

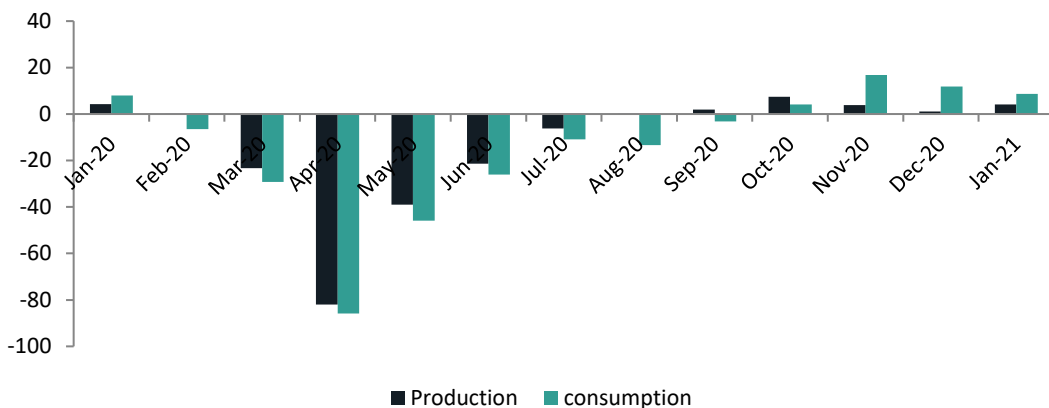
## Steel Industry - February 2021 update

February 24, 2021 | Industry Research

### Steel consumption outpaces production:

Domestic consumption of finished steel has outpaced production for third straight month ended January 2021, giving way to imports. While production of finished steel rose by 4.1% to 9.5 million tonnes, consumption grew by 8.7% to 9.97 million tonnes. Steel consumption returned to y-o-y growth in October 2020 and continued to extend in January 2021 on the back of higher demand from the auto, white goods and construction segments. The continuous increase in consumption has also led to absorption of inventories with the steel producing companies and closing stock of finished steel was 3.8% lower at 10.6 million tonnes at the end of December 2020 than that in the previous month and 18% lower than December 2019.

**Chart 1: y-o-y growth in finished steel production and consumption**



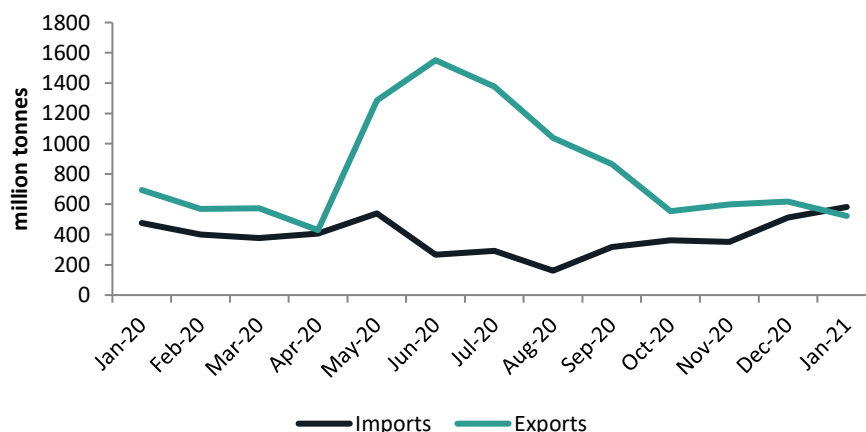
Source: Ministry of Steel

### India turns net importer of finished steel in Jan 2021:

In January 2021, India turned into a net importer of finished steel from a being a net exporter during April-December 2020 and deficit stood at 59 thousand tonnes, as consumption grew faster than domestic production.

During the current fiscal (April – Jan FY21), export of finished steel from India grew by 22.5% while imports fell by 36.8%. India was a net exporter of finished steel until December 2020. However, the gradual unlocking of the economy has led to improvement in overall economic activities leading to improvement in domestic demand for steel. This has resulted in moderation in export whereas imports have risen, in recent months.

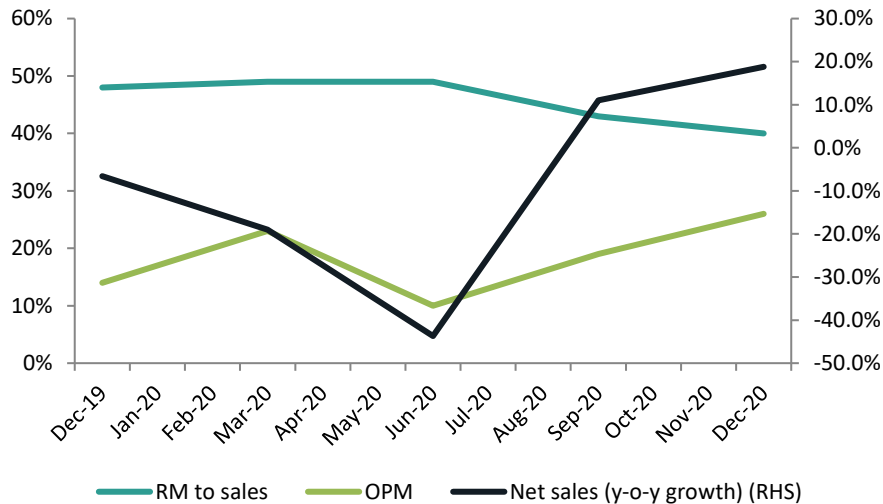
**Chart 2: Trend in import and export of finished steel**



### Financial performance:

The iron & steel industry has seen boost in their gross margins ever since the lifting of lockdown. Higher automotive sales, higher rural consumption on the back of good monsoon and government spending on infrastructure has boosted gross margins of steel companies. The RM cost curve started to taper from Q2FY21 onwards and the industry's sales returned to yoy growth which led to expansion in OPM. We expect expansion in margins to persist on the back of recovery in domestic demand and higher steel prices in Q4FY21. The margins of large integrated steel players would be even better on account of self-sufficiency in iron ore, lower coking coal costs and better fixed-cost absorption due to near-normal utilisation rates.

