

State of Steel Industry and Prospects

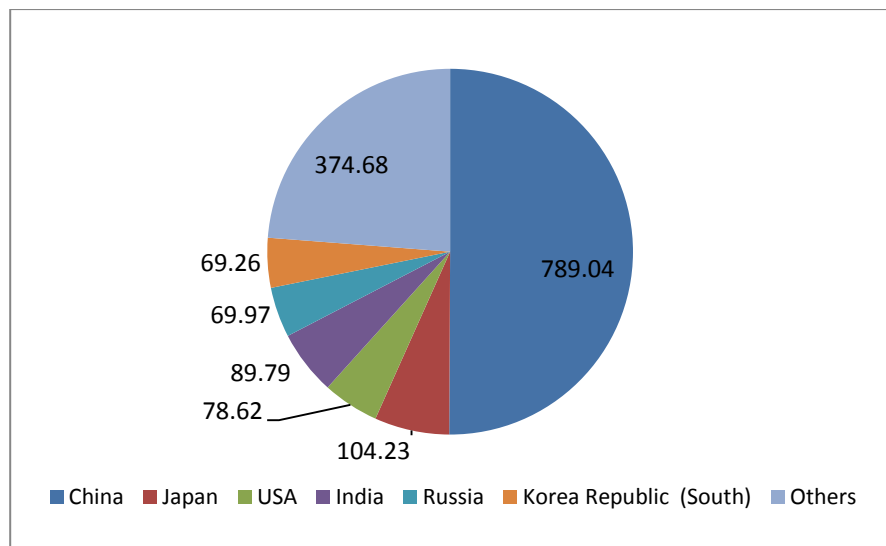
India has gained the position of third largest crude steel producer in the world and the country is largely focusing on increasing the production. However, focus at the same time should be on increasing consumption of steel and reducing the dependency on cheap imports. The government had supported the industry in 2016 by providing protectionist measures. But the protection cannot be expected to last forever and the industry has to gear itself to face competition in the normal course.

Production

In 2014-15, India surpassed United States of America (USA) to become the third largest steel producer in the world. India continued with this position in 2015-16 as well. The country produced 88.97 million tonnes and 89.79 million tonnes of crude steel during 2014-15 and 2015-16, respectively.

Steel production in the world is dominated by China followed by Japan. During 2015-16, crude steel output in China stood at 789.04 million tonnes and that in Japan stood at 104.23 million tonnes.

Chart 1: World Crude Steel Production 2015-16 (million tonnes)



Source: CMIE

During 2015-16, among the top six crude steel producers in the world, crude steel production of only India increased on a y-o-y basis.

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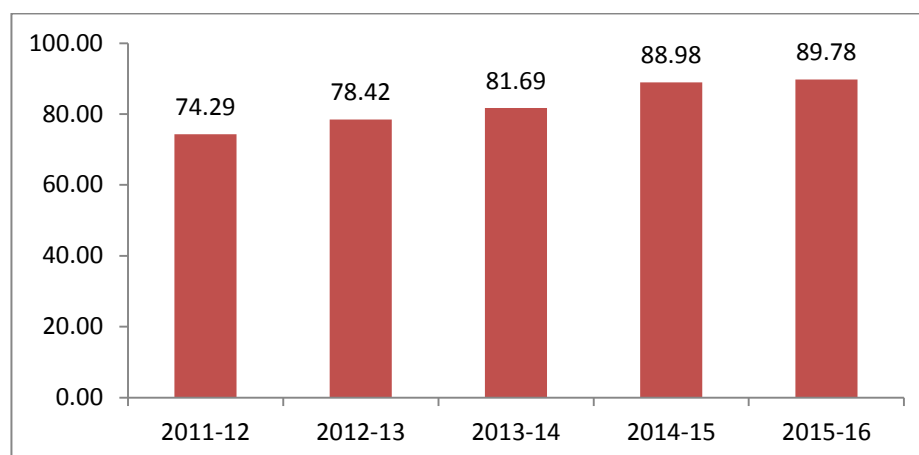
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However, it grew marginally by 0.9% to 89.79 million tonnes during the year while it fell for the other five countries in the range of 1.9-5.1%.

