	9
SGST	Rs/t	4,500
Royalty	Rs/t	1,000
Total Claim	Rs/t	5,500

Source: Company Data, Equirus

Key assumptions: 25% EBITDA margins on steel (given backward integrated). Faster payback ensures 1.5x more capital efficient benefits for LLOYDSME

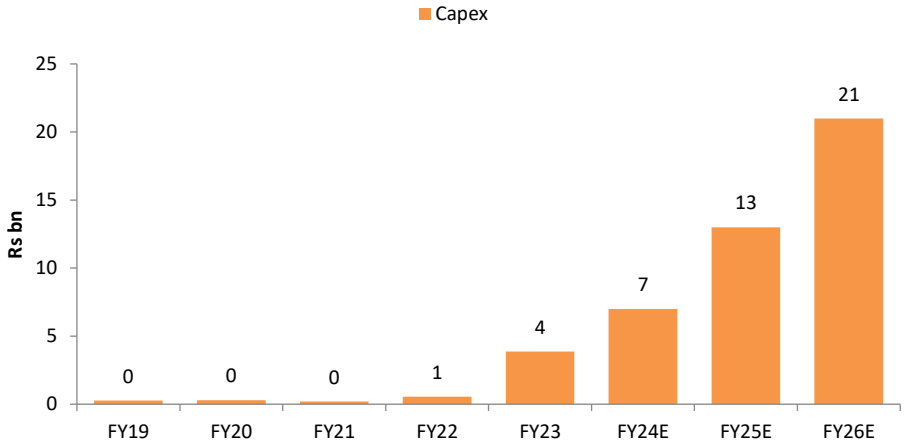
Reinvestment plans would be much faster than competitors

Exhibit 63: Impact of IPS benefits on RoCE

Item	Unit	Before IPS	Post IPS
Steel Plant Capex (1mtpa)	Rs mn	50,000	50,000
EBITDA (Given Capitive iron ore benfits)	Rs/t	15,000	15,000
Depreciation @ 20 years	Rs/t	2,500	2,500
IPS Benefits	Rs/t	-	5,500
EBIT	Rs/t	12,500	18,000
RoCE (EBIT/Capex)	%	25	36
Payback Period	Years	4.0	2.8

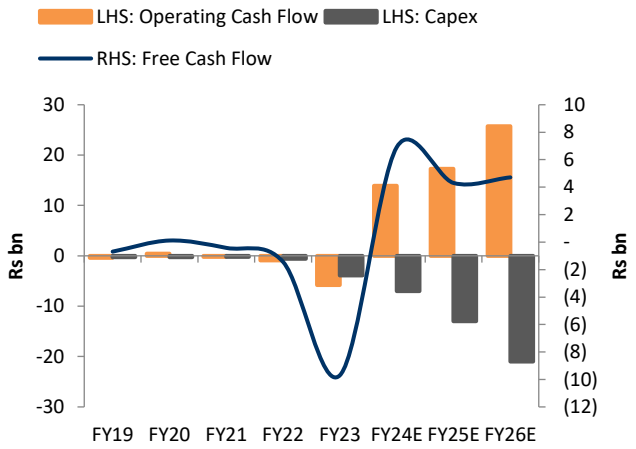
Source: Company Data, Equirus

Exhibit 64: LLOYDSME expects to spend Rs 41bn over FY24-FY26E



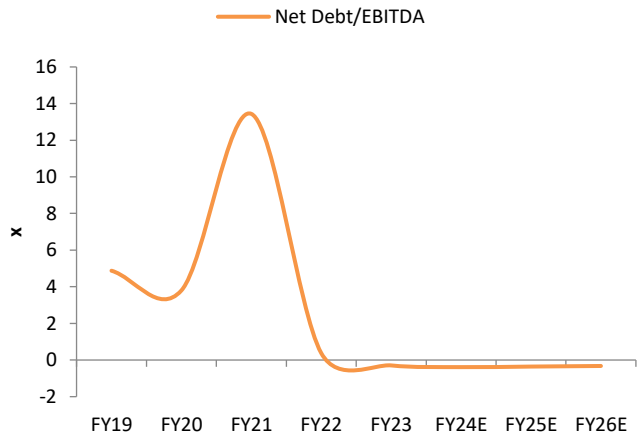
Source: Company Data, Equirus

Exhibit 65: FCF to remain positive in FY24-FY26E



Source: Company Data, Equirus

Exhibit 66: LLOYDSME to remain a net cash company over FY24-26E

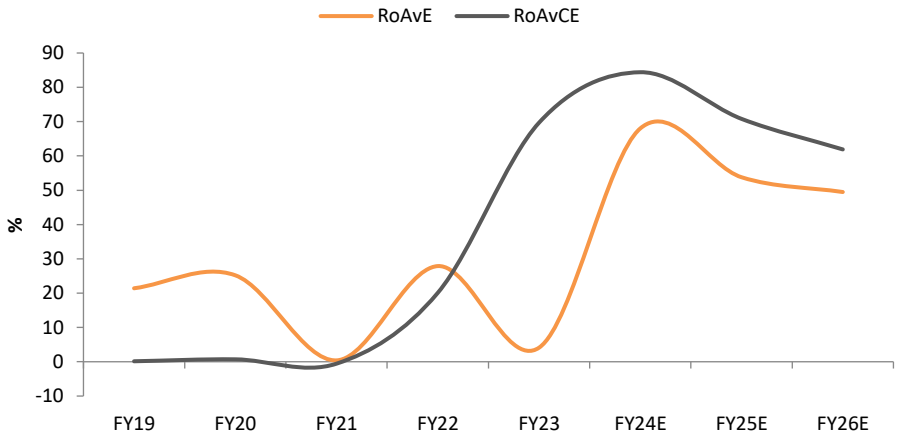


Source: Company Data, Equirus

Return ratios to remain elevated

With iron ore mines ramping up, LLOYDSME's return ratios are likely to improve and remain elevated over FY24-FY26E.

