

07 September 2023

India | Equity research | Sector Update

## Metals

### Steel: Prices rise across products

HRC prices in traders' market rose by INR 900/te while rebar prices in primary market rose by INR 2,500/te in the week ended Sep 06, '23, mirroring the hike taken by major steel producers. Despite coking coal price rising 2% WoW, spot spread inched up on a positive price-cost spread. In China, both export and domestic prices were up following the expectations from policy measures to boost demand. Additionally, market participants expect production cuts to be implemented in order to maintain CY23 production at the same level as CY22. On domestic front, we remain optimistic led by improving margins and robust volumes particularly in H2CY23. We maintain JSPL (**BUY**, TP: INR 810), Tata Steel (**ADD**, TP: INR 135) and SAIL (**ADD**, TP: INR100) as our key picks.

### Price hikes announced, traders' market likely to follow

HRC prices in traders' market rose for the tenth successive week while rebar price also surged again after a tranquil three-month period to the level last witnessed in mid-Jun'23. Our channel checks indicate JSW Steel and ArcelorMittal-Nippon Steel India (AM-NS India) have raised HRC prices by INR 1,250/te each and CRC prices by INR 1,250-1,750/te, respectively. The current HRC price in Mumbai market for both the companies stands at INR 58,250-58,500/te. On the other hand, price in traders' market is still at INR 57,600/te, indicating the possibility of a further uptick. In case of primary rebars, our channel checks indicate both Tata Steel and JSPL have raised list price by INR 2,000-2,500/te while SAIL has taken a hike of INR 750/te. As a result, list price for rebar works out to INR 56,000-58,000/te, while traders' market is still at INR 54,000-55,000/te on average. In case of secondary market, pellet price is back at INR 10,000/te- at a six-month high level. Secondary rebar price is also back to INR 51,160/te on average- highest level since May'23. In our view, prices are likely to increase further in domestic market as domestic demand, particularly from government-led infrastructure projects, is likely to remain robust in H2FY24.

### China: High costs and peak construction period to aid prices

In China, rebar price has risen by 3% WoW as the expectations of central government is pushing its policy support for macro economy, targeted at construction sector. That said, as per MySteel data, almost 45% of the 247 producers are still profitable. We believe higher cost is likely to lend support to prices as average profitability of longs and flat steel producers in China is still at 12<sup>th</sup> and 13<sup>th</sup> percentile of its past fifteen-year range. Besides, China steel inventory has slid for the third successive week, down 1% WoW at 11.1mte, as of now. On production front, more steelmakers in East and Central China have started planning to curtail production to comply with central government's directive to keep CY23 flat at prior year level of CY22.

### Outlook: More positives in sight

Amidst rising Chinese domestic and export steel prices, we believe the recent price hikes taken by major steel players are likely to boost margins as domestic demand stays robust and channel inventory is stable. We maintain JSPL (**BUY**, TP: INR 810), Tata Steel (**ADD**, TP: INR 135) and SAIL (**ADD**, TP: INR 100) as our preferred picks.

