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News & Report Analysis

- Currency Market
- Precious Metals
- Base Metals
- Energy Market

- Steel industry margins set to shrink: India Ratings
- Domestic steelmakers raise product prices for a second straight month
- Slowdown blues: Steel industry reels from poor demand, wafer-thin margins

London Metal Exchange : Monday 02, December 2019

	Pr. Sell	Morning Session		Afternoon Session		Kerb	Change	Stk(tns)	MMR Landed Prices	
	(1)	Buy	Sell * (2)	Buy	Sell		(2) - (1)	change		Value
				$/ton						Rs/ton
Copper Grade A										
Spot	5854.00	5855.00	**5855.50**	5846.00	5847.00	5862.00	**1.5**	208,525	MMR LP	448,959
3-mth	5877.00	5875.00	**5877.00**	5867.00	5868.00	5883.00	**0.0**	-100	14-D MA	448,333
Average	10-days - 5858.65		20-days - 5863.28		30-days - 5856.28				PP (HCL)	439,746
Tin High Grade										
Spot	16350.00	16450.00	**16500.00**	16455.00	16460.00	16516.00	**150.0**	6,400	--	--
3-mth	16360.00	16425.00	**16475.00**	16445.00	16450.00	16490.00	**115.0**	-100	--	--
Average	10-days - 16304.00		20-days - 16361.50		30-days - 16472.17				--	--
Lead										
Spot	1947.00	1911.00	**1912.00**	1897.00	1898.50	1889.50	**-35.0**	67,125	MMR LP	153,828
3-mth	1959.00	1925.00	**1926.00**	1911.00	1912.00	1906.00	**-33.0**	-25	14-D MA	157,836
Average	10-days - 1947.90		20-days - 2011.50		30-days - 2083.47				PP (HZL)	165,600
Zinc Special High Grade										
Spot	2312.50	2285.00	**2285.50**	2271.00	2272.50	2261.25	**-27.0**	59,200	MMR LP	187,274
3-mth	2282.00	2255.00	**2256.00**	2246.00	2247.00	2243.00	**-26.0**	-150	14-D MA	192,616
Average	10-days - 2324.70		20-days - 2412.53		30-days - 2457.42				PP (HZL)	195,100
Aluminium										
Spot	1785.50	1789.00	**1789.50**	1799.00	1800.50	1812.75	**4.0**	1,270,000	MMR LP	149,992
3-mth	1761.00	1768.00	**1769.00**	1779.00	1780.00	1790.00	**8.0**	-1650	14-D MA	147,498
Average	10-days - 1759.95		20-days - 1772.75		30-days - 1760.22				PP (Nalco)	148,950
Aluminium Alloy										
Spot	1320.00	1310.00	**1320.00**	NA	NA	NA	**0.0**	6,940		
3-mth	1285.00	1275.00	**1285.00**	NA	NA	NA	**0.0**	-100		
Average	10-days - 1324.50		20-days - 1322.05		30-days - 1330.87					
Nickel									Copper	1-Nov
Spot	13810.00	13620.00	**13625.00**	13725.00	13730.00	13652.00	**-185.0**	69,036	Aluminium	26-Nov
3-mth	13915.00	13650.00	**13655.00**	13795.00	13800.00	13715.00	**-260.0**	756	Zinc	25-Nov
Average	10-days - 14248.50		20-days - 14973.50		30-days - 15539.00				Lead	28-Nov

Note: 1. MMR LP = MMR Landed Prices, excluding excise duty. 2. PP = Producer Prices ex-smelter, excl. excise

Minor Metals ($/LB)

Antimony	Cadmium	Cobalt HG	Moly.oxide	Selenium	Silicon	Tungsten	Fe Si Mangnesium
99.65%	99.95%	99.80%					
6,300	110.00	17.50	9.60	8.50	1600.00	245.00	150

Week ended Avg of Steel Prices : 29/11/2019 (Excl. GST)

Mandi Gobindgarh - Punjab					Mumbai	Kolkata	Delhi	Chennai		Mumbai	Bhiwadi	Kanpur
Sponge Iron	22,600	**HMS OLD**	24,800	**HMS**	22,000	24,000	24,400	20,500	**MS Ingots**	34,300	31,850	31,950
Pig Iron	30,500	**HMS Fresh**	28,100	**CRP(LSLP)**	27,700	-	-					

Alum. Alloy : Basic prices excl. CST/VAT		**ADC 12**		**AlSi 9 Cu3**		**LM6**	
	Mumbai Mkt rates in kgs : **31/10/2019**		108		111		137
	Ex. Delhi Mkt rates in kgs : **31/10/2019**		117		-		-

Indicative Domestic Market Rates (Rs./kg)

	Mumbai		Delhi		Chennai	
	02-Dec	Prev	**02-Dec**	Prev	**02-Dec**	Prev
Virgin Metals					-	-
Copper Pat			**391.0**	391.0	-	-
Copper W/Bar	**440.0**	440.0	-	-	-	-
Alum Ingot	**135.0**	135.0	**142.0**	142.0	**138.0**	138.0
Zinc Slab	**191.0**	191.0	**223.0**	223.0	-	-
Lead Ingot	**152.0**	152.0	**143.0**	143.0	-	-
Tin Slab	**1,230.0**	1,230.0	**1,370.0**	1,370.0	-	-
Nickel (4x4)	**1,085.0**	1,085.0	**1,325.0**	1,325.0	-	-
Scrap					-	-
Copper Heavy	**408.0**	408.0	--	--	-	-
Copper Uten.	**380.0**	380.0	--	--	-	-
Copper Mixed	--	--	**371.0**	371.0	-	-
Brass Utensil	**290.0**	290.0	--	--	-	-
Brass Huny	**280.0**	280.0	**295.0**	295.0	-	-
Brass Sheet	**311.0**	311.0	-	-	-	-
Alum Utensil	**95.0**	95.0	**113.0**	113.0	-	-

