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INDUSTRY OUTLOOK

STEEL INDUSTRY OF INDIA: OUTLOOK AND CHALLENGES

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Introduction

With the upsurge of second wave of Covid-19 in India, amid acute shortage of oxygen and hospital bed facilities in Delhi, the situation becomes worrisome, though announcement of vaccine availability after 1 March 2021 above 18 ages for all is a positive amid the nervous market.

As India is once again in the middle of the second wave of the Covid-19 crisis, with active cases have shot up alarmingly, Investors are also worried about the pace of India's economic recovery. Domestic markets are witnessing a surge in volatility due to the current Covid-19 situation. Volatility could increase further if the situation continues to worsen. On 19th April 2021, domestic stock markets crashed and benchmark indices S&P BSE Sensex and NSE Nifty50 fell sharply. Panicked by the record rise in covid cases will derail economic recovery, the Sensex fell as much as 1470 points at day's low before recovering to close at 47,949, down about 900 points. The Nifty finished 1.7 per cent lower at 14,359, after falling to 14,191 at day's lows. [1]



The WorldSteel in its April 2021 Short Range Outlook (SRO) for 2021 and 2022, forecasts that steel demand will grow by 5.8 per cent in 2021 to reach 1,874.0 million tonnes (Mt), after declining by 0.2 per cent in 2020. However, there is still considerable uncertainty for the rest of 2021. The evolution of the virus and progress of vaccinations, withdrawal of supportive fiscal and monetary policies, geopolitics and trade tensions could all affect the recovery envisaged in this forecast.

Table 1: Finished steel products by top ten Countries (million tonnes)

Countries	million tonnes			y-o-y growth rates, %		
	2020	2021 (f)	2022 (f)	2020	2021 (f)	2022 (f)
China	995.0	1,024.9	1,035.1	9.1	3.0	1.0
India	88.5	106.1	112.3	-13.7	19.8	5.9
United States	80.0	86.5	90.2	-18.0	8.1	4.3
Japan	52.6	56.0	58.8	-16.8	6.5	5.0
South Korea	49.0	51.5	52.8	-8.0	5.2	2.5
Russia	42.5	43.8	45.1	-2.3	3.0	3.0
Germany	31.1	34.0	35.8	-11.6	9.3	5.3
Turkey	29.5	35.0	37.0	13.0	18.7	5.7
Vietnam	23.3	24.5	26.3	-4.2	5.0	7.6
Mexico	21.7	23.4	24.6	-11.8	7.5	5.5

Source: WorldSteel (15 April 2021)

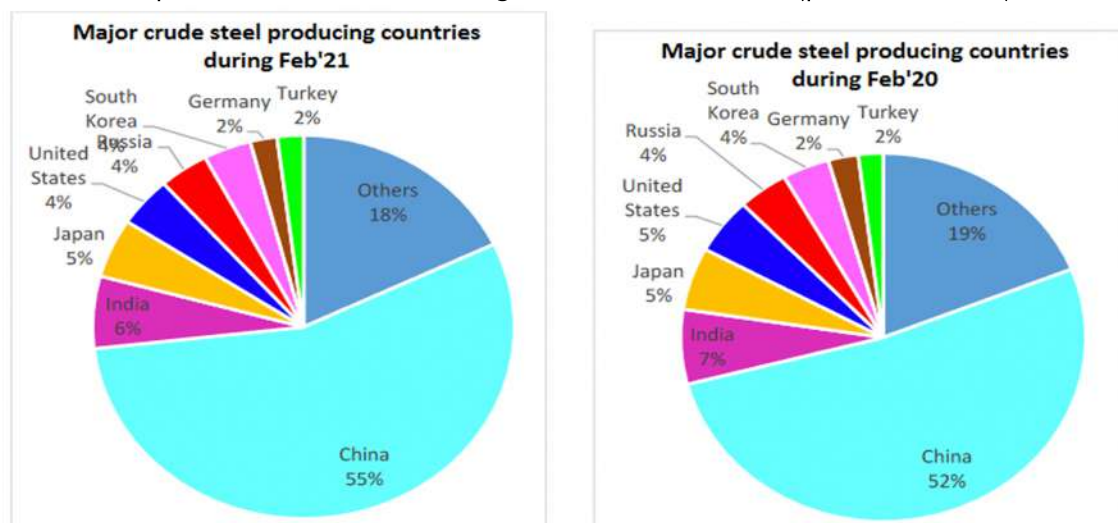
<https://www.worldsteel.org/media-centre/press-releases/2021/worldsteel-short-range-outlook-april-2021.html>