Exhibit 67: Return ratios likely to remain elevated in FY24-FY26E



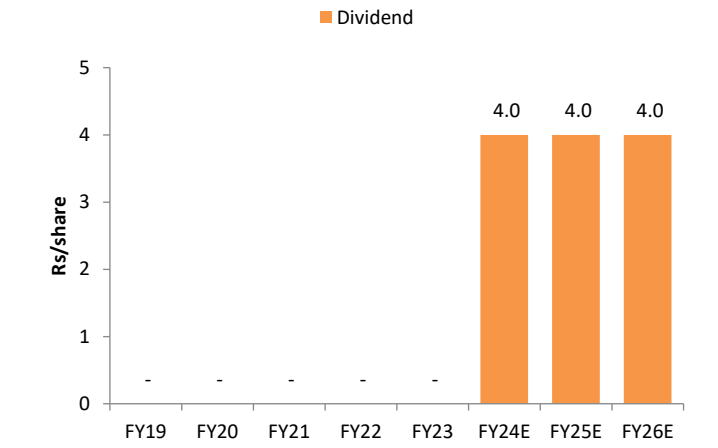
Source: Company Data, Equirus

Dividend payout ratio to improve

Sizeable cash flows despite massive capex to bring about a change in the dividend policy

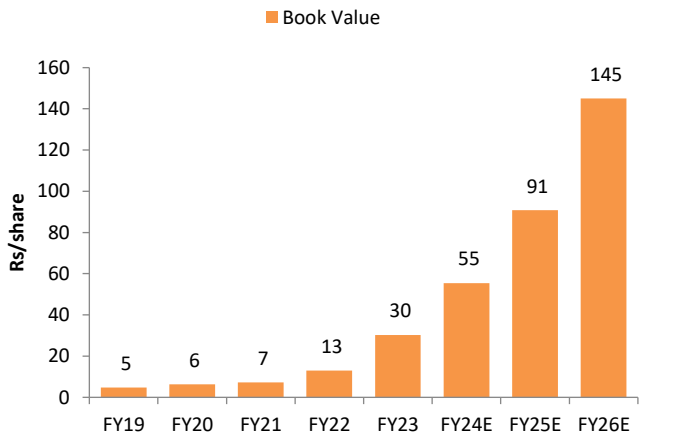
In the past, LLOYDSME refrained from distributing dividends due to challenges faced for its iron ore mines. Nevertheless, looking forward, we anticipate a shift in the company's dividend policy. This change is expected because the company is poised to generate substantial free cash flow, even with elevated capital expenditures, which would enable it to initiate dividend payments.

Exhibit 68: We expect dividend payout of Rs 4/share in FY24-26E



Source: Company Data, Equirus

Exhibit 69: Book value to increase sharply over FY24-26E



Source: Company Data, Equirus

Forecast steady-long term EBITDA of Rs 1,000-1,100/t

In our DCF valuation, we assume a long-term EBITDA of Rs 1,000-1,200/t for external sales of iron ore business

Seaborne ore prices at US$ 120/t suggest limited upside given muted Chinese steel profitability and a lower iron-ore cost curve. However, for our analysis on LLOYDSME's long-term iron ore profitability, we assume long-term seaborne prices at US$ 70. At this price, the domestic ex-mine ore prices would be Rs 2,800-3,000/t and iron ore companies would generate an EBITDA of Rs 1,000-1,200/t. Hence, in our DCF valuation for LLOYDSME, we assume a long-term EBITDA of Rs 1,000-1,200/t for external sales of the iron ore business.

Steel business valued at 6x FY26E EBITDA

LLOYDSME's steel business in FY26E would consists of (1) 0.73mtpa of sponge iron, (2) 0.5mtpa of wire rod, (3) 4mtpa of pellet plant, and (4) 100MW of power plant. Given that the company will consume c.3.8-4mtpa of iron ore captively in FY26E, it would remain a significant low-cost player vs. peer even beyond FY30E once captive mines come up for auction. With structural benefits of captive iron ore till FY52-FY53E, we value the steel business at 6x FY26E EBITDA (in line with domestic peers).

Given structural benefits of captive iron ore till FY52-FY53E, we value the steel business at 6x FY26E EBITDA

DCF valuation translates into a Mar'25 TP of Rs 600

Our iron ore price forecasts for FY24-FY26E are 7-17% below spot prices. This means we see upside risks to EBITDA and earnings for FY24-FY26E versus our base case forecast. When we compare LLOYDSME to its closest peer, NMDC, the stock does look expensive. On an EV/EBITDA basis, LLOYDSME is trading at 14.4x on FY24E EV/EBITDA and 10x on FY25E EV/EBITDA whilst NMDC on a 3.4x and 3.2x respectively. However, we think the market is yet to recognise the upside potential on investments made over the mine life (FY24E-FY52E) as we estimate LLOYDSME to generate Rs 470bn cash flows over the next 29 years from iron ore operations itself.

We see the investment risks as balanced given the sharp stock run up in the past 12-18 months, leading us to initiating coverage on LLOYDSME with ADD and a Mar'25 TP of Rs 600. Our TP is based on a blended target price methodology, valuing the (a) iron ore business using DCF and applying a WACC of 11% and (b) steel business at 6x 1-year forward EV/EBITDA.

