

Steel sectors performance

Steel production falls in line with demand

According to the data released by Joint Plan Committee (JPC), India’s crude steel production fell by a record 69.5% y-o-y in April 2020 (provisional). The country produced just 2.8 million tonnes of crude steel during the month. Steel has been classified as an essential commodity and has been permitted to operate during the lockdown period. However production was impacted due to a sharp fall in demand from user industries. Steel production took a substantial hit in the month of March and April when the country was under lockdown as most user industries witnessed halt in production.

Demand for steel contracted by 91% y-o-y in April 2020. Domestic steel industry had to scale down their production in absence of demand from user industries. Only top six integrated steel producers are expected to have reported production during the month. These steel companies are working at less than half of their capacities. Small scale secondary steel producers are unlikely to have reported any significant production as they are grappling with additional challenges of low working capital and depleting cash reserves under lockdown. The slowdown in demand from user industries like construction, real estate, auto and infrastructure which consumes 80% of steel led to the sharp fall in steel production.

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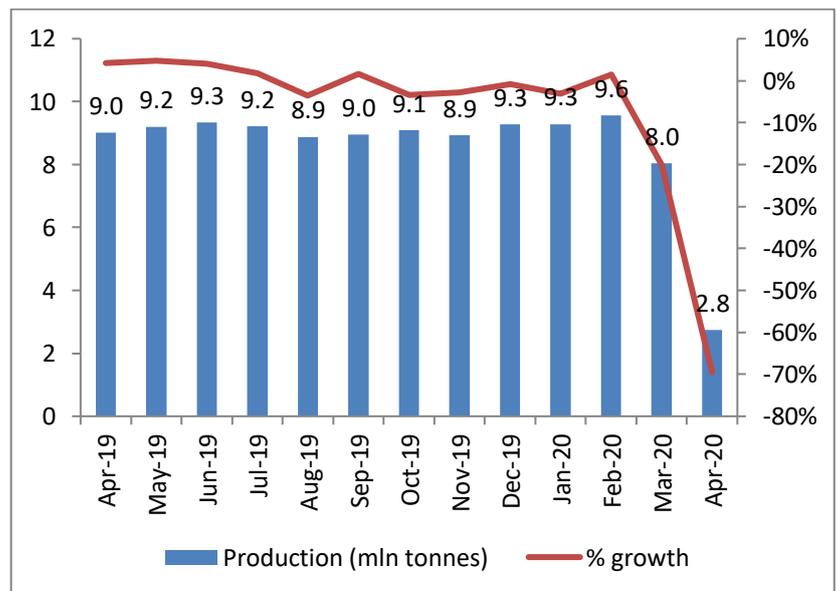
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Chart 1: Trend in crude steel production



Source: CMIE

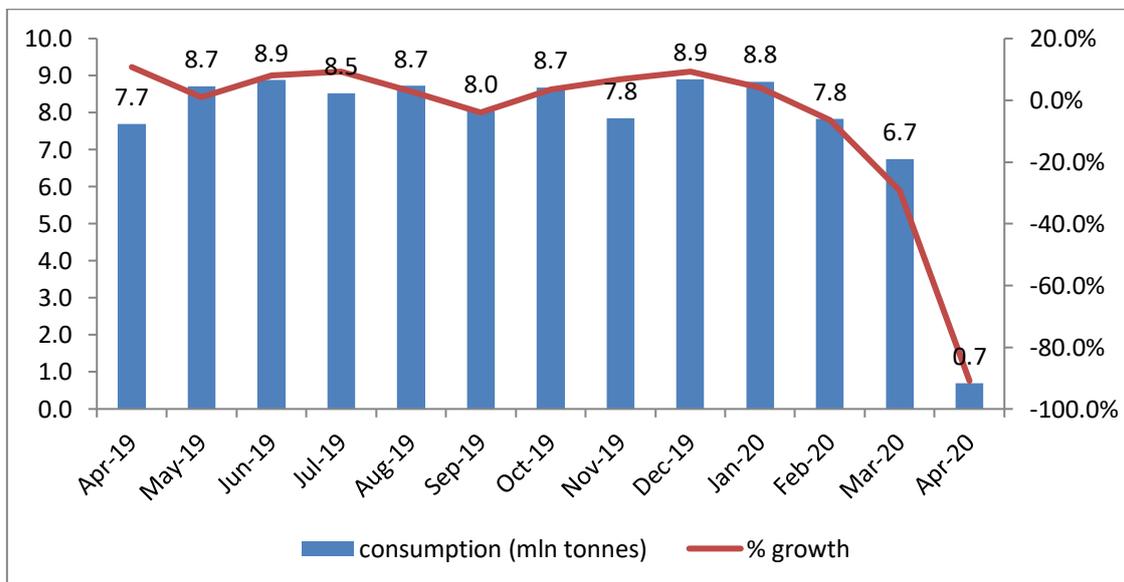
The country observed lockdown for the entire month of April during which period automobiles industry, which consumes 10-15% of steel, went for a complete shutdown of their operations. Auto industry reported zero sales for the month of April 2020, a first in its history.

