

Metals and Mining

Rally in anticipation of stimulus; spot spreads bottoming out

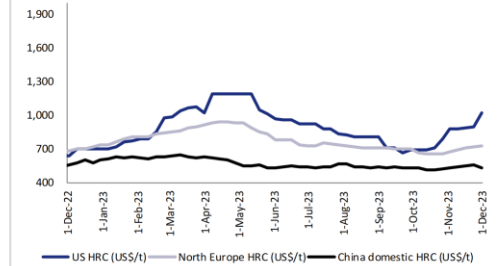
The decrease in Chinese inventories, coupled with expectations of stimulus, has sparked an upsurge in steel prices in China. Although coking coal price has rallied defying market expectations, it is now trading at an unsustainably high price vs historical averages. Indian steel markets witnessed a soft quarter with average prices broadly flat sequentially. Global steel making raw materials continued to rally – coking coal at US\$330/t, iron ore at US\$120/t driven by worker strikes and higher Chinese production respectively. Spreads of India steel players are likely to be under pressure in 3QFY24 driven by flat realizations and soaring coking coal consumption cost. Consequently, we estimate an EBITDA margin compression of INR1.5k+/ton QoQ. Volume growth is likely to be muted sequentially. Working capital requirements on account of higher coking coal prices and possibly higher steel inventory could negate any chances of net debt reduction. However, recent run up in China prices, sound bites around China stimulus, higher expected consumption in 4Q owing to general elections and recent media articles pointing towards import curb measures by ministry have led to a rally in steel names. While we are yet to see an improvement in spot spreads, any let up in coking coal price amidst price rise in China can help the rally sustain into CY24. JSPL (lowest leverage, highest volume growth over next few years) and Hindalco (Novelis delivering record margins) remain our top picks in the space.

- China price rallies on lower inventories, expected stimulus; offers stiff competition to India exports:** China domestic HRC prices increased by US\$30/t since October, as steel inventories declined sharply by 20% amid expectations of an impending stimulus announcement in mid-December. China Jan'24 steel futures rallied ~10% in tandem to US\$570/t+. China steel exports are up 35% CYTD with current export bids at sub US\$600/t – 10% lower than last offered export price from India. During the quarter, Indian mills have withdrawn export offers globally owing to stiff competition from China.
- Global steel making raw materials have defied market expectations and climbed significantly during CY23:** Coking coal prices sustained at higher levels of US\$330/t driven by inclement weather and impending industrial action by BHP Unions at key Queensland mines. China iron ore CFR price rallied another 10% during the quarter to hit a year high of US\$122/t as Chinese steel production sustained at last year levels despite collapsing real estate market. The second half of the year is on track to register the highest steel production since 2020.
- Indian steel prices witnessed a soft quarter with HRC / Rebar broadly flat QoQ:** This was largely driven by muted demand in November as depicted by the 5% MoM fall in steel consumption during the month. The domestic industry also witnessed a marginal inventory increase driven by twin effects of soft demand and higher net imports. Spreads of India steel players are likely to be under pressure in 3QFY24 driven by flat realizations and soaring coking coal consumption cost. Consequently, we estimate an EBITDA margin compression of INR1.5k+/ton QoQ. Volume growth is likely to be muted sequentially. Working capital requirements on account of higher coking coal prices and possibly higher steel inventory could negate any chances of net debt reduction.

Ashutosh Somani

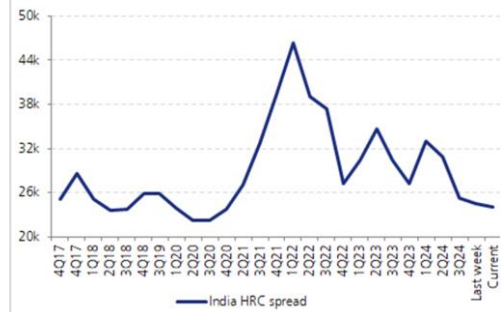
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Divergence in China & US, Europe HRC prices (US\$/t)



