

Ferrous and Non-ferrous Metals

Chinese exports driving steel price drop

Summary

During Aug-24, Indian steel prices decreased by 2.9% MoM to Rs50,000/tonne; while, Chinese steel prices fell by 7.0% MoM to \$465/tonne. Also, coking coal prices fell by 13.5% MoM to \$173/tn. In Jul-24, Indian steel production remained flat at 12.3 mn tonnes. However, estimated Chinese steel production decreased by 9.5% MoM to 83 mn tonnes and global steel production decreased by 5.3% MoM to 153 mn tonnes. Furthermore, Chinese steel exports decreased by 10.4% MoM but increased 7.1% YoY to 7.8 mn tonnes, due to continued weakness in the real estate sector, slowdown in manufacturing sector and unfavorable weather conditions for construction.

Key Highlights

- Steel input prices tumbled:** In Jul-24, Domestic iron ore prices tumbled by 5.8% MoM to Rs5,650/tonne while, international iron ore prices up by 1.1% MoM to \$95/tonne. Further, Manganese price decreased by 20.0% MoM to Rs21,561/tonne.
- Non-ferrous metals prices in downtrend:** In Aug-24, aluminium prices increased by 6.8% MoM to \$2,447/tonne due to tight supply of raw materials. Copper prices remained flattish MoM at \$9,235/tonne. Further, zinc prices increased 8.8% MoM \$2,847/tonne due to production cuts by Chinese zinc smelters and increase in demand on seasonality.
- Outlook:** Despite a decline in Chinese steel production, Chinese steel exports remained high, driving global steel prices, to their lowest level in the past four years. Indian steel prices are still above import parity prices, indicating further downside. The Union Govt is considering increasing import duty on steel imports from the current 7% to 10-12%. Further, weakness in Indian steel prices, combined with delays in adjusting for high-cost raw material inventory, could lead to margin compression and reduced realizations for Indian steel companies. However, a significant drop in raw material prices in Aug'24 might partially alleviate this margin pressure. Nevertheless, Domestic demand in India remains firm and is projected to grow by 8%-10% in FY25. Despite this, the high valuations of steel companies limit potential upside. Accordingly, we maintain a neutral outlook on the steel sector.

Valuation snapshot

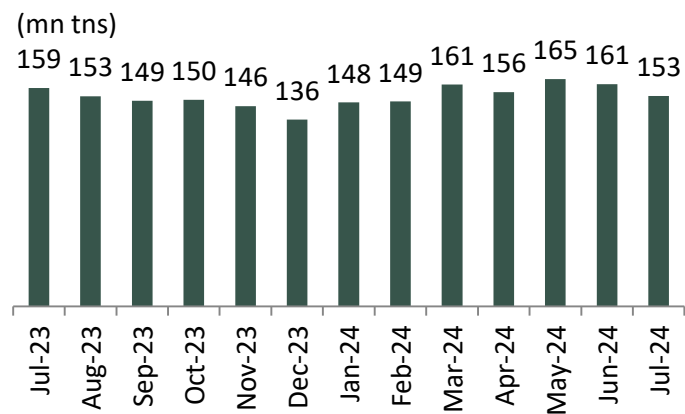
Companies	Reco	Mkt Cap	CMP	TP	Upside	EV/EBITDA	
		Rs bn	(Rs)	(Rs)	(%)	FY25E	FY26E
Tata Steel	HOLD	1,894	152	164	8.1	11.3	6.5
JSW Steel	HOLD	2,262	925	867	-6.3	10.3	8.3
JSPL	HOLD	969	950	952	0.2	10.8	7.3
SAIL	HOLD	542	131	129	-1.7	7.6	6.6

