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Sector update

## Metals & Mining

Jindal Steel (BUY)  
Jindal Stainless (BUY)  
SMEL (BUY)  
APL Apollo (BUY)  
NMDC (ADD)  
Tata Steel (ADD)  
SAIL (REDUCE)  
JSW Steel (SELL)

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INDIA



## Metals & Mining

### Steel: Usual duel between price and cost is on

After two successive weeks of decline, HRC prices in traders' market rose by Rs500/te on stubbornly high coking coal prices and robust global prices. Spot spread, however, continues to languish at an eleven-month low level. Going ahead, traders are expecting price hike in the range of Rs1,000-1,500/te for Mar-23 owing to favourable import parity and much-improved export realisation. Primary rebar prices continue to stay at a premium to HRC.

In China, HRC appears to be on a stronger footing with declining inventory amidst expectations of favourable policies post 'Two sessions'. Besides, market participants expect steel prices to remain supported owing to the cost push. We will keep a close tab on the signs of demand recovery in China. In the interim, we still retain our circumspect outlook on the sector with JSPL (TP: 750; BUY) and Shyam Metalics (TP: Rs425; BUY) as our key picks in the space owing to the ensuing cost efficiencies and volume growth potential, respectively.

- ▶ **HRC prices rise again; spot spreads remain low:** Domestic HRC prices in traders' market were up Rs400/te WoW to Rs59,710/te. India's export price persisted at US\$705/te (highest in South East Asia region) amidst price increase of US\$25/te by Far-East players and US\$15/te by Chinese and Russian players. As per SteelMint, major domestic steel players such as JSW Steel and AM/NS India have announced a price hike of Rs500/te for HRC earlier this week and others are expected to follow the suit. Besides, our channel checks indicate price hike of Rs1,000-1,500/te is likely in Mar-23 led by coking coal price remaining stable at a high level of US\$350/te and robust global prices. Besides, export volume has also picked up. In Jan-23, export volume rose 33.5% MoM to 0.75mnte- highest level in the past eight months. On import parity front, domestic prices are at par and a discount to the landed cost of imports from Far-East countries and China, respectively. Hence, we do not expect any import pressure in the near term.
- ▶ **Price hikes in South East Asia and Far East sustain in Mar-23 as well:** A number of global steel players have increased their list prices for Mar-23 sales. In China, the two largest players, Baosteel and Ansteel have raised HRC prices by US\$29-42/te and US\$29/te, respectively, for Mar-23 shipments. In Taiwan, China Steel Corporation (CSC) has decided to increase its list price for Mar-23, TWD 600-1,200/te (US\$20-40/te) for domestic sales on expectations of better demand. Besides, HRC prices in US and Europe are already up by US\$210/te and US\$160/te from the low point in Nov-22. The key reasons behind the price hike are robust iron ore and coking coal prices, improved demand sentiment and restocking in some regions. Hence, we believe Indian export price might rise further in Mar-23. Besides, the relief and reconstruction measures in Turkey might constrain steel supply in Europe, resulting in increased opportunity for Indian steel players to increase their export volume further.
- ▶ **Outlook: Chinese stimulus still awaited.** While real estate market is showing the initial signs of improvement, we still await more clarity on stimulus measures in China post Chinese New Year and their impact on the overall steel demand. The market participants in China are hopeful of more clarity in this respect post 'Two sessions' in Mar-23. In India, the decline in spreads post Jan-23 threatens to spoil the profitability of companies in Q4FY23. We maintain our cautious outlook on the sector with JSPL (TP: Rs750) and Shyam Metalics (TP: Rs425) as our key picks owing to their long-heavy product portfolios.

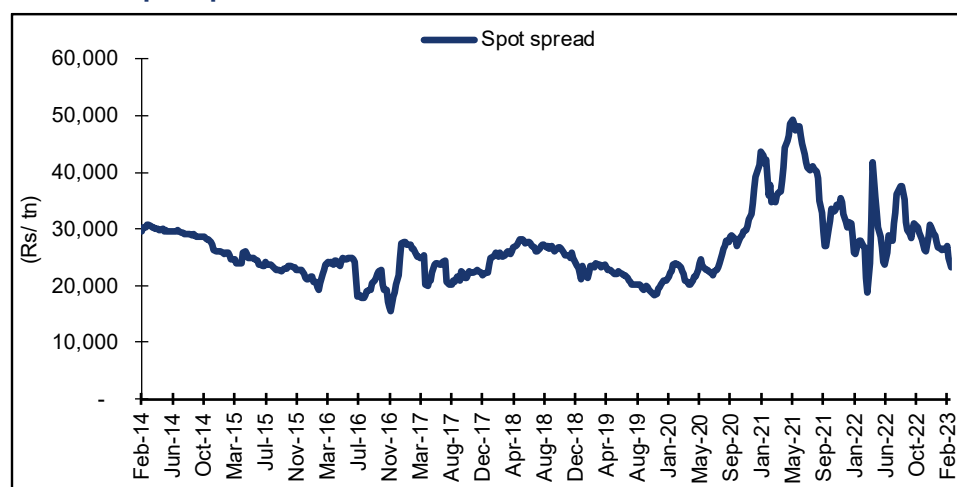
**Table 1: Steel prices across regions**

