

Covid-19 undermines push for hike in steel prices

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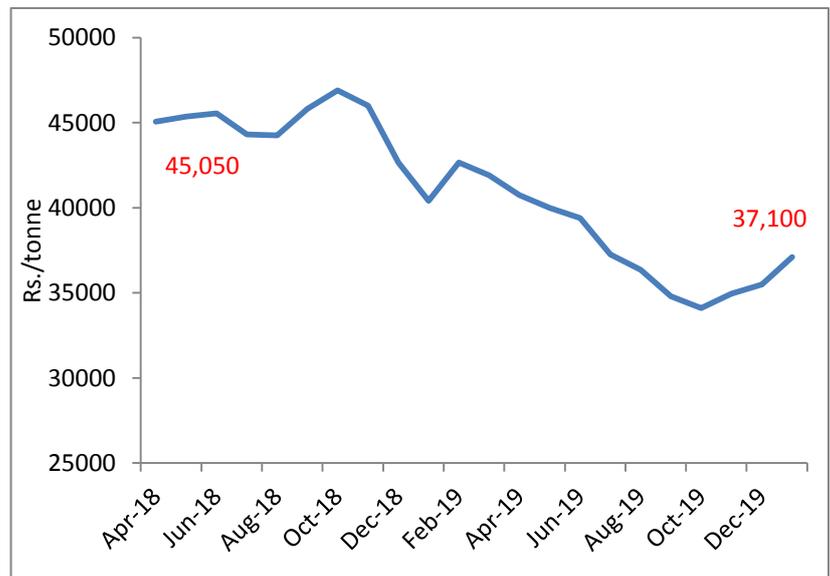
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Steel Prices:

Domestic steel prices rebounded from mid-November 2019 onwards after remaining depressed for most part of the year. Prices revived from mid-November onwards on a sequential basis in line with movement in international prices. Steel companies raised prices on signs of pick-up in demand towards the end of 2019, depleting inventories, restocking and higher raw materials costs. Domestic steel prices during these three months were however sharply lower on a y-o-y basis and were at a discount to the landed cost of imports which gave room to the domestic companies to raise prices. However, as Coronavirus outbreak becomes more pandemic it may put a stop to the rally in domestic steel prices which is already evident in international steel prices which have sharply declined from January highs. The pricing power of domestic steel producers may be impacted going ahead.

Chart1: Movement in domestic steel prices over last 2 years

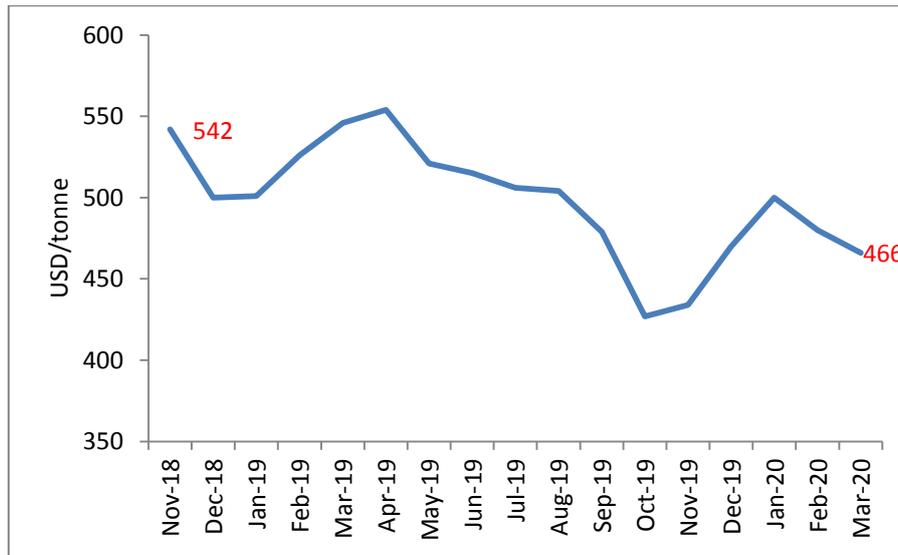


Source: Steel Insights

In 2019, domestic steel prices fell consecutively on m-o-m basis from February 2019 till mid-November 2019. Domestic steel prices averaged Rs 42,650 per tonne in February 2019 and Rs 34,100 per tonne in October 2019.

