

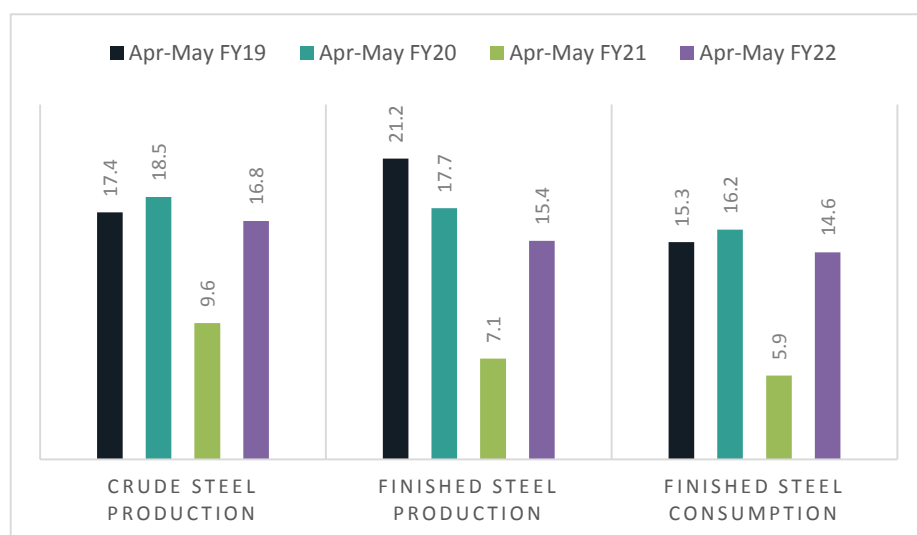
## Steel companies increase export as domestic demand falters due to Covid-19 in May 2021

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India's crude and finished steel production as well as consumption of finished steel during May 2021 was significantly higher than the corresponding month of last year due to low base effect, but was lower than those during earlier years. Crude steel production at 8.5 million tonnes (mt) was 36% higher in May 2021 than in May 2020 but was 11% lower compared with May 2019. Finished steel production stood at 7.8 mt in May 2021 higher than 5.5 mt in May 2020 and lower than 9 mt in May 2019. Consumption of finished steel rose by 52% yoy in May 2021 but when compared with May 2019 was down 17%.

On a month on month basis, steel production showed marginal improvement after falling sharply in April 2021 due to localised lockdowns and diversion of oxygen for medical purposes. Crude steel production was higher by 2.7% m-o-m in May 2021 after falling by 17.2% mom in April 2021. Finished steel production also increased by 2% m-o-m after declining by 21.6% in April 2021. Consumption of finished steel continued to report m-o-m fall for the fifth consecutive month ended May 2021.

**Chart 1: Steel production and consumption trend (quantity in million tonnes)**

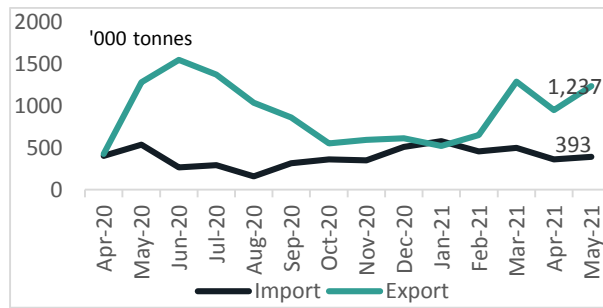


Source: JPC, CMIE

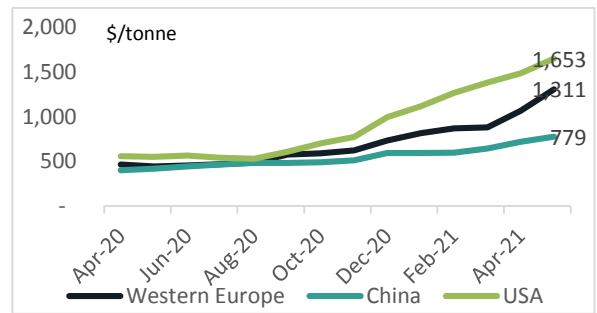
On a cumulative basis, steel production and consumption saw exponential growth during Apr-May FY22 vs corresponding period of the previous year as can be seen in the above chart 1. This was mainly a low base effect as steel production and consumption had fallen significantly by 48-60% during Apr-May FY21 due to the nationwide lockdown which had brought most business and industrial activities, barring few essential ones, to a complete halt. Crude steel capacity utilisation rate had fallen below 30% during this period. The removal of restrictions led to rebound in domestic steel demand during the second half of FY21. However the resurgence of coronavirus seems to have faltered the recovery during the first two months of FY22. Diversion of oxygen for treatment of covid patients by steel mills have slowed down steel production and therefore production continues to remain lower than that in the corresponding period of FY19 or FY20. Besides, the imposition of localised lockdowns also hit demand from several user industries such as automobiles and consumer durables. While domestic demand weakened due to the localised lockdown demand from the export market remained robust. Export of finished steel jumped 30% in May 2021 over the previous month. Share of export in total finished steel production increased up to 15% from 11% in the preceding month. Exports to Italy, Turkey, Spain, Hong Kong and Nepal from India has risen sharply in recent months due to sharp rise in international steel prices.