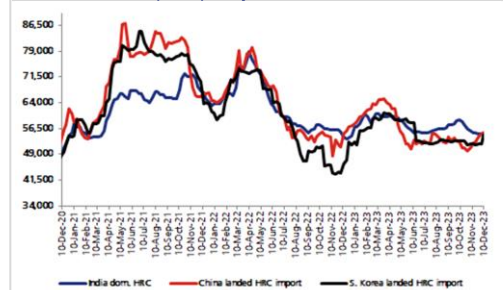
Source: Bloomberg, JM Financial

India steel spreads (INR/t)



Source: SteelMint, Bloomberg, JM Financial

Steel landed import parity trend (INR/t)



Source: SteelMint, Bloomberg, JM Financial

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

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

Exhibit 1. WSA crude steel production data summary

Geography	CYTD23 (mn tons)	(%) YoY	Oct'23 (mn tons)	YoY (%)	MoM (%)
Global	1,567.3	0.2	150.0	0.6	-0.3
China	874.7	1.4	79.1	-1.8	-3.7
India	116.3	12.1	12.1	15.1	4.3
World (ex-China)	692.6	-0.2	70.9	2.3	3.7
Japan	72.9	-3.0	7.5	2.6	7.1
US	67.4	-0.8	6.8	3.4	1.5
EU 27	106.8	-8.8	10.6	-7.1	0.0
CIS	73.7	3.1	7.4	12.9	1.4

Source: WSA, JM Financial

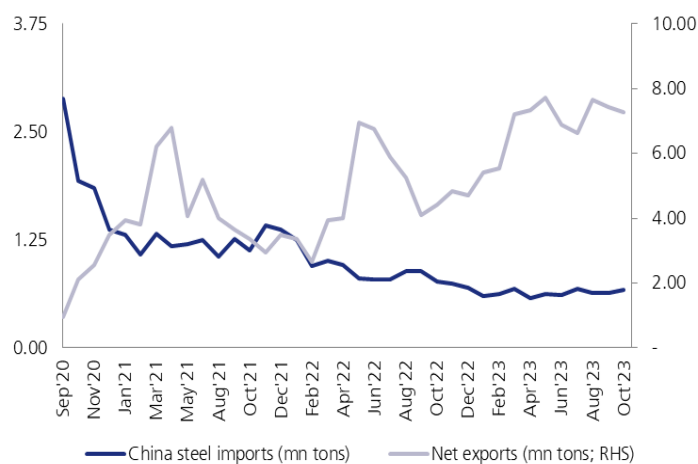
Exhibit 2. WSA finished steel demand forecast – Oct'23 outlook

Regions	2022	YoY	2023F	YoY	2024F	YoY
EU (28)	152	(7.8)	144	(5.1)	153	5.8
Other Europe	39	(2.5)	45	14.9	47	5.1
CIS	52	(12.0)	55	5.8	55	1.0
USMCA	133	(3.0)	134	0.9	136	1.5
Gen. & S. America	45	(11.5)	44	(1.6)	45	2.2
Africa	40	0.8	38	(4.1)	40	5.4
Middle East	57	7.7	56	(1.7)	58	3.2
Asia & Oceania	1,265	(2.7)	1,298	2.6	1,315	1.3
World	1,783	(3.3)	1,815	1.8	1,849	1.9
China	921	(3.5)	939	2.0	939	-
% of total	52%		52%		51%	
World (excluding China)	862	(3.2)	875	1.6	910	4.0
India	116	9.3	126	8.6	136	7.7

