

Steel output, consumption rises during 4MFY22

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Table 1: Steel production, consumption, import and export trend

	Apr-Jul FY20	Apr-Jul FY21	Apr-Jul FY22
Crude steel production	37.3	26.0	42.2
Finished steel			
Production	35.2	22.2	35.3
Import	2.6	1.5	1.6
Export	1.9	4.6	5.1
Consumption	33.3	19.9	33.1

Source: JPC

The production of crude steel and finished steel during the first four months of FY22 (i.e April to July 2021) showed significant improvement not just over the corresponding period of FY21 which was an unusual year with significant contractions in production and consumption levels due to the COVID-19 induced restrictions but also compared with the corresponding period of the pre-pandemic year FY20. Consumption of finished steel was almost comparable to the levels achieved during the corresponding period of FY20.

Export of finished steel increased from 4.6 MT during Apr-July FY21 to 5.1 MT in the ongoing year while imports remained range bound at 1.6 MT. Exports have risen partly due to the rising international prices and partly due to the second wave of Covid-19 which has mildly hit domestic demand from the consumer durables sector as well as slowdown in construction activities due to the prevailing monsoon season.

Trend in July 2021:

Domestic steel production had slowed down in the month of April and May 2021, down by 11.4% and 0.9% M-o-M, respectively due to the emergence of the second wave of Covid-19 pandemic. Private and public sector steel companies supplied 2,30,262 tonnes of liquid medical oxygen (LMO) to hospitals between April 1 to July 25, 2021 which impacted steel output. However, after the minor hiccup the sector is back on growth path as production of crude steel increased by 3.9% M-o-M in July 2021.

Production of crude and finished steel during the month of July 2021 was higher than that of last year and it was also higher than July 2019. Crude steel and finished steel production grew by 11.9% and 10.6% y-o-y, respectively in July 2021. Consumption of finished steel also grew by 7.3% y-o-y. When compared with July 2019, production of crude steel and finished steel were higher by 3% and 4%, respectively, however, consumption was lower by 4%.

During July 2021 export of finished steel grew by 9.9% over July 2020. It was also higher by 10.5% M-o-M, indicating exports are on an uptrend for the third consecutive month. Import in July, 2021 increased by 39.9% over corresponding period of last year (CPLY) and 2.0% M-o-M, respectively. India was net exporter of finished steel during July 2021 recording a net trade surplus of 1.1 MT.

Global production scenario:

According to the World Steel Association, global crude steel production for the 64 countries reporting to it grew by 14.4% during the first half of 2021 (Jan-June 2021). Production was slightly above 1 billion tonnes.

Among the top ten countries, India reported highest growth of 31.3% y-o-y during the period to produce 57.9 MT of crude steel. China continued to remain the largest steel producer with a share of 56% and produced 563.3 MT of crude steel in the first half of 2021. However, China's steel production slowed down substantially in June 2021 growing by just 1.5% y-o-y. Chinese government has asked mills to reduce output starting July to cut emission levels. China's steel output in 2021 is expected to remain nearly same as the 2020 volumes. Brazil reported the highest growth of 45% followed by USA and Japan with 44.4% y-o-y increase in crude steel production, each, in June 2021. India's production grew by 21.4%.

Price scenario:

Slowdown in demand from the construction and real estate due to the prevailing monsoon season has hit demand for long steel products. Domestic TMT prices fell by 7.5% M-o-M to average Rs 47,400 per tonne in July 2021.

Domestic HRC prices peaked in June 2021 to average Rs 66,800 per tonne but have declined from the historical highs to average Rs 62,633 per tonne in July 2021. This was in spite of strong international prices. China HRC prices increased by

3% M-o-M to average \$ 743/tonne and HRC price in the US market also rose by 5.9% to average \$ 1,952/tonne in July 2021.

However, some domestic steel companies have announced price increases by Rs 1,000-2,000 a tonne from August 1 driven by a slight uptick in demand and domestic steel prices being at a discount to the international steel prices.

Raw material price trend:

National Mineral Development Corporation, the country's largest iron ore producer, has cut prices of lump ore by Rs 300 a tonne and that of fines by Rs 200 to Rs 7,150 and Rs 6,160, respectively, due to some pullback in international iron ore prices. China is the largest consumer/importer of iron ore in the world. Anticipation of lower demand from China due to cut in production levels has brought volatility in iron ore prices. However, despite a marginal fall in August 2021 over July 2021, international iron ore prices are still up 26% from levels seen in January 2021.

While iron ore prices remained jittery, prices of premium hard coking coal (FOB Australia) rose almost 25% in two months due to higher demand from the European and Asian market excluding China and India. India's import of coking coal fell 30% M-o-M in June 2021 due to weaker domestic demand and onset of monsoon season.

Outlook:

In FY22, domestic crude steel production is expected to reach 112-114 million tonnes, which would be a growth of 9-11% y-o-y. CARE Ratings expects the domestic steel demand to grow at a CAGR of about 7.5% during the next 2-3 years. Steel demand will be supported by economic recovery, government spending on infrastructure, revival in capex cycle and enhanced liquidity. The Union Budget for 2021- 2022 has a sharp 34.5% y-o-y increase in allocation for Capex at 5.54 lakh crore. The budget's thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption.

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