

Weak Q2; possible recovery in Q3

- Q2FY25 likely to turn out to be the second weakest quarter in terms of EBITDA profit over the past four years for our Ferrous coverage
- We believe ferrous majors experienced weaker sales in Q2 relative to industry, besides margin contraction due to pullback in prices
- While Q3 starts on a positive note with possible fiscal stimulus in China, steel margin surprise will also need solution to surplus in China

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Second weakest quarterly EBITDA over past 4 years: We expect Q2FY25 EBITDA for Indian operations of the four ferrous majors under our coverage (Ferrous coverage) to be Rs 133bn, resulting in a 21% sequential and 34% YoY decline. Similarly, consolidated EBITDA at Rs 124bn, as per our estimates, is also likely to see a decline of 29% QoQ and 32% YoY. This turns out to be the second weakest quarter over the past four years.

Majors' volume weaker than industry: We expect sales volume to decline by 6% YoY for our Ferrous coverage in Q2 in sharp contrast to 12% YoY consumption growth over Jul-Aug'25 for the industry as a whole. JSP and SAIL are likely to see higher declines with higher focus on long products. We attribute the weakness to lower exports, higher competition from imports and secondary players, slower resumption of infrastructure spend post election and softer demand for flat products.

Margin contraction: We expect EBITDA/t margin for our Ferrous coverage to decline by Rs 2.1k/t QoQ to Rs 7.9k/t in Q2. The decline is the result of a sharp decline in prices to the order of Rs 3.0k-3.5k/t for flat products and Rs 4.8k-5.4k/t for long products, and is only partially offset by a sequential reduction of US\$ 15-30/t in coking coal costs. While iron ore costs declined by Rs 0.5k/t, only limited benefit will flow through for JSTL and JSP due to inventories and lag in adjustment of taxes.

Q3 starts on a positive note: With the expectation of release of fiscal stimulus in China to stabilise domestic economy, China's domestic HRC prices (14% from the recent lows), export HRC prices (4%) and iron ore prices (10%) rallied over the last week. However, the sustenance of this rally will depend on the actual implementation of previously-announced measures and announcement of follow-up support measures. Ferrous markets in China also need supply-side adjustments to tide over more than 100mt of surplus capacity.

Key drivers for the Indian ferrous sector: We have a neutral stance on Indian ferrous players with stocks largely pricing in future volume growth. For any margin surprise beyond mid-cycle levels, China needs to address domestic surplus.



Q2 likely to be a weak quarter

We expect aggregate consolidated EBITDA for the four steel majors under our coverage to decline 29% QoQ and 32% YoY in Q2. The decline in EBITDA is the result of weaker volumes for the Ferrous coverage than industry coupled with margin contraction. We anticipate this quarter to be the second weakest over the past four years.

India operations likely to post 2nd lowest EBITDA quarter in past 4 years

- **Realisation to decline.** While HRC indicator for flat products declined by Rs 3.0k-3.5k/t QoQ, rebar indicator for long products was down Rs 4.8k-5.4k QoQ in Q2 (Source: BigMint, LSEG Workspace). During the quarter, export realisations are also likely to be weaker with continuing weakness in Europe, and higher exports out of China. Factoring in these, we build in a Rs 2.8k-3.8k/t decline in realisation across our Ferrous coverage.
- **Weaker volumes for majors.** We expect collective steel sales volume for our Ferrous coverage to decline by 5.7% YoY, which translates to sequentially flat growth. This is in sharp contrast to 12% YoY growth at an industry level over Jul-Aug'24. We attribute the weakness for the majors to lower exports, higher competition from imports as well as secondary producers, slower recovery in infrastructure investments post election, and softer demand for flat products.
- **Coking coal price reduction.** Steel producers except SAIL have previously guided for US\$ 15-30/t sequential reduction in coking coal costs with a pullback in coking coal prices. SAIL's prior guidance was flat costs this quarter, having built up inventories in Q1.
- **Iron ore prices declined sequentially.** While prices of NMDC iron ore fines were down Rs 0.5k/t QoQ on average during the quarter, the actual benefit is likely to be lower for JSTL and JSP due to lag in adjustment of taxes and inventories.
- **Lower volumes to impact overhead recovery.** Slower volume during the quarter is likely to keep per unit overhead cost elevated as in Q1.
- **EBITDA margin to sequentially decline.** We expect profitability of India operations to decline by Rs 2.1k/t to Rs 7.9k/t collectively for our Ferrous coverage. Among the four majors, we expect relatively better margins for TATA and JSP at Rs 11.9k/t and Rs 10.3k/t respectively. While TATA benefits from integrated operations, focus on value addition and retail sales, JSP benefits from lower iron ore costs and higher availability of captive coal.
- **India operations to post a sequential decline in EBITDA.** We forecast a 29% QoQ decline in EBITDA collectively for the four majors. This will result in the second-lowest level of quarterly EBITDA collectively for these four majors over the past four years. Lower apparent sequential decline for JSTL is the result of relatively weaker performance in the prior quarter, ie, Q1.

