

PRIMARY NON-FERROUS METAL INDUSTRY

Industry's profit margins to remain
under pressure amid weak global
environment

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Operating margin estimates maintained at 17% for FY2024 and FY2025, almost 150 bps lower compared to the margin recorded in FY2023, owing to the continuing slide in metal prices.

While debt protection metrics remain adequate in the base case scenario, any further weakening in the earnings profile due to a deterioration in the global macroeconomic environment could adversely impact the same.



- The earnings of the domestic entities would remain under pressure in H2 FY2024, after a subdued performance estimated in the first half. The operating margin is expected at ~17% in FY2024, almost 150 bps lower compared to the margin achieved in FY2023.



- International prices of base metals viz. aluminium, copper and zinc, have been trading near their two-year lows for the last two quarters, owing to global macroeconomic uncertainties, and are likely to remain range-bound at similar levels with no immediate relief in sight.



- Global consumption of non-ferrous metals decelerated during the current calendar year due to sluggish demand, primarily in the developed nations. Also, while there has been a partial recovery in demand in China compared to the lacklustre performance in the previous calendar year, uncertainty persists over the strength of China's recovery.



- The domestic demand growth, on the contrary, is expected to remain healthy at ~9%¹ in the next two fiscals and would sharply outpace the rate of global demand growth in non-ferrous metals. However, any metal price corrections would impact margins of the domestic players.



- The moderation in input costs, however, is expected to partially alleviate the margin pressure to an extent. The domestic e-auction premia on coal has eased in recent months at ~58% in July 2023 from the exorbitant levels of >300% seen in the previous year. The rake availability for transportation of materials is also significantly better from the previous year, thus supporting the cost structure.



- A moderation in earnings, combined with the committed expansion plans of the players, is expected to increase the industry's leverage (total debt/operating profits) to 2.5-3.0 times in FY2024 and FY2025 from 1.8 times reported in FY2023. Interest coverage ratio, however, is expected to remain adequate at 5.0-5.5 times in FY2024 and FY2025 compared to 6.2 times in FY2023.

¹average of aluminium, copper and zinc



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