India Steel Sector: Q2FY25: Structurally Strong

November 2024

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Steel Sector Overview

India has been a key driver of global steel demand growth in the post Covid period. Over the last three years, the domestic steel industry has seen its fastest growth since the global financial crisis. Going ahead, India's steel demand is projected to grow by a healthy 8% over the medium term, driven by strong growth in the automotive, real estate and the infrastructure sector. In FY2023-24, consumption increased by a sharp 13.6% YoY, approaching the 13.9% peak reached in FY2006 amidst a scale up in public sector capital expenditure. It's noteworthy that India's per capita steel consumption has doubled, from 59 kg in 2013-14 to 119 kg in 2022-23 (Source: Ministry of Steel).

Crude steel production in India increased from 109.1 million tonnes (MT) in 2019-20 to 144.3 MT in 2023-24, reflecting a CAGR of 7.2%. During this period, the domestic steel industry's production capacity also expanded from 142.3 MTPA in 2019-20 to 179.5 MT in 2023-24, supporting the rise in production. Capacity utilization, nonetheless, rose to 81% in FY24. Finished steel consumption grew from 100.2 MT in 2019-20 to 136.3 MT in 2023-24; in particular, the growth has been robust at 13.7% YoY in FY24, driven by strong demand from sectors like infrastructure, automotive, construction, consumer durables, and capital goods.

India's economy has remained on a steady growth path, buoyed by public infrastructure spending, ongoing digitalization, and pro-business reforms aimed at fostering new private sector investment. These factors have continued to support growth in crude steel production. Going forward, this trend is expected to persist, with domestic steel demand staying strong in H2FY25, driven by broader economic expansion and a pickup in capital expenditure. However, the domestic steel prices may witness periodic pressures due to global economic shifts and policy changes.

While the domestic steel demand has been strong and resilient, the global steel market has encountered significant challenges in 2024, as the manufacturing sector grapples with persistent headwinds, including weaker household purchasing power, aggressive interest rate hikes, and rising geopolitical tensions. The drop in domestic steel demand in China has triggered a flood of low-cost Chinese steel into regions such as Europe and Asian countries. This has led to the implementation of more trade protection measures and inquiries into Chinese steel and related products, potentially limiting its global demand even further.

Indian Steel Sector Update: Q2FY25

Indian steel companies have faced certain headwinds in Q2 FY25, including rising low-cost imports, limited export opportunities, and price pressures from seasonal demand fluctuations.

Nevertheless, the outlook remains positive in the medium to long term, with India's steel demand projected to grow by 8% per annum on an average, driven by robust growth in sectors like construction, automotive, railways, and oil & gas. This growth, coupled with the government's new tariffs on imports from China and Vietnam, will support the domestic industry and help safeguard local manufacturing. Despite some challenges in H1 FY25, including the impact of elections, heat waves, and seasonal fluctuations, particularly during the monsoon season, the Indian steel industry remained relatively stable.

The steel sector, however, remains vulnerable on the profitability front. The sector's fundamentals mirror macroeconomic conditions, with geopolitical risks and slowing Chinese demand exerting downward pressure on steel prices. Additionally, input costs remain high, and the growing burden of environmental and regulatory costs adds further strain to the industry

Despite margin pressures, largely due to China's slow recovery and the influx of cheap steel, Indian steelmakers are focused on expanding capacity to meet long-term demand. The industry is also focused on sustainability, with major steelmakers ramping up investments in green technologies to reduce carbon emissions. With these efforts, India's steel industry is well-positioned for steady growth, supported by both domestic demand and strategic innovations in cost management and sustainability.

Looking ahead, the sector's outlook remains positive, with continued demand expected in H2FY25, particularly from infrastructure and construction. However, rising raw material costs, especially for coking coal, and global price fluctuations will continue to pose risks to profitability. As India's steelmakers innovate and focus on cost control, the sector is expected to maintain a healthy growth over the long term.

