

PRESS RELEASE  
December 4, 2023

## Blast furnace operators likely to suffer a sequential 135 bps margin erosion in H2 FY2024, while secondary producers are likely to see higher margins by 75 bps: ICRA

- *Domestic long and flat steel prices corrected by 4.7% and 6.7% respectively in the current quarter so far, taking away much of the gains recorded in the first half of the fiscal*
- *Given the sharper dip in flat product prices, and the recent spike in coking coal consumption costs, blast furnace players will suffer more than secondary mills in terms of profitability*

ICRA expects the operating environment of the domestic steel industry to get more challenging in the second half of the current fiscal as elevated raw material costs and weakening steel prices nibble at profit margins. While domestic hot rolled coil (HRC) prices corrected by 6.7% since early October 2023, rebar prices witnessed a more moderate fall of 4.7% in the same period. According to ICRA's latest steel sector research note ([link](#)), the overall industry's operating profit margins in H2 FY2024 are expected to be lower compared to H1 FY2024, largely driven by weaker profitability from the blast furnace operators. On the cost environment, while seaborne coking coal prices have been especially volatile since Q2 FY2024, thermal coal prices have remained more rangebound. Coupled with the higher resilience of long steel prices, the operating profit margins of secondary steelmakers are projected to be higher by ~75 basis points in H2 over H1 of FY2024, even as primary producers, which are primarily blast furnace players, are slated to witness a drop in operating margins by ~135 basis points over the same period.

Commenting on the industry trends, **Mr. Jayanta Roy, Senior Vice-President & Group Head, Corporate Sector Ratings, ICRA** said: *"Due to supply-related constraints in Australia, spot premium hard coking coal cargoes unexpectedly rallied up by 50-55% in a short span of three months, reaching an interim high of US\$ 363/MT (fob Australia) in mid-October 2023. While blast furnace operators have been diversifying their coal sourcing by progressively reducing the share of coking coal imports from Australia from 71% in FY2022 to 52% in H1 FY2024, this steep increase in Australian spot prices is forecast to raise their average coking coal consumption costs by an estimated US\$ 20-25/MT in H2 FY2024 compared to H1 FY2024."*

On the demand side, powered by the Government's infrastructure-oriented growth model, since the beginning of FY2022, steelmakers have been witnessing the strongest period of consumption growth recorded over the last 15 years. During April to October of the current fiscal, with the Government frontloading infrastructure spending ahead of the upcoming Union Elections, domestic steel consumption growth remained strong at 15.0% year-on-year (YoY). This has helped the steelmakers to optimally sweat their assets, helping lift the industry's capacity utilisation levels to reach a decadal high of 83% in FY2024.

On the trade front, as the external environment remains challenging in most of the large global steel-consuming and producing hubs, India slipped to become a net steel importer for back-to-back four months between July 2023 and October 2023. Since exports play a crucial role on domestic steel prices by balancing supply with demand, this development has been keeping domestic mills on tenterhooks.

Commenting on this trend, **Mr. Roy added:** *"Domestic steel prices were at a premium to seaborne prices for most of the first half of the fiscal. However, the correction in domestic prices in the current quarter has brought in greater price-parity with international steel prices now. This somewhat mitigates the risks of a further spike in steel imports in the coming months. That said, with India remaining among the few bright spots in global steel markets at present, as per our analysis, India's current year net finished steel exports is poised to reach the lowest level since FY2019."*

Steelmakers have been on a capacity expansion spree, with around 38.5 million tonne per annum (mtpa) of new steelmaking capacity being expected to come onstream by FY2027. This rapid pace of fresh capacity creation has

been unparalleled. However, with the commodity upcycle moderating since FY2023, mill cash flows have reduced from their record highs, thus increasing the domestic steelmakers' dependence on external financing to meet committed expansion plans. This trend has been visible from the 22.1% and 7.4% growth in the sector's bank borrowings in FY2023 and H1 FY2024. However, given the aggressive deleveraging during the previous upcycle, the industry's<sup>1</sup> leverage (total debt to operating profits) is still expected to remain at a comfortable level of around 2.0-2.5 times in FY2024, against a historic low watermark of 1.1 times in FY2022. Therefore, steel companies remain resilient to withstand a worsening macroeconomic environment, leading ICRA to retain the sector's outlook at Stable.

Click the below link to access our previous press releases on the sector:

[FY2024 domestic steel demand growth revised upwards to 9-10% from 7-8% as Government accelerates infra spending](#)

[Steep rally in carbon prices and CBAM compliance requirements could pull down the profits of Indian steel exports to EU by US\\$60-165/MT1 between CY2026 and CY2034](#)

**For further information, please contact:**

#### Media Contacts:

##### **Naznin Prodhani**

Head - Group Corporate  
Communications & Media Relations  
ICRA Ltd  
Tel: + (91 124) 4545300,  
Dir - 4545860  
Email:  
[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

##### **Shivendra Singh**

Deputy Manager - Media &  
Communications  
ICRA Ltd  
Tel: + (91 124) 4545300,  
Dir - 4545840  
Email:  
[shivendra.singh@icraindia.com](mailto:shivendra.singh@icraindia.com)

© Copyright, 2023 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

#### **Disclaimer:**

This Press Release is being transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The Press Release may be used by you in full or in part without changing the meaning or context thereof, but with due credit to ICRA Limited. However, ICRA Limited alone has the sole right of distribution of its Press Releases for consideration or otherwise through any media including, but not limited to, websites and portals.

#### **About ICRA Limited:**

<sup>1</sup> Calculated for a set of 18 listed domestic steel companies for their standalone operations in India which account for ~55% of the domestic installed capacity

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

Click on the icon to visit our social media profiles.

