Steel: Healthy Domestic Demand; Sustainability to Take Centre-Stage

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Synopsis

- During FY23, the domestic finished steel consumption grew by 13.3% y-o-y led by healthy demand from infrastructure, real estate and automobile industries.
- Steel exports declined sharply by 50.2% y-o-y due to the imposition of export duty on steel products from May-November 2022 coupled with weak global demand due to continued geopolitical tensions and inflationary trends.
- As the domestic industry looks to double the steel capacity and production by FY31 from current levels to cater to healthy domestic demand and export opportunities, sustainable availability of key raw materials – iron ore and coking coal, and enhancing export competitiveness will be critical.
- Further, the industry is becoming increasingly conscious of the Environmental, Social and Governance (ESG) aspects and significant investments are expected towards reducing carbon emissions and developing of cleaner production technologies going forward.
- "The domestic steel consumption is expected to grow at 8-10% in FY24 led primarily by infrastructure push in the pre-election year. The demand uptick from China has been slower than expected which is expected to have a bearing on steel prices in the near term. As Indian players prepare to cater to future demand, accelerating domestic iron ore production and identifying sustainable and cost-effective sources of import-dependent coking coal will be the key. While the transition to cleaner technologies such as green steel is desirable, these technologies require high capital investment and their adoption will depend on the support provided by the government and industry participants," said Tanvi Shah, Director, CareEdge Advisory & Research.

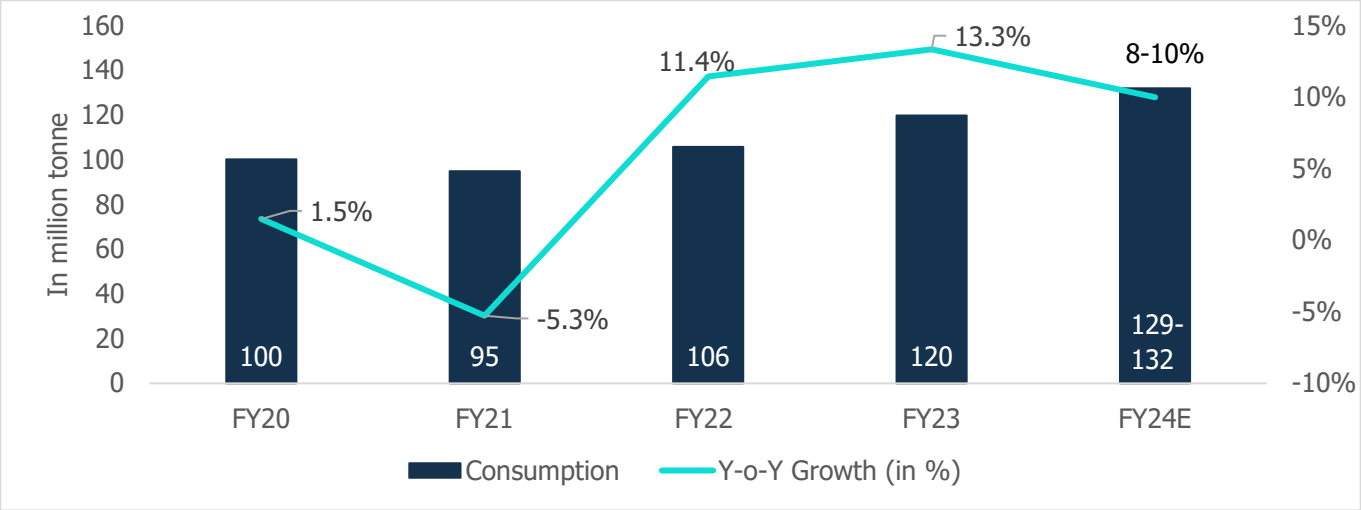
Healthy Domestic Consumption Trajectory to Continue

In FY23, crude steel and finished steel production increased by 5% and 7.6%, respectively, on a y-o-y basis. Domestic consumption of finished steel increased by 13.3% y-o-y to 120 million tonnes (MT) during this period. The rebound in domestic demand from the impact of Covid-19 in previous financial years, continuous investment in infrastructure, strong auto sales and robust demand from real estate construction during FY23 led to an increase in the consumption of finished steel.

With the pre-election year in 2023, the government is likely to increase its infrastructure investments both at the state and central levels. This includes a 33% increase in budgetary allocation to Rs. 10 lakh crores for infrastructure, a capital outlay of Rs. 2.4 lakh crore for Indian Railways and the announcement of 100 new transport infrastructure projects. Further, steady demand from construction and real estate activities and expected growth of 7-9% in the auto sector will also augment the demand for steel during FY24.

