

Steel Industry Sees Domestic Demand Surge in Apr-Oct FY23, Prices Moderate

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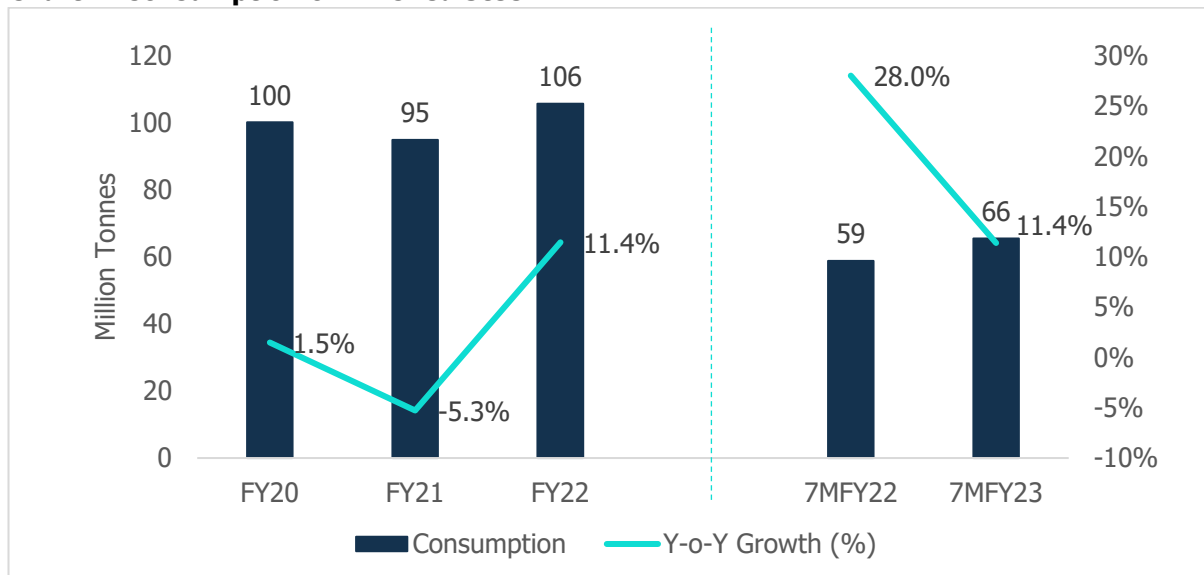
Synopsis

- The steel industry's production and consumption grew by 6.4% and 11.4%, respectively, on a year-on-year (y-o-y) basis during the first seven months of FY23 (April to October). CareEdge Research estimates the production and consumption growth rate to be around 3-5% and 9-10%, respectively in FY23.
- The Government's thrust towards infrastructure projects, pick-up in construction and real estate activity as well as healthy demand from the automobile sector augurs well for the demand for steel products.
- Geopolitical tensions, fall in iron ore prices and weak international demand continue to moderate international steel prices and realisations for players.
- Domestic prices are expected to remain moderate in the near term, while strong domestic demand would provide some respite amidst subdued exports. India is expected to witness a decline of about 50-55% in exports in FY23 because of the export duty announcement on a range of finished steel products made by the Government in May 2022.

Strong Growth in Steel Production and Consumption during FY23

CareEdge Research estimates India's steel production to be in a range of around 115-118 million tonnes, a growth rate of around 3-5% in FY23. The strong domestic demand outlook is likely to benefit manufacturers in the industry.

Chart 1: Consumption of Finished Steel



Source: CMIE, CareEdge Research

Note: 7M period refers to April to October

India's steel consumption was at 106 million tonnes in FY22, up from 95 million tonnes in FY21, an increase of 11% y-o-y on account of increased consumption by the government on varied infrastructure projects, as well as the resumption of real estate and construction work on a lower-base of FY21.