Overseas operations to report a weak quarter as well

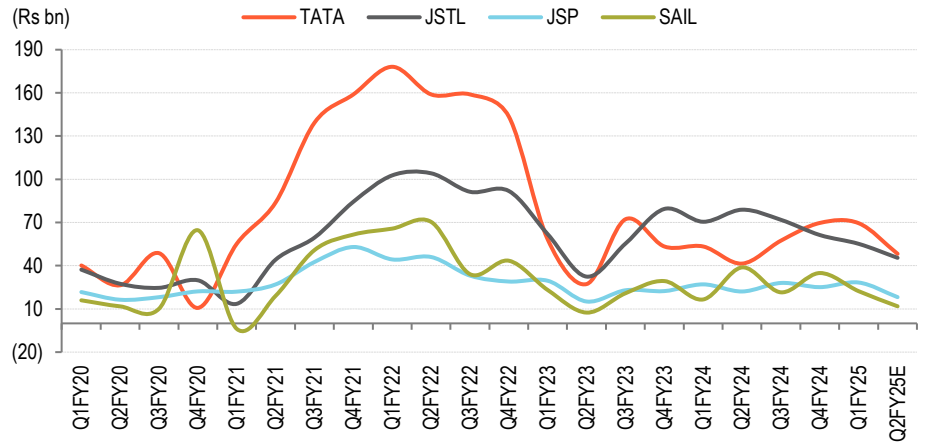
- TATA Europe loss to widen:** With continuing weakness in demand as well as higher exports out of China, European steel prices declined 4% QoQ as per the Bloomberg indicator. However, TATA's operations are likely to face higher decline, in our view, as the weakness seen in Q1 is also feeding through with the reset in some of quarterly contracts. With the closure of heavy end operations during the quarter, TSUK (TATA's UK operations) is likely to book higher losses in Q2. TSN (Netherlands operations) is also likely to see a sequential decline with lower realisations sequentially.

Fig 1 – BOBCAPS Ferrous Universe: Q2FY24 estimates

Q2FY25E	Unit	TATA India	JSTL India	JSP India	SAIL	4 majors – India	TATA Europe
Operations							
Production	mt	5.3	6.6	1.9	4.9	18.7	2.1
QoQ	%	0.0	9.0	(7.9)	4.1	3.2	(13.1)
YoY	%	5.0	7.4	(0.7)	1.6	4.3	5.6
Sales	mt	5.1	5.9	1.8	4.1	16.8	2.2
QoQ	%	3.2	0.6	(16.0)	2.1	(0.3)	2.8
YoY	%	5.8	(5.4)	(12.7)	(14.7)	(5.7)	12.8
Per tonne							
Revenue/t	Rs'000/t	64.4	61.5	57.7	56.8	60.8	88.0
QoQ	Rs'000/t	(2.8)	(3.2)	(3.8)	(3.0)	(3.0)	(3.0)
EBITDA/t	Rs'000/t	11.5	7.2	10.3	2.9	7.9	(6.6)
QoQ	Rs'000/t	(2.1)	(1.3)	(2.6)	(2.7)	(2.1)	(4.3)
YoY	Rs'000/t	(2.0)	(5.1)	(0.9)	(5.2)	(3.4)	6.2
Financials – Indian operations							
Revenue	Rs bn	328.4	361.6	101.3	232.7	1,024.0	194.5
QoQ	%	(1.1)	(4.3)	(21.1)	(3.0)	(5.0)	(0.6)
EBITDA	Rs bn	60.9	42.4	18.0	11.7	133.0	(14.7)
QoQ	%	(13.4)	(14.3)	(33.1)	(47.2)	(21.2)	(194.5)
YoY	%	(5.6)	(44.6)	(19.7)	(69.7)	(34.2)	41.5
Financials – Consolidated operations							
Revenue	Rs bn	542.1	403.6	103.6	232.7	1282.0	-
QoQ	%	(1.0)	(6.0)	(23.9)	(3.0)	(5.3)	-
EBITDA	Rs bn	48.3	45.4	18.2	11.7	123.6	-
QoQ	%	(30.6)	(17.6)	(35.7)	(47.2)	(29.4)	-
YoY	%	16.4	(42.5)	(17.7)	(69.7)	(31.8)	-
Net profit	Rs bn	(1.8)	2.8	6.3	(4.5)	2.9	-
QoQ	%	(119.1)	(66.5)	(52.8)	(214.5)	(91.8)	-

