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As China slips, Indian metal firms' margins under a cloud

China's stock market plunge and the ensuing crash of global metal prices have worsened the revenue outlook for India's metal producers

The grim revenue outlook for Indian metal firms caused by the developments in China has raised repayment concerns in an already debt-laden sector. Photo: AFP

Mumbai: China's stock market plunge and the ensuing crash of global metal prices have worsened the revenue outlook for India's metal producers, raising repayment concerns in an already debt-laden sector.

"China accounts for more than 30% of the overall consumption of metals globally, and after witnessing significant correction in prices in the last few months, prices have further collapsed," said Hitesh M. Avachat, deputy manager at CARE Ratings.

"For Indian metal producers, this collapse means the landed price for these metals in the domestic market will go down further, thereby pressuring them to reduce prices. Export demand may also fall given that China will dump its surplus production in various markets," Avachat said.

Most Indian steel and base metal manufacturers invested heavily on expanding capacity when China was building up its infrastructure ahead of the 2008 Olympics, but after the global economic meltdown the following year, struggled to generate enough revenue to retire debts.

Now the same country that took prices to their peak with its frenetic imports and consumption has been instrumental in bringing them down, with a large cut expected in its appetite for metals and other commodities that could hurt Indian manufacturers.

"If prices keep falling, naturally margins will get impacted," said Jayant Acharya, director, commercial and marketing, JSW Steel Ltd.

"What we are concerned about is cheap imports at prices lower than that in the originating country, which is an unfair trade practice," said Acharya.

"For copper operations, the fall in revenue should be proportionate to the fall in copper prices," said Goutam Chakraborty, a research analyst at Emkay Global Financial Services Ltd. "Aluminium has its own dynamics as there is the impact of premiums and steel and iron prices. Though they are at very low levels, they may fall further and all this will impact earnings," he added.

Stock prices reflect the gloom.

The BSE metals index closed on Wednesday at 8,833.51, down 3.9% from the previous day, as the benchmark Sensex index closed at 27,687.72 points, down 1.72% from the previous day.

Shares of Hindalco Industries Ltd closed at `101.75 apiece, down 5.13% from the previous day, while Vedanta Ltd traded at `146.10, down 7.85% from a day ago. Shares of JSW Steel ended at `849.10, down 3.13% from Tuesday.

On the London Metal Exchange, copper traded at $5,329 a tonne, down 4.43% from the previous day and 25.22% from a year ago. Wednesday's price was a six-year low. Aluminium spot prices dipped 1.77% to close at $1,623 per metric tonne on Tuesday. They have lost 23.66% since the beginning of the year.

Mountain of debt

Bankers are a worried lot.

Iron and steel companies have been a major area of stress for banks over the past few years. According to data from the Reserve Bank of India's *Financial Stability Report* that was released on 25 June, iron and steel cases constituted about 10.2% of the overall stressed assets (sum of gross non-performing assets and gross restructured loans) of all banks as on 31 December 2014.

"Low commodity prices, high cost of production and increased debt burden are all part of the reason for the stress in steel companies... Moreover, some domestic policy issues have also affected production," said R.K. Bansal, executive director, IDBI Bank Ltd.

"Apart from some large companies, most other steel companies have been through debt restructuring or at least refinancing. However, these measures will not have much effect if these companies are not profitable," he added.

Of the 530 cases with loans worth over `4 trillion that have been approved for debt restructuring by the corporate debt restructuring cell, 285 cases with loans of over `2.86 trillion were still undergoing restructuring as on 31 March 2015, data from the cell shows.

Of the cases that are still part of the restructuring process, 58 belong to the iron and steel sector, with loans to the tune of `56,443 crore going through a recast.

Among the bigger steel companies, Tata Steel Ltd has a debt of `69,303.88 crore, JSW Steel has a debt of `38,720.28 crore and Jindal Steel and Power Ltd has a debt of `42,251.91 crore.

Among base metal producers, Hindalco has a debt of `67,058.16 crore, while Vedanta has loans of `77,752.30 crore.

These companies are excited about the government's indigenization drive, hoping it will open new revenue streams soon.

"We are seeing increased demand from the cable and winding wire segment; railways and defence (sectors) have also stepped up their buying," said a senior executive in a copper manufacturing company on condition of anonymity. "In Q3 (third quarter) and Q4, we expect demand to go up due to increased downstream consumption," he added.