

Steel Industry: MIP and beyond

The government announced that there would be no extension of MIP on 19 colour-coated steel products. This came after back to back extension of MIP during the year 2016 to support the domestic steel industry from cheap imports.

Minimum Import Price (MIP)

On 5th February 2016, the government had imposed MIP on 173 steel products ranging from \$341 to \$752 per tonne. This was to provide some respite to the domestic steel producers that were affected by cheap imports of these products. The MIP was valid for six months or until further orders, whichever was earlier.

After completion of these six months, the MIP was further extended for two months till 4th October 2016. However, the MIP was now applicable to 66 products compared with 173 products earlier. In October 2016, this was again extended for two months till 4th December 2016. The MIP was advanced again till 4th February 2017 for 19 steel products.

The government however did not continue with the extension of MIP and announced that there will be no extension of MIP on the 19 products henceforth.

Production and Imports

The MIP imposed by the government served the purpose as the domestic steel producers were able to increase their output and India reduced the dependency on steel imports during 2016.

With MIP in place during 2016, the domestic steel producers increased their production during the year. Domestic steel output grew by 6.7% to 96.92 million tonnes during January-December 2016 compared with the corresponding period a year ago. In 2015, steel production declined by 1.6% to 90.87 million tonnes on a y-o-y basis.

In the year 2015, the domestic steel production declined continuously in each of the months during the second-half of 2015. The output fell by 2.4% to 52.09 million tonnes during June-December 2015 compared to that in June-December 2014.

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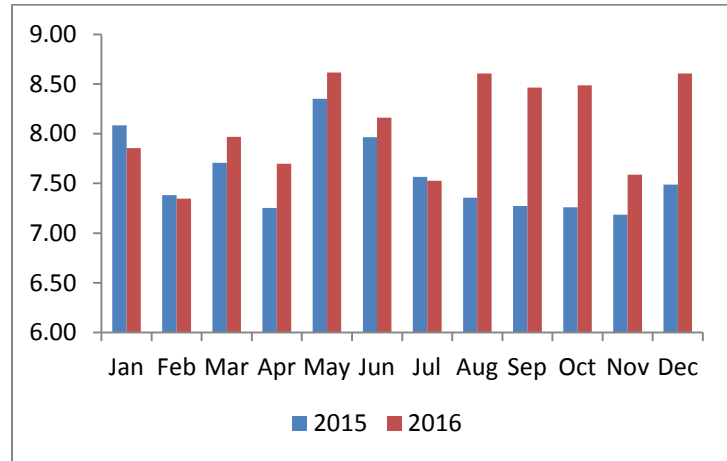
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The MIP imposed by the government also resulted in decline in imports during the period. Steel imports fell by a sharp 27.7% to 7,673 thousand tonnes on a y-o-y basis during January-November 2016. This was after 54.5% increase in steel imports by India during January-November 2015 compared with the corresponding period a year ago.

Chart 1

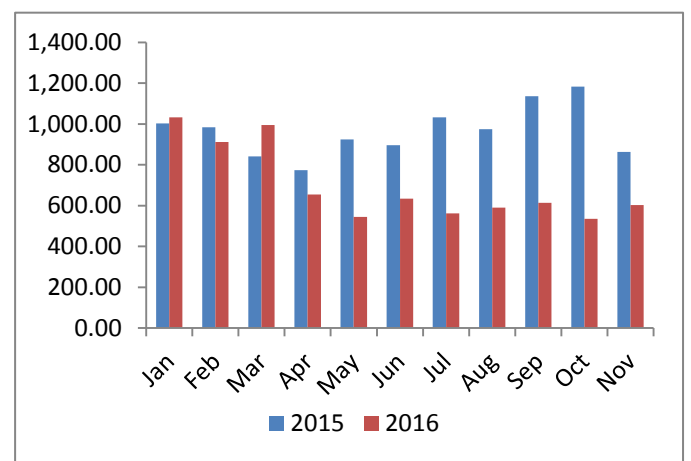
Steel Production in India (million tonnes)



Source: Ministry of Commerce & Industry

Chart 2

Steel Imports by India (thousand tonnes)



