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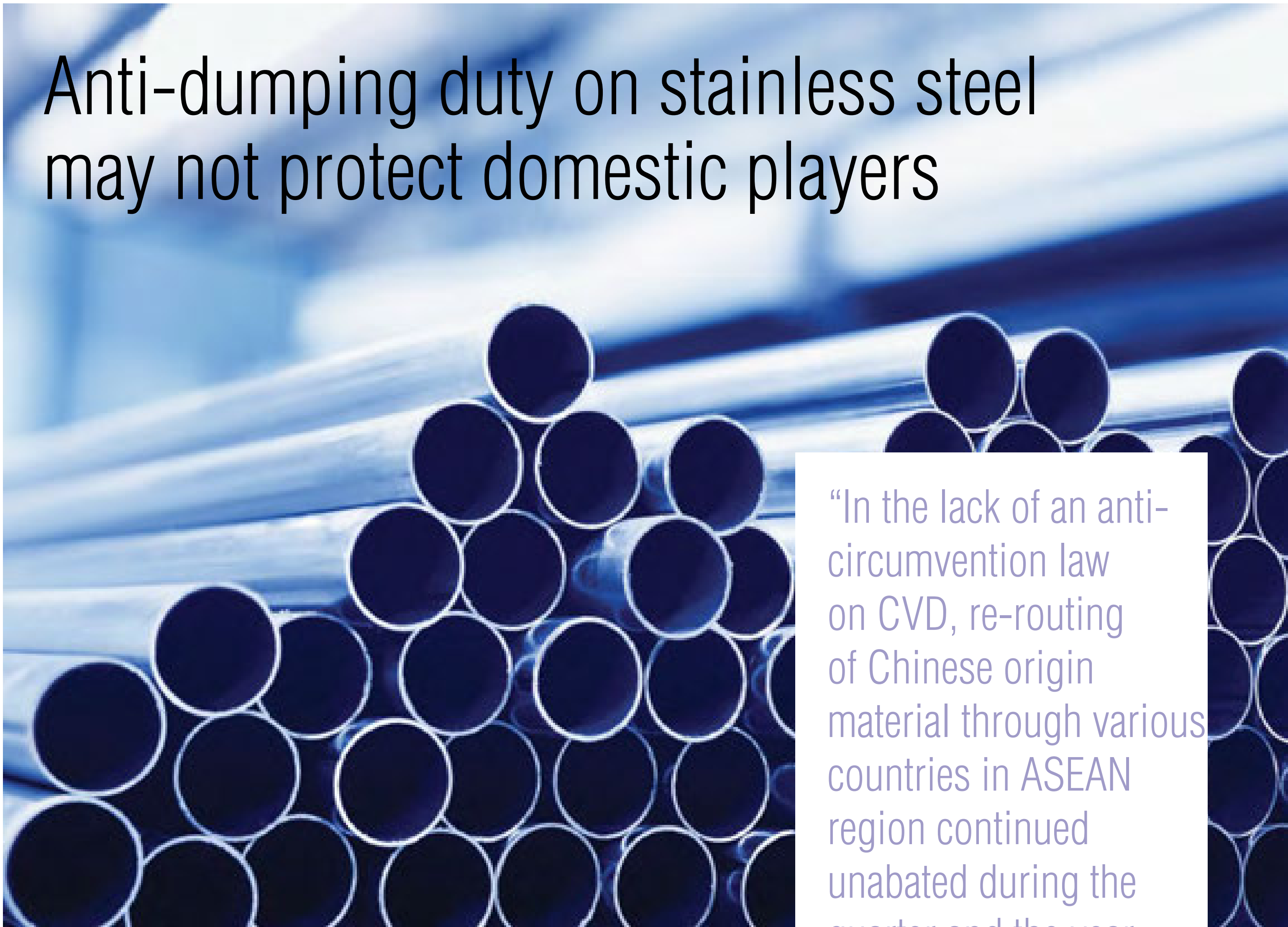
STEEL™ INSIGHTS

STEEL BUYER'S GUIDE

HOMEWARD BOUND:

DOMESTIC DEMAND TO DRIVE GROWTH

Anti-dumping duty on stainless steel may not protect domestic players



Sumit Maitra

Imposition of a countervailing duty (CVD) of 21-23 percent on the stainless steel flat products imported from Indonesia effective from August is unlikely to protect the domestic players fully as such trade remedial measures have been responded with side-stepping tactics by exporting nations, by exploiting India's Free Trade Agreements with other countries.

