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STEEL INDUSTRY – TRENDS & OUTLOOK

Rise in cheap imports threaten investment pipeline, asset utilisation rates & balance sheet health of domestic steel companies

NOVEMBER 2024

OVERVIEW

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ICRA expects the FY2025 domestic steel consumption to grow at a healthy 10-11%. On the price front, elevated imports along with weak Asian steel prices have led to significant price corrections in the domestic steel market. However, the reduction in coking coal prices observed in the current year have shielded the operating profits. While underlying demand remained strong, the surge in imports is expected to curtail FY2025 finished steel production growth at just 5%, leading to the industry's capacity utilisation levels slipping below 80%

- On the external environment, steelmakers remain on tenterhooks, with multiple structural headwinds in the Chinese economy leading to the country's steel exports rising by an astounding 21.8% in 10 CY2024. At this rate, Chinese steel exports may exceed the highs of CY2015. China continues to remain the top steel exporter to India with a share of around 30% in the overall finished steel imports in 7M FY2025.
- Supported by the Central Government's capex drive, domestic steel demand grew at a compounded annual growth rate (CAGR) of 12.6% between FY2022 and FY2024. This represents the fastest pace of growth in the era post the global financial crisis. In the current fiscal as well, ICRA expects the domestic steel demand to grow at a healthy rate of 10-11%.
- Steel imports continued unabated in 7M FY2025 growing by 42.1% YoY. India remained a net importer of finished steel in 7M FY2025. Elevated imports along with weak Asian steel prices have led to flat steel prices correcting by around 12% over May-November 2024.
- Steel exports in 7M FY2025 declined by 29.3% on a YoY basis, reflecting a challenging export market. ICRA expects the full-year FY2025 finished steel export volumes to be lower than 5 million tonne, implying a contraction of 35% over FY2024. Incidentally, this would also be the lowest export tonnages after FY2016 metals meltdown.
- Australian coking coal cargoes have been on a downward trajectory since February 2024 and hit a low of US$ 180/MT in the third week of September 2024, before settling at around US$ 200/MT in the third week of November 2024. Slack steel production growth in most importing countries (barring India) continues to cap coking coal demand and thus exerting pressure on prices.
- The industry's* leverage (total debt to operating profits) has been steadily increasing from the historic low watermark of 1 times in FY2022 to 2.2 times in FY2023/FY2024. With earning expected to moderate somewhat in FY2025 due to lower spreads, and capex plans in full swing, the industry's* leverage is likely to increase further to around 2.5 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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Thank You!