Comex Copper (cents/lb) / Comex Al (cents/lb)

	Comex Copper Rate	Comex Copper Change	Comex Al Rate	Comex Al Change
Sept'19	**263.25**	-0.9	-	-
Oct'19	**263.95**	-1.1	-	-
Nov'19	**264.55**	-1.1	-	-

Precious Metals : Indicative Rates

Metal	Market	Unit	02-Dec	Prev
Gold Std	Mumbai	Rs/10g	**37,979**	38,019
Silver	Mumbai	Rs/kg	**44,200**	44,370
Gold	London	$/tr.oz.	**1,461.15**	1,460.15
Silver	London	$/tr.oz.	**16.87**	16.96
Gold	Comex	$/tr.oz.	**1,462.30**	1,465.60
Silver	Comex	$/tr.oz.	**16.83**	16.96

Forex: December, 02, 2019 (Rs/Unit Currency)

	USD	GBP		YEN
Buy	71.71	92.71		0.6551
Sell	71.62	92.63	---	0.6541
	EURO	**SGD**	**AUD**	**SFR**
Buy	79.09	52.42	48.70	71.98
Sell	79.01	52.35	48.65	71.86

Customs Notified Rates : November 08th 2019 [Rs.(Imp/Exp)]: US$ 72.00/70.30;Pound Sterling 93.00/89.75;Euro 80.15/77.20

The US stock market moved almost exclusively in one direction this fall: up.

This relentless rally has carried the S&P 500 more than 9% higher between October 2 and the end of November. The index hit 11 record highs last month alone in just 20 trading days. Selloffs were virtually nonexistent as investors, afraid of missing out on the fun, stampeded back into stocks.

Melt-ups feel good at least for those invested in stocks. But because they aren't built on fundamentals, they make markets vulnerable to sudden pullbacks. Nothing goes straight up, not even the Nasdaq.

The recent market melt-up has left stocks priced for perfection. In other words, investors are banking on a preliminary trade agreement between the United States and China in the next two weeks. And Wall Street is betting that the worst is over for the economy. Any deviation from those assumptions could disrupt the rally.

"When everyone is leaning one way, eventually something can tip the scales the other way," said Keith Lerner, chief market strategist at SunTrust.

First, the Institute for Supply Management said the American manufacturing downturn unexpectedly worsened in November. Manufacturing has now contracted for the fourth month in a row.

"The sector is stuck in a mild recession with little prospect of a near-term revival," Ian Shepherdson, chief economist at Pantheon Macroeconomics, wrote in a note to clients.

American manufacturing sector contracts fourth month in a row

Then US Commerce Secretary Wilbur Ross reminded Wall Street that the trade war may yet get worse before it gets better. Ross told Fox Business Monday that the Trump administration could increase tariffs on China if no agreement is reached by December 15.

That one-two punch of bad news drove the Dow around 200 points, or 0.8%, lower on Monday. The S&P 500 fell 0.9%, a sharp move considering the index hasn't suffered even a 0.5% decline since October 8.

"The biggest risk to the market is that the trade stuff starts unraveling," said Lerner. "Then all bets are off, and you could have a much more severe correction."

That's what happened this time last year, when the S&P 500 suffered its worst December since the Great Depression.

This may be just a blip on the way to new record highs, especially if a preliminary trade deal gets done. And despite last year's S&P slide, December is typically the S&P 500's best month of the year, according to CFRA Research.

Still, it's clear market sentiment has reached unsustainably high levels. The CNN Business Fear & Greed Index recently hit the highest levels

6 mth LIBOR	Major Currencies	Today's Crosses	Spot v/s INR	Cash v/s INR	Forward Rates v/s INR (Export/ Import) December	January	February	May	August	November
1.90	USD / INR		**71.63/ 64**	71.61/ 63	71.79/ 82	72.00/ 02	72.18/ 21	72.93/ 95	73.63/ 66	74.32/ 34
-	*ATM Options (put/call)*	-	-	-	*0.37/0.38*	*0.59/0.60*	*0.75/0.76*	*1.12/1.13*	*1.40/1.43*	*1.64/1.69*
0.15	EUR / USD	**1.1076**	**79.34/ 35**	79.32/ 34	79.69/ 72	80.08/ 10	80.43/ 45	81.72/ 74	82.98/ 00	84.17/ 19
-0.01	USD / JPY(100)	**109.20**	**65.59/ 60**	65.58/ 59	65.89/ 92	66.20/ 23	66.48/ 51	67.52/ 55	68.53/ 56	69.48/ 53
0.86	GBP / USD	**1.2939**	**92.69/ 70**	92.66/ 69	93.01/ 04	93.36/ 40	93.67/ 71	94.87/ 90	96.02/ 04	97.10/ 12
-0.66	USD / CHF	**0.9924**	**72.17/ 18**	72.16/ 17	72.53/ 55	72.90/ 92	73.21/ 23	74.48/ 49	75.69/ 70	76.82/ 83
3.06	AUD / USD	**0.6841**	**48.98/ 99**	48.97/ 98	49.15/ 14	49.32/ 31	49.49/ 47	50.11/ 09	50.70/ 68	51.22/ 23

Source : Mecklai Financial

of "extreme greed" since the tax cut euphoria of late 2017.

