Mining & metal firms see reversal of fortune in Sept qtr

Profits down 91% in Q2, driven by margin contraction because sales realisation did not keep pace with rise in expenses

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Mumbai, 4 November

There has been a sharp reversal in the fortune of mining and metal companies in the July-September 2022 (Q2FY23) quarter. The combined net profits (adjusted for exceptional gains and losses) of listed mining and metal companies were down 91.4 per cent year-on-year (Y-o-Y) to ₹2,139.3 crore in Q2FY23 from ₹24,738 crore a year ago.

As a result, those companies have become the biggest laggards in terms of corporate earnings in Q2FY23 from being the highest contributor in FY22.

For comparison, companies such as Tata Steel, JSW Steel, Vedanta, Hindalco, and Coal India were the most profitable in the non-financial segment in FY22 after oil and gas firms in FY22 and had reported a 125 per cent Y-o-Y jump in their combined earnings in FY22 (see the adjoining chart).

In contrast, top steel makers such as JSW Steel and Tata Steel have been the worst performers in Q2FY23.

JSW Steel, for example, reported an adjusted net loss of ₹1,396 crore in Q2FY23 compared to an adjusted net profit of ₹7,170 crore a year ago.

Tata Steel's consolidated net profit was down 87 per cent Y-o-Y to ₹1,524 crore in Q2FY23 from ₹11,503 crore a year ago.

The sharp decline in the mining and metal companies' earnings was driven by a margin contraction because sales realisation didn't keep pace with a rise in operating expenses.

The industry's earnings before interest, tax, depreciation and amortisation (Ebitda), or operating margin, more than halved to 12.1 per cent of the revenues in Q2FY23 from 29.7 per cent a year ago.

The industry margins in the second quarter were the lowest in at least the last five years with the exception of the Q1FY21 quarter, when the economy was under Covid-19 lockdown.

The pressure on margins came from a sharp rise in manufacturing expenses, especially the cost of raw material, and power and fuel. The companies' expenses on raw material were up 49.6 per cent Y-o-Y in Q2FY23 while their power and fuel bill was up 88 per cent Y-o-Y during the quarter.

In comparison, the combined net sales of the 32 companies in the *Business Standard* sample were up just 12.3 per cent Y-o-Y in the quarter, growing at the slowest pace in the last eight quarters. As a result, every ₹100 worth of metal & mining companies' net sales in Q2FY23 consumed raw material worth around ₹48, up from ₹36 a year ago and the highest in at least the last five years.

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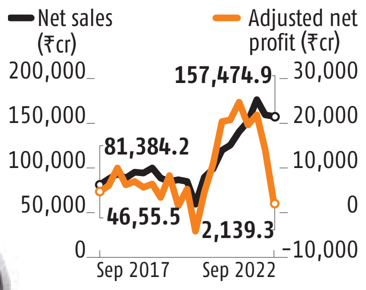
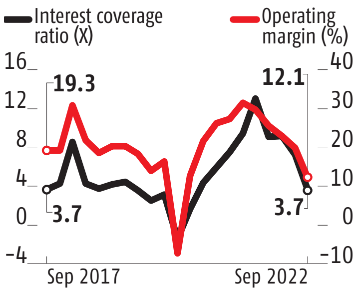
TEST OF METTLE

PROFITS PLUNGE



FINANCIAL RATIO, MARGIN WORSEN



Note: Quarterly data; based on a common sample of 32 mining and metal companies that have declared their results for Q2FY23; Compiled by BS Research Bureau
Source: Capitaline

chemists, kirana shops, and farmers doing over five million transactions per month.

Twitter fires...

One of those lucky ones, who retained his job, said in a tweet: "I got the email... I still have a job but I stayed up last night watching hard-working, talented, caring people get logged out one by one and I don't know what to say. Tweeps, you are remarkable."

Another employee who got laid off, with handle Dawn 'Yohosie' Hosie, tweeted: "I have been laid off from Twitter, as has my team. We were responsible for creating much of the advertiser content you see on Twitter....."

(Inputs from Shivani Shinde)

Mining & metal...

Similarly, expenses on power and fuel were equivalent to 8.8 per cent of net sales in Q2FY23, up from 5.3 per cent a year ago. The industry saved on salaries and wages but it was not enough to compensate for the sharp rise in other operating expenses.

The companies' combined expenses on salaries and wages were down 3 per cent Y-o-Y in Q2FY23.

Analysts also attribute the industry financial woes to a decline in sales realisation or the average selling price (ASP) during the quarter. This was most prominent in the iron and steel sector, adversely affecting the earnings of JSW Steel and Tata Steel.

"In Q2FY23, Tata Steel witnessed the full impact of correction in steel prices after the imposition of export duty in India. The entire reduction in steel ASP was reflected in the reduction in EBITDA as the benefit of higher volume was offset by higher other expense and raw material cost," write analysts at Motilal Oswal Financial Services.

Mining and metal companies' earnings in the second quarter also came under pressure from a rise in the interest expenses, leading to deterioration in their financial ratios.

The industry's combined interest expenses were up 61.9 per cent Y-o-Y in Q2FY23 as banks raised interest on existing loans and many metal producers made additional borrowings for working capital or filling the gap in their cash flows due to decline in operating profit.

Analysts expect industry earnings to remain under pressure in the near to medium term.

"The operating metrics for metal companies have turned adverse and financial ratios such as the interest coverage ratio (ICR) for many companies is now worse than in the pre-Covid period and even the 2008 period. This, coupled with a bleak outlook for metal demand in China, could result in a further decline in margins and profits for metals producers in the second half of FY23," said Dhananjay Sinha, director and head (research, strategy and economics), Systematix Institutional Equity.

IndiGo Q2...

The yield is average revenue earned from each passenger for one km of air travel.

Pieter Elbers, chief executive officer (CEO), said "the depreciation of the rupee and the high fuel prices continue to be major headwinds to our profitability and remain a concern".

Elbers, who took charge as IndiGo CEO on September 6, said the airline continued