CRISIL SME TRACKER

Steel MSMEs may see softer growth this financial year

The growth of micro, small and medium enterprises (MSMEs) in the steel sector may moderate this financial year (FY25).

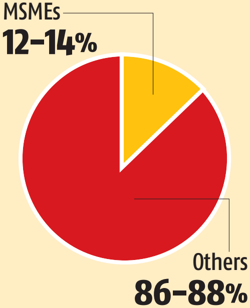
The moderation will be because of slower spending growth of core infrastructure ministries such as railways, road, rural and urban development, power, renewable energy and civil aviation. The growth can moderate from 15.1 per cent (FY24 Revised Estimates (RE) vs FY23 Actuals) to 8.4 per cent (FY25 Budget Estimates vs FY24 RE).

Despite this, growth is still projected to exceed decadal averages and will continue to be aided by demand from infrastructure and construction segments.

Steel MSMEs in India mainly manufacture long-steel products such as reinforcing bars and wire rods using induction-based furnaces from raw material such as steel scrap and sponge iron, or by re-rolling billets.

A majority of the sponge iron players import low-ash thermal coal for production and, hence, thermal coal and iron ore have a material bearing on sponge iron prices.

SHARE OF MSMEs IN STEEL PRODUCTION



Note: Producers with crude steel capacity less than 90 kilotonne per annum are considered for estimating MSME share

Cumulative demand for long steel in the first quarter of FY25 stood at about 19.1 million tonnes (mt), up 1.75 mt, or 10.1 per cent year-on-year (Y-o-Y). CRISIL Market Intelligence & Analytics (MI&A) projects long steel demand to grow 6-8 per cent in FY25 as well as over the medium term by FY29.

Similarly, production of long steel increased 9.8 per cent Y-o-Y in the first quarter.

Of the total 19.3 mt finished steel production, 71.3 per cent was manufactured by medium and small steel mills and the remaining by six large integrated steel producers (JSW group, Tata Steel group, SAIL, JSPL, AM/NS, and RINL).

India houses more than 600 small-scale induction-based furnace operators, constituting 12-14 per cent of the total crude steel capacity.

Several small mills have either expanded capacity or integrated upstream or downstream capacities, thus moving out of the MSME bucket.

Continued domestic demand support, combined with cooling raw material prices, have kept margins positive and utilisation levels high.

However, iron ore prices are likely to increase with the recent Supreme Court ruling underscoring the authority of states to impose taxes on minerals, in addition to the royalty levied by the Centre.

But a response from states remains a key factor, except Jharkhand — one of the key iron ore producing states — which has passed a Bill to levy ₹100 per tonne tax on iron ore.

The levy will increase the cost of iron ore for mills by 2-3 per cent. MSMEs may see their margins contract as long-steel prices are expected to remain soft in FY25.

Decreasing volatility in steel prices will help steel re-rollers and traders gain better visibility of margins, while demand will ensure healthy inventory levels and working capital.

Higher capital rates and inflationary pressure are likely to increase the cost of doing business.