Domestic steel prices fell sharply and consistently during most of 2019 due to lower demand from the user industries which was attributable to subdued demand from automobile industry and general slowdown in economy. Domestic steel consumption grew by just 3.8% during April-February FY20 after growing by 8.8% in the corresponding period last year.

Chart 2: Movement in International steel prices of HRB



Source: Steelbenchmarker

Domestic steel prices followed the trend in International steel prices which were impacted by the global economic slowdown and trade war between US-China. Prices started to inch upwards from mid-November again in line with the international prices. Over the next three months, prices rose by 9% from the November-lows.

The domestic prices have rallied after hitting bottom in mid-November due to lower inventory levels, restocking demand and expectation of revival in economic growth pursuant to several measures undertaken by the government to boost the economy. Further, the recovery in prices has been supported by increase in raw material prices such as coking coal and iron ore and easing of trade tensions between US-China towards the end of 2019 which has led to increase in international steel prices.

However, the spread of Coronavirus worldwide has led to some pull back in prices. International steel prices started to decline from mid-January onwards. However, steel prices in India have been holding on. From Indian perspective, the disruptions in Chinese steel production is expected to reduce the threat of exports from China to India and to the rest of the world which would provide domestic players an opportunity to increase the domestic prices and strengthen their exports. China had shut down many factories to contain the spread of Coronavirus. Domestic steel producers saw this as an opportunity as they expected to benefit from lower Chinese imports. Domestic steel producers kept raising prices anticipating higher domestic and export demand as supply from China slowed down.

The rising cases of coronavirus across the globe would remain a key variable to monitor as it may impact the demand for globally traded commodities.

The number of cases in China has gone down considerably while it has increased in other parts of the world. Therefore, there is fear of build-up stocks from China entering the world market and further depressing prices. Any supply glut from China due to slowdown in Chinese demand may adversely impact global steel prices due to sizable share of China in global steel production, consumption and seaborne trade. Despite a halt in manufacturing activities to a large extent, China’s crude steel output for January and February rose by 3.1% to 154.7 million tonnes, as per data from the National Bureau of

Statistics (NBS). Much of the steel produced by China is likely to be held in inventories due to lower domestic demand due to the virus and restrictions on trade.

Steel Production

India’s finished steel production grew by just 2.2% to 94 million tonnes during April-February FY20 due to lower demand mainly from automobiles and consumer goods segment. Import of finished steel fell by 10.4% during April-February 2020 compared with last year.

