

India's steel production continues to stay ahead of USA

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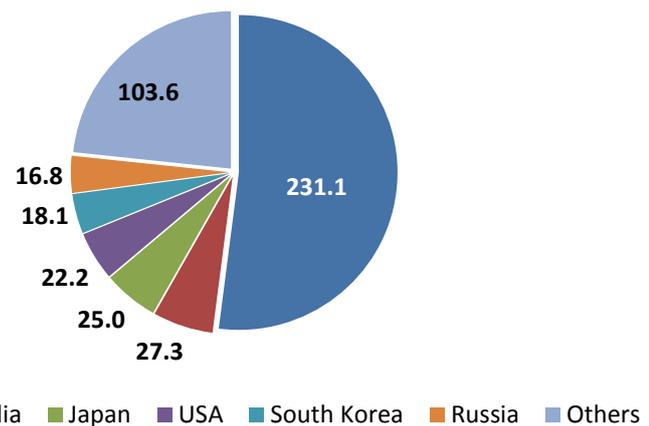
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World crude steel production

Total world crude steel production increased by 4.5% y-o-y to 444.1 million tonnes during the period January-March 2019. Of the total output, China accounted for the single largest share of 52% and the country produced 231.1 million tonnes of crude steel during the period. This was followed by India, Japan and USA and production from these countries stood at 27.3 million tonnes, 25 million tonnes and 22.2 million tonnes, respectively, during the first three months of the calendar year 2019.

Chart 1: Country-wise crude steel production for January-March 2019 (in million tonnes)



Source: World Steel Association

India continues to surpass USA in steel production

India continues to remain ahead of USA in terms of steel production for the fourth year in a row starting from 2015 and retains this position for the current year so far as shown in the table below.

Table 1: Crude steel production of India and USA (in million tonnes)

Year	India	USA	India exceeds USA
2013	81.2	87	-5.8
2014	87.3	88.2	-0.9
2015	89.6	78.9	10.7
2016	95.5	78.5	17
2017	101.5	81.6	19.9
2018	106.5	86.7	19.8
2019 (Jan-Mar)	27.3	22.2	5.1

Source: World Steel Association

In addition to this, India also surpassed Japan to become the second largest steel producer in the world for the first time in 2018 and has maintained this position so far as well.

Reasons that supported steel production in India

The prime reason that supports steel production in India is the growing consumption of steel in the country. India's steel consumption on an average increased at a CAGR of 6.1% during the last five years FY15 to FY19. Low per capita steel consumption of 65.2 kg provides an ample scope of steel demand growth in India.

In addition to this, the government policies have also supported the growth of domestic steel output. In order to reduce imports and to encourage domestic production, the government imposed Minimum Import Price (MIP) in February 2016 and had also announced anti-dumping duty in August 2016 when the country witnessed a surge in steel imports which was extended by two months in February 2017. On a y-o-y basis, India's steel imports had increased by a sharp 71% to 9.3 million tonnes during FY15 which further grew by 25.7% to 11.7 million tonnes during FY16. These measures, in turn, improved steel prices, production and steel companies' profitability (Refer Chart 2) in India during FY17.

Besides, the import penetration rate in India is also low when compared to the penetration rate of USA (refer Table 3). The steel import penetration rate in India averaged at 10.7% during FY11-16 which then reduced and remained in the range of 8%-8.6% in the next three following years as shown in Table 2.

Table 2: Steel import penetration rate in India

	FY11-FY16	FY17	FY18	FY19
Average import penetration (in %)	10.7	8.6	8.2	8

Source: CMIE

Reasons that affected steel production in USA

The main reason for lower steel production in USA during 2015 was a surge in steel imports by USA in 2014. The country's steel imports were at a near-record high of 40.3 million tonnes in 2014 (41.3 million tonnes of steel imported in 2006). USA is the largest importer of steel in the world.

The steel imports by USA have resulted in average steel import penetration of 30.1% during the period 2011-2016 which increased to 33.8% during the year 2017.

Table 3: Steel import penetration rate in USA

	2011-2016	2017
Average import penetration (in %)	30.1	33.8

Source: US Department of Commerce

To reduce the import penetration rate, the latest significant move undertaken by the USA government was introduction of 25% import duty on steel imports in March 2018. This action aided the USA steel industry as it helped improved steel prices and production in the country which, in turn, improved industry's profitability during the year 2018 (Refer Chart 2).

