

## Metals & Mining

### Steel: Protectionism in sight

Directorate General of Trade Remedies (DGTR) has initiated the investigation of safeguard provisions pertaining to imports of non-alloy and alloy steel flat products into India ([Link](#)). DGTR has noted that sufficient evidence exists that sudden influx of imports has adversely impacted the domestic industry. In our view, the initiation of investigation would lead to channel restocking and a further reduction in imports booking. This would aid flat steel prices and spreads, already at four-year and three-year low level, respectively. Furthermore, if safeguard duty is imposed for four years (as requested by applicant companies), it would come as a structural relief to domestic steel players, benefitting especially JSW Steel (**BUY**; TP: INR 1,085) and Tata Steel (**BUY**; TP: INR 190).

### A shot in the arm for flat players

DGTR has initiated the investigation of safeguard provisions pertaining to imports of flat steel products (alloyed and non-alloyed). Key points: 1) Applicant companies have requested the imposition of safeguard measures for a period of four years; 2) products under consideration (PUC) include flat steel products except CRGO and stainless steel; and 3) period of investigation (POI) is between Oct'23 and Sep'24. DGTR has noted that applicants have provided sufficient evidence to demonstrate that unforeseen developments such as trade remedy measures world over (129 measures by various countries between 2019-23), excess capacity in China, South Korea and Japan and decline in steel consumption in China have led to sudden, sharp and significant increase in imports of PUC to India. The authority has also noted that imports influx has caused serious injury to the domestic industry.

### Market share is more concerning than prices

Flat steel imports have surged in the country. During POI, flat steel imports surged 76% at 0.7mt/month (on average) while flat steel exports from India slid 29% at 0.5mt/month (on average) compared to 5-year period prior to that. As a result, net imports/flat steel consumption (per month) stood at 4% on average during POI compared to -9% for 5-year period prior to that. Besides, the share of China in imports swelled to 27.4% during POI compared to 13% for 5-year period prior to that. Currently, domestic steel prices are at parity with the landed cost of imports from China while at 3% premium to the landed cost of imports from South Korea/Japan. Hence, we believe safeguard duty is likely to deter imports, particularly from China. This is likely to ensure that consumption growth of ~6-8% YoY benefits domestic steel players whose capacities are going to be ramped up progressively in FY26.

### Flat prices are likely to see limited uptick

Currently, HRC prices are trading at a discount of INR 5,000/te to rebar prices (traditionally HRC-rebar spread is at INR 2,000/te). EBITDA/te of major steel players during POI is down by 25-30% (INR 3,000-4,000/te) compared to 5-year period prior to that. In our view, price hike of 8-9% would restore EBITDA/te to 5-year average which is likely to be much lower than the safeguard duty being envisaged.

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#### JSW Steel (BUY)

#### Jindal Steel (BUY)

#### Tata Steel (BUY)

#### Shyam Metalics (BUY)

#### NMDC (ADD)

#### Coal India (ADD)

#### SAIL (SELL)

## Outlook: Better late than never

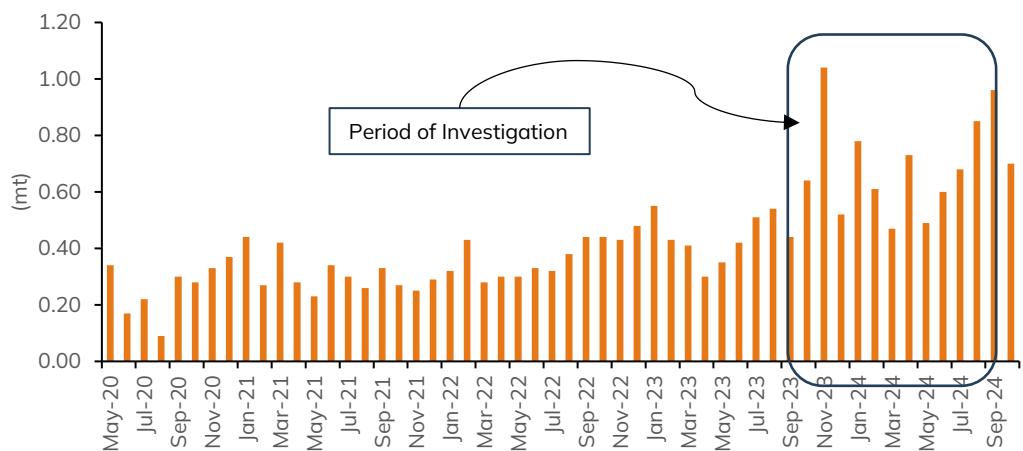
We believe the investigation of safeguard provisions pertaining to alloy and non-alloy imports is the first step towards protecting the domestic market players against unfairly priced imports. In our view, the uptick in HRC prices is unlikely to be as much as safeguard duty being on imports as the primary endeavour of steel companies would be to maintain their market share. That said, we believe the decline in HRC price would abate and uptick is on cards in near term, raising both spreads and profitability. Furthermore, we believe the duration of safeguard duties of 4 years as requested by the appellants is likely to ensure that upcoming capacities are fully absorbed, leading to structural improvement in operating environment, benefitting especially JSW Steel (BUY; TP: INR 1,085) and Tata Steel (BUY; TP: INR 190).

