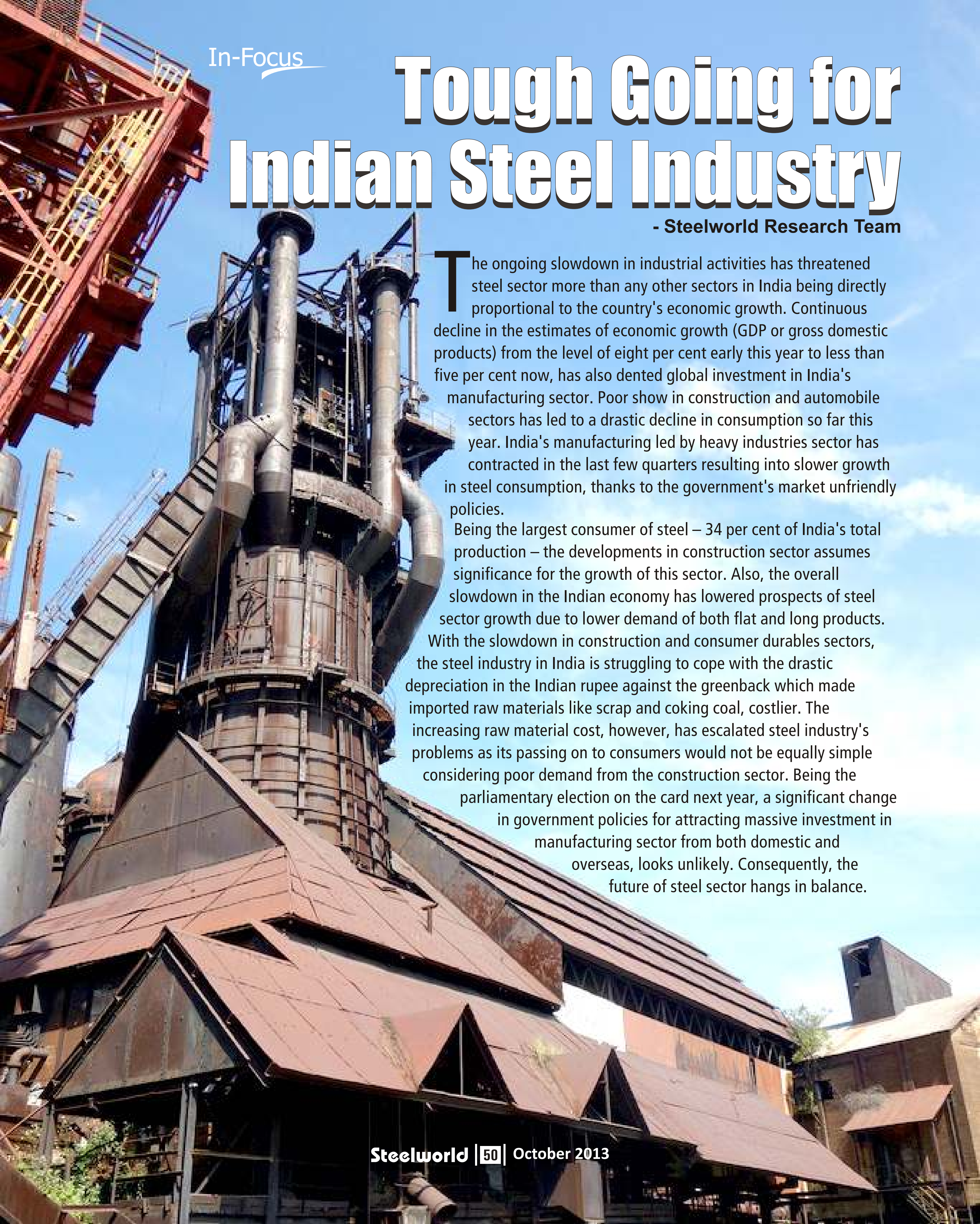

Tough Going for Indian Steel Industry

- Steelworld Research Team

The ongoing slowdown in industrial activities has threatened steel sector more than any other sectors in India being directly proportional to the country's economic growth. Continuous decline in the estimates of economic growth (GDP or gross domestic products) from the level of eight per cent early this year to less than five per cent now, has also dented global investment in India's manufacturing sector. Poor show in construction and automobile sectors has led to a drastic decline in consumption so far this year. India's manufacturing led by heavy industries sector has contracted in the last few quarters resulting into slower growth in steel consumption, thanks to the government's market unfriendly policies.

