

Steel players likely to benefit from low coking coal prices

NOV 12, 2014

Indian steel industry plays crucial role in development of nation and is considered as the backbone of civilization and the level of per capita consumption of steel is an important determinant of the socio-economic development of the country. The Indian steel industry is divided into primary and secondary sectors. The primary sector comprises a few large integrated steel providers producing billets, slabs and hot rolled coils. The secondary sector involves small units focused on the production of value-added products such as cold rolled coils, galvanised coils, angles, columns, beams and other re-rollers, and sponge iron units. Both sectors cater to different market segments. Companies such as Steel Authority of India (SAIL), Rashtriya Ispat Nigam (RINL) and NMDC are responsible for the bulk of the production in the public sector, while companies such as Tata Steel, JSW Steel and Essar Steel are some of the big names in the private sector of the Indian steel industry.

Current scenario

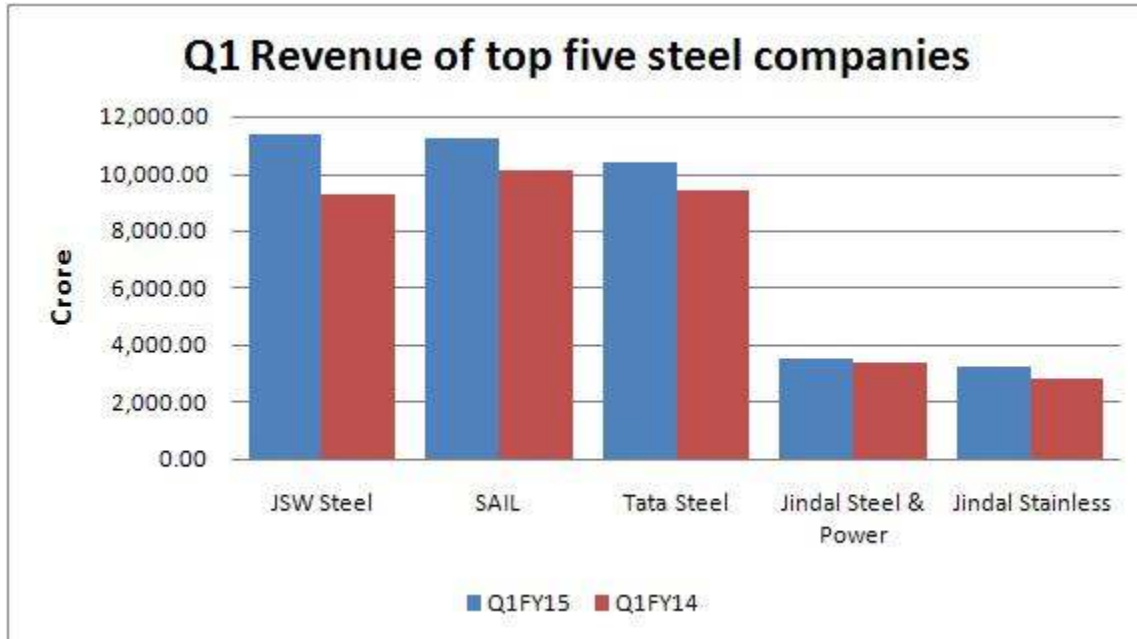
India's steel production grew at nearly half the world's average in the first six months of the year, but the country still remains at the fourth position among top steel producers. From January-June 2014, India produced 41.28 million tonnes (MT) steel, up 1.4 per cent over 40.72 MT in the year-ago period.

In comparison, global production of the alloy stood at 821.34 MT in the first half of 2014, over 801.23 MT during H1 of last year, clocking a growth of 2.5 per cent. Among major steel producing countries, China and South Korea were ahead of India in growth rate at 3 per cent and 9.1 per cent respectively, on the other hand Japan, US and Russia lagged behind. While both US and Japan clocked 0.9 per cent growth in the first six months; Russia's growth was little less at 0.7 per cent. China produced 411.90 MT steel, Japan 55.22 MT, US 43.49 MT and Russia 34.82 MT.

India's position in world's steel production remains unchanged at the fourth place for the last four years since 2010. There was no change in the order of top three steel producing nations with China, Japan and the US retaining their slots in the respective order in 2013. India produced 81.2 MT steel in 2013, 77.3 MT steel 2012, 73.6 MT steel in 2011 and 69 steel MT in 2010.