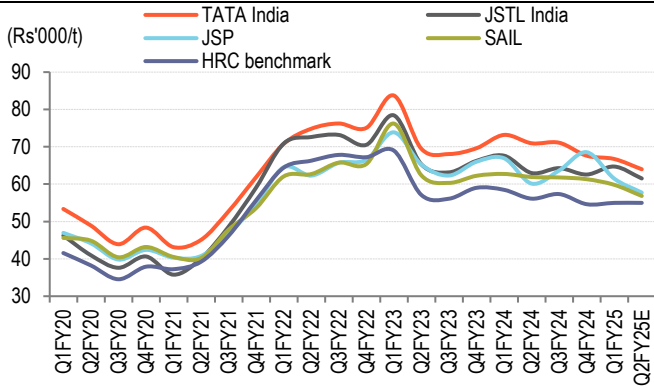
Source: Company, BOBCAPS Research

Fig 2 – Q2FY25E consol EBITDA for majors: 2nd weakest quarter in 4 years



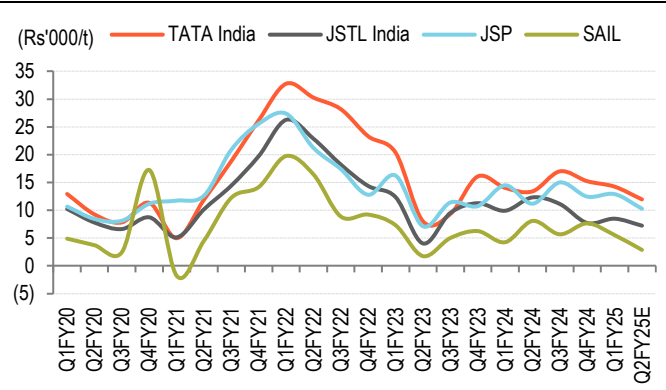
Source: Company, BOBCAPS Research

Fig 3 – Q2FY25E realisations: QoQ decline in realisation of both flat and long products



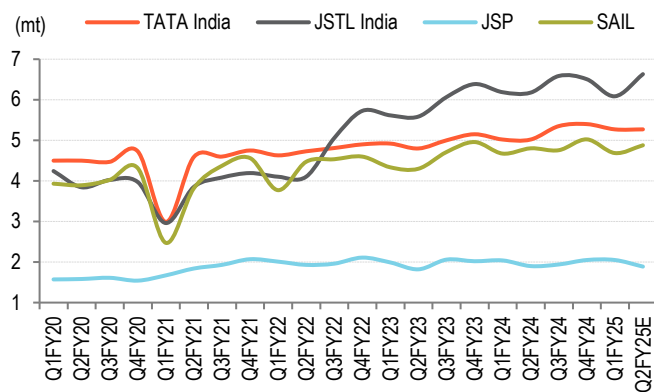
Source: Company, BOBCAPS Research

Fig 4 – Q2FY25E EBITDA/t decline on weaker prices with only partial offset from coking coal costs



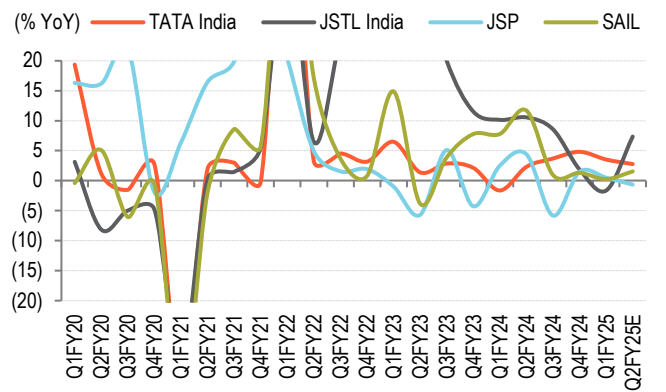
Source: Company, BOBCAPS Research

Fig 5 – Q2 production growth mixed...



