PRESS RELEASE
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FY2025 capacity utilisation of domestic steel industry poised to slip below 80% for the first time in four years as cheap imports nibble at market share: ICRA

- ***Fresh upcoming capacity addition plan of 90-95 million tonne per annum (mtpa), entailing investments of US$ 45-50 billion, could be at a risk of a slowdown unless earnings of domestic steel mills inch up from prevailing levels***

Following the post-Covid metals rally, the domestic steel industry was able to achieve the impossible trinity of maintaining above 80% capacity utilisation rates, a strong investment pipeline, and comfortable leverage levels for three years back-to-back between FY2022 and FY2024. However, according to ICRA's latest note on the steel sector, this trinity is unlikely to sustain going forward as the recent surge in cheap imports have nibbled at the market share of domestic steel companies, leading to pressure on industry's profit margins, lowered capacity utilisation rates, and steadily raised the leverage levels to support ongoing growth plans.

Commenting on the industry trends, **Girishkumar Kadam, Senior Vice-President & Group Head, Corporate Sector Ratings, ICRA** said*: "The domestic steel industry witnessed an all-time-high capacity addition of 18.2 mtpa last fiscal, and in the current year, another 15.3 mtpa of new capacity is lined up for commissioning. However, while the domestic steel demand is expected to maintain its solid growth track record of 10-11% in FY2025, domestic mills are, however, struggling to protect their market share from cheaper imports. This is reflected by the much lower 5% growth in domestic finished steel production that we expect in the current fiscal. Coupled with the record ongoing expansion plans, the industry's capacity utilisation rates are expected to slip from 85% in FY2024 to an estimated 78% in the current fiscal, the lowest we have seen in the last four years."*

Since steel is a globally-traded commodity, the external environment plays a crucial role in determining the health of the domestic industry. Given the sub-par economic growth outlook in China, along with other leading global steel-producing and consuming hubs, steel trade flows have been redirected to high-growth markets like India. At present, apart from the 7.5% basic customs duty, most of the earlier tariff protection measures implemented during the 2015-2016 metals meltdown, like anti-dumping duty, safeguard duty, and minimum import price, have expired, giving overseas suppliers easier access to the domestic market. The ICRA report highlights that domestic hot-rolled coil (HRC) prices have been generally trading at a premium to the landed cost of cheaper imports for most of the current fiscal, keeping domestic steel mills on tenterhooks. By end-November 2024, domestic HRC prices were trading at a premium of US$ 12-16/MT compared to landed costs of imports from China and Japan, which suggests that import pressures are unlikely to alleviate materially in the coming months unless there is a meaningful recovery in international steel prices.

India's finished steel imports are expected to corner about 7.0-7.5% of the domestic market share in FY2025, the highest level recorded in the last six years. Moreover, with export demand remaining lacklustre, FY2025 net finished steel imports (indicating finished steel imports less exports) are poised to spike to levels last witnessed during the FY2016 metals meltdown. The ICRA report also highlights that while China accounted for the highest share of ~30% of the steel imports to India in 7M FY2025, ~59% of the imports were from FTA countries like Japan, South Korea and Vietnam, which have duty free access to India, giving importers an added advantage.

In ICRA's baseline scenario, domestic HRC prices are expected to average lower by around 10% year-on-year (YoY) in FY2025, reaching the lowest levels witnessed since FY2021. However, the industry is expected to get some relief on input costs, especially prime hard coking coal, which the agency believes would decline by around 24% YoY to US$ 218/MT in FY2025. This, along with the expected pick-up in Central Government capex for the remainder of the current fiscal, to make up for the lost time in the election-affected first half, is likely to arrest further margin pressure in H2 FY2025. ICRA has pegged the industry's operating profits per metric tonne (MT) of steel production at US$ 110-115/MT in FY2025, trending marginally lower than US$ 127/MT registered in FY2024, keeping the sector outlook unchanged at Stable.

Commenting on the industry trends, **Kadam** added: *"With the industry's earnings moderating from the high watermark of FY2022, and capex plans in full swing, the industry's debt stock has been steadily rising, and credit indicators gradually weakening since FY2023. In end-September 2024, the industry's domestic bank debt per tonne of installed capacity inched higher by ~17% to reach US$192/MT, compared to US$164/MT in end-March 2022. In the next seven years till FY2031, domestic mills are targeting to increase the domestic installed capacity by 50% by adding 90-95 mtpa of new capacities. This would entail a large investment pipeline of US$ 45-50 billion. However, unless the industry's earnings meaningfully improve from hereon, sustaining such large-scale investments opens the possibility of a significant spike in industry leverage levels over the medium term, which can accentuate the domestic mills' vulnerability to external macroeconomic shocks."*

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