### Exhibit 1: Scenarios of landed cost of HRC imports with safeguard duties (in INR)

Country of origin	Landed cost (Current)	Safeguard duty (%)				
		5%	10%	15%	20%	25%
China	47,452	49,674	52,007	54,456	57,028	59,729
Japan and South Korea	45,976	48,106	50,342	52,691	55,157	57,746

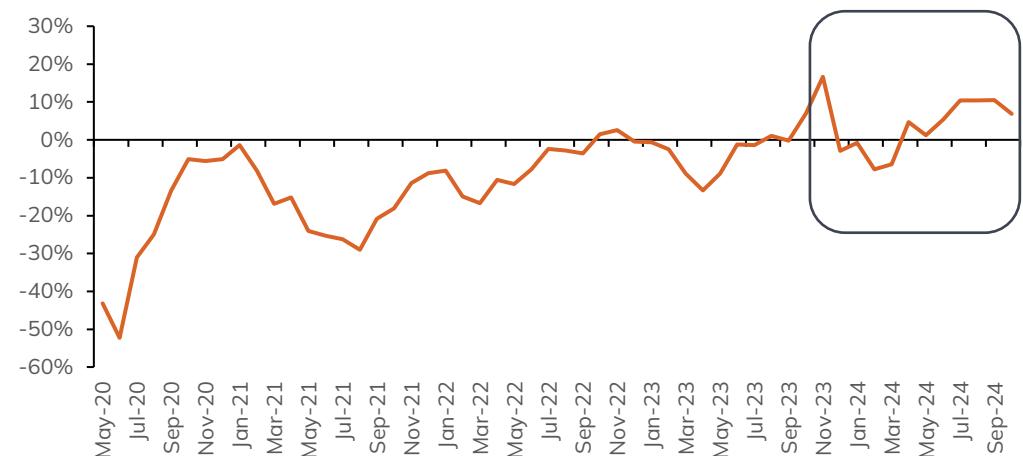
Source: I-Sec research, SteelMint

### Exhibit 2: Flat steel imports in India

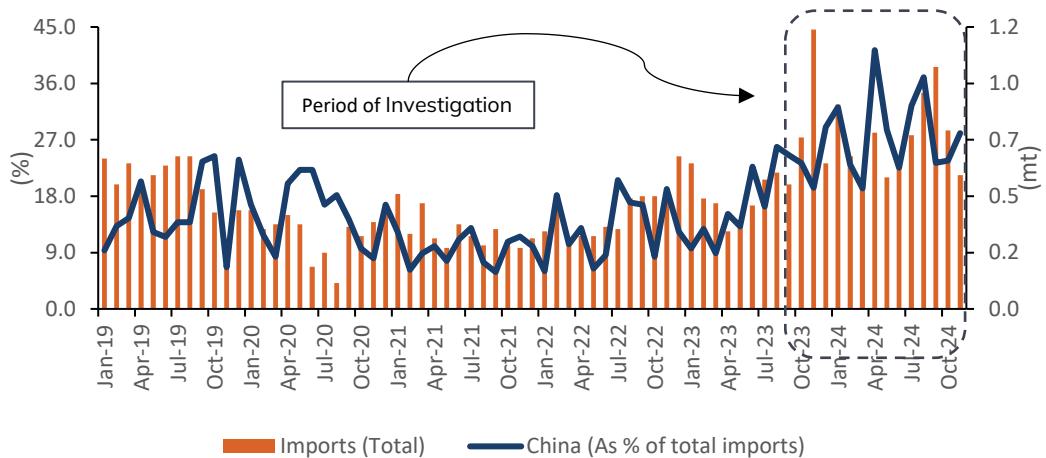
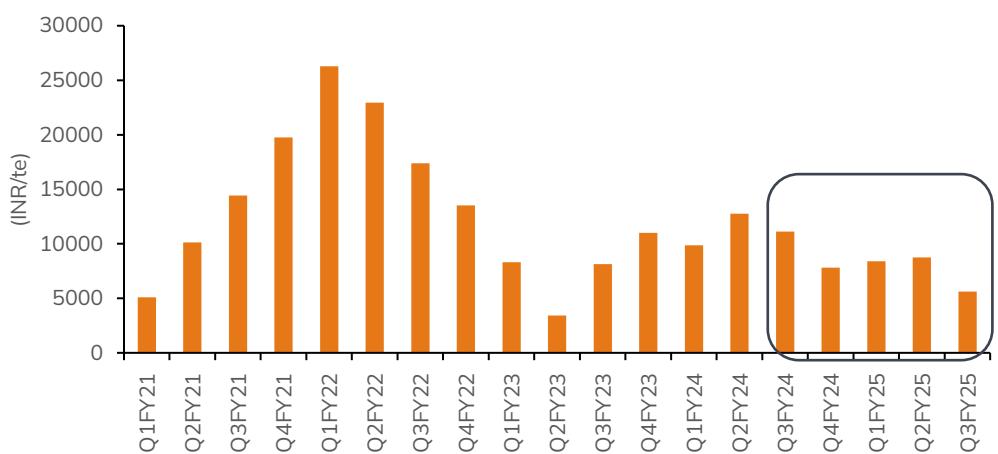
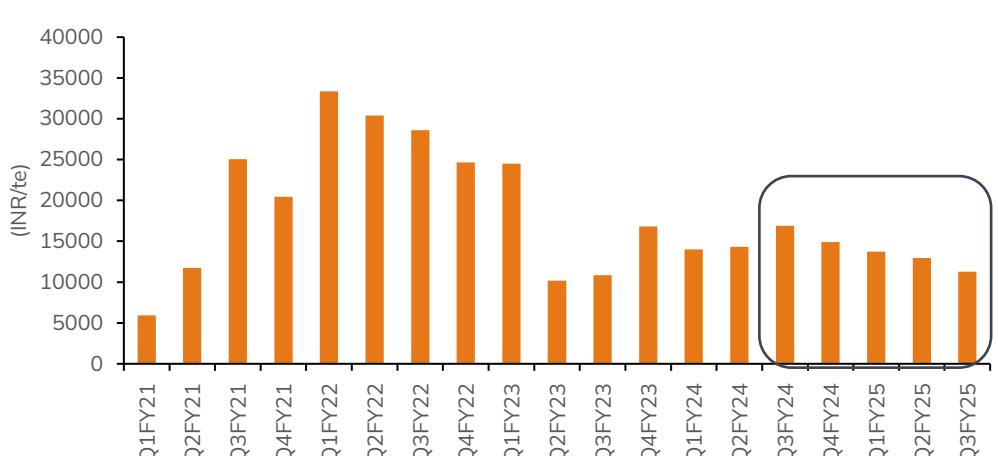