Pricing Scenario – Steel & Key Raw Materials

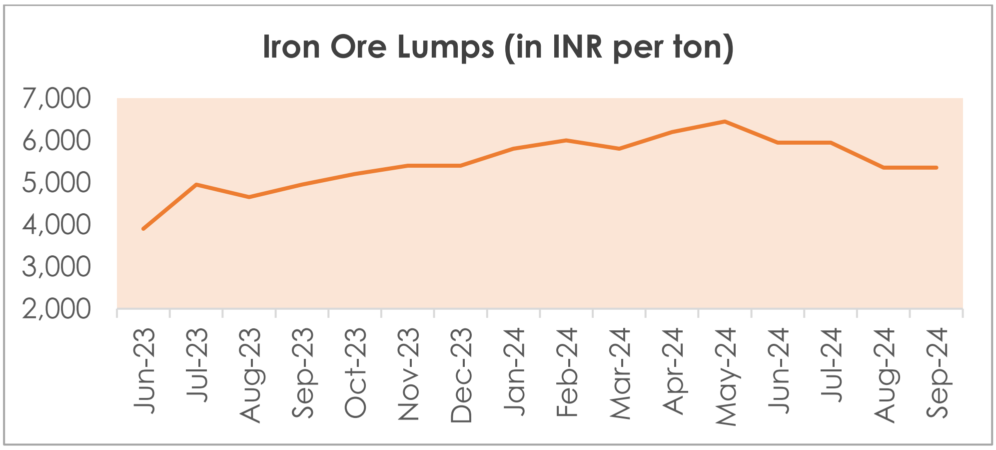
Steel companies are witnessing margin pressure in Q2FY25, and this may persist until China sees a material growth recovery. For some categories, steel prices are at multi-year lows. There's however, a partial offset since iron ore prices have dipped and coal prices are also softer. China's slow economy means glut in cheap steel exports. Indian steel majors continue to expand capacity. While this seeks to exploit higher domestic demand, it may add to margin pressures until realization improves.

Steel imports have been on the rise since the start of FY24 by over 50%, causing a sharp drop in prices in India. This has raised concerns among domestic manufacturers, who are already struggling with some slack in domestic demand while continuing with their planned capacity expansion.

Iron Ore and Coking Coal

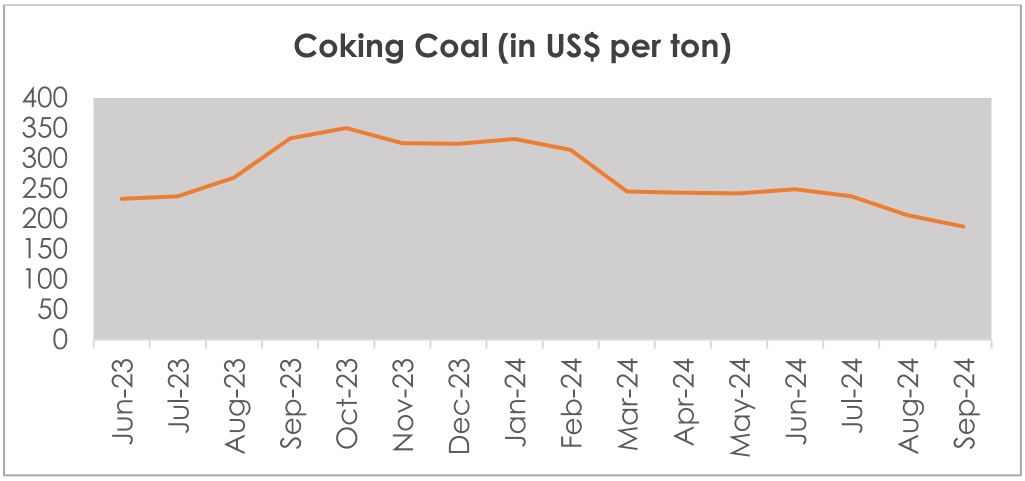
The prices of essential raw materials, especially (iron ore and coking coal), have fluctuated significantly in recent times. Since iron ore and coking coal account for ~70% of production costs, such volatility has created uncertainty on both prices and margins. While most iron ore needs are met domestically, coking coal is primarily sourced through imports, and its price volatility has had an impact on the industry's margins during this period.