"It seemed like every day we were going up," said Peter Boockvar, chief investment officer at Bleakley Advisory Group. "Something that goes straight up, usually goes straight down."

In addition to trade talks and hints of stabilization in the US and global economies, easy money from the Federal Reserve is also playing a major role. Not only did the Fed cut interest rates three meetings in a row, but the central bank's balance sheet has swelled in size as it continues to pump in money to ease stress in the overnight lending market. The Fed injected nearly $98 billion.

Although the Fed has said its balance sheet expansion is not aimed at boosting the economy or markets, analysts say it has in fact propelled stocks.Michael Wilson, Morgan Stanley's chief US equity strategist, told clients in a note on Monday that the market rally is "due primarily to excessive central bank balance sheet expansion."However, Wilson warned that the "liquidity tailwind will fade" by April, forcing the market to "focus more on fundamentals." And he noted that despite the improved market mood, Morgan Stanley economists still see a 25% chance of a US recession in the next 12 months.No matter the cause, the stock market has been on fire. And yet the underlying fundamentals corporate profits have been subdued. S&P 500 per-share earnings declined 0.4% during the third quarter, according to Refinitiv.That combination of rising stock prices and weak earnings sent valuations surging.

The S&P 500's price-to-earnings ratio stood at 16.9 in early October, according to Refinitiv. The melt-up lifted the S&P 500's P/E ratio to 18.3 at the end of November, according to Refinitiv. The 5 year average is 17.

Lofty market valuations aren't happening in a vacuum, of course. Extremely low interest rates make stocks look more attractive by comparison. Relative to bonds, investors have decided it makes sense to pay up for stocks.

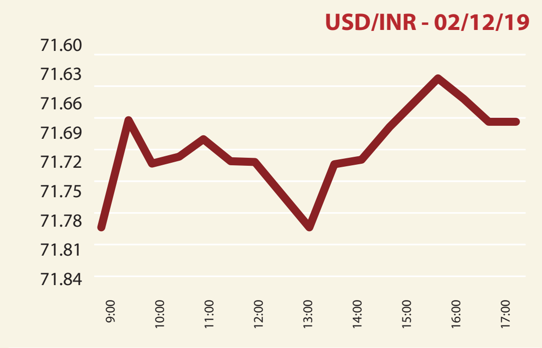
Nonetheless, SunTrust's Lerner said that the melt-up is evidence of FOMO, or fear of missing out.

"When you continue to go up everyday and there is no pullback, it forces people into the market"."Those are not strong hands. Once the market turns, they will be quick to sell."Kristina Hooper, chief global market strategist at Invesco, said the market is indeed vulnerable to a retreat at these high valuation levels but not for long.

"Any pullback would likely be very short-lived given how accommodative Fed policy is," Hooper said. It's a fresh reminder of the power of central banks. Easy money helped fuel a melt-up in stocks. And it could be enough to prevent a meltdown

Currency Market

The Indian rupee opened lower at 71.70 per dollar on Tuesday versus previous close 71.66 per dollar. On December 2, the rupee ended 8 paise higher at 71.66 against the US dollar amid participants hoping Reserve Bank will go for another rate cut in the ensuing RBI policy review meet this week. The dollar traded near a one-week low versus the yen and near the lowest in almost two weeks against the euro, on concern about weak US manufacturing data and signs of new fronts in the US trade war.



USD/INR Overnight VAR		0.3259
Data releases today	**Forecast**	**Previous**
EUR Spanish Unemployment Change	4.4%	4.9%
EUR PPI m/m	%	3.4%

Source : Mecklai Financial

Precious Metals

Gold futures opened negative on Tuesday with the most active February contract on MCX traded 90 points lower at Rs 37,859 per 10 grams, from its previous close, tracking the global weakness in the yellow metal.

Analysts believed that robust factory data from China amid increasing demand for the United States (US) dollar weighed on international gold prices, which quoted at $1461 for CME December futures, down $1.2 from previous close.

In domestic markets, spot gold on Monday ended lower at Rs 37,979 per 10 grams (of 999 purity without taxes) as quoted by India Bullion and Jewellers Association (IBJA) for PM reference rates.

On Tuesday, spot gold is expected to hover around Rs 37,700 levels reflecting the global weakness in the precious metal

Market Highlights - Gold (% change) *as on Dec 03, 2019*

Gold	Unit	Last	Prev. day	WoW	MoM	YoY
Gold (Spot)	$/oz	1462.3	-0.11	0.02	-3.38	18.11
Gold (Spot-Mumbai)	Rs/10 gms	37900.0	0.00	-0.92	-2.07	22.46
Comex	$/oz	1462.3	-0.23	-0.05	-3.03	17.82
MCX Gold	Rs/10 gms	37952.0	-0.21	0.15	-0.93	2.62

Source: Angel Broking

Base Metals

Zinc sank to its lowest in nearly three months overnight and other industrial metals also posted losses as investors doubted that upbeat manufacturing data in China pointed to an economic recovery.Factory activity in top metals consumer China expanded at the fastest rate in three years, a private sector survey showed on Monday, reinforcing strong government data released on Saturday. But some analysts said the buoyant showing, especially for the Caixin/Markit manufacturing Purchasing Managers' Index, may be influenced by one-off factors."A lot of people are doubting the veracity of the Caixin one. That's a pretty dramatic turnaround, so there's a degree of scepticism," said Colin Hamilton, director of commodities research at BMO Capital in London.

