

Indian steel industry on recovery path

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Indian steel industry has staged strong recovery in the last few months on the back of improving domestic demand. Steel consumption grew by 96% in September 2020 quarter compared to June 2020 quarter. Production of crude steel rose by 59% q-o-q in Q2FY21. The industry also managed to significantly lower the y-o-y fall in Q2 FY21, signalling return of normalcy in the sector. Crude steel production fell by just 7% y-o-y in the September 2020 quarter, compared to 43% y-o-y fall in the June 2020 quarter. Consumption of steel also fell by 11.4%, much lower than 52% y-o-y fall registered in the preceding June quarter.

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22- 6837 4433

Rashmi Rawat
Deputy Manager
Rashmi.rawat@careratings.com
+91-22-6837 4405

Inputs from Ajay Dhaka
Sector Specialist- Metals & Mining
ajay.dhaka@careratings.com
+91-22-45333218

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3573

Table 1: Performance snapshot of steel sector (qty in million tonnes)

	Crude steel production	Finished steel	Consumption
Q1 FY20	27.9	26.6	25.1
Q2 FY20	27.1	25.1	26.2
Q1 FY21	15.8	13.6	11.9
Q2 FY21	25.2	24.1	23.2
H1 FY20	55.0	51.6	51.0
H1 FY21	42.9	38.1	35.4

The outbreak of COVID-19 pandemic and the subsequent nationwide lock down had severely affected demand and production of steel in the country in Q1FY21. The lockdown in the months of April and May had crippled domestic demand and steel players were forced to look at export markets to keep their inventory in-check. The finished steel exports as a percentage of total finished steel production peaked during April-August 2020 to average 21% compared to 8% in the corresponding period of FY20 and 6% during the same period in FY19.

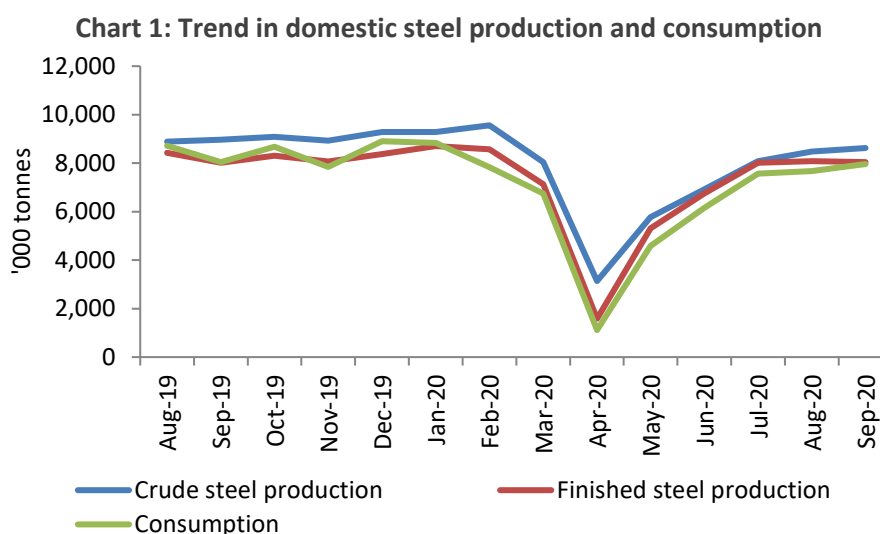
However, with the unlocking of the economy from June 2020 onwards, domestic demand staged a strong V-shape recovery and exports declined gradually. A pick up in domestic demand from the infrastructure activities, pipe and tubes manufacturing, automobiles, and consumer durables sector ahead of the festive season has led to increased steel consumption and higher restocking demand.

Capacity utilisation levels of crude steel improved with the unlocking of the economy and recovery in demand both domestically and internationally. After a sharp drop in April 2020 to 26.5%, capacity utilisation rate of crude steel returned to 72.8% in September 2020, down by just 2.8% from year-ago level of 75.6%.

However, the recovery has been more pronounced for larger players while smaller steel companies have seen uneven recovery during the first half of

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FY21 due to their weaker financial flexibility. The top five integrated steel companies account for 60% of the total steel production and were able to gain further market share during this period.



Source: JPC

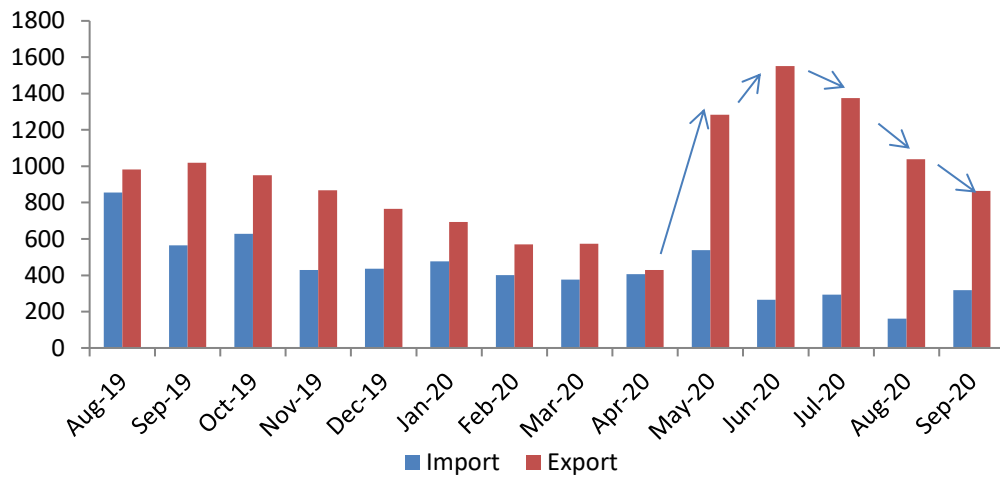
On a cumulative basis (April-September 2020), production of crude steel and finished steel is down by 22% and 26%, respectively and consumption of finished steel is down by 30.6% compared with the corresponding period of FY20.

