

Demand for Steel Set to Stay Robust in Near-term

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Overview

The steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a year-on-year (y-o-y) basis in FY22. CareEdge Research believes the medium-term steel demand will continue to be robust due to the government's infrastructure push and increased investments amid an overall rebound in the Indian economy.

Steel exports remained robust for the third straight year and increased by 25.1% during FY22 after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry, an uptrend in global steel prices and higher demand from European nations led to the increased shipments from India.

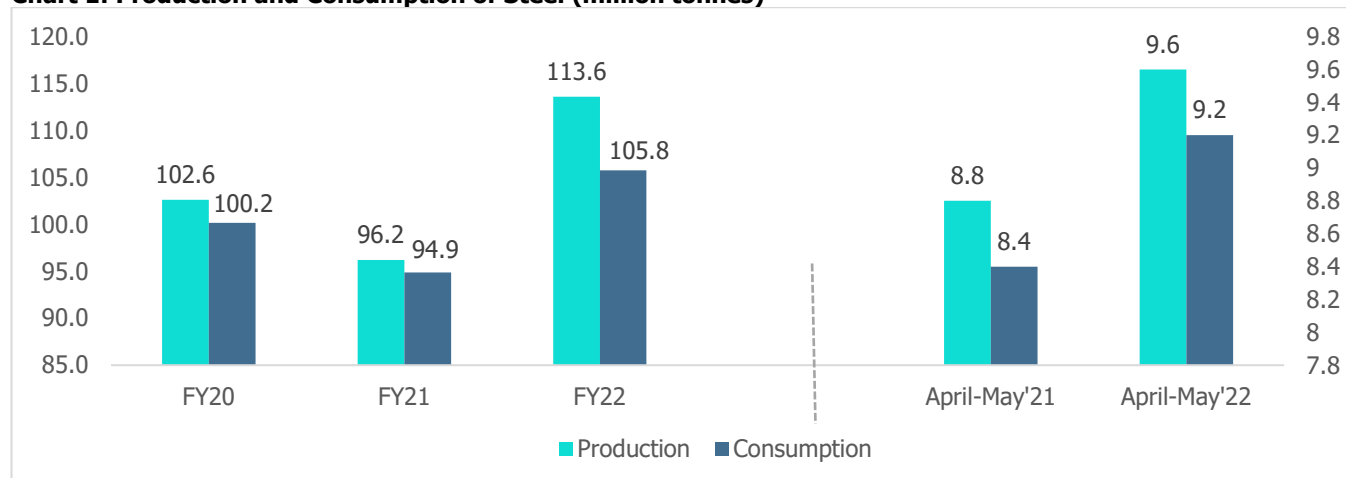
International steel prices were on an uptrend and rose significantly to upwards of USD 1,200 per tonne in March 2022 due to the geopolitical tensions around Russia. Increased international steel prices led to significantly higher export volumes, which in turn led to an increase in domestic steel prices. Given the rise in steel, prices have an adverse impact on infrastructure push and a secondary impact on inflation, the government, in May 2022, imposed a 15% export duty on a range of finished steel products - making exports less attractive. Also, the import duty on various raw materials (like coking coal, iron-ore, ferro-nickel) was reduced. This will likely improve domestic steel availability as well as soften the domestic steel prices.

FY23 Starts with Increase in Steel Production and Consumption

The domestic steel production was at its highest at 113.6 million tonnes in FY22 (up from 96.2 million tonnes in FY21), an increase of 18.1% (y-o-y) on account of the revival in economic activities and low-base effect. During April and May 2022, the production grew by 9.1% to 9.6 million tonnes as compared to the same period of FY22.

CareEdge Research estimates India's steel capacity utilisation at around 79% for FY22 (on an estimated installed production capacity of around 144 million tonnes). The robust steel demand outlook is likely to lead to continued high-capacity utilisation for the sector over the medium term.