Source: IDBI Capital Research

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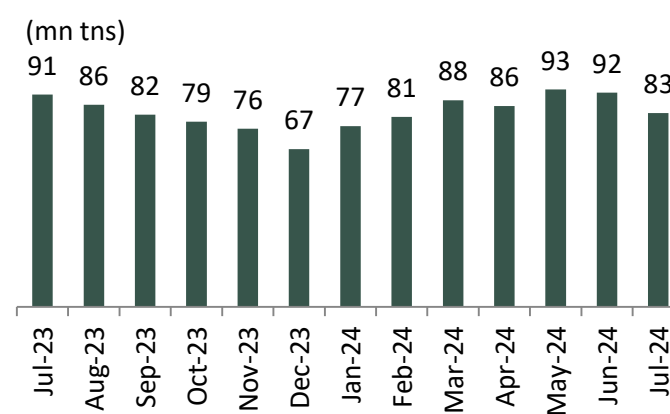
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Exhibit 1: Global steel production trend



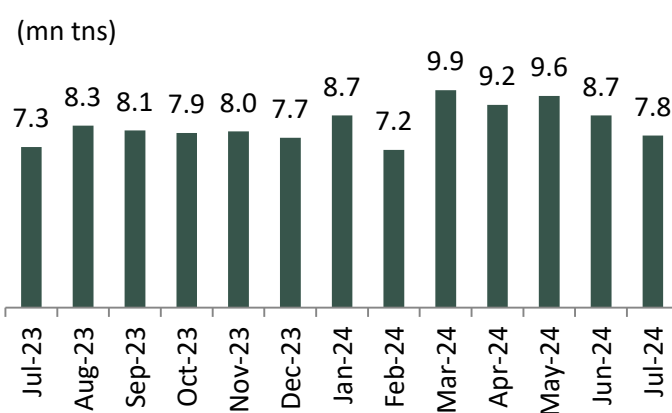
Source: Company; IDBI Capital Research

Exhibit 2: Chinese steel production trend



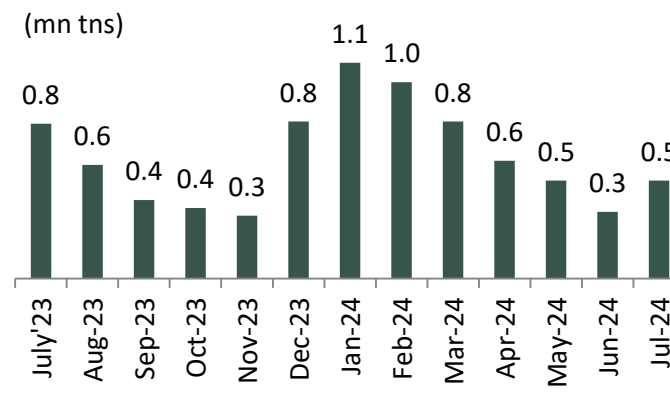
Source: Company; IDBI Capital Research

Exhibit 3: Chinese steel exports trend



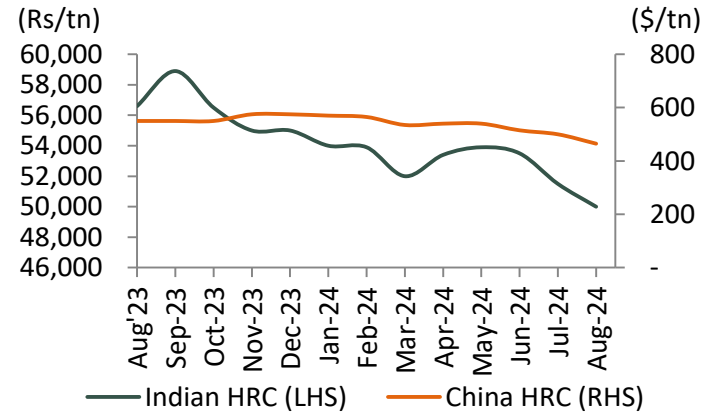