Trade:

Domestic steel companies ramped up export of steel products especially semi-finished products significantly during May and June 2020 due to fall in domestic demand and relatively better demand from China and other export destinations. The reason for the increase in the steel demand by China and Vietnam is faster recovery of these countries from the Covid-19 pandemic. Besides, sector specific stimulus for infrastructure and construction sector from the Chinese government bolstered Chinese steel demand as well as steel prices. Around 60% of the Indian steel exports were directed towards China and Vietnam. Absence of China in the export market helped domestic steel companies which were grappling with lower domestic demand to fill in the gap and export huge volumes. China’s flat steel exports fell by 16.4% to 22.2 million tonnes during January-August 2020 as Chinese steel mills focussed on fulfilling domestic demand which was robust as against global demand which remained weak.

Finished steel exports from India jumped 85% in May 2020 compared to January 2020 (pre-covid) and 180% compared to May 2019. However, with domestic demand returning to normalcy level, exports have moderated. Exports fell sequentially in the last three months as domestic steel companies gradually steer away from low margin exports to meet improving domestic demand and benefit from better realizations.

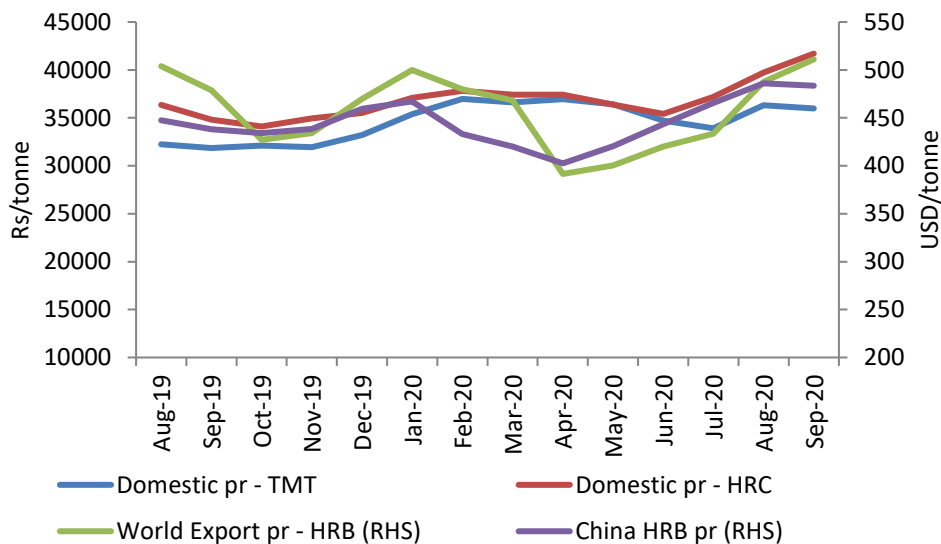
Chart 2: Trend in import and export of finished steel



Source: CMIE

Steel prices:

Chart 3: Trend in International and domestic steel prices



Source: Steel Insights

Domestic steel companies have been raising steel prices given tight supply situation in the domestic market, increasing demand and firm international prices. Domestic HRC prices averaged higher at Rs 41,700 per tonne in September 2020 compared to Rs 35,400 per tonne in June 2020. Prices of TMT also average higher at Rs 35,975 per tonne in September 2020 compared to Rs 34,725 per tonne in June 2020. Domestic HRC prices are currently at a small premium to imported steel prices.

Raw material prices:

International iron ore price has risen over the last three months from average USD 108.5 per dmt in July 2020 to USD 123.8 per dmt in September 2020. Domestic iron ore prices also remained firm, up 40% since March 2020 due to slower ramp up of mines in Odisha. 14 of the 19 newly auctioned mines in Odisha have failed to start operations.

Movement of Iron ore across major ports (excluding exports) in India fell by 18% to 7.6 mt in August 2020 as against 9.3 mt in July 2020. India's largest iron ore producing state, Odisha recorded total merchant iron ore dispatches at 3.4 mt in Aug 2020, down 25% as against 4.6 mt in July 2020.

Coking coal prices which had fallen sharply since March 2020 have recovered over the last two months. Australian coking coal futures have rose to USD 138 per tonne so far in October 2020 up from USD 107 per tonne in August 2020.

Outlook:

In million tonnes

Period	Crude steel production	Finished steel Consumption
FY18	103.1	90.7
FY19	110.9	98.7
FY20	109.2	100.0
April-September FY20	55.0	51.0
April-September FY21	42.9	35.4
FY21 (F)	96-98	83-86

*(F) – CARE's forecast

- An up-cycle in international steel prices is expected in H2FY21 due to increased steel consumption mainly by China on the back of stimulus package unveiled by the Chinese government which is keeping demand for industrial metals high.
- Firm international prices and pick up in domestic demand will also boost domestic steel prices. Steel prices have already exceeded pre-covid levels and are currently at a marginal premium to world export prices.
- Any continuation of rebound in coking coal prices will keep the steel prices firm. Iron ore prices have crossed USD 123 per dmt in September 2020, a level last seen in 2014, amid better Chinese demand and tepid supply due to severe weather conditions and covid induced restrictions in Brazil. However, prices are likely to retrace to lower levels in H2CY20 largely on the back of ramp up of production by the miners in Brazil and Australia.
- Domestic steel production and consumption is expected to remain steady going forward in H2FY21. For the whole year FY21 we expect crude steel production to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half. While large players have reported faster return to normalcy after covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility.



CORPORATE OFFICE:

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

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