



Infomerics Ratings

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## INDUSTRY OUTLOOK

### STEEL INDUSTRY: OUTLOOK AND CHALLENGES

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## INDUSTRY OUTLOOK

With the advent of Covid-19 around the world, the view on the global economies became grim and rapidly saw a decline in the growth estimates world over. The mid-year World Economic Situation and Prospects (WESP) report<sup>1</sup>, prepared by the UN Department of Economic and Social Affairs, estimates Global GDP to shrink by 3.2 per cent in CY2020. While the developed economies expected to see a contraction of 5% in growth, developing economies are estimated to contract by 0.7%.<sup>2</sup>

## INTERNATIONAL CRUDE STEEL PRODUCTION

World crude steel production for the 64 countries reporting to the World Steel Association (Worldsteel) was 152.7 million tonnes (Mt) in July 2020, a 2.5% decrease compared to July 2019.

China produced 93.4 Mt of crude steel in July 2020, an increase of 9.1% compared to July 2019. Japan produced 6.0 Mt of crude steel in July 2020, down 27.9% on July 2019. South Korea's steel production for July 2020 was 5.5 Mt, down by 8.3% on July 2019.



**Table 1: Crude Steel Production in Major Asian Countries  
(July 2020/July 2019) ('000 tonnes)**

SI No.	Country	July 2020	July 2019	%Change (July'20)/(July'19)
1	China	93 359	85 598	+9.1%
2	India	7150	9485	-24.6%
3	Japan	6 049	8387	-27.9%
4	South Korea	5 526	6026	-8.3%
5	Pakistan	200	300	-33.3%
6	Taiwan, China	1750	1878	-6.8%
7	Thailand	300	369	-18.6%
8	Vietnam	2149	1793	+19.8%

Source: WorldSteelCrudeSteelProduction(24August2020)

<https://www.worldsteel.org/en/dam/jcr:0c066992-5f1e-486c-9fa2-5e717d58dcf1/July%25202020%2520crude%2520steel%2520production%2520table.pdf>

The Government of India (GoI) announced a nationwide lockdown on 25th March 2020 to prevent the spread of the disease, however subsequently the economic activity came to a grinding halt. Recent announcements and economic relief packages by the Government, along with the calibrated easing of the lockdowns across the country are initiatives to bring back normalcy to the economy, which would depend on how the contagion is further contained (and crucially depending on a medicine to combat the virus).

There is certain steel demand destruction domestically for the following factors:

- Due to stoppage/delayed restart of construction sites;
- Lack of migrant workforce;
- Fall in demand for automobiles;
- Decline in private consumption expenditure.

**Crude Steel Production:** The Crude steel production decreased by 68.2% in April 2020, amid Covid-19 crisis and lockdown. However, in May, June, July 2020 it has shown increasing trend based on month-on-month (m-o-m) growth, but the Year-on-Year (Y-o-Y) growth remains negative/low compared to previous year 2019. (See Table 3).

**Finished Steel Consumption:** Steel Consumption drastically declined in April 2020 by 90.7% amid Covid-19 crisis and lockdown (see following Table 2). However, it recovered to 5.6 million tonnes (MT) in July 2020.<sup>3</sup>

Continued production and nonexistent demand in the past few months have led to piling up of inventory at the plants. With no demand in the domestic market, steel players have turned towards exports, despite it being less remunerative than domestic sales.

**Table 2: Steel Consumption in India (MT) [2018-2020]**

<b>2018</b>	<b>Steel Consumption(MT)</b>	<b>Y-o-Y Growth (%)</b>
Apr	7.0	7.9
May	8.2	7.4
June	8.2	10.2
July	8.1	13.2
August	8.3	7.2
Sept	8.2	7.7
Oct	8.3	8.4
Nov	7.5	10.7
Dec	8.3	9.4
<b>2019</b>	<b>Steel Consumption(MT)</b>	<b>Y-o-Y Growth (%)</b>
Jan	8.4	6.5
Feb	8.5	8.6
March	9.5	8.8
Apr	7.5	6.5
May	8.8	6.6
June	8.8	6.4
July	8.4	3.5
August	8.8	5.6
Sept	8.3	1.5
Oct	8.5	2.8
Nov	7.3	-2.2
Dec	8.3	-0.1
<b>2020</b>	<b>Steel Consumption(MT)</b>	<b>Y-o-Y Growth (%)</b>
Jan	9.0	6.9
Feb	7.8	-7.6
March	6.7	-28.8
April	0.7	-90.7
May	NA	
June	NA	
July	5.6	