Source: WSA, JM Financial

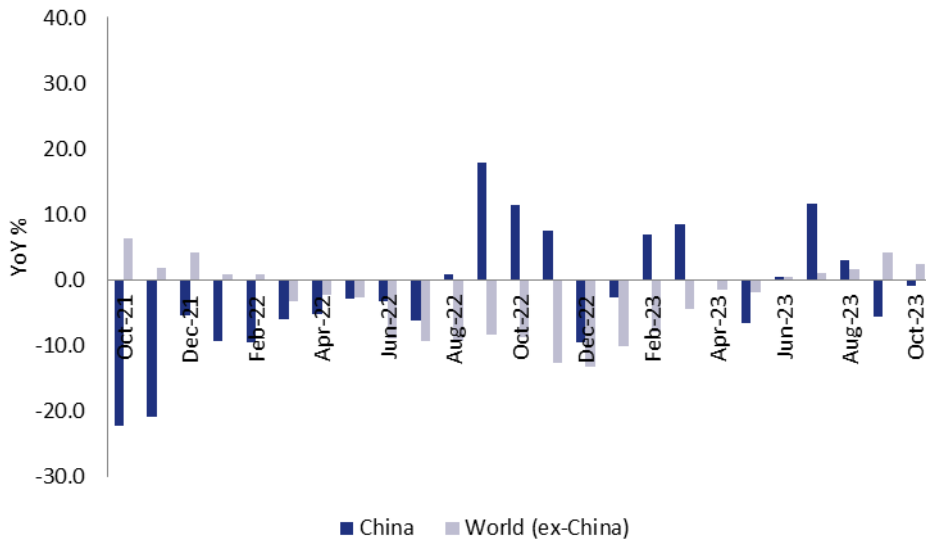
Exhibit 3. China flat and long steel exports

Source: GACC

Exhibit 4. China steel net exports

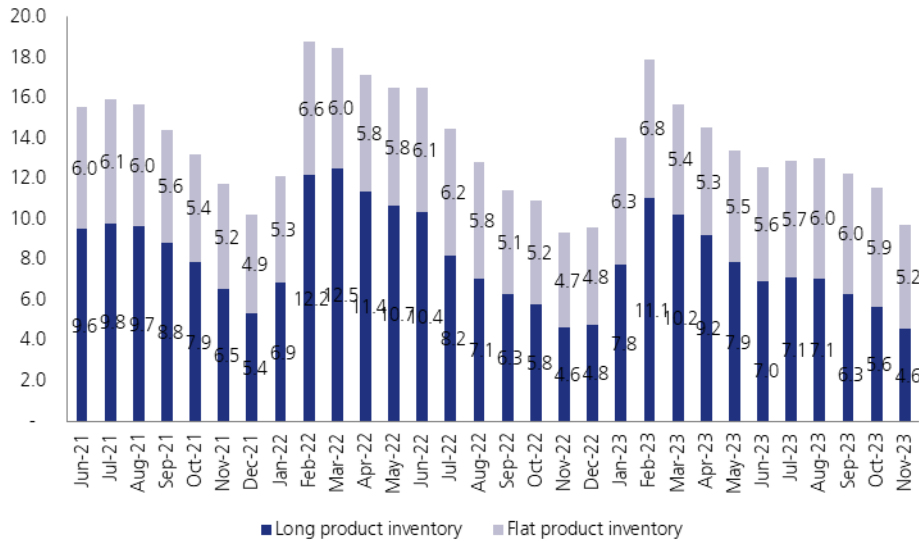
Source: GACC

Exhibit 5. Crude steel production growth - China vs World (ex-China)



Source: WSA, JM Financial

Exhibit 6. China finished steel inventory in market (with middleman; mn tons)



China's finished steel inventory has been consistently declining since Sep'23.

