

ANALYST CORNER

◆ Barring JSPL, steel players may see big volume decline

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Q1FY20 WAS IMPACTED due to volume and pricing weakness across the ferrous as well as nonferrous space. The sudden implosion of domestic steel demand is only a normalisation of demand bump that the country witnessed in FY17-FY18 and again highlights our base thesis that the peak demand capacity in the country lies closer to 150mtpa.

Pricing weakness, without any adequate import pressure, led to significant EBITDA weakness for the players, and is expected to decline by 10-25% QoQ. Non-ferrous players could not fare any better as LME prices dropped and volumes were weak across businesses.

Hindalco Aluminium volumes were flat YoY, yet drop in LME prices and decline in copper volumes due to shutdown tangibly impacted standalone operations. Vedanta witnessed volume weakness in oil & gas and zinc (India + international) operations, while LME prices dragged down aluminium profitability. We maintain 'buy' rating on NMDC and JSPL; their operational outperformance

in Q1FY20 is volume driven.

Barring JSPL, we expect double-digit volume decline for all the steel players. This, coupled with Rs1,000-1,500/te pricing realisation decline, led to an extremely muted EBITDA/te performance for the ferrous pack, with a QoQ decline of 7-13% expected in the same. Volume performance of JSPL remains strong with an 18% YoY increase while Tata/JSWS witness 0/(2)% moves.

We feel that domestic demand weakness can perhaps help the sector in allowing incumbents to be more realistic about the country's longer term demand potential.

Rajasthan volumes refuse to pick up; Q1FY20 witnessed another dose of muted performance due to a shutdown. Zinc India and international operations similarly felt the impact of volume loss due to, respectively, the shutdown and seasonal distribution of volumes. Drop in LME aluminium prices and a 2-month lag in alumina pricing led to 36% QoQ drop in aluminium EBITDA.

Reduced aluminium and alumina prices contracted Hindalco's integrated EBITDA.