Source: 'Data Monitor: Steel producers Reach > 80% utilization levels'(15/6/2020)Financial Express and Ernst & Young (EY) Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).

**Table 3: Indian Crude Steel Production (MT)**

<b>2019</b>	<b>Steel Production(MT)</b>	<b>Y-o-Y Growth (%)</b>
Apr	8.7	0.1
May	9.2	5.2
June	9.3	3.6
July	9.2	5.5
August	9.0	1.8
Sept	9.0	5.2
Oct	9.1	3.6
Nov	8.9	3.7
Dec	9.0	0.0
<b>2020</b>	<b>Steel Production(MT)</b>	<b>Y-o-Y Growth (%)</b>
Jan	9.3	1.6
Feb	9.6	9.4
March	8.0	-14.6
Apr	2.8	-68.2
May	5.8	-39.1
June	6.9	-26.3
July	7.6	-20.1

Source: 'Data Monitor: Steel producers Reach > 80% utilization levels'(15/6/2020)Financial Express; and Ernst & Young (EY) Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).

## **Anti Dumping Duty on Steel Products**

On 23 June 2020, India imposed anti-dumping duty on imports of certain types of steel products from China, Vietnam and Korea for five years with a view to guard domestic manufacturers from cheap imports from these countries. The duty imposed is in the range of USD 13.07 per tonne to USD 173.1 per tonne on imports of 'Flat rolled products of steel, plated or coated with alloy of Aluminium and Zinc' from these three countries. The duty was imposed after the Commerce Ministry's investigation arm Directorate General of Trade Remedies (DGTR) in its probe concluded that the product was exported to India by these countries below its associated normal value, which resulted in dumping and in turn impacting domestic players.

Source: Economic Times (24 June 2020).

**Table 4: Major Import groups by product category,  
Country wise in May 2020 (% Share)**

SI No.	Product Category	Country	%Share	Remarks
1	HR Coil	Korea republic	7%	Highest increase seen in May 2020: Screws bolts from South Korea and Japan Highest decrease seen in May 2020: Alloy Flats and rail Coaches from South Korea and semis from Bhutan.
2	Alloy Flats	China	5%	Import in May 2020: 693 million
3	Alloy Flats	Japan	4%	Average Monthly Import: 804 million
4	Tubes and Pipes	China	3%	Import in May 2020 693 Million is -3% lower than April 2020 714 Million.
5	Scrap	United States	3%	
6	Plated Coils	Japan	2%	
7	Plated Coils	Korea Republic	2%	
8	Scrap	United Kingdom	2%	

Source: Ministry of Steel.

**Table 5: End Use Industry Wise Imports in May 2020(USD Million)**

SI No.	End Use	%of Total	Value (USD Million)
1	Automobile	17%	116
2	Trade/Dealer	11%	78
3	Pipe and Tube	11%	74
4	Melting	8%	59
5	Ingots and Forgings	6%	40
6	API Steel Grade/Oil & Gas	5%	34
7	Re-Rolling	4%	30
8	Steel making	4%	28

Source: Ministry of Steel.

## EXPORTS OF INDIAN STEEL HAVE REVIVED IN FY20

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.<sup>4</sup>

Indian exports of finished steel have increased in last couple of months in 2020 due to increase in demand especially from China and Bangladesh. In July 2020, the export of finished steel has increased to 20.3 per cent compared to 7.2 per cent in July 2019.<sup>5</sup> 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.

India's export of steel to China and Bangladesh has increased in August 2020 compared to August 2019.

