Tata Steel Reported Net Loss

A sharp decline in steel demand in China has battered the finances of global steel makers, exposing chinks in Tata Steel armour. With debt to equity ratio of 2.0, the company is highest amongst its peers.

It's tough to be a steel maker but it's even tougher to be Tata Steel right now. A sharp decline in steel demand in China, the world's largest steel producer and consumer, and a corresponding decline in steel prices have battered the finances of steel makers all over the world.

Six of 18 of the world's top steel makers reported a sharp decline in net profit in the last financial year. Another three, including Tata Steel and the world's top steel maker ArcelorMittal, reported net losses. The steel industry's return on capital hit new lows with 16 of 18 companies in the Bloomberg index either reporting negative or low single-digit return on equity in the last financial year."The global steel industry is going through a deep cyclical downturn with supply outstripping demand globally. It will require a few years of growth to correct this supply-demand imbalance in the industry. Steel makers have little option but to wait out this downturn," says Sivarama Krishnan, partner and head of risk advisory at PwC India. According to him, this is normal in the commodity sector and this kind of cyclacity in growth and profitability is hard-wired into the DNA of commodity manufacturers. Tata Steel is more vulnerable as it is one of the world's most indebted steel makers and the group's overwhelming dependence is on its profitable operations in India to fund losses abroad. At the end of FY15, its consolidated debt was twice the equity (or net worth), and much higher than the industry average of 70 per cent. At 10, the company's gearing ratio (debt to operating profit) is also among the highest in the industry.

Hyundai Hysco Merged with Hyundai Steel

Fair trade regulator CCI has approved the proposed merger of Hyundai Hysco with Hyundai Steel, saying the deal would not have any anti-competitive impact in the Indian market. Both companies are part of South Korea's Hyundai Motor Group.Hyundai Hysco is into the manufacture and sale of flat steel products, steel pipes, lightweight automotive parts and fuel cell systems. It has two subsidiaries in India -- Hysco Steel India Pvt Ltd (HSIPL) and Automotive Steel Pipe India Pvt Ltd (ASPI).HSIPL supplies majority of its production in respect of processed steel sheets to Hyundai Motor India Ltd. Hyundai Steel's presence in India is largely limited to the supply of certain raw materials to HSIPL. Clearing the deal, Competition Commission of India (CCI) said there is no horizontal overlap between the activities of Hyundai Steel and Hyundai Hysco in India."Given the insignificant market shares of the parties in India, the fact that Hyundai Steel only supplies to HSIPL and the presence of other major suppliers, it is observed that vertical relationship between the parties would not result in foreclosure in the upstream or downstream market(s) in which the parties are present in India," CCI said in an order..

No Investment Proposal Sent to Electrosteel Steels - Tata Steel

As lenders to Electrosteel Steels explore investment proposals from the Tata Group and a Singapore-based investor, analysts feel the move is positive for the indebted and loss-making company but are divided on whether it will be attractive for an integrated primary steel producer like Tata Steel. In a disclosure to the stock exchanges, Electrosteel Steels said lenders and the company had received indicative term sheets for investment from the Tata Group and a financial investor based in Singapore. Tata Steel, however, denied sending term sheets to Electrosteel Steels indicating investment. “We have not spoken to Electrosteel Steels and have not given any term sheets to them,” Koushik Chatterjee, executive director and group chief financial officer at Tata Steel said. “Tata Steel, therefore, is not obliged to make any filing to the exchange,” Chatterjee clarified. The West Bengal-headquartered Electrosteel Steels is a subsidiary of Electrosteel Castings, which holds a 45.23 per cent stake. With a 2.5 million tonne Chinese steel facility in Jharkhand, Electrosteel Steels had net debt of close to Rs 10,000 crore on March 31, 2014.
The company has also been allotted an iron ore mine that is awaiting clearance from the Jharkhand government.