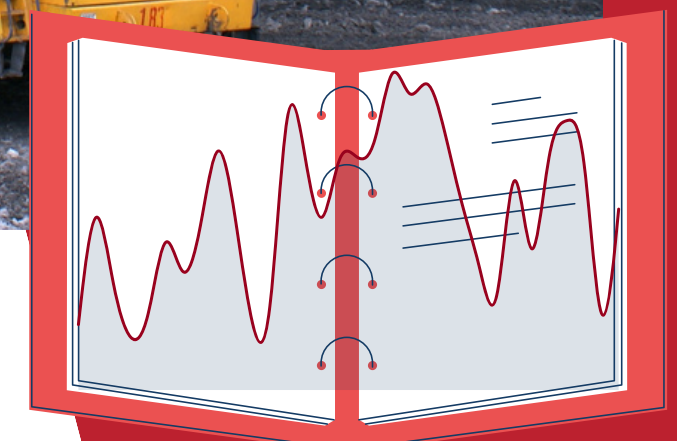




# Mastering the Cycles



**Rakesh Arora**

**Valuepickr Meet Apr 2023**



*Why bother about investing in commodity stocks, they are so volatile!*

*Commodity Prices are difficult to forecast*

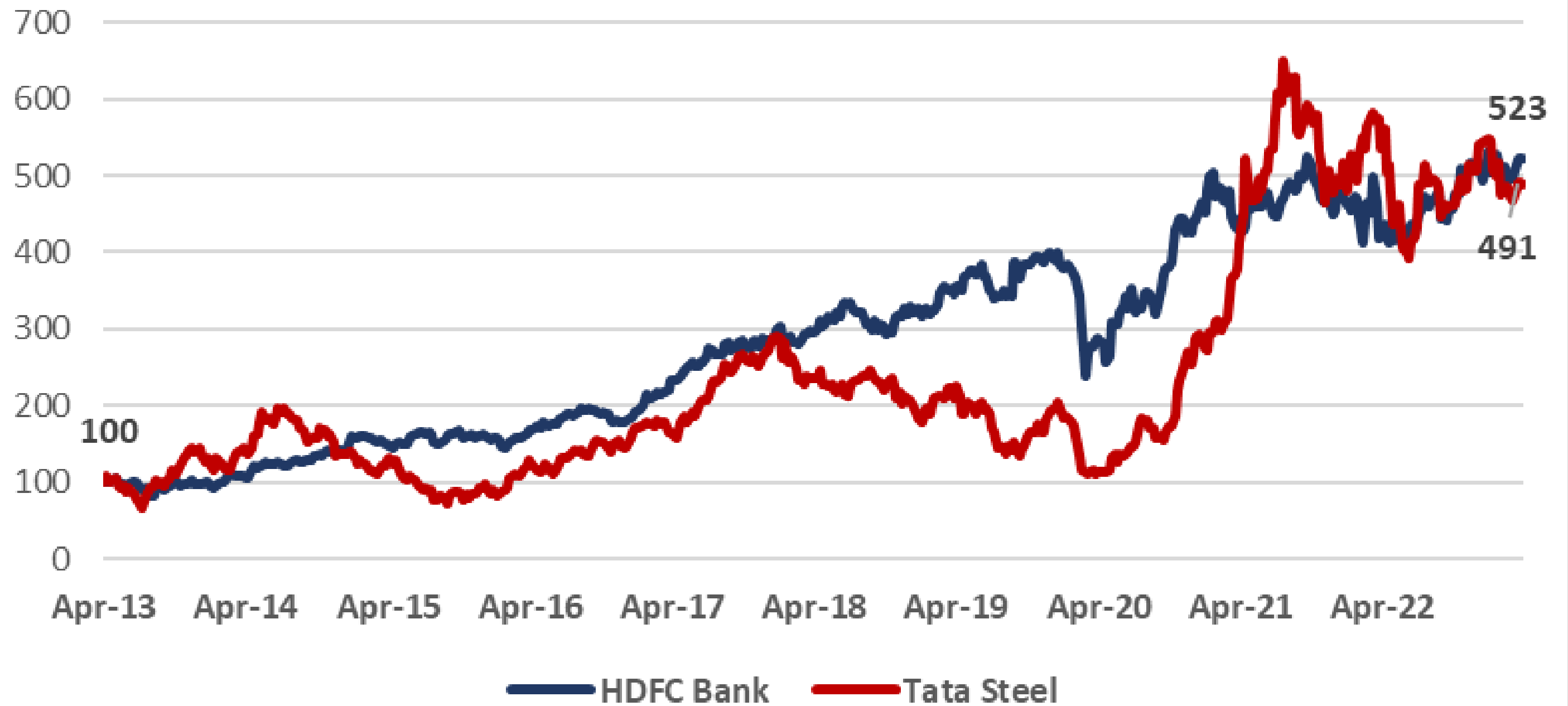
*I invest in secular growth stories, commodity stocks are for traders*

*Commodity stocks are capex heavy and have huge debt*

**Sounds logical?**

# Surprise

## HDFC Bank vs Tata Steel 10 Yr Indexed Stock Price



# Stock Returns tell a different story



Stock Name	3 Yr return	5 Yr Return	10 Yr Return	15 Yr Return	20 Yr Return
Adani Enterprise	139%	80%	54%	27%	48%
Bajaj Finance Lt	46%	27%	48%	43%	45%
Britannia Inds	16%	13%	33%	28%	27%
Bajaj Finserv Lt	45%	20%	33%	25%	NA
Eicher Motors	34%	1%	28%	38%	36%
<b>JSW Steel Ltd</b>	<b>71%</b>	<b>19%</b>	<b>28%</b>	<b>17%</b>	<b>25%</b>
Titan Co Ltd	43%	23%	27%	29%	42%
Upl Ltd	30%	9%	24%	15%	42%
Hcl Tech Ltd	36%	17%	23%	23%	26%
Divi Labs Ltd	10%	23%	21%	17%	32%
Asian Paints Ltd	17%	21%	21%	25%	29%
Reliance Inds	20%	20%	21%	10%	25%
Hindustan Unilev	5%	12%	20%	19%	18%
Tata Consumer Pr	32%	21%	19%	17%	22%
Tata Consultancy	23%	15%	19%	22%	NA
Infosys Ltd	26%	19%	19%	15%	21%
Apollo Hospitals	48%	33%	19%	22%	26%
Maruti Suzuki In	20%	0%	19%	19%	NA
Tech Mahindra Lt	30%	11%	19%	13%	NA
Kotak Mahindra	15%	10%	18%	16%	32%
Hdfc Bank Ltd	22%	12%	18%	18%	24%
Nestle India Ltd	7%	20%	17%	NA	24%
Adani Ports And	36%	12%	17%	11%	NA
<b>Tata Steel Ltd</b>	<b>64%</b>	<b>16%</b>	<b>17%</b>	<b>5%</b>	<b>18%</b>
ICICI Bank	40%	27%	17%	13%	22%