Driven by the above factors, CareEdge Research expects India's steel consumption growth rate to be healthy at 8-10% taking the consumption to 129-132 MT in FY24.

Chart 1: Consumption of Finished Steel



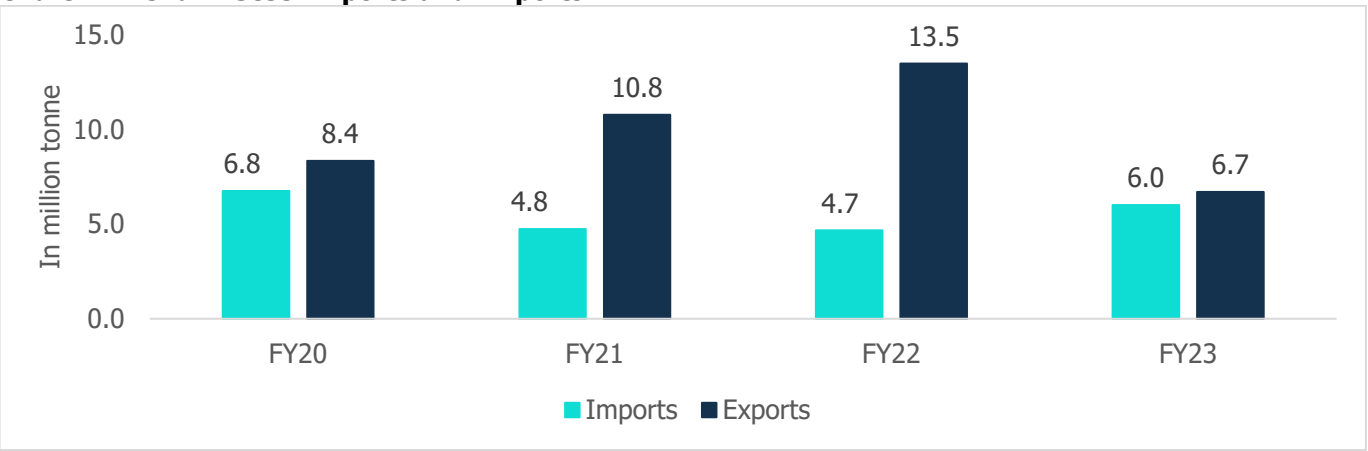
Source: CMIE, CareEdge Research
Note: 'E' denotes Estimates

Exports to Pick-up Sequentially; But Unlikely to Reach FY22 Levels

After experiencing an upward trend for three consecutive years (FY20, FY21, and FY22), exports declined by a sharp 50.2% y-o-y to 6.7 MT in FY23. An export duty of 15% was imposed on steel products from May 2022 to November 2022, which made exports from India less competitive leading to the decline. Weak international demand, continued geopolitical tensions and global inflationary headwinds also impacted exports. This led India to become a net importer of steel for the first time in three years for the period of October 2022 to February 2023.

Following the reversal of the export duty hike in November 2022, the exports have been rising sequentially and the full impact of the duty reversal is expected by H1FY24. However, exports may not reach the highs achieved in FY22 due to weak global demand and an increase in finished steel exports from China as observed from January to April 2023.

Chart 2: Trend in Steel Exports and Imports



Source: CMIE, CareEdge Research

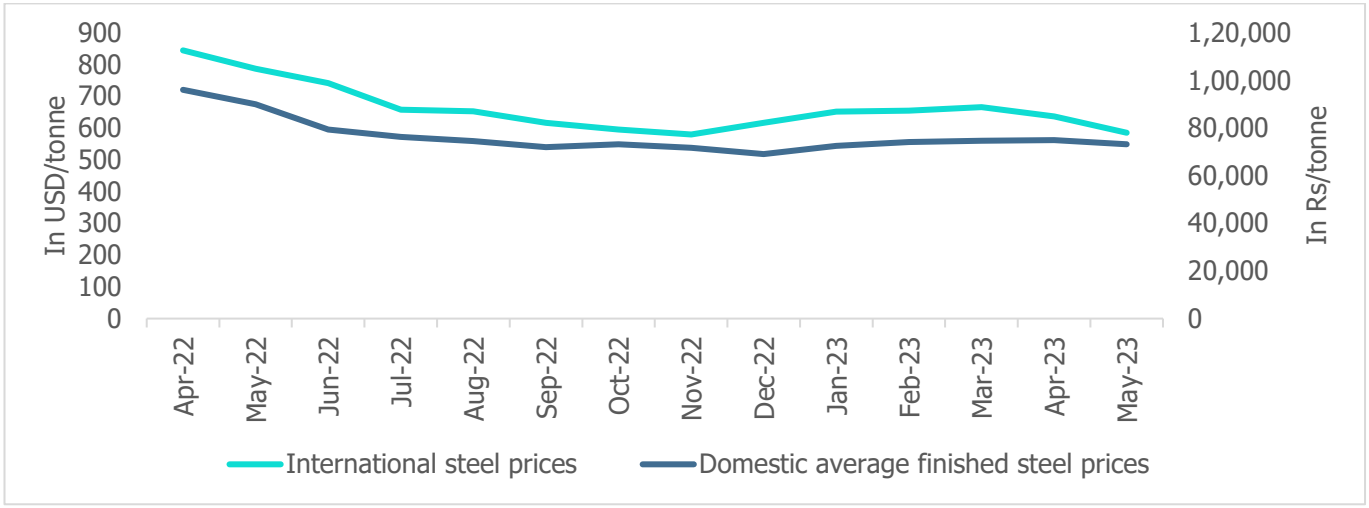
Steel Prices to Remain Under Pressure in Near Term

