

RESEARCH
METALS & MINING

Ferrous read-across: Investors' call with ArcelorMittal

Daily macro indicators

Indicator	22-Dec	26-Dec	Chg (%)
US 10Y yield (%)	3.90	3.90	0bps
India 10Y yield (%)	7.19	7.18	0bps
USD/INR	83.15	83.19	(0.1)
Brent Crude (US\$/bbl)	79.1	81.1	2.5
Dow	37,386	37,545	0.4
Hang Seng	16,621	16,340	(1.7)
Sensex	71,107	71,337	0.3
India FII (US\$ mn)	21-Dec	22-Dec	Chg (\$ mn)
FII-D	54.4	269.1	214.6
FII-E	(157.5)	(69.2)	88.3

Source: Bank of Baroda Economics Research

SUMMARY
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- Europe and US markets are seeing initial recovery from low margins, but a pick-up in demand is needed for next leg of recovery
- While demand trend remains mixed, low inventory in western markets could lead to a sharp uptick in margin if sentiments were to change
- Read-across in line with our mid-cycle margin call in FY25; our positive view on Indian ferrous space is based on their capacity expansion plans

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27 December 2023

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- Read-across in line with our mid-cycle margin call in FY25; our positive view on Indian ferrous space is based on their capacity expansion plans

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We hosted Hetal Patel, General Manager, Corporate Finance and Investor Relations, ArcelorMittal (MT NA, Not Rated). Key takeaways:

Near-term recovery from unsustainable lows: US and Europe are seeing early signs of a technical recovery from unsustainably low margin levels in Q3CY23, with US\$ 300/t and US\$75/t increase in prices from September lows in US and Europe respectively. This is supported by temporary closure of ~20% capacity in Europe, elevated raw material prices and low level of inventories in US.

Demand trend remains mixed: The next leg of recovery will require visibility on demand improvement. Potential rate cut by US Fed and ECB could be a positive trigger. With inventory at low levels, a sentiment shift could also trigger replenishment and a turnaround in prices. Construction related demand is weak, which is being partly offset by a stable to positive demand from infrastructure, positive automotive (US from a high base and Europe from a low base), and stable capital goods and machinery.

Decarbonisation progress slow: MT is still engaging with governments in Europe for greater visibility on availability and cost of green energy. Company is progressing on advanced FEED for the planned 4 DRI/EAF projects and has approved capex for onsite preparation at project sites. MT is still 18 months away from approving the projects for its target of 25% reduction in carbon intensity.

MT: Balancing growth and shareholder returns: MT follows a differential strategy than Indian ferrous players in balancing growth and shareholder returns. With policy of payout of 50% of post-dividend FCF through buybacks, MT has bought back 32% of its capital over last three years. MT is working on US\$ ~2bn (13%) improvement in EBITDA with organic growth (US\$ 4.8bn investments) and strategic acquisitions.

Read-across for Indian ferrous sector: Discussions with MT corroborates our outlook of mid-cycle steel margins over next two years. Our constructive stance on the Indian sector primarily reflects earnings prospects from ongoing expansion.



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