

Accessing the Impact of Middle East Disruption on Metals & Mining Sector

The geopolitical tensions in the Middle East have led to an increase in the HRC and rebar prices by 14% and 7% quarter to date, while coking coal and iron ore prices have risen by only ~2% over the same period, which translates to higher spot spreads. In Q4FY26 so far, average steel HRC prices have increased by 11% YoY, which will drive higher spreads for steel mills on a consumption basis in Q4FY26 (coking coal up ~7% in Q3FY26, which will be consumed in Q4 with a quarter lag). The impact of the West Asia war will impact DRI-based steel plants, as well as downstream and galvanised production processes more, as they consume the war-impacted LNG, Propane, and LPG inflows. While the BF route steel production could see limited impact, management comments post Q4FY26 results on the input costs, exports and production outlook will decide short to medium term stock performance. **Overall, we remain constructive on the metals sector as a whole and recommend a “Buy on Dips” strategy** as the demand drivers, along with supply constraints, provide support to non-ferrous metals, while safeguard duty and robust domestic steel demand favours Indian steel mills. While valuations are not cheap as stocks have not corrected significantly amidst a broader market correction, lower levels can present a buying opportunity.

- Chinese Steel Exports Softened in Jan-Feb'26:** In Jan-Feb'26, according to the China Iron and Steel Association (CISA), China's steel exports fell by 8.1% YoY to 15.6 MT (in CY25 Chinese steel exports stood at record 119 MT up 7.5% YoY), this followed the introduction of the export licenses announced by the Ministry of Commerce of China (MOFCOM) and the General Administration of Customs for a wide range of steel products in 2026, an administrative mechanism to control steel supplies from China. Chinese domestic demand continues to remain soft, with steel production falling below the 1 BT mark at 961 MT, down 4.4% YoY in CY25, reaching its lowest level since CY18. In Jan-Feb'26, Chinese steel production declined by 3.6% YoY at 160 MT as the first two months of the year are typically quieter for steelmakers due to the Lunar New Year celebrations and pollution control measures ahead of the annual legislative sessions in Beijing in early March.
- Hormuz Disruptions could Impact Chinese Exports Going in Mar'26:** The outbreak of conflict between the US, Israel and Iran on 28th February has brought shipping through the Strait of Hormuz to a near halt, disrupting **China's steel exports to a region that accounted for ~14% of its total finished steel export volume in CY25**. Anti-dumping measures in Southeast Asia, the Carbon Border Adjustment Mechanism (CBAM) at the EU and US tariffs have progressively reduced China's access to other major markets, prompting the country to direct volumes to Gulf destinations with comparatively open import policies and active construction pipelines. With the disruptions in the region, trade diversions towards India and other Southeast nations will be the key monitorable.
- India's Steel Production Remains Robust, but Exports will Come Under Pressure:** India's crude steel production remained strong in Apr'25-Feb'26, at 153.6 MT, up 11.2% YoY. Finished steel exports also stood strong at 6.02 MT over the same period, up 3% YoY. In Feb'26, India's steel exports decreased to 0.54 MT, compared with 0.68 MT in Jan'26. UAE, Saudi Arabia and Turkey formed 11%, 3%, 7.6% of India's finished steel exports in Feb'26. Exports could come under pressure in the current scenario. In Q4FY26 so far, average Indian steel HRC prices have increased by 11% YoY, but Chinese steel prices have remained flat, while European steel prices have increased by 9% YoY (CBAM impact). **Indian HRC prices are trading at 6% discount to landed Chinese prices despite the recent hike in the domestic HRC prices, led by safeguard duty and rupee depreciation.**
- Impact on Metal Sector:** The disruptions in the Strait of Hormuz impact LNG, Propane, and LPG inflows, which affect secondary steel producers and those reliant on gas-based Direct Reduced Iron (DRI) and specialised downstream finishing processes, leading to capacity curtailments. **JSW Steel:** High risk of operational downtime at specific plants, especially at JSW Steel Coated Products. **AM/NS India:** ~65% of its 9 mtpa capacity tied to gas-based DRI and EAF technology; despite hedging, prolonged disruptions pose an output threat. **Jindal Stainless (JSL):** Currently operating at reduced capacity due to the high dependency of stainless-steel refining on industrial gases; already flagging potential shipment delays. **Secondary Steel/SMEs:** Significant negative impact on induction furnace operators and smaller galvanised steel processors who lack the bargaining power for subsidised spot imports.
- Impact on our Coverage Companies:** Integrated steel players such as **Tata Steel and SAIL** could see limited impact on upstream steel production, but specific downstream production processes could see an impact. Tata Steel Europe could see some impact of rising gas prices; however, the recent UK government's decision could help TSUK's margins in the upcoming quarters. Starting 1st July 2026, the UK's steel import quotas will be reduced by 60% compared to current agreements, and tariffs on imports exceeding the quota will increase from 25% to 50%. **Hindalco and NALCO** could see some impact on thermal coal and other input cost inflation; however, aluminium prices have remained strong in Q4FY26 so far, as the Middle East region supplies ~9% of global Aluminium supply. **APL Apollo Tubes** could see a consolidated production impact of ~3-4% max, due to disruption at its Dubai facility (~2% impact) and galvanising products (mainly at Raipur ~2% impact).

