

# METALS AND MINING

## Domestic steel prices: Positive momentum to stay

India Equity Research | Metals and Mining

Domestic HRC prices have been on an upswing riding the global price surge. On average, domestic HRC prices have risen only 4% compared with an uptick of 9–11% in global HRC prices over the past five weeks. For the first time in 13 weeks, import prices are above the anti-dumping duty level, implying further room for a rise in domestic prices. In longs as well, both large and medium/small producers have increased prices. We continue to prefer JSPL ('BUY'; TP INR165) in the ferrous space (owing to its reliance on longs and operating leverage benefits), maintain 'HOLD' on Tata Steel (TSL; TP INR396) and JSW Steel (JSTL; TP INR225), and retain 'REDUCE' (TP: INR30) on SAIL.

### Firm global prices push import price above anti-dumping levels

Global flat steel prices have been on an upswing lately. In the past five weeks, HRC prices CNF (India) from South Korea and China are up 7% to USD493/t and 10% to USD488/t, respectively. The current landed price of imports (excluding port charges) is above the anti-dumping duty level for the first time since August. Black sea FOB HRC price has shot up 11.5% in the past five weeks to USD410/t (highest since September), providing respite to export prices. As a result, HRC export price for Indian producers has risen 10% in the past five weeks to USD470/t. That said, we believe domestic HRC prices have further room to grow as imports from main steel exporters – South Korea, Japan and China – are above the anti-dumping duty levels. In this context, we believe the recent price hikes taken by flat steel producers would sustain.

### Domestic price: Rises across HRC and rebars

Domestic HRC price has inched up INR253/t on average in the past one week to ~INR36,000, the highest level since September. Domestic raw material (RM) spreads have also widened to INR22,035/t—up INR2,000/t from its low. In longs, rebar price (of large producers) is up 2% to INR34,767/t—the first increase in the past four weeks. Rebar price (small/medium producers) also rose slightly to INR31,415/t—the upper end of past 15 days' trading range. The spread between rebar produced by large and small/medium producers is INR3,360/t—still lower than the past seven-year average of INR4,100/t. However, the spread has spiked vis-à-vis last week in the wake of price hikes taken by large rebar producers being absorbed in the market. A further price uptick is possible if global prices hold firm.

### Outlook: Global uptick helps recovery amid demand woes

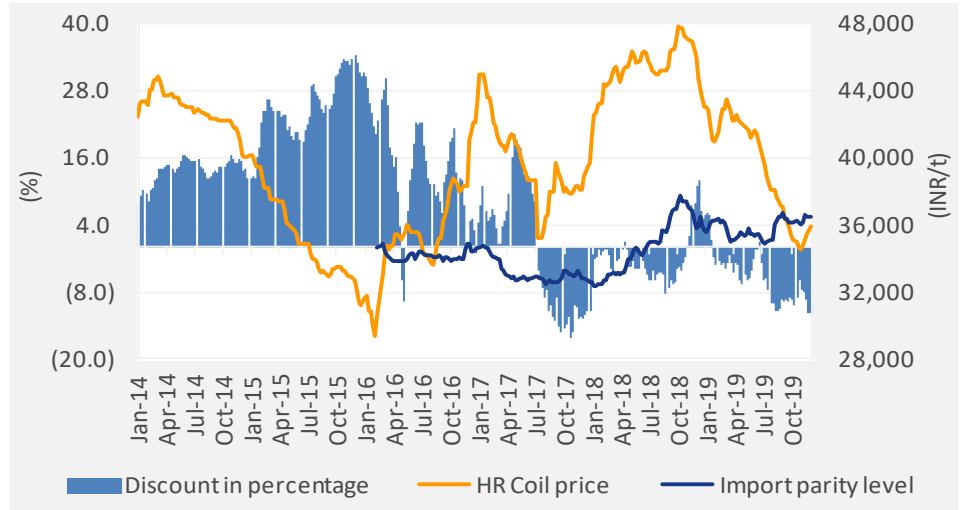
While raw material spreads have improved substantially from their lows, we believe revival of domestic demand is critical to holding onto/improving margins. Furthermore, global prices soaring past the anti-dumping level provides domestic prices ample room to grow as it makes imports — from key countries such as South Korea, Japan and China — unattractive. Maintain 'BUY/SO' on JSPL and 'HOLD/SP' on Tata Steel and JSW Steel, and retain 'REDUCE/SU' on SAIL.

