

**WILL
INDIAN
FLAT STEEL
PRICES
MOVE UP
FURTHER ?**

-SPECIAL REPORT
MARCH 2016

The year 2015 proved to be quite a tough year for Indian steel industry which had to face several challenges due to influx of cheap imports, faltering demand and weakening prices.

India's finished steel imports in 10 months of FY16 (Apr'15-Jan'16) surged by 24% against corresponding period of previous year despite imposition of safeguard duty on certain hot-rolled products.

Country's domestic steel production fell by 1.8% with ISP (Integrated Steel Producers) reporting 1% fall in their production during the same time period.

The domestic prices of flat and long steel products plunged on an average by 17-19% between Apr'15 to Jan'16.

In an effort to protect domestic steel industry, Indian government announced MIP (Minimum Import Price) on 173 steel products on 5 Feb'16 which is valid for a period of six months. MIP is the price fixed by the government below which imports will not be allowed in to India irrespective of prices in the international market.

After the MIP announcement, prices of flat and long products surged sharply by around INR 5,000-6,000/MT (USD 70-90/MT) in the course of one month and if market sources are to be believed prices are likely to move up further in coming days.

However, the big question that hovers everyone's mind is that without any upturn in real demand whether this price surge is sustainable or not.

In order to understand this we have to study the current demand-supply situation, consumption pattern, and industry participants' views on prevailing conditions in domestic steel circuit. As Indian steel market is quite big, we have chosen Faridabad as a sample market for the above study purpose.

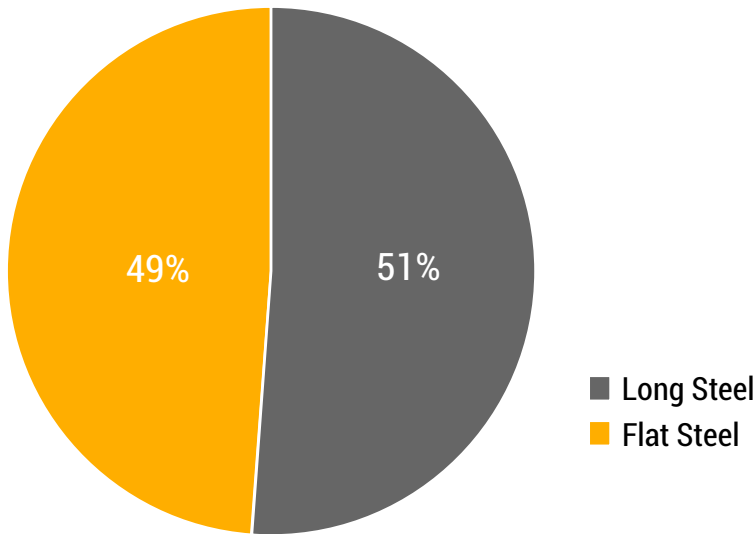
Faridabad is the biggest flat steel market in northern India due to the presence of many capital goods, white goods, and auto-components manufacturing units. About 3-4 MnT of flat steel is being traded here annually which is around 10 to 11% of India's total flat steel production. Also India's all steel majors have their stockyards in Faridabad and they operate on distributor/stockist distribution model.



Stockyard at Faridabad



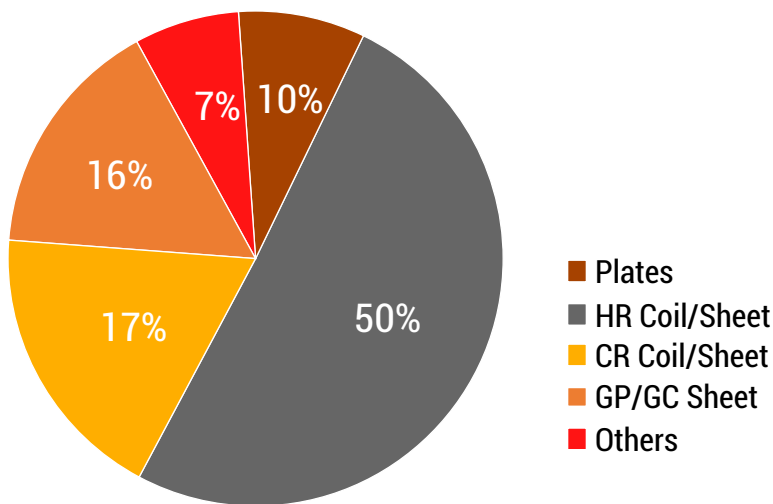
India Finished Steel Production in %



Source: JPC, SteelMint
All figures compiled from Apr'15-Jan'16

India's total finish steel production (which includes both flat and long products) in ten months of FY16 (Apr'15-Jan'16) stands at 68.21 MnT. Out of the total production, long steel production is higher at 34.82 MnT (51%) and flats production is 33.39 MnT (49%).