Industry expects government to continue its support to curb such circumventions even more effectively.

"In the lack of an anti-circumvention law on CVD, re-routing of Chinese origin material through various countries in ASEAN region continued unabated during the quarter and the year. Over and above this, the competitiveness of the industry was also affected on account of low import duty on finished stainless steel flat products (7.5 percent) as against the import duty on finished steel products (12.5 percent)," Managing Director, Jindal Stainless Ltd, Abhyuday Jindal, said.

Acknowledging the substantial injury caused to Indian stainless steel producers by Indonesian imports through non-WTO compliant subsidies offered by the Indonesian government, the Government of India has imposed provisional trade remedial measures on Indonesian imports.

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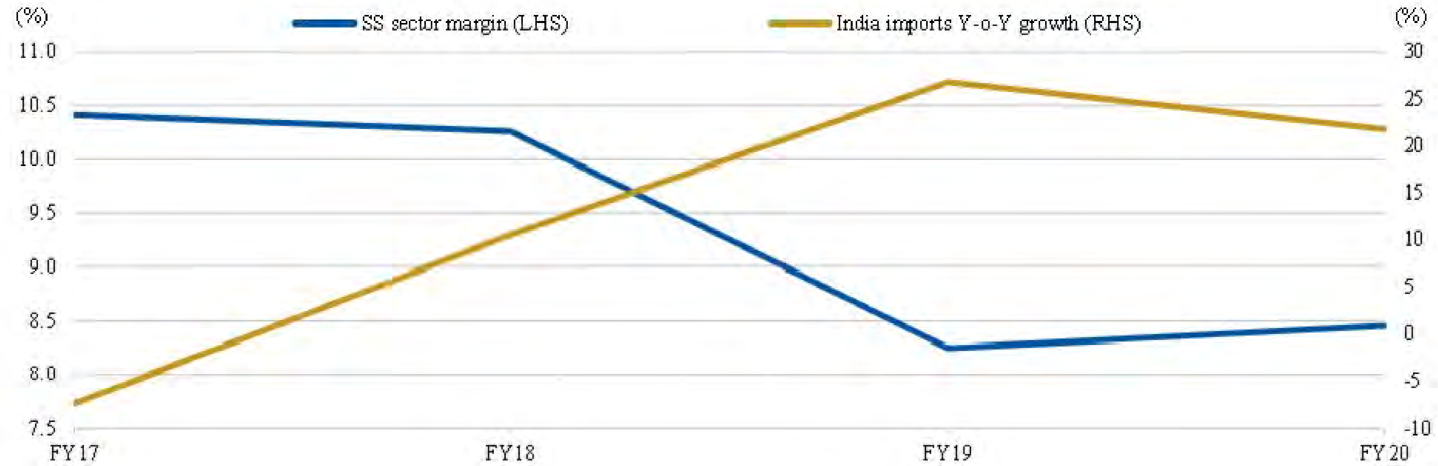
> Managing Director, Jindal Stainless, Abhyuday Jindal

SS sector margin reduction with increasing imports



Note: SS sector margin (LHS) has been calculated using sample of Ind-Ra rated stainless steel sector entities and listed companies. India Imports (RHS)

Source: Ind-Ra, CMIE

"While this has provided interim relief to the domestic stainless steel producers, the industry awaits a long-term imposition of this duty structure," he said while announcing the second quarter financial results of the company.

Ministry of Finance vide notification dated October 9 based on the findings of Directorate general of Trade Remedies, issued an order to levy provisional countervailing duty on certain types of flat stainless products for a period of four months.

Stainless steel margins have been affected by a continuous increase in supply from Indonesia to India over FY19-FY20 at subsidised prices offsetting the reduction in cheap imports from China and South post imposition of anti-dumping duty measures in FY16.

In FY20, imports from Indonesia rose to 280,600 tons (FY19: 76,100 ton; FY18: below 10,000 tons), resulting in India's total imports increasing to 742,000 tons (484,500 tons, 452,700 tons).