"Normally the official numbers are above the Caixin one and for two or three months we've had it the other way around."

There was also worry that the good data might undermine a US-China trade deal."The problem America now faces is that China looks to be returning to growth despite the tariffs, which gives the upper hand to China," Malcolm Freeman at Kingdom Futures said in a note."This may mean no trade deals are signed this year, which will be perceived as bearish."

Benchmark zinc prices on the London Metal Exchange fell 1.3 per cent to $US2,243 a tonne in final open-outcry trading after touching $US2,237, the lowest since September 4.The net speculative short position of LME zinc has risen to 14.7 per cent of open interest, a level not seen since late September, Alastair Munro at broker Marex Spectron said in a note.Norsk Hydro, one of the world's biggest aluminium producers, plans to cut production by 20% at its majority-owned Slovalco plant in Slovakia, citing a weakening market."With a demand rebound unlikely near-term, supply cuts in excess of 1 million tonnes per annum are needed to prevent a drop to our bear case of $US1,657/t in early 2020," said Morgan Stanley analysts in a note. LME aluminium rose 1.1 % to close at $US1,790 a tonne.The weak aluminium market has led to rising inventories. On-warrant LME stocks , material not earmarked for delivery, reached 1,114,650 tonnes, the highest since February 22, data showed. They have shot up 42% over the past 3 weeks. China's Shanghai International Energy Exchange is preparing to launch a copper futures contract within the next year that will be open to domestic and foreign investors, according to two sources familiar with the plans. LME 3-month copper edged up 0.3% to end at $US5,883 a tonne, lead dropped 1.6 per cent to $US1,906, the weakest since July 9, and tin slipped 0.03 per cent to $US16,490. Nickel gained 0.4% to finish at $US13,720, rebounding after touching $US13,610, the weakest since July 16

Energy Market

Saudi Arabia is planning to use its position at the head of the Opec oil cartel to buoy global oil prices before the $25bn stock market debut of its stateowned oil giant. The Organization of the Petroleum Exporting Countries is due to meet its oil market allies this week to agree the cartel's oil production policy for 2020. The world's largest oil-producing countries are expected to maintain a tight rein on their oil output in an effort to keep global prices from tumbling below $65 a barrel. As Opec's de facto leader, Saudi Arabia is expected to use its position to push other members to tighten their compliance with the group's agreed oil production limits, while cutting its own output even further than it needs to. The oil-rich kingdom hopes that if it keeps a lid on oil production next year the long-awaited initial public offering of Saudi Aramco may fetch a good price on its market debut in the next 2 weeks.

On Sunday, Iraq's oil minister, Thamer Ghadhban, told reporters in Baghdad that Opec and allies outside the cartel, known as Opec+, would consider cutting supply further by about 400,000 barrels a day to 1.6m

Market Highlights - Crude Oil (% change) *as on Dec 03 2019*

Crude Oil	Unit	Last	Prev. day	WoW	MoM	YoY
Brent (Spot)	$/bbl	65.1	-1.96	-1.56	7.75	6.20
Nymex Crude	$/bbl	56.0	1.43	-3.13	-0.43	5.09
ICE Brent Crude	$/bbl	60.9	-2.42	-3.90	-1.25	-1.87
MCX Crude	Rs/bbl	4008.0	0.70	-3.86	1.78	6.37

Source: Angel Broking

News Report & Analysis

Steel industry margins set to shrink: India Ratings

The steel industry's net leverage and interest coverage are likely to deteriorate in FY20 due to compressed EBITDA margins, due to a drop in realizations in the face of a demand slowdown and increase in raw material prices in FY20 on a YoY basis, India Ratings and Research (Ind-Ra) said in its latest report on the domestic steel sector. However, EBITDA levels are likely to improve by Rs 1,500 per tonne in the current quarter (Q3FY20) due to marginal improvement in realisations. The agency's views are based on its study of 38 listed and unlisted Indian steel companies.

The report highlights the demand-supply scenario, price trends, imports/exports in both India and China, encompassing finished steel products (both flat and long), scrap, iron ore, coking coal and others, while also evaluating at the impact of end-user industries on India's steel sector.

While industry players have been experiencing tighter liquidity levels, as a result, earnings before interest, tax, depreciation and amortisation (EBITDA) levels are likely to improve by Rs 1,500 per tonne during Q3FY20 as compared to H1FY20 levels due to a marginal increase in realisations and decline in raw material prices, the report said. In H1FY20, EBITDA per tonne was lower by Rs 2,500-Rs 3,000/ tonne as compared to the average levels in FY19. In mid-November, steel prices increased by around Rs 500-Rs 700/ tonne on a month-on-month basis in anticipation of growth in demand over the remaining portion of H2FY20 compared to H1FY20, though it is unlikely to increase to the levels witnessed in FY19. Demand for steel long products shall partially improve from November 2019 onwards, with construction and infrastructure activities likely to pick up post the completion of the monsoon season, the Ind-Ra sector report stated.

