

# STEEL INDUSTRY – TRENDS & OUTLOOK

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**Cautious in the short term, optimistic  
in the medium to long term**

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*In the six-month period between June and November of 2023, as the Government accelerated infrastructure spending ahead of the Union Elections, domestic steel demand grew at a brisk pace of around 16% over the same period of last fiscal. However, the prints for December 2023 and January 2024 reveals a marked slowdown in consumption growth to just 6.5%. This hints at a possibility of demand remaining soft over the next two quarters as the Government spending slows down around the election season.*



- ICRA expects the operating environment of the domestic steel producers to remain challenging in the next fiscal as the industry navigates through a period of softness in steel prices, elevated input costs, a temporary deceleration in domestic demand growth close to the Union Elections, and a weak external environment. Domestic steel prices have corrected by ~8-10% in H2 FY2024 so far.
- Domestic steel consumption growth is expected to slow down to 7-8% in FY2025 (as against 12-13% in FY2024E), bucking the trend of the previous few years, when, the industry experienced the fastest period of growth post the global financial crisis.
- On the external environment, steelmakers remain on tenterhooks, with multiple structural headwinds in the Chinese economy leading to the country's steel exports reaching a seven-year high of 90.3 million tonne (mt) in CY2023 (65.3 mt in CY2022). Steel exports from China to India have therefore sharply increased by 79.8% in 10M FY2024, exerting pressure on domestic prices.
- With imports remaining elevated and export prospects also remaining soft, India is poised to become a net finished steel importer in the current fiscal after a gap of five years. Unless the external environment meaningfully improves from hereon, India could remain a net steel importer in the next fiscal as well.
- In the base case scenario, domestic steel prices are expected to average lower by 3-4% in FY2025 over FY2024. This leads ICRA to believe that the industry's\* operating profits could further trend down sequentially by 110-115 basis points in FY2025.
- The industry's\* leverage (total debt to operating profits) has been steadily increasing from the historic low watermark of 1.1 times in FY2022 to 2.0-2.5 times in FY2023/FY2024E. With earning expected to remain under pressure in FY2025, and capex plans in full swing, the industry's\* leverage is likely to increase further to 2.5-3.0 times in FY2025.

*\*Industry: Calculated for a set of 20 listed domestic steel companies for their standalone operations in India which account for ~55% of the domestic installed capacity*

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