(US\$/te)	Prices					%Chg			
	Current	1M	3M	6M	12M	1M	3M	6M	12M
US	944	856	708	986	1,178	10.4	33.3	(4.2)	(19.8)
Europe (domestic)	780	745	650	795	1,160	4.7	20.0	(1.9)	(32.8)
China	675	645	550	605	830	4.7	22.7	11.6	(18.7)
Japan	680	650	500	555	905	4.6	36.0	22.5	(24.9)
South Korea	680	650	500	555	905	4.6	36.0	22.5	(24.9)
CIS	695	688	525	570	890	1.0	32.4	21.9	(21.9)
India (Export)	708	680	518	583	864	4.1	36.7	21.4	(18.1)
India (Domestic) - Rs/te	59,711	58,578	55,600	56,367	65,833	1.9	7.4	5.9	(9.3)

Source: I-Sec research, Steel Mint

**Chart 1: Domestic price is at a discount to landed cost of imports from China**

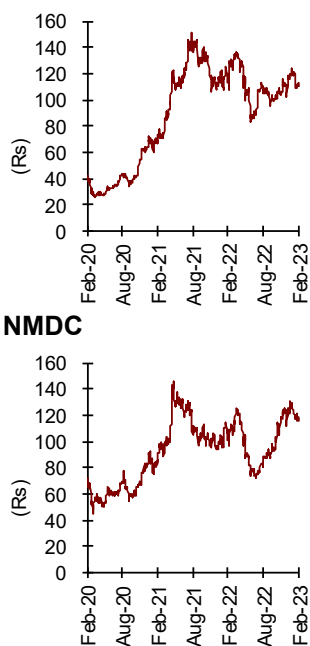
Source: I-Sec research, Steel Mint

**Chart 2: Spot spread has declined**

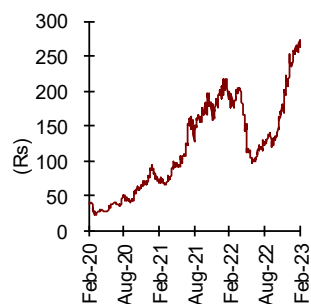
Source: I-Sec research, Steel Mint

## Price charts

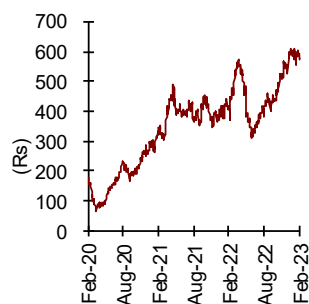
Tata Steel



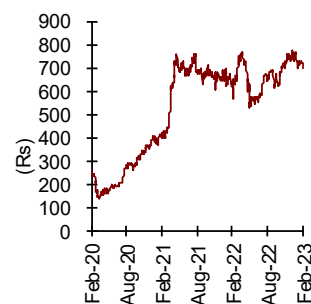
Jindal Stainless



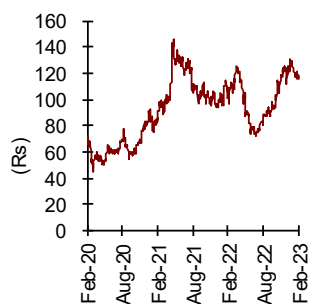
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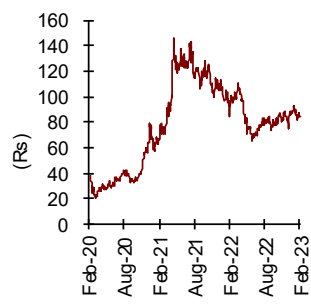
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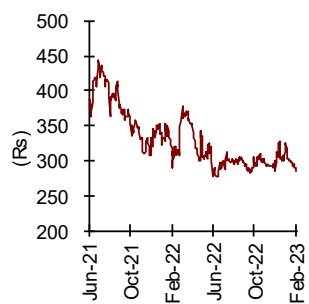
NMDC



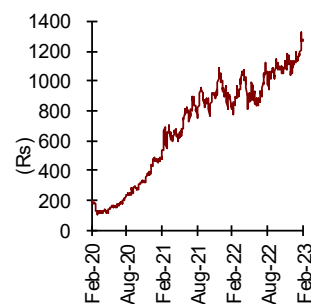
SAIL



SMEL



APL Apollo



Source: Bloomberg

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