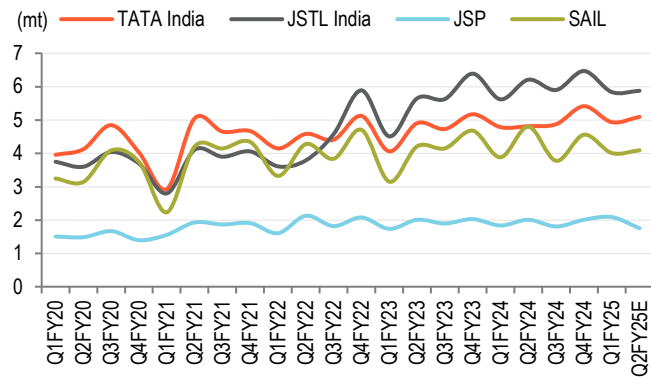
Source: Company, BOBCAPS Research

Fig 6 – ... with only TATA and JSTL clocking YoY growth



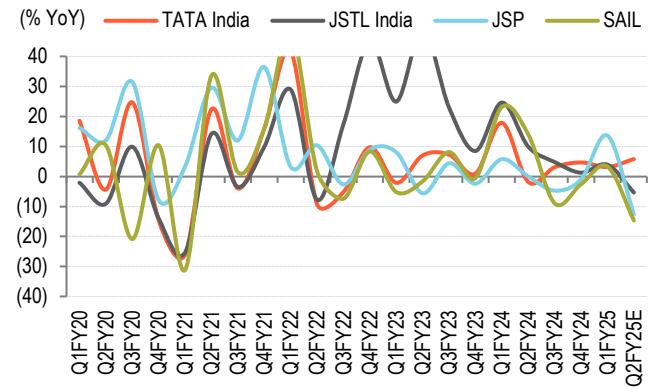
Source: Company, BOBCAPS Research

Fig 7 – Q2 sales weak for majors relative to industry...



Source: Company, BOBCAPS Research

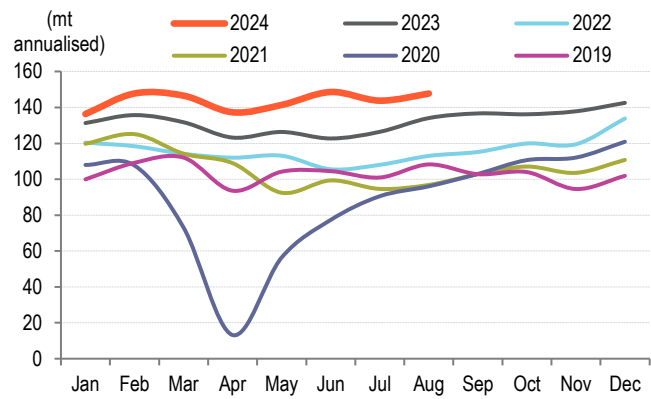
Fig 8 – ... with YoY decline for majors except TATA



