



STEEL INDUSTRY – TRENDS & OUTLOOK

Earnings of domestic steel mills to sequentially increase in Q1 FY2025 as input costs moderate and steel prices go up

MAY 2024





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Domestic steel consumption registered a growth of 11.3% between February to April 2024. While government capex spending was healthy until February 2024, other steel consuming sectors like housing/real estate contributed to the resilient demand thereafter. Given these leading trends, the rating agency has revised its FY2025 full-year steel demand growth target to 9-10%, higher by 200 basis points.



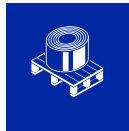
- Around 27.5 mtpa of new capacity expected to come onstream between FY2025 and FY2027. The industry is poised to witness an all-time-high-capacity addition of 15.6 mtpa in FY2025. However, such large capacity additions have been adequately counterbalanced with incremental demand, helping shore up the industry's utilisation level to a decadal high of ~88% in FY2024/FY2025E.



- Coking coal cargoes from Australia trended down by 28% from the high watermark of US\$ 338/MT (FoB basis) in the second week of January 2024, to US\$ 243/MT in the fourth week of May. This, along with the sequential uptrend in steel prices in the current fiscal so far, is expected to lead to a meaningful improvement in the industry's Q1 FY2025 earnings compared to the Q4 FY2024 lows.



- India's finished steel imports increased by 38.2% in FY2024. In line with ICRA's expectation, India turned into a net steel importer last fiscal after a gap of five years. Given the weak global growth outlook over the next few quarters, ICRA expects domestic steel imports to rise further by ~13-14% in FY2025, leading to India being a net steel importer in the current fiscal as well.



- In FY2025, given the subpar global economic outlook in most of the large key steel-consuming regions, and the competition with Chinese mills expected to remain elevated in India's key export destinations of Europe, Middle East, and South-east Asia, ICRA expects finished steel exports to witness only a modest increase of ~7-8% in FY2025.



- With demand remaining strong even during the election season, ICRA has revised its baseline FY2025 average steel prices forecast upwards by 2-3% over its previous estimates made in February 2024. This is expected to lead to an earnings uplift of US\$ 12-18/MT in the current fiscal.



- With the industry's FY2025 earnings being revised upwards following the expectation of better realisations, and higher deliveries, the industry's leverage (total debt to operating profits) is expected to remain at a comfortable level of 2-2.5 times in FY2025, making the industry resilient to withstand a worsening macroeconomic environment.

**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*

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



7 Performance of ICRA's rated portfolio in the steel sector



8 Company section



9 Measuring up on carbon footprint





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