VITAL INDUSTRY UPDATES - 27/08/2015

Major Ports handle 24 pc more thermal coal in April-July

Despite the Coal Minister, Mr Piyush Goyal's direction to Coal India to enhance domestic production of coal to meet the increased domestic demand, thermal coal handling at the country's 12 Major Ports shot up by 24 per cent to 32.54 million tonnes (mt) during April-July this year as against 26.29 mt in the same period of last fiscal, it is learnt.

As per data released by the Indian Ports Association, imports of coking coal, mainly used for steel-making, however, was slightly lower at 10.56 mt in April-July 2014-15 as compared to 10.74 mt in the corresponding period of 2013-14.

Total imports rose to 43.10 mt during April-July 2014-15 as against 37.03 mt in the same period of the previous fiscal.

IFFCO launches joint venture with Mitsubishi Corp for manufacturing agrochemicals

Fertiliser cooperative IFFCO today formally launched a joint venture with Japanese firm Mitsubishi Corp for manufacturing agrochemicals in India that will start operation in this rabi season starting October.

IFFCO holds 51 per cent stake and the rest is held by Mitsubishi in the joint venture IFFCO-MC Crop Science Private Ltd. The shareholding pact was signed last month.

"The company was formally launched today...The operations of this new JV will start from this rabi season. IFFCO-MC will come up with 20 different products across various product range of agrochemicals," IFFCO said.

IFFCO said it is looking forward to have its own production units in India as a long term goal.

In a statement, the cooperative said that the logo of the JV firm was exchanged between IFFCO Chairman Balvinder Singh Nakai and Mitsubishi Corporation India Chairman and Managing Director Masakazu Sakakida here today.

Speaking on the development, IFFCO Chairman said, "We were getting continuous demand from farmers across the country to make available good quality insecticides, fungicides and weedicides apart from quality fertilisers, which IFFCO is supplying through cooperative societies."

IFFCO Managing Director and CEO U S Awasthi said, "With this foray into agrochemical business, IFFCO wishes to fulfil its commitment towards farming community and will enlarge its services specially to them and agricultural sector."

IFFCO have a strong presence in fertiliser market in the country and Mitsubishi Corporation, which has expertise in agrochemical business internationally, are going to have a synergy to make available quality agrochemicals at reasonable price to Indian farmers even in far flung areas, the statement added.

New tendering process might help Coal India in saving Rs 1,000 crore

Coal IndiaBSE -0.21 % hopes to save more than Rs 1,000 crore by implementing a new tendering process for its procurements, aimed at broadening margins and contributing to net profit starting this year.

The procurement process is shifting to a reverse auction method on an electronic platform, a senior Coal India official said. The company has already saved close to Rs 600 crore in purchasing explosives for a two-year contract period. Last year, Coal India spent almost Rs 1,500 crore on buying explosives.

In the reverse auction method adopted by Coal India and its eight subsidiaries, a ceiling price is fixed by the company and sellers compete to win a contract by reducing prices. The lowest bidder wins.

"It is a transparent process conducted electronically in which the lowest price offered by a party is visible to all participants. Competing sellers are allowed to rebid with lower prices, thus pulling down the cost of procurement," the official said.

Weak rupee a reprieve for India's steel makers

The recent fall in the Indian currency, which has taken the rupee to near two-year lows against the US dollar, could provide some reprieve to local steel makers, who have been under pressure because of surge in cheap imports from China.

The devaluation of the Chinese currency earlier this month had led to fears that imports would rise further. However, the subsequent weakness in rupee has helped balance out some of these concerns.

So far in August, the rupee has depreciated 2.97% against the dollar while the Chinese yuan has weakened 3.17% over the same period.

“Post the yuan devaluation, Chinese steel prices have further corrected, the rupee fall is helping neutralize this,” said Seshagiri Rao, joint managing director, JSW Steel Ltd, the largest private steel company in India.

In April-July period, India’s steel consumption rose 5.4%.

However, most of this rise was met with a 58.2% rise in imports, when domestic crude steel production rose marginally by 1.4%. The surge in imports has meant that domestic firms have had to keep prices low even if it means compromising on margins.

As such, some increase in the cost of the imported steel could allow domestic companies to raise prices. The government’s decision to increase the import duties on specific kinds of steel by 2.5% will also help.

“The fall in commodity prices, the Chinese yuan devaluation, are factors that were already factored in; however, the fall in rupee is a surprise. With domestic steel prices set at import parity, the fall in rupee gives an opportunity to increase prices. Whether that rise happens will depend if the rupee fall is here to stay,” said Ankit Miglani, director, Uttam Galva Steels Ltd.

Vikram Amin, executive director (strategy and business development), Essar Steel India Ltd, agrees that the rupee depreciation is a positive for the industry but adds that it is too soon to say whether the prices would be increased.

To be sure, some price increases have already started to pass through the system.

“In the last one week, we have a seen a 2% to 2.5% rise in prices from the rolling mills, due to the rupee,” said Vivek Gupta, vice-president, Indian Chamber of

Steel, and a leading steel dealer in Mumbai. He, however, added that the price hikes may not be sustainable if the volume growth remains weak.

Any change in dynamics in the steel market, which makes domestic steel more competitive, will come as a significant relief to firms that have seen profits fall and debt levels rise over the past year.

Only one in three steel companies listed on BSE is generating sufficient cash to pay interest on loans on time, *Mint* reported on 4 August.

According to Capitaline data, only 41 out of the 129 listed steel companies, which have collectively borrowed Rs.2.63 trillion, have an interest coverage ratio above 1.5 times, considered a safe level while measuring a company's ability to pay interest.

Profits of steel firms have also been under pressure.

On a standalone level, Tata Steel Ltd reported a 45% drop in net profit to Rs.1,248 crore for the April-June quarter.

The standalone results reflect the performance of the company's India operations.

JSW Steel Ltd reported a loss of Rs.106.81 crore for the quarter ended 30 June against net profit of Rs.656 crore for the corresponding quarter last year.

An increase in prices, along with an uptick in domestic sales volume, will ease some of these pressures.

"There is an upward bias for imported steel prices. All the imports that will be taking place in the next two months would have been already booked, as it reaches you will find it at a higher price due to the rupee fall," said A.S. Firoz, chief economist, economic research unit, Joint Plant Committee for the steel ministry. Firoz added that the cost of import orders to be booked from here on will depend on whether the Chinese manufacturers adjust their prices lower.

Rao of JSW Steel reiterates a safeguard duty is what will make substantial difference in improving the health of the Indian steel industry.

A safeguard duty refers to special duties on imports imposed by the government in an attempt to save the local industry by discouraging cheaper imports.

The government, however, is pushing the industry to become self-sufficient. Speaking at an industry conference on Saturday, finance minister Arun Jaitley said “band-aid solutions to offset the impact of external factors will not work”.