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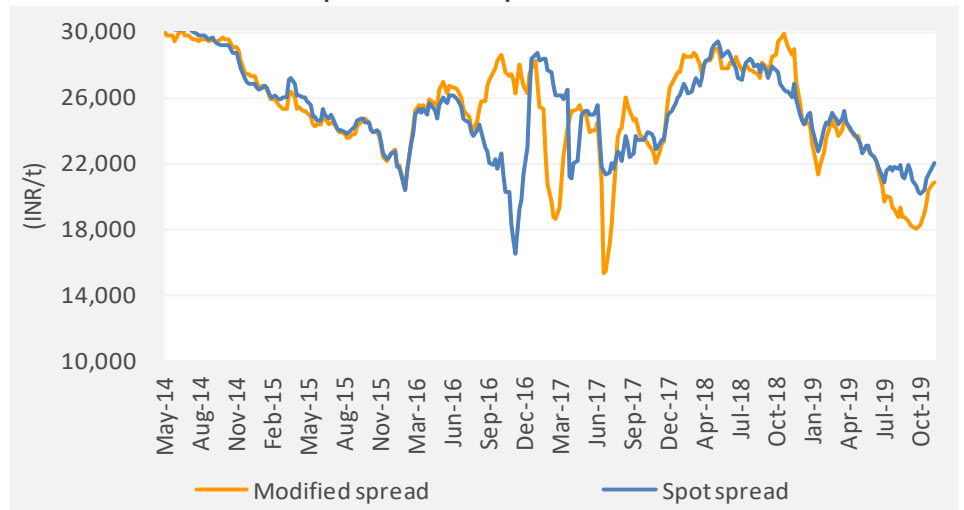
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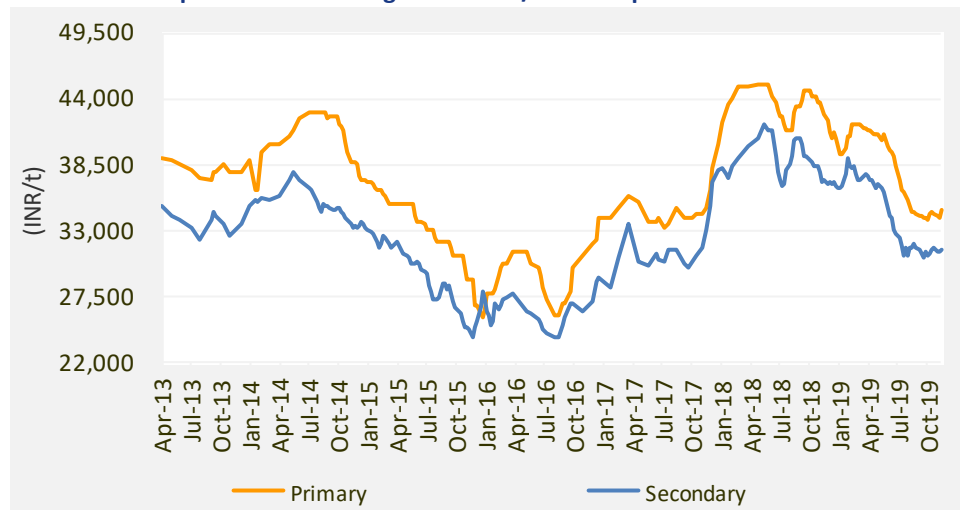
**Chart 1: India steel price: Below anti-dumping level even after price hikes**



**Chart 2: Domestic modified spreads sustain uptick**



**Chart 3: Rebar spread between large and small/medium producers has increased**



Source: SteelMint, Bloomberg, JPC, Edelweiss research

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Coal India, Hindalco Industries, Hindustan Zinc, Jindal Steel & Power, JSW Steel, NMDC, Steel Authority of India, Tata Steel, Vedanta

