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STEEL INDUSTRY – TRENDS & OUTLOOK

Steel price correction expected to moderate margins for steel mills in Q2 FY2026, despite a strong start to the year

AUGUST 2025

OVERVIEW

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Domestic steel companies posted a strong start to FY2026, post the SGD imposition, aided by a steel price rally and softer input costs, with Q1 FY2026 margins reflecting improved performance. However, a sharp correction in steel prices in Q2 FY2026 is expected to compress steel spreads by $25/tonne (~4-5%). Despite recent steel price recovery, upside is likely to remain capped as domestic prices continues to trade at a premium to Japanese and Korean export offers.

- **Steel industry operating margins in FY2026 are estimated to improve sequentially by 100-120 bps,** lower than the earlier expectation of 300-350 bps, owing to muted realisation. With weaker-than-anticipated margins, industry leverage (TD/OPBDITA) is expected to remain around 3.1 times in FY2026 compared to 2.5 times estimated in our earlier forecasts in May 2025 and 3.5 times reported in FY2025.
- **The escalation of the trade war between USA and China since February 2025 exerted downward pressure on Chinese steel prices,** with the HRC export offers softening to around $445/tonne in June 2025 from $475/tonne at end-January 2025. However, there was a sharp rebound in prices thereafter, supported by rising raw material costs. Chinese prices also recovered to almost $495/tonne in the second week of August 2025.
- **Domestic HRC prices rallied by 14% between December 2024 to April 2025 on Safeguard Duty (SGD) anticipation (effective from April 21, 2025),** before correcting from May 2025 and bottoming near Rs 48,750/MT by July 2025. Prices have since rebounded by 3% (Rs 1200-1500/tonne), tracking firmer international prices. Domestic prices, however, continue to trade at a premium to Japanese and Korean imports, which is likely to cap any material upside over the near term.
- **Elevated steel imports nibbled at the market share of domestic mills for most of FY2025.** However, following the SGD announcement, monthly steel imports started to decline sequentially from February 2025, contracting by nearly 29% YoY in Q1 FY2026, compared to same period of the previous year. The recent recommendation to extend SGD for three years is likely to keep imports under check. Nonetheless, with muted steel export, India is expected to remain a net importer of steel in FY2026.
- **Steel demand growth is expected to moderate to 7-8% in FY2026 as the Government of India's (GoI) capex drive** to steel-intensive sectors witness moderation compared to the FY2021-FY2024 peaks. Industry capacity utilisation slipped below 80% in FY2025 after four years, weighed down by elevated imports. With the SGD expected to curb import pressures, utilisation levels are expected to improve in FY2026.
- **The industry's large expansion plans have channelised cash flows towards growth** over deleveraging in recent years as earnings moderated from the FY2022 high watermark. However, the industry's bank debt for the steel sector stood at $176/MT of installed capacity in Mar '25, being significantly lower than the peak level of $450/MT. This suggests a much higher ability to withstand exogenous shocks.

**Industry: Calculated for a set of 4 top listed domestic steel companies for their consolidated operations which account for ~47% of the domestic installed capacity*

What's Inside?

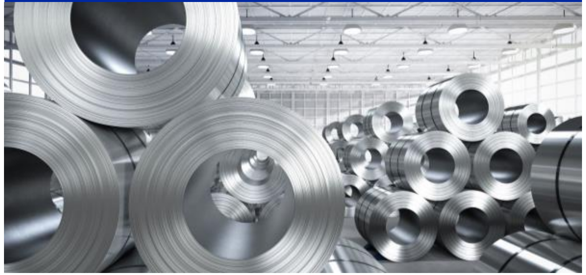
1 The macro environment

2 Steel demand recovery in key global steel producing hubs

3 Steel trade flows

4 Raw material scenario

5 Trends in domestic steel demand



6 Short-range outlook for Indian steel mills

What's Inside?

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