

Weekly Update

February 21, 2024

Take away from BHP 2Q results: 1) Copper market is expected to be balanced in CY24 despite a reduction in production announced by copper suppliers. 2) Iron ore market is expected to be buoyant with growth led from India and South East Asia and to a lesser extent from China. China's demand for iron may reduce overtime as it moves beyond steel production plateau. 3) Metallurgical coal seaborne demand is expected to remain strong from India while OECD importing regions are expected to see gradual recovery. 4) Nickel market is facing a multi-year catch scenario until the excess supply is absorbed by the market. The market may rebalance by late 2020s. However, the long term prospects remain positive led by electrification trend.

Novelis Inc, has filed documents for IPO to the SEC. There is no clarity on the size of the stake sale and the intended usage of the funds. The common shares are expected to be offered by Novelis' sole shareholder i.e., A. V. Minerals (Netherlands) N.V., a fully owned subsidiary of Hindalco. This might result in consolidated debt to reduce and better valuation for Novelis.

Domestic steel pricing weakness continues!

- Indian Benchmark HRC price slumped below the Rs 54,000/t mark to Rs 53,800/t. (-0.4% WoW). The spot spreads have declined 1% WoW to Rs 19,980/t led by fall in HRC prices as RM prices remained largely stable.
- Chinese and European prices remained flat sequentially at USD 565/t and USD 620/t. The spot spreads improved 4.8%/3% for China and Europe respectively to USD 97/t and US USD 152/t as iron ore prices fell sharply.
- Coking coal prices declined 0.2% WoW to USD 315/t while Chinese iron ore prices declined 2% WoW to USD 127/t post re-opening of markets. Today it declined further to USD122/t.
- Stainless steel prices increased 1.7% WoW to USD 176k/t after being flat for at Rs173k/t for a month.
- Domestic steel demand improved in January as imports have subsided; however, pricing still remains muted. Primary steel players are expected to take calibrated price hikes in near term in order to push rising cost curve. Steel companies are eyeing export markets as Indian HRC continue to trade at discount on import parity basis. A cut in benchmark lending rate by China is expected to boost housing sector. **Top picks:** JSP, JDSL & HNDL.

Exhibit 1: Weekly Metal Prices

Particulars	Metric	CMP 20-Feb-24	Weekly performance		Monthly performance		Qtrly Performance		Yearly Performance	
			13-Feb-24	WoW gr. (%)	16-Jan-24	MoM gr. (%)	21-Nov-23	QoQ gr. (%)	21-Feb-23	YoY gr. (%)
HRC, ex-Mumbai (250 grade 2.5-8mm)	Rs/t	53,800	54,000	(0.4)	54,100	(0.6)	55,000	(2.2)	59,300	(9.3)
HRC, CNF West Europe	USD/t	620	620	-	625	(0.8)	625	(0.8)	765	(19.0)
HRC, FOB Rizhao, China	USD/t	565	565	-	570	(0.9)	565	-	675	(16.3)
Rebar Ex- Mumbai, 12-32mm, BF Route	Rs/t	51,800	52,100	(0.6)	52,000	(0.4)	56,000	(7.5)	62,800	(17.5)
Stainless Steel 304 Grade, HRC ex-Mumbai	Rs/t	1,76,000	1,73,000	1.7	1,73,000	1.7	1,92,000	(8.3)	2,30,000	(23.5)
Sponge Iron, DRCL0, ex-Raipur, India	Rs/t	30,100	29,408	2.4	29,525	1.9	31,550	(4.6)	35,125	(14.3)
Pig Iron, ex-Durgapur, India (Steel grade)	Rs/t	38,500	38,475	0.1	38,417	0.2	37,217	3.4	42,933	(10.3)
Iron Ore Fines Fe 62%, CNF Rizhao (Aus)	USD/t	127	129	(1.8)	130	(2.0)	133	(4.8)	130	(2.3)
Iron Ore Lumps Fe 63% Odisha, India	Rs/t	6,950	7,100	(2.1)	7,400	(6.1)	7,200	(3.5)	8,100	(14.2)
Coking Coal, FOB Hay Point, Australia	USD/t	315	316	(0.2)	337	(6.5)	315	(0.1)	379	(16.9)
Thermal Coal, FOB Richards Bay, SA RB1 6000	USD/t	92	92	-	94	(1.8)	114	(19.1)	142	(35.0)
Melting Scrap, CFR Nhava Sheva, Shredded	USD/t	412	412	(0.1)	417	(1.3)	412	(0.1)	453	(9.1)
LME Aluminium Spot	USD/t	2,158	2,198	(1.8)	2,163	(0.2)	2,224	(3.0)	2,426	(11.1)
Alumina Spot 99% in East China	USD/t	455	455	(0.0)	446	2.0	413	10.1	425	7.0
LME Copper Spot	USD/t	8,424	8,156	3.3	8,268	1.9	8,353	0.8	9,184	(8.3)
LME Nickel Spot	USD/t	16,113	16,005	0.7	15,901	1.3	16,755	(3.8)	26,880	(40.1)
LME Zinc Spot	USD/t	2,337	2,291	2.0	2,527	(7.5)	2,543	(8.1)	3,172	(26.3)
LME Lead Spot	USD/t	2,057	2,008	2.4	2,078	(1.0)	2,268	(9.3)	2,142	(4.0)
Exchange Rate	USD/INR	82.97	83.01	0.0	83.08	0.1	83.35	0.5	82.80	(0.2)