#### Amit Dixit

amit.dixit@icicisecurities.com  
+91 22 6807 7289

#### Mohit Lohia

mohit.lohia@icicisecurities.com

#### Pritish Urumkar

Pritish.urumkar@icicisecurities.com

**Jindal Steel (BUY)**

**Tata Steel (ADD)**

**SAIL (ADD)**

**NMDC (ADD)**

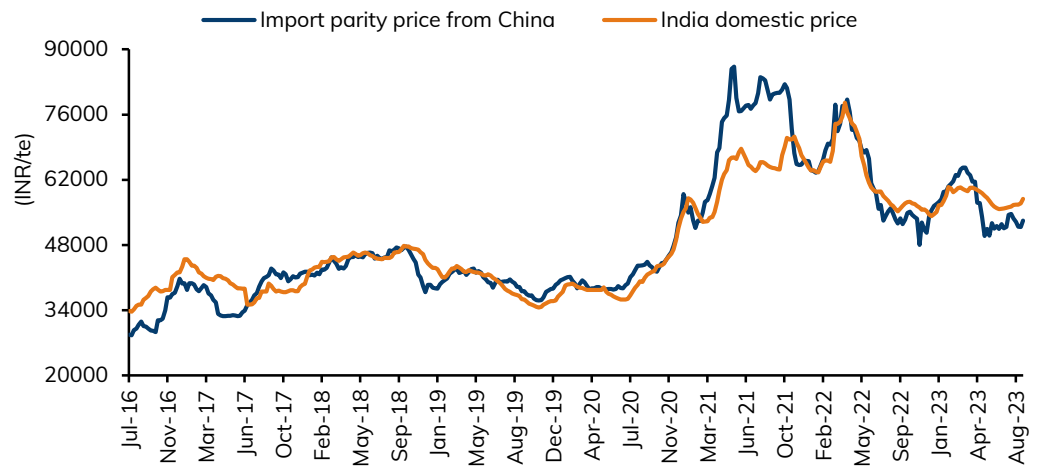
**JSW Steel (HOLD)**

### Exhibit 1: Prices across regions

(In USD/te)	Prices					% chg			
	Current	1M	3M	6M	12M	1M	3M	6M	12M
US	894	928	1,067	1,156	883	(3.6)	(16.1)	(22.6)	1.3
Europe (domestic)	655	660	725	810	785	(0.8)	(9.7)	(19.1)	(16.6)
China	565	583	560	695	580	(3.0)	0.9	(18.7)	(2.6)
Japan	600	578	560	685	565	3.9	7.1	(12.4)	6.2
South Korea	600	600	670	685	590	0.0	(10.4)	(12.4)	1.7
CIS	560	565	580	780	553	(0.9)	(3.4)	(28.2)	1.3
India (Export)	580	585	570	708	575	(0.9)	1.8	(18.1)	0.9
India (Domestic)- INR/te	57,900	56,222	56,739	60,389	55,211	3.0	2.0	(4.1)	4.9

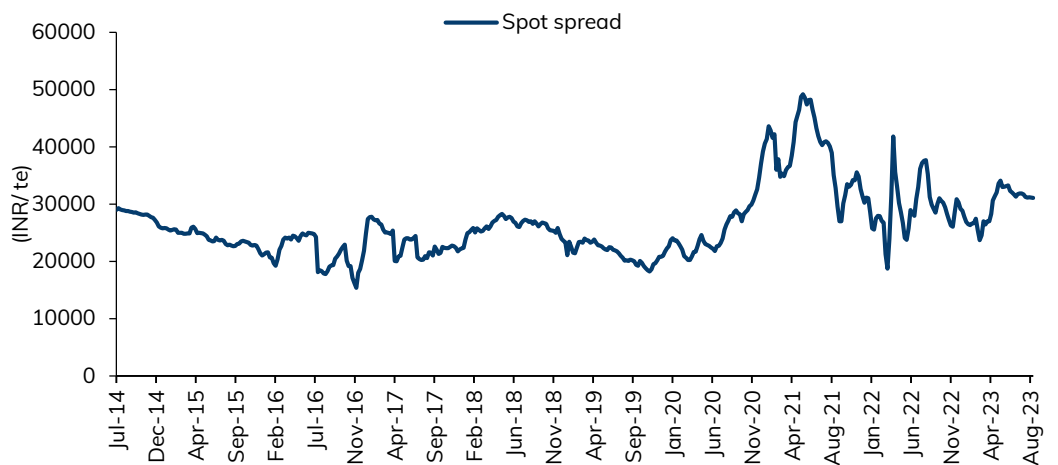
Source: I-Sec research, SteelMint, Bloomberg

### Exhibit 2: Price parity with China



Source: I-Sec research, Bloomberg, SteelMint

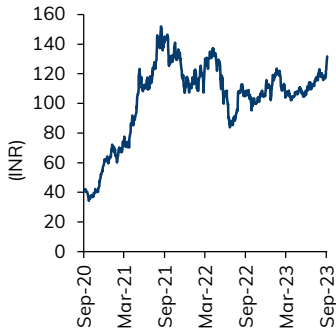
### Exhibit 3: Spot spread has come off to some extent



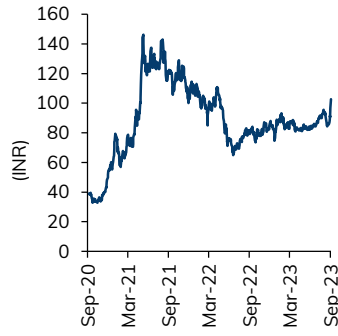
Source: I-Sec research, SteelMint

Price charts

Tata Steel



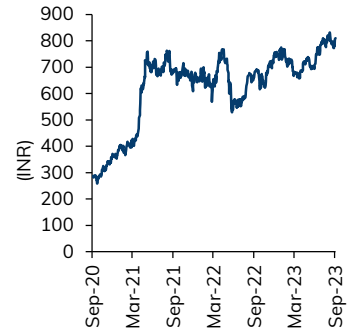
SAIL



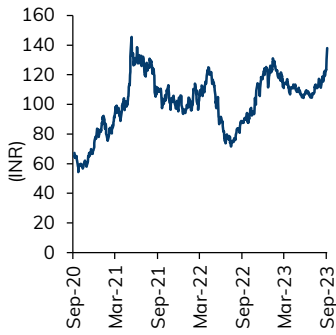
Jindal Steel



JSW Steel



NMDC



Source: Bloomberg

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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