Source: Company; IDBI Capital Research

Exhibit 4: Indian steel exports trend



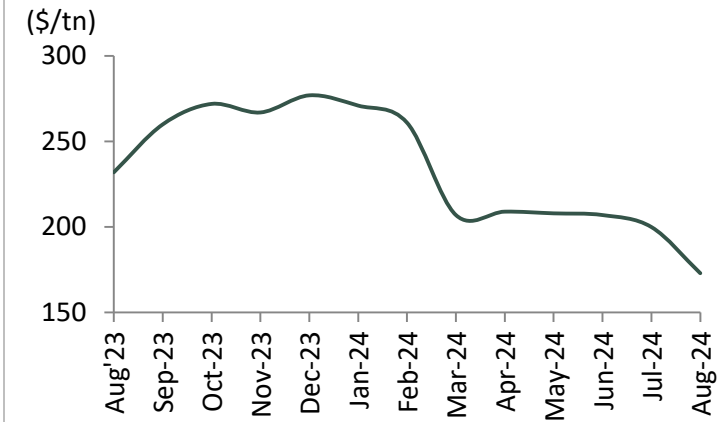
Source: Company; IDBI Capital Research

Exhibit 5: Indian & Chinese HRC price trend



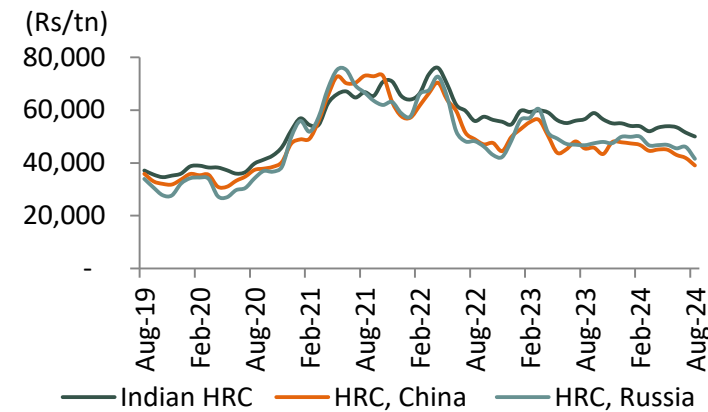
Source: Company; IDBI Capital Research

Exhibit 6: Coking coal price trend



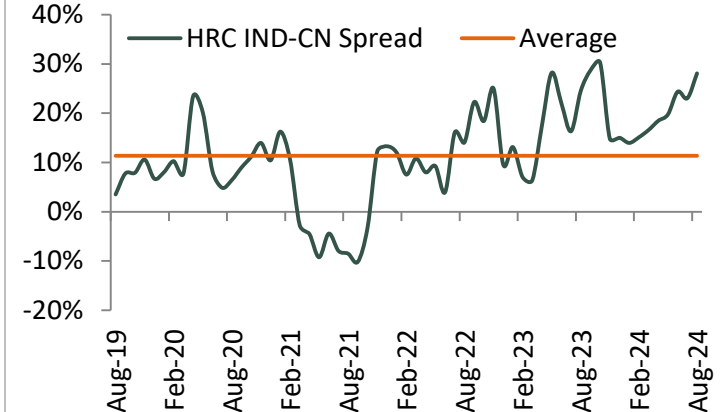
Source: Company; IDBI Capital Research

Exhibit 7: HRC price trend



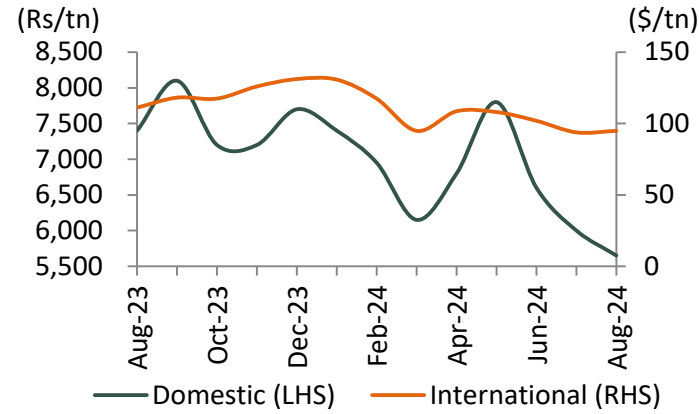
Source: Company; IDBI Capital Research