**Chart 3: Financial performance of iron and steel industry**



Note: sample size of 99 companies, Source: Ace Equity

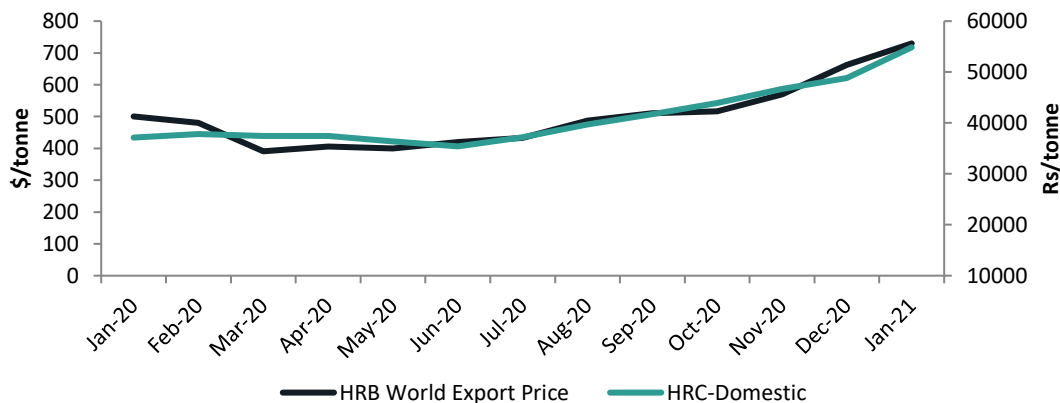
### Trend in prices

Domestic steel prices have seen unprecedented rise over the last seven months. HRC (Hot Rolled Coils) prices have risen to multi-year highs on the back of higher demand for flat products from auto and white goods segment. Domestic steelmakers have raised HRC prices by around 55% since June 2020 to average Rs 54,867 per tonne in January 2021. Long product prices have also picked up in anticipation of pick-up in construction activities post monsoon and festive season. Domestic rebar prices have risen to Rs 37,100 per tonne in Q3 from an average of Rs 32,000 per tonne in the second quarter of FY21.

A sharp correction was seen in long steel prices in first week of February 2021 of about Rs 8,000 per tonne however prices have recovered by Rs 3,000 per tonne on the back of strong demand.

Internationally while a correction was seen in Chinese steel prices, in US and UK prices surged in January and February 2021 due to demand recovery. World HRB export prices have risen 74% since June 2020 to average \$730 per tonne during the first week of February 2021.

**Trend in International HRB and domestic HRC prices**



Source: Steel Insights

### Iron ore prices at 10-year high, volatile coking coal prices:

Iron ore prices have leapt to 10-year high in January 2021 to average \$ 169.6 per and are up 55% since June 2020. China's rapid recovery from the Pandemic led a sharp rise in its iron ore and steel consumption. China's crude steel production grew by 5.2% to 1,053 million tonnes in the pandemic-struck year 2020. China's steel exports fell by 17% on year in CY20 while imports surged 64% on year.

China's customs data also showed that the country imported a record 1.17 billion tonnes of iron ore in 2020 as compared to 1.07 billion tonnes in 2019. While demand for iron ore from China remained strong, supply of iron ore from Brazil, largest supplier was constrained due to severe weather conditions and covid induced restrictions which led to a sharp spike in iron ore prices which in turn led to a surge in steel prices.

While iron ore prices rose to 10-year high, coking coal prices fell to 4-year low in December 2020. Hard coking coal prices declined steadily from \$ 159 per tonne in March 2020 to \$ 102 per tonne in December 2020 due to China restricting imports from Australia. This benefitted India as India imports almost 70% of total coking coal from Australia. However, in January 2021, hard coking coal prices remained quite volatile hitting a high of USD 150 per tonne and a low of USD 114 per tonne as a category Two Tropical Cyclone Kimi emerged near Queensland, Australia which raised supply concerns.

### Outlook for FY21

- *Domestic crude steel production is likely to be about 102 MTs* and de-growth estimated to reduce to around 7% amid continuous ramp up in production levels by steel players.
- Similarly, fall in steel consumption is estimated to be around 8% to about 92 MTs considering that Jan-March is a seasonally heavy quarter for the industry.
- We expect government's thrust on improving the infrastructure of the country and investment in projects such as affordable housing, railway line, metro rail, shipbuilding and oil & gas distribution pipeline projects would boost steel consumption.
- Higher international steel prices and iron ore prices on the back of strong demand from China as well as recovery in domestic demand will keep steel prices firm in Q4FY21.
- After a sharp drop in Q1FY21, the domestic steel industry has reported sharp rebound in margins in the September 2020 and December 2020 quarter benefiting from improving demand and realizations on the one hand and softer coking coal costs on the other hand. Margins of steel companies are expected to show further expansion in the March FY21 quarter.

#### Contact:

**Madan Sabnavis**  
**Rashmi Rawat**  
**Mradul Mishra**

Chief Economist  
Deputy Manager  
(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

*Disclaimer: This report is prepared by CARE Ratings Limited. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis / inferences / views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no financial liability whatsoever to the user of this report*

#### 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:

