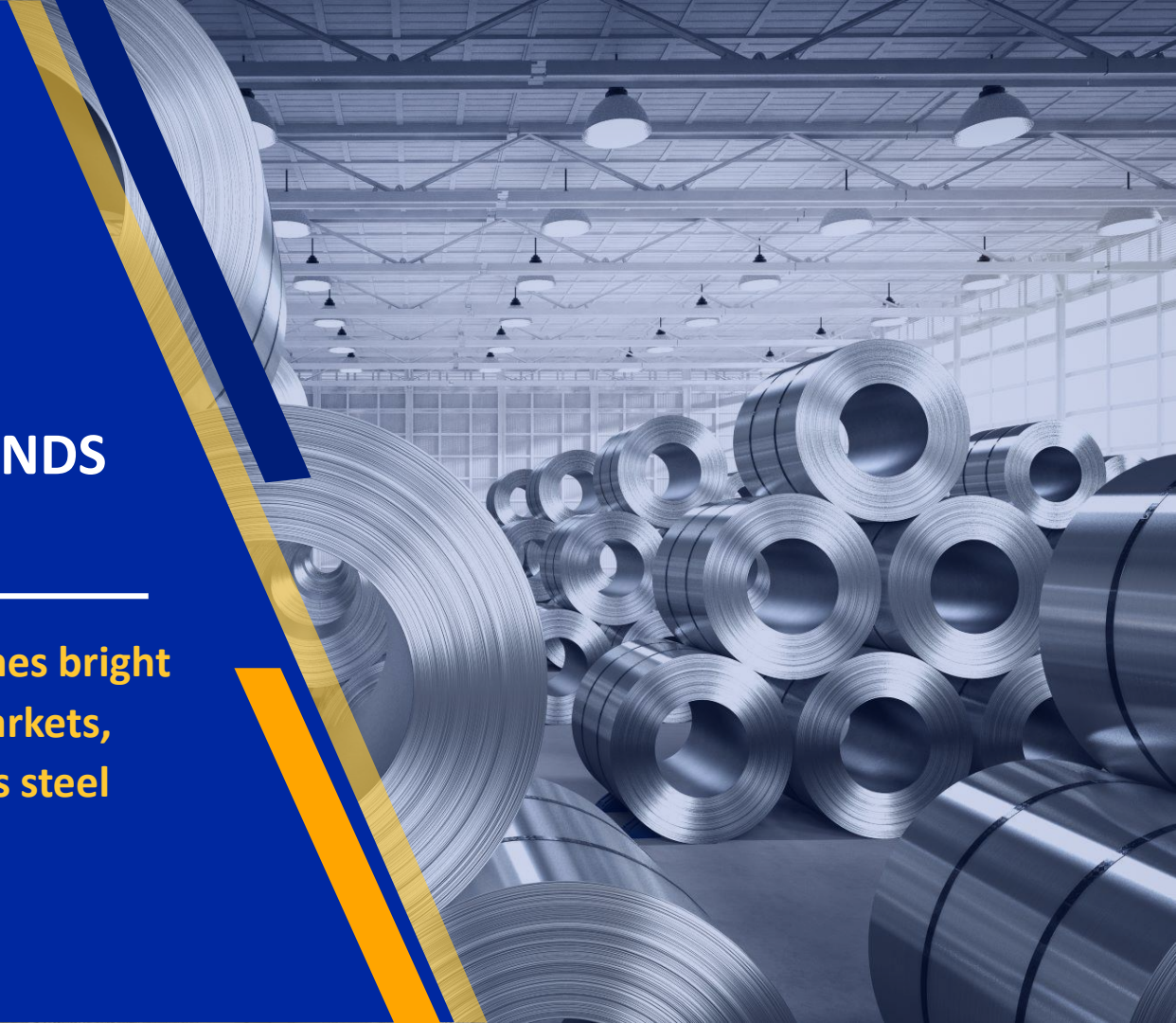


STEEL INDUSTRY – TRENDS & OUTLOOK

TWO STATES - While India shines bright among leading global steel markets, dark clouds hover over China's steel demand recovery

AUGUST 2023



India is witnessing the strongest pace of steel demand growth in the era post the global financial crises. FY2024 domestic steel demand growth revised upwards to 9-10% (from the earlier estimate of 7-8%) as Government accelerates infra spending ahead of the elections. Despite FY2024 expected to witness the largest steel capacity addition in a single year, the industry's capacity utilization rates are expected to improve to ~82% in the current fiscal from ~80% in FY2023



- An accelerated pace of infra spending ahead of the 2024 elections by the Central Government has ensured strong demand momentum for the domestic steel industry in the current fiscal as witnessed by steel consumption growth of 12.2% between April and July of FY2024 on a YoY basis.



- While Chinese steel production grew by a modest 2.5% in January-July of CY2023, Chinese steel exports grew by a much sharper 27.9% in the same period. This points to subdued demand in the world's largest steel market because of the ongoing stress in the property sector.



- Domestic hot rolled coil (HRC) prices are currently trading at a premium of \$20-25/MT over prevailing Chinese export offers which are lined up to reach Indian shores after a lag of two months. This is expected to lead to steel imports rising by as much as 10-15% YoY in FY2024.



- Steelmakers are, however, expected to get a relief from a moderation in input costs. The seaborne prime hard coking coal spot offers from Australia are expected to average at \$255-260/MT in FY2024, lower by 20-25% over FY2023 levels, on account of the improving supplies.



- The industry's operating profits is expected to sequentially increase by 20-30% in Q2 FY2024 as the benefit of lower coking coal costs start to flow in. For the FY2024 full year, the industry's operating profit margins are expected to improve to 16-17% from 14% in FY2023.



- Given the aggressive deleveraging during the previous upcycle, the industry's leverage (total debt to operating profits) is still expected to remain at a comfortable level of around 2.0-2.5 times in FY2024, as against a historic low watermark of 1.1 times in FY2022.

What's Inside?

1 The macro environment



2 Steel demand recovery in key global steel-producing hubs



3 Steel trade flows



4 Raw material scenario (iron ore, pellets, coal)



5 Trends in domestic steel demand



6 Short-range outlook for Indian steel mills



7

Performance of ICRA's rated portfolio in the steel sector



8

Company section & industry structure





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