Source: SteelMint, PL,

Exhibit 2: China Data Points

Particulars	Metric	CMP		Weekly performance		Monthly performance		Quarterly Performance		Yearly Performance	
		19-Feb -24	12-Feb-24	WoW gr. (%)	22-Jan-24	MoM gr. (%)	20-Nov -23	QoQ gr. (%)	20-Feb -23	YoY gr. (%)	
China weekly steel inventory	(10,000 ton)	362^	334	8.3	299	21.1	323	12.1	495	(26.9)	
China iron ore inventory	(10,000 ton)	11,371^	11,279	0.8	10,873	4.6	10,000	13.7	12,655	(10.1)	
China weekly iron ore imports	(mn ton)	12.7	1.3	862.3	9.9	28.1	5.4	137.2	11.8	8.0	
China aluminium spot inventory	(mn ton)	0.64	0.48	35.2	0.42	52.5	0.64	0.9	1.21	(47.0)	
China I&S Products exports (Dec; monthly)	(mn ton)	6.9			7.1	(2.4)	7.1	(3.0)	4.8	42.2	
China I&S Products imports (Dec; monthly)	(mn ton)	0.48			0.44	8.0	0.46	3.4	0.56	(15.0)	
China Mfg. PMI (Jan; monthly)	Points	49.2			49		50.2		50.1		
New Housing start (Dec; monthly)	(in %)	-20.9			-21.5		-23.9		-39.8		

Source: PL; * I&S – Iron and Steel, ^ The data points have not been updated since CNY.

China's central bank cut its 5-year loan prime rate by 0.25bps to 3.95% which is expected to support the Chinese real estate market.

Exhibit 3: Economic Indicators (in %)

Particulars	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
India IIP	6.2	10.9	6.4	11.6	2.4	3.8	Na
China IIP	3.7	4.5	4.5	4.6	6.6	6.8	Na
USA IIP	0.06	-0.12	-0.31	-1	-0.39	1.17	0.03
UK IIP	1	1.2	1.2	-0.5	0.1	0.6	Na
Russia IIP	5	5.6	5.7	5.3	4.5	2.7	Na
Japan IIP	-2.3	-4.4	-4.4	1.1	-1.4	-0.7	Na

Source: PL

Exhibit 4: Region-wise monthly production (mt)