The construction sector which accounts for 50-60% of the total demand for steel was under immense pressure in FY20 due to financing constraints and post lockdown came to a near standstill. The government permitted to restart construction activity in non-coronavirus hotspots from 20th April. However, given the supply chain and labour issues many construction companies are finding it tough to restart operation. The main challenge for the sector however remains the lack of labour force to restart work as many migrant workers have left for their hometown in the wake of the Pandemic.

Besides weak demand, the domestic steel industry is also facing logistical issues to transport raw materials and finished goods from the factories due to restrictions on transportation.

Most of the peak season demand before the arrival of monsoon is lost. Going ahead it is difficult to ascertain when the economic activity will pick-up.

Chart 2: Trend in steel consumption



Source: CMIE

Bleak demand Outlook:

The demand for steel is not expected to return to normal in FY21. Construction activity in the country remains subdued during the monsoon season which begins in June and lasts till September. This means loss of demand for the entire first half of FY21. Besides, the government’s ability to spend on infrastructure segment in FY21, amid expectations of increase in fiscal deficit, will remain a key determinant for steel demand. Any reduction in government spending on infrastructure is expected to further impact the steel demand negatively.

Automobiles industry was already grappling with slowdown in demand even before the Pandemic. Auto sales are expected to remain muted in H1 FY21 due to low consumer sentiments due to loss of business and income. However, any shift in commuters’ preference from public transport towards self-owned vehicles to reduce risk of Covid infection would support the demand for automobiles.

While demand during this period is expected to be muted, steel mills will continue to produce some amount of steel as it is costly and time consuming to shut down and restart blast furnaces. This is expected to lead to pile up of substantial inventories.

Challenges for businesses are likely to persist even when the lockdown is lifted. Bringing back migrant workers who have returned to their hometown in the wake of the pandemic and restoring the supply chain will be the key challenges. Besides, the steel mills will try to liquidate the existing stocks once demand resumes before starting to ramp up production which means steel companies will continue to work at lower utilisations levels till demand resumes meaningfully.

Concluding remarks:

We expect steel demand for FY21 to be significantly lower with June and September quarters to be badly impacted due to lower demand from the infrastructure and construction segments. India has been observing nationwide lockdown since 25th March 2020 and although steel was declared an essential industry and was allowed to operate through the lockdown period, steel production fell sharply as demand from user-industries took a significant hit.

Even after easing in lockdown, construction sector may not witness upsurge in activities during the rest of the year. A major challenge will be getting labour back on board and completing ongoing projects. Lower government spending on infrastructure will also impact demand for steel. The consumer sentiments for automobiles purchase are expected to be unfavourable due to loss of business and income and demand is expected to remain muted during H1 FY21.

Domestic steel manufacturers will also keep their production in line with demand and steel production is expected to be negative in FY20 due to fall in demand and higher inventories. However, some of the large steel players have shifted to higher exports to tackle the low off-take in domestic market and steel production is expected to get supported to that extent.

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