STEEL INDUSTRY – TRENDS & OUTLOOK

Profitability of primary steelmakers to weaken in H2 FY2024 due to input cost pressures and sliding realisations

NOVEMBER 2023

OVERVIEW

Since FY2022, India has been witnessing the strongest pace of steel demand growth in the era post the global financial crises. The FY2024 domestic steel demand growth is expected at 9-10% as Government accelerates infra spending ahead of the Elections. Despite lacklustre export prospects and sizeable capacity addition in the current fiscal, industry capacity utilisation is expected to improve to a decadal high of around 83% in FY2024, supported by strong domestic demand.

- An accelerated pace of infra spending by the Central Government ahead of the 2024 Elections, has ensured a strong demand momentum for the domestic steel industry in the current fiscal, as witnessed by steel consumption growing by 15% between April and October of FY2024.
- While Chinese steel production grew by a modest 2.4% between January-October of CY2023, Chinese steel exports grew by a much sharper 37.3% in the same period. This points to subdued demand condition in the world's largest steel market because of the ongoing stress in the property sector.
- Domestic steel prices were at a premium to seaborne prices for most of the first half of the current fiscal. However, corrections of around 4.7% and 6.7% in domestic long and flat steel prices in the current quarter have now brought in greater price-parity with international steel prices.
- Disruptions in Australian supplies led to a sharp 54.3% spike in spot premium hard coking coal prices in a span of three months between early July 2023 (US$ 235/MT fob Australia) and mid-October 2023 (US$ 363/MT fob Australia). Given the price volatility, Indian mills have progressively reduced their dependance on Australian cargoes from 76% in FY2018 to 52% in H1 FY2024.
- The industry's operating profit margins are likely to sequentially dip by ~110 bps in H2 over H1 of FY2024 as margins gets squeezed by the steel price corrections and high raw material costs. Secondary players' financial performance would be better than primary players in H2 FY2024 as thermal coal prices remain more stable than coking coal prices.
- Given the aggressive deleveraging during the previous commodity 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, against a historic low watermark of 1.1 times in FY2022. The industry's interest cover is expected to remain at 4.5-5.0 times in FY2024, against 10.7/4.8 times in FY2022/FY2023.

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Thank You!