

Steel sector's outlook looks promising on increasing consumption

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Indian steel industry plays a vital role in growth and development of the economy. The industry is important for the country because it has one of the highest economic linkages in overall Gross Domestic Production (GDP). Steel has an output-multiplier effect of around 1.4 times on GDP, so if steel industry grows by 1%, its proportionate impact on GDP would be 1.4%. Employment-multiplier effect of steel is around 7 times, that is, with increase in output, steel industry has the potential to create 7 times the job opportunities, in upward and downward industries. The sector has ample of potential for growth given the low per capita steel consumption of 61 Kg in India, as compared to world average of 208 Kg. India became the third largest producer of steel in 2015 and is now well on track to emerge as the second largest producer after China.

Industry structure

The Indian steel industry is mainly divided into primary and secondary segments. The primary sector includes a few large integrated steel providers producing billets, slabs and hot rolled coils, while the secondary sector involves small units and is focused on the production of value-added products such as cold rolled coils, galvanised coils, angles, columns, beams and other re-rollers, and sponge iron units.

The Indian steel industry is second largest producer of sponge iron and the third largest producer of crude steel in the world. The industry, which constitutes around 2% of total GDP, is the third largest consumer of finished steel in the world. India's crude steel production during February 2017 grew by 8.5% year-on-year to 8.084 MT, while total consumption of finished steel grew by 3% year-on-year to 7.334 MT in February 2017. Moreover, the steel production and consumption is expected to remain higher in 2017-18 on the back of increase in infrastructure allocation by the government in the Union Budget 2017-18 and its aim to increase the country's steel production as stated in National Steel Policy 2017.

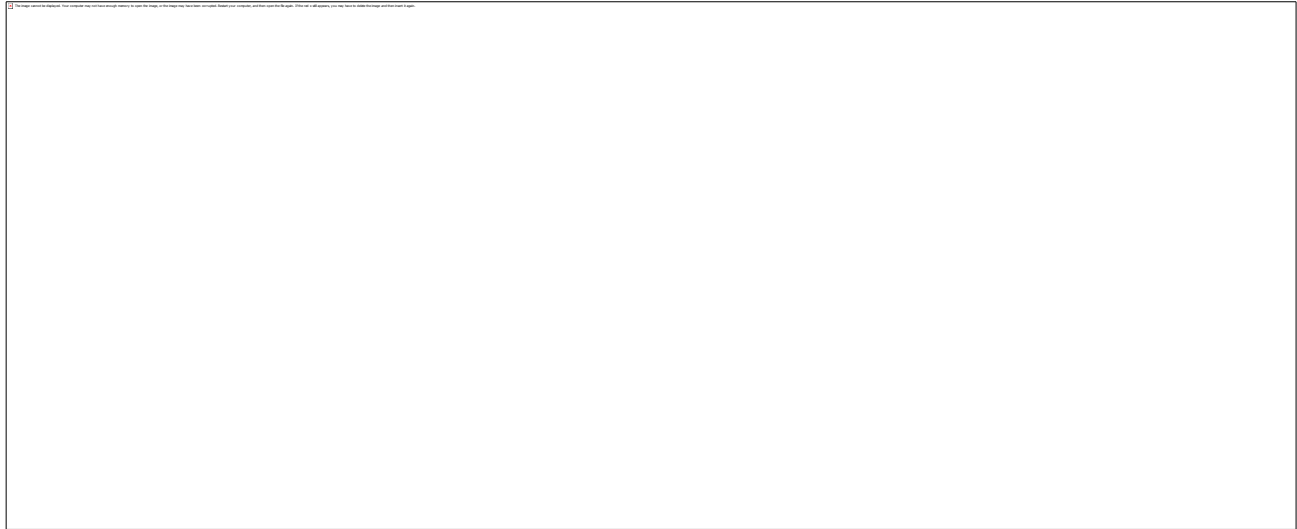
Indian economy is rapidly growing with enormous focus on infrastructure and construction sector. Several initiatives mainly, affordable housing, expansion of railway networks, development of domestic shipbuilding industry, opening up of defence sector for private participation, and the anticipated growth in the automobile sector, are expected to create significant demand for steel in the country.

Production

Crude steel production stood at 89.082 mt during April-February 2016-17, a growth of 9.3% over same period of last year. SAIL, RINL, TSL, Essar, JSWL & JSPL together produced 49.992 mt during April-February 2016-17, which was a growth of 17% compared to same period of last year. The rest i.e. 39.090 mt came from the Other Producers, which was a growth of 1.2% compared to last year. Overall crude steel production in February 2017 stood at 8.084 mt, up by 8.5% over February 2016 but declined by 6.5% over January 2017.

