

Ferrous and Non-ferrous Metals

Weak global sentiments weigh on base metals

Summary

Indian steel prices remained flat in the month of February as weak sentiment persisted globally (led by higher than expected inflation in the US and hawkish stance of Federal Reserve). Chinese steel prices increased by 5% on MoM basis. Coking coal prices increased marginally by 1% MoM to \$310/tonne in February. During January, global steel production increased by 3% MoM to 145 mn tonnes and Chinese steel production increased by 2% MoM to 80 mn tonnes. Also, Indian crude steel output increased by 3% to 11 mn tonnes. The spreads for steel companies have bottomed out in Q2FY23 in our view. However, we maintain our Neutral stance on the sector as globally the economic growth is likely to remain weak amidst high interest rates in the coming one year.

Key Highlights

- **Steel prices remain flattish:** In February, Indian HRC price fell by Rs400/tonne to Rs59,300/tonne, marginally down MoM after falling nearly 31% from a peak of Rs78,800/tonne since April-22. Also, domestic iron ore prices remain stable at Rs8,200/tonne. Even international ore prices remain flattish at \$119/tonne on a MoM basis.
- **Non-ferrous prices corrected:** During the month, non-ferrous metals aluminium, copper, zinc prices fell by 9%, 4% and 13% respectively.
- **Outlook:** We expect steel companies' operating profit growth to remain muted in FY24. There are chances of recessionary environment in developed countries in coming one year. Even Chinese economy is weak after imposition of lock downs in various parts of the country. Although export duty has been nullified by Indian government, but the probability of increase in steel demand globally remains low in our view.

Valuation snapshot

Companies	Reco	Mkt Cap Rs bn	CMP (Rs)	TP (Rs)	Upside (%)	EV/EBITDA FY23E	FY24E
Tata Steel*	HOLD	1,285	105	117	11.4	5.7	4.6
JSW Steel	HOLD	1,635	676	751	11.1	15.8	7.9
JSPL	SELL	586	572	541	(5.4)	5.7	4.1
SAIL	SELL	352	85	73	(14.1)	5.2	3.7

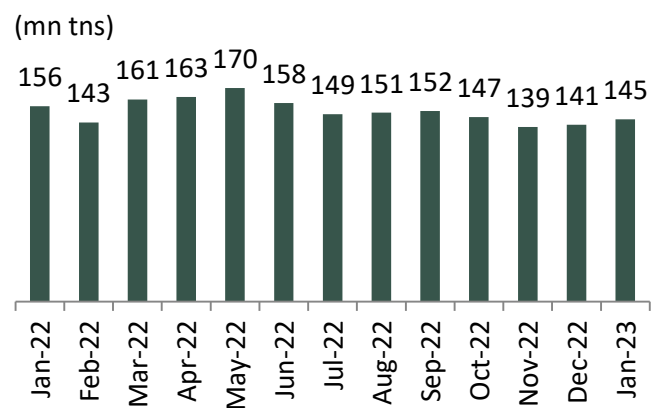
Source: IDBI Capital Research, (*adjusted price post stock split)

Bhavesh Chauhan

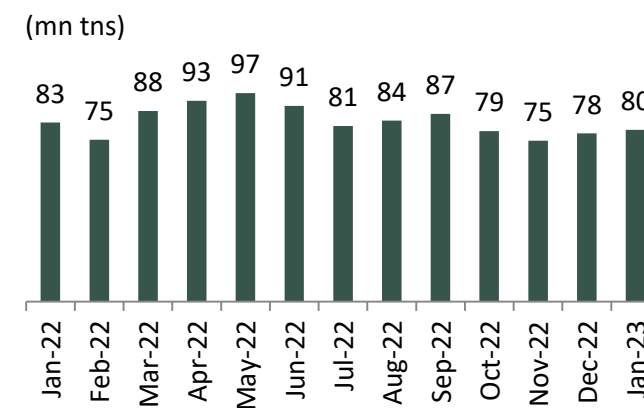
bhavesh.chauhan@idbicapital.com
+91-22-2217 1849

Kuber Chauhan

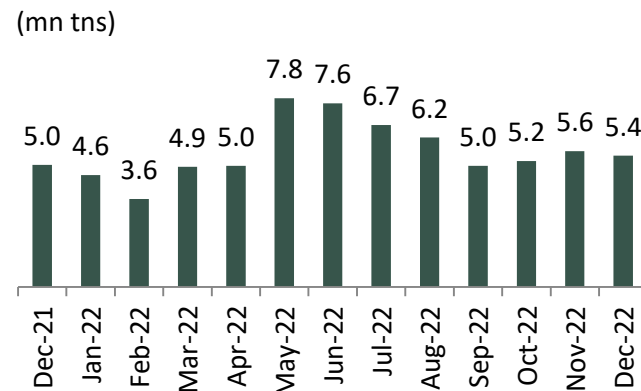
kuber.chauhan@idbicapital.com
+91-22- 2217 1854