Q1 Performance of five steel companies

Top five companies of the sector (according to net-sales), reported better-than-expected sales numbers for the first quarter ended June 30, 2014. JSW steel remained the highest revenue generating company among other listed companies in India, mainly led by strong volumes, healthy realisation and higher exports. The company's net sales has increased by 23.12% to Rs 11,370.42 crore for the quarter under review from Rs 9,235.01 crore for the corresponding quarter of the previous year. Moreover, SAIL's net sales grew by 10.78 percent to Rs 11,195.68 crore in the quarter ended June 2014 from Rs 10,106.12 crore in the year-ago period driven by Rourkela, Bokaro and Salem steel plants.



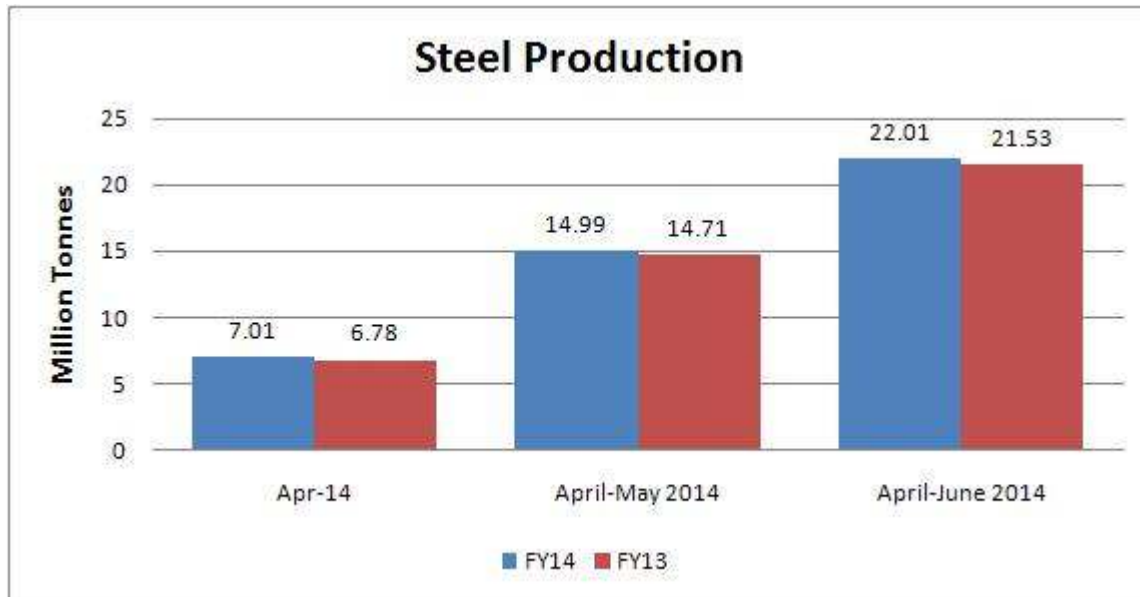
Moreover, Tata Steel's net sales stood at Rs 10,377.73 crore in Q1FY15, up 10.74 percent compared to same quarter last year. Meanwhile, Jindal Steel and Power's net sales went up by 3.93 per cent to Rs 3,518.33 crore in April-June quarter of current fiscal from Rs 3,385.14 crore a year ago. Further, Jindal Stainless' net sales during the reporting quarter rose to Rs 3,232.43 crore from Rs 2,825.34 crore a year ago.

Production

Steel production witnesses modest growth in Q1

India's finished steel production rose by a modest 4.4 per cent in June 2014. The production growth has remained subdued since the beginning of 2014-15. Cumulative production during April-June 2014 rose by 2.2 per cent, much lower than the 13.4 per cent growth registered in the corresponding period a year ago. The country produced 22.01 MT of finished steel in the June 2014 quarter as compared to 21.53 MT produced in the corresponding period a year ago.

Meanwhile, India's finished steel production rose by 3.9 per cent y-o-y in September 2014. The country produced 7.15 MT of steel in September 2014 as compared to 6.88 MT of steel produced in September 2013.



During the June 2014 quarter, Tata Steel's finished steel production grew by an impressive 23.4 per cent to 2.23 MT. JSW Steel recorded a healthy 10.4 per cent rise in production. Its finished steel output stood at 4.38 MT during the quarter. Jindal Steel & Power recorded a meager 1.7 per cent rise in production. Other integrated steel producers such as SAIL, Rashtriya Ispat Nigam and Essar Steel recorded a y-o-y fall in output. While SAIL's finished steel production fell by 7.2 per cent that of RINL's declined by 6.2 per cent. Essar Steel recorded a 15.2 per cent fall in its output to 1.38 MT during the quarter.