Domestic iron ore prices had seen a steady uptrend in the previous year with a 52.6% rise in lump prices over the July'23-Jun'24 period (Source: NMDC, Ministry of Steel). However, there has been a subsequent moderation in Q2FY25 when prices dropped by 10.1% possibly due to a slack in seasonal demand. Ore prices may recover again in H2FY25 with a pickup in construction activity and stronger steel demand.



Source: Ministry of Steel

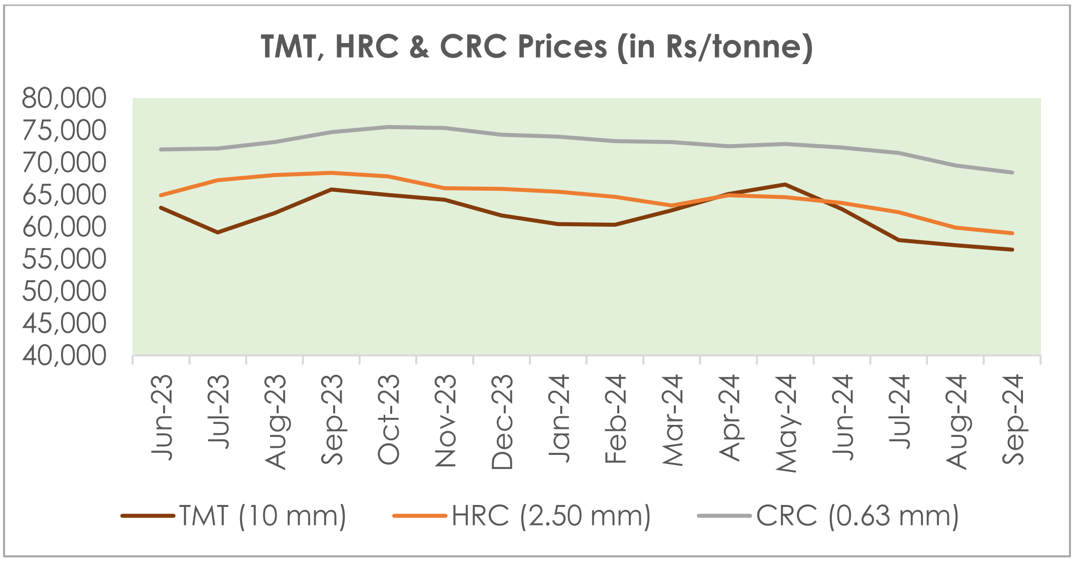
Global coking coal prices had also seen an uptrend in the previous year albeit the extent of the rise in the year ending Jun'24 was moderate at 6.9%. But the subsequent price drop in Q2FY25 has been significant at 24.9%, reflecting weak global steel sentiment and a downturn in international coke markets, along with increased shipments from Australia.



Source: Ministry of Steel

Finished Steel Prices

By the end of September, sentiment in the domestic steel market has slightly improved due to recovering demand and increased buying activity at favourable prices. While the export outlook remains muted, the expectation of stronger domestic demand helped stabilize the domestic prices.



Source: Ministry of Steel

There has been a gradual decline in domestic steel prices over the last 12 months. The data from the Ministry of Steel shows that TMT and HRC prices have slipped by 14.2% and 13.7% YoY respectively (Sep'24 vs Sep'23).

Overall, the price drop can be attributed to a combination of factors, primarily weak demand both domestically and internationally. Additionally, falling raw material costs have contributed to downward pressure on steel prices. The influx of steel imports from countries like South Korea, China, Indonesia, Vietnam, and Japan have further intensified the situation, as global suppliers seek to offload excess inventory in the Indian market. The country's steelmakers have raised concerns over rising steel shipments coming in, thereby impacting domestic market dynamics, including prices. India is now a net importer of steel, reversing a three-year record.