Exhibit 8: Indian HRC vs. Chinese HRC premium



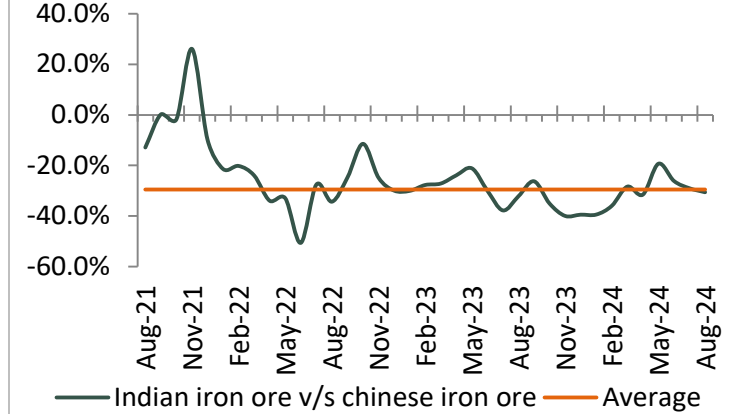
Source: Company; IDBI Capital Research

Exhibit 9: Iron ore price trend



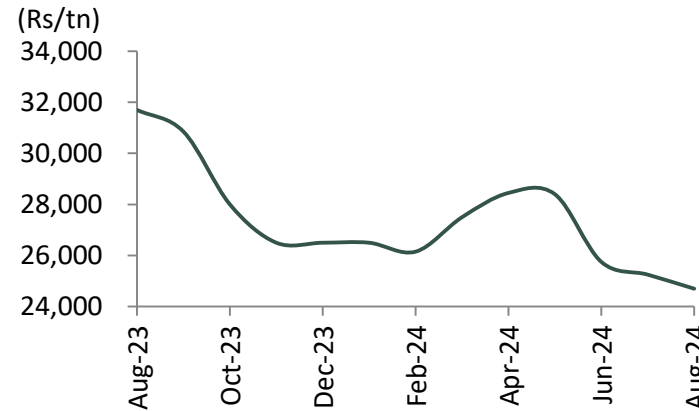
Source: Company; IDBI Capital Research

Exhibit 10: Indian iron ore vs. Chinese iron ore



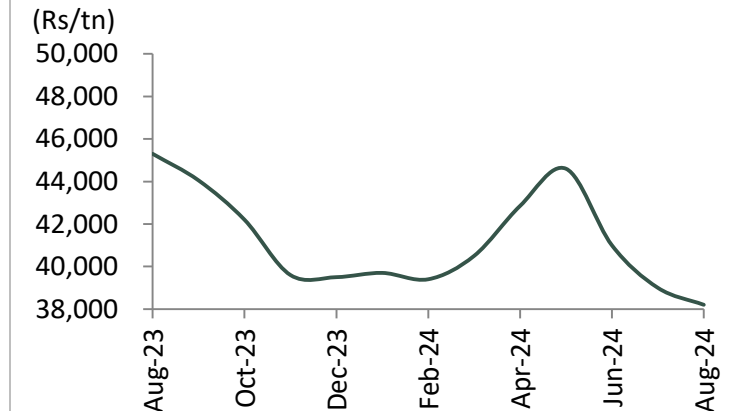
Source: Company; IDBI Capital Research

Exhibit 11: Domestic Sponge iron price trend



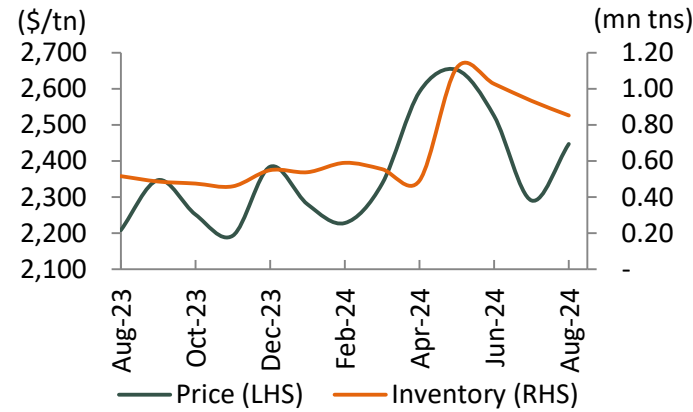
Source: Company; IDBI Capital Research