**Table 6: India's Export of Steel: Major Countries (2019-2020)**

SI No.	Major Countries India Exports Steel in August 2020	Exports in August 2020 as % of Total Steel Export	Major Countries India Exports Steel in August 2019	Major Exports in August 2019 as % of Total Steel Export
1	China	38%	China	0.05%
2	Vietnam	14%	Vietnam	26%
3	UAE	10%	UAE	10%
4	Italy	9%	Italy	17%
5	Bangladesh	3%	Bangladesh	1%
6	Nepal	5%	Nepal	9%

Source: Ministry of Steel, Monthly Summary on Iron and Steel (August 2020).

On the import side, share of steel imports from Korea and Japan declined in August 2020 while it increased for China, Taiwan and Vietnam as compared to their share in August 2019.



**Table 7: India's Import of Steel: Major Countries (2019-2020)**

SI No.	Major Countries from Which India Imports Steel in August 2020	Import in August 2020 as % of Total Steel Import	Major Countries from Which India Imports Steel in August 2019	Major Import in August 2019 as % of Total Steel Import
1	Korea	35%	Korea	37%
2	China	17%	China	15%
3	Japan	13%	Japan	16%
4	Taiwan	11%	Taiwan	0.6%
5	Vietnam	3%	Vietnam	1.2%
6	Others	21%	Others	30%

Source: Ministry of Steel, Monthly Summary on Iron and Steel (August 2020).

Tata Steel and Jindal Steel & Power (JSPL) are exporting 80%-90% of their production<sup>6</sup>. In addition to traditional markets like Southeast Asia and Middle East, China has emerged as a significant importer of semi-finished steel items as mills besides, Vietnam, Cambodia and Indonesia.

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<sup>7</sup>.

Major steel items that are being exported are rebars, hot-rolled coils, slabs, billets are exported from India. On the realisations front, improvement in Indian steel prices is expected to be muted going ahead.

## GOVERNMENT INITIATIVES

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<sup>8</sup>.

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<sup>9</sup>. 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<sup>10</sup>.