The immediate effect is a reduction in profit margins, as lower prices result in reduced revenue per tonne of steel sold. If companies lower their selling prices to remain competitive, their margins could shrink even more. Such a trend has already been observed in the first half of the current fiscal.

The decline in Chinese HRC steel prices have a cascading effect on Indian HRC steel prices, given China's global benchmark status as both the largest steel producer and the top consumer. From mid-May to mid-September, HRC prices in India plunged by around 8.7%, forcing some importers to sell at a loss. The rise in Chinese HRC prices has shifted the import parity of domestic HRC prices from around 7-8% premium in September 2024 to an approx. 3% discount currently. The narrowing price gap should enhance the competitiveness of domestic steelmakers against Chinese imports.

Financial Performance of Q2FY25: Key Players

Financial Snapshot:

Particulars (Mn)	Q2FY25	Q1FY25	Q2FY24
Tata Steel			
Sales	3,23,990	3,29,580	3,41,980
Sales Volume (Mn/t)	5.11	4.94	4.82
EBITDA	67,340	67,540	70,350
EBITDA Margin %	20.8%	20.5%	20.6%
PAT	35,910	33,310	-84,910
PAT Margin %	11.1%	10.1%	-24.8%
JSW Steel			
Sales	3,07,780	3,26,540	3,37,380
Sales Volume (Mn/t)	5.30	5.09	5.41
EBITDA	46,410	42,750	68,980
EBITDA Margin %	15.1%	13.1%	20.4%
PAT	12,990	12,050	29,130
PAT Margin %	4.2%	3.7%	8.6%
Jindal Steel			
Sales	1,34,330	1,49,290	1,39,530
Sales Volume (Mn/t)	1.85	2.09	1.90
EBITDA	19,160	26,940	22,440
EBITDA Margin %	14.3%	18.0%	16.1%
PAT	8,940	14,570	11,090
PAT Margin %	6.7%	9.8%	7.9%
SAIL			
Sales	2,46,750	2,39,980	2,97,140
Sales Volume (Mn/t)	4.10	4.01	4.77
EBITDA	31,740	24,200	40,430
EBITDA Margin %	12.9%	10.1%	13.6%
PAT	8,340	110	12,410
PAT Margin %	3.4%	0.0%	4.2%

Source: Company Data

Production Trends

Production (Million Tons)			
Companies	Q2 FY25	Q1 FY25	Q2 FY24
Tata Steel	5.1	5.0	4.9
JSW Steel	5.8	5.3	5.4
Jindal Steel	2.0	2.1	1.9
SAIL	4.8	4.7	4.8