While the production improved on a y-o-y basis in 2018, the steel output in USA could not surpass steel production in India thus allowing India to stay ahead of USA. Slower steel demand in USA is believed to have restricted domestic steel

production in the country. The per capita steel consumption in USA is 301.2 kg. South Korea has the highest per capita steel consumption of 1,106.3 kg.

Profitability of top 3 Indian and USA steel companies

From the charts below it can be observed that trade measures undertaken by the respective country's governments to reduce imports aided the steel companies to post improved performance compared to the previous year when these countries were facing the issue of increase in imports.

The gross profit margin of top 3 Indian companies expanded by 5.6% y-o-y to 16.3% during FY17 when trade measures were undertaken by the government to protect the country from cheap steel imports. Similarly, these companies made profits at EBIT and net level on a y-o-y basis compared to losses posted during the corresponding period a year ago. During FY17, these companies made profits amounting to 9.6% of total income against losses made amounting to 2.9% of total income during FY16. On PAT margin front, these companies registered profits equivalent to 2.8% of total income during FY17 compared to losses reported equivalent to 5.7% of total income during the same period last year.

The profit performance of top 3 USA companies also moved on similar lines. The import tariff that was imposed in March 2018 improved the gross profit margin of these companies by 3.4% y-o-y to 16.6%. Also, the companies' EBIT and net margin expanded in the range of 330-350 basis points to register EBIT margin of 12.1% and PAT margin of 9.3% during CY2018.

Chart 2: Profit margins of top 3 Indian and USA steel companies

Chart 2.1: Gross profit margin

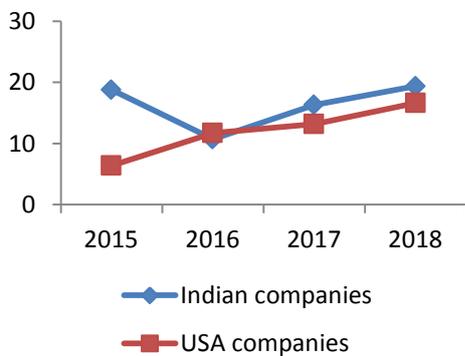


Chart 2.2: EBIT margin

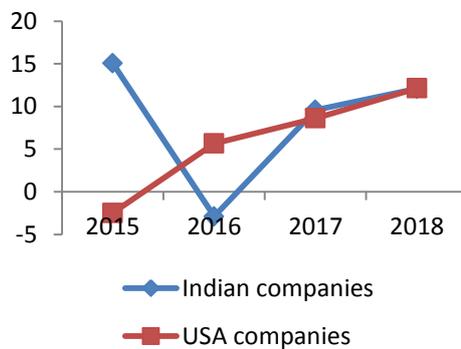
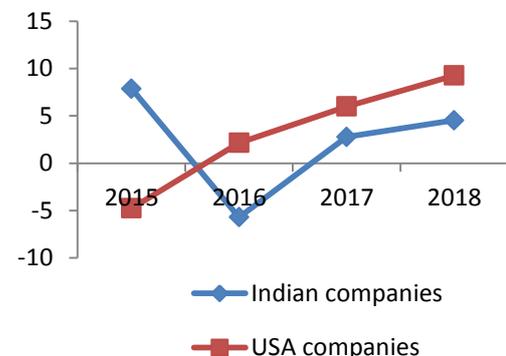


Chart 2.3: PAT margin



Source: Ace Equity and Nasdaq

Note: For Indian companies, the year 2015 represents FY15 and for the US companies the year 2015 represents CY2015. This follows for the other mentioned years as well.

Also, it is be noted that the Indian and USA steel companies made losses at EBIT and PAT level in FY16 and CY15, respectively, when these countries were witnessing a surge in steel imports as discussed in the report.

Concluding remarks

- While the profitability of the Indian and USA steel companies improved when their respective governments' imposed trade measures, the Indian steel industry scored better relative to USA when it came to production thereby retaining the position which India took over from USA in 2015.

- Growth in domestic steel consumption coupled with low import dependency are the prime reasons driving the rise in India's steel output and aiding the country to be ahead of USA in steel production.

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