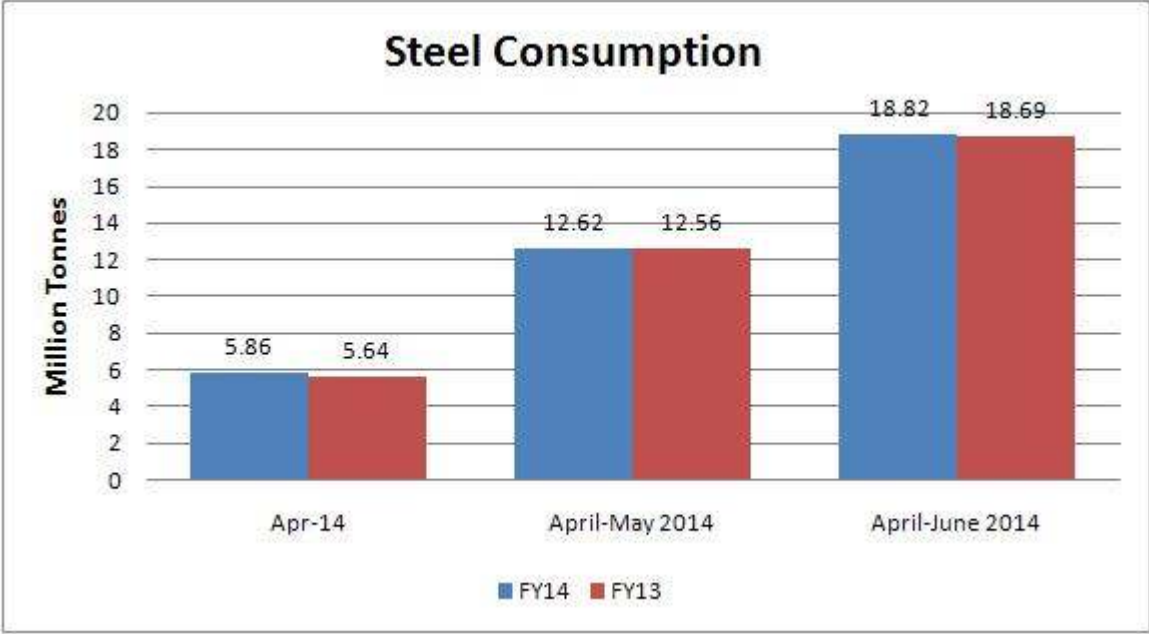
Moreover, JSW Steel reported an 11 per cent y-o-y rise in production in September 2014. The company's finished steel output stood at 1.46 MT in September 2014 as compared to 1.31 MT in September 2013. Essar Steel registered a 13 per cent y-o-y rise in its finished steel output to 0.35 MT. Jindal Steel & Power's output increased by 18.2 per cent to 0.13 MT. On the other hand, finished steel production of Rashtriya Ispat Nigam fell by 5.2 per cent. The company's output declined from 0.23 MT in September 2013 to 0.22 MT in September 2014. Tata Steel's production fell by 1.8 per cent to 0.75 MT. SAIL's output declined by 2.3 per cent to 0.84 MT during the month.

Consumption

Steel consumption grew at slower pace in April-June 2014

India's steel consumption grew by a mere 0.7 per cent during the first quarter of current fiscal to 18.82 MT. The country had consumed 18.69 MT steel in the April-June quarter of last fiscal. In recent months, the rate of growth in consumption was the fastest at 3.4 per cent in April. It was 0.3 per cent in May and 0.9 per cent in June. Moreover, the Steel Ministry estimates that the

country's consumption may go up to 176 MT by 2025-26 if the economy grows by 6.5 per cent during the period between now and 2025-26.

