

PRESS RELEASE
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Steel demand growth to remain comfortable at ~8% in FY2026, but softer steel prices to extend margin pressure for domestic steel mills: ICRA

- Fresh upcoming capacity addition plans of 80-85 million tonne (mt), entailing investments of US\$ 45-50 billion over FY2026-2031, could be at a risk of a slowdown

Rating agency ICRA expects the operating environment for domestic steel producers to remain challenging over the coming quarters as the industry navigates a period of subdued steel prices, stable yet sticky input costs, and a weak external environment. According to ICRA's latest note on the steel sector, steel industry operating margins for FY2026 are expected to remain largely flat at ~12.5%, lower than the earlier expectations of an improvement of 100-120 bps, reflecting continued weakness in steel prices. With muted earnings momentum, industry leverage (TD/OPBDITA) is projected at 3.4 times in FY2026 as against our August 2025 estimate of 3.1 times and 3.5 times reported in FY2025.

Commenting on the industry trends, **Girishkumar Kadam, Senior Vice-President & Group Head, Corporate Sector Ratings, ICRA** said: *"The domestic steel industry has seen a record capacity addition of ~15 mt over the past three to four quarters, with another 5.0 mt expected to come on stream by the end of the current fiscal. While we project steel demand growth to remain healthy at ~8% for FY2026, implying incremental demand of around 11-12 mtpa, incremental supply has created a temporary surplus situation resulting in continued pressure on steel prices. Consequently, while domestic HRC prices spiked to Rs. 52,850 per tonne in April 2025 following the 12% Safeguard Duty (SGD), they corrected to ~Rs. 49,500 per tonne by September 2025 and ~Rs. 46,000 per tonne by November 2025. Domestic HRC prices are currently trading below import parity, reflecting persistent supply-side pressures."*

With regard to the external environment, steelmakers remain on tenterhooks, with multiple structural headwinds in the Chinese economy leading to the country's steel exports rising to an all-time high of 88.0 mt in 9M CY2025 from 80.6 mt in the corresponding period last year. With most of the other large steel-consuming hubs globally also facing the prospect of subpar economic activity in the near term, global steel prices are unlikely to recover materially in the near term. Chinese HRC export prices averaged about \$465 per tonne in 7M FY2026, down from \$496 per tonne in the previous fiscal, further limiting the ability of domestic producers to increase steel prices.

India's finished steel imports have declined sharply in the current fiscal, with volumes contracting by about 33% year-on-year compared to the same period last year. While export demand remains lacklustre, FY2026 net finished imports (indicating finished steel imports less exports) are poised to decline on the back of reduced inbound shipments. However, rising trade barriers in key consumption markets such as the US and EU could divert surplus global steel volumes towards high-growth markets like India. In this context, the continuation of the Safeguard Duty remains critical to prevent a surge in imports and protect domestic prices from external shocks.

In ICRA's baseline scenario, domestic HRC prices are expected to average around Rs 50,500 per tonne in FY2026. On the cost side, some relief is expected from a moderation in input prices, particularly premium hard-coking coal in H1 FY2026, which is projected to decline by ~9% year-on-year to \$192 per tonne. ICRA has pegged the industry's operating profits per tonne of steel production at US\$ 108 per tonne in FY2026, marginally below the \$ 110 per tonne registered in FY2025, keeping the sector outlook unchanged at Stable.

Over the next seven years till FY2031, domestic steel mills are targeting capacity expansion of nearly 40% through the addition of 80-85 mt, translating into an 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.

Commenting further on emerging trends in green steel transition, **Kadam said**, *"The share of green steel in India's overall steel demand is expected to rise from ~2% (around 4 mt) in FY2030, to nearly 10% (~30 mt) by FY2040 and further to 40% (~150 mt) by FY2050, driven by decarbonisation commitments across end-user industries. However, the green steel economics remains challenging, with break-even levelised cost of green steel in Direct Reduced Iron - Electric Arc Furnace (DRI-EAF) route against conventional production dependent on green hydrogen prices falling close to \$1.5-1.6 per kg. However, the same is unlikely to be achieved in the near to medium term, which in turn would constrain a large scale adoption of green steel capacity."*

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