

Domestic steel prices come under pressure as imports from China resume

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POST A LIKELY price hike effective March 1, Indian steel makers may have to take a hiatus and desist from raising prices for a considerably long period, as imports from China have lately picked up after a near stoppage due to the coronavirus pandemic.

Since the second week of October, 2019 when domestic steel prices plunged to a 34-month low of ₹34,250 per tonne, domestic steel units have raised prices multiple times to the current level of ₹38,500 per tonne. Signs of eroding pricing power have, however, been seen now — according to Edelweiss, JSW Steel and Tata Steel rolled back prices by ₹1,000 per tonne last week.

Of course, these steelmakers have already sounded out their customers of up to ₹1,000 per tonne price hike with effect from March 1. According to JSPL's managing director VR Sharma, this is mainly to offset the \$13 per tonne rise in the coking coal price.

The price hike in March could well be the end of the current series as "there is scope for a correction in domestic HRC prices if exports from China pick up," Edelweiss said, maintaining 'buy' for JSPL and Tata Steel, 'hold' on JSW Steel and 'reduce' on SAIL. Some provinces in China have resumed production. Its largest steelmaker Baowu has ramped up its core plants to almost full capacity and non-core plants to 70-90% capacity.

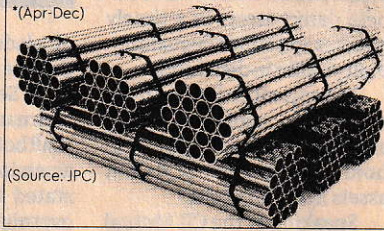
Pushed back to the wall on a prolonged anaemic demand, steelmakers started raising the price from November onwards anticipating a spike in government spending towards infrastructure. From January onwards, the price hike was largely aimed at cashing in on the void created in the imports market by China. During the nine-month period of the current fiscal, Ebitda margins of the steelmaker dropped around 35% year-on-year.

India Ratings and Research (Ind-Ra)

Import of steel from China

	Quantity (,000 tonne)	Value (₹ cr)
2016-17	2,165	8,545
2017-18	1,935	9,988
2018-19	1,562	10,116
2019-20*	1,045	7,617

*(Apr-Dec)



(Source: JPC)

on Thursday revised its outlook on the steel sector to negative for 2020-21 from stable. It justified the revision to modest demand growth expectations of 5% and margin pressures led by iron ore price hike risks.

"The slowing economic activity as reflected in Ind-Ra's GDP estimates of 5% and 5.5% for FY20 and FY21, respectively, would continue to affect demand growth in steel sector and any significant pick-up is unlikely. In case the steel demand does not strengthen up in the second half of FY21, new capacity additions along with stressed asset ramp-up could put further pressure on the prices and plant capacity utilisation rates," Ind-Ra said.

Edelweiss said coronavirus is likely to keep up the pressure on Indian steel market in the near-term as demand pick-up has so far belied expectations. Besides, the landed price of HRC from Japan and Korea is at a discount of 3-4% of the domestic price, which might attract greater imports into India.

With China coming into the exports market again with its inventory at a record high of 21.6 million tonne, India's advantage of exports in the South-East Asian market is also likely to go.