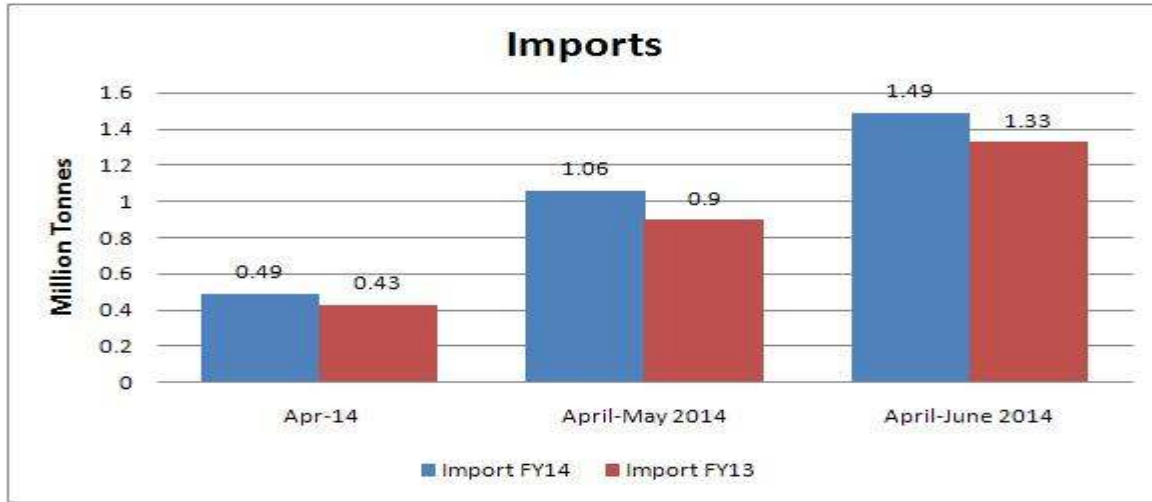


In the past 10 years, the consumption growth of finished steel in India has been in the range of 9 per cent per annum. Even a modest recovery in overall GDP (gross domestic product) growth of 6-7 per cent will increase the finished steel consumption of India close to a band between 200-225 MT by 2025 from the current level of around 74 MT. Moreover, with per capita steel consumption of only 59 kg against a world average of 220 kg, there is a tremendous potential for increasing steel consumption in the country. A finished steel consumption in the band of 225-250 MT translates into a requirement of 300 MT of crude steel capacity in the country, after taking into account crude to finished conversion ratio and reasonable capacity utilization. With India placed favourably in the global cost curve, it is expected that India would also be exporting a substantial quantity of steel and would be a net exporter.

Imports

Imports soars 12.89% in Q1

During the April-June period, India's import of finished steel saw a growth of 12.03 per cent to 1.49 MT as compared to 1.33 MT in corresponding quarter previous year. For the full year import of finished steel decreased 31.30 per cent to 5.44 MT as compared to 7.92 MT in FY13.

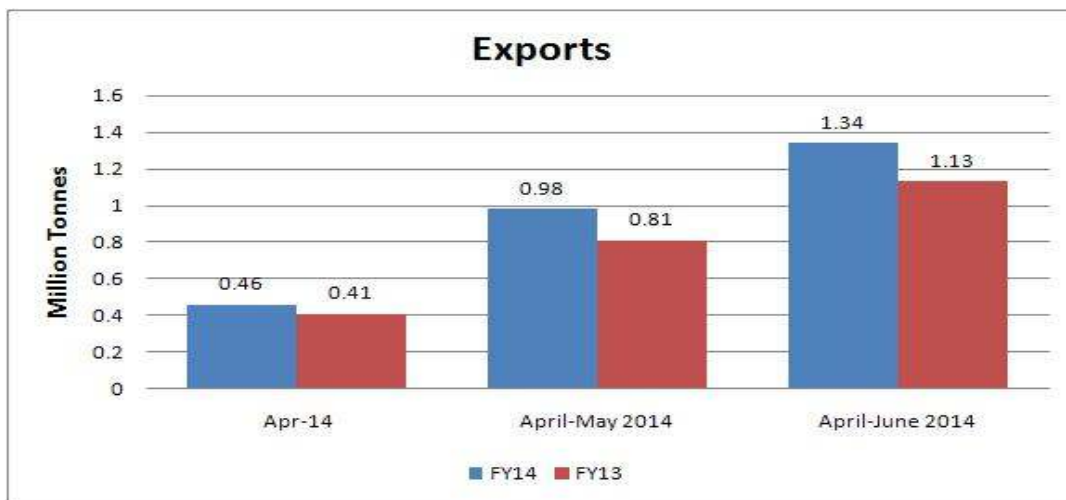


Exports

Exports clocks 18.58% growth in Q1FY15

India, which became a net exporter of steel in recent times, exported 1.34 MT of finished steel during April-June period clocking an 18.58 per cent growth over a year ago. Meanwhile, the revenue earned through exports of alloy, non-alloy and semis between April 2014 and June 2014 stood at Rs 7,971 crore. The revenue on account of steel exports stood at Rs 29,994 crore in 2013-14, Rs 26,912 crore in 2012-13 and Rs 21,946 crore in 2011-12 respectively.