Exhibit 70: Target Price Methodology

	Unit	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY40E	FY50E	FY51E	FY52E
Iron Ore Volume	mt	9.49	13.16	11.15	13.35	17.20	20.40	23.60	24.40	14.40	14.40	3.20
Iron Ore EBITDA	Rs/t	1,808	1,902	1,671	1,601	1,601	1,569	1,538	1,256	1,027	1,006	986
Iron Ore EBITDA	Rs mn	17,153	25,028	18,632	21,371	27,539	32,009	36,289	30,656	14,783	14,487	3,155
Capital Expenditure	Rs mn	(7,000)	(13,000)	(21,000)	(1,000)	(1,000)	(1,000)	(1,000)	(500)	(500)	(500)	(500)
Tax Expenses	Rs mn	4,323	6,307	4,695	5,386	6,940	8,066	9,145	7,725	3,725	3,651	795
Free Cash Flow to Firm	Rs mn	6,907	4,306	4,713	14,986	19,599	22,943	26,144	22,431	10,557	10,336	1,860
Present Value of FCF	Rs mn			4,246	12,163	14,331	15,113	15,515	4,688	777	685	111
Years Left				1.00	2.00	3.00	4.00	5.00	15.00	25.00	26.00	27.00
Discount Factor				0.90	0.81	0.73	0.66	0.59	0.21	0.07	0.07	0.06

DCF Summary		
WACC	%	11.00
Present Value of FCF (a)	Rs mn	1,62,769
EBITDA of Ex-Iron Ore Business	Rs mn	21,605
1- year Forward Multiple	x	6.0
End FY25E EV of Ex-Iron Ore Business (b)	Rs mn	1,29,628
Consolidated EV (a)+ (b)	Rs mn	2,92,397
End FY25E Net Debt	Rs mn	(9,558)
End FY25E Equity Value	Rs mn	3,01,956
1-year Forward Price Target	Rs/share	600
Implied 1-year Forward Earnings Multiple	x	8.0

Source: Company Data, Equirus

Premium vs. global mining companies justified given the high growth potential of the domestic market

At our target price, LLOYDSME would trade at a 1-year forward EV/EBITDA of 8x, 37% higher than multiples of global mining companies (Exhibit 71). Given high growth potential of the domestic market (we expect steel demand growth of 6-8% in India vs. 1-2% globally), this premium is justified in our view. Global multiples would ensure negative growth for a de-leveraged company such as LLOYDSME, which we believe is unwarranted in a growth market like India.

Exhibit 71: Global Mining Comparison

Company Name	Bloomberg Ticker	CMP	Mcap	Net Debt	EV/EBITDA (x)		P/E (x)		P/BV (x)		ROE (%)	
		Local Currency	US$ mn		1 Year Frwd	2 Year Frwd	1 Year Frwd	2 Year Frwd	1 Year Frwd	2 Year Frwd	1 Year Frwd	2 Year Frwd
BHP	BHP AU	44	1,41,943	6,307	8.4	8.4	17.1	17.0	4.6	4.2	28.5	25.6
Champion Iron	CIA AU	6	1,967	141	5.5	3.9	11.3	8.4	2.1	1.9	18.8	20.6
Deterra Royalties	DRR AU	5	1,580	-19	10.2	11.8	14.7	16.9	26.0	29.6	183.0	167.9
Fortescue (FMG)	FMG AU	21	40,477	658	7.7	8.9	14.2	17.1	3.3	3.1	25.4	19.3
Kumba Iron Ore	KIO SJ	46	7,595	-831	3.3	3.6	0.8	0.8	0.3	0.3	42.9	35.6
Mineral Resources	MIN AU	59	7,380	1,180	7.3	5.7	15.8	9.6	3.0	2.5	18.6	24.8
Mount Gibson Iron	MGX AU	0	332	-89	1.2	0.2	3.3	2.5	0.7	0.6	25.4	28.0
NMDC	NMDC IN	143	5,038	-802	5.2	5.0	7.7	7.5	1.7	1.5	23.6	21.5
Rio Tinto	RIO AU	113	1,02,257	2,769	7.1	6.8	16.2	15.9	3.4	3.1	21.3	19.8
Vale	VALE3 BZ	67	57,687	8,025	3.9	4.0	6.6	6.2	1.3	1.2	21.9	20.5
Global Average					**6.0**	**5.8**	**10.8**	**10.2**	**4.7**	**4.8**	**40.9**	**38.4**
Global Average (Ex-Conglomerates)					**4.8**	**4.2**	**8.8**	**7.3**	**1.8**	**1.6**	**24.6**	**24.4**

Source: Bloomberg, Company Data, Equirus

Exhibit 72: Equirus Coverage Comparison

Company Name	Reco	CMP	MCap	Target Price	Target Date	EBITDA (Rs bn)				Net Debt (Rs bn)			
		Rs	Rs bn	Rs		FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E
Coal India	Reduce	288	1,774	220	Mar-24	412	358	348	360	-399	-413	-458	-546
GPIL	Long	581	79	1,000	Mar-25	11	14	15	22	-5	-10	-7	-12
Hindalco	Add	470	1,056	490	Sep-24	229	231	248	262	371	391	410	422
JSPL	Long	677	690	860	Sep-24	99	128	148	174	70	124	110	75
JSW Steel	Add	758	1,853	850	Sep-24	185	300	360	415	581	595	527	366
LLOYDSME	Add	550	278	600	Mar-25	8	19	27	38	-2	-7	-10	-12
NMDC	Long	143	420	170	Dec-24	61	84	85	85	-66	-108	-129	-149
SAIL	Long	86	357	105	Sep-24	80	105	116	126	253	220	185	140
Tata Steel	Long	124	1,314	150	Sep-24	323	258	327	398	678	682	616	484