Prices of iron ore from the largest domestic miner, NMDC (Fines: Fe 64 per cent) reduced by Rs 500/tonne in mid-November 2019 as compared to July 2019. NMDC, cut prices by Rs 200/tonne per month in August and September 2019 and by a further Rs 100/tonne in November 2019. Coking coal prices remained highly volatile over July-November 2019, with prices being 33 per cent lower in mid-November 2019 as compared to April 2019. Ind-Ra said the fall in prices can be 'largely attributed to low restocking needs in China amid negative market sentiments and improved coking coal supplies.' On the domestic front, Coal India Limited (CIL) has stated that it shall focus on obtaining advance agreements for coking coal imports as against its previous plan of acquiring coking coal assets.

The report said a key development within the sector is the Indian government's decision to pull out of the Regional Comprehensive Economic Partnership (RCEP), since the anti-dumping duty that protects the domestic market from Chinese imports would have become null and void if India had entered into RCEP. The other main steel exporting nations within RCEP are Japan and South Korea, with whom India already has Free Trade Agreements.

Domestic steelmakers raise product prices for a second straight month

Mumbai: In a bid to address margin compression and in anticipation of demand pick-up, domestic primary steel producers have raised product prices by 2.5-3 per cent for December. "Since margins have become unsustainable, cost pressures versus the steel product price is not helping producers meet ends. This is the primary reason for the product price hike this month (December)," Jayant Acharya, director (commercial & marketing) at JSW Steel told Business Standard.

The December price hike is happening for the second consecutive month. In November, producers raised steel product prices between Rs 500 a tonne and Rs 1,000 a tonne, after a gap of about six months.

While steel producers expect the market to embrace price hike, industry officials are of the view that the consumer is not ready and continuous hikes of this kind may not be sustainable.

"There is absolutely no demand from the infrastructure segment. Also, the auto demand was good only in the festive month of October. Overall, there are no strong demand indicators as of now for steel. Continuous price hikes in such a scenario may be difficult to sustain," a Mumbai-based trader said.

The index of eight core infrastructure industries contracted 5.8 per cent for October 2019, which was its lowest level since the construction of the index with 2011-12 as the base year. Among the eight segments, the steel industry witnessed a 1.6 per cent fall in October, worse than a 1.5 per cent drop in September. In October last year, the steel industry had witnessed 2.4 per cent growth.

Meanwhile, steel producers have sealed half-yearly contracts for the auto segment factoring in the recent fall in steel prices. "There is a reduction from H1 (the first half of the year) to H2 (the second half). However, the numbers (quantum) are different from customer to customer, so I wouldn't like to give a single (price reduction) number," said Acharya.

While some players had said the price cut was by Rs 6,000 a tonne, others were of the view that the overall domestic steel price drop was sharper, close to Rs 8,000 a tonne, in the last three to four months, and hence contracts could have closed at much lower price levels.

Among top domestic steel producers, Sajjan Jindal-led JSW Steel, Essar Steel, and Tata Steel are into flat products used in the auto sector, while state-owned Steel Authority of India (SAIL) and Jindal Steel & Power cater for the construction and infrastructure segment that uses long steel products.

On the inventory front, too, the view of the producers differed from that of industry officials.

At one end, Acharya of JSW Steel said: "Inventory-wise, the industry is in a comfortable position as the producers have lowered their production which helped inventory dilution. Even the channel inventories have come down. Exports have also helped bring down inventories."

According to the Joint Plant Committee data, India's steel exports during April-September this year rose 22 per cent year-on-year to almost 4 million tonnes.

"Steel producers are lowering production by advancing capital repairs but stockists and traders continue to have slightly higher inventory. Even the SME (small-and-medium enterprise) sector, which usually keeps no inventories, is having stockpiles this time," said Sushim Banerjee, director general at Institute for Steel Development & Growth (INSDAG).

Capital repair, which is the maintenance of the blast furnace of the steel plant, usually takes place in April. However, companies have advanced this activity to November this financial year citing weak demand scenario, according to industry officials.

Slowdown blues: Steel industry reels from poor demand, wafer-thin margins

Kolkata: Until each department made a commitment to how exactly it would contribute towards cutting costs by Rs 3,500 a tonne at a meeting of the Steel Authority of India Limited's (SAIL's) IISCO Steel Plant last month, no one was allowed to leave the room. The meeting started at 5 pm and lasted till midnight.

That's the measure of how serious IISCO CEO A V Kamlaker is about slashing costs. Next month's target for the plant in Asansol in West Bengal is Rs 1,500 a tonne. In a sluggish market, cutting costs is the only way to maintain margins. Net sales realisation has fallen by Rs 10,000 a tonne over the past year, said Kamlakar. In the last quarter alone, it's dipped by Rs 4,000-5,000 a tonne.

The drop is showing on IISCO's financial performance. In the quarter ended September, it recorded a pre-tax loss of Rs 194.9 crore and in the June quarter Rs 60.5 crore. IISCO caters mostly to the construction and infrastructure sector which has been adversely affected by the slowdown during the monsoon, a decline in government spending, and liquidity issues.

A small part of the plant's wire rod coils are used by auto component manufacturers and the weak demand in this sector hasn't helped. Typically, about 60 per cent of steel end-use mix is accounted for by construction while 8-10 per cent of demand comes from automobile segments.

In a large integrated steel plant, there are very few variables that can be tweaked to cut costs except raw material. "Raw material is the only variable. Even if we can adjust our coke rate by a kilogram, it would translate into savings of crores of rupees," said an official on the shop floor.