Meanwhile, in a bid to increase domestic value addition and improve iron ore availability for domestic steel industry at reasonable prices, duty on export of iron ore has been increased to 30 per cent. Recently the government has imposed export duty of 5 per cent ad valorem on export of iron ore pellets.



Investments in the sector

The steel industry and its associated mining and metallurgy has seen a number of major investments and developments in the recently.

- Tata Steel has bought 100,000 tonnes of iron ore from NMDC over the last two months and has also sought a long-term supply tie-up with the state-run miner. It has already started sourcing small quantities of iron ore from NMDC from June 2014 by participating in the e-auctions being conducted by NMDC from time to time. Moreover, the company has chalked out a Rs 12,000-14,000 crore (\$1.96-2.28 billion) capital expenditure plan to fund expansion of its Kalinganagar plant in 2014-15. The company's capacity would increase from the current 9.5 MT to 13 MT after the expansion.
- JSW Steel is planning to acquire Welspun Maxsteel (WMSL) in a deal worth over Rs 1,000 crore (\$163.42 million). This move is aimed at achieving the strategic goal to enhance its steel production to 40 million tonnes per annum (MTPA) in the next decade from the current 14.3 MTPA. This acquisition, together with that of Ispat made earlier, will help JSW strengthen its position in the western Indian market.
- Adani Enterprises has planned to buy out the royalty rights of Carmichael coal project from Linc Energy Ltd for a sum of \$145 million. It is estimated that this project will provide electricity for up to 100 million people in India.
- Jindal SAW has entered into an asset purchase agreement and plans to acquire PSL-North America Llc, a US-based steel pipe maker. Jindal SAW, a part of the OP Jindal Group, produces SAW pipes widely used in the energy sector for the transportation of oil and gas.

Positives for the industry

Lower international prices of coking coal

The domestic steel players producing steel through the blast furnace route stand to benefit from the continuing weakness in the international coking coal prices. Coking coal prices have declined around 16% in the first quarter of 2014-15 (Q1FY15) over the previous quarter, and the same contract prices have been rolled over in Q2FY15. This followed a 13% decline in coking coal prices over the whole of FY14. With the exchange rate remaining largely stable in FY15, the price decline has provided a relief to the blast furnace operators in the country, which import coking coal for producing steel. However, domestic iron ore production continues to suffer in spite of the lifting of bans from mines in Karnataka and Goa. The continuing short supply situation in the country has been further aggravated by the recent closure of iron ore mines in Odisha, although temporarily.

Ministry of Steel to set up SRTMI

Ministry of Steel will set up a 'Steel Research & Technology Mission of India' (SRTMI) to promote collaborative research programmes in steel sector. Investment on Research &

Development in the steel sector must increase from present level of 0.2-0.3% of turnover to international benchmark of 1-2 % of turnover by the leading companies, he added. SRTMI will carry out R&D in priority areas of national importance covering best usage of available raw materials & conservation of natural resources, optimum energy conservation & minimum emissions leading to innovations and in-house development of design, engineering & manufacturing facilities of key steel plant equipment. The task force further proposed that SAIL, Tata Steel, JSW Steel, JSPL, Essar Steel, RINL, NMDC & MECON will be the initial participating companies who will sign MOU besides Ministry of Steel.

Key concerns for the industry:

Steel industry in India, still trails behind in several areas when compared with many other nations such as China, Japan, USA etc. in terms of efficiency, Research and Development (R&D), and technology development. Main problems relate to technological obsolescence in older plants and quality constraints of raw material. Inferior quality of raw materials, for example, high alumina in iron ore and high ash in coking coal is a major issue facing the Iron & Steel Industry in the country leading to high specific energy consumption and generation of high slag volume. It is, therefore, imperative that the industry must resolve to change the scenario, by finding innovative solutions to the problems by pursuing relevant R&D for its long-term survival and growth or by adopting tested models from mining rich nations.