During 7M FY23 (April-October), the crude steel production and finished steel production had increased by 5.3% and 6.4% respectively on a y-o-y basis. The growth in finished steel production is supported by a strong 11% increase in consumption, backed by a pick-up in investment in the infrastructure sector and policy support by the government.

The Government's thrust towards infrastructure projects is majorly contributing to the rise in demand in the domestic market. However, the demand in the international market is expected to remain subdued going forward due to weak external environment like high inflation, rising interest rates, soaring energy prices in Europe and the deceleration of real estate market in China.

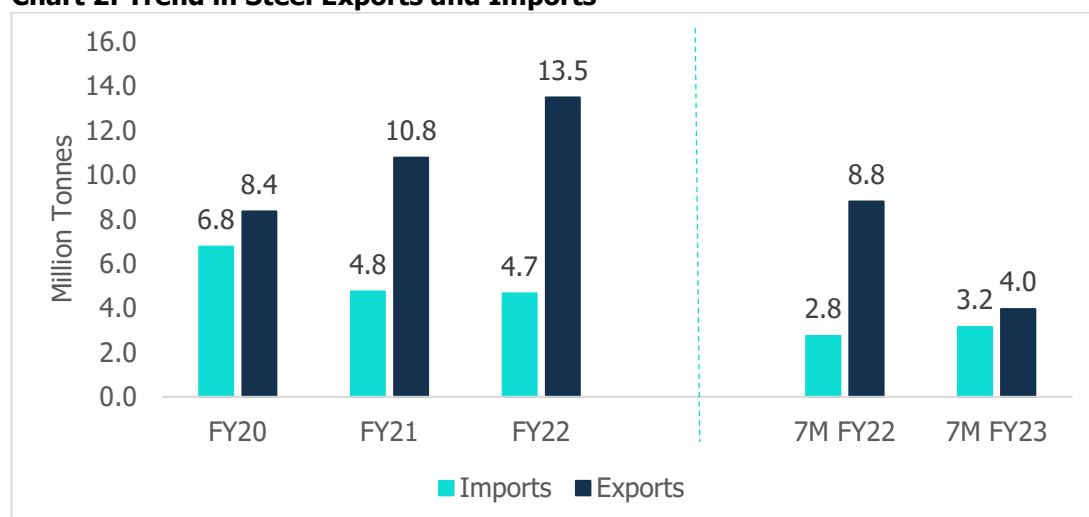
The imposition of export duty has led to a de-growth in exports from India in FY23, thereby resulting in increased supply and hence moderation in steel prices in the domestic market.

Improving activities in the construction sector along with an uptick in the real estate and automobile sector is expected to boost the demand for steel products in the industry. With increased government spending towards seven engines (roads, railways, airports, ports, mass transport, waterways and logistic infra), an increase in capex allocation by 36% y-o-y and government initiatives to support the steel production will continue to augment the domestic steel demand in the industry.

Subdued Export Orders – Resultant of Change in Duty Structure

India exported a record high of 13.5 million tonnes of steel in FY22, led by international factors like environmental concerns surrounding China's steel industry, an uptrend in global steel prices and higher demand from European nations. India's import of steel has, however, degrown by 30.9% to 4.7 million tonnes in FY22 from 6.8 million tonnes in FY20, backed by higher capacity utilisations as well as on-streaming of large capacities that were acquired by incumbents through bankruptcy proceedings.

Chart 2: Trend in Steel Exports and Imports



Source: CMIE, CareEdge Research

Note: 7M period refers to April to October

Exports witnessed a reversal in trend during the first seven months of FY23 (April-October), after witnessing an upward trend in 3 consecutive years i.e., FY20, FY21 & FY22. Steel exports declined sharply by 55% as compared to the same period in the previous year. This was mainly because of weak international demand, continued