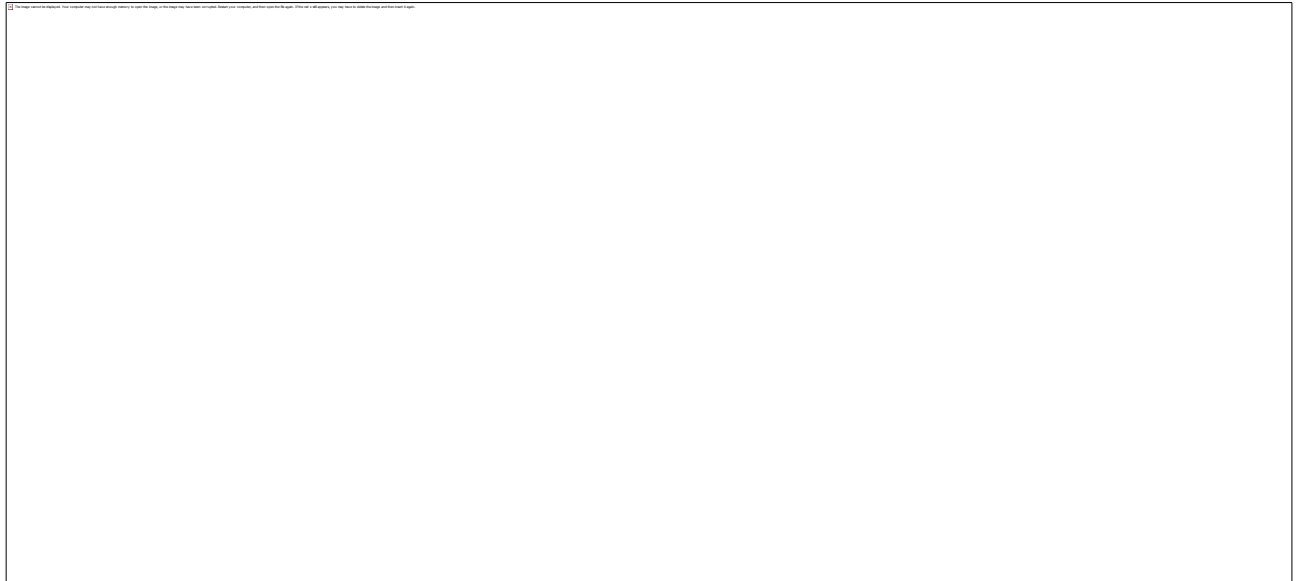
Meanwhile, production for sale of total finished steel at 91.846 MT, registered a growth of 11.1% during April-February 2016-17 over same period of last year. SAIL, RINL, TSL, Essar, JSWL & JSPL together produced 51.96 MT during April-February 2016-17, which was a growth

of 19.2% compared to same period of last year, while production for the other producers was down by 1.3%. During September-February FY17, production for sale of total finished steel stood at 50.059 MT, up by around 11% as compared to 45.124 MT in same period previous year. Overall finished steel production for sale in February 2017 stood at 8.838 MT, up by around 13% as compared to 7.831 MT in February 2016 but lower by 2.3% over January 2017.



Consumption

India's consumption of total finished steel saw a growth of 3.4% in April-February 2016-17 at 76.229 mt over same period of last year. Consumption in February 2017 stood at 7.334 mt, up by 3% as compared to 7.120 mt in February 2016 but declined by 0.2% over January 2017. During September-February FY17 India's consumption of total finished steel stood at 41.876 mt, up by 3.63% as compared to 40.409 mt in same period previous year.



Imports & Exports

The past three years have been quite challenging for the steel industry and the government intervened strategically to provide policy and regulatory support from time to time. This has helped in increasing export and reducing import of the finished steel. Import of total finished steel at 6.591 mt in April-February 2016-17 declined by 38.5% over same period of last year. Imports in February 2017 stood at 0.491 mt, was down by 46% over February 2016 and by 19% over January 2017.

Export of total finished steel was up by 77.6% in April-February 2016-17 stood at 6.622 mt over same period of last year. Exports in February 2017 stood at 0.756 mt, up by 150% over February 2016 but declined by 15% over January 2017. Given such trends in export-import, India emerged as a net exporter of total finished steel during February 2017 as well as April-February 2016-17. Meanwhile, there has been improvement in capacity utilisation to over 78%, reduction in imports by 39% and significant increase in exports by 78% in the 11 months of current financial year.



Domestic steel prices

Compared to December 2015, average (retail) market prices in December 2016, increased for both long products (represented by TMT 10 mm) and flat products (represented by HRC 2 mm) in all metro cities i.e. Delhi, Mumbai, Kolkata and Chennai, largely in response to domestic demand-supply conditions. The trend was same when compared to November 2016. The trend was similar when compared to December 2016 as well for both these categories of products for all the four markets. TMT prices were highest in the Delhi market (Rs 37,500/tonne) and lowest in the Kolkata market (Rs 32,670/ tonne) while HRC prices were highest in the Kolkata market (Rs 45,000/ tonne) and lowest in the Delhi market (Rs 41,500/ tonne) during December 2016.

FDI in the sector

The Indian metallurgical industries attracted foreign direct investments (FDI) to the tune of Rs 2,280.49 crore or \$343.61 million in FY16 period, as compared to Rs 2,897.18 crore or \$472.03 million in FY15. In FY14, the sector attracted FDI worth Rs 3,435.54 crore or \$567.63 crore.

