No Further Import Duty Hike on Steel - Finance Ministry

India's Finance Ministry has ruled out further raising the import duty on steel as it would be inflationary. The report quoted a senior Finance Ministry official as saying that a further increase in import duty will affect downstream industry. It will raise the price, which in turn will have impact on inflation. Since, duty on various categories of imported steel was hiked bit the industry demanded a greater hike and was backed by the Heavy Industry and Public Enterprises Minister Mr Anant Geete.

Tata Steel and JSW Steel Benefit from Rising Domestic Demand

The profitability of Indian steel companies will remain the highest in the Asian region, amid growing supply glut and a negative outlook for Asian steel industry led by weak demand in China. In its latest Outlook for Steel industry in Asia, Moody's has said Indian companies like, Tata Steel and JSW Steel will benefit from captive iron ore supplies and rising domestic demand.

Moody's cited the country's relatively strong economic growth and the government's plans to revive infrastructure spending and increased steel consumption in the manufacturing sector will boost the country's steel demand. Indian companies like Tata Steel and JSW Steel will benefit from captive iron ore supplies and rising domestic demand. Moody's Macroeconomic Board forecast a GDP growth of 7.5% in 2015-16, up from 7.2% in 2014 and 6.45% in 2013. "We expect India to post single digit steel demand growth up from 2.2 % in 2014. To capture this growth, India's three largest steel manufacturers by production volume, Steel Authority of India Limited, Tata Steel and JSW Steel will add production capacity in the next one to two years," the report said.

Despite the pressure on steel prices from imports, profitability of companies like Tata Steel and JSW Steel will remain the highest in the region. Tata Steel's operations were negatively affected in Q4 2014 and Q1 2015 when the company had to import iron ore due to a ban on iron ore mining imposed in May 2014 following non-renewal of expired leases. The expensive iron ore imports led to Tata Steel's Indian operations reporting an EBITDA per tonne of $151 and $112 for Q4 of 2014 and Q1 of 2015 respectively, down from $250 per tonne in Q2 2014. With lifting of the ban on iron ore mining in December 2014 and resumption of mining activities earlier this year and the run down of the costly imported iron ore inventories, Tata Steel's Indian operations will see improvement in EBITDA, it said.

Elsewhere in Asia, Japanese steel companies such as Nippon Steel and Sumitomo Metal Corp and JFE Holdings will continue to benefit from the weak yen which makes their cost competitive though steel demand in Japan may remain weak in the coming 12 months. Korea will see slat demand in 2015 but profitability of Korean steelmakers will remain under pressure due to sluggish domestic demand. In auto and shipbuilding segments and increased imports from Chinese mills, the report pointed out.

Falling Steel Prices Haunts Raw Material Suppliers

Where declining steel prices have not spared large integrated domestic primary producers, an escape route for steelmaking raw material industries such as pellets, sponge and pig iron units, even smaller in size, does not arise. Due to this, in the past three or four months, several sponge iron units across the country have shut down, pellet plants have been unable to sell and the pig iron industry has seen capacity utilisation drop significantly.

Pig and sponge iron are two different forms that are the result of different production processes. Sponge iron is used by mini-steel mills to improve the steel they produce, while pig iron is used mainly by foundries. Iron ore pellets are spheres used as raw material for blast furnaces at steel plants. "Concerns over staying afloat have risen in the sponge iron industry as moving in line with steel prices' rates of sponge iron have dropped to Rs 3,000 per tonne from Rs 22,000 a year ago," Deependra Kashiva, executive director of the Sponge Iron Manufacturers Association, said.

"The industry has an annual capacity of 50 million tonnes but currently is producing only 17-20 million tonnes. When an industry is running at 30 per cent of the total capacity, it can never make money," he added. There have been several shutdowns in recent months, mainly in Karnataka and Chhattisgarh, according to industry executives. "Of the 66 units in Karnataka, 36 have shut down, two have been sold at the scrap rate and the rest are running at half the capacity. This is the situation in one state," said Kashiva. "Chhattisgarh is no different. With 75 sponge iron units, several shutdowns have taken place there, too," he added, stating numbers were not immediately available. Most sponge iron industry executives said apart from low steel prices, lack of quality raw materials like iron ore and non-coking coal at the right price was also posing an issue.