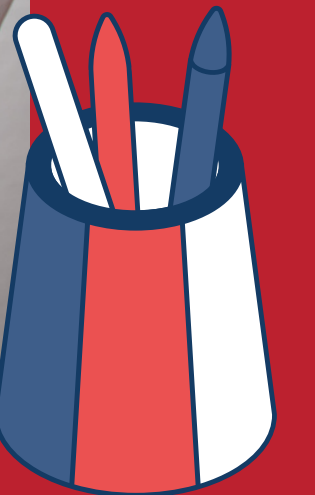


# If one can time the cycles, the returns could be even better





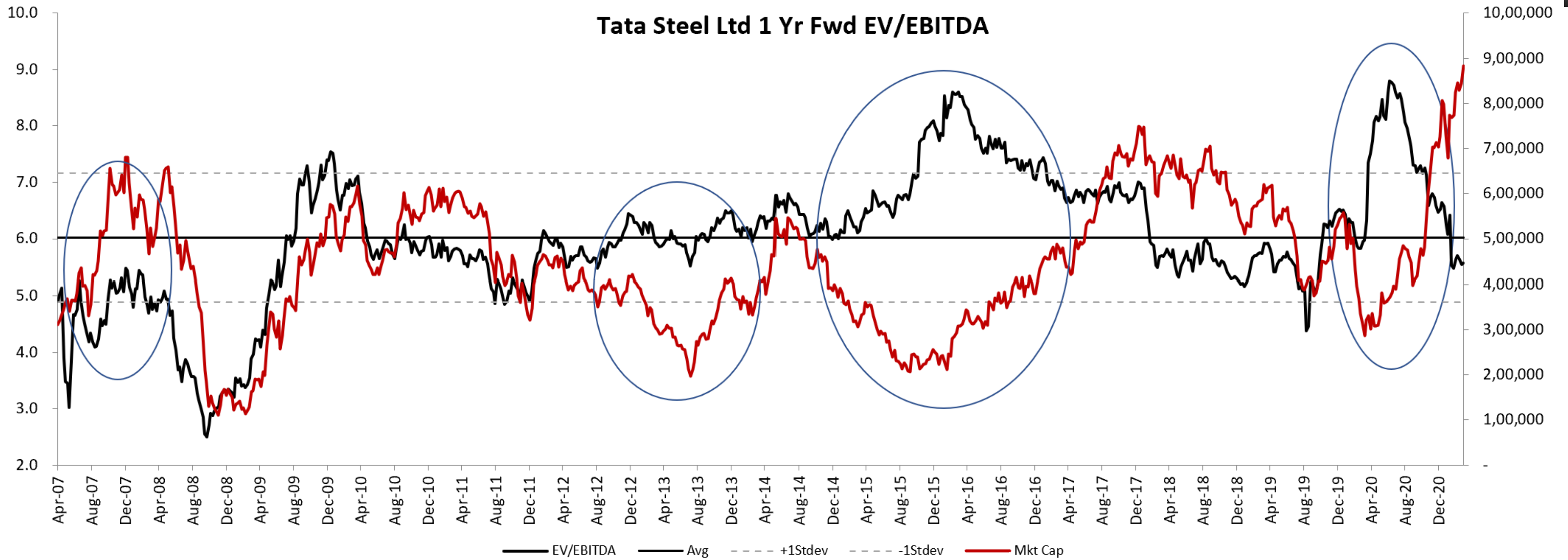
**How do I  
identify the  
cycles?**







# Conventional Approach Doesn't work

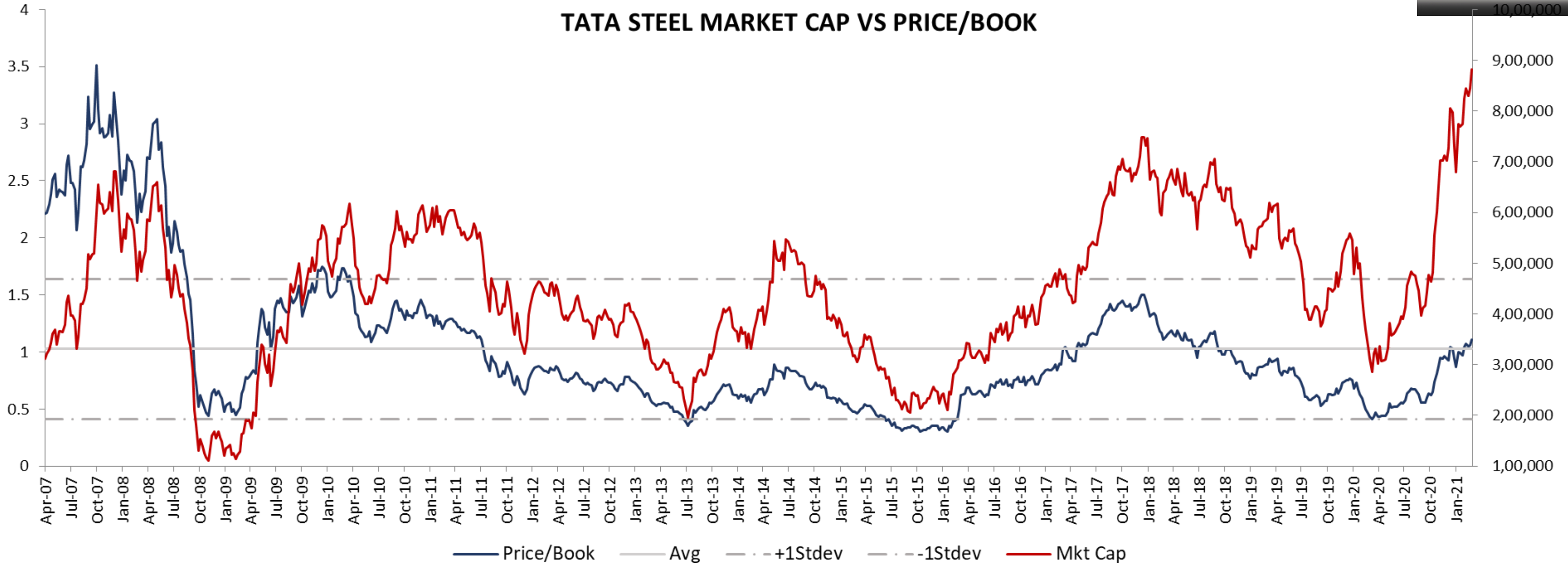




# The Simple Way



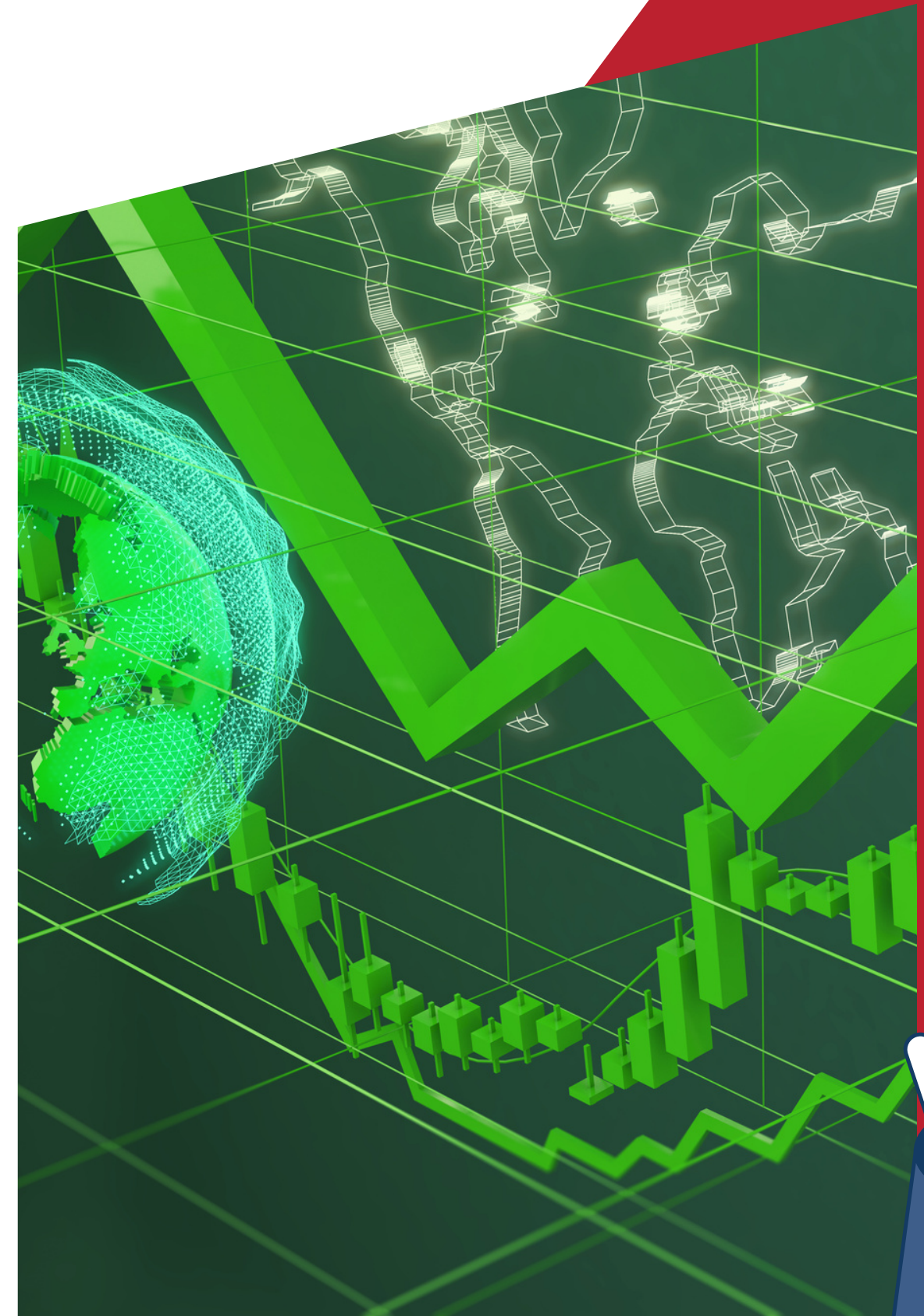
### TATA STEEL MARKET CAP VS PRICE/BOOK

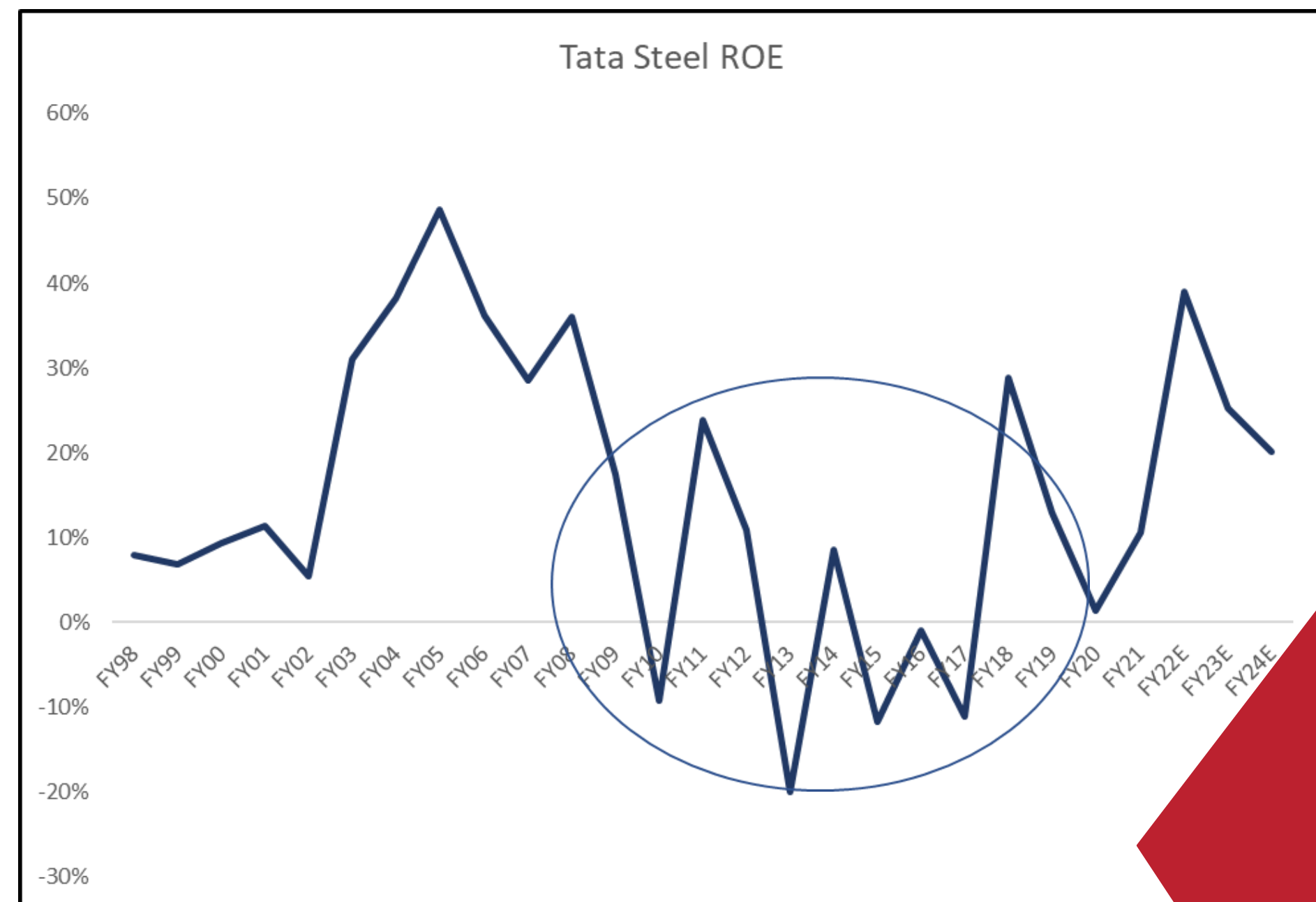
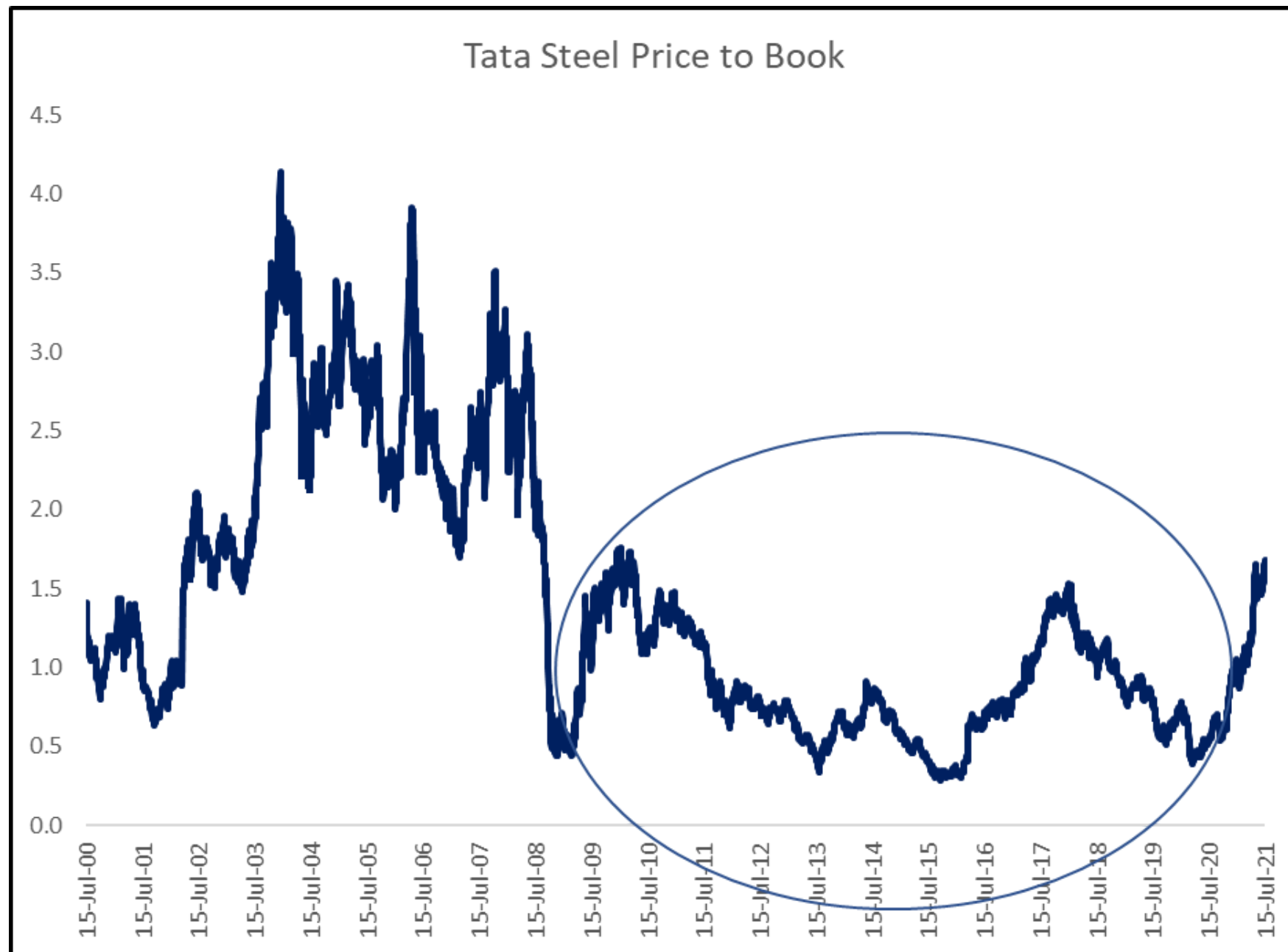




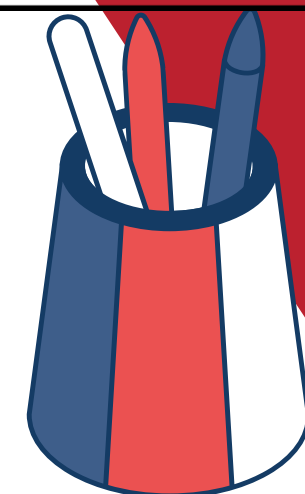


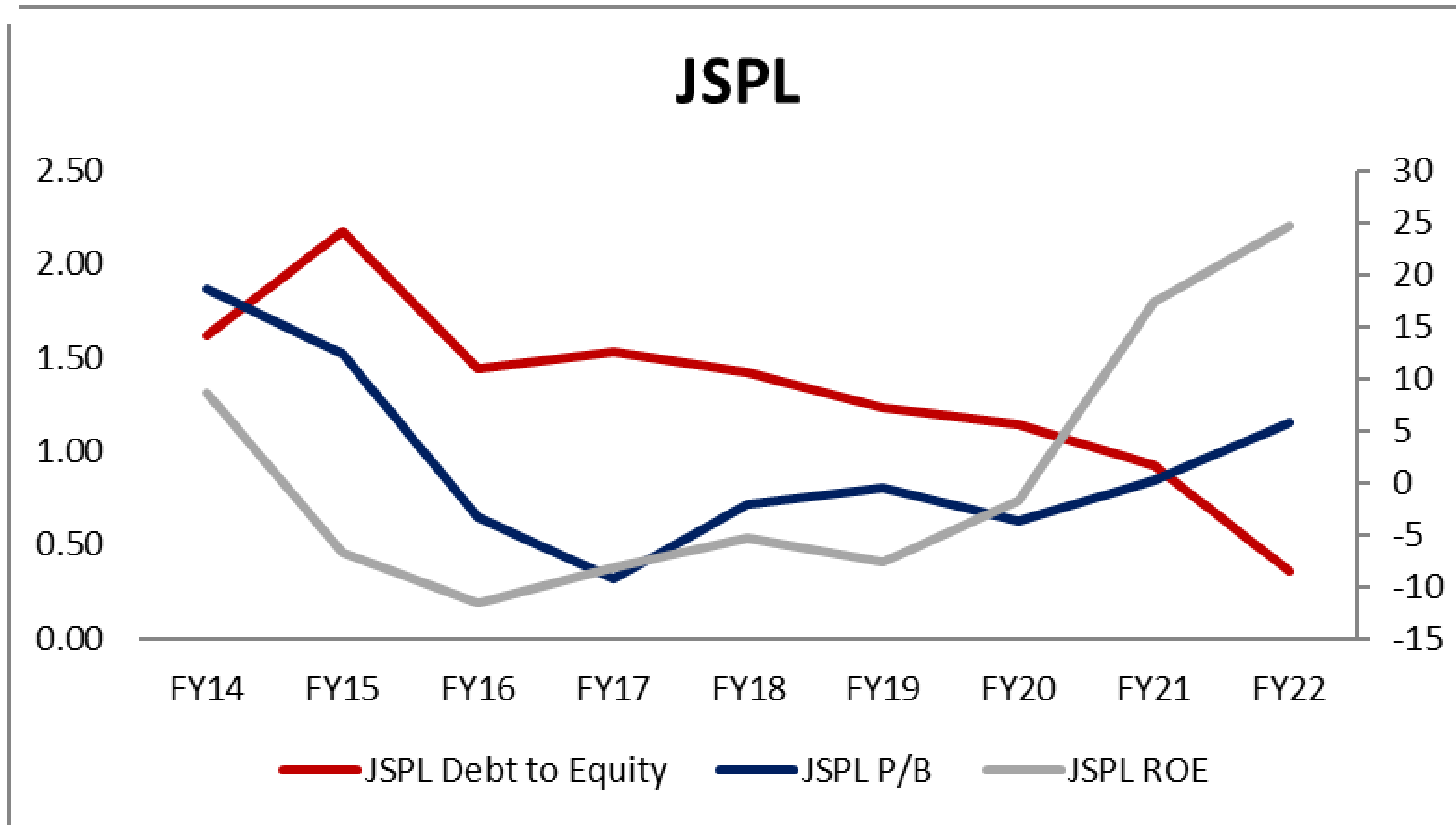
**The only  
challenge P/B  
range changes  
with  
Debt:Equity  
and ROE**