Global steel prices started rising in March 2021 due to Covid-19-led supply issues and high raw material prices and remained elevated until early 2022 due to the impact of the Russia-Ukraine war. However, prices started correcting gradually from June 2022 due to weak global demand especially from the largest consumer China on account of

lockdowns and Covid-19-related restrictions. Further, the decline in coking coal prices also led to the fall in steel prices. Overall, the global steel prices averaged at around USD 672 per tonne in FY23, a decline of 22.4% y-o-y. The prices have declined further in April 2023-May 2023 due to continuous weak global demand. Domestic steel prices have followed global prices directionally.

Global steel prices are expected to be under pressure in the near term due to continued weakness in global steel demand and a decline in coking coal prices.

Chart 3: Trend in Steel Prices



Source: CMIE, CareEdge Research

Sustainable Raw Material Supply, Export Competitiveness Critical for Next Phase of Growth

Securing Raw Material Sources

The National Steel Policy, 2017, envisages steel production to almost double to 255 MT by FY31 to cater to the growing domestic demand. To continue to be Atmanirbhar in steel, it is imperative to secure a sustainable supply of raw materials such as iron ore and coking coal. India has sufficient reserves of iron ore; however, the production needs to be ramped up through the identification and auction of a higher number of captive and commercial mines and an increase in production from existing mines by using superior technology. Iron ore beneficiation and pelletisation must also be encouraged to ensure the effective utilization of low-grade iron ore and iron ore fines.

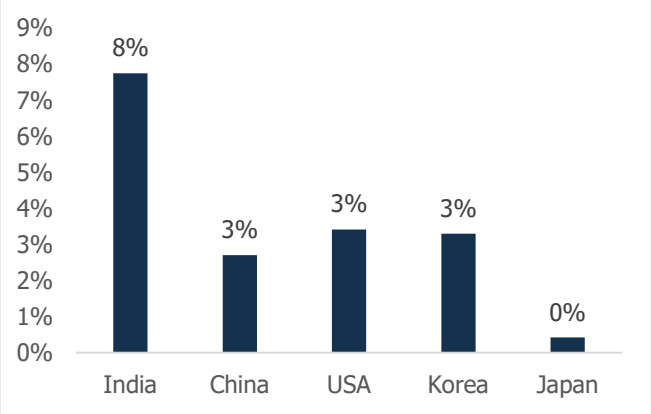
India is dependent on imports due to limited domestic availability of suitable quality coking coal. As a near-term measure, the import sources must be diversified to ensure timely availability and better pricing. Further, exploration and production of domestic coking coal should be encouraged and sufficient washing capacities should be set up to get the desired quality of coking coal. Both iron ore and coking coal mining can be encouraged by implementing single window clearances, rationalising taxes and royalties on mining which are currently higher than global benchmarks and boosting overall investment in the exploration and production of these minerals through policy support.

Addressing Factors Impacting Export Competitiveness

While India is the second largest producer and consumer of steel, it ranks 7th in global exports. Indian products are currently less competitive in global markets compared to their Asian counterparts due to factors such as high finance and logistics costs, high levies on mining and duties imposed by key export countries.

