STEEL INDUSTRY – TRENDS & OUTLOOK

Steel demand growth is expected at 9-10% in FY2027, supported by infrastructure push

FEBUARY 2026

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OVERVIEW

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Operating profits of domestic steel companies contracted to $84/tonne in Q3 FY2026 over $113/tonne reported in Q2 FY2026. Muted realisation owing to supply overhang resulted in a decline in operating profits. However, sharp rebound in steel prices from January 2026 is likely to improve the profitability in Q4 FY2026.

- **Steel demand growth is expected to improve to 9-10% in FY2027 as Government of India's (GoI's) capex** drive to steel-intensive sectors such as roads, railways and infrastructure projects see sharp improvement (about 25% increase in budgetary allocations) compared to moderation in FY2025 and FY2026. In contrast, FY2026 steel demand growth is estimated to remain moderate at 7.5% amid slow capex execution.
- **Domestic hot rolled coil (HRC) prices fell sharply in late-2025, touching Rs. 46,000/MT in early-December 2025, amid excess supply over demand.** Prices rebounded from January 2026 following safeguard duty reinstatement and higher coking coal costs, reaching about Rs. 53,800/MT by early February 2026. With domestic HRC prices near import-parity with slight premium (around $3/MT), further upside seems unlikely and near-term prices are likely to remain range-bound.
- **Following the safeguard duty (SGD) announcement, steel imports have declined since February 2025 as fresh bookings slowed,** with finished steel imports contracting by almost 40% YoY in 9M FY2026. The anti-dumping duty on Vietnam's HRC, along with SGD extension from January 2026 is expected to keep imports under control. Steel exports improved in 9M FY2026 but remained constrained by CBAM[1] and strong Chinese competition.
- **China' steel demand remains weak amid prolonged property sector stress and slower manufacturing** activity, keeping steel prices subdued. Soft domestic consumption has pushed China's export to around 118 million MT (mmt) in CY2025, adding pressure on global prices and regional trade flows. Continued real estate weakness and structural oversupply in China are likely to keep global steel prices moderate in the near term.
- **Domestic steelmakers continue to have large expansion plans, redirecting cash flows towards growth over deleveraging in recent years** as earnings moderated from their FY2022 peak. However, the industry's bank debt for the steel sector stood at $184/MT of installed capacity in December 2025, being significantly lower than the peak of $450/MT. This suggests a much higher ability to withstand cyclical downturns.
- **The steel industry's operating margins (OPM) are estimated to remain flattish in FY2026, with a volatile steel price trend during the year.** In FY2027, the OPM is expected to improve by 50 bps, driven by price protection from safeguard duties, even as coking coal costs remain elevated. With improved margins, industry leverage (TD/OPBDITA) is projected to remain at 3.0 times in FY2027 over 3.1 times estimated in FY2026.

Note: 1) CBAM: Carbon border adjustment mechanism

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