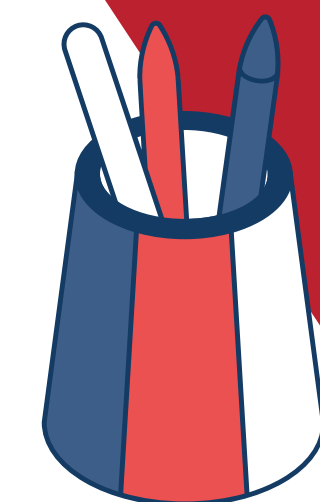


# Tata Steel - Lost decade and Impact on P/B

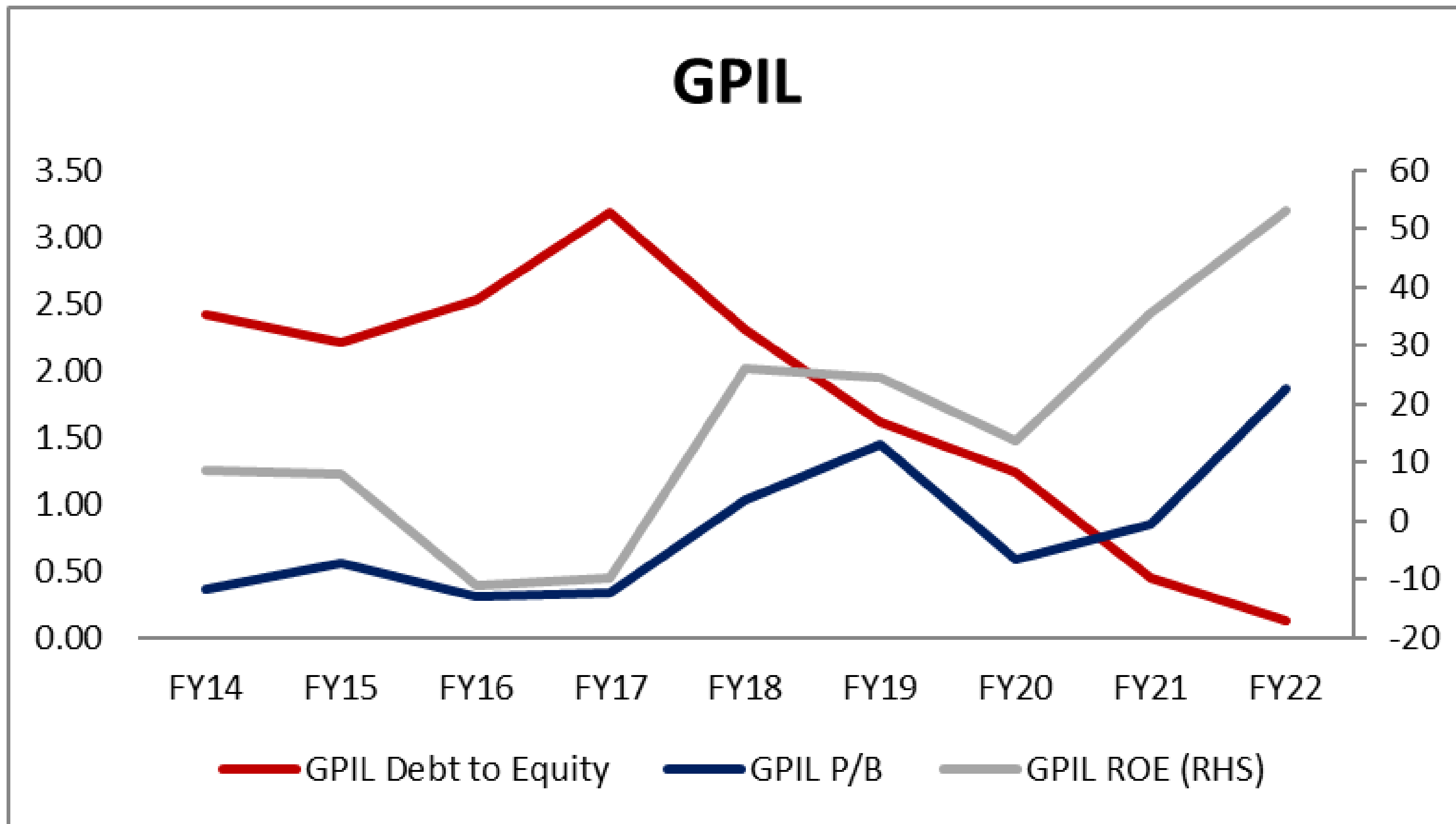




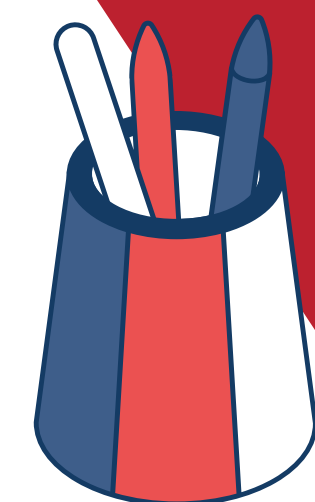
**JSPL also lost 5 years due to high debt**