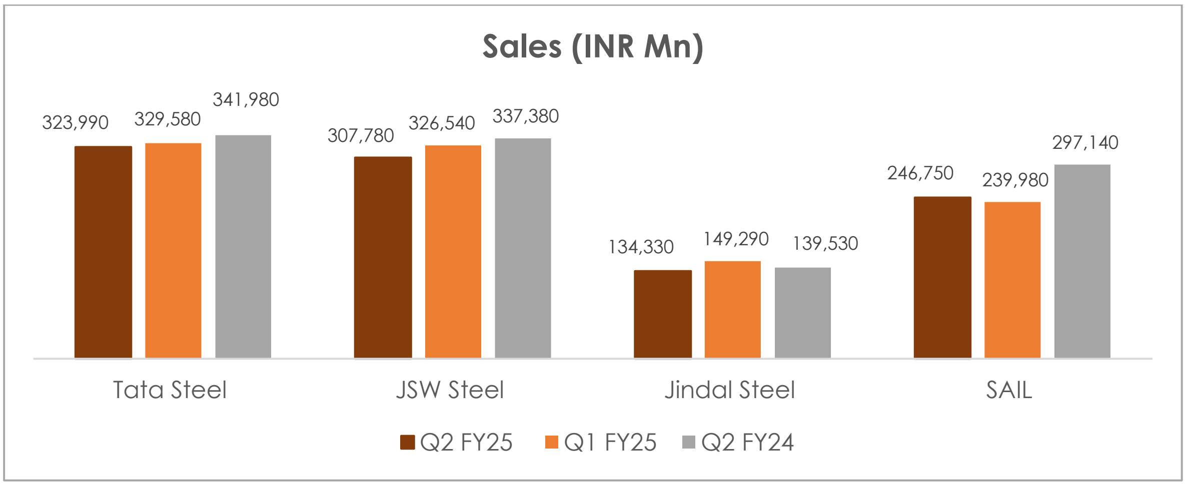
Source: Company Data

Comment

In Q2FY25, Tata Steel, JSW Steel, and Jindal Steel showed a marginal improvement in production compared to Q2FY24, while SAIL's output remained stable. Tata Steel's production increased to 5.1 MT from 4.9 MT in Q2FY24, continuing its steady growth supported by strong demand and operational improvements. JSW Steel reported a rise in production to 5.8 MT from 5.4 MT in Q2FY24, marking an improvement over Q1FY25 (5.3 MT), driven by capacity expansion and higher demand. Jindal Steel's production slightly declined to 1.97 MT from 2.05 MT in Q1FY25, although it still showed a modest increase from Q2FY24 of 1.90 MT, suggesting some challenges in maintaining higher output levels amidst a seasonal slowdown in construction.

SAIL's production at 4.76 MT was almost unchanged from Q1FY25 of 4.68 MT and slightly lower than Q2FY24 of 4.80 MT, reflecting stable but cautious operations amid difficult market conditions. Overall, while the sector is facing some challenges like rising input costs and demand volatility, most companies are managing to maintain or marginally increase their production levels, with JSW Steel showing the most significant improvement due to capacity expansion and improving market position.

Revenue Trends

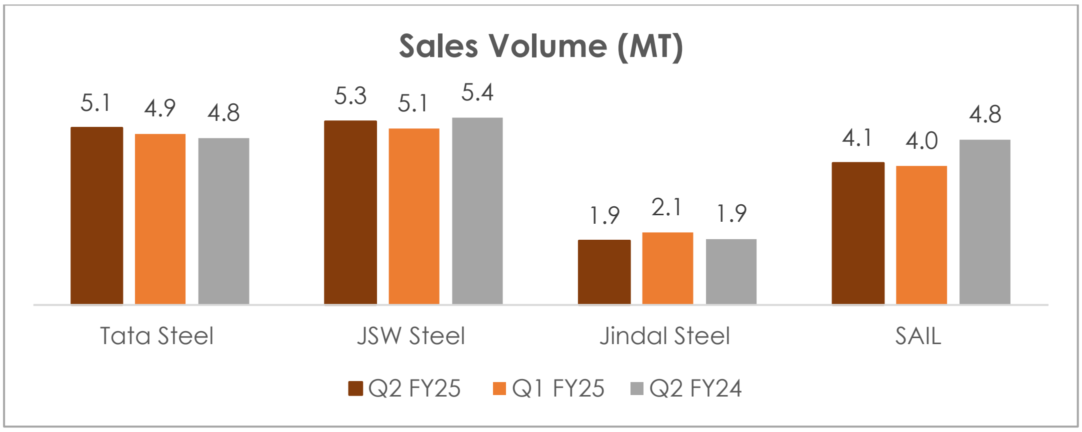


Source: Company Data

Comment

For Q2FY25, Tata Steel saw a 5.3% decline in sales on YoY basis and 1.7% drop on QoQ basis, driven by weaker steel prices and softer demand in its key markets. JSW Steel experienced an 8.8% YoY decline and a 5.7% QoQ drop in sales, largely due to reduced steel prices and lower global demand for steel products. Jindal Steel also posted a 3.7% YoY decline and a 10.0% QoQ decline in sales, which was impacted by lower production volumes and weaker market conditions. SAIL reported a 17.0% YoY sales drop and a slight 2.8% QoQ growth, driven by declining steel prices and the company's challenges in maintaining revenue growth amid a soft demand environment.