Current Ratings:

Company Name	Rating	Target price
Tata Steel	BUY	220
SAIL	HOLD	160
Coal India	BUY	500
Hindalco	HOLD	1,050
NALCO	HOLD	390
APL Apollo Tubes	BUY	2,250

Source: Axis Securities Research

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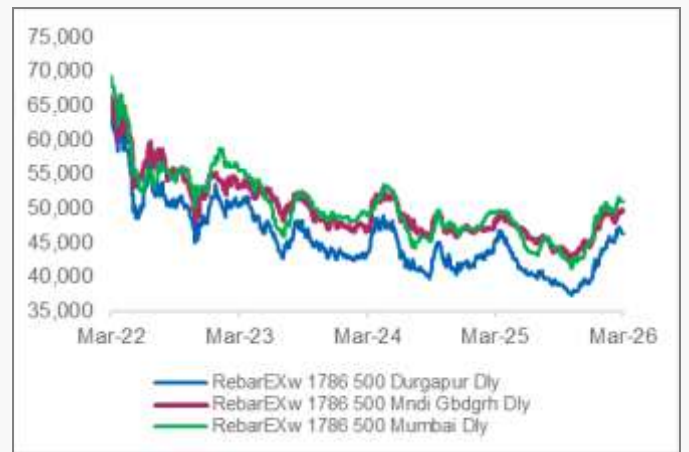
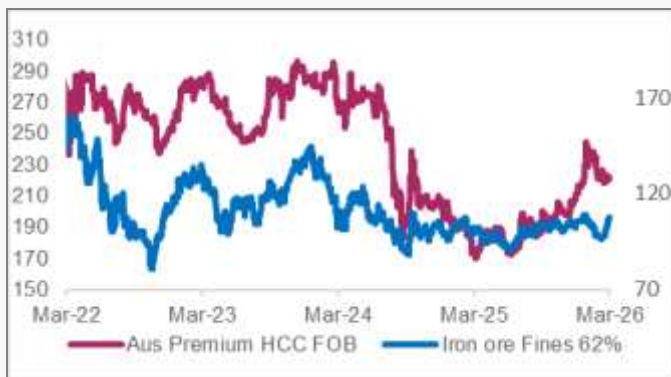
Exhibit 1: Non-Ferrous – 12MF EV/EBITDA Above LT Average


