

Steel Update April 2021

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India's steel production and consumption saw exponential growth of 141.7% and 516.4%, respectively in April 2021 compared with April 2020. However this was mainly due to low base effect as production and demand for steel were severely hit in the corresponding month of 2020 when nationwide lockdown was imposed due to the coronavirus pandemic.

On a monthly basis, the pace of steel production slowed down in April 2021 to 7.9 million tonnes (mt) after hitting 10 mt in March 2021 and 9.1 mt in February 2021. This translates into a 20.6% m-o-m fall. Steel production in April 2021 was the lowest since June 2020. Similarly, production of finished steel also reduced to 7 mt in April 2021 from 9.1 mt a month earlier. Consumption too fell by 25.7% m-o-m.

The rising coronavirus cases across the country, *labour exodus and the diversion of liquid oxygen to hospitals for covid patients have impacted steel production during the month.*

Table 1: Domestic steel production and consumption in April 2021

	Qty in '000 tonnes	Y-o-y change	M-o-M change
Crude Steel			
Production	7,958	141.7%	-20.6%
Finished steel			
Production	7,010	346.2%	-23.2%
Import	364	-10.6%	-27.2%
Export	951	121.7%	-26.4%
Apparent consumption	6,725	516.4%	-25.7%

Source: JPC

Integrated steel producers have their own captive oxygen plants for steelmaking. The rising coronavirus cases in the country and the shortage of oxygen cylinders has necessitated some industries including steel and oil to divert liquid oxygen to the hospitals for covid patients. Steel mills producing steel through Blast Furnace/Basic Oxygen Furnace route are giving priority to supplying liquid oxygen for medical aid. As per the Ministry of Steel, both public and private sector steel plants have ramped up daily production capacities, including through diverting liquid nitrogen and argon production capacity towards production of additional quantities of Liquid Medical Oxygen (LMO). Integrated steel producers including SAIL, RINL, Tata Steel Ltd, AMNS India, JSPL, and JSW Steel have ramped up LMO supplies to over 4,473 MT/day from 538 MT/day as on April 1, 2021, according to Ministry of Steel.

In April 2021, crude steel output by integrated producers - Tata Steel, JSW Steel, JSPL, RINL and SAIL fell by 14% m-o-m to 5.2 mt while output from the secondary steel producers fell by a steep 30% to 2.8 mt compared with March 2021. The secondary and smaller steel producers who were already impacted to a much greater extent by the pandemic and the increase in iron ore prices were further hit by the oxygen shortage.

Monthly change in crude steel production of integrated and secondary steel producers

	Mar-21	Apr-21	M-o-m growth
Tata Steel Ltd.	1,690	1,534	-9%
Steel Authority Of India Ltd.	1,625	1,230	-24%
Rashtriya Ispat Nigam Ltd.	537	471	-12%
Jindal Steel & Power Ltd.	730	550	-25%
J S W Steel Ltd.	1,446	1,371	-5%
Others	4,000	2,802	-30%
Total steel production	10,028	7,958	-21%

Source: JPC

Steel Prices:

Domestic flat steel prices continued to trend higher for the 11th consecutive month in May 2021. Domestic HRC prices average Rs 63,633 per tonne in May 2021, 9% higher than the previous month and 75% higher yoy. Domestic flat steel prices have risen due to bullishness in the international steel and iron ore prices. Stimulus by major economies are pushing up the demand for steel. The Chinese HRB price was up at \$805 per tonne in May 2021, up 10% over the previous month and 91% higher than the corresponding month of 2020. Western European HRB price for May 2021 was up at \$1,278, 19% higher than April 2021 and 188% higher than the corresponding month of the previous year. The United States HRB price was up at \$1,627 for the ninth consecutive month as on May 2021.

Iron ore prices hit \$ 230 per tonne in recent weeks topping the record \$ 194 a tonne hit more than a decade ago. Iron ore prices are up 140% yoy. This followed the introduction of production curbs in Tangshan, China's top steelmaking city, as part of pollution crackdown. However, the move only served to push up steel prices in China and profit margins which mills in other parts of the country where there are no restrictions have seized on. China's crude steel production hit an all-time high in April 2021 at 97.9 million tonnes, up 15% yoy. During Jan-Apr 2021 China produced 374.6 million tonnes of crude steel, up 16% compared with the corresponding period of 2020. China accounts for 2/3rd of total seaborne trade of iron ore and is the largest importer of iron ore. High demand from China and lower supply is causing iron ore prices to soar to record highs.

Higher international prices also encouraged Indian miners to step up exports. Iron ore exports from India jumped 57.6% in FY21 after a 126.8% growth in FY19. India exported 57.7 million tonnes of iron ore in FY21, out of which 52 million tonnes were shipped to China alone. The balance 2 million tonnes were exported to Japan and 0.65 and 0.6 mt were directed to South Korea and Indonesia, respectively.

Concluding remarks

Domestic market:

Integrated steel plants store almost 30% of oxygen in liquid form as safety stock. This safety stock can be easily diverted for medical aid and therefore the impact on production will be limited. Steel mills have reduced their safety stocks to just half a day instead of the normal requirement of 3.5 days in their storage tanks to meet the rising demand.

However the steel mills are currently not focussing on ramping up steel production aggressively but rather they are increasing oxygen supply to divert them to hospitals for Covid affected patients. This is likely to negatively impact the output of steel producers over the short-term till the oxygen supply from medical oxygen producers are ramped up. Secondary and smaller steel players who account for 40-45% of total steel production are expected to be impacted to a greater extent as they do not produce their own oxygen. The output of secondary steel players may see double digit fall in the short-term due to the oxygen crisis and labour shortage due to the second wave of Coronavirus. However, we expect the steel producers to cover up the lost production in the subsequent months and **therefore the annual crude steel output forecast of 9-11% growth for FY22 does not change materially as of now.**

The Chinese government is discouraging export of steel in a bid to shore up supply at home. In April 2021, China announced that they would end export tax rebates for most of the steel products. They have also cut import tariffs for some steel products. This move is likely to benefit the domestic integrated steel producers by bringing down imports while at the same time it encourages exports to China.

Contact:

Madan Sabnavis

Author: Rashmi Rawat

Mradul Mishra

Chief Economist

Deputy Manager – Industry Research
(Media Contact)

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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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 :