Region	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	YoY gr.	MoM gr.
Africa	1.1	1.2	1.1	1.4	1.3	1.3	1.3	1.4	1.5	1.3	1.9	1.8	1.9	72.7%	5.6%
Asia & Oceania	104.9	107.5	106.6	124.8	121.1	119.5	119.7	119.9	115.7	110.7	108.8	104.8	96.4	-8.1%	-8.0%
CIS	6.2	6.5	6.4	7.6	7.5	7.9	6.8	7.4	7.5	7.3	7.4	7.4	7.1	14.5%	-4.1%
EU (27)	9.2	10.3	10.5	11.9	11.1	11.6	10.6	10.3	9.1	10.6	10.6	10.6	9.1	-1.1%	-14.2%
Other Europe	3.4	3.3	2.7	3.5	3.5	3.7	3.7	3.6	3.4	3.5	3.6	3.7	3.9	14.7%	5.4%
Middle East	3.7	3.8	3.5	3.1	4.2	4.4	4.2	3.1	2.8	3.6	5	4.8	4.9	32.4%	2.1%
North America	8.8	9.1	8.3	9.3	9.2	9.6	9.2	9.4	9.2	9	9.3	8.9	9.3	5.7%	4.5%
South America	3.3	3.6	3.2	3.5	3.6	3.6	3.3	3.4	3.4	3.4	3.4	3.5	3.2	-3.0%	-8.6%
Total 64 countries	140.6	145.3	142.3	165.1	161.5	161.6	158.8	158.5	152.6	149.4	150	145.5	135.8	-3.4%	-6.7%

Source: World Steel Association, PL

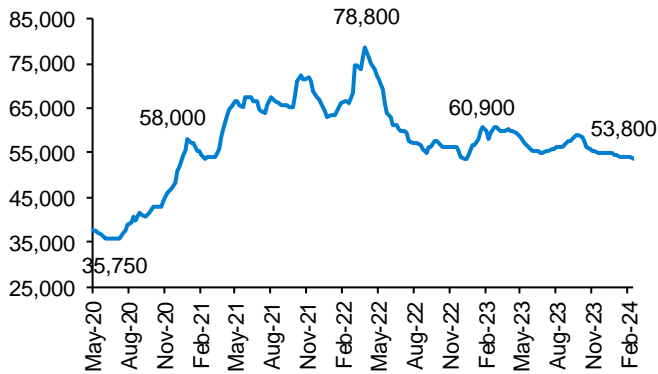
Exhibit 5: Top 10 Crude Steel Producing Countries (mt)

Countries	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	YoY gr.	MoM gr.
China	77.9	79.5	80.1	95.7	92.6	90.1	91.1	90.8	86.4	82.1	79.1	76.1	67.4	-13.5%	-11.4%
India	10.6	10.9	10	11.4	10.7	11.2	11.2	11.5	11.9	11.6	12.1	11.7	12.1	14.2%	3.4%
Japan	6.9	7.2	6.9	7.5	7.2	7.6	7.3	7.4	7.1	7	7.5	7.1	7	1.4%	-1.4%
USA	6.5	6.5	6	6.7	6.6	6.9	6.8	6.9	7	6.7	6.8	6.6	6.8	4.6%	3.0%
Russia	5.5	5.8	5.6	6.6	6.4	6.8	5.8	6.3	6.4	6.2	6.3	6.4	6	9.1%	-6.3%
South Korea	5.2	5.5	5.2	5.8	5.7	5.8	5.5	5.7	5.6	5.5	5.5	5.4	5.4	3.8%	0.0%
Germany	2.7	2.9	3	3.3	3.2	3.2	2.9	3	2.8	2.9	2.9	2.7	2.6	-3.7%	-3.7%
Turkey	2.7	2.6	2.1	2.7	2.7	2.9	2.9	2.9	2.8	2.9	3	3	3.2	18.5%	6.7%
Brazil	2.5	2.8	2.5	2.7	2.8	2.8	2.6	2.7	2.7	2.6	2.6	2.7	2.5	0.0%	-7.4%
Iran	2.7	2.7	2.4	2.2	3.1	3.3	3.2	2	1.6	2.4	3.1	3	2.9	7.4%	-3.3%
Top 10 Countries	123.2	126.4	123.8	144.6	141	140.6	139.3	139.2	134.3	129.9	128.9	124.7	115.9	-5.9%	-7.1%

