Business Standard

No positive surprise in metal firms' capex announcements: Analysts

Brokerages, rating agencies do not see capex for maintenance as a sign of investment cycle revival

Aditi Divekar | Mumbai May 19, 2017 Last Updated at 01:21 IST

The recent capital expenditure (capex) announcements made by large domestic metal players such as Sajjan Jindal-led JSW Steel, Anil Agarwal-led Vedanta and Tata Steel, are expected to go unheard. With sizeable portion of these capexes being allotted for maintenance purposes and the rest ensuring availibility of capacity for incremental demand by 2020, there are no positive surprises in announcements, rating agencies and brokerages said on Thursday.

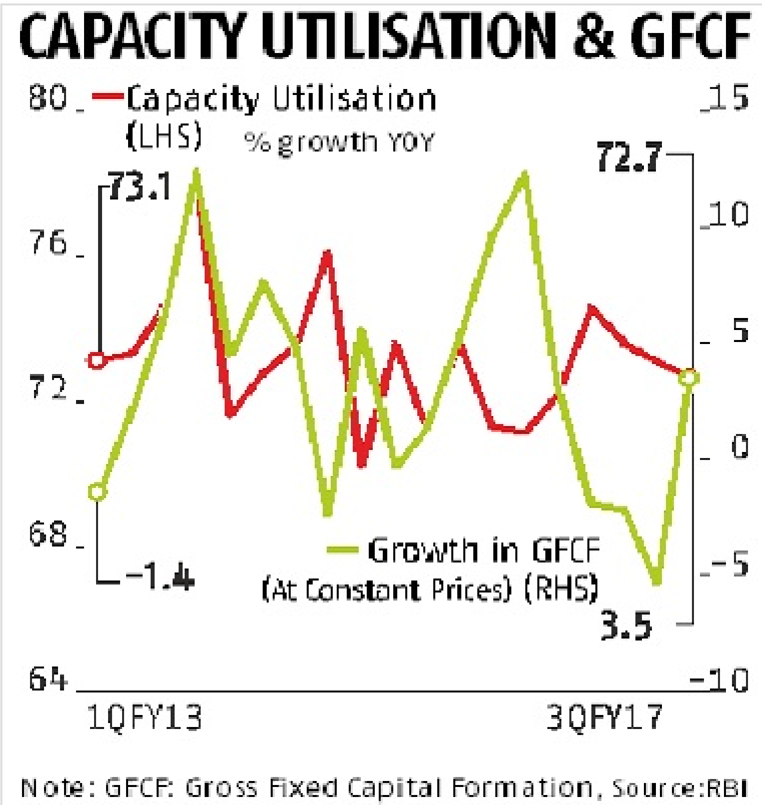
JSW Steel this week announced the Rs 26,700 crore capex, which is to be spent over next three years. This capex is set to increase the company's capacity from the current 18 million tonne to over 23 million tonne by 2020. On the other hand, Vedanta and Tata Steel announced investments worth Rs 6,500 crore ($1 billion) and around Rs 7,000 crore for the current financial year (FY), respectively.

“Firstly, these companies are just few players of the entire metal sector. Secondly, the capex is largely a maintenance capex from both Tata Steel and Vedanta, and so to that extent there is no strong economic growth indication for the domestic metal market here,” said Abhisar Jain, senior analyst at Centrum Brokerage.

Vedanta would be spending nearly half of its capex on zinc mine upgradation and the balance 50 per cent is to be divided between the company's aluminium operations and its subsidiary Cairn India.

Tata Steel would be allocating Rs 3,500 crore for annual maintenance at European operations and another Rs 1,500 crore for maintenance of Jamshedpur facility. The remaining Rs 2,000 crore capex to be allotted for residual payments of Kalinganagar unit in Odisha.

According to the Reserve Bank of India (RBI) survey, capacity utilisation of the entire domestic manufacturing sector has remained rangebound between 70-73 per cent since FY13. Also with gross fixed capital formation (GFCF) being negative since last three quarters, capex taking place in pockets of the manufacturing sector cannot be applied as a trend for the entire manufacturing sector.



“On a broader basis, capex activity in the economy has not yet picked up. IIP (Index of Industrial Production) and manufacturing capacity utilisation data suggests that a broad recovery in capex will take some time. Some corporates are going ahead with expansion plans. However, this is limited only to a few sectors. Some pockets of the economy have shown signs of recovery, however, RBI data suggests that manufacturing sector capacity utilisation continues to hover around 70 per cent. Unless utilisation levels pick-up, capex activity will remain limited. Gross fixed capital formation for 9MFY17 reflects that capital outlay on capex de-grew by 1.4 per cent,” said Varun Awtani, analyst-corporate ratings at India Ratings & Research.

In the quarter ended March, Tata Steel posted a very good operational performance and also saw its losses contract on year-on-year basis. JSW Steel posted stellar performance with a three-fold increase in its bottomline to Rs 1,009 crore as against Rs 300 crore in the same period last year. In a sort of turn around, Vedanta posted a profit of Rs 2,988 crore as against a loss of Rs 21,104 core in the corresponding period last year.

“Most steel companies are looking to increase their capacity utilisation levels to the optimum but there are select few in the sector with a relatively stronger balancesheet who can use their cashflows towards building capacity for incremental demand in coming years,” said P Sudhakar, Associate Director at Care Ratings.

Meanwhile, Jindal Steel & Power denied of any capacity expansion at present. "We are not planning to expand capacity at the moment, we will continue to focus on finishing some downstream projects which we already have along with phase-II at Angul," said Ravi Uppal, chief executive officer at Jindal Steel & Power.

Domestic consumption of steel has picked up only 3 per cent in FY17, while production has risen 11.3 per cent. Thus, paving way for higher exports, which jumped over 100 per cent in the last FY.