IISCO's furnace can produce 7,800 tonnes a day at full capacity. In September, production stood at 6,000 tonnes and in October it stood 6,700 tonnes. In November, however, production to full capacity was restored.

IISCO has 6,700 regular employees and 6,000 on contract. "Just because production is throttled doesn't mean we have idle people," said Kamlakar. "There is no impact on manpower."

Around 85 per cent of the domestic steel industry's coking coal requirements is met through imports. The average price for the period January-October this year has been $186 per tonne - down nine per cent from $204 per tonne during same period in 2018, said Crisil Research. The price of the other major input, iron ore, has remained high.

Everyone is resorting to the same measures

With a weak domestic market, IISCO focused on exports. Its story is not an isolated one. Diverting material to the export market to clear inventory, slowing production, and advancing planned shutdowns have been the dominant themes running through small and large, public and private sector steel companies for the past nine months or so.

According to data, finished steel consumption grew only 3.1 per cent in the second quarter of the financial year (year-on-year), compared to 10.3 per cent in the second quarter of Q2FY2019.

ICRA Group Head, Corporate Sector Ratings, Jayanta Roy, pointed out the consequences of weak demand. "The slowdown in demand and price levels have led to a significant weakening of financial performance of four large steel players - Tata Steel, JSW, JSPL and SAIL. While the operating profitability declined to around 18 per cent from 23 per cent in FY2019, interest coverage deteriorated to 3x from around 4.3x over the same period. The financial performance of smaller companies has been even weaker," .

Clearly, the country's economic slowdown is all-pervasive and its ripple effect on people is being felt in different ways. Consider this: the variable pay of executives in a major private sector steel producer is around 25 to 50 per cent. Sixty per cent of that relates to company-linked parameters, EBIDTA being one.

"The company-linked part of the variable pay is likely to be majorly impacted. We have to factor it in while planning our spend," said a company executive.

The lumpsum payout is mostly used to make big-ticket purchases or pay off home loans and there lies a potential chink in the India consumption story.

Ancillary units also feel the pinch

The domino effect of the slowdown on the smaller ancillary units linked to the major steel plants can be seen in the figures. Two units of gearbox manufacturers in the industrial belt of Howrah, about 15km from the central business district of Kolkata, shut shop. Companies they supplied to either resorted to cheaper Chinese alternatives or sourced them locally. Lost: 300 jobs.

The gearbox units are just two of the 100 units that have shut in Howrah in the last two to three years, post-demonetisation and post-GST for which the cost of compliance for smaller units has been high. The slowdown in demand was the final nail in the coffin.

"The e-way bill is making it difficult for some people to send material to other states. Hence they are relocating their units to Uttar Pradesh, Punjab, Haryana, or are just incurring losses and going to NCLT," said Santosh Kumar Upadhyay, general secretary, Howrah Chamber of Commerce & Industry.

Sanjay Budhia, managing director, Patton, who has a steel tubes and pipes unit, said 70-75 % of the business which is export-focused is not affected by the slowdown but the remainder has taken a knock because of the slump in the auto sector.

Refractory makers, used mainly in lining for furnaces and kilns, are also suffering volume and pricing pressure. "There has been a clear slowdown in the last 6-9 months. Production of steel plants is at the same level as last year. Some are producing more and some significantly less," said Sameer Nagpal, head, advocacy, Indian Refractory Makers' Association.

A refractory maker supplying to steel plants said: "We are working on wafer-thin margins. Customers are making late payments but there is no relaxation of payment, it's a breakdown of structure."

While there are some signs of a price recovery owing to major steel producers increasing prices, the question on everyone's mind is whether this is sustainable. "We need a demand recovery, not price recovery," said the owner of a small ancillary unit.

UBS downgrades Tata Steel to Sell on deleveraging concerns

UBS has downgraded Tata Steel to 'sell' from 'buy' and slashed its target price on the stock to Rs.360 from Rs.675 as it expects weak India earnings to delay deleveraging. The brokerage expects a de-rating from current levels given a domestic demand recovery is yet to materialize and European operations are still struggling with a subdued demand environment.

"Despite previous guidance to reduce debt by $1billion per year, a subdued domestic environment and weak overseas operations in H1 FY20 (April-September) led reported net debt to increase from Rs.95,000 crore in March 2019 to Rs.1,07,000 crore in September 2019," said UBS in a note.

The recently concluded stake sale of NatSteel Vina (Vietnam) is positive but the brokerage remains concerned about divestment timeline in Thailand. Shares of Tata Steel ended down 1.5% at Rs.420.80 on Monday, and has declined 19.4% so far this year. The stock has underperformed the Sensex which is up 13% so far in 2019. Bloomberg data shows most analysts tracking the stock have a buy rating on it 21 of the 30 analysts tracking the stock have a 'buy' recommendation on Tata Steel while four analysts have a 'hold' rating and five analysts have a 'sell' rating. Tata Steel has taken some steps to deleverage which includes divestment of South East Asia business, recalibration of FY20 capex downwards by 20-25%, measures to release Rs.1,500 crore-Rs.2,000 crore in working capital, and continued cost reduction to maintain a robust Ebitda/tonne for India operations, said UBS.

However, the brokerage has factored in modest recovery in domestic demand, challenging environment in Europe, delay in South East Asia business divestment and increasing leverage.

Odisha slurry lenders pick ArcelorMittal bid

Lenders to Odisha Slurry Pipeline Infrastructure are favouring ArcelorMittal's Rs.2,350-crore cash bid to take over the company over a higher but long-drawn offer from Tamil Nadu-based Thriveni Earthmovers, three people familiar with the bids said.