Company Name	EV/EBITDA (x)				P/B (x)				RoE (%)				Div Yield (%)
	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E	FY23A	FY24E	FY25E	FY26E	FY23A
Coal India	3.3	3.8	3.8	3.4	3.1	2.6	2.3	2.1	49.1	32.0	26.1	23.7	8.4
GPIL	6.5	4.9	4.7	3.1	2.0	1.7	1.4	1.1	15.5	17.0	16.6	19.9	0.7
Hindalco	6.2	6.3	5.9	5.6	1.1	1.0	0.9	0.8	10.6	9.3	9.2	8.7	0.6
JSPL	7.6	6.3	5.4	4.4	1.8	1.5	1.3	1.1	9.3	14.0	14.2	15.0	0.3
JSW Steel	13.1	8.2	6.6	5.3	2.8	2.4	2.0	1.6	6.1	15.4	17.8	18.7	0.4
LLOYDSME	34.0	14.4	10.0	7.0	18.2	9.9	6.1	3.8	52.6	43.3	40.2	33.8	0.0
NMDC	5.8	3.7	3.4	3.2	1.9	1.6	1.4	1.3	23.2	25.8	23.1	20.8	4.6
SAIL	7.6	5.5	4.7	3.9	0.7	0.6	0.6	0.5	3.3	5.9	7.2	8.1	1.7
Tata Steel	6.8	8.5	6.5	5.0	1.5	1.4	1.3	1.2	12.2	7.8	10.7	13.9	2.9

Source: Bloomberg, Company Data, Equirus

Key risks & challenges

General risks: Movement in iron ore prices, along with variances in assumptions (production, capex, opex) versus our base case, presents the most significant upside and downside risks to our earnings forecasts and valuation.

Fluctuation in seaborne iron ore prices: LLOYDSME is one of the lowest cost iron ore producer in India and prices its iron ore aggressively to push volumes. However, global seaborne prices are volatile and if they drop below US$ 60/t, export of high-quality ore would become unviable, based on our analysis. This would increase domestic supply, putting both ASP and volumes under pressure.

Potential structural downside risk in long term: China is slowly moving away from Blast Oxygen Furnaces (BOF) to Electric Arc Furnaces (EAF) that are less polluting and have a much higher share of steel scrap in the raw material mix. That would displace the demand away from iron ore and coking coal over the next 5-7 years. China has already been curtailing domestic iron ore production to keep the balance. However, if the shift is quicker than expected, we could witness a steeper fall in ore prices.

Third party infrastructure: Unlike NMDC or Tata Steel, LLOYDSME does not operate its own mines but has appointed TEMPL as the MDO in 2020. Any issues with TEMPL could significantly affect iron ore operations.

About the company

Overview

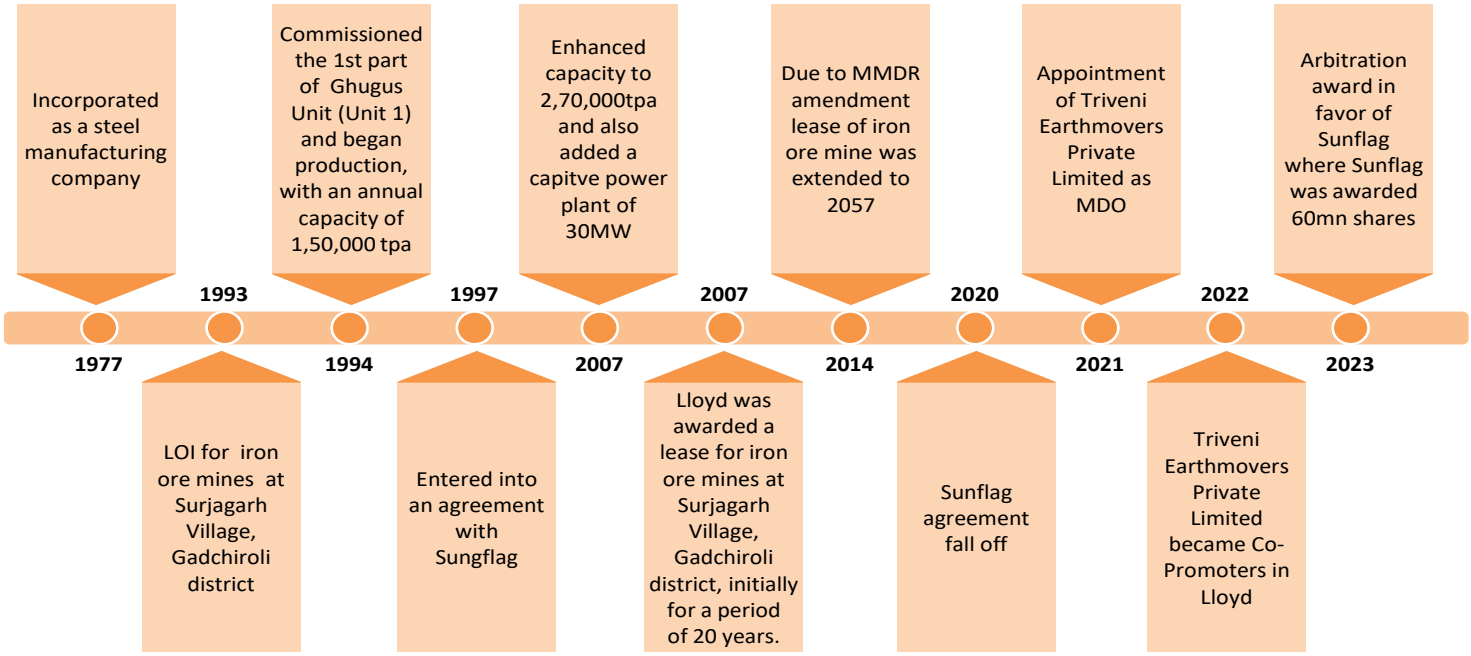
LLOYDSME was incorporated in 1977 and has three separate business segments: (1) Iron Ore Mining, (2) Manufacturing of sponge iron and (3) generation of power.

