

Steel demand growth lags production in October 2021

19 November 2021 | Industry Research Outlook

Domestic steel production growth continued to lag production for the month ended October 2021. While the overall production of crude steel and finished steel during October 2021 was higher, consumption of finished steel was lower than that registered in October 2020 as well as that registered in October 2019.

Crude steel and finished steel production during October 2021 stood at 9.8 million tonnes (MT) and 9.0 MT respectively, indicating a growth of 8.6% and 8.5% respectively compared with October 2019. Year on year (y-o-y) production of crude steel grew by 2% however finished steel production fell by 1.3%. Consumption of finished steel fell by a sharper 11.9% y-o-y and by 6.2% when compared with October 2019. Low export volumes and high steel prices have impacted domestic steel demand.

Semi-conductor shortage has also led to slow down in demand from the auto and white goods sector. During October 2021, vehicle sales declined by 5.3% y-o-y at 1.4 million as compared to 1.4 million vehicles sold in October 2020 and 1.9 million sales during October 2019, as per the Federation of Automobile Dealers Associations (FADA) data. This was the worst festive season demand seen by the auto sector in a decade.

The demand and supply of steel is expected to improve with rise in economic activity and will also be driven by the infrastructure push of the Government of India (GoI). As the economy comes out of the successive lock-downs imposed due to the pandemic, increased vaccination coverage and with the monsoon season now receding, GoI will resume the construction activities for the various infrastructure projects, leading to increased demand for steel products. The semi-conductor shortage in the auto segment is likely to hurt the demand for flat steel products over the near term.

Table 1: Performance of steel sector in October 2021

| | Million Tonnes (MT) | Growth (Oct 2021 vs. Oct 2020) | Growth (Oct 2021 vs. Oct 2019) | Month-on-month Growth |
|------------------------|---------------------|--------------------------------|--------------------------------|-----------------------|
| Crude steel production | 9.8 | 2.0% | 8.6% | 2.2% |
| Finished steel | | | | |
| Production | 9.0 | -1.3% | 8.5% | 0.0% |
| Imports | 0.4 | 4.4% | -40.0% | -7.6% |
| Exports | 1.1 | 90.1% | 11.1% | -22.1% |
| Consumption | 8.3 | -11.9% | -6.2% | 1.5% |

Source: CMIE

On a cumulative basis, India's production of crude steel and finished steel during the first seven months of FY22 (April to October) remained higher than that achieved during the corresponding period of the preceding years. Consumption of finished steel was higher by 25% when compared with the corresponding period of FY21 however lower by 4.1% when compared with the same period of FY20.

Table 2: Steel production during April to October

| | April 2021 to October 2021 | April 2020 to October 2020 | April 2019 to October 2019 | Growth (2021 vs. 2020) | Growth (2021 vs. 2019) |
|------------------------|----------------------------|----------------------------|----------------------------|------------------------|------------------------|
| | MT | MT | MT | % | % |
| Crude steel production | 66.9 | 53.5 | 64.0 | 25.0% | 4.6% |
| Finished steel | | | | | |
| Production | 62.4 | 48.4 | 59.9 | 28.9% | 4.1% |
| Import | 2.8 | 2.3 | 4.6 | 17.2% | -40.8% |
| Export | 8.8 | 7.1 | 4.9 | 24.1% | 80.3% |
| Consumption | 57.4 | 45.9 | 59.8 | 25.0% | -4.1% |