Source: Bloomberg, JM Financial

Exhibit 7. China EBITDA/t performance over the years



China margins at their lowest in recent time

Source: JM Financial

Exhibit 8. China steel demand indicators

China Construction Summary	2021	2022	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23
Total Real estate Floor space started this year (YTD mn sq mtrs)	1,989	1,206	499	570	639	721	792
YTD YoY(%)	-11%	-39%	-25%	-25%	-25%	-24%	-24%
Commercialized Residential Floor space started this year (YTD mn sq mtrs)	1,464	881	363	415	466	525	577
YTD YoY(%)	-11%	-40%	-26%	-26%	-25%	-24%	-24%
Total real estate Floor space under construction (YTD mn sq mtrs)	9,754	9,050	7,916	7,997	8,064	8,157	8,229
YTD YoY(%)	5%	-7%	-7%	-7%	-7%	-7%	-7%
Total Commercial building Floor space sold (YTD mn sq mtrs)	1,794	1,358	595	666	739	848	926
YTD YoY(%)	2%	-24%	-14%	-15%	-16%	-16%	-17%
Commercialized Residential Floor space under construction (YTD mn sq mtrs)	6,903	6,397	5,571	5,630	5,678	5,743	5,794
YTD YoY(%)	5%	-7%	-7%	-7%	-7%	-8%	-8%
Commercialized Residential building sold (YTD mn sq mtrs)	1,565	1,146	516	576	638	728	794
YTD YoY(%)	1%	-27%	-11%	-13%	-14%	-15%	-16%
China Consumer demand – Summary							
Total vehicle sales ('000 units)	26,247	26,849	2,622	2,387	2,582	2,858	2,853
YoY%	4%	2%	5%	-1%	8%	9%	14%
Total appliance sales (mn units)	344.0	342.5	43.5	38.9	34.0	35.4	32.1
YoY%	-1%	0%	20%	21%	14%	0%	7%
China Macro Summary							
GDP growth %	8.8	3.0	6.3	-	-	4.9	-
IIP	4.3	1.3	4.4	3.7	4.5	4.5	4.6
Manufacturing PMI	50.3	47.0	49.0	49.3	49.7	50.2	49.5
New Loan YoY growth (YTD)	1.6	6.9	15.0	12.0	11.7	9.2	9.5

Source: Bloomberg, JM Financial, Xinhuanet.com

Exhibit 9. Crude Steel capacities in India

(in mt)

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Tata Steel	12.7	12.7	13.0	13.0	19.6	19.6	20.6	21.6	21.6	26.6	26.6
Tata Steel BSL Ltd	5.6	5.6	5.6	5.6							
JSWL	18.0	18.0	18.0	18.0	18.0	18.0	24.2	24.2	24.2	31.5	31.5
BPSL	2.3	2.5	2.5	2.5	2.5	2.5	2.8	3.5	5.0	5.0	5.0
JSPL	4.8	5.1	8.6	8.6	8.6	8.6	9.6	9.6	9.6	15.9	15.9
AM/NS (Essar Steel)	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6	9.6
SAIL	18.6	19.1	21.4	21.4	21.4	21.4	21.4	21.4	21.4	21.4	21.4
RINL	6.3	6.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
NMDC	-	-	-	-	-	-	-	3.0	3.0	3.0	3.0
Others*	44.1	49.0	54.0	55.0	55.0	55.0	55.0	57.0	59.0	61.0	63.0
India's total crude steel capacity	122.0	127.9	140.0	141.0	142.0	142.0	150.5	157.2	160.7	181.3	183.3

Source: Industry, JM Financial; Note: SAIL capacity expansion is not yet factored

Exhibit 10. India finished steel production and consumption

Particulars ('000 tons)	Nov'23	YoY (%)	Oct'23	MoM (%)	YTD'24	YoY (%)
Production	11,026	14.2%	11,490	-4.0%	88,811	13.7%
Import	783	30.5%	571	37.1%	4,253	13.4%
Export	510	50.9%	286	78.3%	4,032	-6.2%
Change in inventory	148		27		2,066	
Apparent steel consumption	11,152	18.7%	11,749	-5.1%	86,966	15.4%
Finished steel inventory	NA	NA	12,513	NA	NA	NA

Source: JPC, JM Financial

Exhibit 11. India steel production market share (%)

Particulars	YTD23	YTD22	FY22
Steel majors	56.7%	57.0%	57.1%
Private players	41.8%	41.7%	41.6%
PSU players	14.9%	15.2%	15.5%
Secondary	43.3%	43.0%	42.9%

Source: JPC, JM Financial

Exhibit 12. India finished steel production by key players

Particulars ('000 tons)	Nov'23	YoY (%)	Oct'23	MoM (%)	YTD'24	YoY (%)
SAIL	1,301	4.2%	1,416	-8.1%	10,802	10.5%
Tata Steel	1,706	10.9%	1,633	4.5%	13,285	5.0%
RINL	302	-7.1%	296	2.0%	2,425	14.6%
JSW Steel + JSPL + Essar Steel	3,036	162.2%	3,074	-1.2%	23,880	19.7%
Others	4,681	-13.1%	5,071	-7.7%	38,419	14.4%
Total production	11,026	14.2%	11,490	-4.0%	88,811	13.7%