LLOYDSME is the sole iron ore miner with a capacity of 10mtpa in Maharashtra. The Company is the largest coal based DRI manufacturer of Maharashtra with a production capacity of 2,70,000tpa, along with a captive power plant with 30MW capacity. The Company was awarded a lease for iron ore mines in 2007 at Surjagarh Village, Gadchiroli district (having Maharashtra's richest iron ore reserve), initially for a period of 20 years which has now been extended to a total period of 50 years under MMDR Act, 2018. The overall iron ore reserves in the allocated mines are estimated by the Maharashtra Government's Directorate of Geology and Mining to be 90mt (estimated in 1980s), of which 73.6mt are proven. The extraction capacity of iron ore from the mines as of FY23 is at 10mtpa.

Due to instability in the region from Naxalites, the Company's mines faced various challenges in operations. To face and curb these challenges, in May'21, the Company entered into a strategic partnership with the largest Mine Developer & Operator of the Country ("MDO"), Thriveni Earthmovers Private Limited (TEPL) (now a Co-promoter). TEPL, with all its expertise from Sep'21, recommenced mining operations at the mines in full capacity. The company has issued 9,00,00,000 Equity Shares and 1,00,00,000 3% OFCDs on Preferential allotment basis to TEPL for cash with the object of meeting the short term and long-term funding requirements of the Company including but not limited to working capital requirements and for general corporate purposes in order to support the future growth plan of the Company. With their investment in the Company, TEPL became a Co-Promoter. The mining activities at the mine started from 25th Sep'21 and are being carried out by TEPL directly. The Company could mine 2.9 MT in 6 months of operation against an allowed capacity of 3MTPA

With the mining activities the Company is present across the value chain of steel manufacturing, from iron ore mining to DRI manufacturing, and is further forward integrating into steel manufacturing by setting up a mineral-based Steel plant at Konsari, Gadchiroli district of which a DRI capacity of 72,000tpa would be set-up by 2HFY24E.

Exhibit 73: Timelines for iron ore mine



Source: Company Data, Equirus

Sunflag Issue

LLOYDSME and Sunflag, from 2004, have been entering into various understandings and contracts to have joint and equal control on the company's iron ore mine and sharing of the iron ore extracted in a 60%: 40% ratio. In return, Sunflag had to assist the company with required funding for capital and operational expenditure. However, for reasons not attributable to both parties, the said arrangements could not take place and mining operations could not be commenced. During this period, Sunflag had advanced funds to the company towards the operation and commencement of the mine. In 2016, the LLOYDSME started mining operations with minimal production, but could not share the iron ore extracted with Sunflag for various reasons.

The claims made by Sunflag were:

1. Repayment of the amount paid by Sunflag along with 4% interest + SBI PLR compounded annually, amounting to Rs 3.12bn.
2. A demand of Rs 14.33bn towards Sunflag's right of 40% mineral extracted at cost over the life of entire mining lease period i.e., 40% of 75mn tons or 30mt with a margin of Rs 2,000/t amounting to Rs 60bn; this worked out to Rs 14.33bn when discounted to the present value.
3. 32% of the equity share of the company considering the net worth attributable to the mine being 80% of the company's net worth, and Sunflag having the right of 40% of the mine.

Arbitration: LLOYDSME was liable to pay Rs 9bn to Sunflag (Rs 3.1bn towards refund of advance along with accrued interest, and the balance Rs 5.88bn as full settlement of all other claims). As the amount was large, the Company to settle the said liability, issued 60mn 0% interest Optionally Fully Convertible Debentures which will settle entire liability of the Company on the basis of proposed issue price of Rs150/-. The OFCD would be converted not before 9 months but, not later than 18 months at a conversion ratio of 1:1. Further, the Company is liable to pay an interest at the rate of 9% p.a. on the face value of the OFCD's if the Company fails to convert the OFCD's and in the event the proposed allottee does not exercise the conversion right within the 18 months conversion period, then the OFCD's will be redeemed by the Company within 48 months from the date of allotment and interest will accrue at 9% p.a. on the face value of OFCD's from the expiry of the conversion period of 18 months until redemption of the OFCD's.

Exhibit 74: Key events and milestones (LLOYDSME)

Year	Events & Milestones
1977	Incorporated as a steel manufacturing company
1993	LOI for iron ore mines at Surjagarh Village, Gadchiroli district
1994	Commissioned the 1st part of Ghugus Unit (Unit 1) and began production, with an annual capacity of 1,50,000 tpa
1997	Entered into an agreement with Sungflag
2007	Enhanced capacity to 2,70,000tpa and also added a capitve power plant of 30MW
2007	Lloyd was awarded a lease for iron ore mines at Surjagarh Village, Gadchiroli district, initially for a period of 20 years.
2014	Due to MMDR amendment lease of iron ore mine was extended to 2057
2020	Sunflag agreement fall off
2021	Appointment of Triveni Earthmovers Private Limited as MDO
2022	Triveni Earthmovers Private Limited became Co-Promoters in Lloyd
2023	Arbitration award in favor of Sunflag where Sunflag was awarded 60mn shares