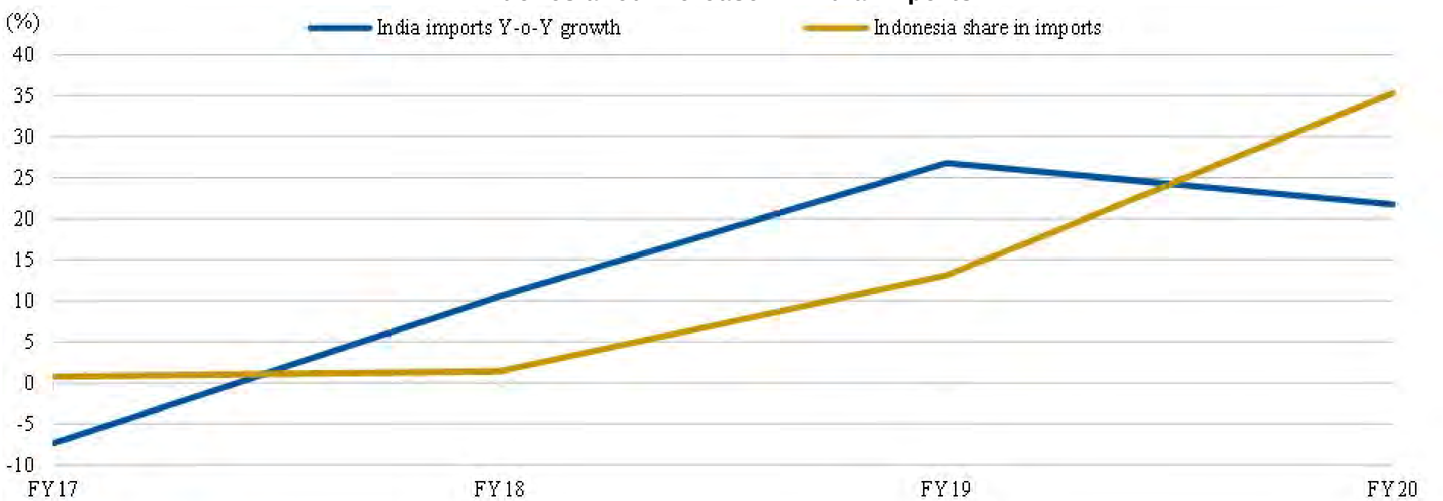
Indonesia's imports to India in FY20 contributed nearly 38 percent to India's total SS imports in volume terms (FY17: below 1 percent).

Indian producers have been trying to boost their exports mix of sales so as to offset domestic price declines.

India's stainless steel producers in flat rolled products such as Jindal Stainless and Jindal Stainless (Hisar) and Rimjhim Ispat are likely to witness an increase in their EBITDA margins on back of an improvement in domestic sales realization, according to India Ratings.

The rating agency estimates industry

Indonesia led increase in India imports



Source: Ind-Ra, CMIE

Jindal Stainless Ltd's improved operational performance in Q2FY21 was supported by high demand from two-wheelers, decorative pipes & tubes, and Railways segments, which clocked swift resumption to normalcy. Demand in tableware and consumer facing segments also picked up in the second quarter of the current financial year on the back of the festive season.

margins should sustainably increase by 150-200 basis points starting from second half of FY21, led by the suitable price protection of flat products.

India Ratings expects players engaged in the manufacturing of long and flat 'patta' products to also witness some margin benefit, as they would gain on volumes while the above-mentioned SS players would focus more on flat rolled products and reduce their volumes in long products.

Import led supply glut

India's total stainless steel imports increased at a significantly high rate of 27 percent on year in FY19 and 21 percent in FY19, adversely impacting domestic producers volumes and margins.

The exceptional increase in imports from Indonesia to ₹34 billion in FY20 (FY19: ₹10.5 billion; FY18: ₹0.9 billion) led to a supply glut in domestic markets where India's overall imports increased significantly to ₹97 billion (₹80 billion, ₹63 billion). The protectionist measures initiated by US and EU over FY19-FY20 diverted the supply glut to India.

Volume Push Likely

The industry's production volumes are likely to increase by around 5 percent in 2021 over 2019 (2020: likely decline 15 percent yoy).

Nevertheless, flat rolled producers have already been operating at high plant utilisation levels of around 90 percent, supported by their strong market position and geographical diversification with presence in the export market.

Amid increasing Indonesia exports to India in 2019 and 1H20, Indian producer JSL which has facilities near a port and hence has better flexibility and competitiveness to increase its exports could protect its overall volume sales.

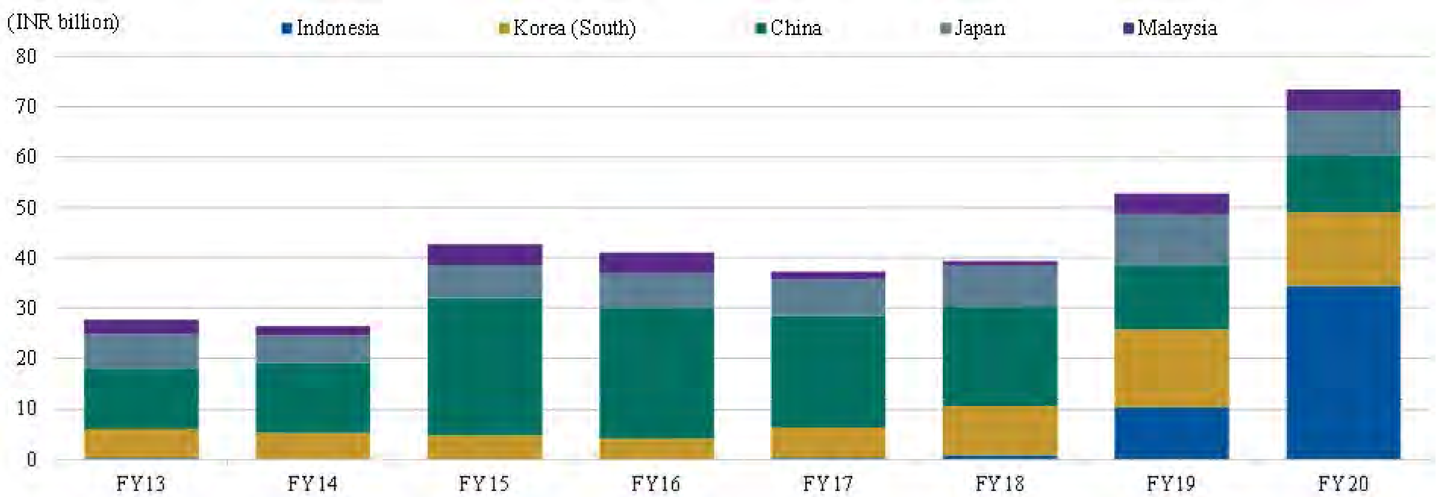
Indonesia imports contributed about 15 percent to India's flat rolled products consumption over 2019, and the rating agency expects the same to reduce to 5-7 percent in 2021.

The supply gap due to lower imports could be met through higher production of flat products as well as shift in their exports sales volumes to domestic markets to benefit from healthy domestic prices and margins.

India Ratings opines flat rolling producers would see a domestic volume sales increase of about 10 percent on year in 2021, supported by the shift of domestic fabricators and processors towards domestic producers.

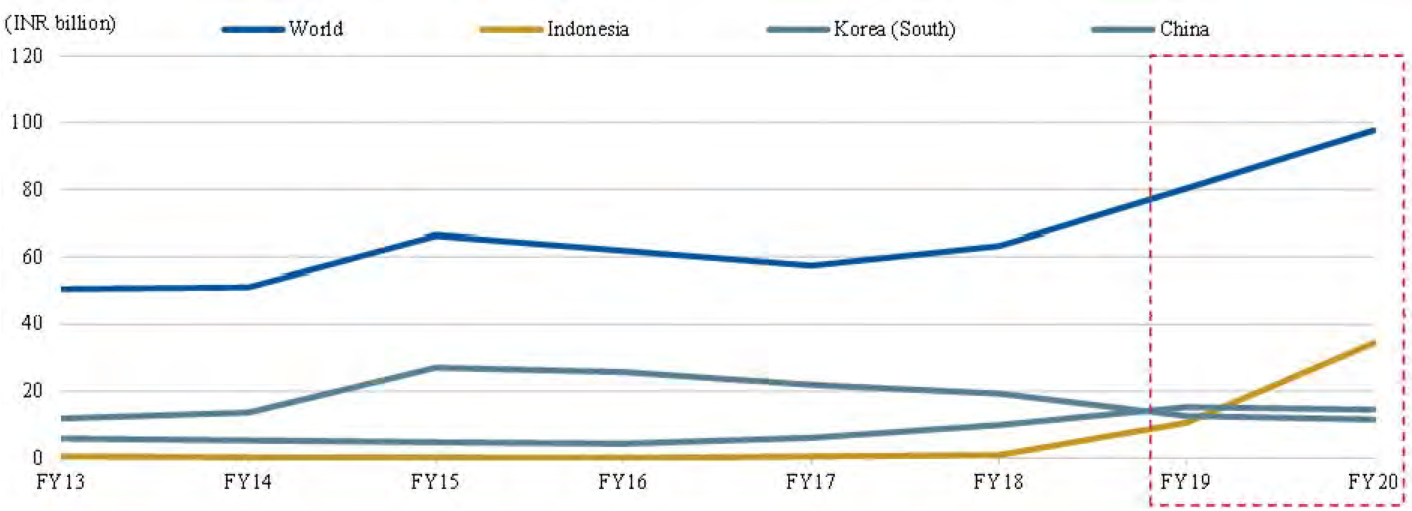
Large and diversified players are likely