Chart 2: Crude Steel Production in India (million tonnes)



Source: CMIE

Table 1: Category-wise Production of Long and Flat Products (in '000 tonnes)

	2011-12	2012-13	2013-14	2014-15	2015-16
Bars & Rods	28,102.00	28,795.00	29,550.00	32,251.00	32,999.00
Steel					
Structurals	4,939.00	5,932.00	6,896.00	7,495.00	7,508.00
Railway					
Materials	909	938	887	835	886
Long Products	33,950.00	35,665.00	37,333.00	40,581.00	41,393.00
GP/GC Sheets	5,681.00	6,287.00	6,898.00	6,892.00	6,539.00
HR Coils	16,450.00	19,391.00	20,806.00	20,205.00	18,594.00
CR					
Sheets/Coils	7,038.00	7,654.00	7,722.00	7,509.00	6,964.00
Pipes	1,954.00	2,007.00	1,978.00	2,094.00	2,065.00
Electrical					
Sheets	149	155	126	140	123
Tin Plates	253	301	344	354	309
HR Sheets	537	555	920	1,138.00	1,512.00
Plates	4,665.00	4,161.00	3,896.00	4,700.00	4,324.00
Flat Products	36,727.00	40,511.00	42,690.00	43,032.00	40,430.00
Alloy Steel	4,998.00	5,484.00	7,637.00	8,544.00	8,569.00

Source: CMIE

Scenario in 2016-17

In the current financial year 2016-17, production of these top five steel producing countries (excluding India) remained subdued even during April-December 2016 on a y-o-y basis. While crude steel output in China, Japan and Russia grew by

mere 0.5-3%, output in USA remained flat and that in Korea Republic (South) declined by 1.3%. In contrast, crude steel production in India rose by 8.8% to 72.35 million tonnes during this period. This was on account of higher output by the major Indian steel companies. The imposition of Minimum Import Price (MIP) encouraged the producers to increase their output.

Consumption

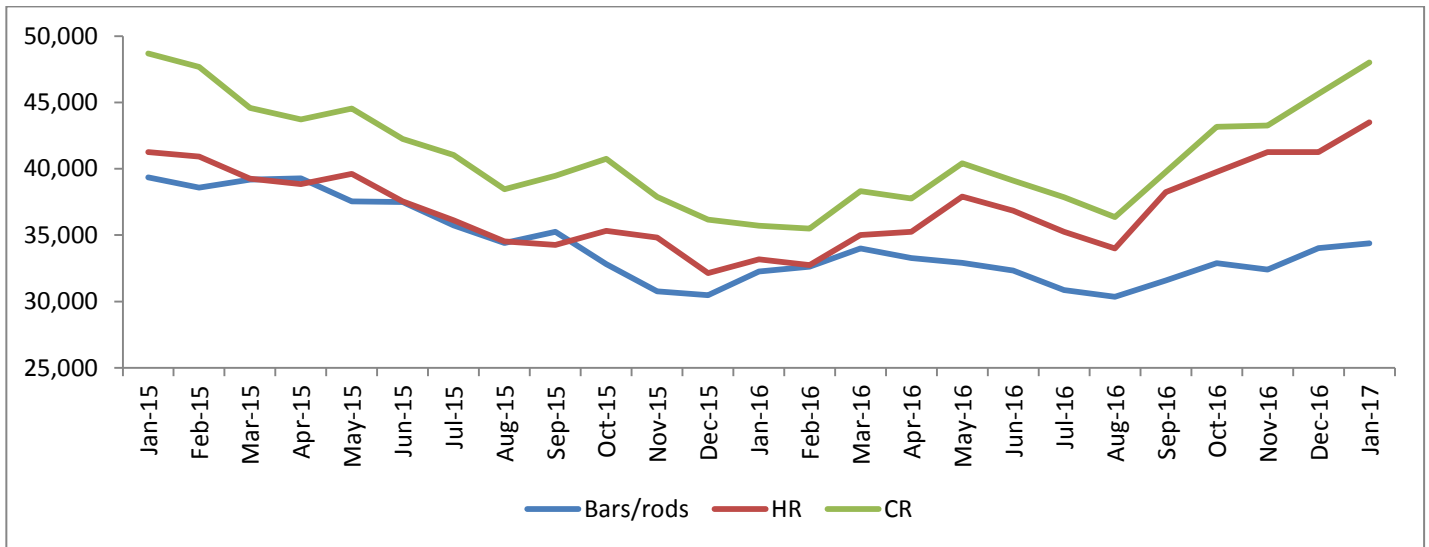
Consumption of steel, on the other hand, grew by just 3.2% to 73.75 million tonnes during April-December 2016. Post demonetization, steel consumption is expected to remain under pressure in the coming few months to a certain extent. This is because it is likely that the demand for steel from the user industries like construction, real estate will take some time to strengthen. However, government push towards infrastructure will compensate for this reduction in demand.