Source: Company, BOBCAPS Research

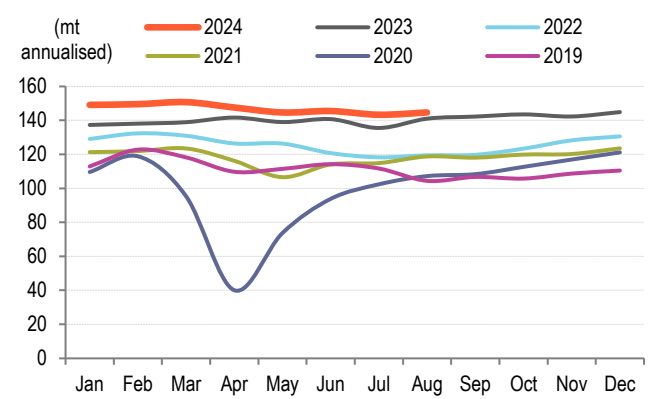
India steel demand-supply and prices

Fig 9 – India steel consumption up 12% YoY over Jul-Aug'24



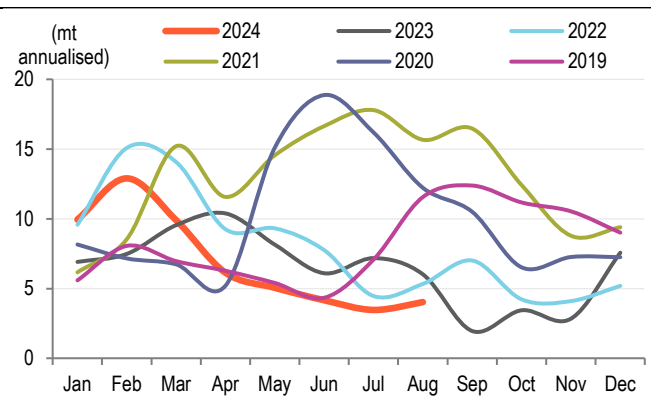
Source: CMIE, BOBCAPS Research

Fig 10 – India steel production up 4% YoY over Jul-Aug'24



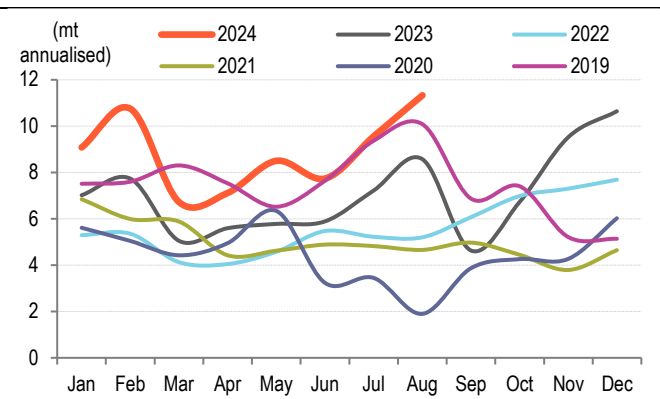
Source: CMIE, BOBCAPS Research

Fig 11 – India steel exports weak during Jul-Aug'24



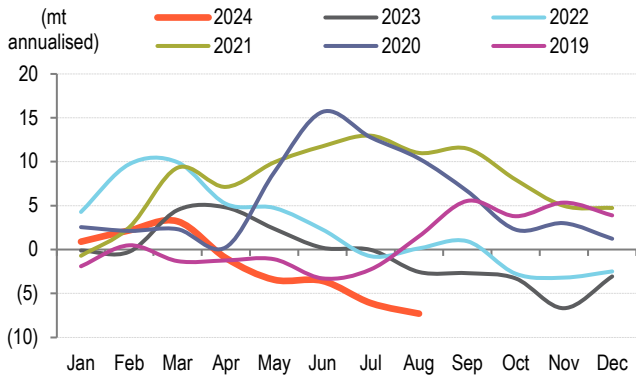
Source: CMIE, BOBCAPS Research

Fig 12 – India steel imports pressure picked up since Jun'24



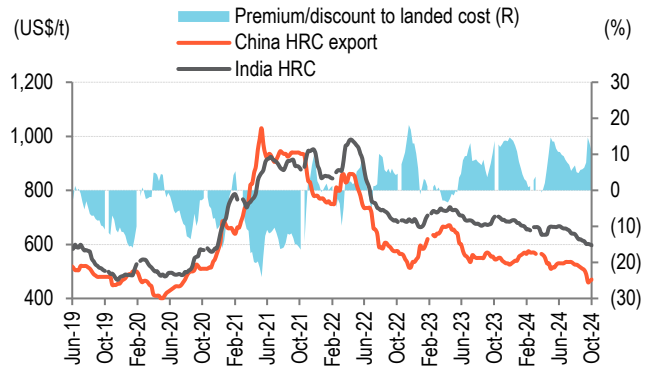
Source: CMIE, BOBCAPS Research

Fig 13 – India’s lower net steel exports a result of weaker overseas demand



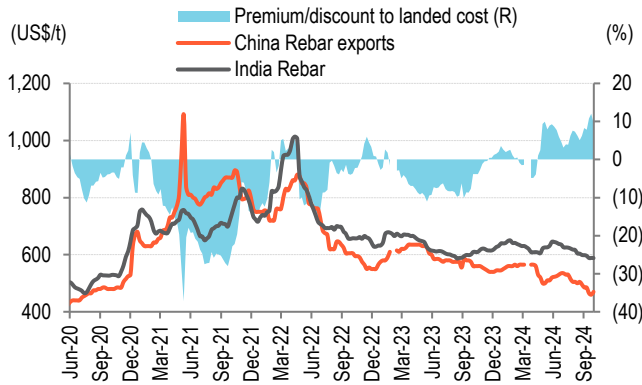
Source: CMIE, BOBCAPS Research

Fig 14 – Indian HRC prices maintained a premium to landed prices in Q2



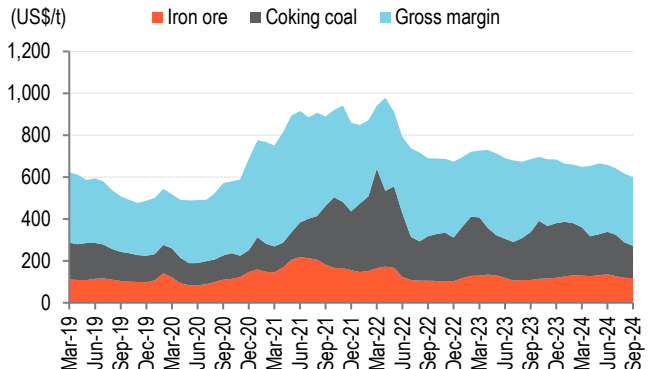
Source: CMIE, BOBCAPS Research

Fig 15 – Indian rebar prices turned to premium on landed price of imports since Jun’24



Source: CMIE, BOBCAPS Research

