

How Long Can The Indian Steel Producer Sustain On Exports In Post COVID 19 Lockdown?

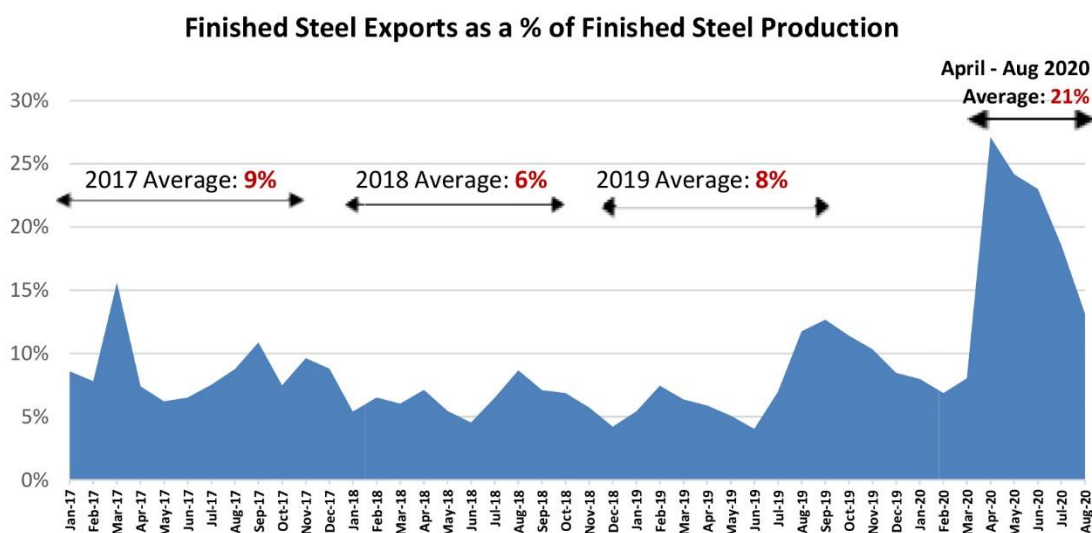
Zaki Hussain | New Delhi September, 2020

The inevitable lockdown due to the spread of COVID 19 by the governments of different countries has made a huge dent in businesses across the spectrum causing losses and uncertainty in the global economy. Many sectors in India are badly hit by the same and the steel industry is also among the list that had to bear the brunt of the lockdown. Many players in the domestic steel market were forced to shut down operations, partially or wholly. As per the latest JPC report the crude steel production registered a decline of around 27.4 percent for the period of April-August 2020 when compared with the same period last year. Crude steel production was recorded at 33.5 million tons (mt) in the April to August period. For the same period last year, crude steel production stood at around 46.2 mt.

Despite the lockdown and the sluggish domestic demand for steel products since March 2020, India experienced a significant change in its trade pattern (of steel products). The total exports of finished steel products from India registered a significant increase. For the month of May, June and July the country's exports on an average increased more than 200 percent when compared with the same period last year. In the month of June, 2020, the total exports touched 1.5 mt which is an increase of around 334 percent over June, 2019. Imports of finished steel products on the other hand registered a significant decline. For the period April to August the country's imports decreased more than 51.7 percent when compared with the same period last year. In the period April-August 2020 the imports decreased to 1.6 mt from 3.4 mt a year ago.



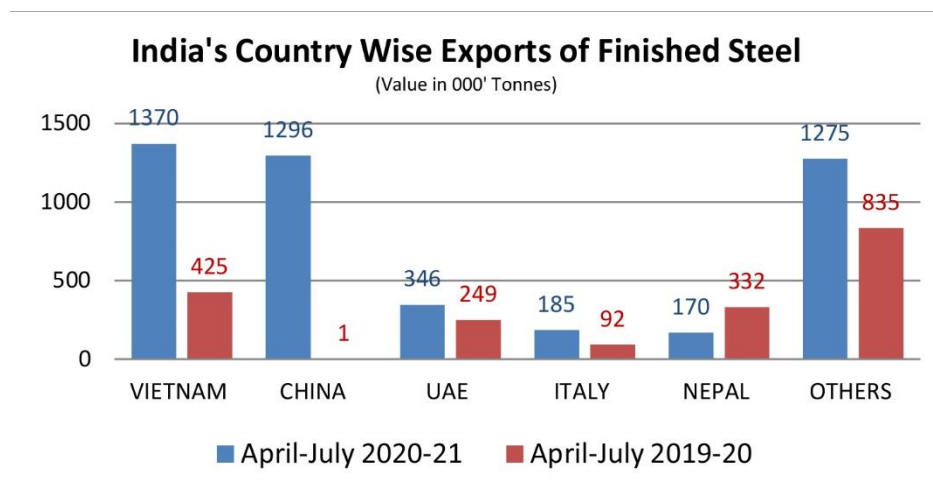
During the initial lockdown period most of the Indian players started producing the metal exclusively for exports as the domestic demand became almost negligible. Even the largest public sector steel company, Steel Authority of India Limited (SAIL) which has traditionally depended on domestic demand was forced to look at the foreign markets for its products. The finished steel exports as a percentage of total finished steel production has touched its peak in the last four months.



Around 60 percent of the Indian Steel exports were directed towards China and Vietnam. The reason for the increase in the steel demand by China and Vietnam is their faster recovery from

the pandemic. The other reason for China is the series of stimulus package both monetary and fiscal, which also includes some sector specific stimulus for infrastructure and construction sector. Due to this stimulus the steel demand and prices for steel products in china remained at an elevated level. So it could be said that the two major reasons for higher imports by China was a) Price arbitrage b) To fulfil its domestic demand. The reason for higher exports to other countries including South Asian countries was the absence of China in the export market. The Indian steel filled this gap and exported in large volume to these countries.

The product basket of Indian steel exports has also remained diverse where in China and South Asia, there's was a lot of demand for semis while in markets of Europe and Middle East, most of the demand was of finished steel as most of the steel plants had completely stopped churning out the metal. Even though there has been a significant rise in the export demand, most of the industry experts believe that export volumes will likely return to their usual levels. Early indication tells that from September onwards exports will fall to 0.5 to 0.7 mt per month.



Since June certain sector/area showed signs of pent up demand in the economy. There was a strong V shape recovery in the demand of two wheelers, tractors, pipes and tubes, yellow goods, and white goods. The rural infrastructure also experienced recovery in the post lockdown scenario. However, the question remains that for how long this pent-up demand from certain sector will remain. It can also be said that this elevated demand from China, Vietnam and other European countries will disappear as soon as the capacity utilization of the crude steel producers in these countries come back to normal levels.

The government in these difficult times have taken numerous measures to help the industries to cope up with the pandemic. **“Atmanirbhar Bharat”** scheme is a perfect example of such measures. The government had also announced many infrastructure and construction projects which will help boost the steel consumption in the near future. However, in order to cope in this difficult scenario, the government must bestow more focus to the construction sector. The construction sector in India that includes physical infrastructure (excluding railways) and real estate, contributes roughly 62% of India’s steel use or steel demand. Most of the steel industry experts believe that although the central and state government has announced many infrastructure projects but the execution of most of them has remained slow. The work in many of the ongoing projects has also taken a hit due to non-availability of labour force as most of the low skilled labourers migrated to their hometown and has still not returned. To conclude, it can be said that infra led growth is crucial for the revival of steel demand in the country.