Recent developments

Steel Ministry forms four task forces to boost local consumption

The Ministry of Steel has formed four task forces to boost consumption of the alloy, especially in the railways, urban development, road transport, highways and shipbuilding. The government has simultaneously tasked the Steel Authority of India, consultant MECON and the Institute for Steel Development & Growth - all state run entities - with standardizing the design of building and bridges to help promote adoption of steel-intensive structures in infrastructure and construction. The mandate of the four committees - with representatives from INSDAG, steel

producers, consultants, architects and users - is aimed at enhancing steel usage by creating codes and standards, assessing lifecycle costs and sustainability, developing designs of various utility structures and developing skills. State-owned steel producers such as SAIL and Vizag Steel have, in a coordinated approach, also initiated promotional campaigns. India is promoting the consumption of steel as it sets out to achieve an annual production target of 300 million tonnes by 2030-31.

Taiwan wants to join Japan in talks with India on steel import restrictions

Taiwan has requested the World Trade Organization (WTO) for permission to join Japan's consultations with India on a complaint against alleged import restrictions on certain steel products. Taiwan, in its submission to the WTO, said it was dissatisfied with India's response to its queries on the minimum import price (MIP) on steel. Taiwan pointed out that it had requested details about the MIP on iron and steel products, and explanations on how it was in compliance with WTO agreements from India, at the meetings of the WTO Council on Trade in Goods.

Govt extends dumping duty on steel products by 2 months

Indian government extended by two months the validity of anti-dumping duty on certain hot-rolled and cold-rolled flat steel products imported from China, South Korea, Japan and Ukraine, from February 17 to April 17. Similarly, the provisional anti-dumping duty on hot-rolled flat steel products has been extended till April 9 from February 9. The extension comes on top of the minimum import price stipulated by the government last year to give protection to the domestic steel industry. Essar Steel India, Steel Authority of India, JSW Steel and JSW Steel Coated Products had jointly filed the petition seeking anti-dumping duty on cold-rolled flat products of steel from the four countries.

Budget announcement

In a major relief to the steel industry which is facing tough times, the government waived basic custom duty (BCD) on nickel -- a key steel making raw material -- in budget 2017-18. The basic custom duty on nickel has come down to nil from 2.5 percent earlier. It will be helpful for the domestic stainless steel industry as they are facing huge challenge of imports.

Moreover, the reduction of BCD on CRGO steel will help in reduction of the cost of power transformers. The basic customs duty on 'MgO coated cold rolled steel coils for use in manufacture of CRGO steel' has been reduced from 10 percent to 5 percent.

The reduction of BCD on Hot Rolled Coils for captive use in welded tubes and pipes would create price pressure on domestic HR coil producer. The government reduced the BCD on 'Hot Rolled Coils, when imported for use in manufacture of welded tubes and pipes' from 12.5 percent to 10 percent.

Outlook

India is the third largest producer of crude steel and is expected its capacity is projected to increase to about 300 MT by 2025. There is an ample of growth offered by India's comparatively low per capita steel consumption and the expected rise in consumption on the back of rising infrastructure construction and the booming automobile and railways sectors. Production and consumption of finished steel increased in FY17 as compared to previous year and is expected to increase in FY18, backed by an increase in infrastructure allocation in the Budget. Moreover, increasing export and falling import will make India a net exporter of steel this year, which will be a major boost for the industry. Some of the relief given to the industry by government in budget 2017-18 too will provided support to the sector.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Technocraft Industries (India) Ltd.	452.30	1189.55	234.62	0.66	36.55	12.37
Sarda Energy & Minerals Ltd.	262.30	945.08	326.89	0.76	34.30	7.65
Kalyani Steels Ltd.	370.60	1617.78	162.22	0.00	33.85	10.95
Tata Sponge Iron Ltd.	837.25	1289.37	549.03	1.19	32.69	25.61
Tata Metaliks Ltd.	679.15	1717.43	69.34	0.29	31.22	21.75
Tata Steel Ltd.	464.00	45064.40	525.06	1.72	27.86	16.65
LA TIM Metal & Industries Ltd.	31.20	10.06	5.36	0.00	21.90	1.42
Maharashtra Seamless Ltd.	350.40	2347.67	339.80	0.71	21.59	16.23
Rajratan Global Wire Ltd.	634.95	276.32	221.63	0.19	21.45	29.61
GKW Ltd.	429.75	256.41	173.43	0.00	18.63	23.07
Beekay Steel Industries Ltd.	177.00	337.58	116.33	0.56	15.92	11.12
APL Apollo Tubes Ltd.	1217.90	2873.02	159.75	0.82	15.35	79.32
Gallantt Ispat Ltd.	233.25	658.61	137.72	0.43	14.57	16.01
JSW Steel Ltd.	191.10	46193.08	93.77	0.39	12.18	15.68
Jindal Saw Ltd.	80.05	2559.63	171.84	1.25	9.38	8.53
Goodluck India Ltd.	91.30	200.92	101.11	1.64	9.24	9.88

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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