Exhibit 12: Domestic Billet price trend



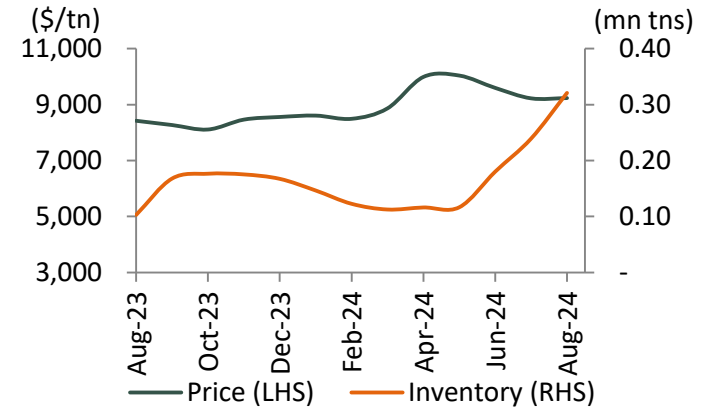
Source: Company; IDBI Capital Research

Exhibit 13: LME aluminium price vs. inventories



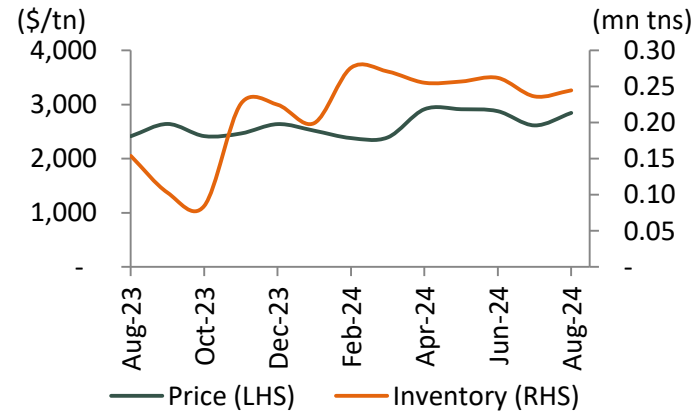
Source: Company; IDBI Capital Research

Exhibit 14: LME copper price vs. inventories



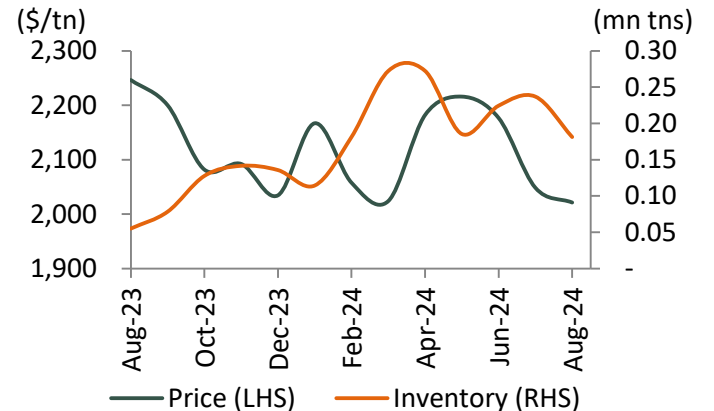
Source: Company; IDBI Capital Research

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

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