Fig 16 – India HRC gross margin proxy (spot) indicates possibility of improvement in Q3 after a decline in Q2



Source: Bloomberg, BOBCAPS Research

Fig 17 – Sector: Key indicators

(Rs bn)	Q2FY24	Q1FY25	Q2FY25E	Change absolute		Change (%)		Monthly data		
				YoY	QoQ	YoY	QoQ	Jul24	Aug'24	Sep'24
USD/INR exchange rate	82.7	83.4	83.8	1.12	0.35	1.4	0.4	83.6	83.9	83.8
Steel prices										
China HRC export (US\$/t)	553	528	487	(66)	(41)	(11.9)	(7.8)	518	478	466
India HRC (US\$/t)	678	659	620	(58)	(38)	(8.6)	(5.8)	641	616	600
India HRC (Rs'000/t)	56.6	53.5	50.5	(6)	(3)	(10.9)	(5.7)	52.3	50.5	48.0
India rebar (Rs'000/t)	47.8	48.9	43.5	(4)	(5)	9.0	(10.9)	45.5	44.3	44.1
Raw material prices										
Iron ore CFR China (US\$/t)	111	106	95	(16)	(11)	(14.7)	(10.6)	100	94	89
Iron ore India indicator (Rs'000/t)	4.0	5.4	4.8	1	(1)	20.2	(9.7)	-	-	-
Coking Coal Australia FOB (US\$/t)	259	243	212	(46)	(31)	(17.9)	(12.7)	241	207	187
Gross margin indicator (spot)										
China (US\$/t)	190	171	163	(27)	(8)	(14.3)	(4.7)	173	158	161
India (US\$/t equ)	366	331	325	(41)	(6)	(11.2)	(1.7)	318	327	328
India (Rs'000/t)	30	28	27	(3)	(0)	(10.0)	(1.3)	27	27	28