Source: CMIE

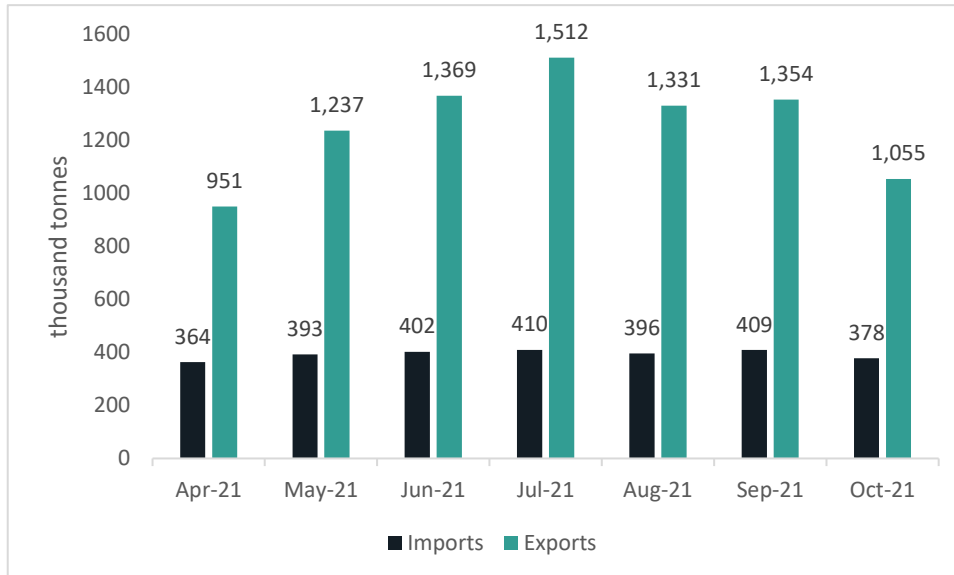
Export/Import trend

As can be seen in the below chart, export of finished steel increased consistently since April 2021 led by higher international steel prices and demand; however, it declined in August 2021 and continued to remain lower than its July 2021 levels during September and October 2021.

Finished steel export volumes from India dropped by 22% m-o-m in October 2021. Competitive offers from rival exporting countries has eaten into the share of Indian finished steel exporters.

Imports have largely remained range-bound during April 2021 to October 2021.

Chart 1: Trend in finished steel import and export



Source: CMIE

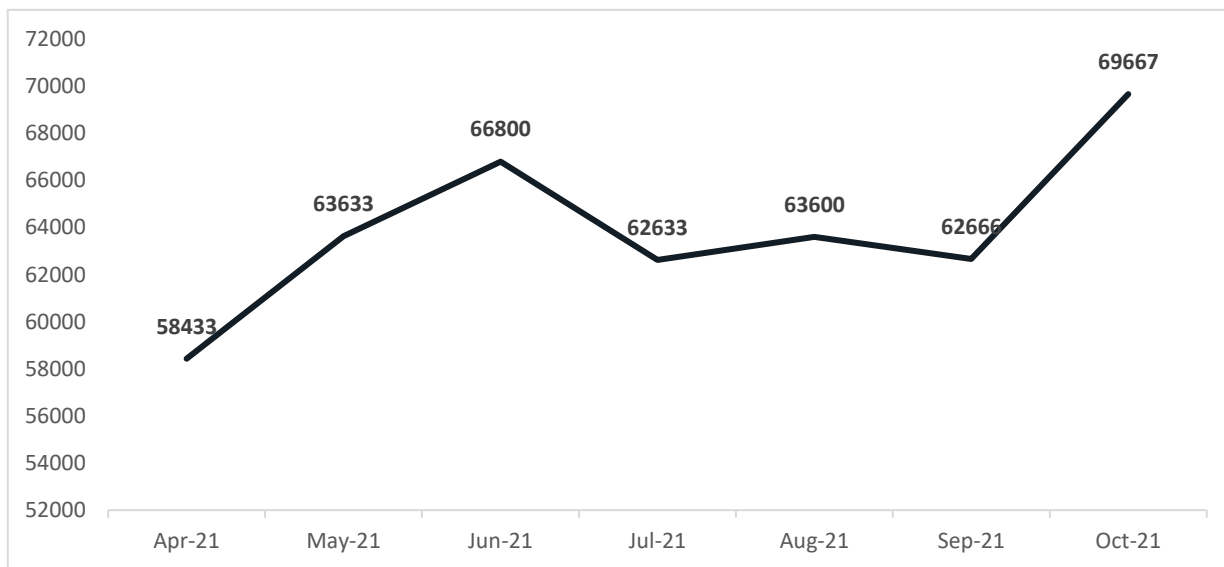
Global crude steel production

According to the World Steel Association, global crude steel production fell 8.9% on year in September 2021 to 144.4 MT, compared to September 2020. This was due to a sharp 21.2% decrease in production in China. Ex-China production rose by 10.3% y-o-y in September 2021. Ex-China crude steel production rose 15.9% y-o-y over January 2021 to September 2021 (9 months period of the current calendar year), outpacing China's growth of 2% over the same period.

Steel prices

Higher coal prices and signs of rebound in demand as Covid-19 imposed lockdowns end have kept steel prices firm. Demand for long steel products remained robust due to healthy demand from the construction sector and therefore prices of TMT bars remained unchanged in September 2021 at an average Rs 48,525 per tonne. Hot Rolled Coils (HRC) prices also zoomed 11.2% to average Rs 69,667 per tonne in October 2021. Steelmakers have decided to pass on the higher coking coal cost to the consumers.