# GPIL getting rerated post deleveraging

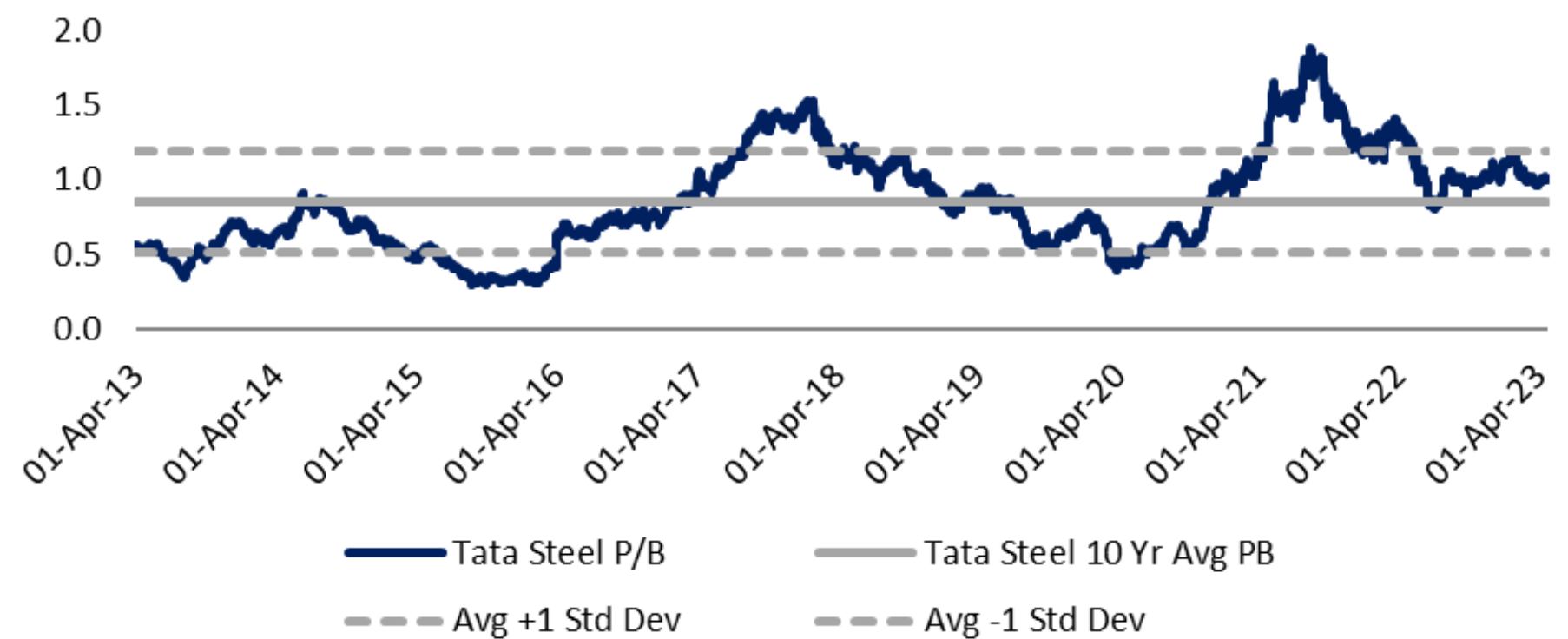




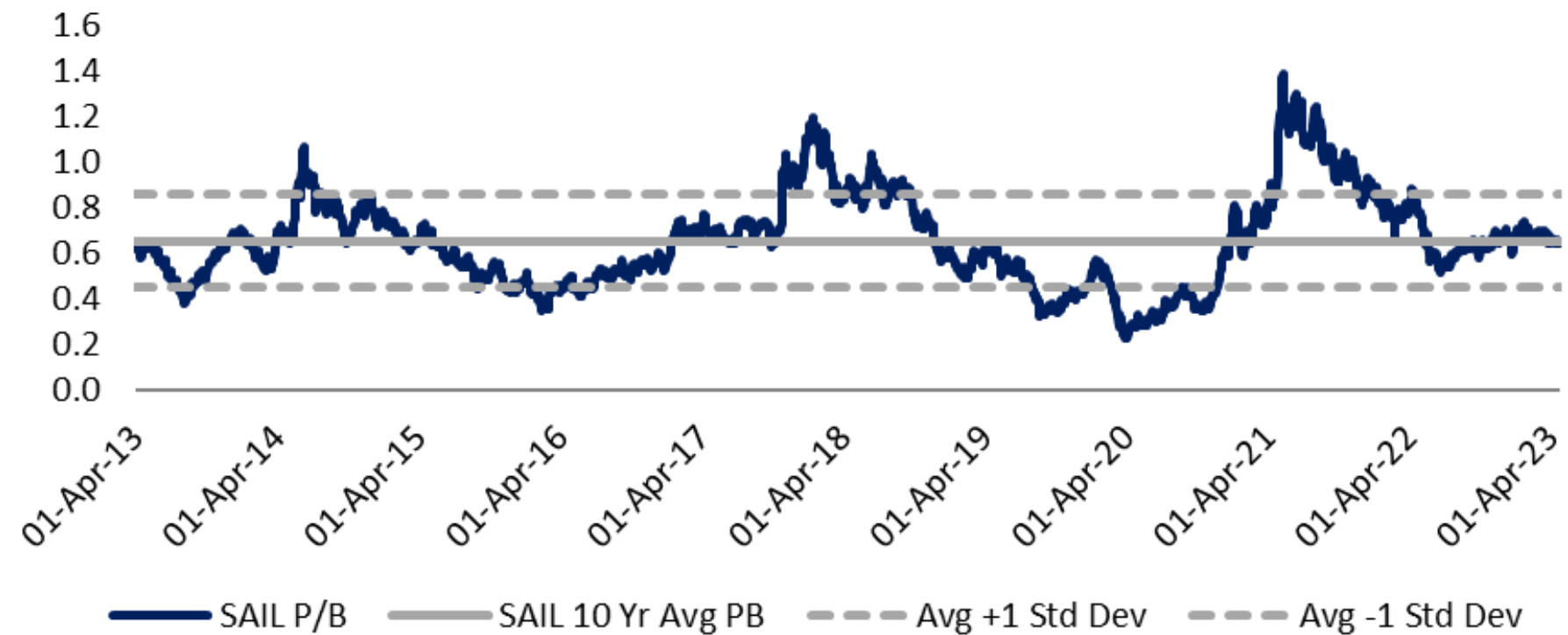
### JSPL P/B Chart



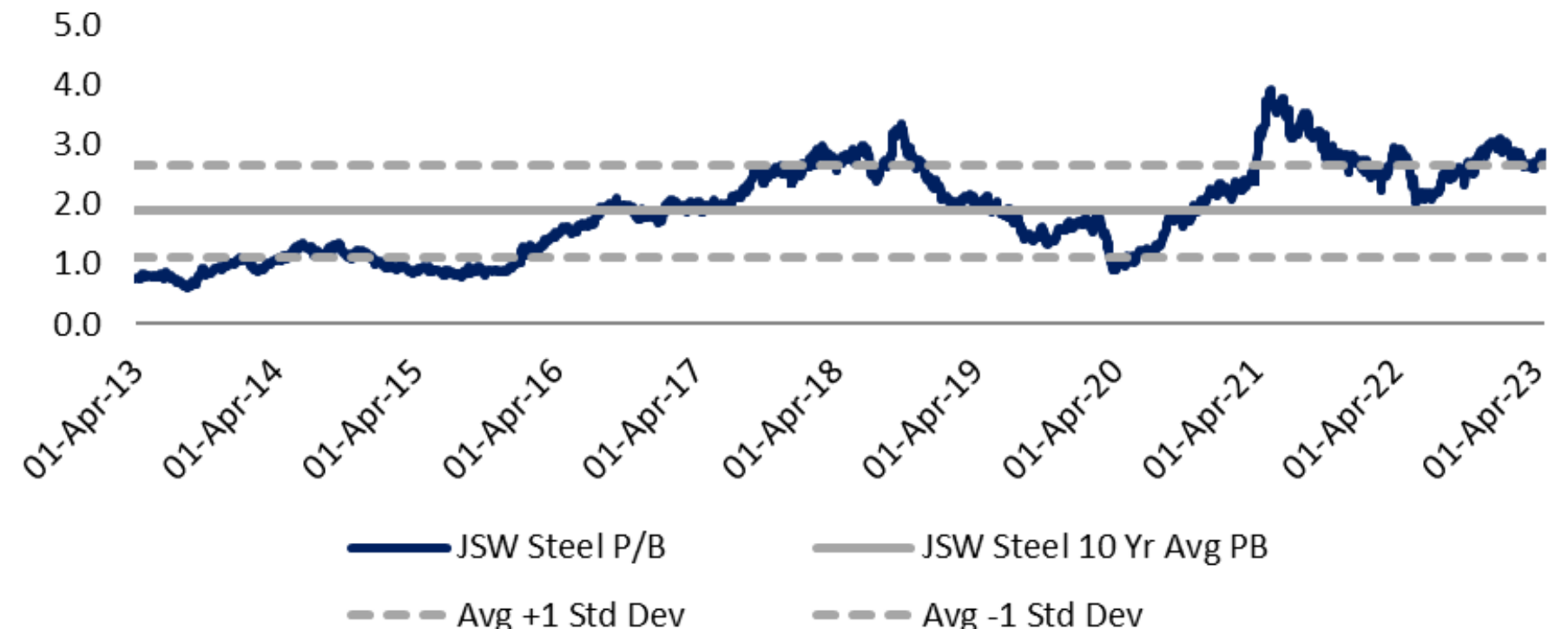
### Tata Steel P/B Chart



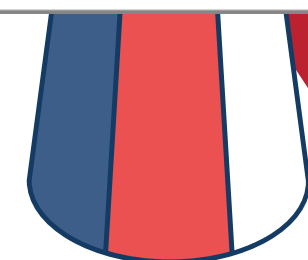
### SAIL P/B Chart



### JSW Steel P/B Chart

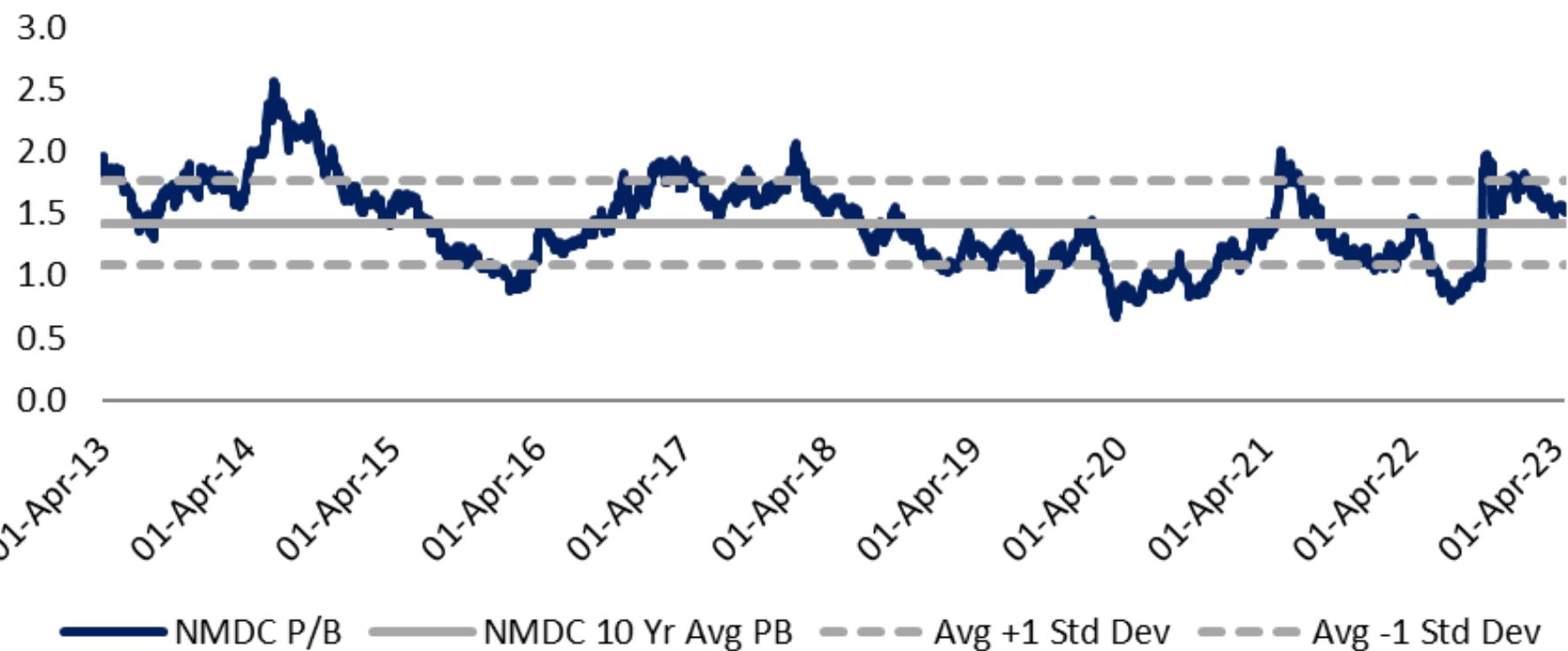


# Tata Steel & SAIL cheap; JSPL re-rating

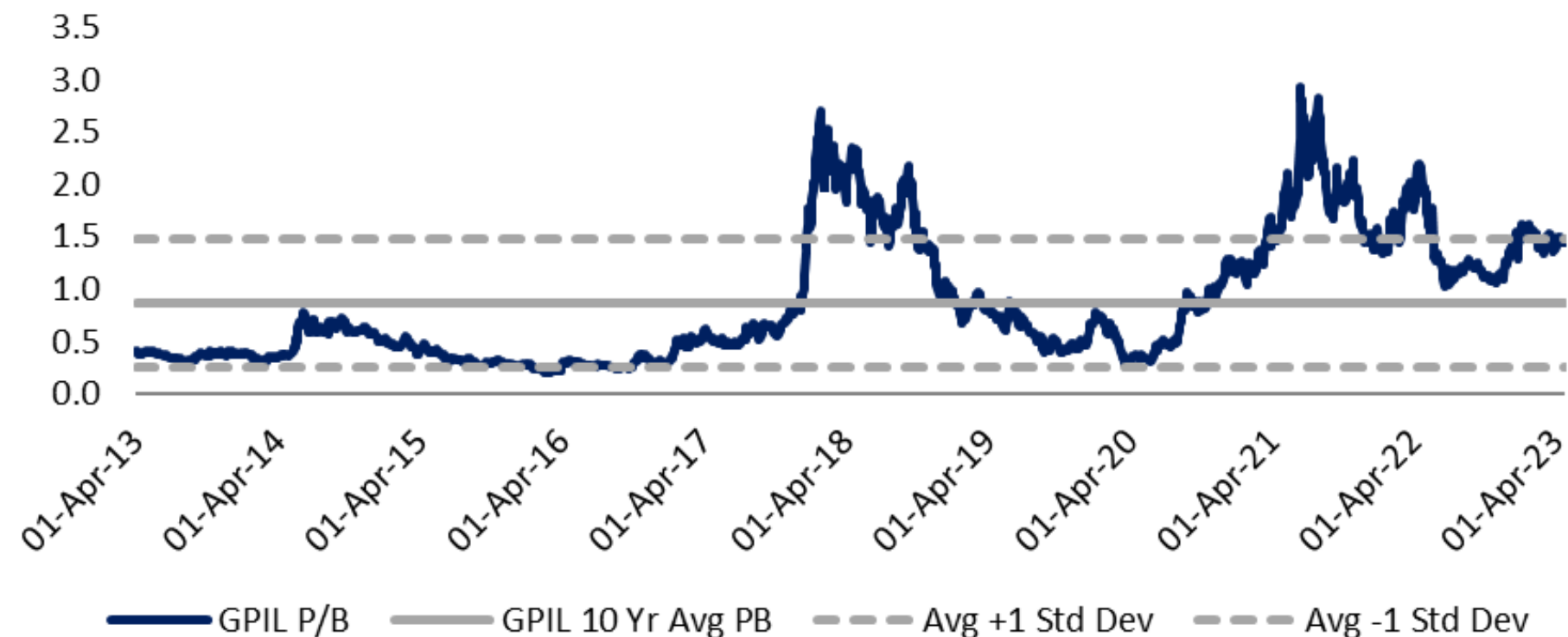




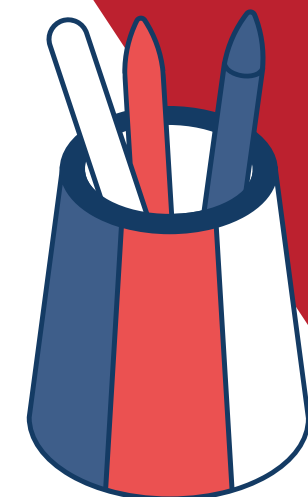
### NMDC P/B Chart



### GPIL P/B Chart



# Iron ore companies getting re-rated







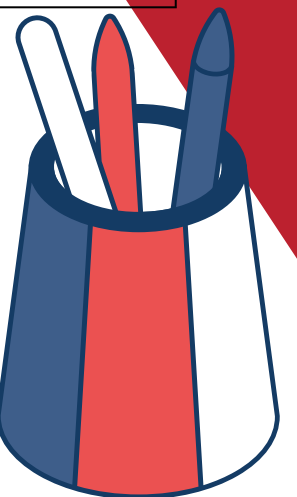
**Let's corroborate  
with sustainable  
earnings trend**





<b>EBITDA (Rs/t)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>Q1 FY23</b>	<b>Q2 FY23</b>	<b>Q3 FY23</b>	<b>9M FY23</b>	<b>5 Yr Avg</b>
JSPL	10455	11673	9343	17403	19682	16466	7095	11384	11423	<b>13711</b>
Tata Steel	7899	11052	6171	10703	21623	22730	8674	5810	12130	<b>11490</b>
SAIL	3288	6916	7178	8528	13215	7308	1748	5010	4446	<b>7825</b>
JSW Steel	9471	12025	7873	13466	19291	8318	3477	8141	6522	<b>12425</b>
NMDC	1608	2140	1904	2643	3178	2539	1013	1193	1541	<b>2295</b>
GPIL	4783	5434	4562	7643	11229	11244	4358	3761	6179	<b>6730</b>

**Profitability tracking well below 5yr avg**





Company	Market Cap	EV*	EBITDA per ton (Rs)				EV (based on 5yr avg EBITDA/t)	Potential Discount to Fair Value
			Implied at 6x EV/EBITDA	5yr Avg (FY18-22)	Q3FY23 Actual	Implied EBITDA/t vs Q3FY23		
JSPL	58185	62954	11923	13711	11384	-539	72396	-13%
Tata Steel	130643	175486	10636	11490	5810	-4826	189579	-7%
SAIL	33539	56429	5598	7825	5010	-588	78876	-28%
JSW Steel	174873	218240	16609	12425	8141	-8467	163268	34%
NMDC**	31782	23702	957	2295	1193	237	56862	-58%
GPIL**	5166	4564	3169	6730	3761	592	9692	-53%

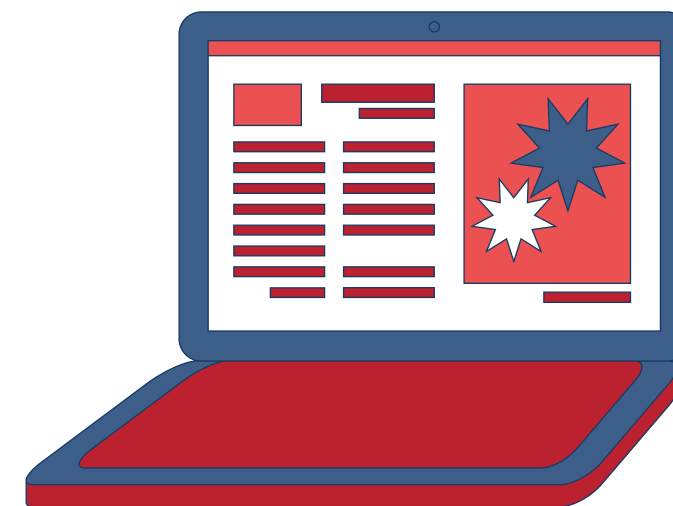
# What are stocks building in?