Source: JPC, JM Financial

Exhibit 13. Steel volume trend

(mn tons)	2QFY24	1QFY24	4QFY23
JSW Steel (Standalone)			
Production	5.4	5.4	5.6
YoY (%)	9.1%	8.8%	11.8%
MoM/QoQ (%)	-0.7%	-2.9%	5.3%
Sales	5.4	4.9	5.0
YoY (%)	8.0%	22.3%	11.2%
MoM/QoQ (%)	9.7%	-13.2%	14.7%
JSPL			
Production (Std.)	2.0	2.0	1.9
YoY (%)	4.4%	2.5%	-4.3%
MoM/QoQ (%)	-6.9%	1.0%	-1.9%
Sales (Std.)	2.0	1.8	2.0
YoY (%)	-	5.7%	-2.4%
MoM/QoQ (%)	9.2%	-9.4%	6.8%
Tata Steel India			
Production	4.9	4.8	4.8
YoY (%)	5.8%	2.3%	1.9%
MoM/QoQ (%)	1.4%	0.4%	1.0%
Sales	4.8	4.8	5.0
YoY (%)	1.3%	23.3%	0.2%
MoM/QoQ (%)	0.6%	-3.8%	8.5%
SAIL			
Production	4.8	4.4	4.7
YoY (%)	17.1%	1.6%	5.9%
MoM/QoQ (%)	9.1%	-6.4%	6.8%
Sales	4.8	3.9	4.7
YoY (%)	13.3%	23.2%	-0.4%
MoM/QoQ (%)	22.9%	-17.1%	12.7%

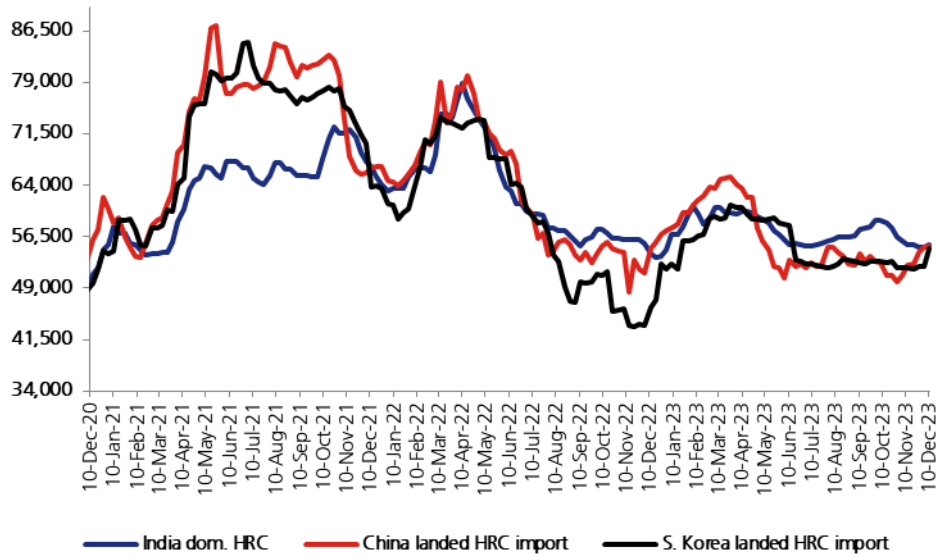
Source: Company, JM Financial.