Source: Bloomberg, BigMint, LSEG Workspace, BOBCAPS Research

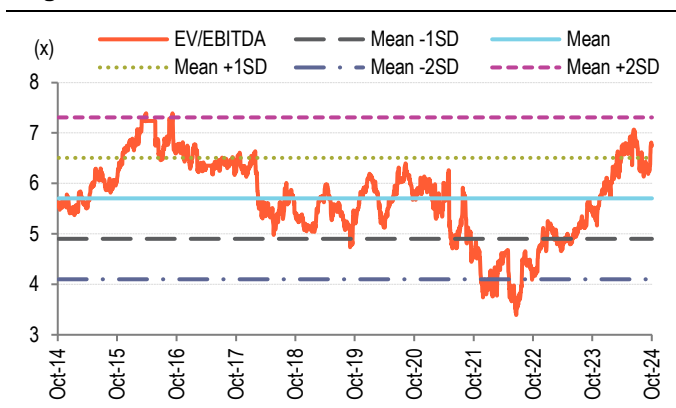
India steel sector valuations

Fig 18 – Valuation of our Ferrous coverage

	CMP	Market cap	P/B (x)	EV/EBITDA (x)		P/E (x)	
	(Rs)	(Rs bn)	FY25	FY25	FY26	FY25	FY26
TATA IN	164.4	2,052	1.9	7.7	6.8	14.8	11.3
JSTL IN	1018.8	2,491	2.6	9.2	8.0	17.3	14.2
JSP IN	1000.6	1,021	1.9	8.1	6.6	13.5	10.7
SAIL IN	132.2	546	0.9	7.2	6.7	13.7	10.5