Source: World Steel Association, PL

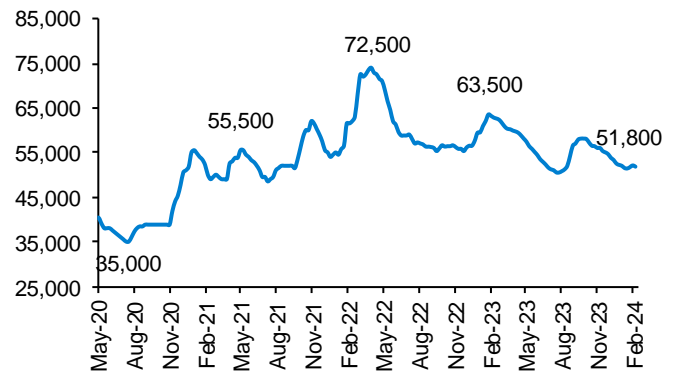
India Snapshot

Exhibit 6: HRC ex-Mumbai, 2.5-8mm (Rs/t)



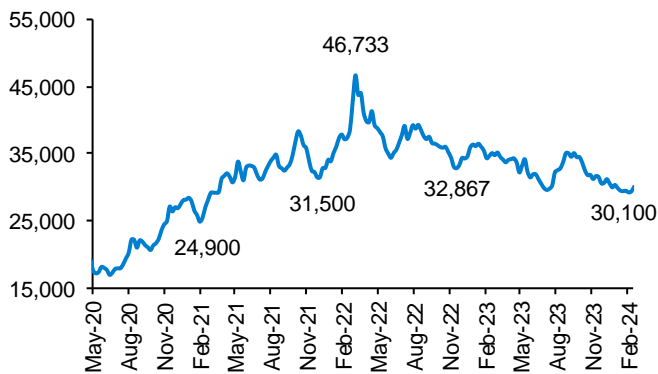
Source: SteelMint, PL

Exhibit 7: Rebar ex-Mumbai, 12-32mm, BF Route (Rs/t)



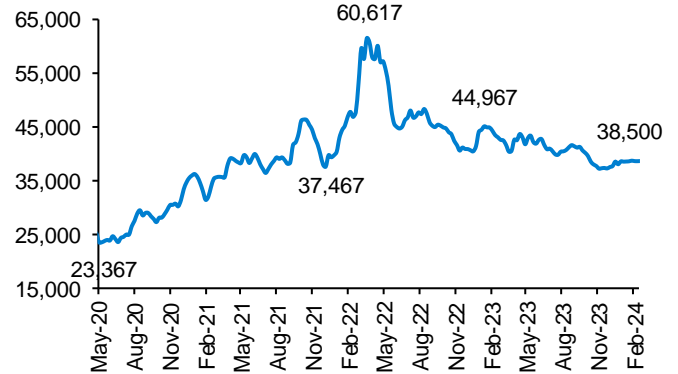
Source: SteelMint, PL

Exhibit 8: Sponge iron, ex-Raipur (Rs/t)



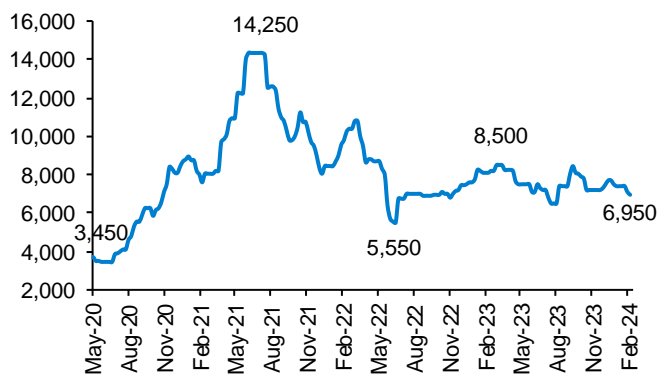
Source: SteelMint, PL

Exhibit 9: Pig Iron, steel grade, ex-Bhilai (Rs/t)



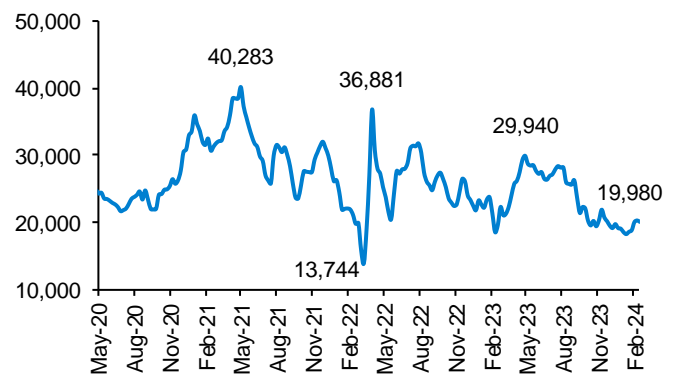
Source: SteelMint, PL

Exhibit 10: Iron ore Lumps Fe 63%, DR grade, Odisha (Rs/t)