Outlook

In the coming financial year 2017-18, steel production is expected to remain higher. This will be backed by an expected revival in consumption. An increase in infrastructure allocation by the government in the Union Budget 2017-18 is expected to drive the pace of construction and infrastructure in the country. Apart from this, the National Steel Policy 2017 released by the government also aims to increase steel production. Thus, both production and consumption of steel is expected to remain buoyant in 2017-18.

Prices

Chart 3: Price Trend of Steel Products (Rs./tonne)



Source: CMIE

In January 2015, the prices of long steel products (bars/rods) stood at Rs.39,360 per tonne and that of flat steel products HR coils and CR coils stood at Rs.41, 267 per tonne and Rs.48,675 per tonne, respectively. In December 2015, at the end of the year, prices of long products (bars/rods) came down to Rs.30,466.7 per tonne and prices of HR coils and CR coils declined to Rs.32,133.5 per tonne and Rs.36, 175 per tonne. *The fall in prices was majorly on account of cheap imports of steel products.*

In the year 2016, with the imposition of Minimum Import Price (MIP) to restrict the cheap steel imports, the prices of long products (bars/rods) increased to Rs.34, 000 per tonne and that of HR coils and CR coils improved to Rs.35, 000 per tonne and Rs.38, 300 per tonne in March 2016 compared to the prices in December 2015. Prices of all the three varieties grew on a m-o-

