

Robust Steel Demand to Boost Pellet Firms: ICRA

Large capacity additions and low local demand to lift utilisation rates in near-to-medium term

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Kolkata: Domestic pellet makers are in for better times with strong demand from steel industry, robust export demand, particularly from China and a favourable spread between pellet and iron ore fine prices, ratings agency ICRA has said. While capacity utilisation of domestic pellet plants remained low till FY2017 due to large capacity additions coinciding with depressed domestic demand, utilisation rates in the near-to-medium term are expected to improve on the back of healthy demand.

"Given the significant share of low grade iron ore fines in India's total iron ore production, there is a growing need to beneficiate inferior grade ore and feed its output to pelletisation plants, to make the ore usable in steelmaking," Jayanta Roy, senior vice-president, ICRA, said.

He added that domestic pellet makers are also expected to benefit from a robust demand environment both

in domestic and Chinese market.

In India, pellet producers include both large integrated steel manufacturers having captive pelletisation operations as well as merchant pellet manufacturers. While large pellet makers include the likes of Tata Steel, JSW Steel, Essar Steel and Jindal Steel & Power etc., the merchant category includes Brahmani River Pellets, KIOCL, MSPL etc. "Growth in installed capacity of pellets remained muted till FY2010 with a capacity of only 21 million tonne (mt) but improved sharply at a compound annual rate of 22.8% to 87 mt in FY2017, albeit with low capacity utilisation levels at about 55%," the ICRA note said.

However, given the expected capacity additions by a number of large steel companies in the next two years, India's pelletisation capacity is set to cross the 100 mt mark by FY2020, the note added.

China remains India's preferred pellet export destination with a share of 81% in FY2018 (67% in 4M FY2019), the ICRA report said. After an unfavourable export environment prior to FY2017, improved iron ore availability in FY2017 and healthy import demand from China have led to a sharp rise in Indian pellet exports to 8.8 mt in FY2017 from a negligible 0.7 mt in the previous year. Pellet exports grew further by 6% in FY2018.