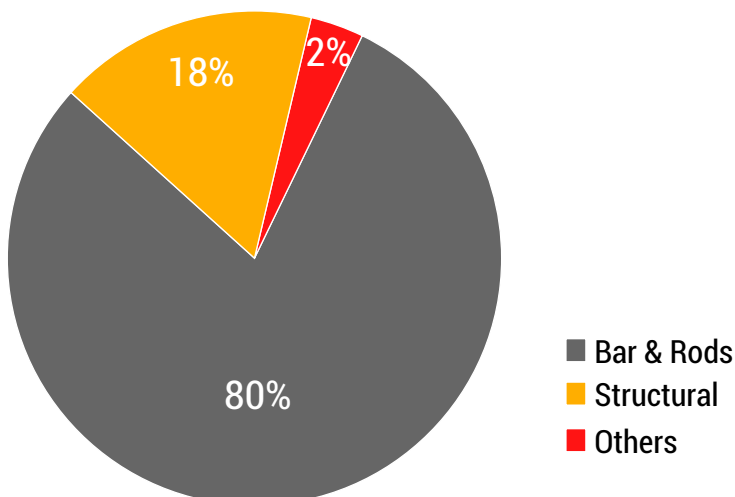
India Flat Steel Production in %



Source: JPC, SteelMint
All figures compiled from Apr'15-Jan'16

HRC contributes about 50% in India's total flat steel production and stands at 17 MnT for FY16 (Apr'15-Jan'16) followed by CRC and GP/GC sheets production at about 6 MnT (18%) each.

Long Steel long Steel Production in %



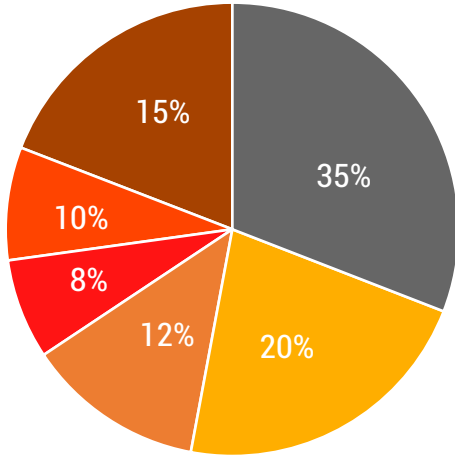
Source: JPC, SteelMint
All figures compiled from Apr'15-Jan'16

In total long steel production of 34.82 MnT, about 80% contribution is from bars & rods at 28 MnT for the above period whereas rest is contributed by structural and other products.

INDIAN STEEL DEMAND BY SECTOR



Steel consumption pattern in India graph



- Construction
- Infrastructure
- Automobiles
- Capital goods
- Pipes & Tubes
- Others

As seen from above graph, the major steel consuming sector in India is construction with 35% consumption followed by infrastructure (20%), automobiles (12%) and capital goods (8%).