Low Productivity: The per capita labour productivity in India is at 90-100 tonnes which is one of the lowest in the world. The labour productivity in Japan, Korea and some other major steel producing countries is about 600-700 tonnes per man per year. At Gallatin Steel, a mini mill in the U.S. there are less than 300 employees to produce 1.2 million tonnes of hot rolled coils. A comparable facility in India employs 5,000 workers. Therefore, there is an urgent need to increase the productivity, which requires retraining and redevelopment of the labour force.

Low utilisation of potential: The potential utilisation in iron and steel is very low. Rarely the utilisation exceeds 80 per cent of potential. For example, Durgapur steel plant utilises only 50 per cent of its potential. This is caused by several factors, like strikes, lockouts, scarcity of raw materials, energy crisis, inefficient administration, etc.

Shortage of metallurgical coal: Although, India has huge deposits of high-grade iron ore, its coal reserves, especially high grade cooking coal for smelting iron are limited. Many steel plants are forced to import metallurgical coal. For example, steel plant at Vishakhapatnam has to import coal from Australia. Serious thought is now being given to replace imported coal by natural gas from Krishna-Godavari basin.

Outlook

India's steel demand is likely to rise by 4-5 per cent this year and will touch a compounded annual growth rate (CAGR) of 15 per cent after FY17. With expectations of the new government's thrust on jump starting stalled projects initially followed by pushing large flagship projects, including the freight and industrial corridors, it is expected that India will begin moving back on the path of materials intensive growth by the end of this year. However, constraint of domestic iron ore availability, consistently large imports at concessional duty from Japan and Korea under CEPA-FTA, as well as rising imports of boron-added steel from China, and growing imbalance of global steel supply and demand remain major challenges for the Indian steel industry.

On the positive side, basic custom duty on the plants and equipment required for initial setup or expansion of iron ore pellets plants and iron ore beneficiation plants has been reduced to 2.5 per cent from 7.5/5 per cent. Lower coking coal prices may also benefit steel players in the industry. Moreover, domestic players' investments in expanding and upgrading manufacturing facilities are expected to reduce reliance on imports. In addition, the entry of international players would provide benefits in terms of capital resources, technical know-how and more competitive industry dynamics.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
JSW Steel Ltd.	1245.30	30101.65	1020.75	0.88	124.82	9.98
Tata Sponge Iron Ltd.	705.60	1086.62	512.10	1.42	85.45	8.26
Tata Steel Ltd.	479.70	46589.20	650.94	2.08	75.41	6.36
Mahindra UGINE Steel Company Ltd.	526.65	1722.92	113.60	0.00	60.48	8.71
Welcast Steels Ltd.	548.00	34.97	509.08	0.91	52.02	10.53
Ratnamani Metals & Tubes Ltd.	595.65	2780.70	182.98	0.76	37.36	15.94
Tata Metaliks Ltd.	161.65	408.78	24.36	0.00	35.11	4.60
Godawari Power & Ispat Ltd.	156.00	511.00	250.05	1.60	28.96	5.39
Sarda Energy & Minerals Ltd.	217.15	780.71	285.35	1.38	27.99	7.76
Technocraft Industries (India) Ltd.	188.30	593.65	176.60	2.66	22.91	8.22
Kalyani Steels Ltd.	170.30	743.41	98.65	1.76	17.09	9.97
Rajratan Global Wire Ltd.	90.00	39.17	183.96	1.11	16.86	5.34
Maharashtra Seamless Ltd.	315.35	2112.83	331.15	1.90	15.94	19.79
Jindal Steel & Power Ltd.	155.50	14226.75	146.36	0.96	15.19	10.24
Prakash Industries Ltd.	58.95	792.81	162.53	1.70	14.60	4.04
Srikalahasthi Pipes Ltd.	75.60	300.61	63.21	1.98	14.24	5.31
Gujarat Intrux Ltd.	89.60	30.78	103.67	1.12	12.83	6.98

