



## Credit Suisse turn bullish on India's steel companies

Global research House Credit Suisse (CS) turned bullish on India's steel companies and said the only risk was if demand in China disappointed or domestic trade barriers like the import duty were withdrawn.

CS not only accorded an 'Outperform' rating on Tata Steel from an earlier 'Underperform' but even raised its price target from Rs 180 to Rs 440. The share price of Tata Steel rose by 6.52% on the BSE to close at Rs 356. In a report titled "the big cycle turn?" CS said the inventory cycle for steel has bottomed out globally, not just in China, and given the extent of de-stocking, the restock could last more than the usual 6-9 months.

"The dollar weakness has helped stabilize cost curves, Chinese demand stimulus could lead to a demand uptick in second half that could further elongate the inventory "normalisation" and supply discipline (~100mt of idling capacity looks unlikely to return). Historical rallies yielding big returns for Tata /JSW have lasted 9-12



months," CS said. Tata Steel has already witnessed a 64% rally in its share price from the low of Rs 217 that it had hit in February during the market meltdown. CS, however, said that despite the recent run-up in share price enterprise (EV) for steel stocks has barely changed. The EV per ton has been known to rise viciously when prices rise. "The EV for steel stocks is \$800-1,000 per ton at present but could easily rise to \$1,500/t+ levels if macro remains supportive.

Our target prices call for only 3-9% rise in EV - not a tough ask. We like Tata Steel the most given upside from the UK drag

reduction and lowest bankruptcy risk. JSW Steel too looks well-placed to benefit from higher prices. Major risk to our thesis a fall in steel prices, if the demand in China fails to come through in second half," CS said. CS said that with rising iron ore prices, Tata's mining margins are also set to expand. A successful sale of UK assets and a possible JV with Thyssen Krupp, although too early to comment, could drive further re-rating. However, Tata Steel's failure to sell UK assets and a larger than expected restructuring charges in the UK business would be a big negative. For JSW steel, a rise in domestic iron ore costs would be adverse.

For JSPL, a failure to monetize the power asset would be seen as negative, CS said. The research house also raised the target price of JSW Steel to Rs 1600 from Rs 540. The share price of JSW Steel rose by 1.94% to close at Rs 1,360. CS raised its price target of Jindal Steel and Power (JSPL) to Rs 85 from Rs 56. The share price of JSPL rose by 7.44% to close at Rs 74.4.

## Customs dept imposes fine on Tata Sponge



The Customs department has imposed a total fine of Rs 33 crore on Tata Sponge Iron over its classification of coal imports. Tata Sponge Iron, a subsidiary of Tata Steel, said it has been meeting its coal requirement through imports. "Coal so imported was classified as steam coal by the company and duties are paid accordingly. According to the Customs department, this coal merited classification as bituminous coal," it said in a regulatory filing. "In the financial year 2013, the tariff of bituminous coal was higher than steam coal. Hence, the company paid the differential duty with interest 'under protest'." The filing further said "The Commissioner of Customs in adjudication of the company's 'payment under protest' has upheld the Customs department's classification and demanded fine amounting to Rs 23.25 crore and a further penalty of Rs 9.86 crore." The Tata Sponge Iron management is taking steps to challenge this "unjustified" demand, as per options available to it. Tata Sponge is a coal-based merchant sponge iron producer and operates three rotary kilns with an installed capacity of 3,90,000 tonnes per annum (tpa) to produce sponge iron. According to its annual report, the firm used coal worth of about Rs 229 crore in 2014-15 as against around Rs 263 crore in 2013-14. Iron ore and coal alone constitute more than 80 percent of the cost of production. During 2014-15, the firm sourced almost all of its iron ore requirement from Tata Steel. It sourced half of its coal requirement from auctions of Coal India while the other half was imported.

## STEEL PUNCH

- Shrinivas Prabhudesai



"Sir, we can not expand our factory. We don't have permission from forest department !"