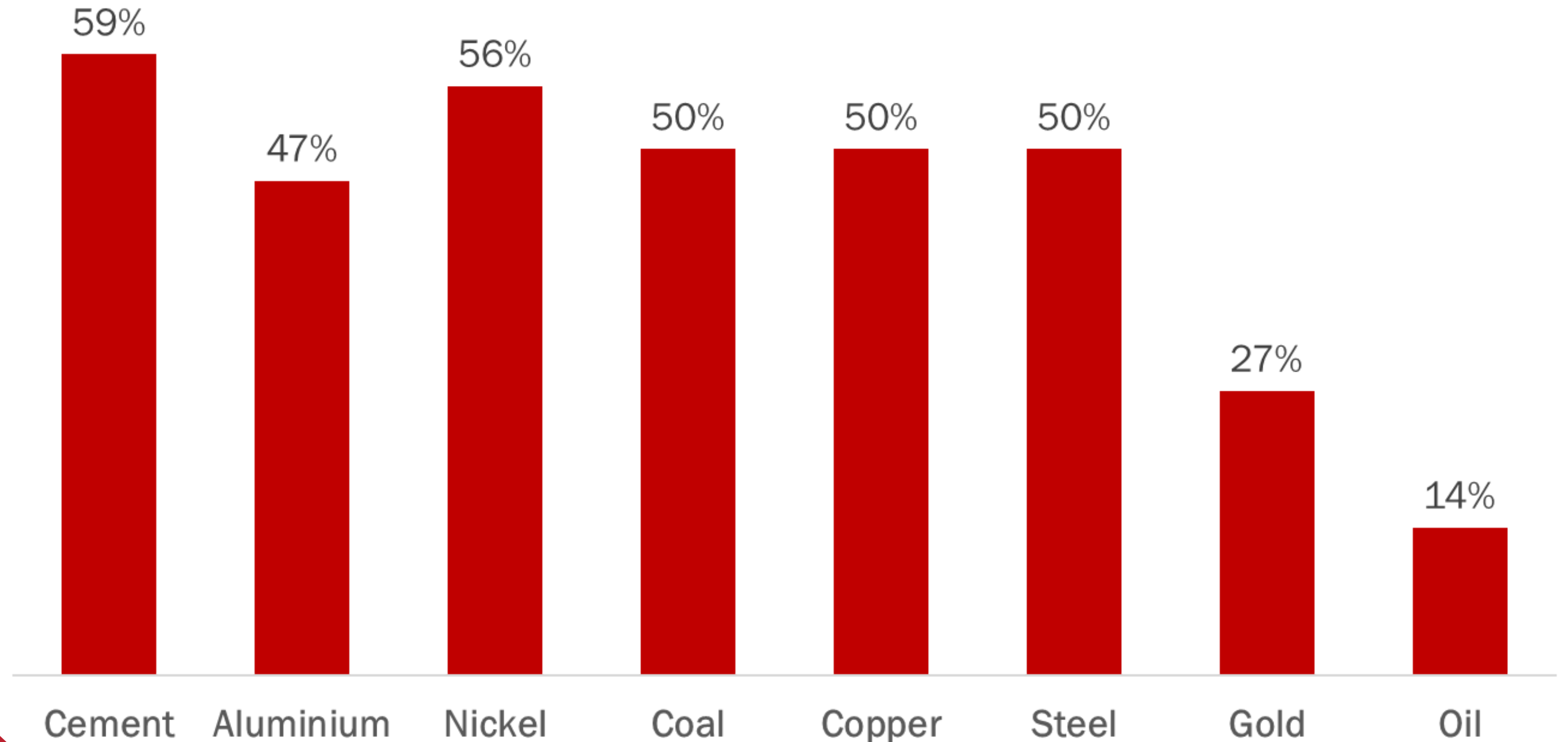


**Surprised?  
We haven't  
talked  
about  
commodity  
prices as  
yet!**





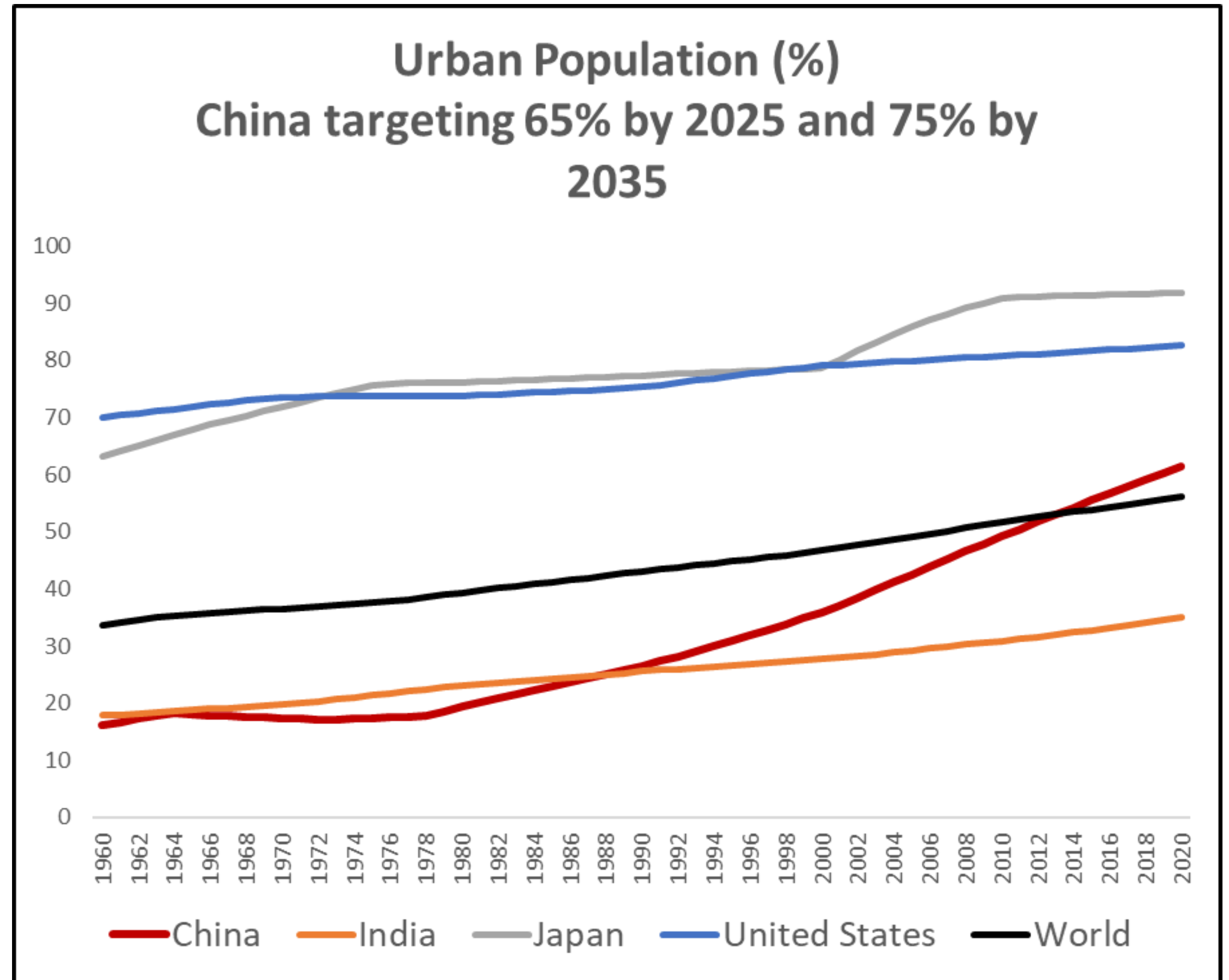
# Commodities = China & Only China



**China = 19% of World Population and 15% of World GDP but 50% of Metal consumption**



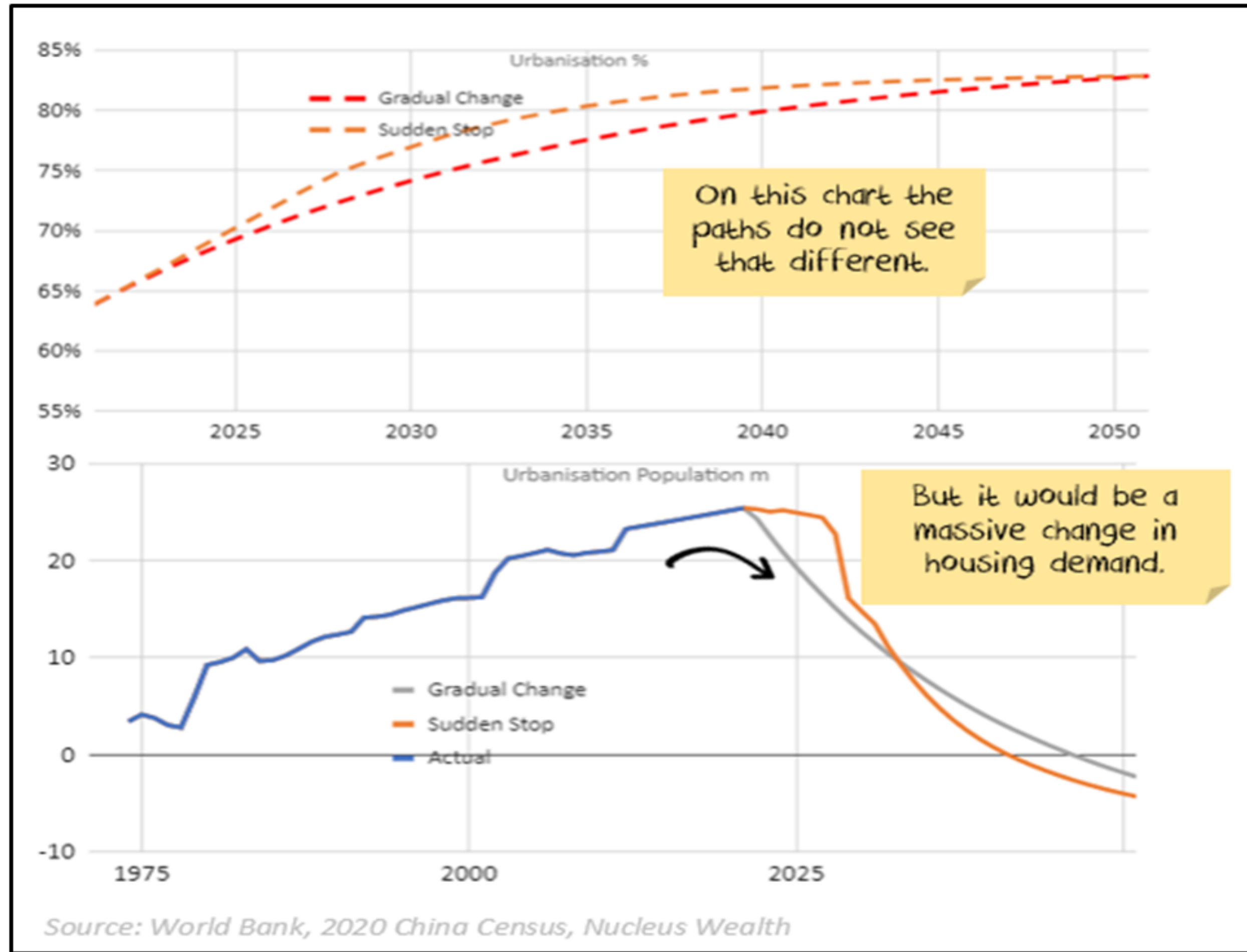
# China Urbanisation the key driver





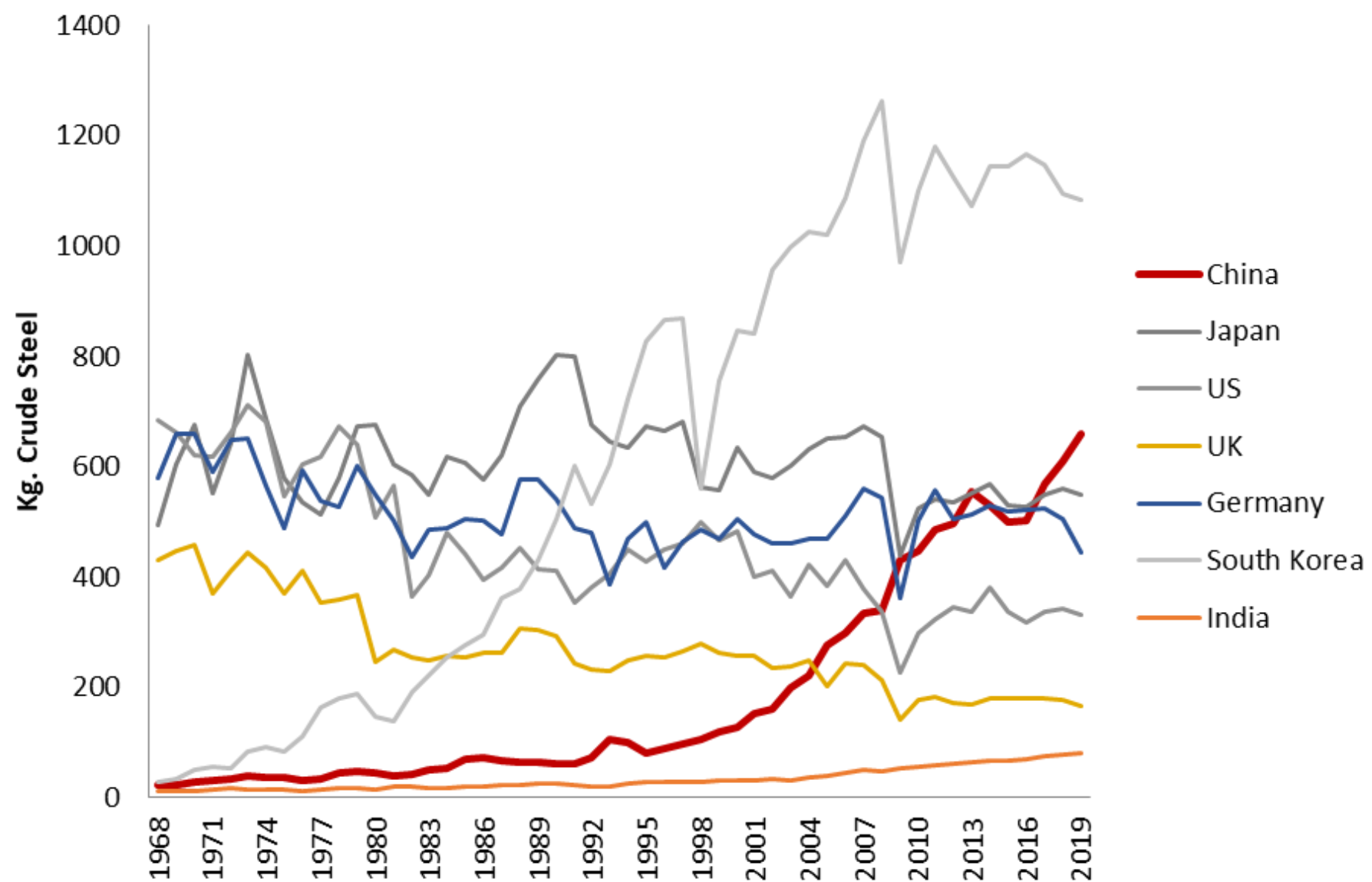


# Small change in pace of urbanization, large impact on commodities demand

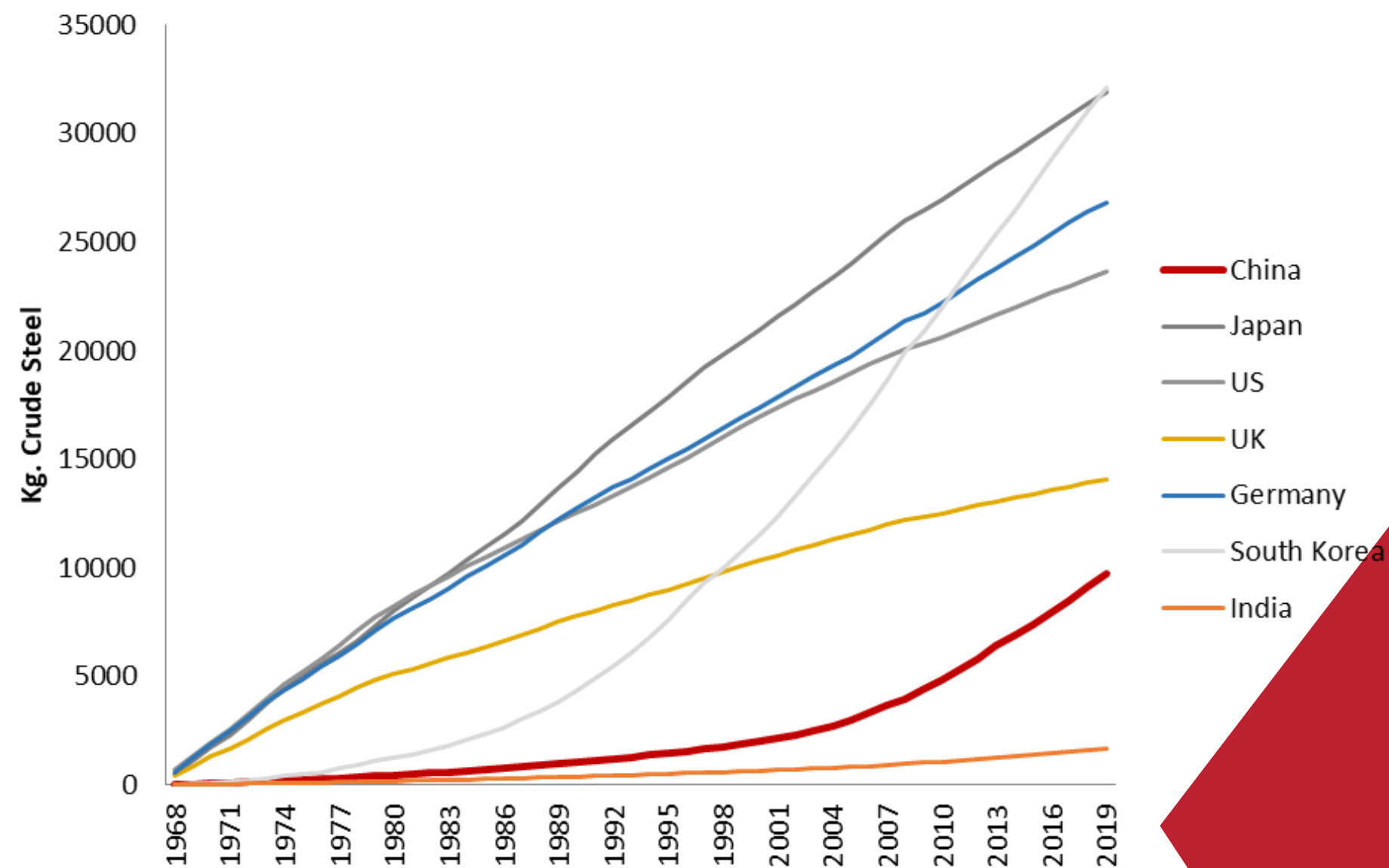




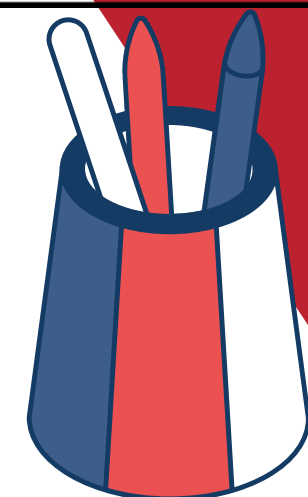
