

# Steel Cos' Margins may Rise on Lower Input Costs

Profitability to improve by up to ₹2K a tonne in Sept qtr, but falling steel prices to cap margins: Analysts

**Nikita.Periwal**  
@timesgroup.com

**Mumbai:** The profitability of most domestic steel-makers is set to improve by ₹500-₹2,000 per tonne on a quarter-on-quarter basis in the July-September period, largely aided by the lower costs of a key raw material, even as steel prices fell du-

ring the seasonally weak period. The cost of coking coal, which is used in the production of steel, is down by around \$45-\$60 per tonne as compared to the previous quarter. While its prices have seen a sharp surge recently, companies are currently using lower-priced inventory, which will help bring down costs. The improve-

ment in profitability that steel producers see, though, will be capped because of steel prices moving 3-5% lower during the quarter, with prices of long steel products seeing an even sharper decline of up to 8%. Steel prices have been weakening since April this year and bottomed out in

August amid the monsoon season in India, and a sluggish Chinese property market. While prices have moved upwards since then, the average prices during the quarter were still lower as compared to the June quarter. "We expect JSPL's (Jindal Steel and Power) Ebitda/t to decline by ₹1,661 sequentially due to a steeper fall in long prices and less availability of iron ore from its captive iron ore mine," Nuvama Institutional Equities said in an earnings preview.

State-owned Steel Authority of India, meanwhile, is seen clocking in the best performance helped by robust sales growth apart from the lower costs of coking coal. Analysts estimate the company's sales volumes to have grown by around 15% sequentially. This is in contrast to

the production volumes of other leading steel makers. Both JSW Steel and Tata Steel's production volumes were marginally lower sequentially, but saw robust growth as compared to the same quarter in the previous year. Apart from their earnings and operational metrics, the commentary from steel producers will be in focus when they announce their earnings for the September quarter.

"Things to watch out for: 1) domestic demand and inventory, 2) steel price and spread guidance, and 3) an update on capex and expansion plans," CLSA Asia Pacific Markets said in a note.

If the recent strength in prices of steel sustain, steel spreads are likely to improve in the December quarter, Axis Securities said in a note.

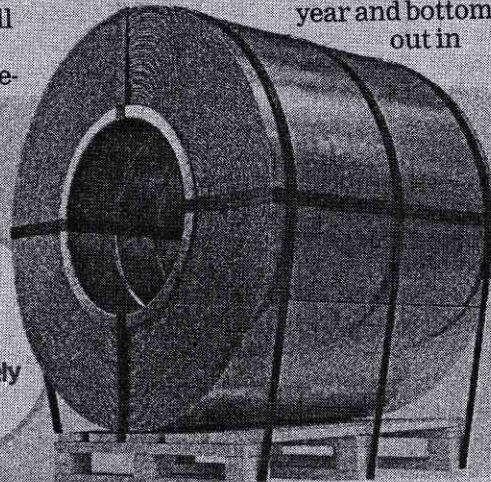
## On a High

Jul-Sep is weak for steel makers, prices down by **3-5%** on quarter

Cost of coking down by **\$45-\$60** as compared to previous quarter



If the recent strength in prices of steel sustain, steel spreads are likely to improve in Q3



Jindal Steel to see **decline** in Ebitda, SAIL to see best **performance**