Source: SteelMint, PL

Exhibit 11: Mumbai HRC Spot Spreads (Rs/t)

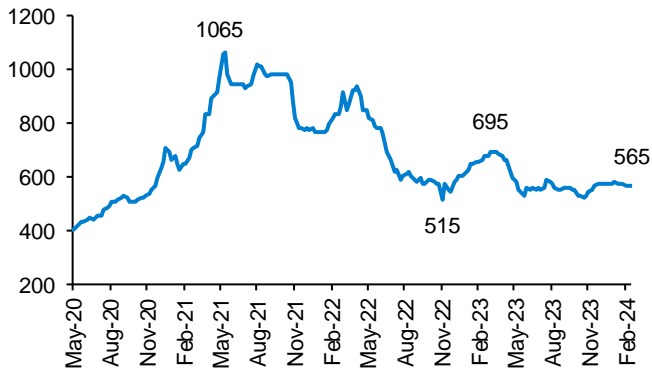


Source: SteelMint, PL

Inference: Sponge iron prices increased 2.4% WoW to Rs 30,100/t while pig iron prices remained flat in the week. Iron ore lumps 63% grade Odisha, declined 2.1% WoW to Rs 6,950/t.

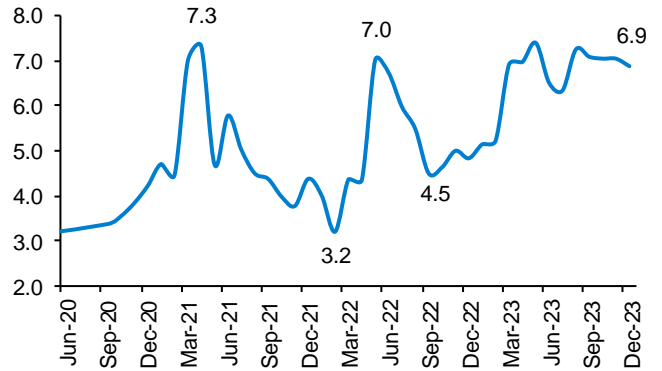
China Snapshot

Exhibit 12: China HRC, FOB Rizhao, 3-12mm (USD/t)



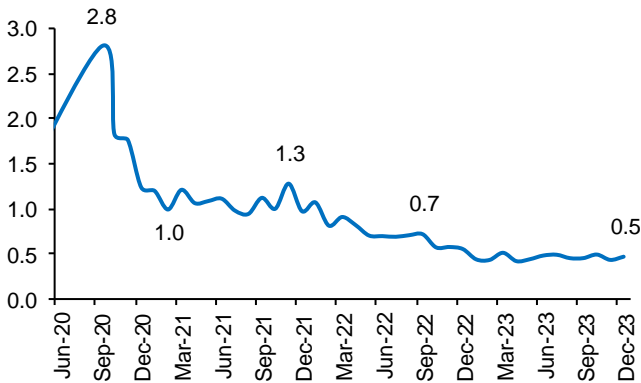
Source: SteelMint , PL

Exhibit 13: China iron and steel products exports (mt)



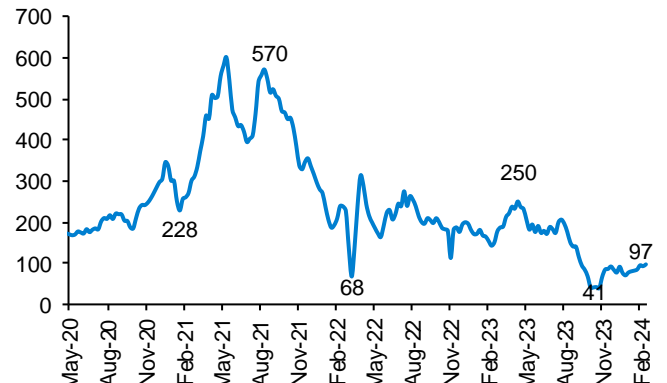
Source: PL

Exhibit 14: China iron and steel products imports (mt)



