ICRA

STEEL INDUSTRY – AT THE CROSSROADS

Chinese reopening to lift margins of secondary steel mills over primary producers, as thermal and coking coal prices witness divergent trends

MARCH 2023

OVERVIEW

The Government's capex drive has helped maintain the steel industry's capacity utilisation rate at an estimated 79% in FY2023. With steel consumption expected to grow at 7-8% next year, ICRA expect the industry's capacity utilisation rate to improve to around 80% in FY2024, despite the commissioning of some new expansion projects. However, with the industry's earnings moderating, dependence on external financing to meet committed expansion plans is likely to increase going forward.

- Domestic steel demand is expected clock a double-digit growth of around 11.3% in FY2023. With the Central Government's capex outlay poised to increase by 37% year-on-year (YoY) in FY2024, ICRA has revised upwards its steel consumption growth estimate for FY2024 to 7-8% from 6-7%.
- International steel prices reached a nine-month high in the second week of March 2023 as easing of Chinese lockdown restrictions led to a pick-up in economic activity for the world's largest producing and consuming nation. Chinese hot-rolled-coil (HRC) export offers have increased by ~15% in Q4 FY2023 so far, and domestic HRC prices have also mirrored the global trend.
- Secondary steel players are likely to witness a significant relief on input costs as the landed cost of imported thermal coal prices sequentially soften by around 20% in Q4 FY2023. For blast furnace operators, the cost scenario would be different, as imported premium hard coking coal landed costs are expected to sequentially increase by around 7-8% in Q4 FY2023.
- Following the withdrawal of export duties, monthly finished steel exports have doubled to around 0.6 million tonne (mt) in Q4 FY2023 from the November 2022 lows of 0.3 mt. While this pick-up is encouraging to see, the near-term growth opportunities in the overseas markets look challenging.
- Steel imports have risen throughout FY2023 as trade flows get diverted to high-growth markets, leading to India becoming a net finished steel importer for five months in a row between October 2022 and February 2023.
- The steel industry's leverage (total debt to operating profits) is expected to deteriorate to an estimated 2.0-2.5 times in FY2023/ FY2024 from 1.1 times in FY2022 as earnings moderate and committed capex plans gather momentum. However, this is still lower than the industry's leverage level of 2.9 times recorded during the previous upcycle of FY2019.

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Thank You!