

COMMODITY BOOM FETCHES A DIVIDEND JACKPOT FOR CENTRE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

NEW DELHI : A global commodity boom fuelled by the post-pandemic recovery and elevated geopolitical tensions has driven up profits at many state-owned companies, whose handsome dividends have helped the government comfortably cross its dividend estimates for the year.

On Tuesday, the government's dividend receipts touched 53,412.2 crore, against the budget estimate of 50,027 crore, the revised estimate of 46,000 crore, and the actual FY21 dividend receipts of 39,750 crore.

"Companies such as GAIL, Hindustan Zinc, Hindustan Copper, and Nalco are seeing an upside because of the Russia-Ukraine war as commodity prices have gone up. Metal-based public sector units (PSUs) will pass on the benefit to the government," said Madan Sabnavis, chief economist, Bank of Baroda. The biggest contributors were energy PSUs such as Bharat Petroleum Corp. Ltd, Hindustan Petroleum Corp. Ltd, Oil and Natural Gas Corp. Ltd, and Indian Oil Corp. Ltd.

However, the cost of production has risen because of the Russia-Ukraine war and could possibly lead to lower profitability and hence lower dividends, Sabnavis said. "If the prices go up, then there could be further upside for the government," he said.

The rising prices of base metals such as aluminium, copper, zinc, lead, nickel, and steel have helped metals companies, as rising realizations boost operating performance and profits, leading to better dividends.

Base metal prices soared during the December quarter, with average prices on the London Metal Exchange (LME) up 22-44% year-on-year (y-o-y), largely because of the positivity in the demand cycle of commodities post easing of covid-led restrictions.

National Aluminium Co Ltd reported year-on-year net profit growth of 246% in the December quarter. For the first nine months of the year, its net profit was up 429%.

Higher zinc and copper prices also helped companies as Hindustan Zinc Ltd and Hindustan Copper Ltd reported significant profit growth. The two companies had reported a rise in net profits of 33% and 65%, respectively, during Q3. For the nine months, their profits were up 43% and 80%, respectively.

Steel prices, which may have been volatile, are still up significantly on a y-o-y basis. During the December quarter, hot rolled coil trade prices were higher by 22,523 per tonne, or 48%, y-o-y, while TMT prices were up by 14,058 per tonne or 32% y-o-y, according to Motilal Oswal Financial Services data. Steel companies have raised prices in Q4 and are likely to see much improved realizations.

Steel Authority of India Ltd's (SAIL) net profit grew 12% y-o-y in Q3FY22, while net profit was 9,597 crore during the nine months of FY22 compared with 406 crore during the year-ago quarter.

The outlook and prospects of these companies have improved further, looking at the record rise in base metal prices now.

Aluminium prices, currently at about \$3285 per tonne on the LME, have already improved by about 17% during 2022, with a peak of more than \$4,000 per tonne seen recently, following Russia's invasion of Ukraine.

Aluminium supplies and capacities were constrained even before the outbreak of war. China smelters had faced the heat of power cuts. The Russia-Ukraine crisis raises the risks of lower aluminium supplies from Eastern Europe, while rising energy costs are likely to add to the woes of aluminium manufacturers around the world. Indian aluminium producers are better placed than global peers, given the negligible dependence on imported coal, analysts at Kotak Institutional Equities Ltd said in their report. They have raised their Ebitda estimates for FY22, FY23, and FY24 by 5%, 25% and 12% for Nalco.

Rising zinc and copper prices will similarly add to the prospects of Indian manufacturers. Further, restricted steel supplies from Russia will help Indian steel manufacturers ramp up exports to Europe. Also, reduced Russian steel supplies in Asia will lead to Indian steel companies seeing higher export opportunities in Asia too.

"The double impact of cost curve increase and export restrictions out of Russia is being felt in aluminium, zinc and steel. The impact of possible sanctions is expected in coal and nickel and the possible impact of export volumes out of Ukraine is felt in ferro alloys, iron ore and steel," ICICI Securities Ltd said in a report on 7 March.

Rising iron ore prices improve prospects for iron ore producers as NMDC has been raising prices for its produce. The international iron ore prices that were at sub \$100 a tonne levels in November have jumped to more than \$150 a tonne now. Hence, NMDC sees improved earnings prospects too.

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