

Steel update: October 2020

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Domestic steel production and consumption continued to improve in October 2020 both sequentially as well as on y-o-y basis. In October 2020, India's crude steel production stood at 9 million tonnes (mt), up 0.2% as compared with the corresponding month in 2019 and 5.7% higher as compared to September 2020. Production of finished steel also grew by 1.1% y-o-y to 8.4 mt and 3.7% compared to September 2020. The y-o-y fall in consumption of finished steel contracted to -2% in October 2020 from -4.9% in September 2019.

Both production and consumption of steel have consistently been improving since April 2020. The y-o-y contraction in finished steel consumption have been reducing since the last six months, from (85.8%) in April 2020 to (10%) in July, (4.9%) in September 2020 and just (2.1%) in October 2020. Production of finished steel which had tanked 82.1% y-o-y in April returned to growth in August, albeit marginally by 0.1%, it further improved and rose by 1.1% y-o-y in October 2020. Demand for steel from the infrastructure activities, pipe manufacturing, automobiles, and consumer durables sector ahead of the festive season has led to increased steel consumption and higher restocking demand.

Capacity utilisation levels of crude steel improved with the unlocking of the economy and recovery in demand initially on the back of higher international demand before domestic demand began to pick-up which eventually moderated export. After hitting bottom in April 2020 at 27%, capacity utilisation rate of crude steel returned to year-ago level of 76% in October 2020.

Product-wise - production of long steel products such as bars & rods, structural which are used in building and construction work and railway materials returned to growth, albeit marginally by 0.7% to 4.1 mt in September 2019 after contracting y-o-y in each of the months since March 2020. Production of HR coils and flat steel products which are mainly used in automobiles manufacturing returned to growth in July 2020 and continued to grow by 1.1% y-o-y to 3.9 mt in September 2020. Production of alloy steel on the other hand fell by 15% to 0.4 mt in September 2020 as compared with the year-ago month.

Improvement in domestic demand for steel has also led to fall in inventories of finished steel to 11.9 mt in September 2020 as compared with 13.9 mt in May 2020 (peak level) and 13.8 mt in September 2019.

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Table 1: Cumulative production and consumption (fig in million tonnes)

	April-Oct 2020	y-o-y growth
Crude steel	52.4	-18.6%
Finished steel		
Production	47.0	-21.6%
Import	2.3	-49.5%
Export	7.1	45.3%
Consumption	44.5	-25.6%

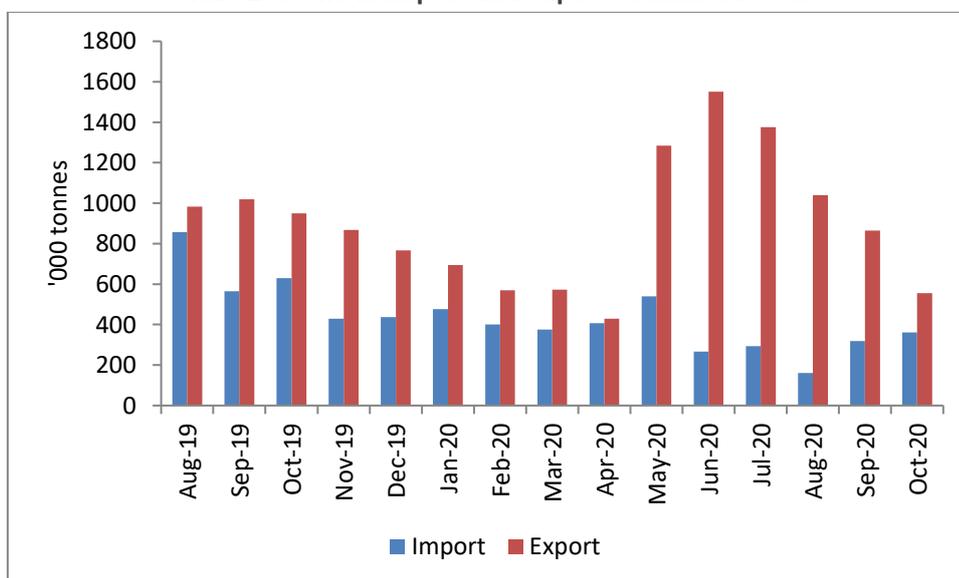
Source: CMIE

Trade:

With a pick-up in domestic demand import of finished steel has witnessed growth while exports have declined. Exports have declined because it is more profitable to sell domestically as domestic HRC prices are currently at a small premium to imported steel prices. While world export prices of HRB averaged \$ 511 per tonne in September 2020 domestic HRC prices averaged Rs 41,700 per tonne in September 2020.

India imported 0.4 mt of finished steel in October 2020 which is 13.8% higher compared to September 2020. Exports have fallen sequentially for the fourth consecutive month ended October 2020 to 0.6 mt as compared with 0.9 mt in September 2020 and 1.6 mt in June 2020. China and Vietnam continues to remain top export destination for finished steel. Almost 55% of total finished steel exports were directed towards these two countries during April-August 2020.

Chart 2: Trend in import and export of finished steel



Raw material prices:

International iron ore price has risen over the last three months from average USD 108.5 per dmt in July 2020 to USD 123.8 per dmt in September 2020. Domestic iron ore prices also remained firm, up 40% since March 2020 due to slower ramp up of mines in Odisha.

Coking coal prices which had fallen sharply since March 2020 have recovered over the last two months. Australian coking coal futures have rose to USD 138 per tonne so far in October 2020 up from USD 107 per tonne in August 2020.

Outlook:

- Domestic steel production and consumption is expected to remain steady going forward in H2FY21. For the whole year FY21 we expect crude steel production to be lower by 10-12% and consumption to be lower by 14-17%, mainly impacted by poor first half. While large players have reported faster return to normalcy after covid-19 impact, the recovery by smaller players are expected to be long and protracted due to their limited diversification and weaker financial flexibility.
- An up-cycle in international steel prices is expected in H2FY21 due to increased steel consumption mainly by China on the back of stimulus package unveiled by the Chinese government which is keeping demand for industrial metals high.
- Firm international prices and pick up in domestic demand will also boost domestic steel prices. Steel prices have already exceeded pre-covid levels and are currently at a marginal premium to world export prices.
- Any continuation of rebound in coking coal prices will keep the steel prices firm. Iron ore prices have crossed USD 123 per dmt in September 2020, a level last seen in 2014, amid better Chinese demand and tepid supply due to severe weather conditions and covid induced restrictions in Brazil. However, prices are likely to retrace to lower levels in H2CY20 largely on the back of ramp up of production by the miners in Brazil and Australia.

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