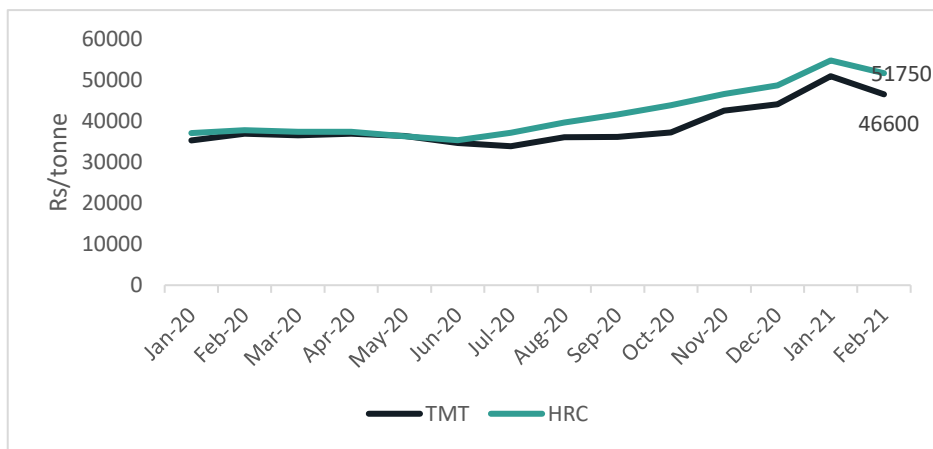


Steel Industry - February 2021 update

March 11, 2021 | Industry Research

After undertaking several price hikes since August 2020 domestic steel companies have cut prices of HRC and TMT bars in the range of 6-9% mom in February 2021. This came on the back of correction in iron ore prices. NMDC cut iron ore prices for the first time in seven months by 11-12% due to increased production with the restart of operations at Donimalai mines in Karnataka. The mine has a capacity to produce 0.5 million tonnes of iron ore a month.

Chart 1: Trend in domestic steel prices



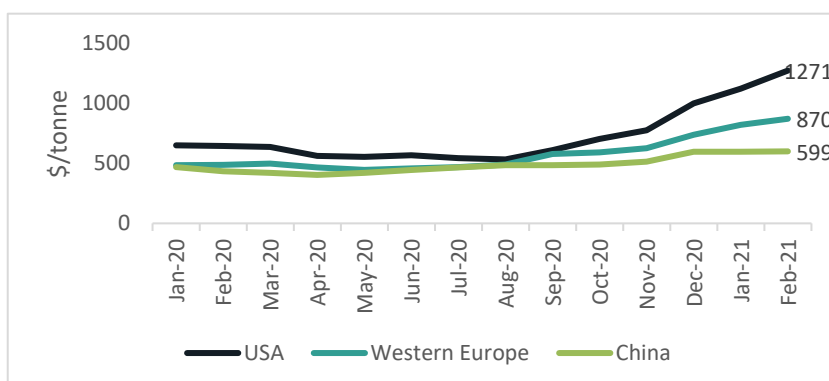
Source: CARE Ratings

Steel prices in China which were driving global prices higher stabilised and remained mostly unchanged during the first half of February 2021 at \$ 585 per tonne due to the Lunar New Year holiday period. However, prices increased in the second half to \$ 634 per tonne, indicating strong underlying demand in China.

Other than China, prices have also picked up substantially in the US and European markets since January 2021. In the US market, steel prices have climbed at nearly 13-year high as domestic supply struggled to keep up with rebound in demand. The average HRC prices in US stood at \$ 1,271 per tonne in February 2021, which was nearly double the HRC price in India at Rs 51,750 per tonne (\$ 709/tonne). US has 25% tariff barrier though.

Western Europe HRC price at \$ 883 per tonne, ex-works was nearly \$174 per tonne higher than Indian HRC prices. An imbalance in the demand and supply is driving steel prices higher. While demand for steel has rebounded sharply supply is lagging as mills are slow in returning to their pre-covid production levels and lead times are getting longer while inventories are low.

Chart 2: Trend in International HRB prices



Source: SteelBenchmarker

Higher international prices could drive exports higher in the near-term as domestic players may look to clear their inventories with FY21 coming to an end. Besides, correction in steel prices in the domestic market and premium offers in the international market has made exports more attractive.

After turning net importer in January 2021 India was once again a net exporter of finished steel in February 2021. India exported 655 thousand tonnes of finished steel in February 2021, 25% higher than the previous month and up 14.9% yoy. Import of finished steel stood at 460 thousand tonnes, down 21% m-o-m and 14% higher yoy.

Production of crude steel grew by 3.8% yoy to 9.8 million tonnes in February 2021, as producer's ramp up output anticipating higher demand. Finished steel production grew by 5.2% to nine million tonnes whereas apparent consumption rose by 6.7% to 9.1 million tonnes. Inventory of finished steel with steel companies has fallen to the lowest level in almost 2.5 years and stood at 10.1 million tonnes.

Outlook for FY21:

- Domestic crude steel production is likely to be about 102 million tonnes and de-growth estimated to be around 7% yoy.
- Similarly, fall in steel consumption is estimated to be around 8% to about 92 MTs considering that Jan-March is a seasonally heavy quarter for the industry.
- After a sharp drop in Q1FY21, the domestic steel industry has reported sharp rebound in margins in the September 2020 and December 2020 quarter benefiting from improving demand and realizations on the one hand and softer coking coal costs on the other hand. Margins of steel companies are expected to show further expansion in the March FY21 quarter driven by healthy export order and higher realisations.

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