

Demand Surges in 2023, Prices to Rise on High Input Costs

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Synopsis

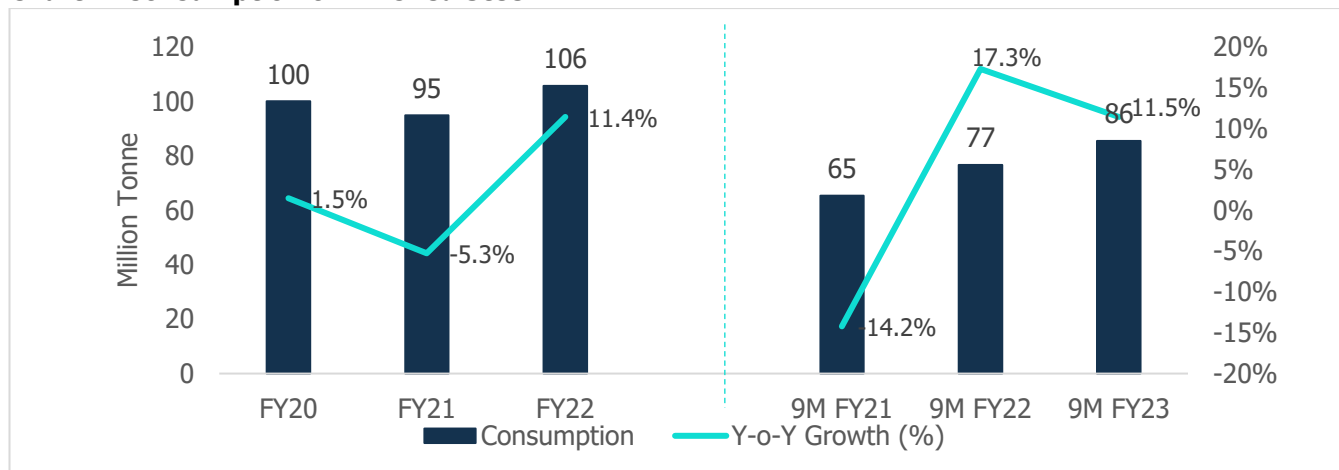
- The domestic steel production and consumption grew by 5.7% and 11.5%, respectively, on a year-on-year (y-o-y) basis during the first nine months of FY23 (April-December).
- Steel exports declined sharply by 54% y-o-y in 9M FY23 due to weak global demand and an export duty of 15% imposed on steel products from May 2022 to November 2022. India became a net importer of steel with a 38% decline in exports y-o-y during Q3FY23. During the same period, imports grew by 70%.
- In November 2022, the government has withdrawn the export duty on steel products, iron ore lumps and fines (less than 58% iron content) and iron pellets, while the export duty of iron ore lumps and fines (more than 58% iron content) has been reduced from 50% to 30%. The reversal of the export duty hike is expected to boost the Indian exports of steel products in the near to medium term.
- International steel prices are expected to remain elevated due to high input costs, primarily iron ore and coking coal, and the ongoing geopolitical crisis. Domestic prices are also demonstrating an upward trend in line with global prices supported by healthy domestic demand.
- “The domestic steel demand growth will be healthy at 10-12% in FY23, driven by continued thrust on infrastructure development and pick-up in the real estate and construction activities amid an overall economic revival. While the exports declined sharply in 9MFY23, the recent withdrawal of export duty on steel products and iron pellets as well as a reduction in the export duty of iron ore lumps and fines is expected to reverse this trend with the full impact expected by early FY24. The operating profit margins of the steel players will see a contraction in FY23 from the peak of FY22, on account of elevated input costs specifically iron ore and coking coal,” Tanvi Shah, Director, CareEdge Advisory & Research, said.

Momentum in Steel Consumption Continued during 9M FY23

During 9M FY23 (April-December), the crude steel production and finished steel production had increased by 5% and 5.7%, respectively, on a y-o-y basis. Domestic consumption increased by 11.5% y-o-y to 86 million tonnes during this period. India’s steel consumption was at 106 million tonnes in FY22, up from 95 million tonnes in FY21, an increase of 11.4% 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.

CareEdge Research estimates India’s steel production to be in a range of 117-119 million tonnes, a growth rate of 3-5% in FY23. Moreover, the consumption growth rate is expected to be healthy at 10-12% in FY23, backed by a pick-up in investment in the infrastructure sector and policy support by the government. The healthy domestic demand outlook is likely to benefit steel players. To serve the growing domestic demand, local steel production will grow backed by sustained high capacity utilisation levels.

Chart 1: Consumption of Finished Steel



Source: CMIE, CareEdge Research
 Note: 9M period refers to April to December

The Government’s thrust towards infrastructure projects is majorly contributing to the rise in steel demand 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 various infrastructure sectors such as roads, railways, airports, ports, mass transport, waterways and logistic infra, an increase in capex allocation by 38% y-o-y by central public sector enterprises, and government initiatives to support the steel production will continue to augment the domestic steel demand in the industry.