The company runs a 253-kmlong pipeline supplying iron ore from mines deep in the hinterland to Essar Steel's pellets plant in Paradip, Odisha. The pellets are transported to Essar Steel's main facility at Hazira in Gujarat, meeting half its raw material needs.

This infrastructure for raw material supply is one of the major advantages of the 10-milliontonne Essar Steel plant in Hazira that was awarded to an Arcelor-Mittal-Nippon Steel combine by the Supreme Court, after a prolonged legal battle that ended last month.

"This pipeline is made for the Essar Steel plant. Nobody else has any use for it, so in a way it is surprising that Thriveni has also submitted a bid.

But the ArcelorMittal offer looks more compelling because it's a full cash bid, unlike Thriveni's bid with includes a mere Rs 8 crore upfront cash," said a person closely associated in the resolution of this case. "I would think ArcelorMittal should emerge as the preferred bidder for the lenders." Odisha Slurry owes financial creditors Rs.3,300 crore, of which Rs.2,350 crore is the principal amount.

It owes Rs.2,100 crore to banks, while the other financial creditors include Srei Infrastructure Finance and also Essar Steel.

ArcelorMittal's offer covers the whole outstanding principal amount. Thriveni's offer totals Rs.3,300 crore and covers both principal and interest but the crucial difference is that only Rs.8 crore of that is upfront cash. While that is just 0.24% of the dues, the remaining payment as per its proposal is spread over five years.

"We are more comfortable with taking the money upfront. Also, there is a doubt about Thriveni's intentions because it is biding along with Srei Infrastructure which has a history with this company and is also considered close to the previous Essar Steel owners. This deal has direct ramifications to the success of the Essar Steel case and so we would prefer ArcelorMittal," said another person involved in the resolution process.

In 2015, Essar Steel under the Ruia's had sold its holding in the pipeline to Srei, a transaction which was objected to by banks who challenged it in the court. The regulator, the Reserve Bank of India, also weighed in against the move.

Bankers are likely to decide on the winner by December 5 as they do not want the Rs.42,000 crore deal by ArcelorMittal for Essar Steel to be delayed in any way.

'Essar Steel case proves why ARCs are a win-win for all': Siby Antony, Chairman, Edelweiss ARC

The Supreme Court ruling in the Essar Steel case not only brings huge relief to banks, but also lays to rest several issues that have been delaying the IBC resolution process. Edelweiss ARC, the largest lender after SBI in the account, has represented nine banks from whom loans were acquired. In an interaction with BusinessLine, Siby Antony, Chairman, Edelweiss ARC and Chairman of Association of ARCs in India, the Essar Steel case shows how banks can ease their burden by offloading bad loans to ARCs.

After the 15:85 structure was introduced in August 2014 (15 per cent upfront payment on the sale of bad loans to ARCs and security receipts (SRs) issued in respect of the balance 85 per cent), there was a temporary slowdown in the sale of bad loans to ARCs. This was due to the sudden three-fold jump in the upfront payment and capital scarcity of ARCs. But sales have picked up from FY17.

With the IBC in force, we are, in fact, seeing more banks looking to sell their bad loans to ARCs. ARCs have enhanced their capital, and many of them have tied up with large funds.

Banks need to spend a lot of time and effort in handling cases under the IBC and, hence, offloading bad loans to ARCs is proving to be a more efficient way of resolution.

More importantly, there has been a realisation among lenders about the realistic value of assets.

The Essar Steel case is a great example of how ARCs can be a win-win proposition for everyone. We had bought over the debt from nine banks to became the second-largest lender after SBI in Essar. We had bought over the Essar Steel account at 55 to 60 cents to a dollar under the 15:85 structure.

The 89% recovery in Essar for financial creditors has been a big gain for both ARCs and banks. Hence, I feel, more banks will see the benefit in doing the sale under the 15:85 structure, and it will gain more acceptance. But for that to happen, the pricing of loans at the time of sale has to be right. Yes, that's true. There have been some issues in the past. Before the 15:85 structure kicked in, the upfront cash payment requirement was just 5 % under the 5:95 structure.

Here, the pricing was unrealistic and recovery rate low. While there were some challenges on reaching a consensus with banks on the pricing front immediately after the implementation of the 15:85 structure, IBC has been a big game-changer. The resolution and recovery under the IBC have helped set a realistic benchmark to arrive at the right pricing. The beauty of the 15:85 set up is that it is in the interest of both banks and ARCs to ensure maximum recovery.

Aren't banks insisting on doing the sale through the cash route, given that the RBI had tightened provisioning norms from 2018?

Yes, that has been a challenge. To avoid the additional provisioning burden, many banks prefer the cash route. But they lose out on any upside in the recovery, which they are slowly realising.After the success of Binani Cement and Essar Steel, more banks may want to consider the SR route. Also, in many of the cases, banks have now already made high provisioning on the loans. Hence, doing the sale through the SR route may not require additional provisioning.

SEBI had allowed the listing of SRs, but initially, only qualified institutional buyers were allowed. Are retail investors now allowed to invest?

No. As of now only qualified institutional buyers are allowed, and that is a challenge. Essentially, it is only banks that can still trade in SRs. Widening the investor base will be essential as it would bring in more transparency in the pricing of stressed assets. Also, it will offer an exit route for banks sitting on substantial SR book. But I think it will take some more time for the regulator to open up the market, given that it is still nascent.The government had allowed the sponsor of an ARC to hold up to 100 %and increased the FDI threshold to 100 %.