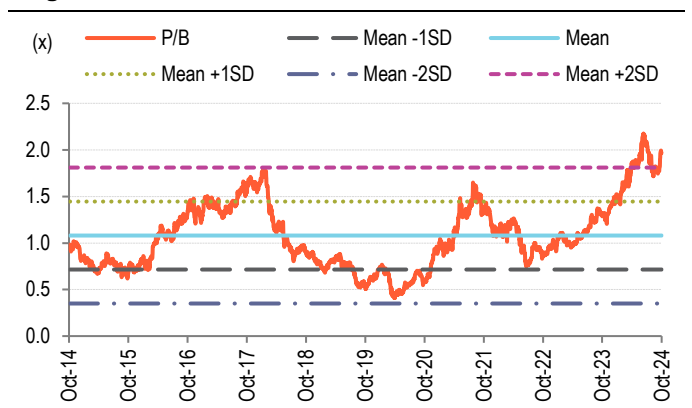
Source: Bloomberg, BOBCAPS Research

Fig 19 – Tata Steel EV/EBITDA 2Y forward



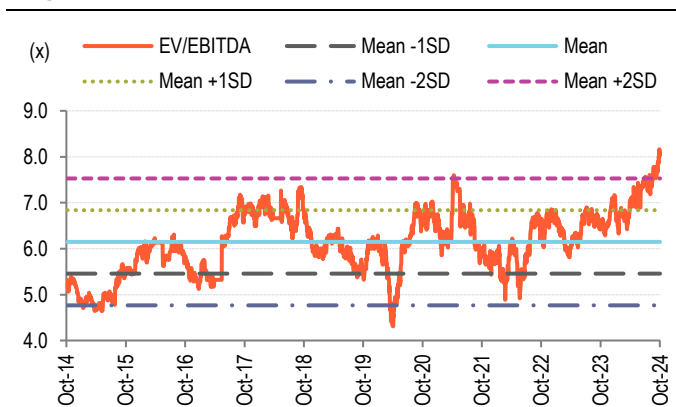
Source: Bloomberg, BOBCAPS Research

Fig 20 – Tata Steel P/B 1Y forward



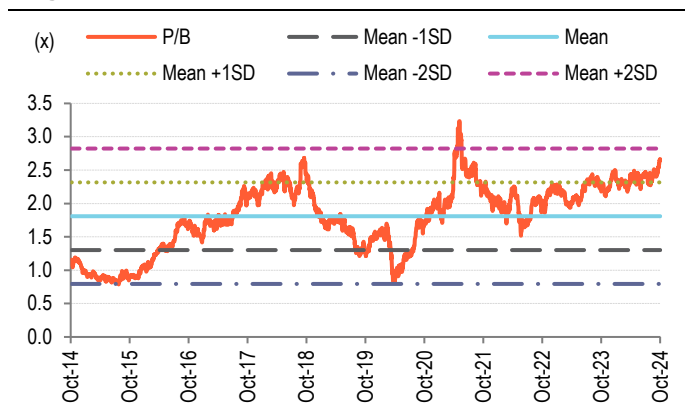
Source: Bloomberg, BOBCAPS Research

Fig 21 – JSW Steel EV/EBITDA 2Y forward



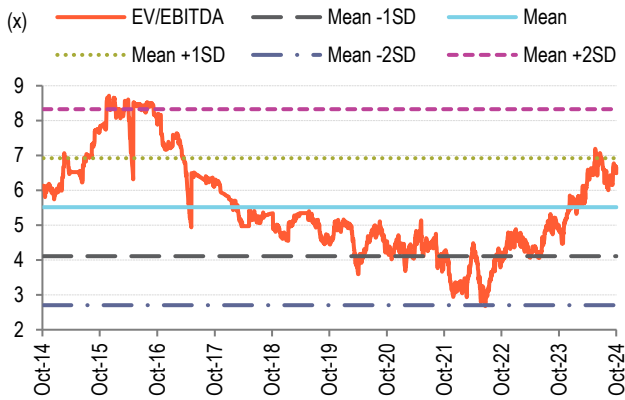
Source: Bloomberg, BOBCAPS Research

Fig 22 – JSW Steel P/B 1Y forward



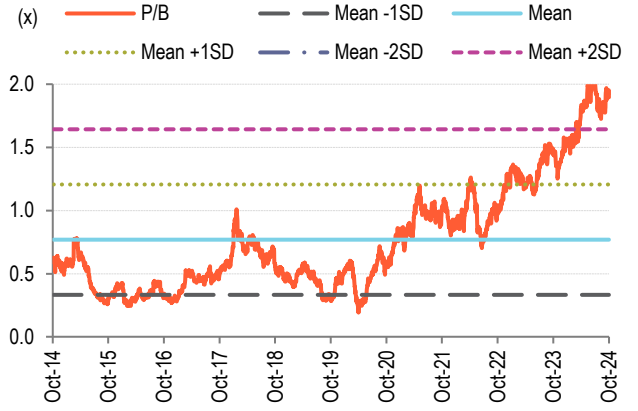
Source: Bloomberg, BOBCAPS Research

Fig 23 – Jindal Steel & Power EV/EBITDA 2Y forward



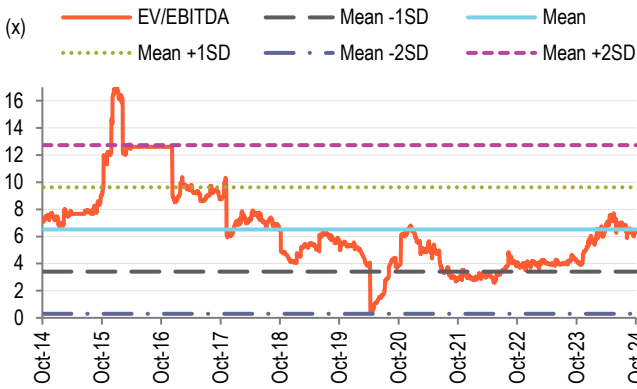
Source: Bloomberg, BOBCAPS Research

Fig 24 – Jindal Steel & Power P/B 1Y forward



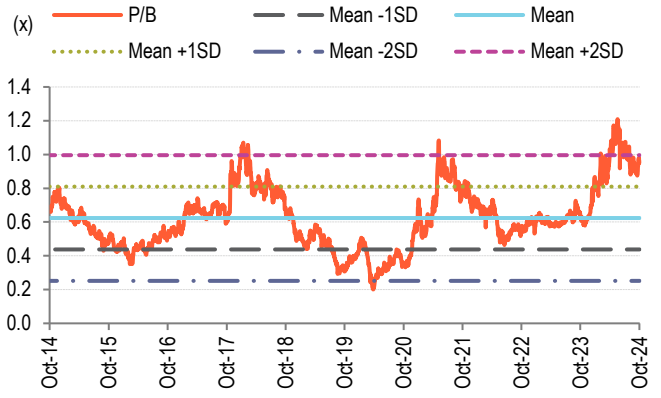
Source: Bloomberg, BOBCAPS Research

Fig 25 – SAIL EV/EBITDA 2Y forward



Source: Bloomberg, BOBCAPS Research

Fig 26 – SAIL P/B 1Y forward



Source: Bloomberg, BOBCAPS Research

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