According to the Ministry of Steel's latest March'21 monthly summary, the following figures are highlighted:2

Production of crude steel in March, 2021 increased by 19.3 per cent over the same month of the last year and by 5.6 per cent as compared to the production in February, 2021. Production of finished steel in March, 2021 was 25.7 per cent higher than that in the same month of last year i.e., March, 2020 and 3.9 per cent higher than production in February, 2021. Consumption of finished steel in March, 2021 registered an increase of 40.6 per cent over March, 2020 but it declined by 5.7 per cent on month on month (M-o-M) basis.

The global production of crude steel increased in February, 2021 by 4.12 per cent over February, 2020 driven primarily by the enhanced production in China. Other major producing countries registering growth over their production in February, 2020 include Vietnam, Iran, Brazil, South Korea and Mexico Vietnam. According to the Ministry of Steel's latest available (March'21) report, China's share in the global production of crude steel has increased during Feb'21, while the share of other major producers remained stable or witnessed a decline (see following Chart 1).

Chart 1: Major Crude Steel Producing Countries in Feb'21(per cent share)



Source: Ministry of Steel, Monthly Summary on Iron and Steel (March 2021).

Export-Import Scenario

During the fiscal year 2020-21, export of finished steel from India at 10.79MT was higher by 29.1 per cent as compared to export during 2019-20 while import at 4.75 MT was lower by 29.8 per cent over the same period. The increase in export during 2020-21 was driven mainly by exports to China. Indian exports of finished steel have increased in last couple of months in 2020 due to increase in demand especially from China and Bangladesh. China accounted for almost 60 per cent of such exports consumed in the form of Hot Rolled Coils (HRC) and Semis both from primary and secondary steel producers. Export to other countries like Italy, Belgium and Spain also contributed to the increased export during the year. However, surprisingly while China has 12 per cent share in Indian steel imports in March'21, it does not have any share (or possibly dumped into other countries share which is not significant) in India's exports during the same period. On the other hand, Belgium's share in India's steel exports has increased remarkably in March'21 compared to March'20 (see Table 2).

Domestic steelmakers are relying more on exports to offset low domestic demand. For instance, JSW Steel, which exported 21 per cent of its total sales in FY20, has increased the share of its exports to more than 50 per cent in Q1FY21, while guiding for a flat sales growth in FY21.[3]

Table 2: India's Export of Steel: Major Countries (March'21/March'20)

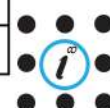
SI No.	Major Countries India Exports Steel in March'21	Exports March'21 as % of Total Export in Steel	Major Countries India Exports Steel in March'20	Major Exports in March'20 as % of Total Steel Export
1	Belgium	16%	Belgium	4%
2	Vietnam	15%	Vietnam	22%
3	UAE	6%	UAE	18%
4	Italy	22%	Italy	12%
5	Nepal	NA	Nepal	15%
6	Spain	5%	Spain	1%
7	Hong Kong	10%	Hong Kong	NA
8	Others	28%	Others	21%

Source: Ministry of Steel, Monthly Summary on Iron and Steel (March 2021).

On the import side, share of steel imports from Korea and China has increased, while from Japan and other countries it has declined in March'21 (Table 3).

SI No.	Major Countries from Which India Imports Steel in March'21	Import March'21 as % of Total Import in Steel	Major Countries from Which India Imports Steel in March'20	Major Import in March'20 as % of Total Steel Import
1	Korea	41%	Korea	37%
2	China	12%	China	10%
3	Japan	15%	Japan	17%
4	Taiwan	4%	Taiwan	4%
5	Vietnam	3%	Vietnam	NA
6	Others	17%	Others	23%

Source: Ministry of Steel, Monthly Summary on Iron and Steel (March'21).



Steel companies are likely to continue depending on exports in the first half of FY21, as domestic demand from user industries is unlikely to revive in this period. 2020 seems to be another year of double digit sales decline for the automobile sector. JSPL is exporting steel to China, Malaysia, Germany, Spain, Italy, Denmark, France and Middle East.[4] Major steel items that are being exported are rebars, hot-rolled coils, slabs, billets are exported from India.