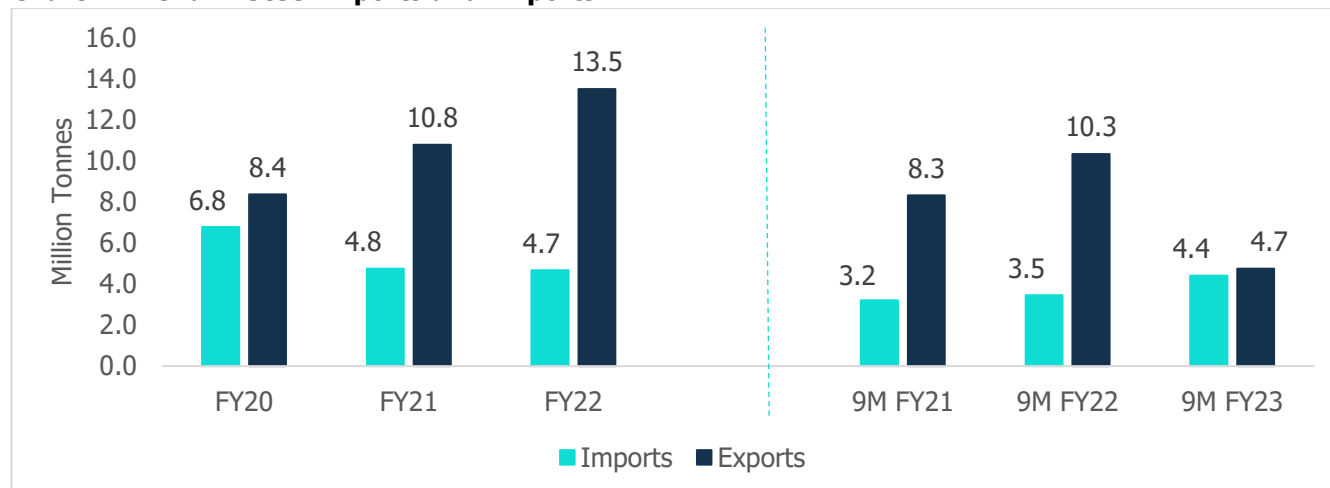
The demand in the international market is expected to remain subdued in the near term due to a weak external environment globally amid high inflation, rising interest rates, and soaring energy prices.

Exports Fell Sharply in 9M FY23

India exported a record high of 13.5 million tonnes of steel in FY22, helped by the China plus one strategy adopted by players globally and an uptrend in global steel prices and higher demand from the European nations.

Exports witnessed a reversal in trend during the first nine months of FY23 (April-December), after witnessing an upward trend in 3 consecutive years i.e., FY20, FY21 & FY22. Steel exports declined sharply by 54% as compared to the same period in the previous year. This was mainly because of weak international demand, continued geopolitical tensions and inflationary headwinds globally. Further, a 15% export duty imposed by government on steel products also affected exports from India from May 2022 to November 2022.

On the other hand, the imports have increased by 27.4% to 4.4 million tonnes in 9M FY23 from 3.5 million tonnes over the same period in FY22. This can be attributed to the rise in low-cost imports from Russia and the fall in international prices. India mainly imports special-grade steel which is witnessing good traction in domestic marking leading to growth in imports.

Chart 2: Trend in Steel Exports and Imports

Source: CMIE, CareEdge Research

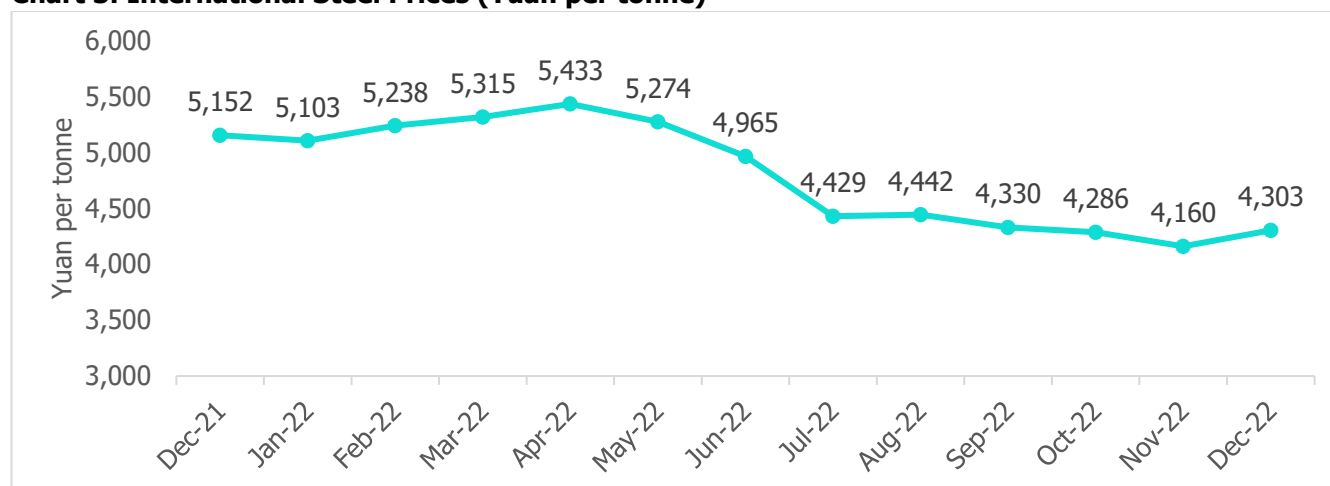
Note: 9M period refers to April to December