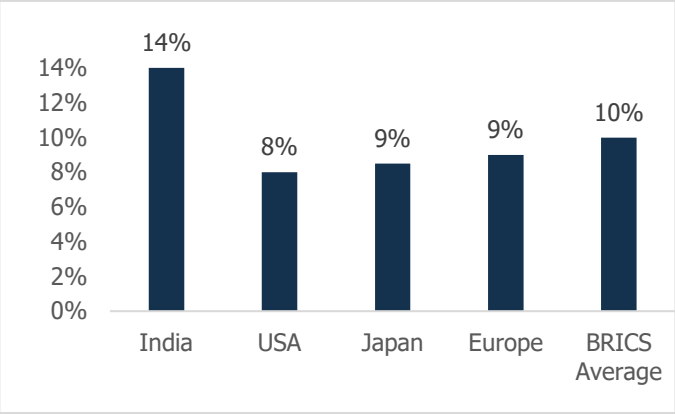
To push the 'local for global" agenda in the steel sector, policy support will be required to reduce the cost disadvantage coupled with the government's push through various diplomatic channels to reduce duties on Indian steel products and enter into trade agreements beneficial for the industry. By improving logistics infrastructure and enhancing rail connectivity, the steel industry can effectively mitigate logistical challenges and reduce costs.

Chart 4: Comparison of Finance Cost



Source: Government Sources

Chart 5: Logistics Cost Comparison (as a % of GDP)



Source: Ministry of Railways

Decarbonisation and ESG - The Way Forward

India has made a commitment to decrease the emissions intensity of its Gross Domestic Product (GDP) by 45% by 2030, compared to 2005 levels. To contribute to this objective the Ministry of Steel has taken a commitment to has taken a medium-term target to reduce the emission intensity of the steel sector to 2.4 T/TCS[1] by 2030 from 2.55 T/TCS currently. Therefore, the steel industry's future growth must also be responsible and sustainable growth focused on reducing carbon emissions and moving towards decarbonization.

The industry is already implementing measures such as increasing the usage of renewable energy in the production process, use of pulverized coal injection (PCI) technology in the BF-BOF[2] process, improving efficiency by waste heat recovery, suitable use of by-products, usage of steel scrap etc. Future technologies which will significantly reduce the carbon emissions such as green steel and carbon capture utilisation and storage (CCUS) have been identified and R&D efforts are being undertaken across the world to achieve viably scalable technologies.

The new green technologies being explored for steel production will require significant upfront capital expenditure with the benefits accruing over a period of time. While transition to cleaner technologies such as green steel is desirable, these technologies require high capital investment and their adoption will depend on the support provided by the government and industry participants.

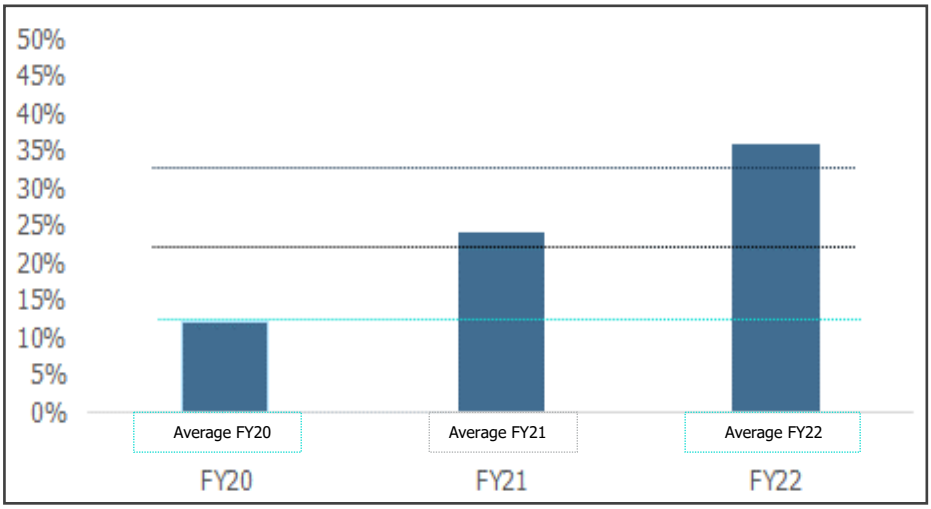
The steel industry in India is also making significant strides toward integrating Environmental, Social, and Governance (ESG) principles into its operations. The industry recognizes the importance of sustainability and is actively working towards reducing its environmental impact, promoting social welfare, and enhancing corporate governance practices.

While there is still progress to be made, the Indian steel industry's commitment to ESG principles is commendable. Continued collaboration between industry stakeholders, government bodies, and civil society will be crucial in driving further improvements in the ESG performance of the steel sector in India. Further, as the global ESG consciousness

[1] Tonne of CO2 equivalent per tonne of crude steel
[2] Blast Furnace – Basic Oxygen Furnace

intensifies, the industry's focus on ESG is imperative to enable players to tap larger markets and grow climate-conscious investors.

Chart 6: Percentage of Companies in Steel Sector with ESG Disclosures



Source: CareEdge Research

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