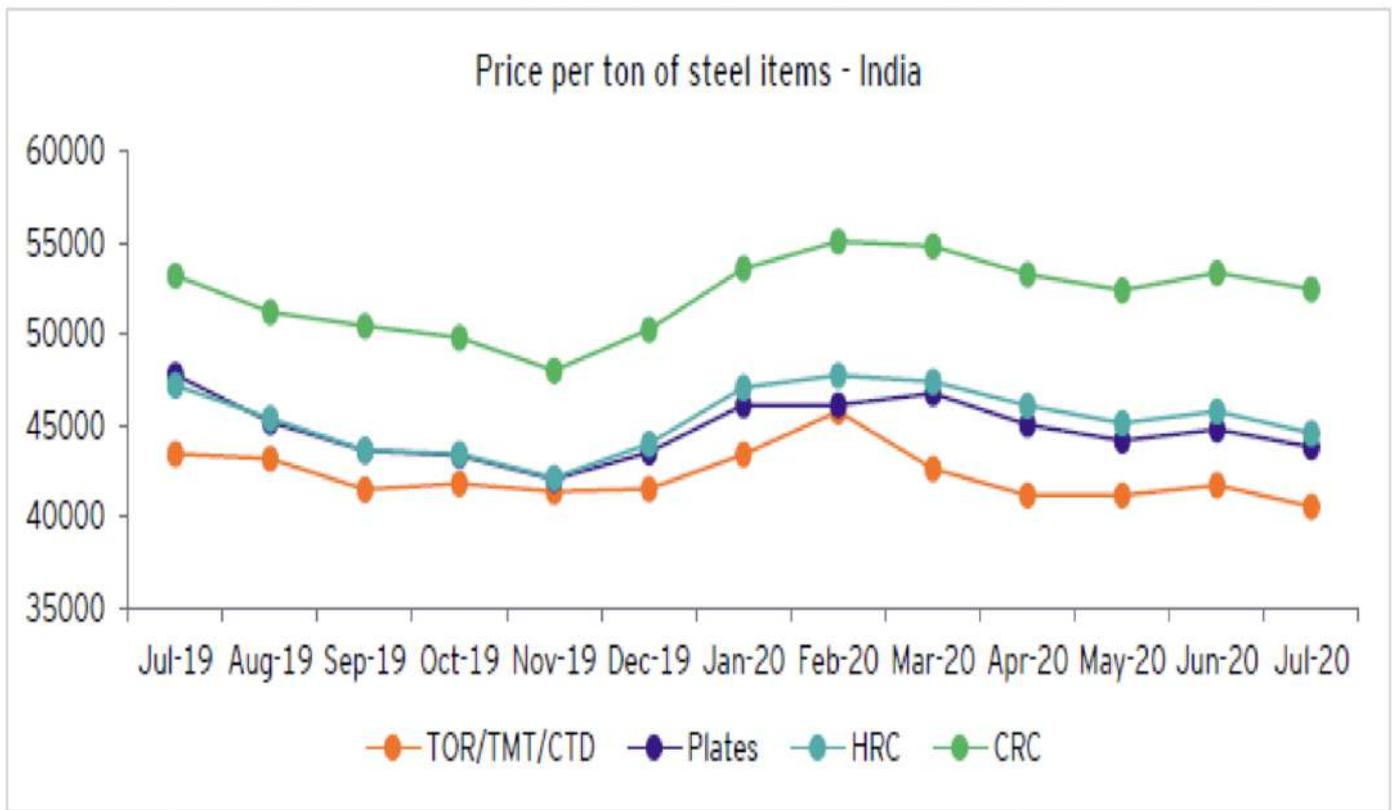
Another major step the GoI has undertaken on 28 September 2020, is making it mandatory for traders to register themselves with the Steel Import Monitoring System (SIMS) to import all iron and steel products as well as certain railways related items, a move aimed at discouraging inbound shipments of such 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. The implementation date for this notification will be 16 October 2020<sup>11</sup>.

Ministry of Steel took a meeting on Monetisation of Assets of SAIL on 20th August 2020 and directed for working out detailed plans for selling off its scrap and idle assets and monetisation of assets along with selling off the investments in JVs/SPUs, etc. SAIL has taken a proactive role to expedite the process of identification of idle assets/ decommissioned facilities, plant-wise, for monetization<sup>12</sup>.

