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India to Gain From Japan $30 Billion Steel Bill: Freight Markets

by Unni Krishnan
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Photographer: Sam Panthaky/AFP/Getty Images

May 18 (Bloomberg) -- Indian shipping lines stand to gain from higher iron-ore exports to China as rebuilding from Japan's earthquake signals a $30 billion jump in demand for steel.

The likely rise in shipments from India, the mineral's third-largest exporter, to China, the biggest steelmaker, is among reasons to buy shares in Shipping Corporation of India Ltd. and Great Eastern Shipping Co., says Mumbai-based Centrum Broking Pvt. Ltd. About 10 percent of a possible $300 billion recovery bill in Japan may be spent on steel products, according to Australia & New Zealand Banking Group Ltd.

"The reconstruction itself will have a positive impact on Indian shipping companies in the next three to six months," said Srividhya Rajesh, a Chennai-based fund manager at Sundaram Asset Management Co. Ltd., which oversees $3.2 billion and added to its funds' holdings in Great Eastern in April. "The improvement in freight volumes will give better earnings to investors in the near term."

A doubling in exports of items ranging from raw materials to pharmaceuticals is part of an Indian government strategy for boosting trade to $1.1 trillion by 2014, taking freight volumes to at least 1.3 billion metric tons from 574 million last year. Shipments of iron ore will overcome higher export taxes, Credit Suisse Group AG said.

Shares in the majority state-owned Shipping Corp. may rise about 25 percent to 134 rupees ($3) in the next 12 months, based on target prices from Siddhartha Khemka, an analyst at Centrum Broking, one of India's largest stock brokers. Mumbai-based Great Eastern may surge 37 percent to 401 rupees, he said.

Rising Traffic

"The demand for iron ore will increase when Japan starts rebuilding and there will be an increase in freight movement since India is one of the major exporters," Khemka said in an interview. Efforts by the government to boost overall Indian exports "will also be positive for all shipping firms."

Centrum isn't involved in any deals with either of the businesses it's recommending, according to Khemka.

An improvement in tanker cargo rates is set to bolster revenue at Shipping Corp. and Great Eastern, he wrote in an April 7 research note. Indian shipping businesses also have a chance to expand their fleets at "lower costs," he said.

India exported about 85 million metric tons of iron ore in the 11 months through February, according to the Federation of Indian Mineral Industries, more than 90 percent of it to China.

The South Asian nation can meet shorter term increases in demand more quickly than rival producer Brazil because of smaller shipping distances to China, said Sunil Thapar, director for bulk carriers at Shipping Corp. It can match the voyage length from Australia, he said.

Faster Sailing

"There will be increased demand from rebuilding in Japan," said Thapar. Shipping Corp. intends to add six 54,000-ton carriers to India's biggest fleet and deploy them on routes to China beginning July, partly because of the expected rise in iron-ore exports, he said.

Sailing times from ports on India's Bay of Bengal coastline to China, the world's biggest consumer of iron ore, range from 9 days to 17 days, less than the monthlong trip from Brazil, according to data from Shipping Corp. and industry consultant Mantrana Maritime Advisory Pvt., which are both based in Mumbai.

Brazil last year exported 308 million tons of the raw material used to make steel, while Australia sold 403 million tons to buyers abroad, the Australian Bureau of Agricultural Resource Economics and Sciences said in a report.

In the longer term, the major growth in iron-ore supply will come from the higher quality deposits in Australia and Brazil, according to the report.

Short of Demand

Global seaborne supply of iron ore will fall about 15 million tons short of demand this year, compared with an 11 million-ton surplus in 2010, according to Macquarie Group Ltd. The Sydney-based bank predicts Chinese spot prices will probably jump more than 15 percent this year.

Japan's magnitude-9 temblor and ensuing tsunami on March 11 caused as much as 25 trillion yen ($310 billion) of damage, according to government estimates, and disrupted steelmaking in the second-largest producer of the alloy.

As it rebuilds, Japan's consumption of steel may climb 8 percent annually in the next three to five years, ANZ said. At least half would be imported.

"Benchmark that against virtually flat growth in the last 10 years" in Japanese steel production, said Mark Pervan, the Melbourne-based head of commodity research at ANZ. "We are talking an additional 10 million tons of steel each year."

Export Tax

China's crude-steel output may gain 12 percent to 700 million metric tons this year, according to government forecasts, higher than an earlier estimate of 660 million tons.

In India, the government aims to discourage some overseas ore sales as domestic steel demand climbs, spurred by rising incomes and Prime Minister Manmohan Singh's drive to pour $1 trillion into upgrading transport and power networks ranked below those of war-ravaged Ivory Coast.

Export taxes on all grades of Indian iron ore rose to 20 percent on April 1, from 15 percent for iron-ore lumps and 5 percent on fines. High-value pelletized ore was exempted.

"We do not expect any impact on Indian iron-ore exports as a result of the Indian tax changes until spot prices drop by at least around $30," said Melinda Moore, director and global commodities coordinator at

Credit Suisse Equities.

It remains profitable to sell the material overseas given current spot prices, she said. The price of 62 percent-content iron ore delivered to Tianjin port in China has risen about 5 percent this year to $178.5 per metric ton, data from Steel Business Briefing shows.

Brazil, Australia

China imported 59.5 million tons of iron ore in March, with 18 percent of that coming from India, 23 percent from Brazil and 36 percent from Australia, customs data shows.

Aside from the export tax, Indian shipping companies and their counterparts around the globe are also contending with the impact on freight rates of a glut of carriers.

Companies ordered too many ships in 2007 and 2008, when the Baltic Dry index, a measure of commodity shipping costs, averaged 6,730 points. The gauge has slumped 67 percent in the past year to 1,291 points as of May 16.

While that has contributed to declines of 36 percent in Shipping Corp.'s shares and 3 percent in Great Eastern in the past year, the slide opens up a contrarian chance to buy shipping stocks, said Swati Kulkarni, a fund manager at UTI Asset Management Co., which oversees $14.9 billion from Mumbai.

"Shipping stocks offer a high dividend yield and asset prices are somewhere near the bottom post the 2008 recession," she said. "We find them attractive from a long-term perspective. If one has a horizon of two years, it makes sense."

UTI Asset Management's funds owned about 2.5 percent of Great Eastern as of April 30, according to data compiled by Bloomberg. Freight rates may recover from 2013, said Chetan Kapoor, an analyst at IDBI Capital Market Services Ltd. in Mumbai.

"India's shipping sector is attractive on a long-term basis because the economy is expanding and there is a lot of trade," said Kapil Yadav, a Mumbai-based analyst with Dolat Capital Market Pvt. "Over a three-year period, I see rates also improving as new vessel addition might dry up."

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