Sales Volume Performance

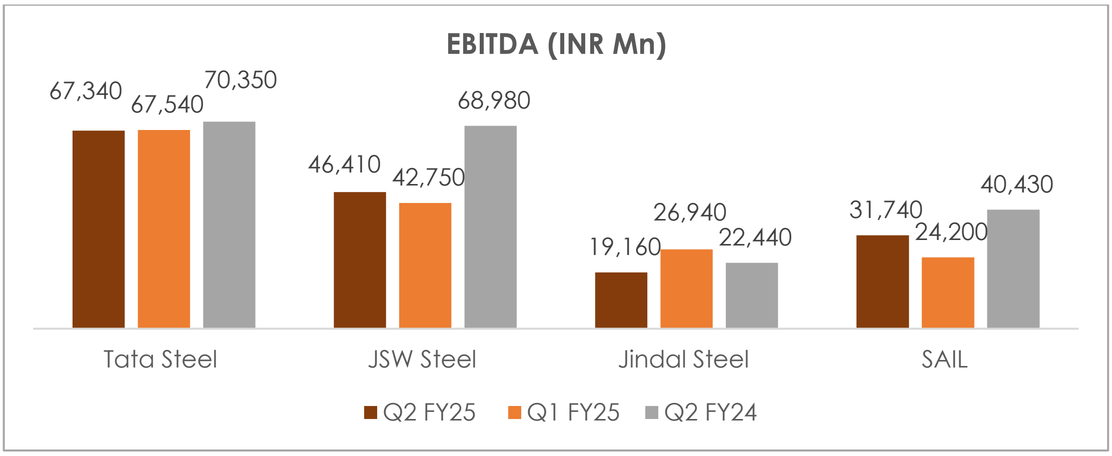


Source: Company Data

Comment

Tata Steel noted a 6.0% increase in sales volume YoY and a 3.4% rise QoQ, indicating improved demand, particularly in international markets. JSW Steel showed a decline in sales volume of 2.0% QoQ and a smaller 4.1% YoY growth, impacted by weakening domestic demand in certain segments. Jindal Steel had a substantial drop in sales volume, falling by 11.5% YoY and 8.0% QoQ, which contributed to its lower revenue figures, reflecting a slowdown in its key markets. SAIL, in contrast, reported an 18.7% increase in sales volume YoY, although its QoQ volume remained almost flat, reflecting relatively better volume growth despite soft market conditions.

