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STEEL INDUSTRY – TRENDS & OUTLOOK

Steel prices slide; but costs subside, cushioning margins from a rough ride

MAY 2023

OVERVIEW

Domestic steel prices to remain under pressure in FY2024 as Chinese oversupply opens the prospect of rising imports. However, a moderation in coal costs would partly cushion the impact of steel price corrections. With the industry's earnings moderating from the high watermark of FY2022, dependence on external financing to meet committed expansion plans is likely to increase going forward, early signs of which can be observed in the 22% increase in the steel industry's bank borrowings in FY2023.

- Domestic steel demand remained resilient, growing by 7.2% in April 2023 (in line with ICRA's FY2024 growth forecast of 7-8%). However, average domestic steel prices are expected to be lower by 4-5% year-on-year (YoY) in FY2024, driven by extraneous factors, especially the waning effect of pent-up demand in China in Q1 FY2024.
- The Chinese domestic oversupply led to the twin effects of Chinese HRC export offers sliding to $550/MT at present, representing a sharp 21% correction, in FY2024, and Chinese monthly steel exports reaching a two-year high of almost 8 million tonnes (mt) in April 2023.
- ICRA's analysis suggests that domestic HRC prices are currently trading at a premium of $50/MT over Chinese imports. Therefore, unless the domestic premium reduces meaningfully, steel imports to India could potentially climb by as much as 30-40% YoY in FY2024.
- Steelmakers are however expected to get a relief from a moderation in input costs. The seaborne prime hard coking coal spot offers from Australia are expected to average at $255-260/MT in FY2024, lower by 20-25% over FY2023 levels, on account of improving supplies.
- Therefore, the industry's operating profit margins are expected to remain at 12-13% in FY2024, in line with FY2023 levels. While these subdued margin levels were last witnessed during the downcycle years of FY2017, the aggressive deleveraging has given the industry more resilience to withstand further downturns.
- With the industry's earnings moderating from the high watermark of FY2022, dependence on external financing to meet committed expansion plans is likely to increase going forward. Consequently, the industry's leverage (total debt to operating profits) is expected to deteriorate to an estimated 2.5-3.0 times in FY2023E/ FY2024P as against 1.1 times in FY2022.

What’s Inside?

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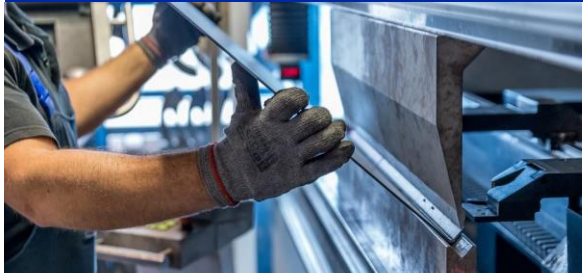
1 War, runaway inflation and macro headwinds



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Thank You!