Chart3: Trend in domestic finished steel production in FY20

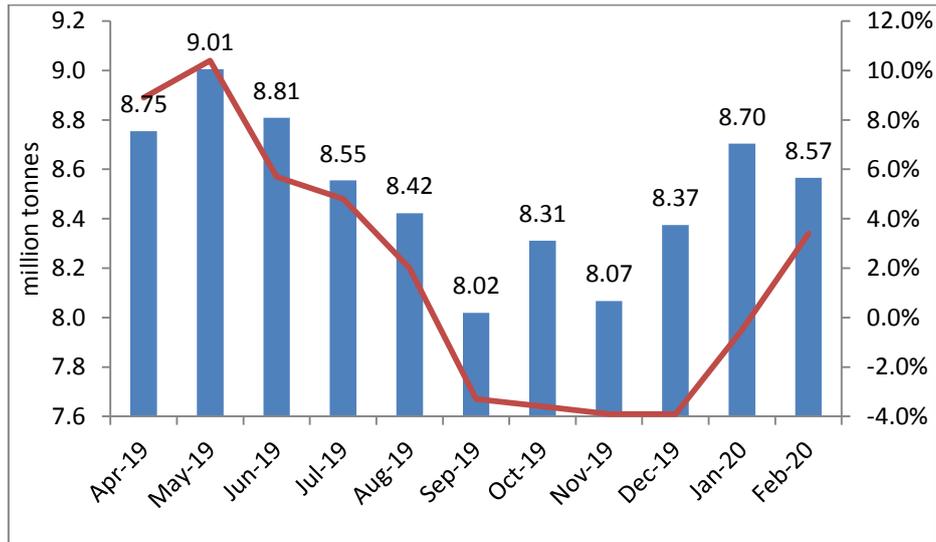
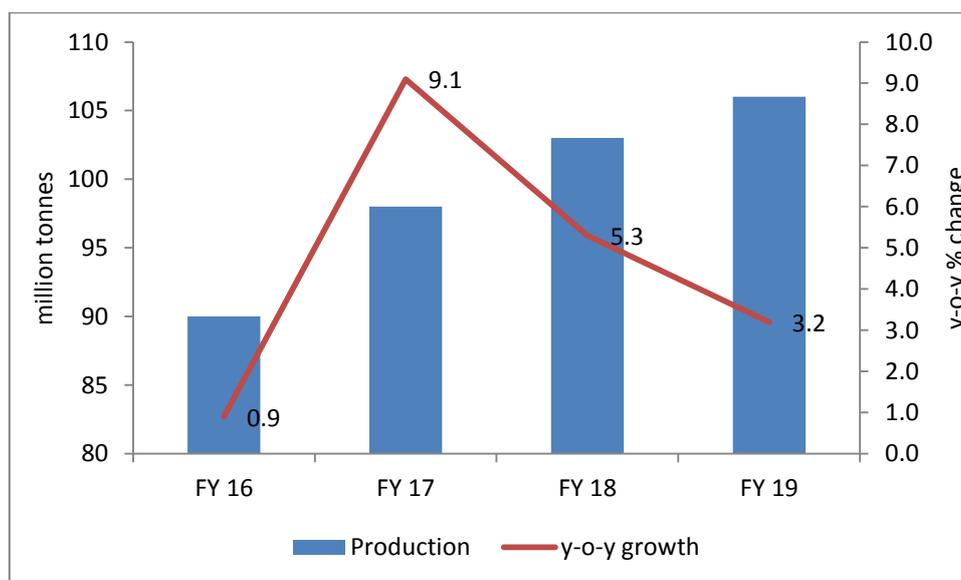


Table 1: Scenario of automobiles sector

	Total	CV	PV	2/3 Wheelers
FY19 (Apr-Jan)	9.84	31.54	1.86	10.4
FY20 (Apr-Jan)	-12.84	-25.8	-12.93	-12.29

India’s crude steel production has risen in the last four years; however there has been a steady deceleration in growth in the last two years. In the current financial year also, during April 2019-February 2020, crude steel production dropped by 0.09% to 100.8 million tonnes. The trade tensions between US-China which escalated in 2018 slowed down the pace of global economic growth which impacted demand for steel. Domestic demand for steel was impacted by slowdown in manufacturing activities.

Chart 4: Trend in crude steel production



Source: World Steel Association, Steel Insights

Policies during the year:

Amendment of Mines & Minerals (Development & Regulation) Act:

The government amended the Mines & Minerals (Development & Regulation) Act to ensure smooth transition of the iron ore mining leases that are due to expire this year. The amendment to the law deems all statutory clearances, including those related to the environment, of the outgoing leaseholder to be transferred to new leaseholders, which will be valid for a period of two years. This amendment gave security to the bidding parties and prevented iron ore prices from escalating.

Steel Scrap Recycling Policy:

In November 2019, Ministry of Steel has issued the Steel Scrap Recycling Policy. The scrapping policy shall ensure that quality scrap is available for the steel industry. The policy envisages a framework to facilitate and promote establishment of metal scrapping centres in India. Indian steel industry is characterized by the presence of a large number of small steel producers who utilize scrap with other inputs in EAF/IF for steel making. As on March 2019, 47 Electric Arc Furnaces & 1128 Induction Furnaces are operating in the country and largely depend upon scrap as a raw material to produce steel. Scrap is an important input for the electric furnaces. The current supply of scrap is 25 MT from the domestic unorganized scrap industry and 7 MT from import of scrap.

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