Top 5 countries SS imports



Source: Ind-Ra, CMIE

Increase in Indonesia imports pushing India's total SS import



Source: International Stainless Steel Forum, CMIE and Ind-Ra

to increase their mix of flat HR and CR products and may slightly reduce volumes in long products and low value-added flat 'patta'.

This would help other long and flat 'patta' SS producers to increase their overall production and sales volumes in these segments.

The adverse impact of Covid-19 led business disruptions on 2020 volumes has also been partially offset by the imposition of CVD.

There has been a sharp domestic sales volume recovery during August-September.

Decline in Nickel prices globally for seven consecutive months during FY19 kept prices under pressure.

Moreover, increased protectionism across US and EU further hindered international trade. For the domestic stainless steel industry, FY19 was fraught with severe distortion in prices as imports rose in a big way from FTA nations like Indonesia, Korea, and Japan.

This was clearly reflected in India's trade balance with Indonesia, as Indonesian imports leaped by 14 times in FY19, as compared to the previous financial year. This surge in stainless steel imports from Indonesia became one of the biggest threats for domestic industry during FY19.

Jindal Stainless profit up 88%

Jindal Stainless Ltd has posted an 88 percent growth in Profit After Tax (PAT) at ₹98 crore in Q2FY21, as compared to corresponding period last year.

EBITDA at ₹352 crore witnessed a rise of 11 percent on year, while the net revenue stood at ₹3,156 crore in Q2FY21.

Backed by a gradual recovery in domestic demand throughout the second quarter, JSL sales volume recovered to pre-Covid levels.

Compared to the preceding quarter, sales volume witnessed a surge of 159 percent at 230,350 tons in Q2FY21.

"A better than expected rebound in business sentiment, coupled with JSL's agile response in manufacturing and supply chain adjustments, led to improved financial and operational performance in Q2. Aligned with market needs, we kept innovating and expanding our product basket to cater to customers in auto and railway segments. Going forward, we expect higher brand penetration in sub-urban markets through strategic partnerships via co-branded products," JSL managing director, Abhyuday Jindal, said.

The Board also approved to constitute a Committee of Board of Directors of the Company to explore and evaluate various options of reorganization/ consolidation of stainless steel businesses of the Company and of other group entities by way of scheme of arrangement or otherwise, so as to realize greater synergies, and with an objective of maximizing value of all the stakeholders and to take necessary actions in this regard.

Streamlining production, inventory, and supply chain management according to the emerging customer needs helped JSL post strong operational performance in Q2FY21.

Total stainless steel melt production during Jul-Sept quarter stood at 244,469 tons, nearly equivalent to the pre-Covid level.

Improved operational performance in Q2FY21 was also supported by high demand from two-wheelers, decorative pipes & tubes, and Railways segments, which clocked swift resumption to normalcy.

On a half yearly basis, H1FY21 PAT stood at ₹11 crore while EBITDA was ₹430 crore.

Sales volume was recorded at 319,164 tons and net revenue of the company was ₹4,418 crore in H1FY21.

Stainless steel is one of the fastest growing metals due to demand from new uses and steady demand from its traditional uses.

From year 1999 to 2019, the demand for stainless steel in India has grown at a CAGR of 8.1%. ■