Source: LSEG Workspaces

Exhibit 2: Steel - 12MF EV/EBITDA Above LT Average

Exhibit 3: India HRC Prices Saw an Uptick vis-à-vis China


Source: LSEG Workspaces

Exhibit 4: Rebar Prices Also Saw an Uptick Recently

Exhibit 5: Slight Uptick in Coking Coal Prices, but Iron Ore Prices Stable


Source: LSEG Workspaces

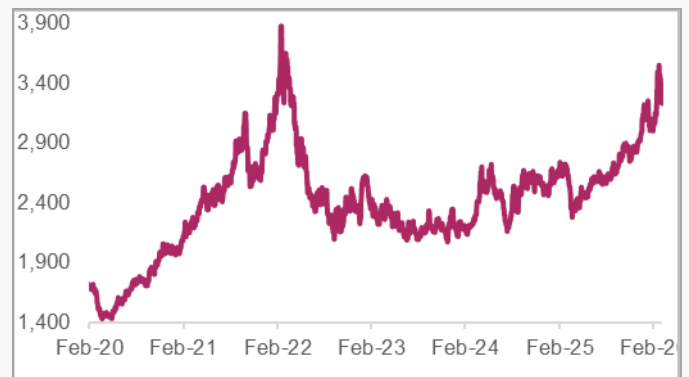
Exhibit 6: Aluminium Prices are at a Multiyear High – as GCC Forms 9% of Global Supply


Exhibit 7: Valuation Sheet

Company	Price Local	Mkt Cap Rs Cr/USMn	EV Rs Cr/USMn	PE (x)				EV EBITDA (x)				ROE (%)			
				2025	2026	2027	2028	2025	2026	2027	2028	2025	2026	2027	2028
Aluminium															
Vedanta Ltd	646	2,51,074	3,23,016	18.3	12.2	8.6	8.3	7.6	5.9	4.5	4.4	40.9	45.6	52.4	45.4
Hindalco Industries Ltd	840	1,86,905	2,37,421	12.2	11.5	10.1	9.3	7.5	7.0	6.2	5.7	13.7	12.8	12.7	12.2
National Aluminium Co Ltd	350	63,906	56,301	14.8	13.1	12.4	11.0	8.7	8.1	7.5	6.4	26.2	24.1	22.3	23.5
Norsk Hydro ASA	87	18,057	1,942	19.4	17.4	13.1	11.5	7.2	6.5	6.1	4.7	8.3	10.1	13.9	17.8
Alcoa Corp	56	14,797	1,572	58.4	14.8	9.2	9.5	9.9	7.9	5.2	5.5	6.3	9.6	26.7	25.4
Mean				24.6	14.2	11.2	10.3	8.3	7.4	6.3	5.6	13.6	14.1	18.9	19.7
Steel															
JSW Steel Ltd	1,110	2,69,633	3,76,760	57.8	29.5	18.9	15.5	16.0	12.4	10.0	9.0	5.5	11.0	14.7	15.1
Tata Steel Ltd	187	2,32,454	3,21,181	60.3	19.7	13.1	11.5	12.8	9.3	6.4	5.9	4.3	11.8	16.9	17.2
Jindal Steel	1,106	1,11,977	1,27,477	25.9	29.0	15.7	11.7	13.0	12.9	8.7	7.1	9.5	7.8	13.1	15.3
Steel Authority of India Ltd	143	58,780	90,493	34.5	19.2	11.9	12.4	9.9	8.1	6.9	6.2	2.9	5.3	6.9	7.3
Mean				44.6	24.3	14.9	12.8	12.9	10.7	8.0	7.1	5.6	9.0	12.9	13.7
Iron ore															
NMDC Ltd	75	65,679	58,834	9.7	8.7	8.3	7.9	7.0	6.1	5.7	5.3	24.8	23.4	21.4	19.7
Godawari Power and Ispat Ltd	252	16,822	16,451	NA	20.0	11.7	10.2	NA	14.0	8.2	6.9	NA	NA	NA	NA
Mean				9.7	14.4	10.0	9.1	7.0	10.0	7.0	6.1	24.8	23.4	21.4	19.7
Zinc															
Hindustan Zinc Ltd	488	2,04,990	2,09,179	20.2	15.8	12.3	11.4	12.2	9.9	7.9	7.4	69.9	82.5	77.1	65.4
Nexa Resources SA	10	1,271	286	NA	11.4	5.5	5.4	NA	11.4	5.5	5.4	NA	11.4	5.5	5.4
Boliden AB	561	17,063	1,867	15.3	16.8	12.8	10.1	15.3	16.8	12.8	10.1	15.3	16.8	12.8	10.1
Glencore PLC	516	81,250	11,409	23.1	33.5	16.1	15.4	23.1	33.5	16.1	15.4	23.1	33.5	16.1	15.4
Mean				19.5	19.4	11.7	10.6	16.9	17.9	10.6	9.6	36.1	36.1	27.9	24.1

Source: LSEG Workspaces

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