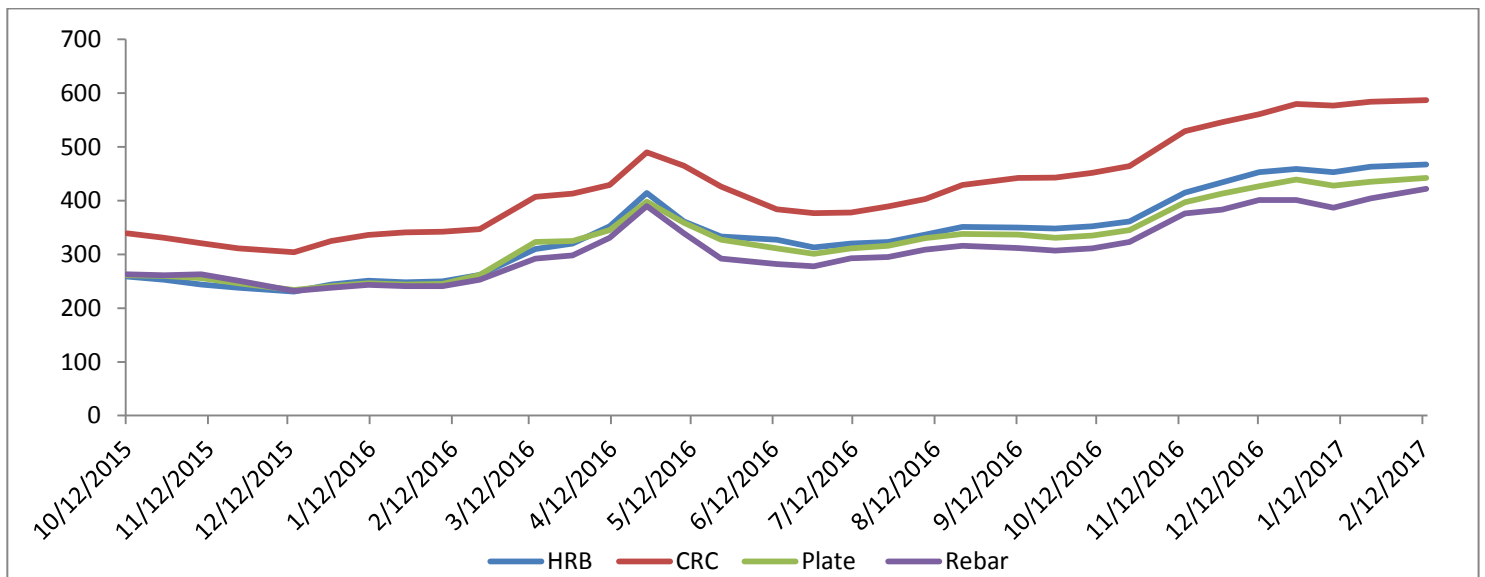
m basis from September 2016 to January 2017 except for the bars/rods prices which declined by 1.5% in November 2016 on a monthly basis.

Prices of all the three varieties touched a year high in January 2017. During the month, prices of bars/rods stood at Rs.34, 375 per tonne and that of HR coils and CR coils stood at Rs.43, 500 per tonne and Rs.48, 000 per tonne, respectively. The steel companies are also believed to have hiked the prices of their products during the month on account of a rise in coking coal prices (a major input).

The steel prices are expected to rise marginally or remain stable in the coming months. This will be backed a likely increase in domestic steel consumption and protectionist measures by the government. However, the movement in domestic prices will largely be influenced by the international steel prices. The global steel prices, in turn, are majorly dependent on demand-supply situation in China and production capacity cuts that the country undertakes to address the problem of overcapacity. China leads the problem of excess steel production capacity in the world.

International steel prices

Chart 4: Price Trend of Steel Products in China Ex-works (Dollars per Metric Tonne)



Source: SteelBenchmarker

The prices of steel products in China are believed to have increased on account of improved demand of steel from the country for infrastructure and construction. Also, production capacity cuts undertaken by China are believed to have supported the price rise.

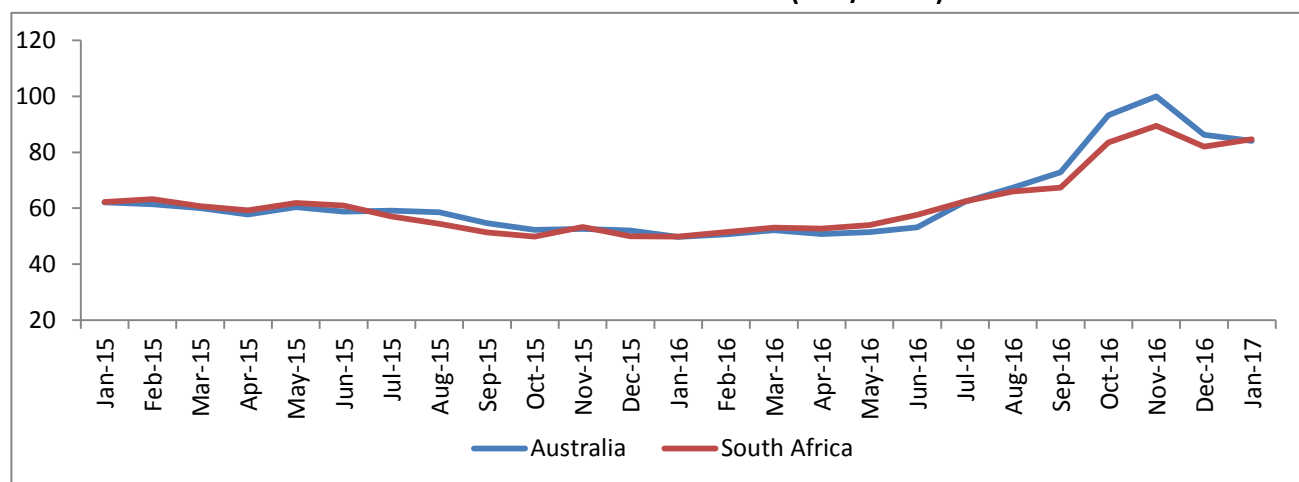
On 12th October 2015, the prices of Hot-rolled Band (HRB), Cold-rolled Coil (CRC), plate and rebar stood at USD 259 per tonne, USD 339 per tonne, USD 261 per tonne and USD 263 per tonne, respectively. Prices of all the four varieties started picking up from the end of December 2015 and the prices of HRB, CRC, plate and rebar rose to USD 414 per tonne, USD 490 per tonne, USD 398 per tonne and USD 390 per tonne, respectively, on 25th April 2016.