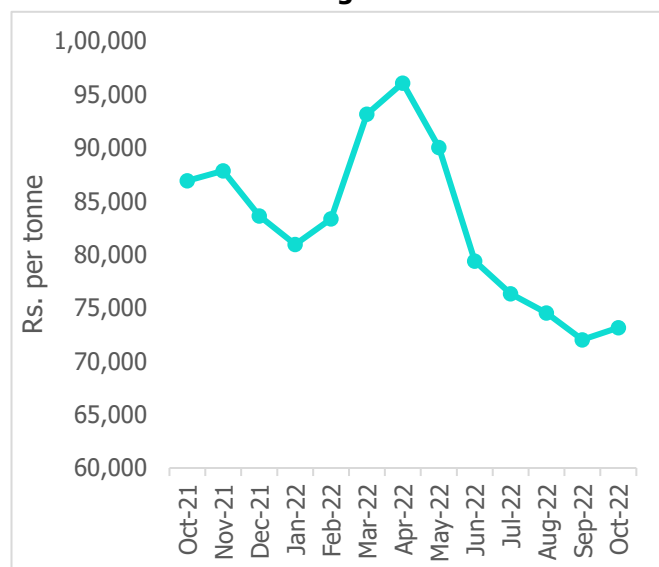
geopolitical tension and inflationary headwinds globally. Furthermore, 15% export duty imposed by Indian Government on steel products also affected exports from India.

The steel exports have plunged down to 4 million tonnes during first seven months of FY23 over 8.8 million tonnes in the same period of FY22, due to the imposition of export duty on a range of finished steel products. Although, the exports were less attractive, it increased steel's domestic availability as reflected in expansion of production and consumption volumes.

Steel Prices on Decline due to Lower Exports

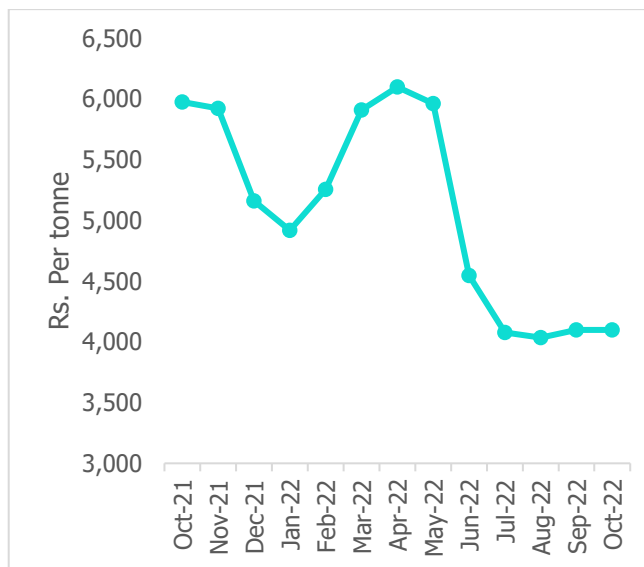
The average finished steel prices peaked at Rs 96,079 per tonne in April 2022. After a sharp uptick, it started to witness a downward trend and declined to Rs 73,158 per tonne in October 2022. The prices have drastically dropped by 16% on a y-o-y basis, in October 2022. Additionally, the 15% export duty imposed on a range of finished steel products made exports less attractive and has led to further decline in prices. Moreover, the prices of iron ore have softened by about 31% to Rs. 4,100 per tonne in October 2022 as compared to Rs. 5,964.50 per tonne in May 2022, due to increased domestic supply in light of increase in import duty on iron ore exports to 50% since May 2022. This in turn resulted in a decline in steel prices. The prices of average finished steel followed the same trend along with iron ore prices in domestic market. The prices are expected to continue to remain moderate in the near term based on the above factors and high inflation, while continued strong domestic demand would provide some respite.

