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PRIMARY NON-FERROUS METAL INDUSTRY

Sharp uptick in non-ferrous metals prices, benign input costs to boost operating margin by ~600 bps in FY2025

JUNE 2024

Highlights

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Almost 600 bps improvement in operating margin expected in FY2025 over last fiscal, fuelled by firm metal prices and benign input costs

- Non-ferrous metal prices have witnessed a strong recovery of ~13-17% during April-May 2024 over the corresponding period in the previous year. The three-month rolling forward contract is also trading higher than spot metal prices, suggesting prices will remain healthy in the coming 1-2 quarters. While the downside risks to metal prices, particularly in H2 FY2025, cannot be ruled out, the current uptrend in metal prices is likely to result in an ~8-9% growth in realisation for the full fiscal.
- Globally, a revival in manufacturing activities, primarily in the Chinese market, as demonstrated by expansion (>50) in the purchasing managers index (PMI) data in March and April 2024, along with easing global inflationary concerns has supported the overall sentiments.
- Chinese demand for non-ferrous metals remains healthy primarily in the renewables and electric vehicle (EV) segments, thus supporting the global demand and offsetting the subpar demand growth in the US and European markets to an extent. In the US, while the manufacturing PMI expanded in March 2024, it again slipped in contraction during April 2024. Manufacturing in Europe continues to remain weak for the past two years. Consequently, global demand (ex-China) is likely to remain subdued in CY2024.
- On the supply side, the production of refined copper is expected to remain tight owing to expected supply cut by Chinese smelters amid decline in the smelter's margins. In addition, the US and UK recently implemented new sanctions on Russian metals, including on aluminium and copper, thus increasing supply bottlenecks in the near term at least. Consequently, the current supply-demand dynamics remain supportive of firm metal prices in the near-term.
- On the domestic front, the demand for non-ferrous metals is expected to remain healthy at ~10% in FY2025 and would significantly outpace the expected growth of ~2% in global demand. In addition, the moderation in coal costs is expected to alleviate input cost pressures to an extent.
- With input costs remaining largely under check along with healthy growth in realisation, the operating margins of domestic entities are estimated to remain strong at ~23% in FY2025 over ~17% in FY2024. The credit metrics are also expected to improve with a projected total Debt/OPBDITA of 1.8 times and an interest cover of 6.0 times in FY2025 over a total Debt/ OPBDITA of 2.0 times and an interest cover of 4.5 times in FY2024.

What's Inside?

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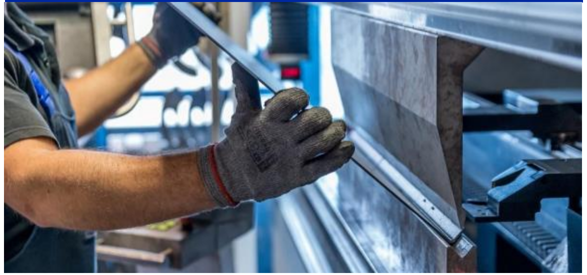
1 Uptick in non-ferrous metals prices



2 Global demand conditions

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4 Domestic demand updates

5 Profitability improvement

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Thank You!