

● UNLIKELY TO PROVIDE SUPPORT TO DOMESTIC PRICES: EXPERTS

Rollback of steel export duty might not prop up volumes

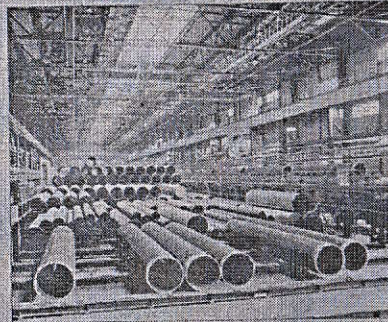
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Mumbai, November 23

THE GOVERNMENT'S DECISION to roll back export duties on steel might not help in restoring volumes and is unlikely to provide support to domestic steel prices, while the benefits to manufacturers would be marginal. With global steel prices now lower than domestic rates and demand outlook weak due to recessionary headwinds, exports have become less lucrative, except for strategically regaining global market share, industry experts opined.

In an attempt to control inflation, the government had imposed a 15% export duty on steel products in May this year. The country exported 13 million tone (mt) in FY22 (12% of total production) and the imposition of duty resulted in a fall in exports to an annualised rate of 5 mt in July-October. Steel inventories were up 20% year-on-year in September-October, the highest level in 20 months. Now, the government has rolled back the duties, effective November 19.

"Globally, there is a steep fall in steel demand that is limiting export opportunities, while some countries such as China are importing less steel, which is also putting pressure on prices. Enquiries from the US, Europe and Latin America have also dried up, and the withdrawal of duties would not help exports bounce back to the earlier levels in May," JSW Steel joint managing director & group CFO Seshagiri Rao MVS said.

"The removal of export duty may not help in increasing volumes from India, but it will provide the country's



steel sector an opportunity to aggressively tap global markets. It will also be a big sentiment booster, and this will definitely open up markets. While the global markets are not very conducive for exports now, they are expected to stabilise beyond FY24," Rao added.

JSW Steel, the flagship company of the diversified JSW Group, exports nearly 20-25% of its total sales, and even in bad market conditions, this would be about 10%.

According to a report by ICICI Securities, while the decision to roll back duties is a welcome step, the benefits are likely to be marginal due to the fall in global steel demand and low prices.

"Overall, while domestic steel prices are unlikely to increase substantially, we believe a significant sector headwind has been removed. That said, the street would be wary of the likely imposition of duties in future, if prices are sharply up," it said, adding domestic prices may remain muted

in view of adverse import parity.

The withdrawal of export duty will improve sector sentiment but may not materially increase the near-term earnings of domestic primary steel manufacturers, because of subdued global demand. However, in the long run, it should improve export competitiveness of the additional capacities being set up, according to a report by Crisil.

The decision to roll back export duties came after India's finished steel exports plunged by about 50% on-year in the first half of this fiscal to 3.6 mt, and for the first time since fiscal 2019, the country became a net steel importer between July and August. At present, the global steel prices are 5-7% lower than domestic prices. Between February and April — before the imposition of duty — the export premium was 2-3%. Exports have thus become less remunerative except for strategically regaining market share in geographies like the Middle East and

CHALLENGING TIMES AHEAD

■ Global steel prices are now lower than domestic rates; demand outlook is weak due to recessionary headwinds and exports have become less lucrative, except for strategically regaining global market share

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Europe, it added.

Mirroring the sentiments, Jefferies said in a note that the government's decision is unlikely to provide much support to Indian steel prices in the near term, as domestic prices are already at 15%-20% premium to landed imports.

However, there are a number of positive sides to the roll-back, as it will increase operating flexibility to start with.

With exports becoming unviable and elevated raw material and energy costs nibbling at margins amidst soft steel prices, the operating profits of the domestic steel industry had slumped to a nine-quarter low in the second quarter of FY3.

"This is likely to help pull up the industry's profits from the second quarter lows as companies now get the freedom to explore the overseas markets, depending on the pricing environment," a report by Ica said, adding the near-term impact on primary producers is "limited".