Chart 3: Domestic Average Finished Steel Prices



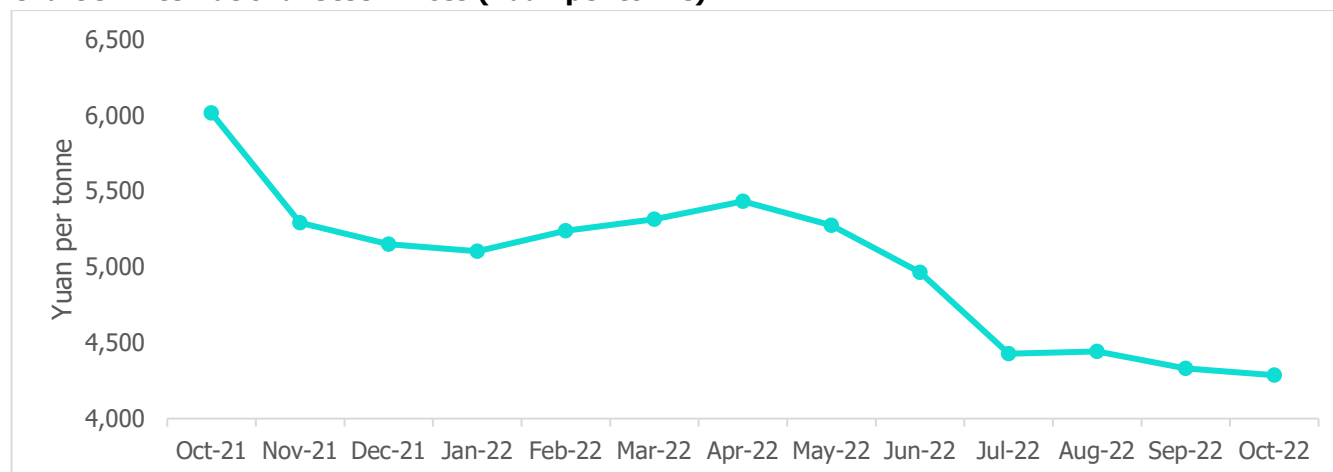
Source: CMIE, CareEdge Research

Chart 4: Domestic Iron Ore Prices



Source: CMIE, CareEdge Research

International steel prices remained high in the months of March 2022 and April 2022, mainly due to the Russia-Ukraine crisis. The prices however declined by 2.9% to the level of Yuan 5,274 per tonne in May 2022 as compared to April 2022 where prices stood at Yuan 5,433 per tonne. The downward trend in steel prices continued, and it fell to a level of 4,286 Yuan per tonne in October 2022. The hike in export duty on finished steel products and iron ore also slashed exports resulting in declining steel prices.

Chart 5: International Steel Prices (Yuan per tonne)

Source: CMIE, CareEdge Research

Outlook

“The domestic steel demand growth will be strong at 9-10% in FY23, due to the government’s infrastructure push and increased investments in real estate and construction sectors amid an overall economic rebound. In addition to this, lower raw material prices (on account of increase in export duty on iron ore from 30% to 50% in May 2022) will also support steel production in India, though steel prices will continue to remain moderate. The operating profitability margins of the steel players will see a contraction in FY23 from the peak of FY22, on account of moderation in realizations despite relatively lower raw material costs”, Tanvi Shah, Director, CareEdge Advisory & Research, said.

During the current financial year, exports are likely to witness degrowth as compared to FY22. This is mainly because of the announcement made by Government in May 2022, on imposing export duties which will make steel exports from India expensive. Similarly, the duty on iron ore concentrates was increased to 50% from 30% and a duty of 45% was imposed on iron ore pellets to augment the availability of iron ore in India.

The higher availability of steel in the domestic market on account of export duty announcement will lead to continued moderate steel prices in the near term. In addition, the increase in export duty of steel will help in producing steel at lower cost.

The domestic consumption of steel will continue to grow, backed by improved economic activity and the Government’s continued investment in infrastructure and construction sectors. To serve the growing domestic demand, local steel production will grow backed by sustained high-capacity utilisation levels.

Furthermore, a revival in economic activities from the end-user industries such as construction, infrastructure, automobile, real estate and consumer durables will support the steel consumption and will aid production in India.

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