

Rising rupee may hit steel firms' margins

The industry is expecting a robust demand with the Centre allocating ₹3,96,000 cr to the infrastructure sector in Budget

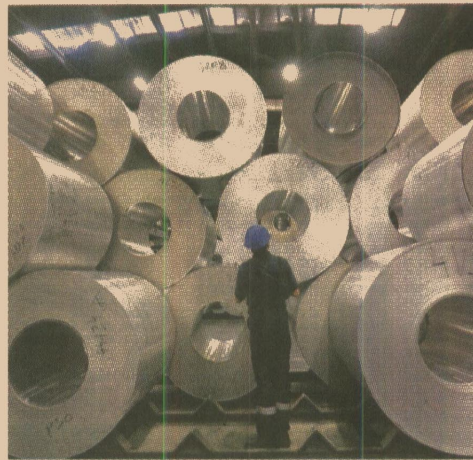
ISHITA AYAN DUTT
Kolkata, 24 April

The appreciating rupee is likely to hit the margins of steel companies that have been depending heavily on exports.

Steel companies over the past year have managed to overcome muted domestic demand because of a buoyant export market. But that buffer is now under threat.

"The five per cent appreciation in the rupee will hit the margins of steel companies. The bigger steel companies have been relying on exports to tide them through," said Jayanta Roy, senior vice-president, ICRA. "Though a reduction in the import cost of coking coal will cover a bit of that impact, it will not be enough. If the rupee continues to appreciate, it will hurt realisation from not only exports but from domestic sales too, the latter being linked to the landed cost of steel imports," he added.

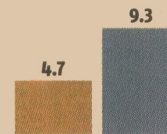
India turned a net exporter of steel in 2016-17 after a gap of three years. Exports increased 107 per cent to 9.3 million tonnes while imports declined 37 per cent to 8 million tonnes. Even with higher production, steel



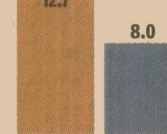
STEEL SCAN

■ 2015-16 ■ 2016-17

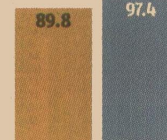
EXPORTS



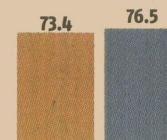
IMPORTS



PRODUCTION



CONSUMPTION*



*Carbon steel

Source: JPC

companies maintained an average capacity utilisation of 75-80 per cent during the year.

Production of crude steel increased 8.5 per cent to 97.4 million tonnes in 2016-17 while consumption of carbon steel increased 4.2 per cent.

The expectation was that it would increase 6 per cent.

Sushim Banerjee, director-general, Institute for Steel Development and Growth, pointed out another worrying factor. "In the last 25 days Chinese hot-rolled coil prices have dropped by

about \$100 a tonne. That could be another cause for concern for exports apart from the rupee appreciation," he said. But Vikram Amin, executive director, strategy and business development, Essar Steel, said Chinese prices were always volatile. "Earnings

will be down to the extent of the rupee appreciation. But exports will be steady going forward. Though our first priority is catering to the domestic market, exports are generally value-driven," he added.

A combination of factors has pushed Indian steel exports over the past year. The foremost is government measures like the minimum import price and provisional anti-dumping duty that led to a decline in imports. But it also helped that the international markets recovered. However, for long-term sustainability, strong domestic demand is crucial.

The industry is expecting a robust demand this year with the Centre allocating a record ₹3,96,000 crore to the infrastructure sector in the Budget. Moreover, the government is expected to come out with a circular to mandate "Made in India" in government projects.

"The government is the biggest buyer of steel. This will boost demand and consumption. Companies like SAIL, JSW Steel and Tata Steel are likely to continue with their ramp-up in 2017-18," said Sanak Mishra, secretary-general, Indian Steel Association.