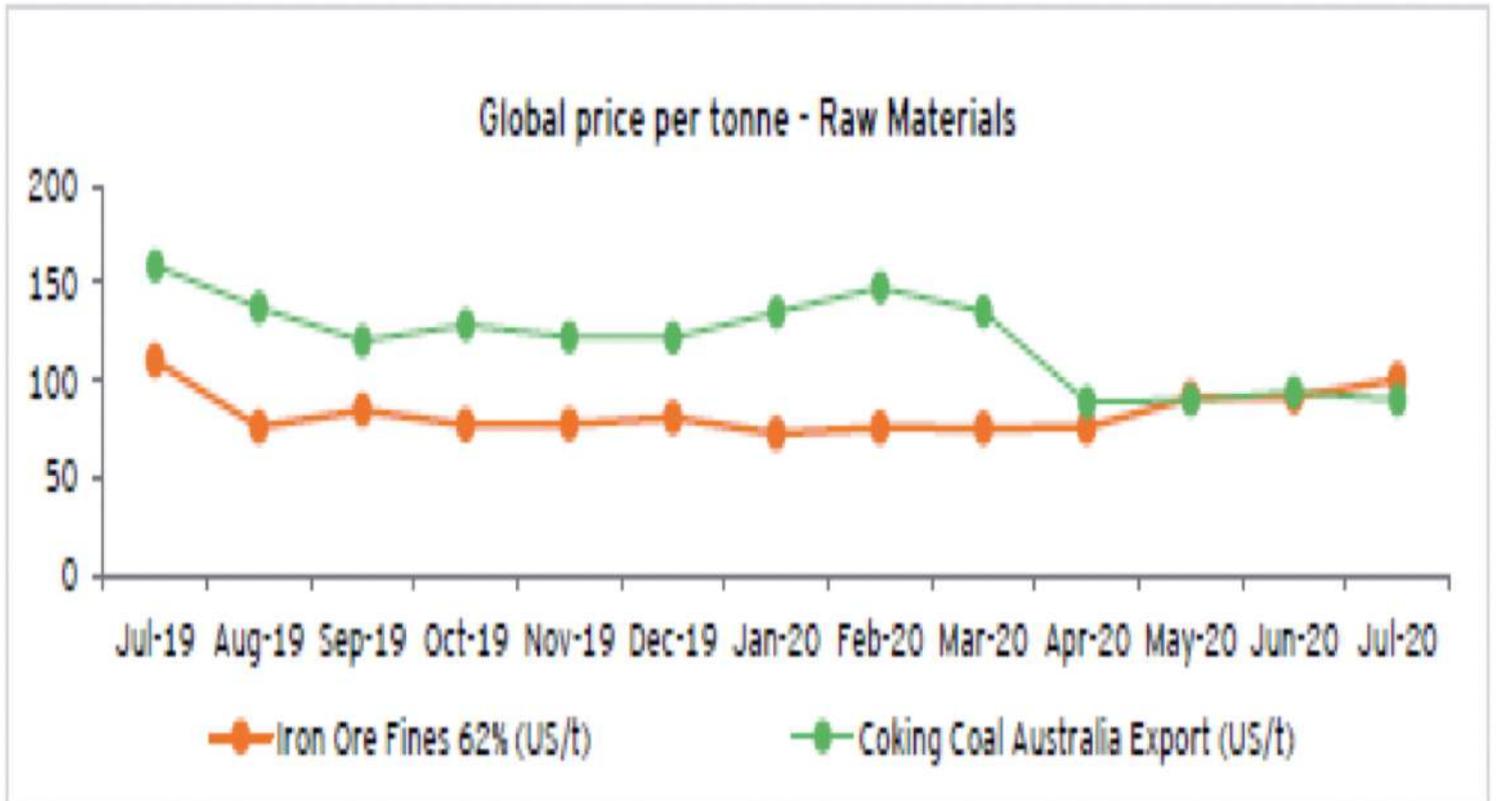
## IMPACT ON STEEL PRICES AND PROFITABILITY

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<sup>13</sup>. 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.





Source: Ernst & Young Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).



Source: Ernst & Young Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).

## INDUSTRY RISK

World steel Association (WSA) in its short range outlook (4th June 2020) stated that India is likely to face an 18.0% decline in steel demand in 2020, which will rebound by 15.0% in 2021<sup>14</sup>. India has implemented the most stringent nationwide lockdown measures in the world, bringing industrial operations to a standstill. Construction activity was halted entirely at the end of March, and recovery is expected to remain slow due to the slow return of labour. Supply chain disruption coupled with slower demand recovery will hit the automotive sector hard. The machinery sector is expected to see a continued decline, with weak private investment and supply chain disruption. In 2020 worldsteel forecasts that steel demand will contract by 6.4%, dropping to 1,654 Mt due to the COVID-19 crisis. In 2021 steel demand is expected to recover to 1,717Mt, an increase of 3.8% over 2020<sup>15</sup>.

Nevertheless, pressure on exports is rising as global recovery faces a slowdown amid Covid-19 crisis. Quality of exports tilted to low margin products with marginal dip in export prices. India-China trade and border tension has weighed also on Chinese steel demand. As the European Union (EU) modifies steel safeguard measures to country-specific quarterly quotas; margins are likely to face a squeeze on lower blended realizations and lower export prices. While lower iron ore prices are providing some comfort, that may not be sufficient to ease cost pressures.

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 operations. 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<sup>16</sup>. Demand slump has been witnessed in the Middle East, as construction activity has been adversely impacted due to the spread of the pandemic. The non-availability of migrant labour has also further amplified the decline in the construction activity in the region. Tata Steel Europe performance was adversely impacted in June 2020 quarter with the overall weakness in economic activities in Europe<sup>17</sup>.

