Ukraine war dims the sheen on steel

But strong domestic demand and cooling raw material prices encourage manufacturers to stay the course on capex plans

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"Steel is a volatile industry. So somebody who enters the business must have nerves of steel," said Sajjan Jindal, chairman and managing director of JSW Group, at a recent event in Kolkata, with a hint of a smile.

Jindal, who can be counted among one of India's most successful entrepreneurs, knows all too well about the ups and downs of steel. After all, the flagship company of his $22-billion empire, JSW Steel, just posted a consolidated net loss of ₹848 crore in Q2FY23 after amassing a record profit of ₹20,665 crore in FY22.

But even for a business leader like Jindal — who in the early days of his entrepreneurial journey saw his company fall into a debt trap and then slowly transformed it into India's largest steel maker — the recent wild swing in fortune would require some nerves to withstand.

Steel prices tumbled globally after scaling peak levels in April in the aftermath of the Russia-Ukraine war and it's reflecting on the bottom line of companies.

Tata Steel recorded an 87.3 per cent fall in net profit at ₹1,514 crore in the July-September quarter as net realisations dropped across geographies. In FY22, the company's profits had soared to ₹40,154 crore.

The September quarter numbers of other top producers — Steel Authority of India Ltd (SAIL), Jindal Steel and Power, ArcelorMittal Nippon Steel India (AM/NS India) — are yet to be announced. But the margin contraction is expected to show up on all steel companies in varying degrees.

Manish Gupta, senior director, CRISIL Ratings, said the first quarter of the fiscal witnessed significant decline in steel prices with high input costs. "Though input prices have witnessed significant correction, its impact was felt only towards the end of the second quarter, leading to subdued operating margins in the first half." It was expected to be 14-16 per cent in H1FY23, against more than 20 per cent in Q4FY22, he added.

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(Figures in ₹cr)

Year end	Total debt	Net sales	PBIDT	PAT
Tata Steel				
FY19	100,803	157,669	30,843	10,218
FY20	116,328	148,972	14,908	1,557
FY21	88,501	156,477	30,684	7,490
FY22	75,561	243,959	64,790	40,154
H1FY23	87,516	122,641	21,833	9,279
SAIL				
FY19	45,170	66,973	10,090	2,349
FY20	54,127	61,664	10,544	2,121
FY21	37,677	69,114	14,126	4,148
FY22	17,284	103,477	22,265	12,243
JSW Steel				
FY19	47,376	84,757	19,126	7,639
FY20	61,399	73,326	11,524	4,030
FY21	66,701	79,839	20,651	7,911
FY22	72,208	146,371	40,714	20,665
H1FY23	77,737	78,622	6,956	-10
Jindal Steel				
FY19	39,559	46,966	6,943	-1,645
FY20	36,824	37,923	6,906	-109
FY21	29,910	34,579	11,245	3,634
FY22	13,502	51,166	13,675	5,753

Compiled by BS Research Bureau
Source: Capitaline

ICRA estimates show that gross spreads between hot rolled coil (HRC) — a benchmark for flat steel (used in automotive, packaging and appliances) — and major raw material for a non-integrated domestic steel player was at ₹22,400 per tonne in H1FY23; in FY22 it was at ₹36,000 per tonne and ₹26,850 per tonne in FY21.

High inflation, monetary tightening, and China's slowdown are the major contributors to a difficult 2022. But infrastructure demand is expected to lift 2023 steel demand slightly, WSA said

Major players had put up a stellar showing last year on the back of a rally in steel prices. And even as coking coal — a key input material accounting for 40 per cent of the production cost of domestic steel, and mostly imported — started rising from July 2021, producers were able to pass on the cost to customers with demand on a high.

Countries were pouring in large sums of money on underinvested infrastructure to come out of a Covid-induced slowdown and that kept pushing prices from the second half of FY21 through FY22.

Then, Russia's war on Ukraine — both major providers of steel and raw materials — took prices to new levels in April 2022 on the back of an anticipated increase in demand for steel and an unprecedented rise in input materials, from coal to metallics.

HRC crossed ₹76,000 a tonne in the domestic market, an increase of 104 per cent since January 2020. Much of the rise was led by coking coal, which went into an overdrive, hovering around $620 a tonne, an increase of 129 per cent over a one-year period.

That had singed companies — the impact playing out partially in Q1 and fully in Q2 of the current financial year — as steel prices corrected on a grim global outlook.

According to CRISIL Ratings, HRC corrected nearly 25 per cent in the domestic market and 30-35 per cent globally (benchmark: Chinese FOB HRC prices) from the peak witnessed in April 2022 (global coking coal has seen prices plummet around 50 per cent from the peak of March).

But steel prices have stabilised since and both Tata Steel and JSW Steel believe that H2FY23 will be better.

The Tata Steel management, in its post-results commentary, mentioned that the operating environment should gradually improve on government measures and restocking. The margins should benefit across geographies from gradual recovery in Indian markets and favourable movement in raw material prices, especially coking coal.

JSW Steel Joint Managing Director and Group Chief Financial Officer Seshagiri Rao told *Business Standard* after the company's results that the financial performance in the second half would be better than the first.

Expectations of a strong domestic demand, stable steel prices and benefit of lower coking coal flowing in are primarily the factors supporting this.

"Raw material prices have cooled from peak levels but are still at elevated levels amidst the highly distorted global steel market. High energy costs, too, are weighing on profitability. These factors leave no headroom for any further correction in steel prices if companies have to keep their heads above water in a volatile operating environment," Ranjan Dhar, chief marketing officer, AM/NS India, said.

Margins in Q3 will be under pressure, Dhar added.

On the demand front, however, India has been holding out hope. The World Steel Association (WSA), in its forecast last month, said that global steel demand will contract by 2.3 per cent in 2022, a downward revision from its earlier 0.4 per cent growth.

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In all this, India seems to be the only bright spot in the pack with its steel demand growing at over 11 per cent in the first half of FY2023, Jayanta Roy, senior vice-president, ICRA, pointed out.

But global challenges could be a potential chink. "There is a huge question mark on the global demand for steel going forward, given the economic conditions in the US and Europe. The turmoil in the property market in China, accounting for about 20 per cent of international steel demand, is another worry," Roy said.

Whether the headwinds overshadow the second half of the year is an open question. But that is not stopping major steel producers from going ahead with their capex plans. The overhang of the 15 per cent export duty on steel imposed in May this year is not a deterrent either — in the near term, at least. Big-ticket expansion totalling around 130 MT has been lined up, with more than 20 per cent expected to be commissioned by FY26.

The massive deleveraging that companies have done over the past two years and the projected growth of the Indian economy seem to be holding the nerves of the big boys of steel, for now.