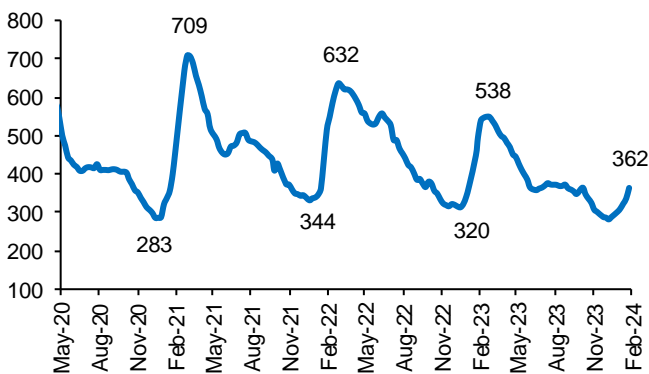
Source: PL

Exhibit 15: China HRC Spot Spreads (USD/t)



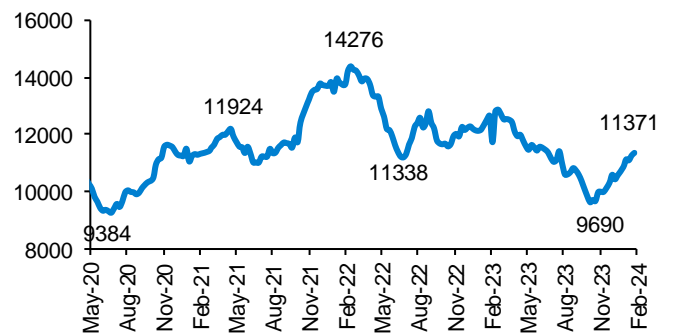
Source: SteelMint , PL

Exhibit 16: China weekly steel inventory ('10kt)



Source: PL

Exhibit 17: China weekly iron ore inventory ('10kt)

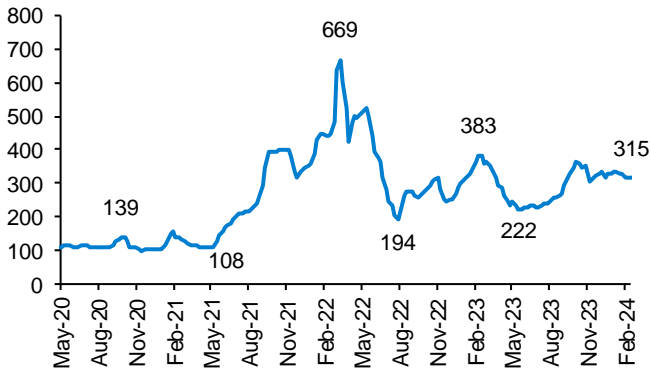


Source: PL

Inference: Chinese iron ore and steel inventory data was not published this week and the previous week. Chinese HRC spreads improved 4.8% WoW to USD97/t as iron ore prices fell sharply.

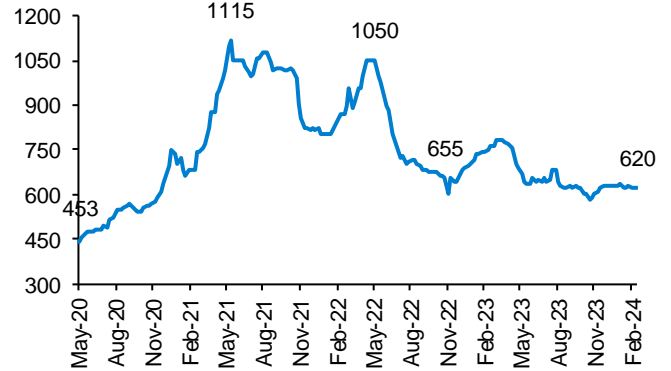
Others

Exhibit 18: HCC Premium Coking coal, FOB, Aus. (USD/t)