Date	Company	Title	Price (INR)	Recos
02-Dec-19	<b>Coal India</b>	Volumes improve, but FY20 target still elusive; <i>Company Update</i>	206	Buy
27-Nov-19	<b>Metals and Mining</b>	A pleasant November for domestic steel prices; <i>Sector Update</i>		
26-Nov-19	<b>Metals and Mining</b>	NMDC's price cut perplexing; <i>Sector Update</i>		

**Distribution of Ratings / Market Cap**

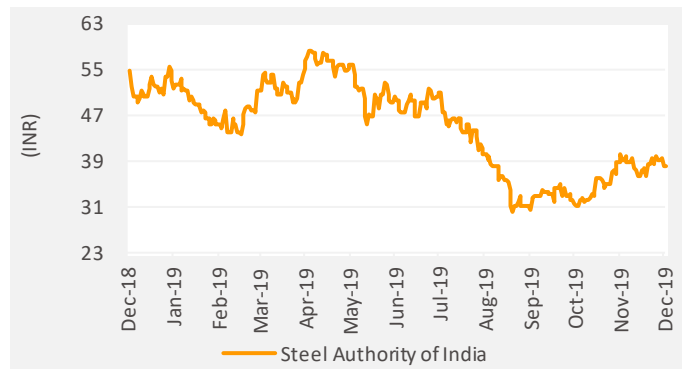
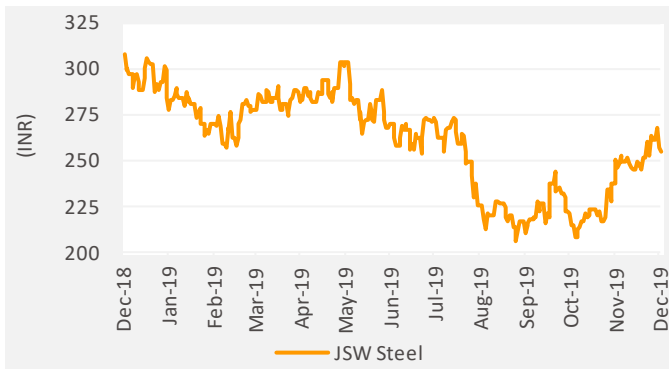
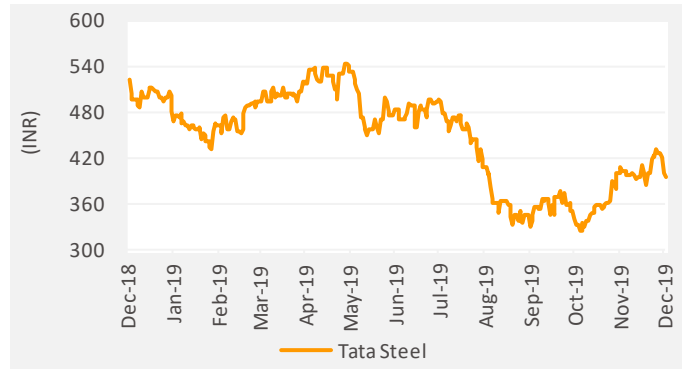
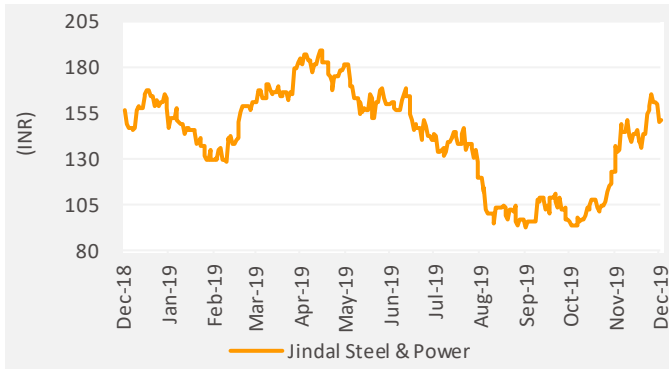
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

**Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
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## One year price chart



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