

Likely fall in metallurgical coal prices to benefit Indian steel-makers: S&P

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S&P Global Ratings, on Wednesday, said it is expecting a significant fall in rates of metallurgical coal, and Indian steel makers are to benefit from the price correction.

"We expect lower seaborne met coal prices will help Indian steel mills, as they import 70 per cent of their total requirement," said S&P Global Ratings credit analyst Anshuman Bharati.

The agency estimates that a sharp fall in seaborne metallurgical coal prices will improve cash flow and ease pressure on Indian steel producers, he said.

"Our price assumptions are much lower than the average price of \$370/tonne in 2022 and spot price of about



\$300/tonne. This is partly because we expect the supply constraints in Australia to ease over the next few months as adverse weather becomes less frequent," said Bharati.

Indian steel producers are generally the most sensitive to seaborne met coal prices, as opposed to iron ore prices. This reflects India's status as the world's top importer of met coal, and the fact that Indian steel mills

largely secure iron ore feedstock from captive sources.

A sharp rise in met coal prices in fiscal 2023 increased the cost of production of Indian steel mills by 50 per cent.

"As a result, we estimated the ratio of debt-to-EBITDA of the top four domestic steel producers at 3.3x as of March 31, 2023, up from 1.2x as of March 31, 2022.

"Our revised price assumption for fiscal 2024 is higher than our previous assumption. This indicates the cost of production is declining slower than our earlier expectation," he said.

CASH FLOWS

A \$80 drop in coal prices will improve operating cash flows because it will release about 15 per cent of the working capital requirement of the steel companies, said Bharati.