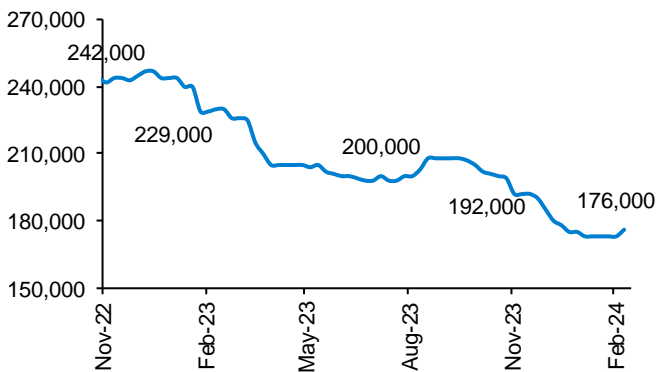
Source: SteelMint, PL

Exhibit 19: HRC, CNF West Europe (USD/t)



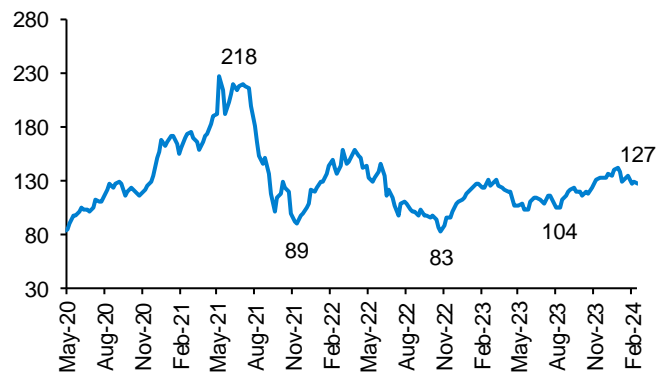
Source: SteelMint, PL

Exhibit 20: Stainless Steel 304 Grade, ex-Mumbai (Rs/t)



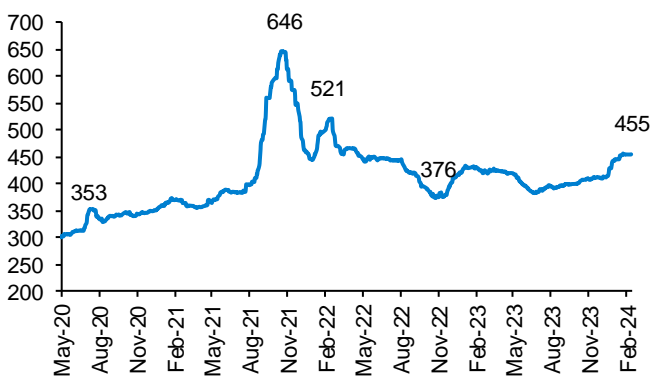
Source: SteelMint, PL

Exhibit 21: China Iron Ore 62% Fines, CNF Rizhao (USD/t)



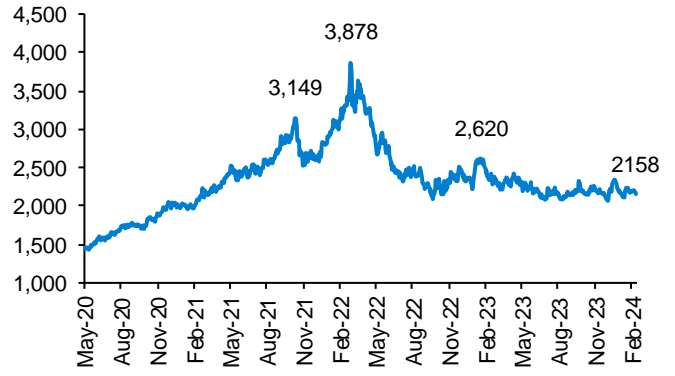
Source: SteelMint, PL

Exhibit 22: East China Alumina price, 99% spot (USD/t)



Source: PL

Exhibit 23: LME Aluminium spot price (USD/t)