Exhibit 14. Steel landed import parity

Particulars	Unit	Spot China	Spot S.Korea
HRC export prices	(US\$/ton)	575	620
Add: Freight & other import costs	(US\$/ton)	35	35
HRC prices (CIF)	(US\$/ton)	610	655
Add: Basic Custom duty (7.5% / 0%)	(US\$/ton)	46	-
Add: Social Welfare Surcharge (10% on basic custom duty)	(US\$/ton)	5	-
Landed cost of imports (before protectionist duties)	(US\$/ton)	660	655
Add: Anti-dumping duty	(US\$/ton)	-	-
Steel price as per anti-dumping duty notification	(US\$/ton)	489	489
Landed cost of imports (Post protectionist duties)	(US\$/ton)	660	655
INR:USD	(INR/USD)	83.4	83.4
Cost of steel imports –HRC	(INR/ton)	55,047	54,603
Domestic Steel prices	(INR/ton)	55,300	55,300
Domestic Less Landed import price	(INR/ton)	253	697

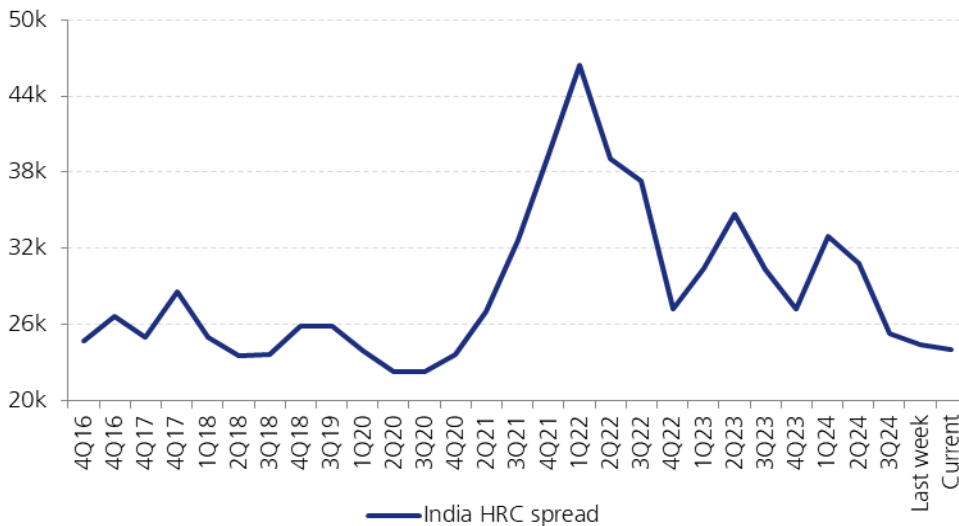
Source: SteelMint, Bloomberg, JM Financial

Exhibit 15. Steel landed import parity trend (INR/t)



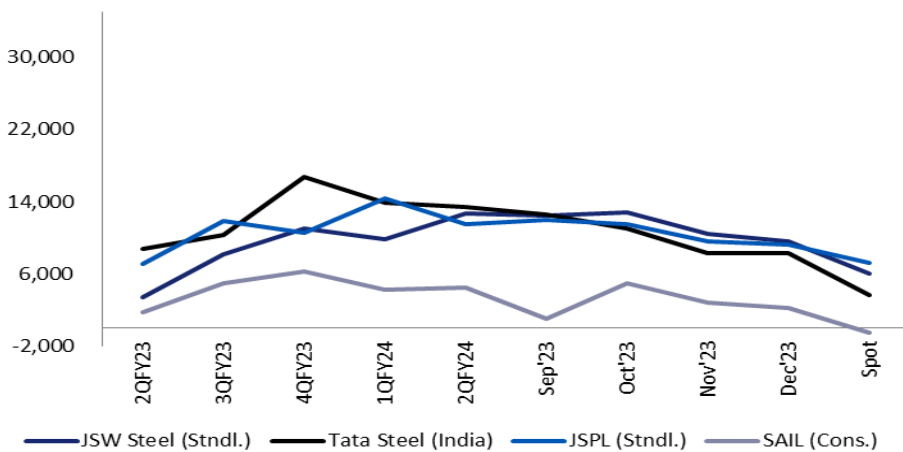
Source: Steelmint, Bloomberg, JM Financial

Exhibit 16. India spot steel spreads near 24k levels (INR/t)



Source: Steelmint, Bloomberg, JM Financial

Exhibit 17. Spreads across steel companies (INR/t)