Government Initiatives

The Government of India (GoI) has included specialty steel production to be eligible for fiscal incentives under the government's Production Linked Incentive (PLI) scheme aimed at strengthening domestic manufacturing. The domestic specialty steel industry will be entitled to an aggregate fiscal incentive of around USD 8.66 billion [5] over a period of five years based on pre-decided benchmarks like – incremental production, technology upgradation, employment generation etc.



Earlier, the government has extended anti-dumping duty on certain variety of steel products till 4th December 2020 with a view to guard domestic manufacturers from cheap imports coming from China, Korea, Russia, Thailand and including other countries.[6] The duty on imports of 'hot rolled flat products of stainless steel 304 series' from the said countries was first imposed by the finance ministry on June 5, 2015, for five years. The duty was imposed in the range of \$180-316 per tonne.[7] Countries initiate anti-dumping probes to determine if the domestic industry has been hurt by a surge in below-cost imports. As a counter-measure, they impose duties under the multilateral WTO regime.

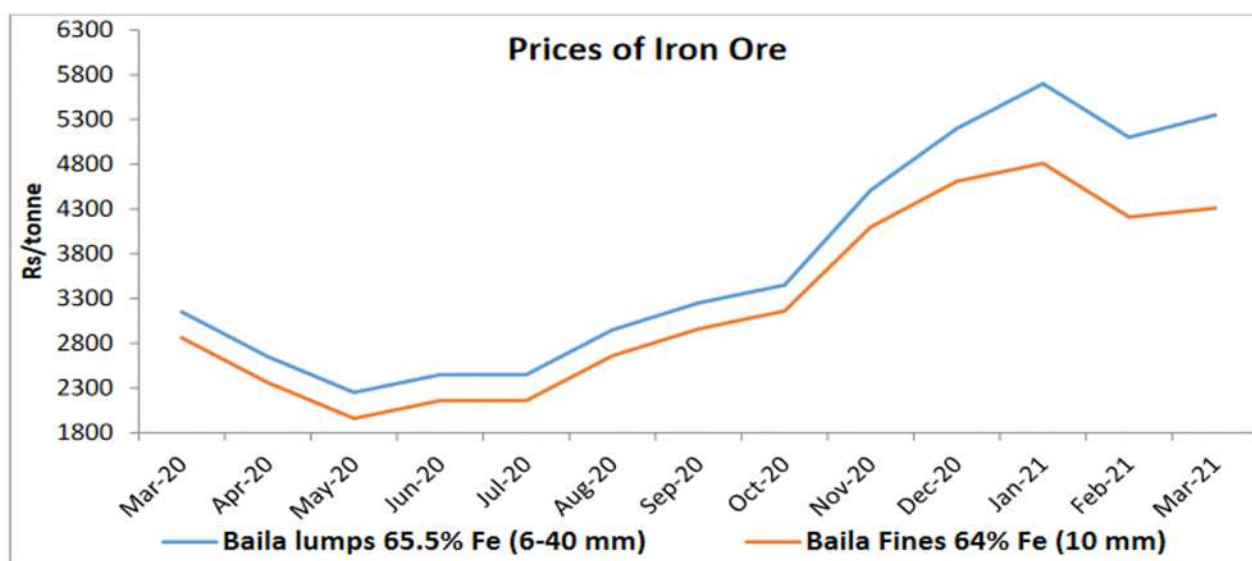
Anti-dumping measures are taken to ensure fair trade and provide a level-playing field to the domestic industry. They are not a measure to restrict imports or cause an unjustified increase in cost of products. India has initiated maximum anti-dumping cases against "below-cost" imports from China. The GoI also explores border adjustment tax on imports and infrastructure status for the steel sector as well as considering suggestions like cluster development with a supply check ecosystem. [8]

Another major step the GoI has undertaken on 28 September 2020, is making it mandatory for traders to register themselves with the Steel Import Monitoring System (SIMS) to import all iron and steel products as well as certain railways related items, a move aimed at discouraging inbound shipments of such goods and promoting local manufacturing. While earlier the mandatory registration was imposed on 300 items; now around 530 more products have been added. Other items include certain flat-rolled products, some stranded wire, ropes, cables, certain spring items and leaves for springs of iron and steel.