Source: PL

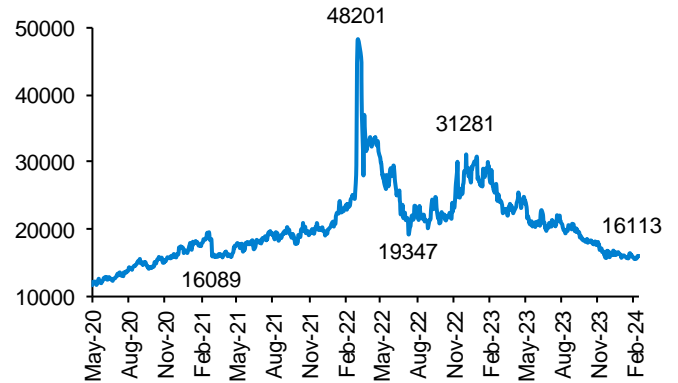
Inference: LME Aluminium prices declined 1.8% WoW to USD 2,158/t. LME Copper and Nickel prices increased 3.3% and 0.7% WoW to USD 8,424/t and USD 16,113/t. LME Zinc and Lead witnessed sharp rally of 2% and 2.4% WoW to USD 2,337/t and USD 2,057/t on USD appreciation.

Exhibit 24: LME Copper spot price (USD/t)



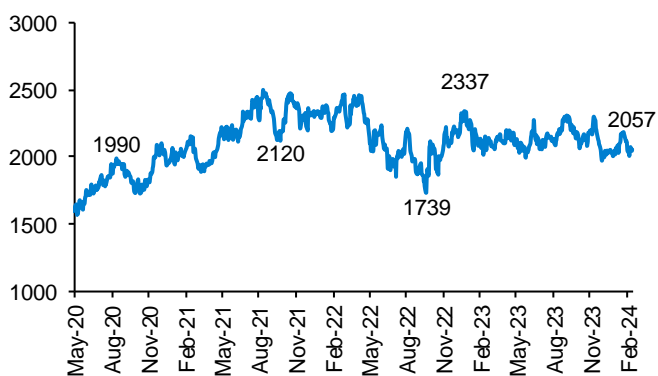
Source: PL

Exhibit 25: LME Nickel spot price (USD/t)



Source: PL

Exhibit 26: LME Lead spot price (USD/t)



Source: PL

Exhibit 27: LME Zinc spot price (USD/t)



Source: PL

Exhibit 28: Valuation Summary

Company Name	MCap (Rs bn)	CMP (Rs)	TP (Rs)	Rating	Net Debt (Rs bn)	BV FY23 (Rs)	EBITDA (Rs bn)			EPS (Rs)			EV/EBITDA (x)			ROCE (%)		
							FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Tata Steel	1,723	141	137	ACC.	610	84	235	331	408	4.4	11.1	16.1	10.3	7.3	5.8	7.8	12.9	16.0
JSW Steel	1,985	821	958	BUY	597	272	299	342	406	50.3	63.5	74.4	8.7	7.6	6.2	14.6	15.5	17.3
Jindal Steel & Power	762	758	842	BUY	70	385	104	122	143	61.0	65.0	74.3	8.1	6.9	5.8	14.7	15.8	17.3
SAIL	540	131	108	HOLD	341	126	93	119	131	5.0	9.8	11.6	9.1	7.1	6.2	6.1	8.9	9.7
Jindal Stainless	530	644	660	ACC.	26	145	52	62	71	36.6	46.4	55.8	11.2	8.6	6.8	24.6	25.1	26.8
NMDC	706	241	261	BUY	-57	77	77	88	105	20.1	22.5	27.1	8.1	6.9	5.4	32.1	32.7	34.6
Hindalco	1,136	512	597	BUY	371	427	236	262	282	44.7	51.4	55.7	6.3	5.6	5.2	11.4	12.2	12.7
Nalco	294	160	101	ACC.	-21	72	24	29	34	8.1	9.3	11.1	11.7	9.8	8.3	13.9	15.8	17.6

Source: Company, PL



Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	597	510
2	Jindal Stainless	Accumulate	660	581
3	Jindal Steel & Power	BUY	842	755
4	JSW Steel	BUY	958	816
5	National Aluminium Co.	Accumulate	101	131
6	NMDC	BUY	261	247
7	Steel Authority of India	Hold	108	123
8	Tata Steel	Accumulate	137	134

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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