Source: Company Data, Equirus

Exhibit 75: Board and Management Team

Name	Designation	Brief profile
Mr. Mukesh Gupta	Chairman and promoter director	Mr. Mukesh Gupta is a commerce graduate and has a vast and varied experience of over 44 years in the field of Project Implementation, Finance, Marketing and other areas in Steel, Power and Real Estate Industry. Mr. Gupta is the Founder Board Member of Lloyds Group.
Mr Babulal Agrawal	Managing dircetor	Mr Babulal Gupta is a commerce and law graduate and has a rich expereince of over 54 years in Steel Trading industry. He is associated with day to day affairs of the Company and has expertise in legal, administration and management field. Mr. Agrawal is the Founder Board Member of Lloyds Group.
Mr. Rajesh Gupta	Non-executive promoter director	Mr. Rajesh gupta is a commerce graduate and a successful industrialist having vast knowledge and rich experience of over 35 years in Production, Managment, Consultancy and other areas in Steel, Power and Trading Industry. Under his Leadership, the Company along with other Group Companies has implemented several projects in steel sector including power plant. Mr. Gupta is the founder Board Member of Lloyds Group.
Mr. Balasubramanian Prabhakaran	Non-executive promoter director	Mr. Prabhakaran has done his graduation in computer science and is the Managing Director of Thriveni Earthmovers Private Limited (Co-Promoter & MDO of the Company). He started Thriveni Earthmovers Private Limited in 1994. Mr. Prabhakaran is a visionary leader with passion for technology, engineering and flawless execution. Mr. Prabhakaran has a unique way of integrating community with business which is one of the core reasons for the success in complex mining projects
Mr. Madhur gupta	Non-executive promoter director	Mr. Madhur Gupta completed his M.sc from University of Warwick, UK and has an experience of over 8 years in Real Estate and Infrastructure. Mr. Gupta has a sharp acumen and expertise in areas of Project Execution, Planning, Finance and Business Development with a firm passion for technology and operation excellency, he ensures the productivity and efficiency of the Company to reach new heights.
Mrs. Bhagyam Ramani	Independent woman director	Mrs. Bhagyam Ramani is a Post Graduate in Economics (Hons) from Bombay University with specialization in Industrial & Monetary Economics and was Ex – Director & GM of General Insurance Corporation of India (GIC- Re). During her tenure, she was Nominee of GIC – Re on various Boards and Committees of the companies like Larsen & Toubro Ltd., National Stock Exchange of India., IDBI trusteeship Ltd., Milestone Capital Advisors Ltd., Agricultural Insurance Company Ltd. Currently, she is serving as an independent director on boards of various companies like Capri Global Capital Ltd., Choice International Ltd., IDBI Federal Life Insurance Company Ltd., Saurashtra Cement Ltd., Gujarat Sidhee Cement Ltd and Capital Global Securities Private Ltd
Mr. Jaggannath Dange	Independent director	Mr. Dange is a Commerce and Law Graduate, has done his Post-Graduation in Business Administration Development from Nagpur University, Pune University and Bath University from U.K. He commenced his career as an IAS officer in 1973 in Maharashtra Cadre. Mr. Dange has served for more than 38 years in different positions including districts, Government of Maharashtra and Government of India and gained hands-on experience for the Management of Government Organizations, Public Sector undertakings and NGO's and has also handled various Judicial and Quasi-Judicial matters in various positions held by him.
Mr. Devidas Kamble	Independent director	Mr. Kambale has more than 30 years of experience in banking sector and has worked with IDBI at Senior Levels. During his long tenure with IDBI, he has worked in all the Operational Departments like Project Appraisal, Corporate Finance Departments and Rehabilitation Department and also headed Corporate Debt Restructuring Cell (CDR). Mr. Kambale has rich exposure in the areas like Project Monitoring & follow up, Recovery, CDR, Priority Sector Dept, and he also represented as a nominee of IDBI on the Board of the various major companies.
Mr. Ramesh Luharuka	Independent director	Mr. Luharuka started his career in 1979. Currently he is a Practicing Chartered Accountant under the name of M/s R. V. Luharuka & Co LLP. He has an experience of over 40 years in Corporate Finance, Capital market, Investment Banking and other related activities
Dr. Seema Saini	Independent director	Dr. Saini has PhD in Management from Mumbai University, Master's degree in Economics from Mumbai University, Masters in Human Resource Development from Xavier University, Cincinnati (USA) and Project Management Certification from Project Management Institute, Pennsylvania (USA). Mrs. Saini is the CEO of N. L. Dalmia Educational Society which runs three Schools of Excellence. She brings with her an extensive experience of 30 years in the field of Education.
Dr. Satish Wate	Independent director	Dr Wate has a masters and Doctorate in Biochemistry from Nagpur University. He joined as a scientist at CSIR-NEERI, Nagpur and rose to the position of Director in August 2010. Dr. Wate has several years of experience in Environmental Impact and Risk Assessment, Water Resource Management, Environmental Systems Design, Modeling and Optimization, Carrying Capacity Based Developmental Planning, Environmental Biotechnology, Wastewater Treatment and Environmental Materials for Field Applications. He has successfully handled large number of projects with national and international agencies / organizations like the World Bank, UNDP, UNEP, WHO, UNICEF, and Asian Countries viz. UAE, Kuwait, Qatar and Philippines.
Mr Subbarao Munnang	Independent director	Mr. Subbarao was the Chairman-cum-Managing Director of KIOCL Limited, (Schedule A listed PSU Company under Ministry of Steel, Government of India) Bangalore. He has also been associated with NMDC Limited, JSPL Limited, as an advisor for global procurement of bulk minerals, mining, palletisation, arbitration, recruitment etc.

