



Govt. Spending - Key for Revival of Indian Steel Sector : Fitch



Spending on infra projects such as housing for all and smart cities is the key for the revival of the Indian steel industry, which faces headwinds like cheap imports, global agency Fitch said.

"Spending by the Indian government on infrastructure will be the catalyst for any meaningful improvement in domestic steel demand. The agency expects India's steel consumption to improve modestly by 7-8 per cent in 2016," the agency said in a report titled '2016 Outlook: Indian Steel Sector'.

The agency projected that high imports and soft steel prices globally in 2016 are likely to result in continuing profitability pressures for the Indian steel producers.

"Their margins are likely to be lower in 2015 and improve marginally in 2016, supported by improving domestic demand and the imposition of safeguard duty on imports on certain steel products for 200 days," it added. Fitch has a Negative Outlook on the sector, it said.

It expects the leverage of major Indian steel producers to remain high in 2016 and start to decrease meaningfully only by 2017.

"The debt levels of major Indian steel producers increased over the last three years due to capacity expansions. The high debt, along with profitability pressure, is likely to result in deterioration of leverage in 2015," it added.

It also expects global steel prices to remain weak in 2016, driven by weak demand and overcapacity in the industry. Indian steel prices had fallen almost a quarter year-on-year as of end-September 2015 in line with global trends.

A relatively stronger rupee in 2015 to date, significant import increases and weak steel demand affected steel prices and consequently, profitability of steelmakers. Still, the imposition of a 20 per cent duty on certain steel product imports, effective September 14, has given them some relief, Fitch said.

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Govt. Targets 300 MT Steel by 2025



With anticipated growth in the economy along with the Government initiatives the future growth of Indian Steel sector is expected to be positive and the government has set upon itself an ambitious target of nearly trebling India's steel-making capacity to 300 million tonnes in the next decade, i.e. by 2025, Bureaucracy Today has learnt.

The Minister of Mines & Steel Narendra Singh Tomar, speaking on the 'Challenges in the Steel Sector' in New Delhi, said that India is on its way to be the world's third largest crude steel producing country surpassing USA, as per trend in the current calendar year (CY 2015). However, the per capita steel consumption in India is still very low, about 60 kg compared to the global average of about 217 kg per capita.

As per Tomar presently the steel sector faces many challenges. Imports increased by 75.5% in FY 2014-15. In the current year 2015 also, during April to September 2015, imports have increased by about 42% compared to corresponding period last year. The domestic steel prices have maintained a sharp downward trend during the period.

The rising debt of the steel industry is also a major concern. The share of stressed advances to the steel sector has been the highest among various sectors excluding infrastructure.

Steel companies face difficult financial situation and the net sales realization of steel companies is decreasing due to declining prices of steel products, leading to financial strain due to reduced operating EBIDTA and profits.

With a lot of capacity added in the last decade or so, especially in China, and steel demand either falling or remaining stagnant in most countries, the industry is burdened with massive excess capacity, estimated to be around 550 million tonnes (~25% of global capacity). The biggest overcapacity exists in China, 250 to 300 million tonnes. The Chinese steel industry continues to produce and sell steel at extremely low prices, sometimes even below cost of production.

Since in the medium term India is the only major nation which will be seeing significant growth in steel consumption, the attention of countries like China, Japan and South Korea is sharply focused on the Indian market.

The Minister said that appropriate steps will be taken by the Government on continuous basis to ensure that the stress in the steel sector in the country is appropriately addressed. We are in continuous touch with the stakeholders to understand various related issues and are trying to ameliorate their problems, within the framework of a deregulated steel sector.

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