Being the largest consumer of steel – 34 per cent of India's total production – the developments in construction sector assumes significance for the growth of this sector. Also, the overall slowdown in the Indian economy has lowered prospects of steel sector growth due to lower demand of both flat and long products. With the slowdown in construction and consumer durables sectors, the steel industry in India is struggling to cope with the drastic depreciation in the Indian rupee against the greenback which made imported raw materials like scrap and coking coal, costlier. The increasing raw material cost, however, has escalated steel industry's problems as its passing on to consumers would not be equally simple considering poor demand from the construction sector. Being the parliamentary election on the card next year, a significant change in government policies for attracting massive investment in manufacturing sector from both domestic and overseas, looks unlikely. Consequently, the future of steel sector hangs in balance.

CRUDE STEEL PRODUCTION TREND

Financial Year	Output (tonnes)
1999	24.3
2000	26.9
2001	27.3
2002	28.8
2003	31.8
2004	32.6
2005	45.8
2006	49.5
2007	53.5
2008	57.8
2009	63.5
2010	68.3
2011	72.2
2012	76.7
2013*	40.3

* April - September

Difficult First Half, Troublesome Second

The slowdown in industrial sector is evident with the minuscule growth in consumption in the first half of the current financial year. Data compiled by the Joint Plant Committee (JPC), a unit of the Steel Ministry showed that steel consumption in the first six months of the current fiscal remained flat, showing just 0.8 per cent year-on-year growth due to poor offtake by construction and automobile sectors. The consumption of finished steel, a key indicator to the health of an economy, was at 36.58 million tonnes (MT) during the April-September period of the current fiscal. India, world's fourth largest steel maker, had consumed 36.28 MT steel during the April-September period of the last fiscal. Apart from the beleaguered auto sector, the bad run of the construction sector, which consumes maximum steel, is taking a toll on the steel consumption, a sectoral analyst said

The government has acknowledged of a massive slowdown in India's steel consumption. The committee agreed to what analysts were saying all along – steel consumption had been impacted in the April-September 2013 period by the slowdown in India's domestic economy. But the recent JPC report has not found resonance in the growth predictions of some of India's steel major producers. While agreeing that domestic economic conditions had negatively impacted use, Tata Steel, for example, still feels that steel consumption was likely to grow by about five percent in the current fiscal year. A report quoted Tata Steel Managing Director H M Nerurkar as saying his company still held the view that "India should have the consumption growth of around five percent in current fiscal year." Incidentally, last year, the country's steel consumption had moved up by just 3.3%, the lowest in the last three years. In 2011-12, it had gone up by 5.5%, and in 2010-11, it was up by 9.9%. Much of India's steel growth, indeed its overall economic growth, has come down by a drop in mining, because of the legal ban, and a fall in manufacturing output. So much so that India's economic growth in the April-June quarter this year had slid to a record-low of 4.4%.

Meanwhile, the well-known industry body World Steel Association (WSA) had earlier pegged India's steel demand growth at 5.9 percent to 75.8 MT in 2013. But that target now seems unachievable. The Tata Steel MD said slowdowns in automobile and real estate would have impacted on steel consumption this year.

C S Verma, chairman of the public sector steel behemoth Steel Authority of India (SAIL) remained bullish on India's steel consumption. Verma, recently in an interview, said that despite the ongoing so called "slowdown" steel producers have not shelved their capax plans. Therefore, hectic expansion is going on in steel sector.

No Isolation

At 53.6 million tonnes of India's steel output in the first 10 months signifies a growth of 3.6%. In the meantime, however, demand has risen 4.7%. India cannot remain isolated from what is happening elsewhere. While the impact is visible in India but, that has been on smaller scale as compared to global economies, said Verma. India is not working in isolation. In absolute terms, there was much more scope but still India did far better than the economies in Europe or other parts of the world.