**Chart 2: Trend in import and export of finished steel**

**Exports northward bound**



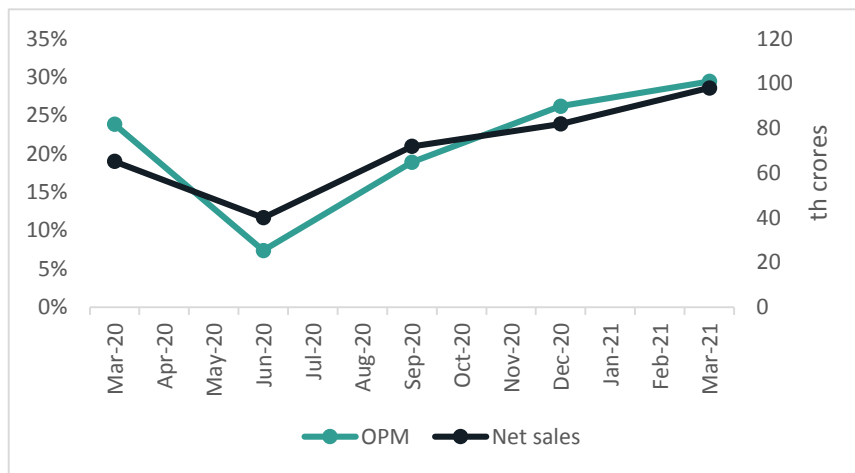
**Higher international prices, dull domestic demand drive exports**



Source: Steelbenchmarker, JPC, CARE Ratings

Domestic steel prices continue to remain at least at 15-20% discount to the international steel prices. This coupled with fall in domestic demand gave impetus to exports from India. Localised lockdown has also slowed down construction activities. To offset the slowdown in domestic demand steel companies have increased exports during the month.

**Financial Performance of Steel sector**



Source: Ace Equity, note: Sample size – 33 companies

After a sharp fall in the June 2020 quarter due to the Coronavirus led lockdown that disrupted business activities there has been a pick-up in revenue and operating profit of the steel industry. Net sales of the 33 companies in our sample registered a 50% growth in the March 2021 quarter compared with March 2020 on account of higher realisations and volume growth. Operating profit margin had tumbled to 7% in the June 2020 quarter from 24% in the March 2020 quarter however the relaxations in lockdown measures, improved demand and softer coking coal prices led to expansion in OPM in the subsequent quarters and OPM expanded to 29% in the March 2021 quarter.

**Global scenario:**

According to the World Steel Association, crude steel production for the 64 countries reporting to it was 169.5 mt in April 2021, 23.3% higher compared with April 2020. Global crude steel production had fallen 13% in April 2020 due to the Covid-19 pandemic led disruptions. Compared with the preceding month of March 2021, production was up by 0.2% in April 2021.

The highest yoy growth in production was registered by India at 152.1% due to near complete nation-wide lockdown in the corresponding month of 2020 which had led to a sharp 65.2% fall in steel output in April 2020. China continues to remain the largest steel producer with a share of 57.8% in April 2021. China produced 97.9 mt of crude steel in April 2021, 13.4% higher yoy. China was the only country to have reported growth in production in April 2020 at 0.2%.

Japan, third largest crude steel producer, registered 18.9% yoy growth at 7.8 mt. USA's crude steel production jumped 43% to 6.9 mt in April 2021. Russia and South Korea registered 15% growth in production.

**To conclude:**

- Domestic demand for steel had picked up pace in the second half of FY21 however the second wave of coronavirus has mildly hit demand from certain sectors. We expect domestic demand to be lower in the Q1FY22 however in Q2 demand is expected to return with unlocking of restrictions. Capacity utilisation rate of user industries will start to improve as more people get vaccinated and return to work in the coming months thereby pushing steel demand. Steel producers are likely to cover up the lost production in the subsequent months and therefore there is no change in our annual crude steel output forecast of 9-11% growth for FY22.
- Domestic steel prices continue to remain at a sharp discount to international steel prices which indicates there is room for further price hike.

**Contact:**

**Madan Sabnavis**  
**Rashmi Rawat**  
**Mradul Mishra**

Chief Economist  
Lead Analyst – Industry Research  
(Media Relations)

madan.sabnavis@careratings.com  
rashmi.rawat@careratings.com  
mradul.mishra@careratings.com

+91-22-6837 4433  
+91-22- 6837 4405  
+91-22-6754 3573

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**CARE Ratings Limited**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,  
Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