Source: JM Financial

Exhibit 18. Metal price trend

Particulars	Cur.	CMP	Average prices						
			last week	3Q24	2Q24	1Q24	4Q23	3Q23	2Q23
Steel									
India dom HRC	INR	55,300	55,050	56,577	56,327	57,962	58,892	55,838	57,692
India dom Rebar	INR	43,400	43,300	44,939	45,666	48,410	50,901	48,976	51,991
China dom HRC	USD	553	558	533	540	565	627	550	590
China dom Rebar	USD	577	575	548	527	547	628	556	608
South Korea exp HRC	USD	620	590	596	602	674	652	538	636
China exp HRC	USD	575	575	547	561	598	653	572	611
Japan exp HRC	USD	600	590	577	586	630	653	527	612
North European HRC	USD	724	722	680	719	850	832	697	819
USA HRC	USD	1,040	1,025	826	805	1,071	888	702	866
FerroChrome	INR	105,300	105,150	111,123	109,758	107,612	114,785	99,981	97,912
Iron ore China CFR	USD	122	121	117	108	105	114	93	98
NMDC iron ore fines	INR	3,851	3,686	3,704	3,439	3,910	3,733	2,864	2,941
Pellets	INR	8,350	8,475	8,466	8,100	8,617	9,308	7,435	7,162
Coking Coal	USD	330	325	334	264	248	342	279	250
India spread	INR	23,994	24,416	25,289	30,846	32,980	27,233	30,374	34,720
Global spread (on China HRC)	INR	4,034	4,948	2,804	9,787	13,375	10,223	11,526	15,785
Landed cost of HRC imports									
China	INR	55,047	55,012	52,476	53,338	56,317	61,250	53,929	55,822
South Korea	INR	54,603	52,069	52,564	52,660	58,220	56,497	47,071	53,544
Aluminium	USD	2,149	2,210	2,223	2,204	2,280	2,440	2,355	2,357
LME Al - Scrap spread	USD	605	643	662	681	661	721	665	678
SJP Al premium	USD	96	77	88	106	100	79	88	96
Alumina	USD	333	329	335	336	349	357	319	339
Zinc	USD	2,429	2,513	2,505	2,447	2,530	3,107	2,986	3,212
Silver	INR/kg	74,141	74,359	71,282	72,167	72,652	66,958	61,445	55,858
Copper	USD	8,286	8,429	8,166	8,401	8,476	8,959	8,005	7,731
Dollar index		104	103	105	103	103	103	108	108
Baltic dry index		2,848	2,937	1,194	1,194	1,313	1,011	1,523	1,655
Richard bay index		108	109	121	109	115	148	226	325

Source: SteelMint, Bloomberg, JM Financial

Exhibit 19. NMDC Chhattisgarh iron ore prices have increased sequentially

Particulars (INR/t)	Aug 22	Nov 22	Nov 22	Jan 23	Jan 23	Mar 23	May 23	Jul 23	Aug 23	Sep 23	Oct 23	(INR/t) Nov 23
Lumps	4,100	3,800	4,100	4,300	4,400	4,500	3,900	4,091	3,843	4,091	4,298	4,463
Fines	2,910	2,610	2,910	3,410	3,910	4,110	3,560	3,479	3,231	3,479	3,686	3,851
Change (vs. previous price)												
Lumps	200	-300	300	200	100	100	-600	191	-248	248	207	165
Fines	100	-300	300	500	500	200	-550	-91	-248	248	207	165

Source: Company, JM Financial

Exhibit 20. Metal companies - target price (INR/sh)

Company	Rating	TP
Tata Steel	BUY	150
JSW Steel	BUY	830
Jindal Steel and Power	BUY	780
SAIL	SELL	95
Shyam Metalics and Energy	BUY	520
Hindalco Industries	BUY	600
Hindustan Zinc	BUY	325
Kirloskar Ferrous	BUY	600
NMDC	HOLD	160