Production Rises

Total production, however, was up by 6.2 per cent to 40.3 MT during the April-September period compared to 38 MT during the same period last fiscal, JPC data revealed. Ashish Kejriwal, an analyst with Elara Securities (India), said that increasing production helped domestic large producers increase market share as data reveals imports have reduced significantly (down 25% yoy to 2.95 MT), implying import substitution of ~1 mn tonnes during the same period. SAIL's production was up by 5.8 per cent at 5.28 MT. RINL produced 11.8 per cent to 1.38 MT. Tata Steel's production was up by 27.4 per cent to 3.65 MT. World Steel Association (WSA) has recently slashed its projection for India's steel demand growth to 3.4 per cent for the current year from the earlier forecast of 5.9 per cent. 'In India, steel demand is expected to grow by 3.4 per cent to 74 million tonnes (MT) in 2013 following 2.6 per cent growth in 2012 as high inflation and structural problems are constraining steel using sectors' activities,' the industry association had said in its short-range outlook released earlier this month. WSA had in April projected India's steel demand growth at 5.9 per cent for 2013, pinning hopes on monetary easing and investment activities.

Total exports during April-September 2013 remained flat YoY at 2.4 mn tonnes. However, we observed an increasing trend in the past three months, primarily due to the rupee depreciation, which makes Indian producers more competitive. Steel exports increased from 278 kt in June 2013 to 493 kt in September 2013. Net imports declined by 63% YoY to 587 kt. We expect this trend to continue for some time, which reduces oversupply in the domestic market to a great extent.

A Sign of Revival

Although domestic real steel demand increased by 0.8% yoy to 36.6 mn tonnes during April-September 2013 (up 0.3% yoy during April- August 2013), we observed signs of improvement in September 2013. During September, real steel consumption increased 3.3% yoy to 6.24 mn tonnes. Our channel checks indicate some improvement at the ground level in the same period. We expect demand growth to improve from the current levels in the upcoming months, primarily on low base. Recently, World Steel Association pruned CY13 steel demand forecast for India to a realistic level of 3.4% yoy to 74 mn tonnes. It further forecast CY14 demand growth of 5.6% yoy to 78 MT. Marginal uptick in demand coupled with lower supply in flat steel and the depreciation rupee against the dollar help domestic producers to increase steel prices.

Sluggish Demand

Sluggishness in key end-user industries continued so far this year, leading to the domestic steel consumption growing slowly over the corresponding period of the previous fiscal year. This reflects a further slowdown from the 3.3% growth rate posted in FY13, which itself was lower than the growth rate of 5.5% recorded in FY12. Domestic steel production growth also stood at a low of 2.5% in FY13 as compared to 6.6% registered during FY12. With all key user segments posting weak trends, the outlook for steel demand growth in the near term remains unfavorable. Steel imports have slid into a negative territory in the period April-June 2013 (-34.1%), continuing with the trend witnessed in the second half of the previous year. Overall growth in steel imports in FY13 stood at 14.6%, sharply down from a growth rate of around 38% posted in the first five months of FY13, implying a moderation during the second half due to a reduced differential between domestic and imported steel prices. The decline in import also represents a weak demand and a higher base effect. On the other hand, steel exports have risen by 12.7% % in the period April-June 2013. This was largely necessitated by an inventory build-up by major steel producers, who reported a higher production growth relative to the growth in demand. A depreciating rupee and export incentives have also aided steel exports, despite the declining trend in international steel prices in the above period. With a capacity of about 15 million tonnes (mt), which is equal to almost 16% of the current domestic capacity, being estimated to come up in FY14 as per the Working Group of Ministry of Steel, ICRA believes that it would be imperative for the domestic steel industry to sustain the export growth till domestic demand revives.

Industry, meanwhile, is hopeful of a restoration in demand growth going forward. Alok Gupta, President, Sales & Marketing, Essar Steel India said, "Reaching a demand growth of 5.6% from the current 3.4% is not too difficult to achieve. All that it requires is the policies that drive demand like spend on infrastructure, revival of projects that are stuck mid-way due regulatory issues, revival manufacturing sector and lower finance costs. India has achieved a demand growth of close 10% between 2006 and 08. Hence we are optimistic that the growth of 5.6% is achievable”