On a sequential basis, prices of all the four varieties increased in each of the months during July-December 2016 except for rebar prices which declined marginally on a sequential basis in September 2016. On 13th February 2017, prices of HRB, CRC, plate and rebar touched a high of USD 467 per tonne, USD 587 per tonne, USD 442 per tonne and USD 422 per tonne, respectively.

Coal prices

The major raw materials used for the manufacturing of steel are coking coal and iron ore. While the demand for iron ore is majorly met domestically, coking coal is largely imported for manufacturing of steel. Around 70% of coking coal requirements are fulfilled through imports.

Chart 5: International Coal Prices (USD/tonne)



Source: CMIE

The international coal prices which remained subdued during the year 2015; and in the initial months of 2016 picked up from May 2016 on m-o-m basis. The prices increased sharply in July 2016 and further in October 2016. Prices of coal in Australia and that in South Africa stood at USD 93.2 per tonne and USD 83.5 per tonne, respectively, during the month. Prices started increasing on a y-o-y basis since July 2016. It was last in November 2011 that the coal prices had increased on a y-o-y basis.

Steel Production Capacity

Table 2: Crude Steel Production Capacity in India (million tonnes)

Years	Production capacity	Production
2011-12	91	74.3
2012-13	97	78.4
2013-14	102	81.7
2014-15	110	88.98
2015-16	122	89.8

Source: National Steel Policy 2017 and CMIE

Though the domestic crude steel production has increased in each of the years mentioned above, it has not grown to match up the production capacity in India. This indicates excess crude steel production capacity in the country.

The steel companies, on the other hand, are increasing their capacities during the year 2016-17. An anticipated increase in steel demand on account of government’s focus on infrastructure, smart cities, Make in India campaign and affordable housing initiatives are believed to have supported the producers to increase their capacities. According to CMIE’s CapEx database, large steel players are expected to augment the industry’s production capacity by around 9.7 million tonnes in the last quarter of 2016-17.

While the focus on increasing production capacity continues, the steel consumption is required to move on the same lines. Though the government has laid down strong growth in infrastructure and construction, which directly influences steel demand, much of it depends on the implementation of the government policies.

Imports

India turned net importer of steel in 2007-08 as imports exceeded exports after a gap of almost ten years. Since then, India remained a net importer till 2015-16 except for the year 2013-14 when the country became net exporter of steel.

