Economy

Steel firms may find it tough to export next fiscal as domestic demand increases

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Indian steel companies will face problems in maintaining steel exports at current levels during the next financial year given the fact that domestic production will just about meet demand within the country, a top industry official has said.

During the current fiscal, domestic steel production was 103 million tonnes (mt) of which 94 mt were consumed locally, according to Seshagiri Rao, Joint Managing Director, JSW Steel, and Group Chief Financial Officer.

Rise in new Covid cases reduces mobility

“We exported 15 mt of steel and imported seven mt. We had a 13.5 mt inventory last fiscal which would have now been cut to 8.5-9 mt,” he told *BusinessLine*.

'PMO monitoring steel prices daily'

With the economy returning to normal slowly, steel consumption topped 10 mt in December and January. “In February, consumption dropped due to fewer number of days. But at the current level, consumption will be 120 mt next (fiscal) year,” he said.

Several sectors of the economy were doing well and plans of automobile manufacturers over the next three years are “mind-boggling,” Rao said.

As against the consumption, steel production could increase to 122 mt next fiscal from 94 mt this year.

Steel prices set to toe firm global trend

China production curbs

Rao was responding to a question on the outlook for the steel sector in view of China’s Tangshan City, the largest steel producer, ordering steel mills to halt iron ore sintering and steel-making due to the pollution they were causing.

The Tangshan government imposed curbs on steel production on a few occasions in February and early March, affecting demand and procurement.

Care Ratings analyst Rashmi Rawat said that this could result in China's iron ore consumption coming down, though it could be a short-term effect only.

According to Chinese customs data, Beijing's iron ore imports during January-February were up five mt at 181.5 mt compared with the same period a year ago.

Dependence on Australian imports

China Chamber of Commerce for Metallurgical Enterprises (CCCME), a body of private mills, has proposed that China consider reducing steel exports and increasing steel imports that would cut iron ore imports. At the same time, steel scrap imports could be increased by 10 mt.

CCCME has suggested that China prune its steel exports by 50 per cent year-on-year to 30 mt and instead increase imports of semi-finished and finished steel imports by five mt. Of the 15 mt tonnes India shipped out, six mt were in semi-finished steel to Beijing.

JSW Steel's Rao said that China will continue to depend on iron ore highly. "China imports 70 per cent of the total sea-borne trade in the ore. Last year, it imported 1.7 billion tonnes," he said.

China has no alternative to importing iron ore from Australia. "Its dependence on Australia cannot go away. China has not barred iron ore from Australia despite tensions in trade between both the countries. At the same time, it has curbed imports of coking coal," Rao said.

Chinese ban on coking coal has led to a divergent trend in its prices as well as iron ore. Coking coal prices had dropped sharply after China stopped buying from Australia. Since Canberra was unable to find any other country that could absorb the volume Beijing does, prices fell.

"They dropped to as low as $100 a tonne and are currently around $115," Rao said, adding that it had proved to be good for India, which imports coking coal. "Imports of coking coal at lower prices have increased the competitiveness for Indian steel," he said.

Care Ratings' Rawat said that public sector mineral producer National Mining Development Corporation (NMDC) had cut prices for the first time in seven months last month due to higher production.

NMDC output has increased with the resumption of operations at Donimalai mines.

This has resulted in domestic steel firms cutting prices, but they could be encouraged to export in view of higher prices abroad, Care Ratings said.

Rao said that though domestic users have been complaining about the spike in steel prices, it was lower than the hike seen in the global market.

"Before the Covid-19 pandemic, Chinese steel prices were $397 (₹28,800) a tonne. They have now increased to $750 (₹54,400) a tonne. In the US, steel prices were $600 (₹43,500) a tonne before the pandemic struck but now, they have almost doubled," he said.

Compared with global prices, Indian steel prices (HR coils) were available at a discount. "Our prices had increased from ₹35,000 a tonne during Covid-19 to ₹53,000-54,000, now", he said.

Steel prices are, however, off the highs seen in December last year.

Besides, Indian users could import steel without any restrictions with the Customs duty being cut to 7.5 per cent on semis, flats and long products. "Though our prices increased sharply, they are still lower and not aligned with the global prices," the JSW Steel Joint Managing Director said.

Capacity addition

Though Indian steel companies were not using the installed 142 mt capacity, further capacity was being added as consumption was set to increase further.

"JSW Steel is adding a five mt capacity by June this year, while other producers are adding 2-3 mt. This will take the total capacity to 150 mt soon," Rao said.

While steel companies are adding capacity, they are trying to resume operations of their mines they own. "Paperwork of these mines were affected during Covid-19, when prices too were low," said Rawat.

With the mines resuming operations, domestic iron ore supplies are increasing. Rising ore production would help steel companies get the raw material at a competitive price.

In addition, China's measures against pollution are pulling down iron ore prices.

According to *Trading Economics* website, 63.5 per cent Fe content iron ore prices were $163 a tonne, while 62 per cent Fe content ores were quoted at $168.26, down from the 10-year highs seen last month.

Iron ore with 62 per cent Fe content has gained nearly eight per cent since the start of the year, while the 63.5 per cent Fe content ore prices have increased nearly three per cent.

Rao said steel companies would also gain from the Union Government's push for value-added exports, particularly under the productivity-linked incentive scheme. "It is a revitalisation measure," he added.

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