### Steel Consumption per capita (Kgs of Crude Steel)



### Cumulative Steel Consumption per capita (Kgs of Crude Steel)



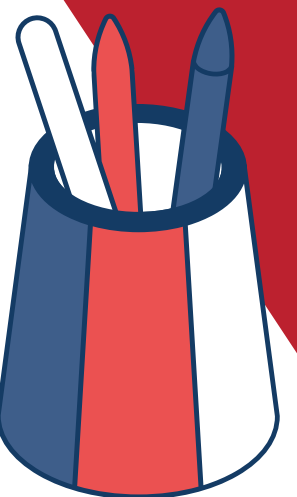
**China is not done as yet**





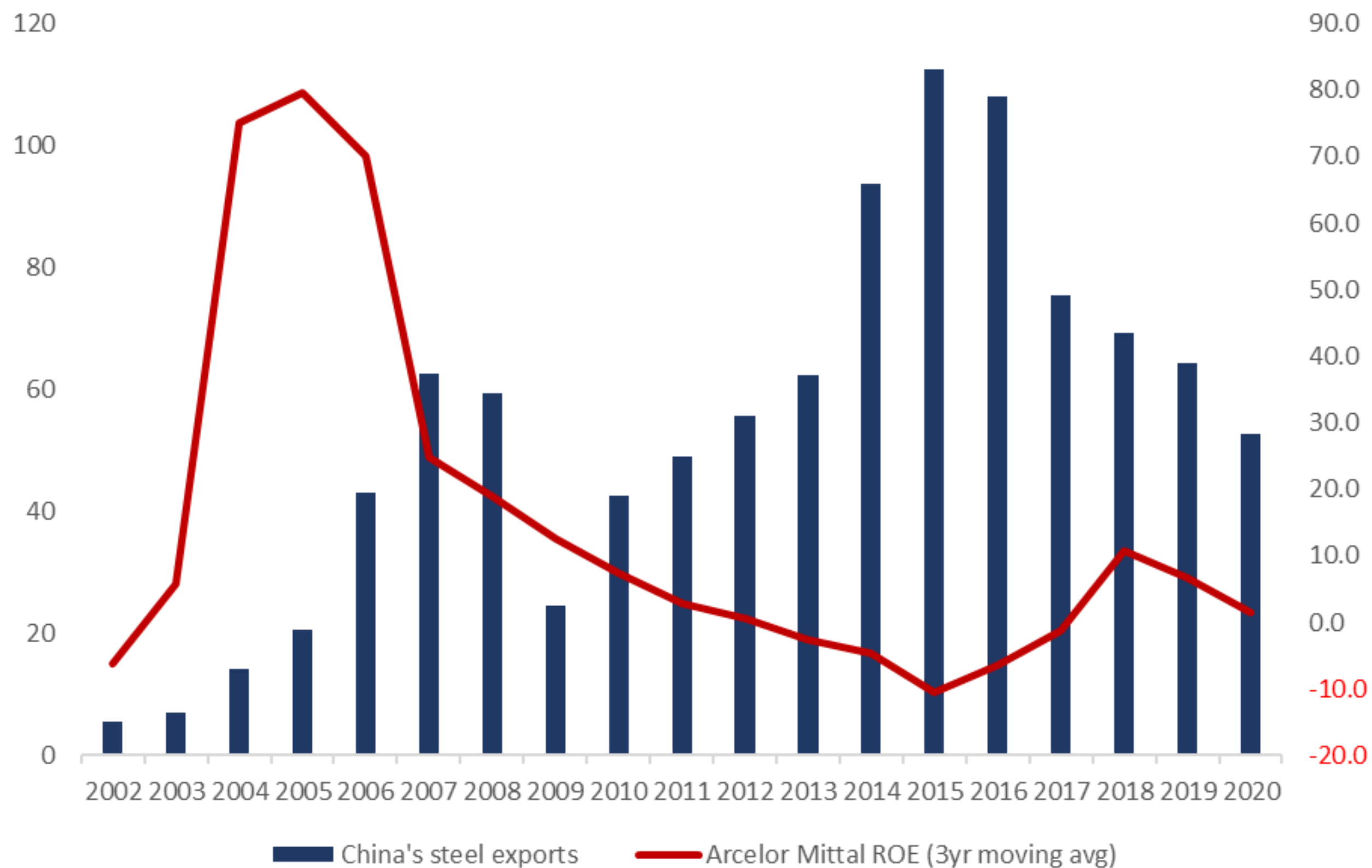
# China - Priorities has shifted to decarbonisation

*Exports are now being discouraged and export rebate of 13% on steel has be removed*

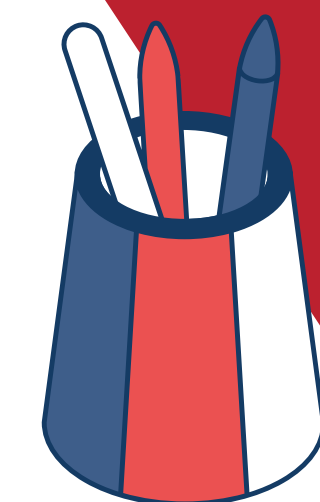




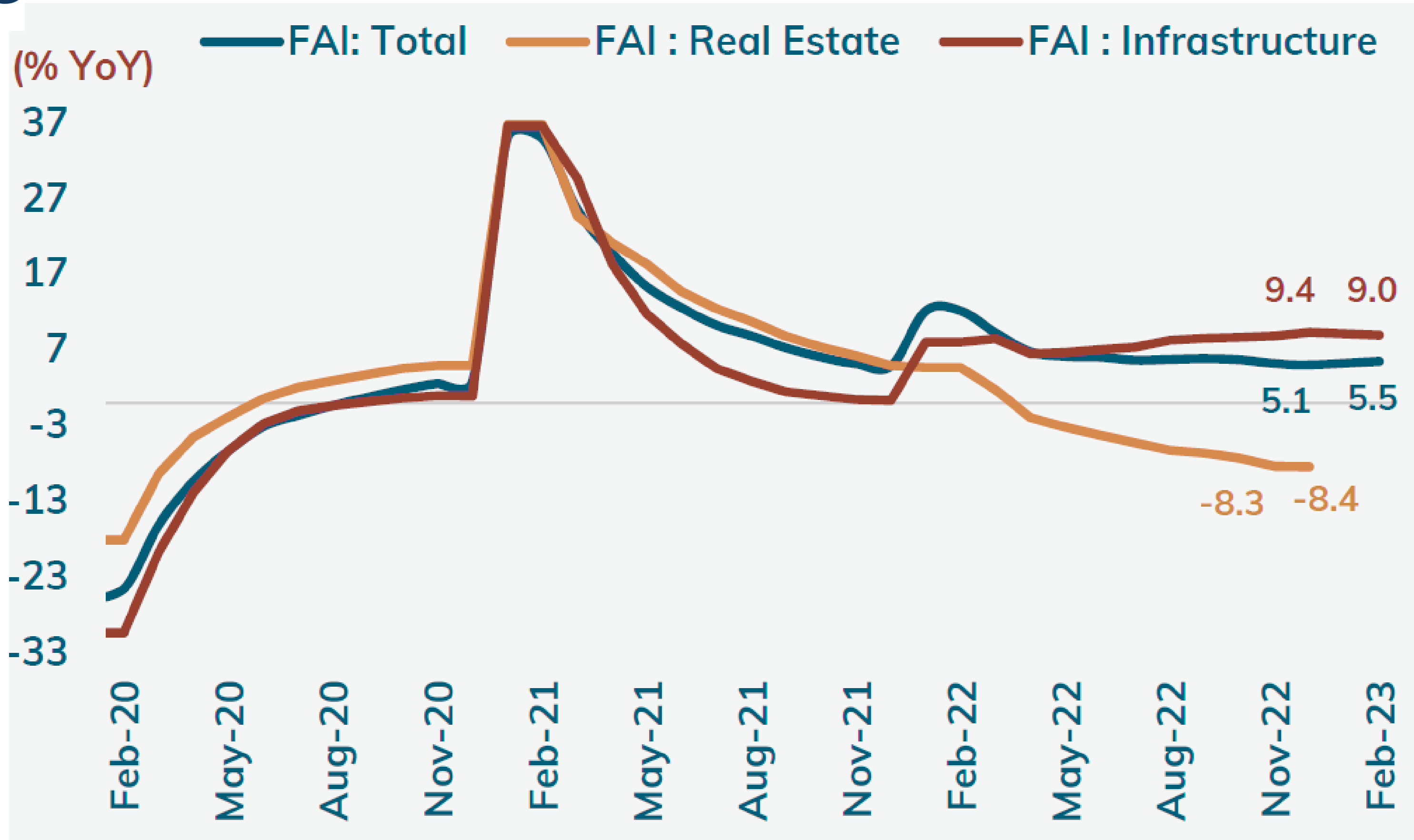
## Arcelor Mittal ROE's inversely correlated to China's steel exports