Source: Company Data, Equirus

Exhibit 76: Board and Management Team

Name	Designation	Brief profile
Mr. Riyaz Sheikh	CFO	He has completed his MBA in Finance from Institute for Technology and Management , Mumbai. An achievement-oriented finance professional with more than 25 years of professional experience. In his career at Lloyds he had an impressive track record for meeting the financial goals of the company depending upon the need of the hour.
Mr. S. Venkateswaran	Director, Operations, MDO and Manuf	He is a graduate in arts and started his career at Thriveni in the year 1992 and looked after the operations of the various mining projects in the post of "Director – Operations". He is an integral part of the company's decision making team. He was associated with India Cements, Neyveli Lignite Corporation, L&T ECC and the MDO operations across various Iron Ore Mines in Odisha. He will be transitioning to Lloyds as head of Mining.
Mr. Dinesh K. Patidar	Project head - Chandrapur	Working since 1985 in various steel plants, like cold rolling mill, galvanizing line, hot rolling mill, steel melting shop , power plant, DRI plant in projects, maintenance and operation. He has also completed PGDBM from XLRI Jamshedpur. Associated with Lloyds Group since 1995. He is heading Projects in Ghugus plant, Chandrapur district and key member of core group.
Mr. Sanjay Kumar	Unit head	He is a Mechanical Engineer from BHU-IIT 1984 & PGDBM, XLRI, Jamshedpur. He has earlier worked at Tata Steel from 1994 to 2012 and was COO of Uttam Group-Wardha complex. He has also Worked as a Steel Expert with BCG from 2017 to 2022. He is heading operations at Chandrapur plant and will be key member of the core group.
Mr. Pramod K Gupta	Senior VP - Slurry pipeline division	He has 35 years of experience in leading large scale projects with proven expertise in Project Management, Process Implementation, Dismantling & Shipping of Galvanizing Line, DR Technologies, Pellet Manufacturing, Beneficiation and managed projects in Steel/Oil&Gas/Power sectors as well. Prior to Lloyds, he worked at Essar Steel as Chief Projects, Corporate Affairs & Central Maintenance. Successfully executed a Beneficiation Plant for Iron Ore and two Iron Ore Pellet Plants and an integrated steel plant He will be heading manufacturing in Konsari plant and key member of core group.

Company Snapshot

How we differ from consensus

Particular (Rs Mn)		Equirus	Consensus	% Diff	Comment
Sales	FY24E	44,093	52,112	(15.4)	
	FY25E	60,824	66,638	(8.7)	
EBITDA	FY24E	18,778	22,147	(15.2)	
	FY25E	26,759	31,195	(14.2)	
PAT	FY24E	14,720	17,635	(16.5)	
	FY25E	19,847	25,696	(22.8)	

Our Key Investment arguments:

- LLOYDSME is expected to maintain its position as the most cost-effective iron ore producer until 2057E because the company doesn't incur additional premiums, unlike mines that were auctioned after 2020.
- By investing in steel assets, LLOYDSME is poised to become India's most cost-efficient steel producer, a status it is likely to maintain well beyond 2030E.
- The benefits derived from the Investment Promotion Scheme (IPS) on steel capital expenditures will contribute to a quicker payback period.

Risks to Our View

- Fluctuation in Seaborne iron ore prices.
- Potential Structural Downside risk in long term
- Third party infrastructure
- Regulatory risk

Key Triggers

- Sharp improvement in Chinese steel demand.
- Global steel companies continued focus on decarbonisation.

Company Description:

Lloyds Metals and Energy Limited (LLOYDSME) is the leading player in the Iron and Steel making industry, with its operations spread around Nagpur, Maharashtra. LLOYDSME is the sole iron ore miner in the State of Maharashtra, operating at 10mtpa, with 2,70,000 tonne DRI and 30MW CPP; the Company is all set to be one of the most efficient steel makers going ahead. Leveraging on the latest technology and five decades of experience, LLOYDSME constantly seek new ways to revolutionise mining, iron and steel making.

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	**3,613**	**2,391**	**6,815**	**33,430**	**44,093**	**60,824**	**94,920**
COGS	2,879	2,030	3,129	5,401	4,340	5,005	11,019
Employee Cost	221	147	184	543	570	598	628
Other Expenses	407	249	2,207	19,876	20,406	28,461	45,536
EBITDA	**211**	**109**	**1,455**	**8,103**	**18,778**	**26,759**	**37,737**
Depreciation	176	138	180	230	302	449	724
EBIT	**36**	**(30)**	**1,275**	**7,873**	**18,476**	**26,310**	**37,013**
Interest Exp.	161	168	181	650	95	281	213
Other Income	256	199	298	745	491	494	2,559
Profit before Tax	**131**	**1**	**1,392**	**7,967**	**18,872**	**26,523**	**39,360**
Tax Expenses	(187)	0	(95)	(1,091)	4,152	6,676	9,907
Profit After Tax	**318**	**1**	**1,487**	**9,059**	**14,720**	**19,847**	**29,453**
Minority Interest	0	0	0	0	0	0	0
Profit/(Loss) from Associates	0	0	1	0	0	0	0
Recurring PAT	**318**	**1**	**1,487**	**9,059**	**14,720**	**19,847**	**29,453**
Exceptional Items	0	0	(514)	(11,944)	0	0	0
Reported PAT	**318**	**1**	**974**	**(2,886)**	**14,720**	**19,847**	**29,453**
Other comprehensive income.	0	5	7	21	0	0	0
PAT after comp. income.	**318**	**7**	**981**	**(2,865)**	**14,720**	**19,847**	**29,453**
FDEPS	1.4	0.0	2.6	(5.7)	29.2	39.3	58.3
DPS	0	0	0	0	4	4	4
BVPS	6	7	13	30	55	91	145

YoY Growth (%)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	(21.4)	(33.8)	185.0	390.5	31.9	37.9	56.1
EBITDA	34.1	(48.5)	1,238.6	456.8	131.7	42.5	41.0
EBIT	426.7	0.0	0.0	517.3	134.7	42.4	40.7
PAT	54.2	(99.6)	76,695.7	0.0	0.0	34.8	48.4

Key Ratios

Profitability (%)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Gross Margin	23.2	21.1	56.4	85.3	90.2	91.8	88.4
EBITDA Margin	5.7	4.3	20.9	23.9	42.6	44.0	39.8
PAT Margin	8.6	0.3	14.1	(8.4)	33.4	32.6	31.0
ROE	22.0	0.4	19.2	2.7	52.6	43.3	40.2
ROIC	0.7	(0.6)	20.1	69.7	84.4	70.8	61.9
Core ROIC	0.7	(0.6)	20.6	79.8	113.3	101.9	79.1
Dividend Payout	0.0	0.0	0.0	0.0	13.7	10.2	6.9