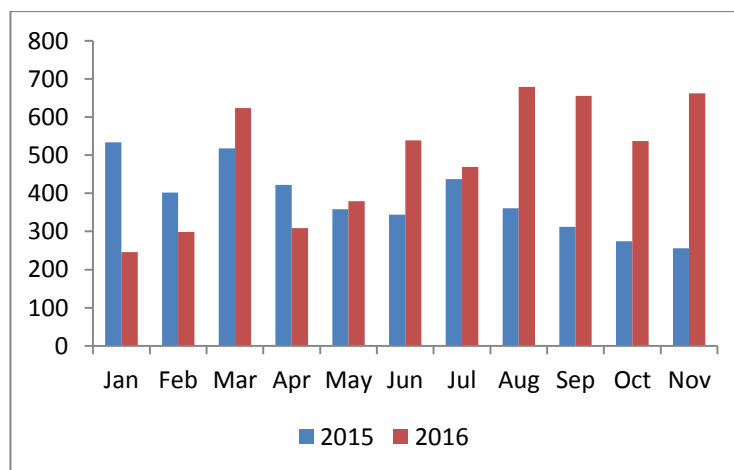
Source: CMIE

Exports

An increase in steel production is believed to have supported the rise in exports during the year 2016. Steel exports increased by a strong 28% to 5,397 thousand tonnes during January-November 2016 compared to the corresponding period a year ago. In 2015, steel exports declined by 20.3% during January-November on a y-o-y basis.

Chart 3

Steel Exports by India (thousand tonnes)

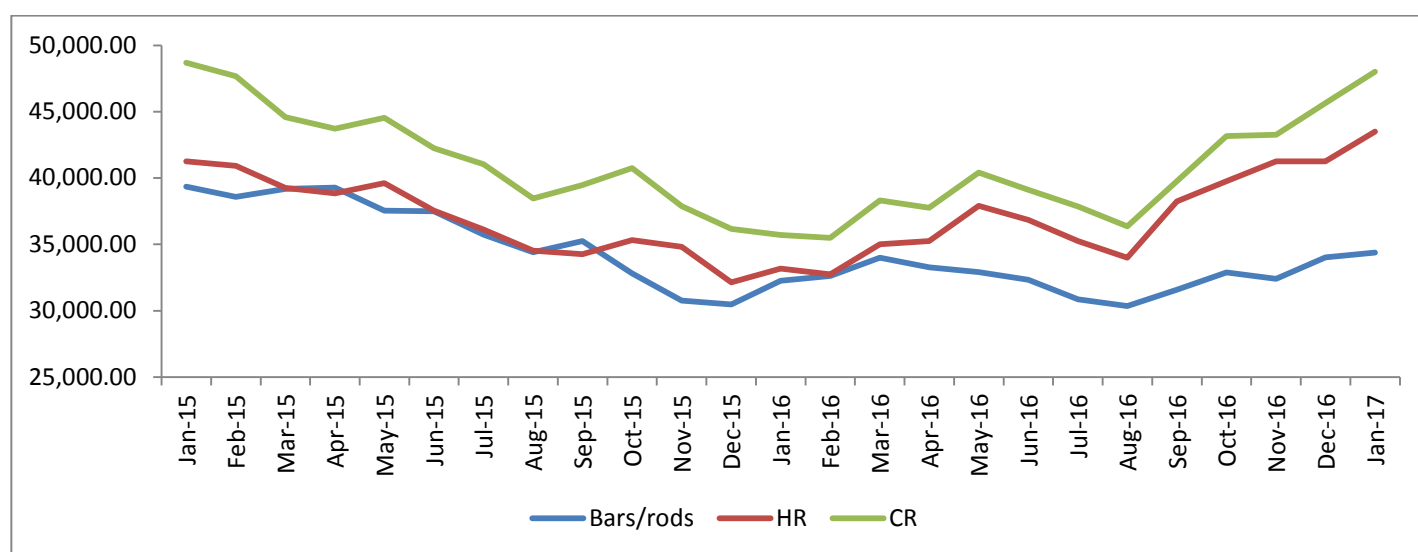


Source: CMIE

Prices

The imposition of MIP by the government is also believed to have supported the domestic steel prices. In January 2017, prices of long steel products (bars/rods) and flat steel products (HR, CR) touched a year high. Prices of bars/rods stood at Rs.34, 375 per tonne and that of HR coils and CR coils stood at Rs.43, 500 per tonne and Rs.48, 000 per tonne, respectively.

Chart 4
Price Trend of Steel Products (Rs./tonne)



Source: CMIE

Financials

The improvement in production and prices led a rise in industry’s sales during the period April-December 2016. The industry’s sales grew by 23.8% compared to that during April-December 2015. Sales of the industry had fallen by 15.2% on a y-o-y basis during April-December 2015. The improved condition was also seen on the profits front. The industry returned to profits at net level during April-December 2016 after remaining in red during the corresponding period a year ago. The industry had made profits during April-December 2014. The results are based on financial results of 21 steel companies.

Concluding remarks

- *The imposition of MIP has definitely improved the health of steel companies which have been able to turn around.*
- *The government would have to be watchful of the movement in imports and be prepared to impose countervailing duties in case there are any signals of dumping.*
- *With demand likely to rise in FY18 due to the thrust on infra by the government, the industry could look forward to positive times.*

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