In Q3 FY23, India became a net importer of steel with imports growing by 70% and exports declining by 38% y-o-y. The outbound shipments in November 2022 dropped to 338 thousand tonnes, the lowest in the last 5 years.

In order to boost the exports of iron ore and steel products, the Government, in November 2022, has withdrawn the export duty on steel products, iron ore lumps and fines (less than 58% iron content) and iron pellets. Similarly, the duty on iron ore lumps and fines (less than 58% iron content) has been reduced to 30% from 50%. The sharp reversal in steel trade in 9M FY23 led to the removal of export duty on steel products by the government and the full impact of the duty removal is expected in export volumes by early FY24.

Steel Prices Likely to Inch Up on Global Demand Revival

International steel prices remained high in March 2022 and April 2022, mainly due to the Russia-Ukraine crisis. The prices, however, started declining from May 2022 and fell to Yuan 4,160 per tonne in November 2022. (1 Yuan = Rs 12.05 as on January 18, 2023) In December 2022, steel prices increased by 3.4% m-o-m to Yuan 4,303 per tonne and are expected to rise in the near term due to elevated input costs specifically iron ore and coking coal.

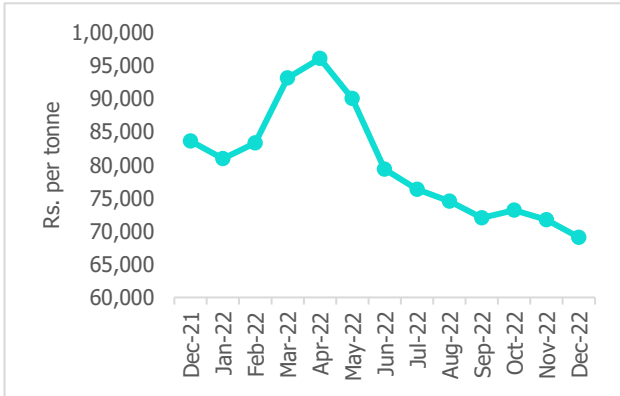
Chart 3: International Steel Prices (Yuan per tonne)

Source: CMIE, CareEdge Research

The average domestic 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 69,084 per tonne in December 2022, a decline of 17% on a y-o-y basis. The export duty imposed on a range of finished steel products resulted in lower exports which caused

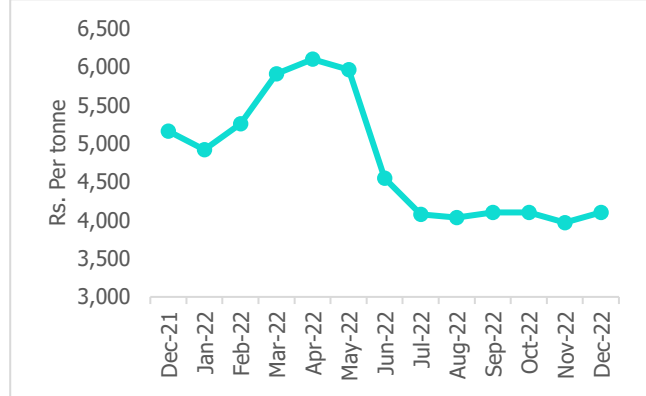
a build-up in domestic inventories. The international prices were also on a declining trend on account of weak global demand. Moreover, the prices of iron ore have softened by about 20.6% to Rs. 4,100 per tonne in December 2022 as compared to Rs. 5,964.50 per tonne in May 2022, due to increased domestic supply in light of a hike in duty on iron ore exports to 50% since May 2022. These factors in turn resulted in a decline in domestic steel prices.

Chart 4: Domestic Average Finished Steel Prices



Source: CMIE, CareEdge Research

Chart 5: Domestic Iron Ore Prices



Source: CMIE, CareEdge Research

Following the reduction in export duty on iron ore, domestic prices are expected to increase. In January 2023, NMDC hiked the prices for iron ore lumps and fines to Rs. 4,300 per tonne and Rs. 3,410 per tonne from Rs. 4,100 per tonne and Rs. 2,910 per tonne, respectively. The domestic steel prices are expected to directionally follow the global prices and strengthen due to continued strong domestic demand and increase in input prices.

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