Chart 1: Production and Consumption of Steel (million tonnes)



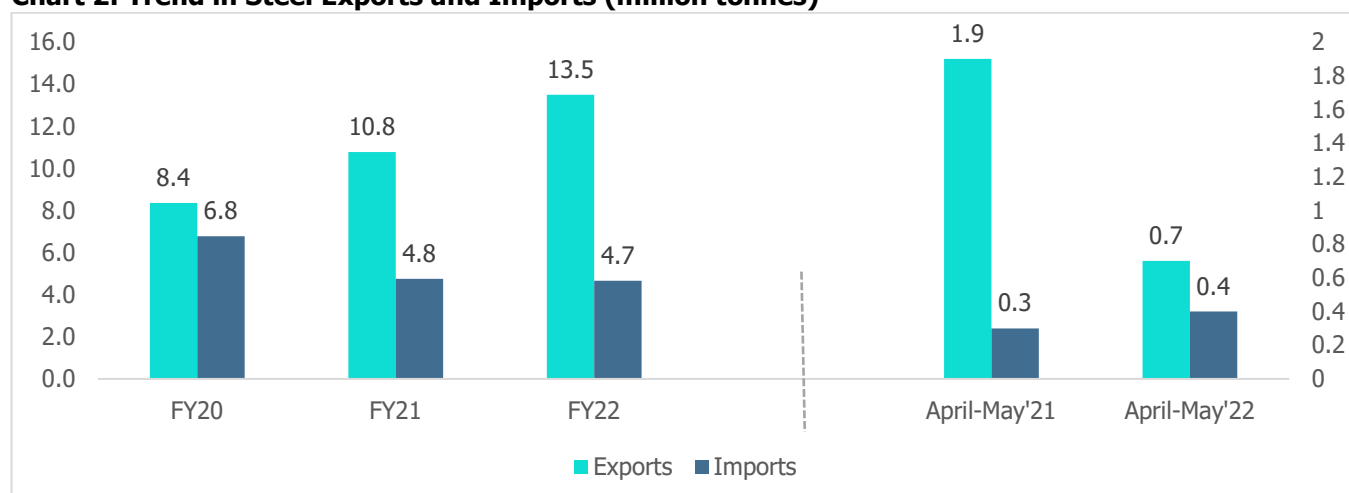
Source: CMIE

India's steel consumption was at 105.8 million tonnes in FY22, up from 94.9 million tonnes in FY21, an increase of 11.4% y-o-y on account of increased consumption by the government on developing infrastructure as well as the resumption of economic activities and construction work on low-base effect. During April and May 2022, the consumption grew by 9.5% to 9.2 million tonnes as compared to the same period of FY22.

Steel Exports Witness Reverse Trend

India exported a record high of 13.5 million tonnes of steel in FY22 and continued to remain a net exporter. Exports from India grew at a healthy CAGR of 27% from 8.4 million tonnes in FY20 to 13.5 million tonnes in FY22 led by international factors like environmental concerns surrounding China's steel industry, and an uptrend in global steel prices and higher demand from European nations.

Chart 2: Trend in Steel Exports and Imports (million tonnes)



Source: CMIE

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, which was driven by improved capacity utilisations as well as on-streaming of large capacities that were acquired by incumbents through bankruptcy proceedings.

During the year 2020, higher raw material prices of steel in China increased China's dependency on Indian steel which, in turn, augured well for steel exports from India. To support China's domestic steel market, the Chinese Government removed export rebates on various steel products in April 2021.

The exports to Europe (Italy, Turkey, Belgium, Spain, Netherlands and United Kingdom) increased by 91.4% to 4.6 million tonnes in FY22 compared to the previous year FY21. As a result, the combined market share of European countries in exports from India expanded from 19.9% in FY21 to 29.8% during FY22.