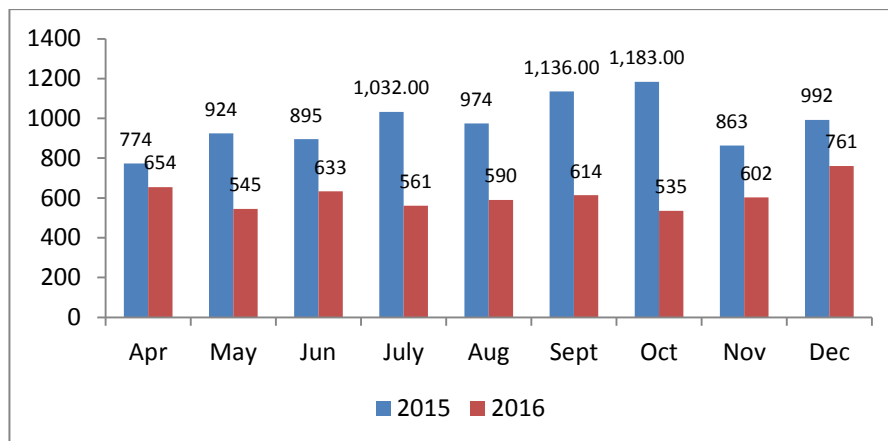
Steel imports by India are on a downtrend in the current financial year 2016-17 after reporting strong rise in the past two years 2014-16. Imports increased by 71% and 25.7% during 2014-15 and 2015-16, respectively. This was majorly on account of cheap imports from China.

In the current financial year 2016-17, India’s steel imports declined by a sharp 37.4% to 5.49 million tonnes during April-December 2016. This was largely driven by an imposition of Minimum Import Price (MIP) by the government in February 2016 to protect the country from cheap imports.

The MIP however was withdrawn by the government recently after back to back extension of the protectionist measure backed by an opinion that the protectionist measures like MIP and anti-dumping duty cannot continue indefinitely.

Nevertheless, the government extended by two months the anti-dumping duties on hot-rolled and cold-rolled flat products of alloy or non-alloy steel from countries including China and South Korea. This extension will continue to protect the industry from cheap imports.

Chart 6: Steel imports by India (in thousand tonnes)

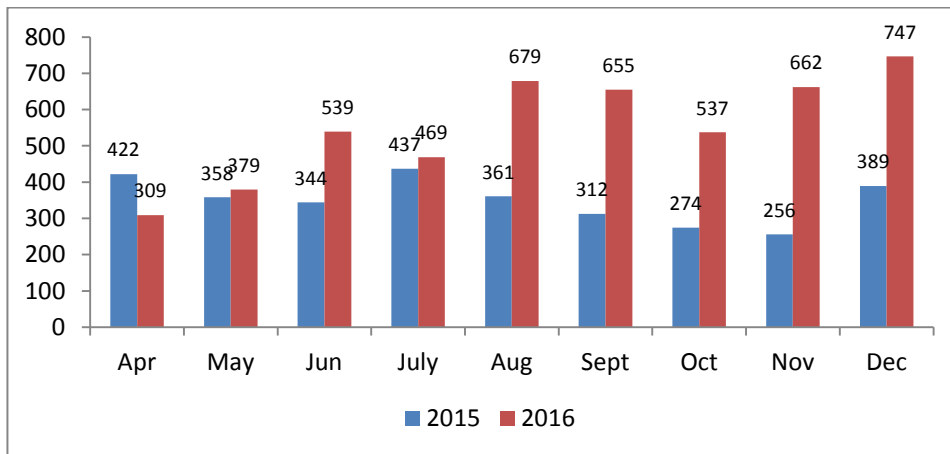


It is also believed that India has a strong case for imposing long-term anti-dumping duties on up to 124 steel products in the next two months. Also it has been stated that the long-term anti-dumping duties could be imposed on a case-by-case basis within the next two months before the temporary anti-dumping duties expire. If the anti-dumping duty is imposed, this will aid the industry to keep a check on cheap imports. However, it cannot be expected that this protection will last forever and the industry has to gear itself to face competition in the normal course.

Exports

It was not only the trend in imports that saw a change but also the trend in exports witnessed a reversed trend during April-December 2016 in the current financial year. Steel exports rose by a healthy 57.8% to 4.98 million tonnes during the period.