Exhibit 1: Global steel production trend

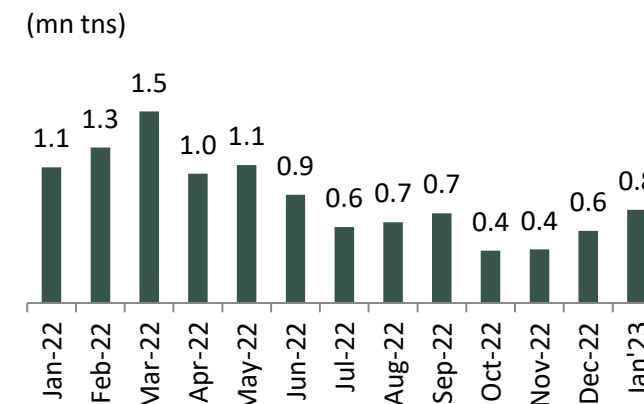
Source: Company; IDBI Capital Research

Exhibit 2: Chinese steel production trend

Source: Company; IDBI Capital Research

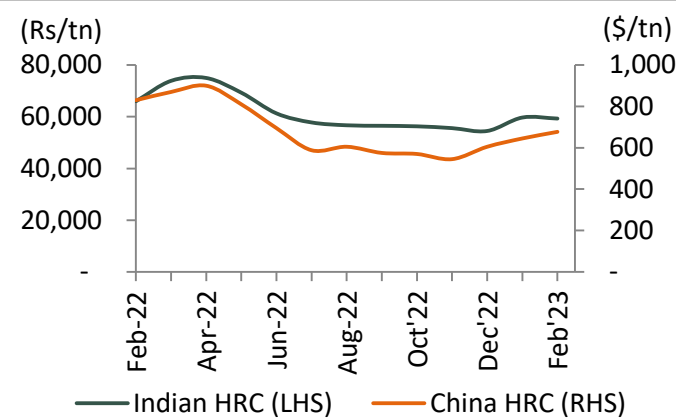
Exhibit 3: Chinese steel exports trend

Source: Company; IDBI Capital Research

Exhibit 4: Indian steel exports trend

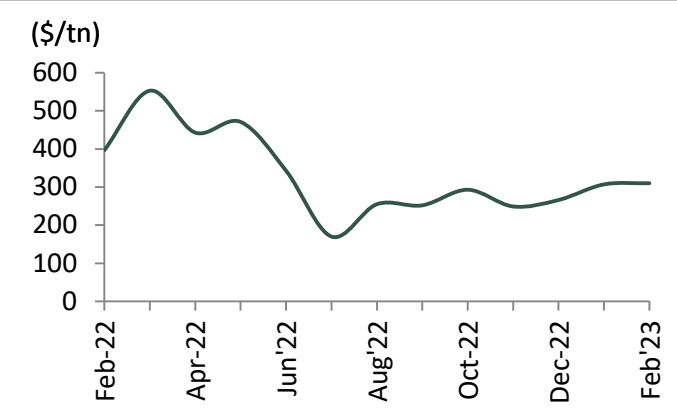
Source: Company; IDBI Capital Research