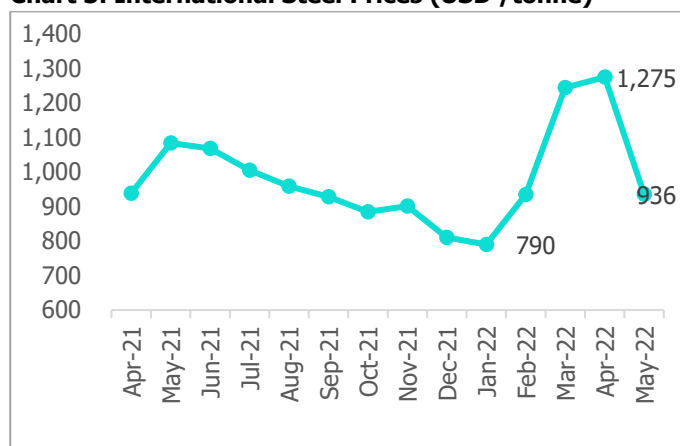
Exports, however, witnessed a reversal in trend during the first two months (April-May 2022) of FY23 and declined by a sharp 63.2% to 0.7 million tonnes compared to the same period in the previous year. This was mainly because of weak international demand, continued geopolitical tensions around Russia and better domestic demand from the Indian steel industry.

Trend in Steel Prices

During FY22, international steel prices averaged at USD 962 per tonne (Rs. 71,700 per tonne), which was higher than the domestic prices of Rs. 65,085 per tonne. This, in turn, encouraged Indian steel players to increase exports of steel from India.

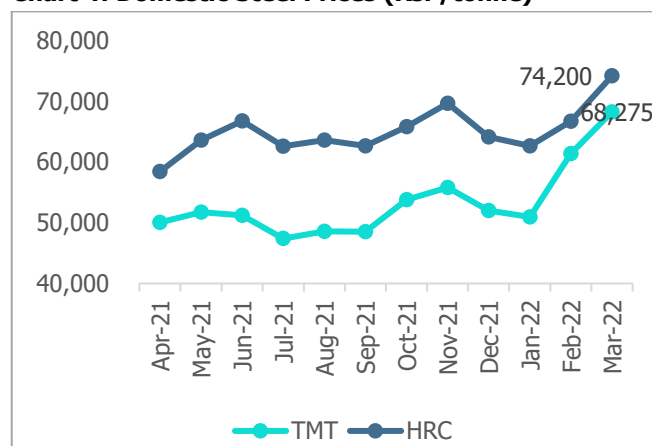
International steel prices were on an uptrend and rose significantly to upwards of USD 1,200 per tonne in March and April 2022 due to the geopolitical tensions around Russia. The prices, however, declined by 27% to USD 936 per tonne in May 2022 due to weak international demand.

Chart 3: International Steel Prices (USD /tonne)



Source: Industry Sources

Chart 4: Domestic Steel Prices (Rs. /tonne)



Source: Industry Sources

Given the significant increase in domestic steel prices, the government on May 21, 2022, imposed a 15% export duty on a range of finished steel products - making exports less attractive. In addition to this, the import duty on steel raw materials was cut – leading to a lowering in the cost of domestic steel production as well as domestic capacity utilisations. This is likely to enhance the availability of steel in the domestic market.

Outlook

The imposition of export duty will lead to a de-growth in exports from India for FY23. The reduction in import duty on various raw materials will help reduce domestic steel prices in India and encourage domestic production.

Steel production in India will be driven by:

- An increase in allocation of capex by 36% y-o-y at Rs. 7.5 lakh crore in Union Budget 2022-23.
- The budget has infrastructure push towards seven engines (roads, railways, airports, ports, mass transport, waterways and logistic infra).
- Approval of Production Linked Incentive (PLI) Scheme for specialty steel.
- Pradhan Mantri Awas Yojana (PMAY) scheme.
- Jal Jeevan Mission.

Apart from these, a revival in economic activities will also support domestic steel consumption and will aid steel production in India.

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