Chart 2: Trend in domestic steel prices (in Rs/tonne)

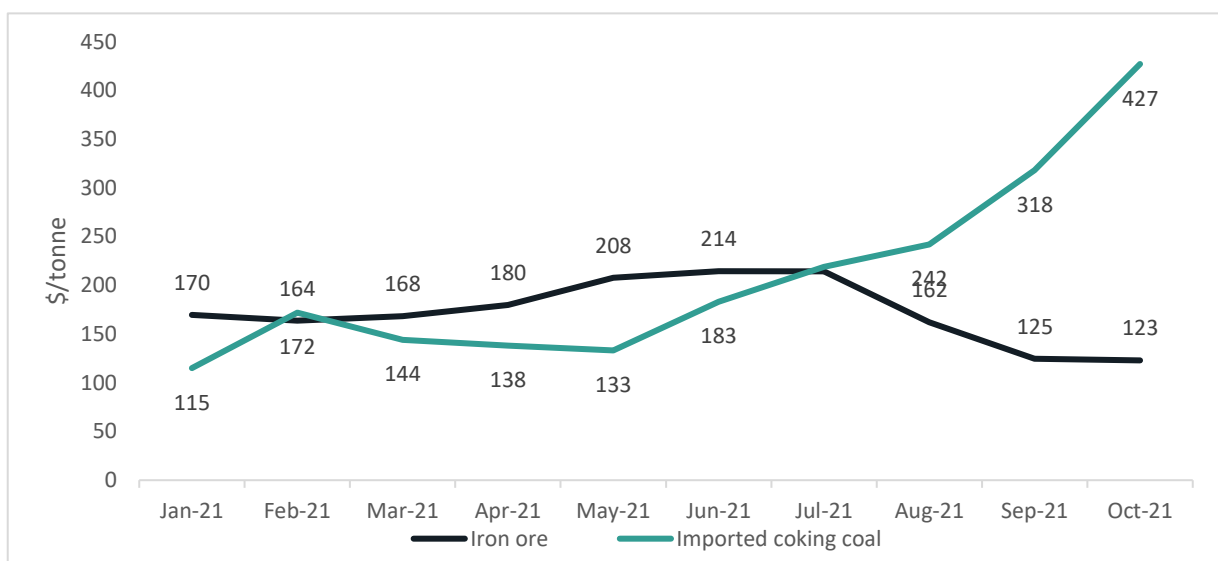


Source: Steel Insights

Raw material price scenario

Iron ore and coking coal are the main raw materials for steel producers. At present, iron ore prices have fallen from a high level, while the prices of coking coal have reached an all-time high.

Chart 3: Trend in International iron ore and coking coal (imported) prices



Source: World Bank

International iron ore prices had hit peak levels of \$ 214 per tonne in June 2021 due to higher consumption by China. However, prices have since cooled off. Global iron ore prices corrected by 1.3% in October 2021 to average \$ 162 per tonne from \$ 122 per tonne in September 2021. This was led by lower demand from China, which is the largest importer of iron ore in the world, as the country is producing less steel to meet its reduced annual emissions goals.

India's largest iron ore producer state-controlled NMDC cut its iron ore prices for the fourth time in October 2021. NMDC lowered its prices by Rs 200 per tonne to Rs 5,950 per tonne for lump with 65.5% ferrous (Fe) content and by Rs 400 per tonne to Rs 4,760 per tonne for 10mm fines with 64% Fe content. When compared to the corresponding month of the previous year, prices are still higher by 72% and 51%, respectively for these 2 grades of ores.

On the other hand, prices of coking coal (imported into India at base price) have surged to \$ 427 a tonne due to demand-supply imbalance, as supply has been unable to keep up with global end-user demand, especially outside of China. Due to China's ban on coal imports from Australia, India is buying coal from Australia while China is mainly buying coking coal from the US market. However, exports from Australia have been interrupted due to safety regulations and logistical issues.

Outlook:

Domestic steel production and consumption remained subdued in Q2FY22 due to the second wave of Covid-19 pandemic imposed lockdowns, the onset of the monsoon season affecting construction activities and the global chip shortage (semi-conductor shortage) affecting demand from the auto sector. However early signs of pick up in overall demand for steel is seen with increased vaccination coverage and lockdown restrictions gets less stringent, demand from the consumer goods segment is likely to witness growth for the festive season and government spending on infrastructure development is expected to pick up. Therefore, with pickup in government’s infrastructure spending and Q4 being the strongest quarter seasonally for the steel industry, H2 of FY2022 is expected to be better than H1 of FY 2022 for the steel industry.

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