

PRESS RELEASE

August 26, 2024

Margins of primary steel producers could shrink by ~60-180 basis points post new cess: ICRA

- Secondary steel producers could witness margin decline by ~80 to 250 basis points
- Power sector may see a rise in the cost of supply by 0.6% to 1.5%
- Impact on primary aluminium producers to be minimal at ~0.6% of the current aluminium prices

Ratings agency ICRA forecasts a challenge for the domestic steel industry in the form of the new mining cess by some states, following the recent Supreme Court ruling. This development is poised to compress operating margins across the sector, impacting both primary and secondary steel producers. As per ICRA estimates, primary steel producers margins could shrink by approximately ~60-180 basis points, while secondary producers, with already lower profitability, may face a more severe impact, with margin declines ranging from ~80 to 250 basis points, based on various scenarios that cess rates could potentially vary between 5% and 15%. The power sector, which is heavily dependent on coal, may see a rise in the cost of supply by 0.6% to 1.5%, potentially leading to higher retail tariffs. Further, primary aluminium producers will also be impacted due to their high power consumption.

Commenting on the potential implications, **Girishkumar Kadam, Senior Vice-President and Group Head, Corporate Sector Ratings, ICRA** said: *“The enforcement of the new mining cess by key mineral rich states can heighten cost pressures for the steel industry. While most states haven’t set the rates yet, any substantial cess implemented could adversely impact margins, especially for secondary steel producers, as the merchant miners are expected to pass on the increased costs. Consequently, the implementation strategies adopted by various state governments will be crucial in shaping the competitive landscape of the steel industry”.*

Odisha, a key mineral-rich state, holds a particularly vital role in this context. The recent Supreme Court ruling has brought renewed focus on the Orissa Rural Infrastructure and Socio-Economic Development Act, 2004 (ORISED), which permits a ~15% cess on iron ore and coal. If fully enforced, it could result in an ~11% increase in the landed costs of iron ore, directly impacting the cost competitiveness of domestic steel entities. In a related move, the Government of Jharkhand recently imposed a modest increase of Rs 100/tonne on iron ore and coal, setting a precedent that other states may follow. This increase is expected to have a minimal impact on steel entities’ operating margins, reducing them by around 30-40 basis points. Even if other states adopt similar measures, the overall impact will likely remain modest.

Furthermore, the possibility of states applying the cess retrospectively introduces additional uncertainty, potentially burdening companies with past tax liabilities. More clarity on these liabilities will emerge as companies assess the implications following notifications from the respective state governments. *“If the cess is applied retrospectively, it could increase financial pressure on steel companies. However, the Supreme Court’s provision for staggered payments over 12 years starting from April 1, 2026, without any interest and penalties on past demands offers some financial relief,”* **Kadam** added.

The ripple effects of this ruling is likely to extend beyond the steel sector. Other industries, such as aluminium and power, may also face increased costs. The power sector, which is heavily dependent on coal, may see a rise in the cost of supply by 0.6% to 1.5%, potentially leading to higher retail tariffs. Primary aluminium producers will also be impacted due to their high power consumption, with costs potentially increasing by approximately Rs 1,200-1,300 per tonne (\$15-\$16 per tonne), assuming a 15% cess, which represents ~0.6% of current aluminium prices. Ultimately, the response of state governments will be critical in determining the full impact on the steel industry, and companies will need to remain vigilant and chalk out strategies to mitigate these financial pressures.

Click [here](#) to access our previous press releases on the sector.

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

Shreya Bothra

Manager - Corporate Communications & Media
Relations

ICRA Ltd

Tel: + (91 022) 61693300,

Dir - 61693367

Email:

shreya.bothra@icraindia.com

© Copyright, 2024 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:

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.

