

Domestic steel demand seen down by 10-12% in FY21: Brickwork Ratings

In Q1FY21, finished steel production crashed by 49% and consumption by 53% compared with Q1FY20 levels

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India's steel demand is expected to decline 10-12 per cent in FY21 as the coronavirus pandemic and the subsequent lockdown have negatively impacted the already weak consumption pattern influenced by recessionary conditions for steel in the country, Brickwork Ratings said in its report today.

Many small and medium companies shut operations in Q1FY21, and big players curtailed their production due to difficulties in logistics with respect to the availability of raw materials and distribution of finished products, shortage of manpower, anticipated lower demand and risk of the piling up of inventory.

In Q1FY21, production of finished steel crashed by 49 per cent and consumption by 53 per cent compared with Q1FY20 levels, said the report.

However, in Q2FY21, the Indian steel market started showing some signs of recovery with demand revival in the rural economy and increased levels of semi-finished goods exports.

In Q2FY21, production of finished steel dipped only by 2 percent while consumption declined 10 percent compared with Q2 FY20 showing a positive momentum from the performance in Q1FY21.

An exponential surge in export volumes was seen during H1FY21.

Given the prospect of weak steel demand in both domestic and export markets, the agency believes that the industry's capacity utilisation levels would decline to around 62 percent in FY21 from an already under-utilised capacity utilisation of 77 percent in FY20.

In FY20, crude steel production went up by 3 percent to 109 million tonne from 107 million tonnes in FY19.

In H1FY21, crude steel production dipped by 21 percent compared with H1FY20. However, with the easing of the lockdown and recovery in steel demand in the second half of the year, BrickWork Ratings expects that in FY21, crude steel production will reduce only by 8 percent-10 percent.

The government's support to rural income, as well as expected consumption related to the upcoming festive season, will help in substantial demand recovery for consumption-driven manufacturing goods in the second half.

An improvement in steel demand post monsoons had supported the rise in prices, but the overall operating margins for FY21 will take a hit, leading to deterioration in the debt profile of steel players, which in turn will impact the financial sector as well, said the agency.

The fast tracking operationalisation of all steel consuming industries should be accorded the highest priority to revive the steel sector.

The longevity of any recovery in the steel sector now depends on whether there is consistent new demand, both in India and from other countries, along with reforms introduced by the government for the steel sector.