Sponge Iron

Industry Code (as per CMIE Prowess): 0101013501050000'

June 2022

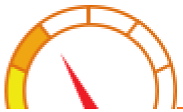
Overall Industry Risk Score: 11/20 | Marginally Favourable

Sample Size: 8 Companies

Median Rating Value of sample size: BBB

Individual Parameters Contributing to the Score

Demand & Supply Balance



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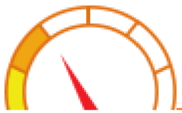
Moderate Over Supply

The domestic sponge iron volumes were impacted during FY21 on account of lower economic activity and supply side constraints. As per a Joint Plant Committee report, the sponge iron output for FY22 was 39 MT as against 34.4 MT during FY21. The coal based route accounted for 82% of the output. As per CMIE data, the industry reported increase in export volumes by 50.5% from 0.52 MT for FY21 to 0.79 MT for FY22. Imported scrap is a substitute of sponge iron. The outlook for FY23 will be linked to demand from user sectors.

Extent of Competition



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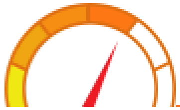
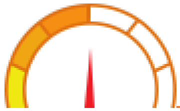
Fragmented Industry

Industry remains fragmented and unorganized by nature. Margins will continue to be low in view of the low value addition.

Regulatory Risk  16/20

Stable Regulatory environment

The secondary steel manufacturing route will get a boost if the proposed domestic vehicle scrappage policy is implemented which will ensure higher availability of scrap and lower dependence on scrap imports. Sponge iron units are required to adhere to stringent pollution control norms.

Input Related Risk  12/20

Largely predictable supply of inputs from diversified sources or Raw Materials with rare, occasional disruptions / fairly predictable price band

Higher vulnerability in iron ore and coal prices are due to absence of direct access to iron ore and coal mines. The Government policies on export of iron ore also has a bearing on cost structures of the sponge iron manufacturers.