Exhibit 5: Indian & Chinese HRC price trend



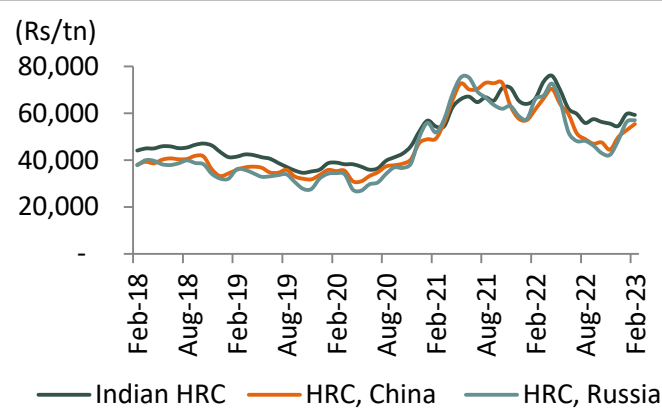
Source: Company; IDBI Capital Research

Exhibit 6: Coking coal price trend



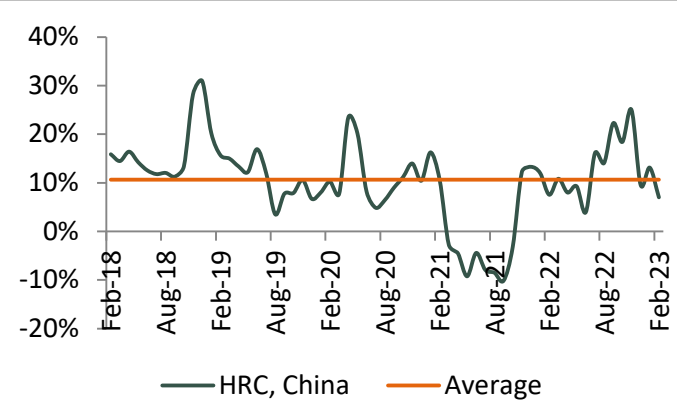
Source: Company; IDBI Capital Research

Exhibit 7: HRC price trend

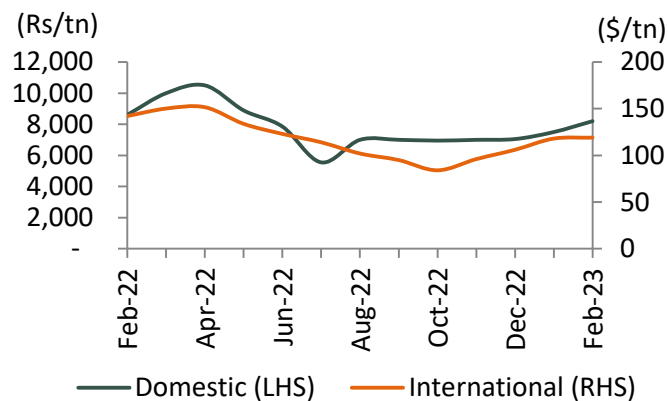


Source: Company; IDBI Capital Research

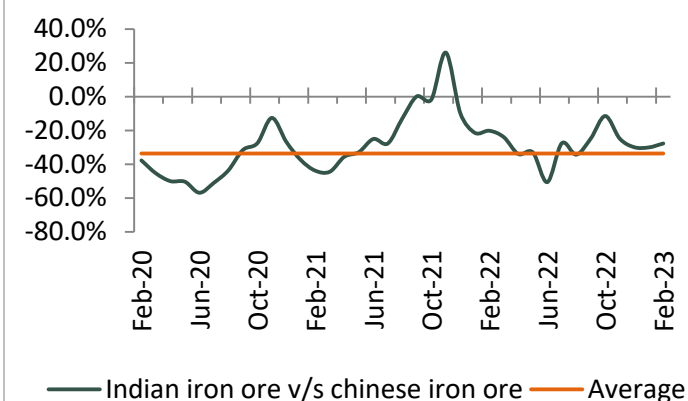
Exhibit 8: Indian HRC vs. Chinese HRC premium