**Lower  
steel  
exports  
from  
China  
=  
Better  
steel  
prices  
Globally**

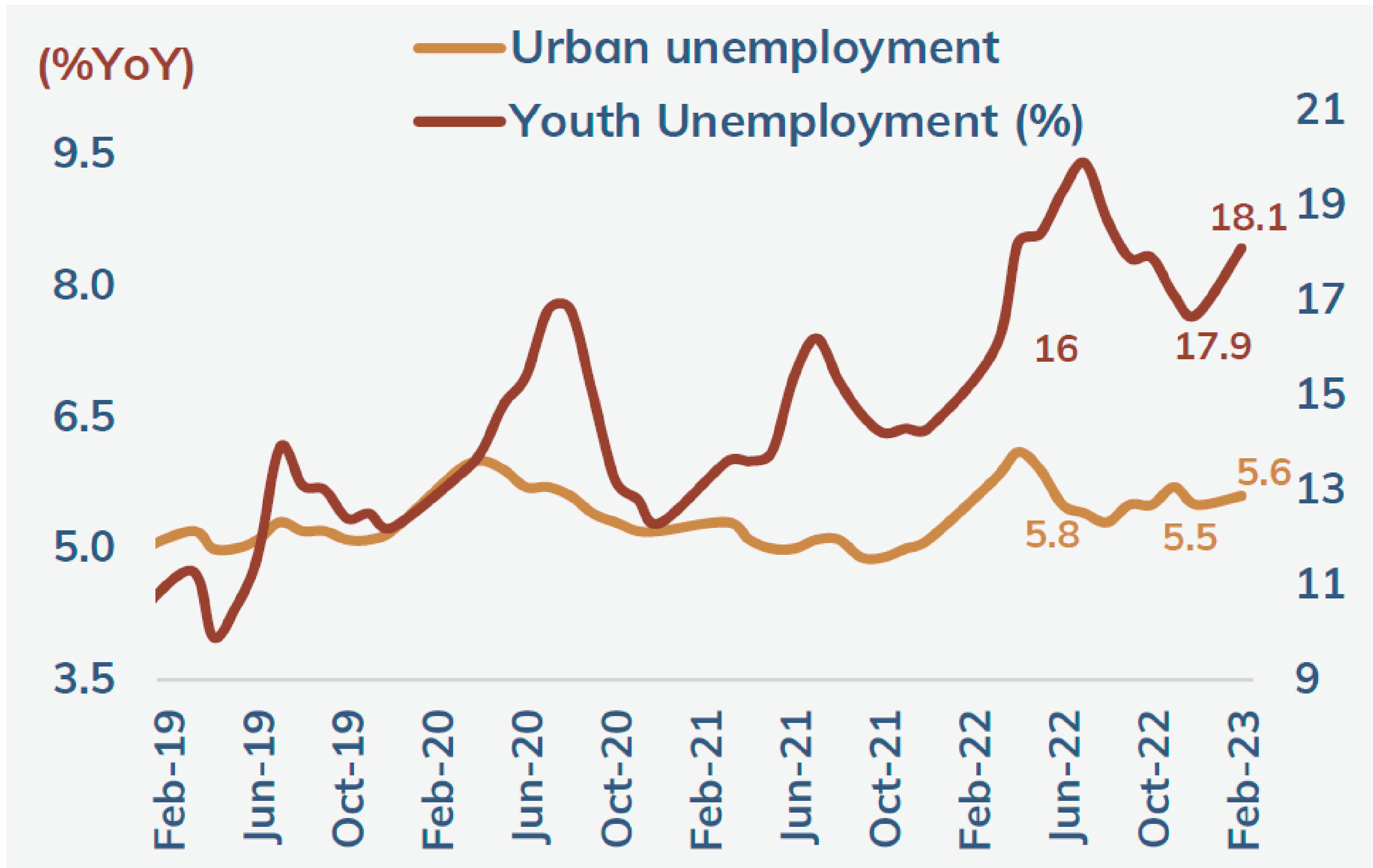




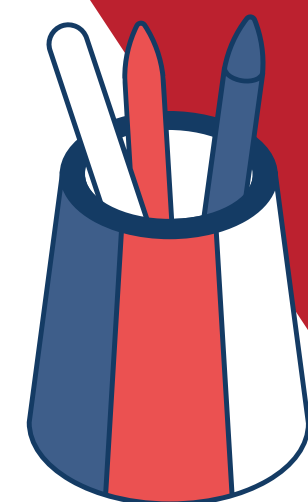


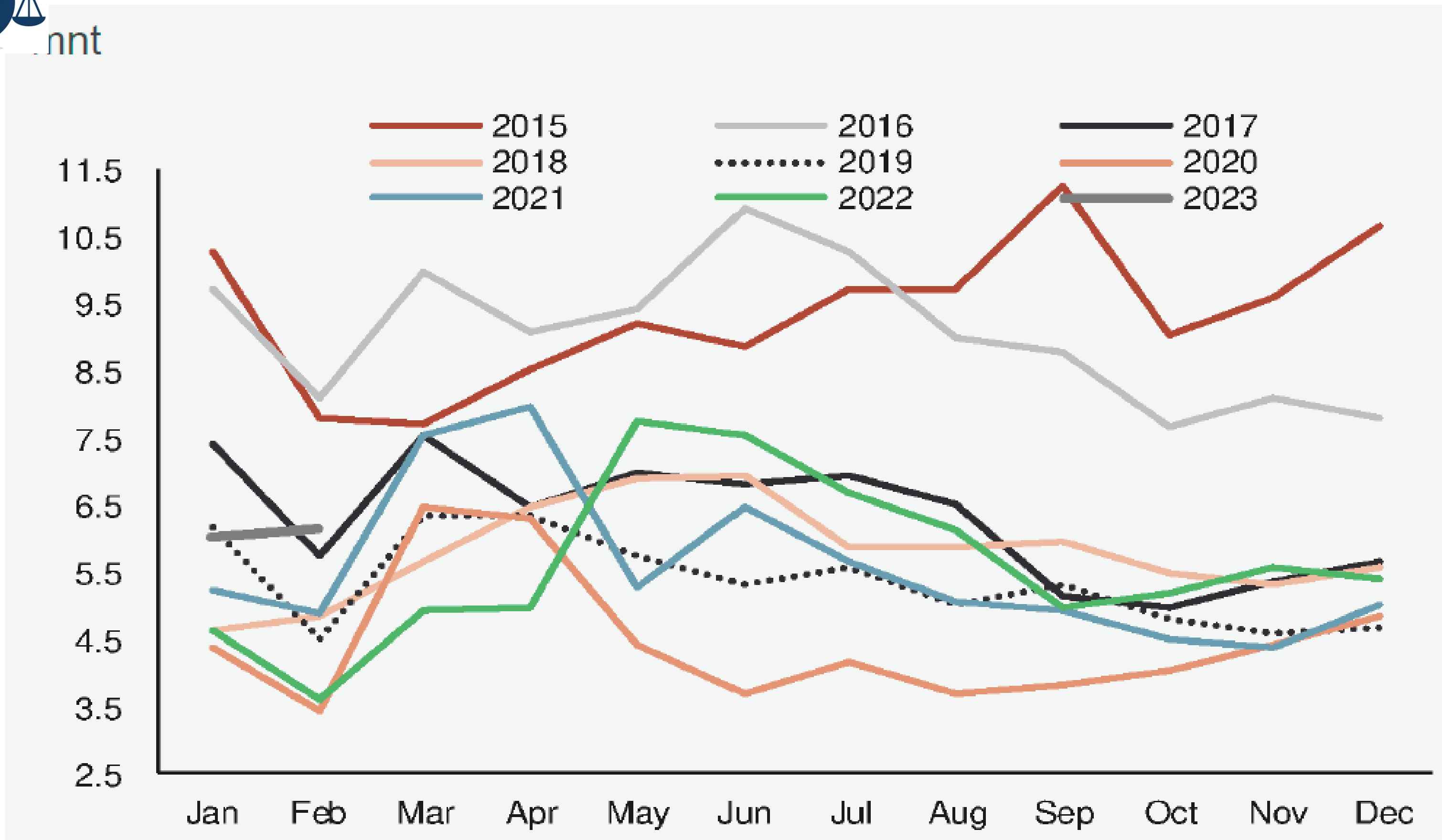
**China Housing hasn't picked up post Covid reopening**



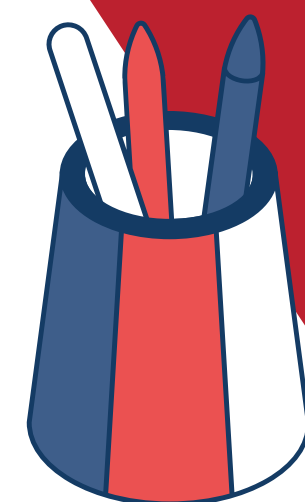


# China unemployment hindering recovery

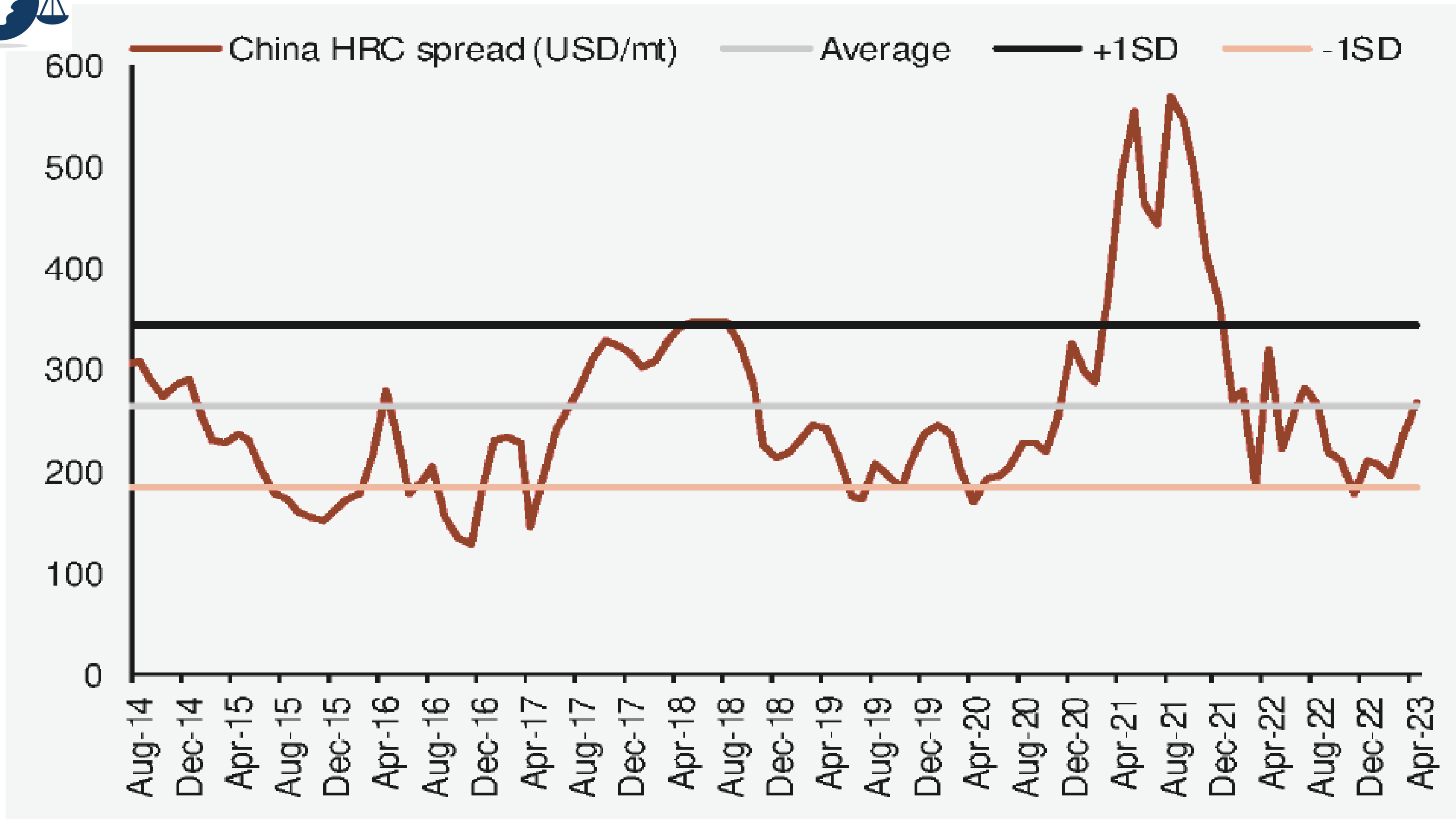




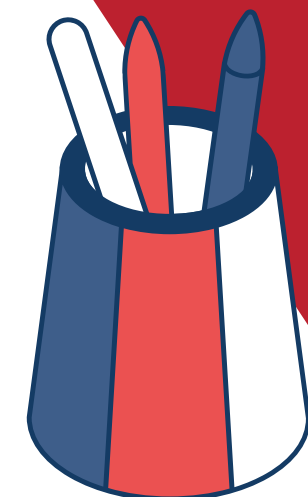
**China's steel export at highest level since 2017**

