

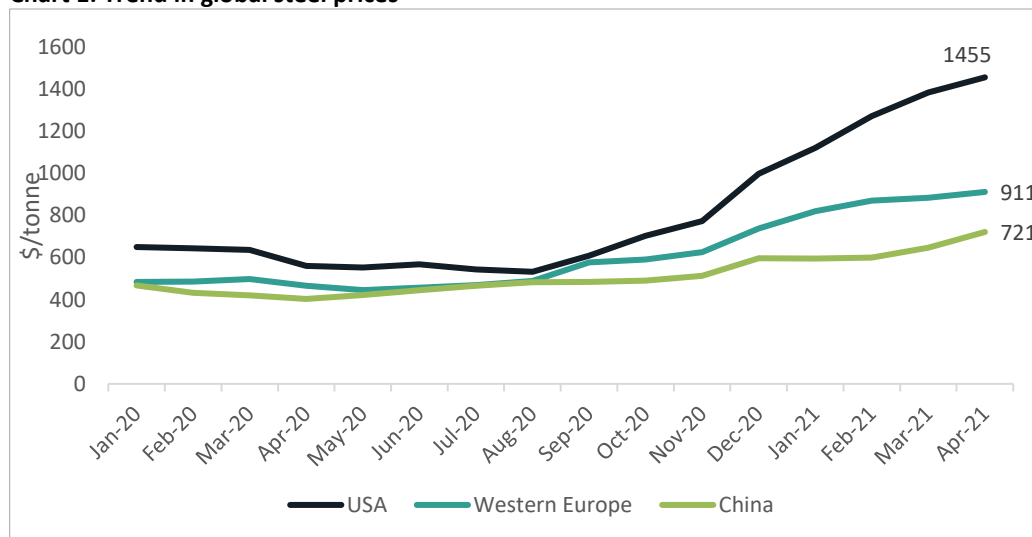
Steel Industry Update FY21 and Outlook FY22

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The second half of the covid-struck financial year 2020-21 saw an unprecedented rally in domestic steel prices which seems unstoppable even in the current FY22. Domestic flat steel - Hot Rolled Coiled (HRC) prices are up 40% since April 2020 and prices of long steel – TMT are nearly 30% higher as on March 2021. Steel prices continue to set new record highs month after month. In April 2021, domestic steel players announced further price hikes by up to Rs 1,000-2,000 per tonne in HRC and around Rs 3,000 per tonne in CRC. HRC are offered at Rs 59,700-60,000 per tonne in April 2021, up from Rs 36,950 per tonne in April 2020. This is the highest level seen since 2008, the year of the financial crisis.

The up-cycle in domestic steel prices is supported by the bullish trend in the global steel prices and revival in domestic demand. The rally in global steel prices were initially driven single-handedly by China until other large economies like USA and Europe came roaring back to the market armed with stimulus checks which resulted into demand outpacing supply. Sellers who idled capacities due to the pandemic earlier has been slow to ramp up post lockdowns.

Chart 1: Trend in global steel prices



The market that has witnessed the highest jump in steel prices is USA. Steel prices of HRC (FOB) in USA are up 160% y-o-y at \$ 1,455 per tonne in April 2021, surpassing high of \$ 1,100 per tonne in 2008. HRC prices in Western Europe are up 96% y-o-y at \$ 911 per tonne in April 2021. In China, prices are around \$ 721 per tonne, up 79% since a year-ago. Comparatively, Indian HRC prices are around \$ 821 per tonne, nearly 44% lower than steel prices in USA. This means that despite the 25% tariff barrier it is still attractive to export to USA. And indeed this has led to spike in exports. In March 2021, finished steel exports from India jumped 125% y-o-y and was almost double the quantity shipped in February 2021. Exports to European countries like Italy, Belgium and Spain have gathered momentum in the past few months due to higher export realisations

Trade scenario in FY21:

During FY21, export of finished steel from India was higher by 29.1% at 10.8 million tonnes as compared to export during FY20, mainly driven by China. Share of export to Italy rose to 22% in March 2021 from 12% in March 2020. Share of export to Spain and Hong Kong rose to 5% and 10%, respectively from just under 1% in March 2020. India was net exporter of finished steel during FY21 with net trade surplus of six million tonnes.

Import of finished steel at 4.8 mt was lower by 29.8% over the previous year.

Chart 2: Trend in Import and Export of Finished Steel



Source: JPC, CMIE

Steel production and consumption in FY21:

India’s production of crude steel and finished steel fell by 5.9% to 103 million tonnes and 7.3% to 95.1 million tonnes in FY21, impacted by the Covid-19 pandemic which hampered production mainly in Q1FY21. However, the domestic steel industry made a quick recovery in the second half of FY21 riding on the back of higher international steel demand and revival in domestic demand.

By Q2 domestic crude steel production reached 96% of pre-covid levels and by Q3 production was 7.5% higher yoy. In Q4FY21, crude steel production increased by 7.4% as manufacturer’s ramp up output in a seasonally strong quarter. Moreover, Q4FY20 output was impacted by lockdown imposed by the central government to curtail spread of covid-19 thereby resulting in lower production in March 2020. Consumption of finished fell by 6.7% in FY21.

Table 1: India’s steel scenario during H1FY21 and H2FY21

	Crude steel production	Finished steel consumption
H1FY21	-20.10%	-28.80%
H2FY21	8.1%	16.5%

Source: JPC, CMIE

Outlook for FY22:

In FY22, crude steel production is expected to reach 112-114 million tonnes, which would be a growth of 8-9% yoy. The crude steel production is expected to be marginally higher than FY19 when India produced nearly 111 million tonnes of crude steel. Steel demand will be supported by economic recovery, government spending and enhanced liquidity. The Union Budget for 2021-2022 has a sharp 34.5% yoy increase in allocation for Capex at 5.54 lakh crore. The budget’s thrust is on infrastructure creation and manufacturing to propel the economy. Therefore, enhanced outlays for key sectors like defence services, railways, and roads, transport and highways would provide impetus to steel consumption which is expected to grow by 10-12% in FY22 to cross 100 million tonnes for the first time ever.

An up-cycle in steel prices is expected to continue in FY22. Stimulus package unveiled by various countries will keep demand for steel high. Absence of China from the world export market and higher import of steel from China is one of the major factor keeping steel prices elevated. Continued higher demand from China on the back of stimulus package and the country’s desire to bring down production levels in 2021 to reduce Co2 levels will be an important factor that will strengthen steel prices. Cost push from iron ore prices will remain. Demand-supply imbalance in the global market will also continue to present export opportunities to domestic players.

Contact:

Madan Sabnavis
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

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 :



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