

CRISIL SME TRACKER

Export duty will hurt large steel players, spare MSMEs

THE SHARP CORRECTION in domestic steel prices following the imposition of export duty by the government, together with falling exports, will lead to a 2-4 per cent fall in industry revenue in 2022-23 (FY23). However, micro, small, and medium enterprises (MSMEs), with higher exposure to long steel, will grow 5-10 per cent, CRISIL Research shows.

Export duty was imposed owing to a surge in domestic steel prices over January-May this year. The move led to a swift 25 per cent correction in the price of flat steel – which accounts for almost 80 per cent of finished steel exports and is dominated by large integrated steel players – from its April peak. Long steel saw a limited correction.

We expect flat-steel prices to correct by over 10 per cent in FY23, even as long-steel prices remain largely resilient. In fact, long-steel prices of primary players are 6-8 per cent higher year on year (YoY) for August 2022. Prices of secondary players' are even higher because of the rising price of thermal coal, a key input for them.

Rising input prices will constrain margins across the board. Integrated players, whose margin was 30 per cent in FY22, will see a margin correction of 400-600 basis points (bps) YoY this fiscal. Secondary players, with margins typically at 9-10 per cent, will see a contraction of 150-200 bps.

That said, lower dependence on exports and healthy demand growth from the infra and housing segment will drive volume growth for secondary players, cushioning the margin fall.

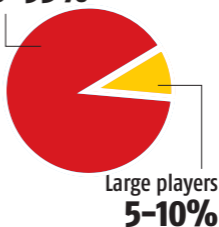
MSMEs, which make up 90-95 per cent of re-rollers, witnessed a sharp margin contraction in FY21 owing to iron ore unavailability, and logistics and labour issues, among other factors. However, the players saw a sharp recovery in FY22, as volumes and prices reached an all-time high.

In FY23, MSMEs will likely see another sharp rise in volumes, with long-steel sales (domestic and exports) outpacing flat-steel growth, owing to a sharp fall in flat-steel exports. Further, strong demand for pig iron and sponge iron will support segment revenues.

MSMEs DOMINATE THE RE-ROLLING SPACE

MSMEs

90-95%



Note: Market share and geographical diversification are in volume terms

Source: CRISIL Research