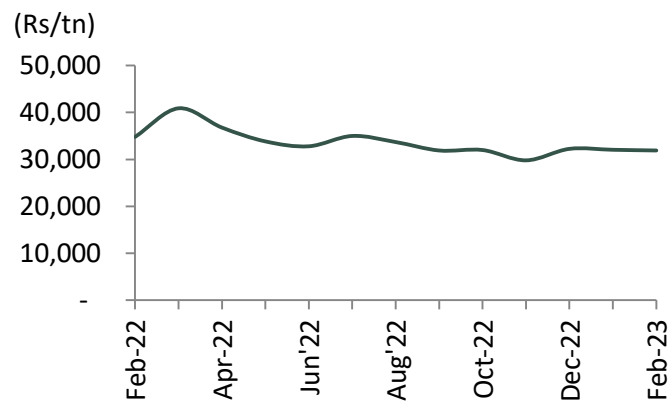
Source: Company; IDBI Capital Research

Exhibit 9: Iron ore price trend

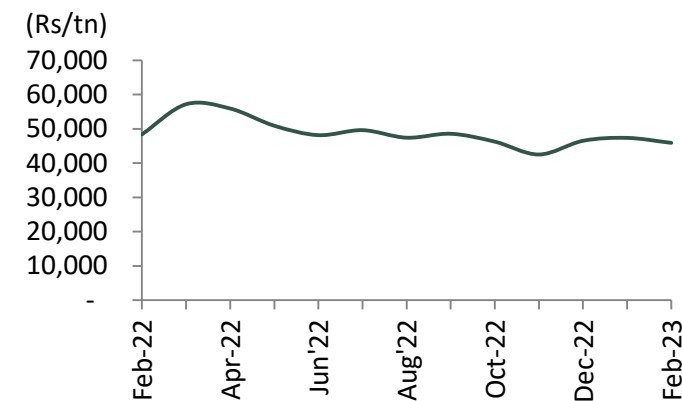
Source: Company; IDBI Capital Research

Exhibit 10: Indian iron ore vs. Chinese iron ore

Source: Company; IDBI Capital Research

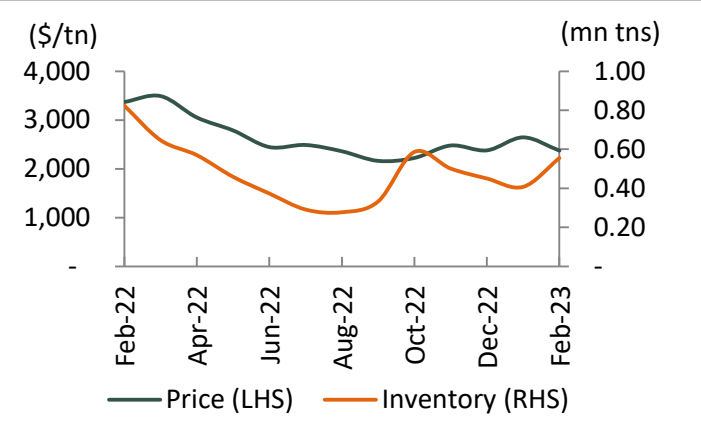
Exhibit 11: Domestic Sponge iron price trend

Source: Company; IDBI Capital Research

Exhibit 12: Domestic Billet price trend

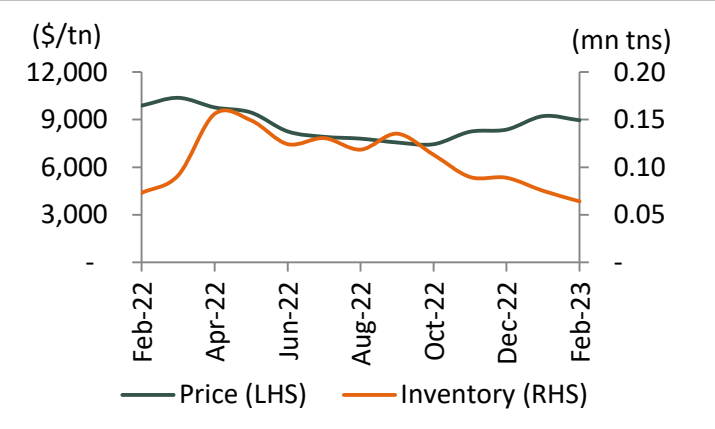
Source: Company; IDBI Capital Research

Exhibit 13: LME aluminium price vs. inventories



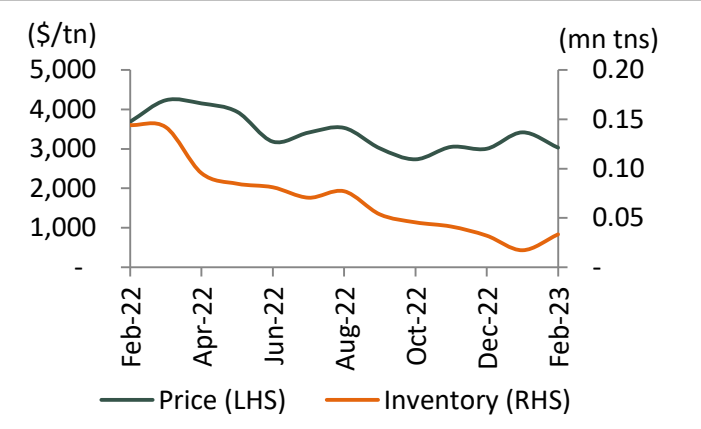
Source: Company; IDBI Capital Research

Exhibit 14: LME copper price vs. inventories



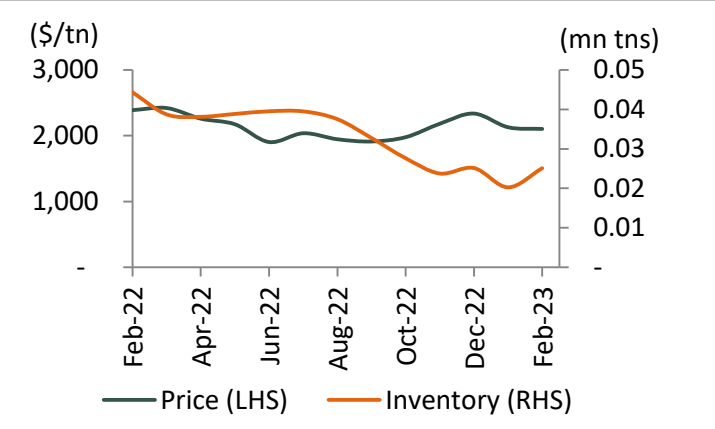
Source: Company; IDBI Capital Research

Exhibit 15: LME zinc price vs. inventories



Source: Company; IDBI Capital Research

Exhibit 16: LME lead price vs. inventories



Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

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