# Weak steel prices rob metal sector's sheen

## Slowdown in mining activity due to monsoon season will continue to remain a challenge in near-term, say analysts

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Shares of select Indian metal companies have retreated up to 8 per cent in the last month, following a drop in the steel prices in global markets. Individually, Welspun Corp and Steel Authority of India dropped 8.5 per cent each, NMDC 4.9 per cent, APL Apollo Tubes 3.8 per cent, and Adani Enterprises 2 per cent in the last month. By comparison, the benchmark Nifty 50 has risen by 4.9 per cent.

Analysts expect the mining activity slowdown due to the monsoon, and price pressure to remain a challenge in the near term, thus, suggesting the exit of steel players.

"Weak global market sentiment and competitive Chinese pricing have kept export activity muted in June. With weak Flats pricing, we believe some domestic steel players' margins may not witness a significant uptick in Q1FY25 sequentially," said Tushar Chaudhari, lead research analyst, Prabhudas Lilladher, in a recent report.

Flat products generally encompass plate products and sheet and strip products. Pricing scenario, according to the brokerage's report, Indian benchmark hot rolled coil (HRC) prices declined by ₹50 per tonne week-on-week in the third week of June to ₹53,800 per tonne.Iron ore fines, too, declined 2.8 per cent W-o-W to $104 per tonne on subdued demand, while Indian coking coal prices declined 7 per cent W-o-W.

Meanwhile, a report by JM Financial highlighted prices of spot coking coal, were down globally by $75/tonne, from their peak of $256/tonne in June.

Analysts have attributed this decline to high quantities of imports from China, South Korea, Japan, and Vietnam, which have kept the prices under pressure in India since June 10, 2024. Though China is expected to reduce steel production by more than 20 metric tonnes over the next two years, their blast furnace activity level has continuously seen an improvement to 90 per cent, with production in May 2024 increasing by 2.7 per cent year-on-year (Y-o-Y) to 92.9 metric tonnes.

"Since CY11, it has been observed that whenever China struggles with domestic demand, it starts dumping steel in international markets, impacting the prices for metals and raw materials. Similar trends are being seen right now as China is dumping huge quantities of steel in the international market," said Parthiv Jhonsa, lead analyst for the Metal and Mining sector at Anand Rathi Institutional Equities.

While any stimulus measures undertaken by the Chinese government may provide temporary relief, the stress from higher production is expected to put pressure on steel prices, unless China undertakes scheduled production cuts, he added. Investment strategy against this backdrop, Jhonsa of Anand Rathi Institutional Equities, expects JSW Steel to be the biggest beneficiary as only 45 per cent of its requirement of iron ore is met via domestic production, allowing it to take advantage of low-cost imports.

JSPL, meanwhile, could be another beneficiary as it has domestic linkages up to 60 per cent for iron ore. "Investors can look to add both stocks at current levels," he added. Tata Steel and SAIL, on the other hand, benefit in a rising ore prices scenario. Hence, investors may exit the stocks on the rise, he advised.

Tushar Chaudhari of Prabhudas Lilladher, too, has a 'sell' rating for SAIL with a target price of ₹127, and a 'hold' rating for Jindal Stainless with a target price of ₹712.

"NMDC could also remain under stress as their prices are linked to international price movement (with a lag); monsoon season has kicked off; and recent auctions concluded at lower levels. Investors may consider partial profit booking," Jhonsa recommended.