Surya Roshni Ltd.	95.90	420.34	138.19	1.04	11.49	8.35
Uni Abex Alloy Products Ltd.	350.00	69.13	254.66	1.71	10.99	31.85
Prakash Steelage Ltd.	117.35	205.36	106.20	0.85	10.14	11.57
APL Apollo Tubes Ltd.	346.55	812.27	141.21	1.44	9.90	35.00
Gandhi Special Tubes Ltd.	218.95	321.83	113.44	2.74	8.92	24.54
Good Luck Steel Tubes Ltd.	64.95	136.44	78.57	0.46	8.65	7.51
Jindal Saw Ltd.	88.40	2441.82	144.83	1.13	8.57	10.32
Steel Exchange India Ltd.	56.10	291.44	42.06	0.00	8.12	6.91
Vardhman Industries Ltd.	40.00	31.58	103.02	2.50	8.09	4.94
National Steel & Agro Industries Ltd.	23.00	102.35	65.75	0.00	7.02	3.28
Steel Authority Of India Ltd.	82.65	34138.79	104.58	2.42	6.53	12.67
Gallantt Ispat Ltd.	386.00	1129.69	75.46	0.13	6.42	60.08
Skipper Ltd.	115.25	1179.20	26.26	0.13	5.58	20.66
Ashiana Ispat Ltd.	13.90	6.21	48.32	0.00	5.46	2.55
Vallabh Steels Ltd.	22.15	10.96	92.14	0.00	5.30	4.18
Monnet Ispat & Energy Ltd.	83.40	548.99	407.45	1.20	4.79	17.41
Ahmedabad Steelcraft Ltd.	34.60	14.16	67.23	2.89	4.37	7.92
Real Strips Ltd.	30.80	18.42	83.97	0.00	4.26	7.23
MSP Steel & Power Ltd.	18.90	166.51	78.64	0.00	3.45	5.47
Shree Steel Wire Ropes Ltd.	10.00	3.31	22.52	0.00	3.43	2.92
Shivalik Bimetal Controls Ltd.	27.90	53.57	30.86	0.00	3.40	8.20
Kamdhenu Ispat Ltd.	57.90	135.49	42.03	0.00	3.35	17.30
Oil Country Tubular Ltd.	39.85	176.49	54.00	5.02	3.18	12.52
Uttam Galva Steels Ltd.	72.15	1026.41	91.02	0.00	2.74	26.30
Hisar Metal Industries Ltd.	24.25	8.73	35.03	4.12	2.72	8.91
Garg Furnace Ltd.	16.20	6.49	78.09	0.00	2.29	7.09
Bedmutha Industries Ltd.	20.60	43.33	60.76	0.00	2.13	9.66
Siddhartha Tubes Ltd.	9.35	5.61	-364.15	0.00	2.02	4.63
Gallantt Metal Ltd.	24.10	195.99	31.42	0.00	2.01	12.01
Rathi Bars Ltd.	9.40	15.35	45.72	0.00	1.96	4.81
Suraj Ltd.	90.60	174.53	43.30	1.66	1.76	51.48
Man Industries (India) Ltd.	68.30	390.01	116.70	1.46	1.71	39.92
Welspun Enterprises Ltd.	280.20	368.39	1236.58	0.00	1.56	179.22
Jayaswal Neco Industries Ltd.	11.65	744.01	35.04	0.00	1.27	9.21
Suraj Products Ltd.	15.80	18.01	24.37	3.80	1.21	13.06
Pennar Industries Ltd.	61.05	734.73	26.35	0.00	0.95	64.11
Adhunik Industries Ltd.	149.40	698.65	19.57	0.00	0.93	160.61
Sunflag Iron & Steel Company Ltd.	30.35	546.97	31.51	0.00	0.53	57.33
Aditya Ispat Ltd.	4.30	2.30	14.03	0.00	0.53	8.16