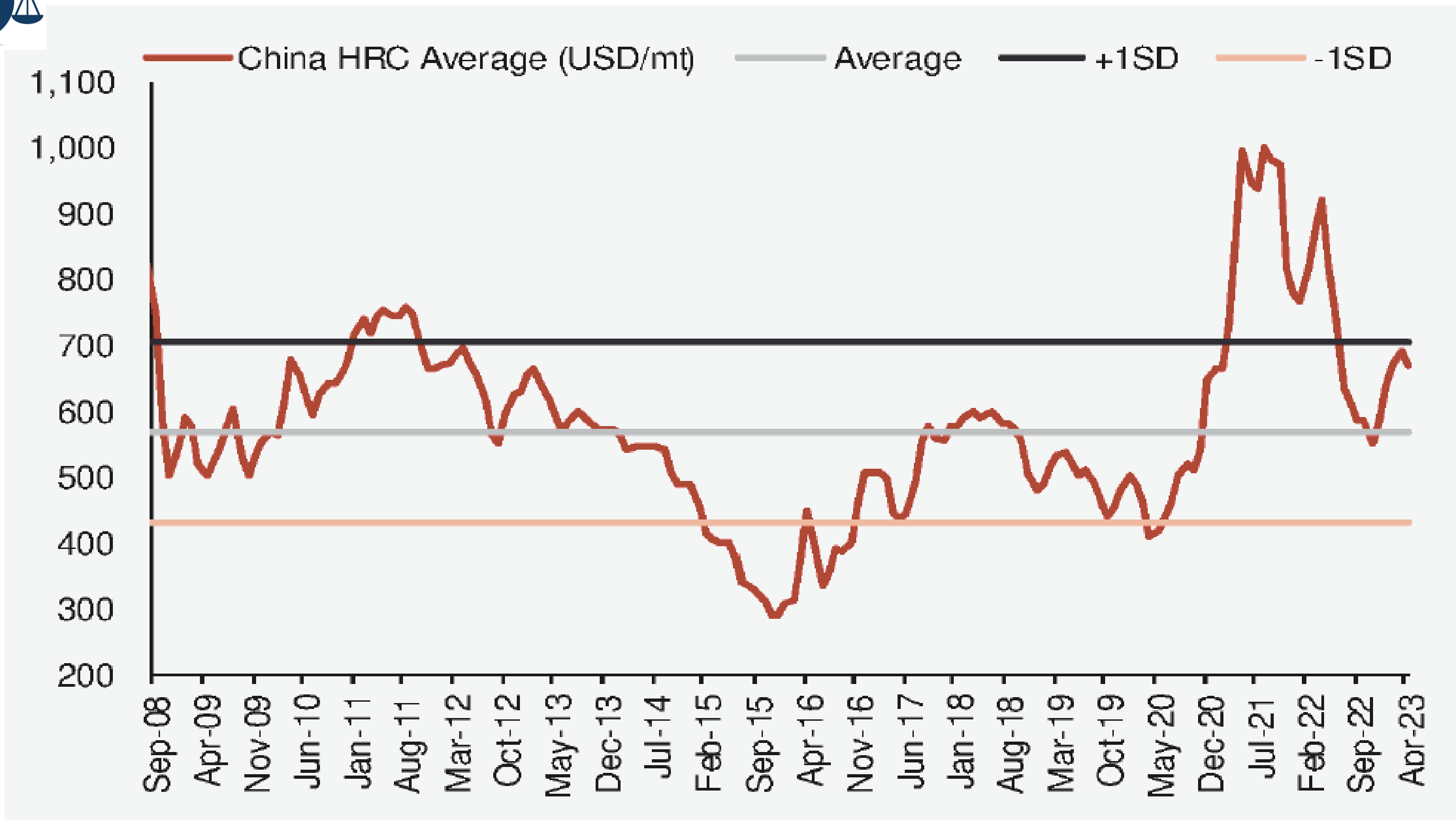




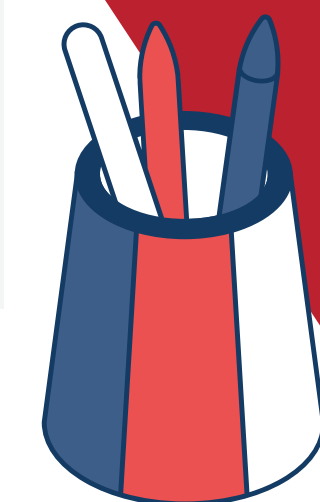


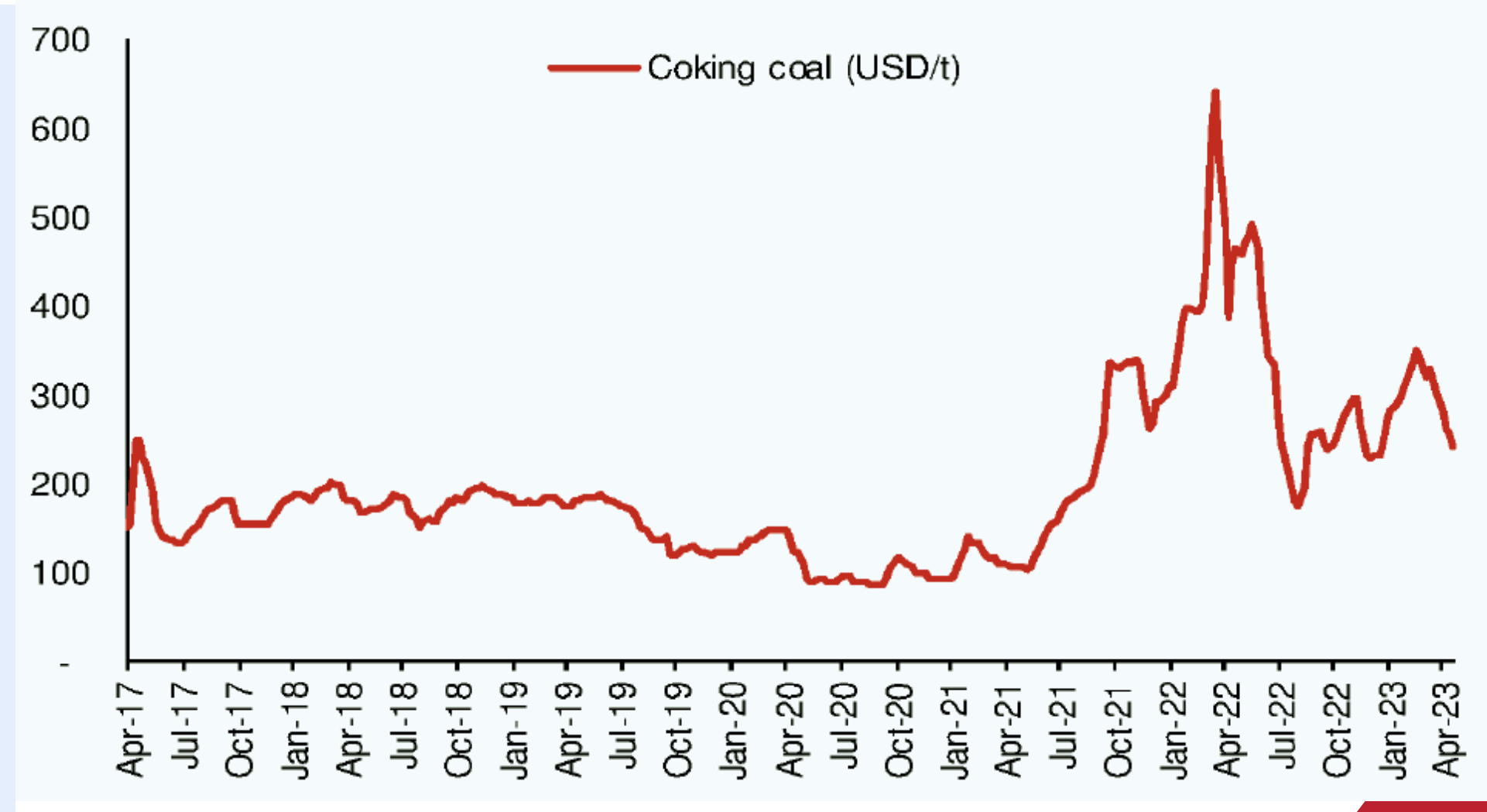
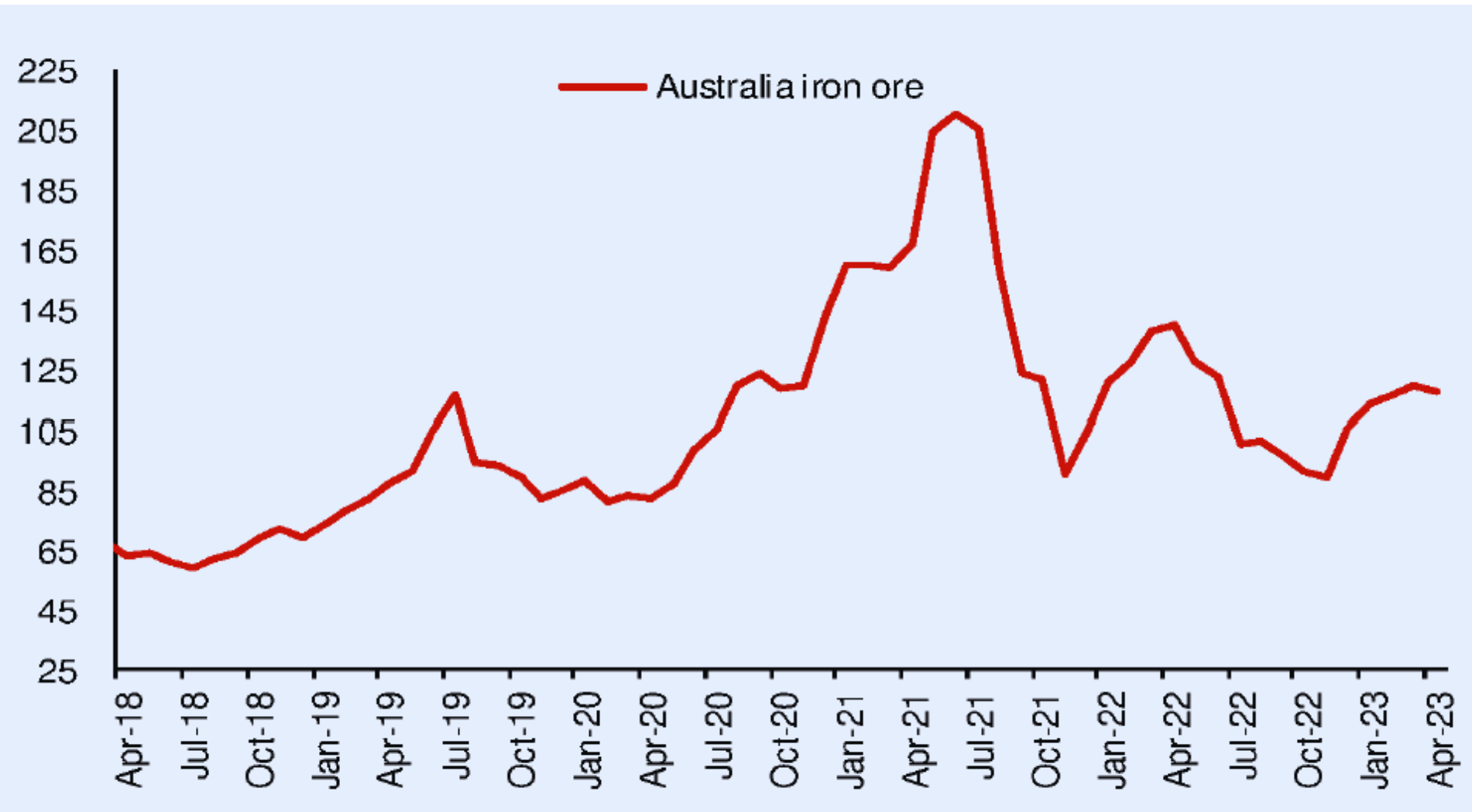
**China's steel companies still profitable**





**China's steel prices are coming under pressure**





**Falling raw material costs to push steel prices further**





*Before I end a stock idea*







# NMDC Steel

*Mkt Cap - Rs10800cr*

*Debt - Rs4500cr*

*EV - Rs15300cr*

*Book Value - Rs17400cr*

*Likely Bids - Rs19000-21000cr*

Worst case Mkt Cap - 0.5x P/B  
= Rs8900cr

If divestment happens Mkt Cap  
- Rs14500-16500cr



*Thank you*