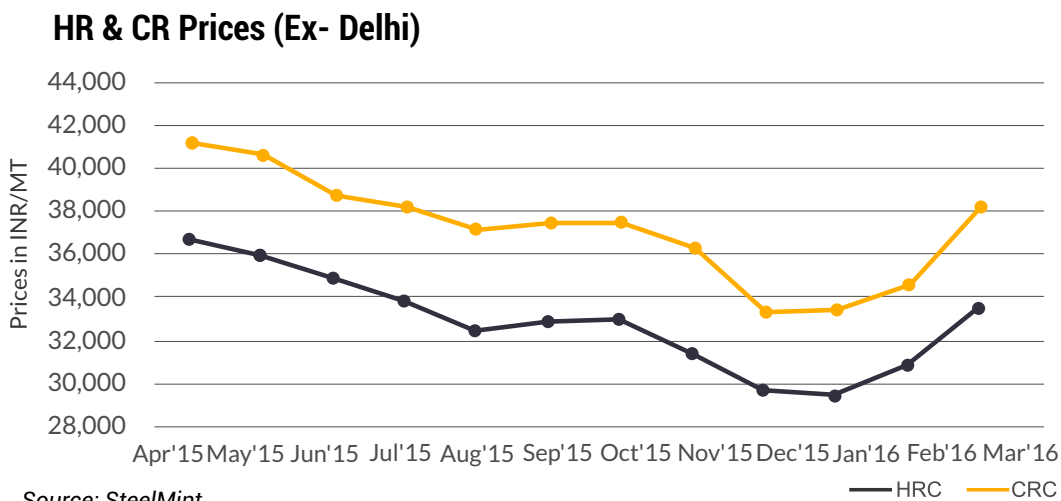


Price Analysis

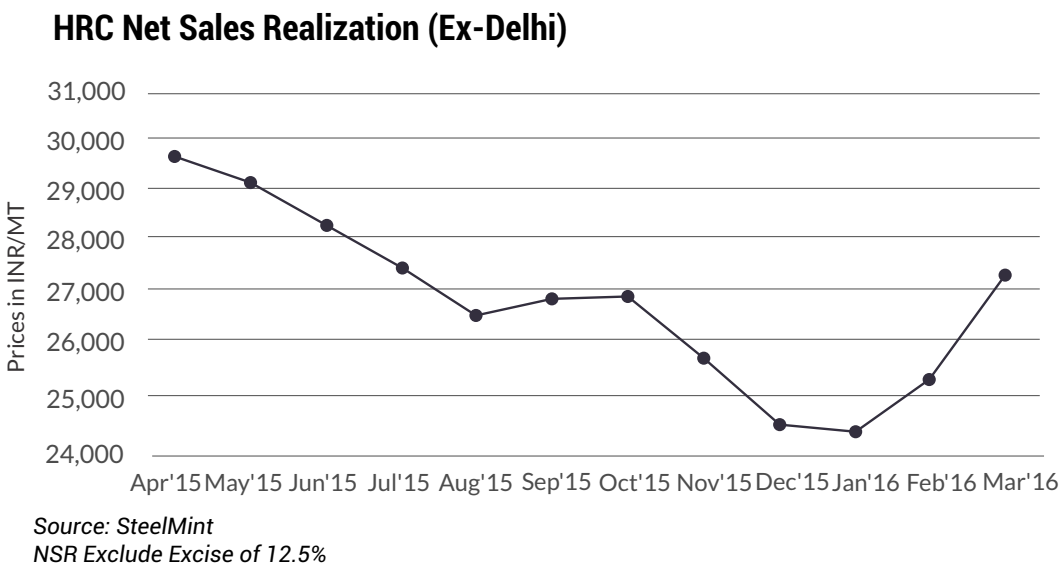
After the MIP announcement by Indian government, flat products prices have started rallying up. As per SteelMint analysis post MIP, HRC and CRC prices have moved up by INR 4,000-5,000/MT (USD 60-75/MT) in time span of just one month.

However, owing to subdued demand the market is yet to absorb this price rise and buyers are hesitating in making fresh purchases at hiked prices.

Currently HRC (2.5mm IS 2062) at Faridabad is being offered by sellers at around INR 35,000/MT (USD 515/MT) (including excise of 12.5%) while buyers are quoting the same INR 500-1000/MT (USD 5-15/MT) lesser at INR 34,000-34,500/MT (USD 500-510/MT).



As it can be observed from above graph, although safeguard duty on HRC was imposed on Sep'15, its prices continued to fall as China and other countries subsequently reduced their offers further thus making imports cheaper for Indian buyers. CRC prices also followed HRC's down trend. Both HRC and CRC prices have touched bottom in Jan'16. However with MIP announcement in Feb'16, prices started moving up.



The Net sales realizations (NSR) of HRC reduced considerably by 17% from INR 29,800 (USD 440/MT) in Apr'15 to 24,600 (USD 360/MT) in Jan'16. However the same improved considerably in Feb'16 and Mar'16 with rise in HRC prices.