But still most of the ARCs are capital-starved. Why?

Yes, you are right. Several steps have been taken to smoothen the fund flow into distressed assets in India. But still there are many challenges.While the ARC infrastructure is a good vehicle for foreign institutional investors to route funds, ARCs do not have enough capital to catalyse large individual investments as the regulatory prescription of 15 per cent upfront payment is proving to be a hurdle.

We have taken up with the regulator for aligning the regulation with SEBI requirement in the case of an AMC sponsoring an alternative investment fund .Here, the AMC has to bring in 2.5 per cent of the fund or Rs.5 crore, whichever is lower, in those cases where original lenders exit the NPA on sale. ARCs can play the role of an asset manager in such cases.

You may be aware that foreign funds are seeking regulatory changes for enabling direct debt assignments to them without the intermediation of ARCs.

This might call for changes in the SARFAESI Act to bring foreign funds under the purview of the Act and stricter regulatory oversight similar to ARCs. Without these changes, direct assignments can create issues for the asset buyer and regulators. Even ARCs active in the space face problems with documentation and security interest registration. We believe that ARC will be the most appropriate vehicle for foreign funds to invest in India.

Steel export thrusts to be sustained on markup in global prices

GDP estimates for Q3 are almost on the expected line. It appears that the measures taken by the government, specifically the tax cut of the corporate sector, withdrawal from RCEP to lend support to industry suffering from demand dryness, RBI guidelines to revive NBFCs and regular reduction in repo rate, need some more time to be strongly effective in reversing the trend. The report that 30 MNCs are planning to shift operations from China to India to take advantage of 15% corporate tax fixed for the new companies sounds good and would facilitate FDI in critical sectors. It is widely believed that Q3 performance of the economy would be better as the slow demand growth visible in the later part of Q2 is likely to be stronger in the coming months.

In Q3 of FY19, Indian economy grew by 6.6%

and by 5.8% in Q4. If these rates are superimposed on today's growth numbers, may be in reversed fashion, GDP in FY20 may reach a growth level of around 5.7% in the minimum which, still lower than 6.1% projected by IMF, is feasible to achieve and creditable in the global context. For steel industry, it is the GFCF rate as a percentage of GDP which impacts maximum demand from building, construction and infrastructure sector, together accounting for around 68% of total steel consumption in the country.GFCF measured at market prices, which was 30% of GDP (current prices) in Q1 of FY19 has since come down to 27.8% of GDP. While the government is equally concerned of a rising fiscal deficit (the target deficit for FY20 almost reaching), the support from a higher private corporate investment is yet to surface. The private final consumption expenditure, a major factor influencing demand for automobile, consumer durables and residential housing, has increased by 4.1% during H1 of FY19 which is significantly lower than 8.5% growth achieved in H1 of FY19 over H1 of FY18. The reduction in repo rate is yet to get reflected in lowering the prime lending rates of the banks. The government's final consumption expenditure in Q2 at constant prices has reached 12.4% of GDP over 11.6% in Q1. This is encouraging as rising consumption expenditure by the government leads to higher current demand for a host of commodities.The manufacturing sector has been through a rough patch in the recent period (1% growth in H1). The MSME sector accounting for more than 75% share in manufacturing has suffered for lack of credit flow from the NBFCs. It has adversely affected the export of engineering goods having a share of 25% in total exports of the country and has resulted in a lower demand for steel categories. During the first 6 months of the current fiscal, only manufacture of basic metals grew (+13.7%), out of which production of MS Slabs and Railway Materials have shown significant production growth due to growth in export demand and growing demand from RailwaysIt is interesting to note that out of the 8 core industries the growth achieved in steel industry during the first 7 months of the current fiscal is the highest at 6.7% against 3.3% growth in FY19.

In the global estimates, India's crude steel production during January-October 2019 reached 93.3 MT (@ 2.8% growth over last year), while Japan, South Korea and Russia had observed downward trends in production.

In the last few weeks there has been a discernible increase in global steel prices. Chinese export offer of SS-400 grade HRC ex-Tianjin has gone up from \$ 427/tonne in October 2019 to \$ 458/tonne in November 2019, US domestic prices moved up from \$ 520/tonne ex-works to \$ 592/tonne during the period. Turkish export offer for Rebar also went up from \$ 412/tonne to \$420/tonne during the period. Correspondingly, India's domestic prices moved up by Rs 500-1,000 per tonne in respect of HRC. Price rise, even if by small amount, reflects a possible return for revival, albeit slow.

Domestic prices in China price of HRC ex-works in China rose from RMB 3520/tonne in October 2019 to RMB 3730/tonne in late November 2019 and it had resulted in lowering of export thrusts providing some extra space for exports from CIS and Vietnam. It is pertinent to mention that steel exports from India in first 7 months of the current fiscal at 6.3MT have also shown a rise by 23% compared to the level in last year thereby making India a net exporter of steel after a gap of many months. Thanks to the government measures of import registration by SIMA and strict monitoring of mandatory standards, the imports in categories like HRC, CRC, Plates, Coated products, Electrical sheets and Tin Plates have gone down in the current year.

India has become a net exporter in HRC and semi finished steel during the current year. The export thrusts by India are to be sustained taking advantage of recent mark-up in global prices and rise in domestic prices in China.