Vaswani Industries Ltd.	3.33	9.54	29.23	0.00	0.47	7.07
Archon Industries Ltd.	26.95	3.26	21.64	0.00	0.45	59.27
Shree Precoated Steels Ltd.	4.84	40.07	0.50	0.00	0.42	11.45
Rajasthan Tube Manufacturing Company Ltd.	18.40	8.29	25.71	0.00	0.37	50.27
Ashirwad Steels & Industries Ltd.	5.36	6.70	40.73	0.00	0.25	21.07
Remi Edelstahl Tubulars Ltd.	19.95	19.12	46.98	0.00	0.21	95.58
Bhagwandas Metals Ltd.	8.41	3.07	19.56	0.00	0.16	51.14
OCL Iron and Steel Ltd.	24.10	323.29	43.41	0.00	0.15	163.77
AML Steels Ltd.	9.20	6.90	52.52	0.00	0.07	140.81
Ruchi Strips & Alloys Ltd.	5.27	26.35	11.78	0.00	0.06	95.12
Adhunik Metaliks Ltd.	35.35	436.57	55.06	0.00	0.03	0.00
Maximaa Systems Ltd.	7.50	37.68	2.77	0.00	0.00	0.00
Southern Ispat & Energy Ltd.	0.32	42.29	1.51	0.00	0.00	119.12
India Steel Works Ltd.	4.35	173.17	2.33	0.00	0.00	0.00
Welspun Corp Ltd.	74.30	1953.71	70.22	0.67	-0.01	0.00
Rishabh Digha Steel & Allied Products Ltd.	19.55	10.73	16.80	5.12	-0.07	0.00
Ranjeev Alloys Ltd.	4.59	1.76	9.43	0.00	-0.24	0.00
Eastcoast Steel Ltd.	64.85	35.00	4.05	0.00	-0.45	0.00
Gyscoal Alloys Ltd.	40.50	64.10	58.27	0.00	-0.47	0.00
Uttam Value Steels Ltd.	7.35	971.39	3.15	0.00	-0.50	0.00
Sujana Metal Products Ltd.	4.15	81.49	34.90	0.00	-0.93	0.00
Bihar Sponge Iron Ltd.	3.12	28.14	-11.00	0.00	-0.99	0.00
Sathavahana Ispat Ltd.	44.85	228.29	36.62	0.00	-1.22	0.00
Mukand Ltd.	47.15	666.73	32.38	0.00	-1.41	0.00
Facor Steels Ltd.	0.66	13.63	-3.35	0.00	-1.48	0.00
Electrosteel Steels Ltd.	4.95	1192.57	6.54	0.00	-1.52	0.00
Steelco Gujarat Ltd.	7.61	32.39	-9.13	0.00	-1.54	0.00
Mukat Pipes Ltd.	2.75	2.15	-8.10	0.00	-1.90	0.00
Lloyds Metals & Energy Ltd.	11.87	132.10	6.32	0.00	-2.74	0.00
RMG Alloy Steel Ltd.	4.87	52.81	-16.95	0.00	-2.76	0.00
SAL Steel Ltd.	2.56	21.75	7.61	0.00	-3.45	0.00
Gangotri Iron & Steel Company Ltd.	1.98	5.31	6.84	0.00	-3.53	0.00
Usha Martin Ltd.	30.10	917.27	45.18	0.00	-4.55	0.00
Vardhman Special Steels Ltd.	32.25	59.84	93.27	0.00	-5.56	0.00
KIC Metaliks Ltd.	424.45	301.33	62.82	0.00	-6.13	0.00
Mahalaxmi Seamless Ltd.	7.10	3.75	8.42	0.00	-6.14	0.00
Bhushan Steel Ltd.	109.55	2481.47	393.25	0.46	-6.88	0.00
Anil Special Steel Industries Ltd.	4.56	11.66	20.02	0.00	-7.85	0.00

Modern Steels Ltd.	10.57	14.55	21.47	0.00	-7.99	0.00
Visa Steel Ltd.	20.20	222.20	31.60	0.00	-10.78	0.00
Zenith Birla (India) Ltd.	1.15	15.10	2.38	0.00	-12.02	0.00
Ankit Metal & Power Ltd.	6.59	80.45	36.11	0.00	-12.19	0.00
Orissa Sponge Iron & Steel Ltd.	152.40	411.48	-7.37	0.00	-12.79	0.00
ISMT Ltd.	22.65	331.83	16.83	0.00	-14.13	0.00
Varun Industries Ltd.	3.74	10.89	3.79	0.00	-17.74	0.00
Rathi Steel & Power Ltd.	4.85	15.18	-3.87	0.00	-20.97	0.00
Bhuwalka Steel Industries Ltd.	12.17	12.63	0.58	0.00	-24.45	0.00
Surana Industries Ltd.	55.00	244.85	208.06	0.00	-31.47	0.00
Monnet Industries Ltd.	25.25	9.30	-31.45	0.00	-33.75	0.00
Jai Balaji Industries Ltd.	17.00	125.43	21.15	0.00	-44.04	0.00
Jindal Stainless Ltd.	32.80	706.43	3.49	0.00	-47.62	0.00
Tulsyan NEC Ltd.	22.80	34.20	77.51	0.00	-50.09	0.00
Shah Alloys Ltd.	7.05	13.96	-303.30	0.00	-65.75	0.00
PSL Ltd.	18.65	99.40	-71.41	0.00	-96.94	0.00

Sorted With TTM EPS

Source – Ace Equity

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