As per the traders and dealers based in Faridabad, although flat steel prices will be firm in coming months, there is limited scope of any significant increase in prices further, the reason being adverse demand-supply situation.

India's finish steel consumption de-grew marginally by 0.8% in 10 months of FY16 against same time period of previous year.

Traders in Faridabad has also informed steelMint that although there is no upturn in real demand from steel consumer segment, domestic demand have improved a bit owing to reduction

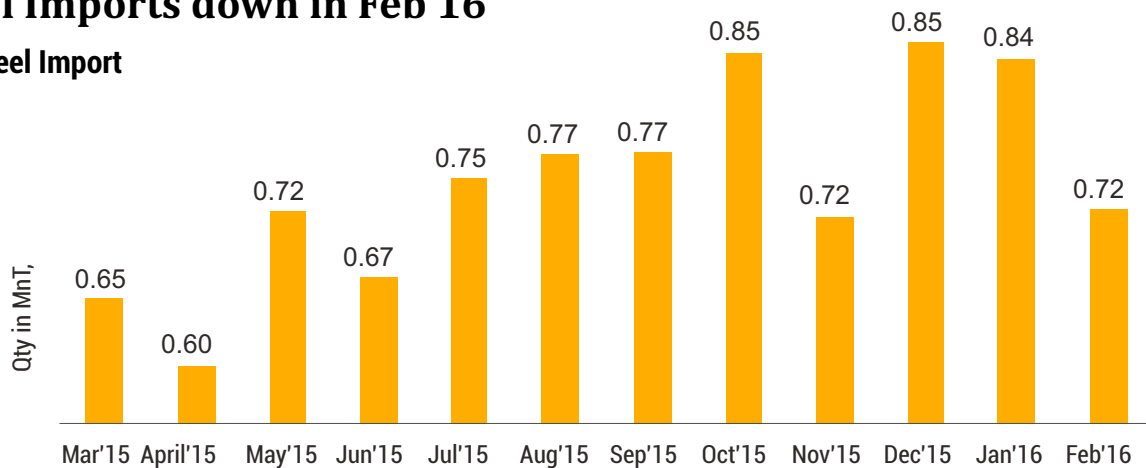
in supply of imported material post MIP.

A trader who sells about 25,000-30,000 MT HRC and CRC every month quoted, "Demand is picking up post MIP. Supplies from western India have also decreased due to lower imports."

Another dealer who sells about 50,000-60,000 MT of HRC, CRC, sheets, and plates quoted, "We are bullish that prices will remain firm at current levels, buyers are accepting these prices and another hike of INR 500-1000/MT (USD 5-15/MT) is quite probable"

Flat steel Imports down in Feb'16

India Flat Steel Import



Source: Steelmint, Customs

The highest flat steel imports to India were booked in Oct'15 at 0.85 MnT, which reduced considerably in Nov'15, effect of safeguard duty imposed in Sep'15 as the delivery time taken for imports to land in India is about 1.5 - 2 months.

But as imported flat steel prices reduced further, imports increased in Dec'15 and Jan'15. Owing to strong MIP sentiments in December, lesser imports were booked during the month and its effect can be seen in the form of 15% drop in imports in Feb'16.



Will Flat Steel Prices Move Up Further ?

Indian steel demand is expected to grow at the rate of 6-7% in FY17 due to planned spending by Indian government on infrastructure. However on supply side, capacity addition expected from Indian steel majors in FY17 is 10-12 MnT. Thus steel prices have limited scope of moving up further from the current levels.

Also industry expects that government may phase out 20% provisional safeguard duty on HR coils for which decision is due in Mar'16. If this happens domestic flat products prices may even fall slightly.

The reason being, if safeguard duty on HR coils is waived off, the landed cost of HRC from Japan and Korea to India would be around INR 36,700(USD 540/MT) including CVD (Countervailing duty) of 12.5%. Whereas domestic prices are currently hovering at INR 34,000-34,500/MT (USD 500-510/MT), including excise of 12.5%. In case Indian currency appreciates, imported material will be almost at par with domestic prices.



Re-bar stocked at Delhi Loha Mandi (Iron Market), India's largest retail market▲

▼ Hot Rolled Coils to be processed into Sheets





Hot Rolled Coils at one of the Yards in Northern India.▲

▼ HRC at one of the SAIL yards in Faridabad



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