Source: JM Financial

Exhibit 21. Comparative valuations

	EV/EBITDA (x)			P/E (x)			RoE (%)			P/B (x)			Net Debt/EBITDA (x)		
	CY23E/ FY24E	CY24E/ FY25E	CY25E/ FY26E	CY23E/ FY24E	CY24E/ FY25E	CY25E/ FY26E	CY23E/ FY24E	CY24E/ FY25E	CY25E/ FY26E	CY23E/ FY24E	CY24E/ FY25E	CY25E/ FY26E	CY23E/ FY24E	CY24E/ FY25E	CY25E/ FY26E
Steel players															
Tata Steel	9.4	6.3	5.6	32.1	10.8	8.8	4.7	12.9	14.2	1.6	1.5	1.3	2.8	1.7	1.3
SAIL	8.8	5.9	5.2	50.2	16.6	13.4	1.5	4.5	5.3	0.8	0.7	0.7	3.4	2.0	1.6
JSW Steel	9.7	8.3	7.6	21.1	17.3	16.8	13.1	13.9	12.7	2.8	2.4	2.1	2.3	1.9	1.7
JSPL	7.9	5.8	5.1	14.7	10.1	9.4	11.6	14.5	13.6	1.7	1.5	1.3	0.6	0.3	0.2
Shyam Metal.	9.2	4.5	3.3	19.1	7.5	5.6	8.8	18.6	20.0	1.7	1.4	1.1	0.7	0.5	0.2
Nippon	5.6	5.5	5.3	6.8	6.0	5.4	9.8	10.1	10.2	0.6	0.6	0.6	2.1	1.9	1.4
JFE	5.2	5.1	5.3	6.3	6.5	5.9	8.8	7.6	7.9	0.5	0.5	0.5	2.6	2.4	2.4
Maanshan	9.4	7.6	NA	17.1	4.6	2.5	2.4	5.0	NA	0.3	0.3	0.2	0.3	0.2	NA
Angang	6.9	5.9	5.6	10.6	7.8	NA	2.2	2.8	NA	0.2	0.2	0.2	0.2	0.1	NA
Baosteel	4.7	4.4	4.0	9.9	8.9	9.9	6.5	6.8	5.3	0.6	0.6	0.6	0.2	0.1	NA
POSCO	5.8	5.3	NA	11.3	10.1	NA	5.9	6.4	NA	0.7	0.6	NA	0.7	0.7	NA
Arcelor Mittal	4.0	3.7	3.4	5.9	5.1	4.4	7.2	7.2	NA	0.4	0.4	NA	0.4	0.4	0.3
Salzgitter	3.1	2.8	2.6	7.0	5.6	5.3	4.5	4.8	4.9	0.3	0.3	0.3	1.3	1.4	2.5
Thyssenkrupp	0.4	0.4	0.4	6.2	5.7	4.6	5.0	5.1	5.0	0.3	0.3	0.3	-1.6	-1.3	-0.9
BHP	6.1	6.3	6.6	11.9	12.8	13.2	25.0	22.2	19.4	2.9	2.6	2.4	0.3	0.3	0.3
Rio Tinto	5.1	5.2	5.2	9.5	10.0	10.3	20.7	18.2	17.4	1.9	1.8	1.6	0.1	0.1	-0.1
US Steel	5.2	4.5	NA	13.7	10.7	NA	5.4	7.6	NA	0.8	0.7	NA	0.9	0.7	NA
Gerdau	3.7	3.7	3.4	5.7	6.3	4.9	11.8	10.5	9.9	0.7	0.6	NA	0.3	0.4	0.5
NMDC	7.4	6.9	6.4	9.7	9.7	9.2	21.6	19.2	18.0	2.1	1.9	1.7	-1.0	-1.0	-1.0
Hindustan Zinc	8.5	7.5	7.1	15.1	13.0	12.6	65.0	63.8	57.4	9.8	8.3	7.2	-0.1	-0.3	-0.6
Hindalco	6.2	5.6	5.3	10.6	10.2	10.1	10.5	9.8	9.1	1.1	1.0	0.9	1.4	1.2	1.0

Source: Bloomberg, JM Financial; Note: Valuations at close of 12th Dec'2023

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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

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