Roaring Steel Prices

While earlier steel prices have shown declining trend [9], but steel prices remain high amid rising global iron ore and commodity prices. HRC prices are likely face upward pressure and with a likely ₹ 4,000 per tonne increase will take the price level at approximately ₹ 60,000 per tonne. In March'21 domestic steel prices remain firm (trades at an ₹6,000 discount to prices from Korea)[10]. The rising steep prices is partly a fallout of high demand from many countries and rising commodity prices. While domestic steel companies see higher prices as beneficial for them, on the other hand, end-user sector (e.g. construction and automobile) face challenges as their raw material cost increases. Flat steel products including HRC and CRC have seen substantial price increase which is mainly used in automobile sector. Further, inflationary challenges can be further escalated due to increase in raw material prices impacting other sectors. Prices of iron ore lumps increased by 4.9% to Rs.5350/tonne and that of fines by 2.4% to Rs.4310/tonne respectively, during the month of March, 2021 over their respective prices in February, 2021. With profitability of steel companies likely to be under stress in FY21, companies with better margins, superior product mix and higher diversification can withstand this difficult phase better than others. Given the liquidity crunch and higher working capital requirement, many secondary and small steel players may take time to restart meaningful operations.



Source: Ministry of Steel (March'21)

https://steel.gov.in/sites/default/files/final%20Monthly%20summary%20Mar%2721_2.pdf

Meanwhile, integrated steel players holding large inventories can cater to the incipient demand once it revives. Certain industries have experienced raw material supply disruptions due to lockdown.[11] Demand slump has been witnesses in the Middle East, as construction activity has been adversely impacted due the spread of the pandemic. The non-availability of migrant labour has also further amplified the decline in the construction activity in the region. It is crucial to address the migrant labour issue seriously in the wake of the second Covid-19 pandemic taking lessons from the previous year.

The Way Forward

While it was anticipated a gradual recovery and normalcy or the Indian economy is cropping up, a sudden catastrophe of the Covid-19 second wave with acute failure of India's health infrastructure, rising commodity and iron ore prices as well as global steel prices have posed certain challenges for the Indian economy once again. Disruptions are also imminent in certain states as many manufacturing and forging units has suspended operations. Steel demand from construction sector is also affected due to shortage of labour. Going forward, a rapid vaccination drive with stringent adherence to Covid-19 protocols, and with gradual stability of the global commodity prices would possibly bring normalcy only gradually over time, provided no further tail risk occurs in between.

ENDNOTES

1. Livemint (19 April 2021)
<https://www.livemint.com/market/stock-market-news/why-sensex-crashed-more-than-1-400-points-today-11618805357018.html>
2. https://steel.gov.in/sites/default/files/final%20Monthly%20summary%20Mar%2721_2.pdf
3. BusinessLine (1 June 2020).
4. JSPL Q4 Financial Results and Press Release FY20
https://www.jindalsteelpower.com/img/admin/financial_reports/press_release/Press_Release_4QFY20.pdf
5. "Indian government includes specialty steel under PLI scheme" (15 February 2021) SteelOrbis
<https://www.steelorbis.com/steel-news/latest-news/indian-government-includes-specialty-steel-under-pli-scheme-1186141.htm>
6. "Commerce ministry starts probe to review continuation of anti-dumping duty on some steel products from 7 countries" (5 October 2020) Economic Times
<https://economictimes.indiatimes.com/news/economy/foreign-trade/commerce-ministry-starts-probe-to-review-continuation-of-anti-dumping-duty-on-some-steel-products-from-7-countries/articleshow/78491140.cms>
and "Anti Dumping Cases" Directorate General of Trade Remedies (DGTR)
<http://www.dgtr.gov.in/anti-dumping-cases>
7. Moneycontrol (4 June 2020).
8. "Border adjustment tax, infra status for steel on the cards" (22.08.2020) Business Standard.
9. As a consequence of the Covid-19 pandemic, steel prices started declining both amid weak demand and excess supply. The COVID pandemic started affecting the demand and hence Steel prices from January 2020. US HRC prices had declined by over 20% between Jan April 2020. Although prices started recovering still remains below compared to 2019 average. After diminishing sharply in March and April 2020, Indian retail steel prices increased marginally by 1.5 per cent month-on-month in June 2020.
10. "Steel production down 10% to 86 mt in 11 months of FY21" (14 April 2021) The HinduBusinessLine
<https://www.thehindubusinessline.com/news/steel-production-consumption-down-10-to-86-mt-in-11-months-of-fy21/article34319331.ece>
11. On the other hand, companies like JSPL have accumulated much before the announcement of lockdown raw materials like coking coal and iron ore to tide over any anticipated disruption; see
https://www.jindalsteelpower.com/img/admin/financial_reports/press_release/Press_Release_4QFY20.pdf



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