The domestic demand is likely to be downcast till the sectors such as auto, infrastructure, real estate construction, electronics and consumer durables started to recover and resumed normal operations. Consumption of long Steel products majorly used in buildings, construction and capital goods sectors are expected to have a quicker recovery as compared to flat Steel, where the demand is consumer-driven through end user segments like automotive and domestic appliances. This has resulted in a steady increase in crude Steel and finished Steel production, from the month of April 2020 onwards. However, demand from infrastructure, construction and real estate sectors can remain subdued in 1HFY21 (first half of FY21) with the legacy impact of the lockdown.



# THE WAY FORWARD

Though it is too early to say, however, gradual easing of mobility restrictions, a revival in export of steel and modest improvement in demand environment, capacity utilization of blast furnace players can be improved given no other unanticipated shock deteriorates economic condition further. Revival will take yet some time depending upon sustained price recovery, lower input cost and higher capacity utilization rates. Furthermore, there can be differential impact on big and small players depending on their market strategies and access to export market, handling of raw material costs etc. A crucial initiative by the Steel Import Monitoring System (SIMS) by the GoI might incentivize domestic manufacturing of steel; however, given the subdued domestic demand condition following the pandemic, access to international market (export) for steel products (especially for small players) would be vital for the revival of the industry.



## FOOTNOTES

1. "World Economic Situation and Prospects (WESP) mid-2020 report"(13 May 2020)United Nations <https://www.un.org/development/desa/publications/world-economic-situation-and-prospects-wesp-mid-2020-report.html>
2. [https://www.jindalsteelpower.com/img/admin/financial\\_reports/press\\_release/Press\\_Release\\_4QFY20.pdf](https://www.jindalsteelpower.com/img/admin/financial_reports/press_release/Press_Release_4QFY20.pdf)
3. Ernst & Young (EY) Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).
4. BusinessLine (1 June 2020).
5. Ernst & Young (EY) Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).
6. "Domestic steelmakers rely on exports as local demand slump"(8 May 2020) Economic Times.
7. JSPL Q4 Financial Results and Press Release FY20 [https://www.jindalsteelpower.com/img/admin/financial\\_reports/press\\_release/Press\\_Release\\_4QFY20.pdf](https://www.jindalsteelpower.com/img/admin/financial_reports/press_release/Press_Release_4QFY20.pdf)
8. "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>
9. Moneycontrol (4 June 2020).
10. "Border adjustment tax, infra status for steel on the cards"(22.08.2020) Business Standard.
11. "Insertion of Policy Condition, regarding import under all HS codes in Chapter 72,73 and 86 of ITC (HS), 2017 to require compulsory registration under Steel Import Monitoring System (SIMS)" (28 September 2020), DGFT, Ministry of Commerce & Industry, Department of Commerce.
12. Ministry of Steel, Monthly Summary on Iron and Steel (August 2020).
13. Ernst & Young Report "Securing a robust and sustainable future for the Indian Steel Industry"(September 2020).
14. 'PRESS RELEASE -worldsteel Short Range Outlook June 2020' (4 June 2020) <https://www.worldsteel.org/en/dam/jcr:b5cc5cc2-75f8-4f0d-adb8-5c4f2cdfaade/worldsteel%2520Short%2520Range%2520Outlook%2520June%25202020.pdf>
15. <https://www.worldsteel.org/en/dam/jcr:b5cc5cc2-75f8-4f0d-adb8-5c4f2cdfaade/worldsteel%2520Short%2520Range%2520Outlook%2520June%25202020.pdf>
16. 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](https://www.jindalsteelpower.com/img/admin/financial_reports/press_release/Press_Release_4QFY20.pdf)
17. The company did receive short support from the UK and Netherlands Government including cash flow deferrals of payables; Tata Steel Press Release (13 August 2020) <https://www.tatasteel.com/media/12471/press-release-1qfy21.pdf>

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