EBITDA Trends

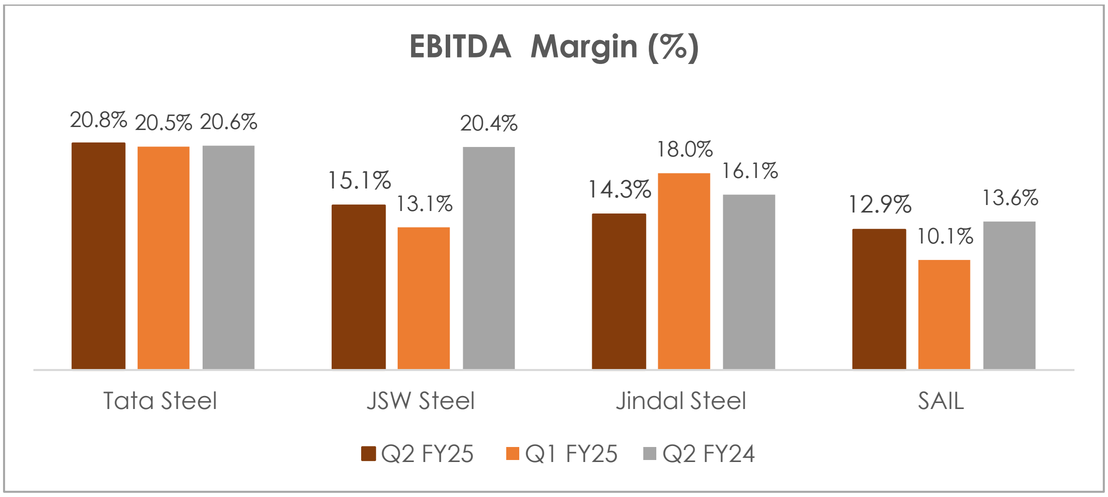


Source: Company Data

Comment

Tata Steel's EBITDA dropped 4.3% YoY and 0.3% QoQ, indicating margin compression due to higher raw material costs and softer prices, though operational efficiency helped somewhat. JSW Steel saw 8.6% QoQ increase in EBITDA, driven by cost control measures, improved efficiencies, and a recovery from a low base in Q1FY25, while YoY EBITDA decline by 32.7%. Jindal Steel experienced a 28.9% YoY decline and a 14.6% QoQ drop in EBITDA, reflecting increased input costs and lower volume, which pressured margins. SAIL saw a 31.2% increase in EBITDA YoY, fuelled by better cost management and operational efficiency, although it faced a 21.5% QoQ drop due to seasonal market slowdowns and reduced steel prices.

EBITDA Margin (%)

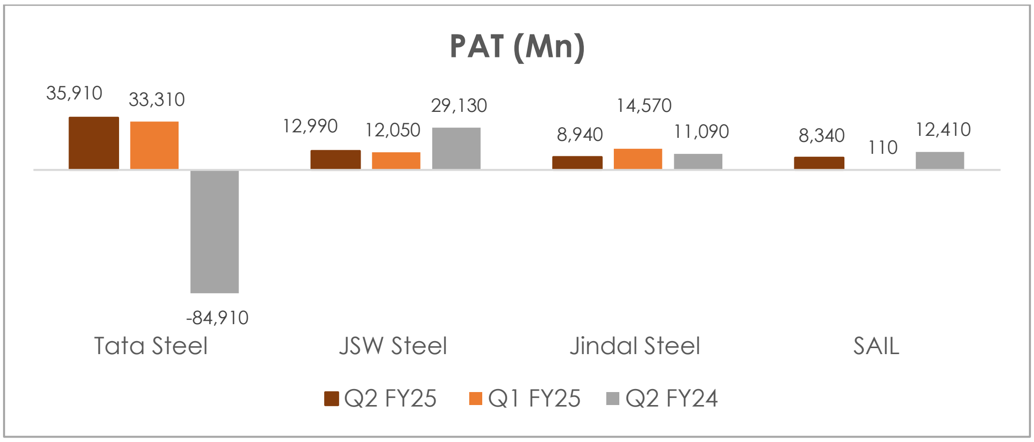


Source: Company Data

Comment

Tata Steel's EBITDA Margin % remained relatively stable at 20.8%, slightly up from 20.6% YoY and 20.5% QoQ, reflecting a resilient cost structure despite the overall sales decline. For JSW Steel, EBITDA Margin % declined to 15.1% in Q2FY25 from 20.4% in Q2FY24, primarily due to rise in input costs. Jindal Steel also experienced a material decline in its EBITDA Margin, from 16.1% in Q2FY24 to 14.3% in Q2FY25, as higher material costs and lower volumes eroded profitability. SAIL's EBITDA margin decreased from 13.6% in Q2FY24 to 12.9% in Q2FY25, primarily due to lower prices, but improved from Q1FY25's 10.1% margin.