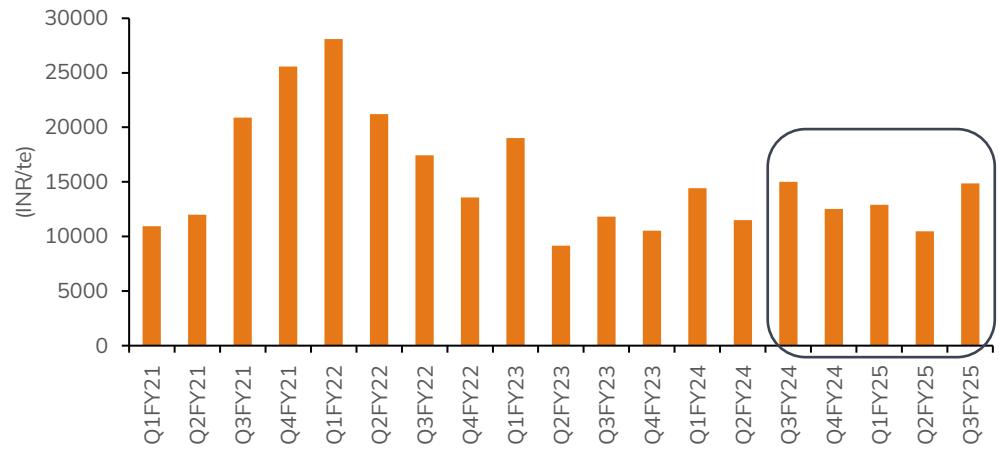
Source: I-Sec research, SteelMint

### Exhibit 3: Flat steel net imports/consumption

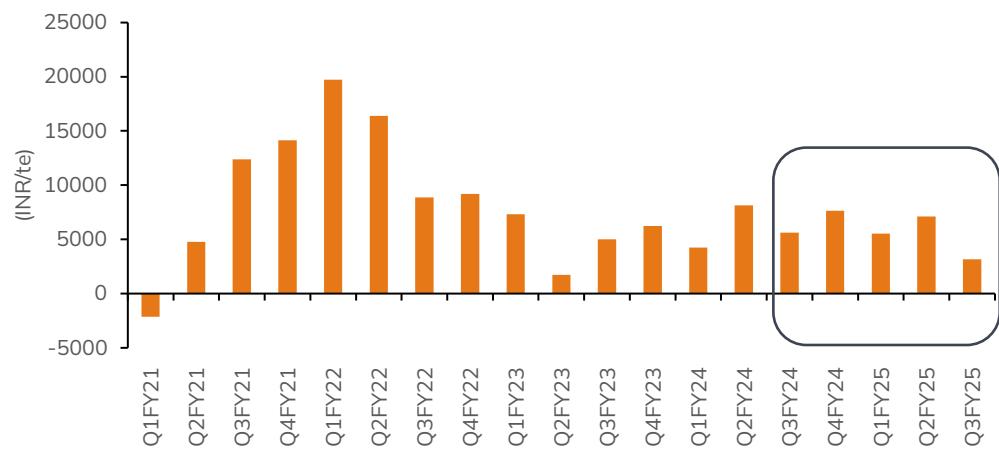


Source: I-Sec research, SteelMint

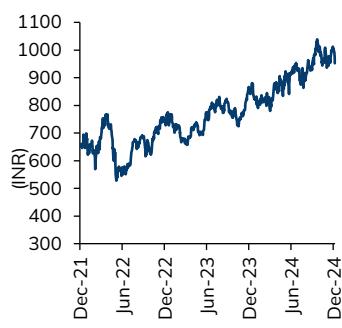
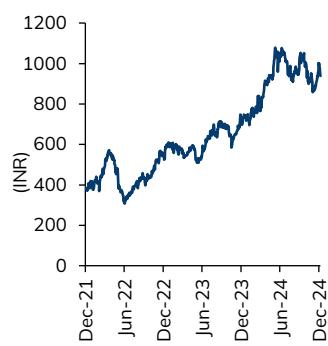
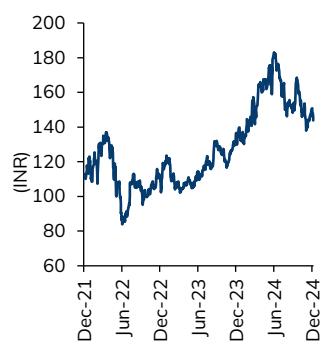
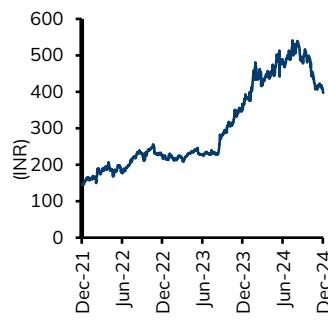
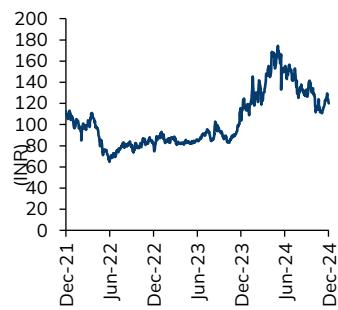
**Exhibit 4: Share of China in overall imports has gone up****Exhibit 5: JSW Steel- quarterly EBITDA/te trend****Exhibit 6: Tata Steel- quarterly EBITDA/te trend**

**Exhibit 7: JSPL- quarterly EBITDA/te trend**

Source: I-Sec research, Company data

**Exhibit 8: SAIL- quarterly EBITDA/te trend**

Source: I-Sec research, Company data

**Price charts****JSW Steel****Jindal Steel****Tata Steel****Shyam Metalics****NMDC****Coal India****SAIL**

Source: Bloomberg

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