Chart 7: Steel exports from India (in thousand tonnes)



This rise was after two consecutive years of decline in exports during 2014-16. Exports had fallen by 6.5% and 27.1% during 2014-15 and 2015-16, respectively. Exports for the country in the past five years (2011-16) remained in the range of 4-5.99 million tonnes.

If this trend in imports and exports continue for the next three months, India may become net exporter of steel during 2016-17.

Financials of 56 steel companies

Chart 8: Sales growth rate

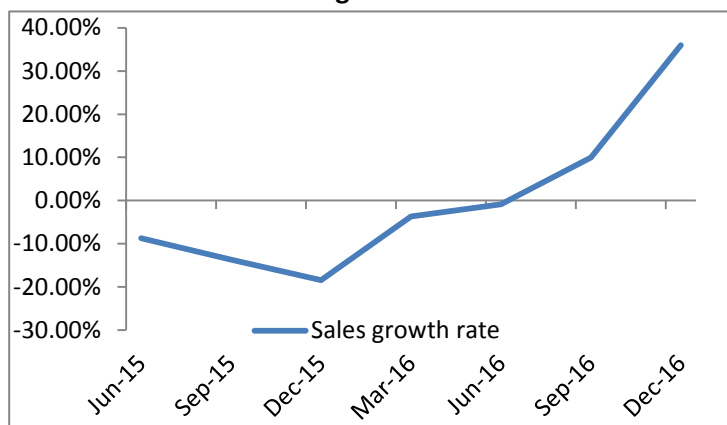
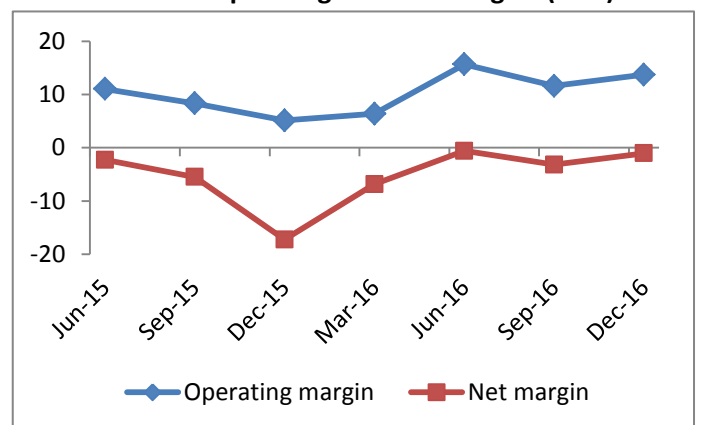


Chart 9: Operating and Net margins (in %)



Sales of the 56 steel companies improved during April-Dec 2016 where the industry’s revenues grew by 14.1% on a y-o-y basis during the period backed by an increase in prices and production. During April-December 2015, the industry’s sales had declined by 13.6% compared to the corresponding period a year ago. Also the industry’s performance improved on the net profit front. The industry’s losses reduced during April-December 2016 compared to the corresponding period a year ago. During April-December 2014, the industry had made profits as against losses made during April-December 2015.

In the December 2016 quarter, the industry reported a significant improvement on the sales and profits front on account of improved prices and production. On a y-o-y basis, industry's sales increased by 36% and it reported notable reduction in net losses during the quarter ended December 2016. The industry's results are based on the financial results of 56 listed steel companies.

Concluding remarks

- *Steel production and consumption is expected to remain higher in 2017-18 backed by an increase in infrastructure allocation by the government in the Union Budget 2017-18 and its aim to increase the country's steel production as stated in National Steel Policy 2017*
- *Though the domestic crude steel production has increased, it has not grown to match up the production capacity in India*
- *The steel consumption is required to move in line with that of production*
- *The extension of antidumping duties by two months will benefit the steel industry*
- *However, it cannot be expected that this protection will last forever and the industry has to gear itself to face competition in the normal course.*

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