PAT Performance

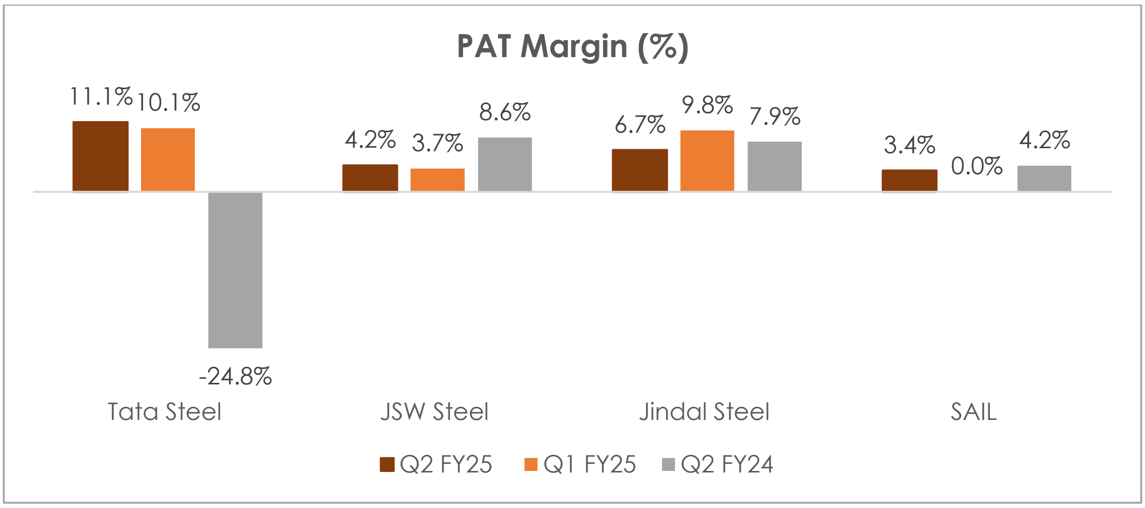


Source: Company Data

Comment

Tata Steel saw a significant 7.8% QoQ drop in PAT, which was primarily due to lower base of non-operating income and higher expenses. JSW Steel reported a 55.4% QoQ drop in PAT, though it grew by 7.8% YoY, driven by improved operational performance and cost optimization. Jindal Steel faced a steep decline in PAT, falling by 38.6% YoY and 19.4% QoQ, driven by reduced sales volume and a weaker margin environment. SAIL posted a remarkable PAT growth YoY, primarily due to a low base effect in Q1FY25, but its PAT dropped by 32.8% QoQ due to softer steel prices and seasonal factors.

PAT Margin (%)



Source: Company Data

Comment

Tata Steel's PAT margin sharply recovered to 11.1% in Q2FY25 on an annualized basis, compared to a negative PAT margin of -24.8% in Q2FY24. The losses in Q2FY24 were primarily due to exceptional items, including provisions for impairment of investments, doubtful advances, and other financial assets (net), leading to a drop in both PAT and PAT margin during that period. JSW Steel's PAT margin improved from 8.6% in Q2FY24 to 4.2% in Q2FY25, despite a YoY drop in profit, owing to improved operational efficiency and a lower base from the previous quarter. Jindal Steel saw its PAT margin decrease from 7.9% in Q2FY24 to 6.7% in Q2FY25, driven by lower earnings and squeezed margins. SAIL's PAT margin decreased to 3.4% in Q2FY25, down from 4.2% in Q2FY24. This decrease was primarily driven by exceptional items (INR 309.34 Cr relating to perquisites and allowances payable to Executive Employees of the company) and a slight drop in operating profitability.

Sector Outlook

The steel sector in India is expected to see steady growth in H2FY25, driven by strong domestic demand from infrastructure projects, construction, and the automotive sector. Strong economic growth and urbanization are expected to boost the demand for steel in India. The government's focus on infrastructure development and initiatives like the Production-Linked Incentive (PLI) scheme for specialty steel should further support growth.

However, challenges such as weak global demand, tariff risks in exports, volatile raw material costs (especially coking coal), and high interest rates could put pressure on margins. Despite these risks, the sector's outlook remains fairly positive, with steadily increasing capacity and a push towards more sustainable and value-added steel production to help Indian companies stay competitive over the longer term.

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