CAGR (%)	1 year	2 years	3 years	5 years	7 years	10 years
Revenue	390.5	273.9	109.9	53.7	37.8	16.3
EBITDA	456.8	763.3	237.2	118.0	80.1	44.3
PAT	(396.3)	0.0	(308.5)	(276.1)	(335.4)	0.0

Valuation (x)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	392.4	21,459.9	207.8	(97.0)	18.9	14.0	9.4
P/B	86.5	76.6	42.3	18.2	9.9	6.1	3.8
P/FCFF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EV/EBITDA	1,319.8	2,569.9	191.4	34.4	14.9	10.6	7.4
EV/Sales	77.2	116.8	40.9	8.3	6.3	4.7	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.7	0.7	0.7

Balance Sheet

Y/E Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Equity Capital	227	253	370	505	505	505	505
Reserves	1,217	1,568	4,446	14,785	27,485	45,313	72,747
Net Worth	**1,444**	**1,821**	**4,817**	**15,290**	**27,990**	**45,818**	**73,252**
Total Debt	989	1,541	765	630	1,614	5,000	0
Other long term liabilities	3,233	3,384	2,365	3,475	4,399	5,915	8,997
Minority Interest	0	0	0	0	0	0	0
Account Payables	611	353	152	745	969	1,336	2,085
Other Current Liabilities	144	103	139	121	127	134	140
Total Liabilities	**6,421**	**7,203**	**8,238**	**20,260**	**35,099**	**58,202**	**84,474**
Gross Fixed Assets	7,046	7,058	7,615	9,150	12,881	19,881	32,881
Acc. Depreciation	(3,307)	(3,441)	(3,618)	(3,826)	(4,128)	(4,578)	(5,302)
Net Fixed Assets	3,739	3,617	3,997	5,324	8,752	15,303	27,579
Capital WIP	424	847	859	3,731	7,000	13,000	21,000
long term investments	1	1	2	0	0	0	0
Others	6	7	9	363	363	363	363
Inventory	841	1,157	1,668	2,698	3,624	4,999	9,102
Receivables	79	69	237	245	319	1,500	2,601
Loans and advances	0	0	0	0	0	0	0
Other current assets	957	1,236	965	3,512	4,780	7,105	10,202
Cash & Cash Equivalents.	186	80	219	3,014	8,886	14,559	12,253
Total Assets	**6,421**	**7,203**	**8,238**	**20,260**	**35,099**	**58,202**	**84,474**
Non-Cash WC	1,122	2,006	2,580	5,588	7,627	12,134	19,679
Cash Conv. Cycle	30.3	125.8	91.8	23.6	24.6	31.0	37.0
WC Turnover	3.2	1.2	2.6	6.0	5.8	5.0	4.8
Gross Asset Turnover	0.5	0.3	0.9	3.7	3.4	3.1	2.9
Net Asset Turnover	0.9	0.5	1.4	3.7	2.8	2.1	2.0
Net D/E	0.6	0.8	0.1	(0.2)	(0.3)	(0.2)	(0.2)

Days (x)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Receivable Days	8	10	12	3	3	9	10
Inventory Days	83	167	87	29	30	30	35
Payable Days	60	51	8	8	8	8	8
Non-cash WC days	113	306	138	61	63	73	76

Cash Flow

Y/E Mar (Rs mn)	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	131	1	878	(3,977)	18,872	26,523	39,360
Depreciation	176	138	180	230	302	449	724
Others	28	11	0	1,093	7	8	8
Tax paid	1	(1)	(3)	(33)	(4,152)	(6,676)	(9,907)
Change in WC	75	(370)	(1,939)	(2,538)	(1,122)	(2,998)	(4,471)
Operating Cashflow	**516**	**(149)**	**(782)**	**(5,164)**	**14,003**	**17,587**	**25,926**
Capex	(299)	(194)	(563)	(3,869)	(7,000)	(13,000)	(21,000)
Change in Invest.	15	(9)	(5)	0	0	0	0
Others	(59)	(420)	(6)	(2,254)	0	0	0
Investing Cashflow	**(342)**	**(622)**	**(574)**	**(6,123)**	**(7,000)**	**(13,000)**	**(21,000)**
Change in Debt	34	353	(429)	(750)	984	3,386	(5,000)
Change in Equity	10	225	2,016	13,059	0	0	0
Others	(102)	79	(99)	(661)	(95)	(281)	(213)
Financing Cashflow	**(57)**	**657**	**1,489**	**11,425**	**(1,130)**	**1,086**	**(7,232)**
Net Change in Cash	**116**	**(114)**	**133**	**138**	**5,872**	**5,673**	**(2,306)**

Source: Company, Equirus Research

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Rating & Coverage Definitions:	Registered Office:
Absolute Rating • LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies • ADD: ATR >= 5% but less than Ke over investment horizon • REDUCE: ATR >= negative 10% but <5% over investment horizon • SHORT: ATR < negative 10% over investment horizon **Relative Rating** • OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon • BENCHMARK: likely to perform in line with the benchmark • UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon **Investment Horizon** Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter	Equirus Securities Private Limited Unit No. A2102B, 21st Floor, A Wing, Marathon Futurex, N M Joshi Marg, Lower Parel, Mumbai-400013. Tel. No: +91 – (0)22 – 4332 0600 Fax No: +91- (0)22 – 4332 0601 **Corporate Office:** 3rd floor, House No. 9, Magnet Corporate Park, Near Zydus Hospital, B/H Intas Sola Bridge, S.G. Highway Ahmedabad-380054 Gujarat Tel. No: +91 (0)79 - 6190 9550 Fax No: +91 (0)79 – 6190 9560

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