

Large steel mills grow larger

Gain market share and deleverage, making room for capex revival

June 2021



Large steel makers gained market share last fiscal

Large steel makers took huge strides in terms of both operations and financial performance last fiscal, increasing their market share by 500 basis points (bps) on-year to 58% despite their share of industry capacity remaining unchanged.

The improvement was driven by supply-chain efficiencies, higher exports, and captive mines that limited the impact of iron ore shortage. Their capacity share is expected to rise this fiscal after JSW's Dolvi plant expansion of 5.6 million tonne comes on stream.

Higher exports helped counter lacklustre domestic demand for large steel makers (especially in the closing quarter of last fiscal and the first quarter of this fiscal). They also gained domestic market share, especially in the long-steel space. Consequently, they operated at >80% utilisation levels as against sub-optimum levels of 62% by mid-sized and small steel makers.

Large steel makers gain share in capacity mix and volume



Capacity mix

Top 5 steel makers added 84% of incremental capacity in FY15-21



Utilisation

Large players export to savage impact on utilisation



Volume share

Large players gained volume share, especially last fiscal

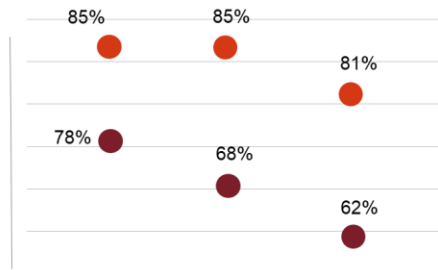
Small and mid-size steel makers



Top 5 large steel makers



FY15 FY20 FY21



FY15 FY20 FY21



FY15 FY20 FY21

● Top 5 large steel makers ● Small and mid-sized players

Note: Top 5 large steel makers include JSW Steel, Tata Steel, SAIL, AMNS and JSPL

Source: JPC reports, company reports, industry, CRISIL Research

Large steel makers benefited more from the rally in steel prices, given the dominance of flat steel in their portfolio.

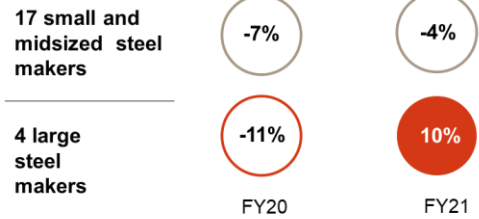
Domestic flat-steel prices have nearly doubled to Rs 72,000 per tonne in June 2021 from Rs 38,000 per tonne in June 2020. In comparison, long-steel prices rose 1.4 times to Rs 57,900 per tonne.

The price rally, spurred by China's green policy, is likely to benefit through the first half of this fiscal, too, with flat-steel prices already up 70% since April. While prices will soften in the second half, they would still be 40-45% higher on-year.

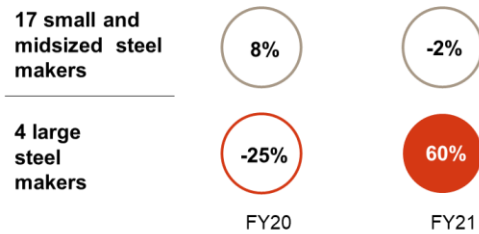
Steel price rally helps large players more as flat-steel prices swell



Revenue growth



Ebitda growth

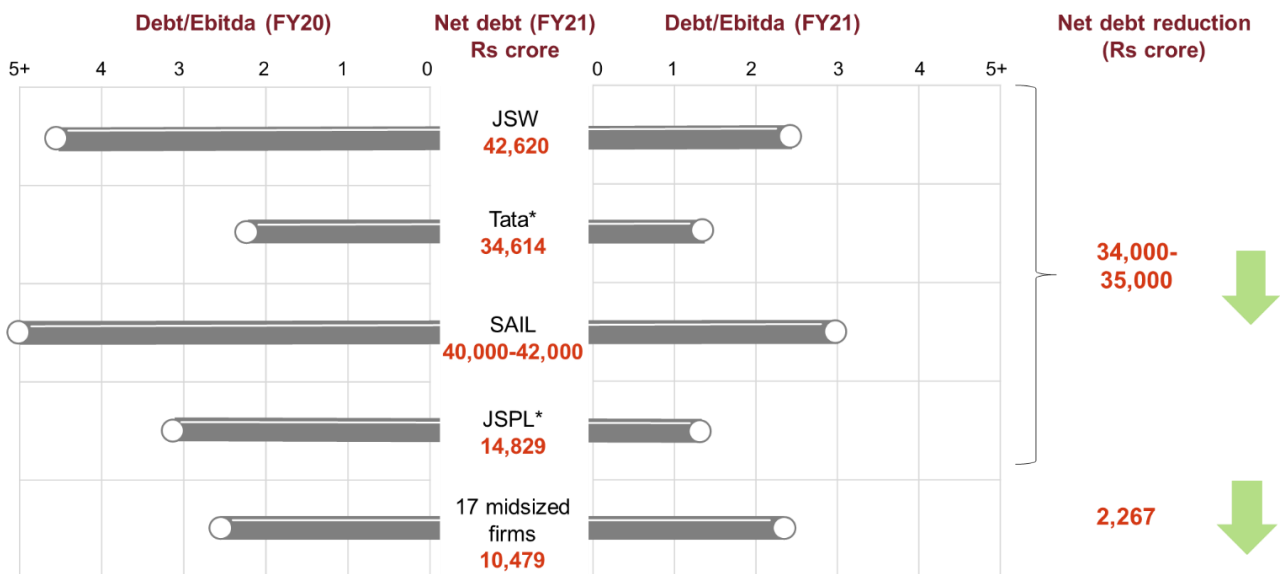


Note: Financials are indicated for a sample set of 21 listed steel companies. Small and mid-sized steelmakers include a portfolio mix of flat, long, alloy and stainless steel manufacturers
Source: Company reports, industry, CRISIL Research

With blockbuster profits, steel makers embarked on significant deleveraging. Consequently, their net debt/Ebitda reduced to 1.8 times last fiscal from 3.6 times in fiscal 2020 (average for the sample set of 21 companies).

The top 4 steel makers reduced net debt (in their Indian operations) by Rs 34,000-35,000 crore as their Ebitda pool nearly doubled during the year.

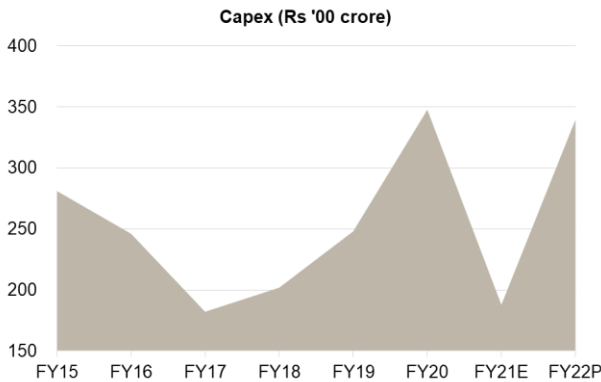
Large 4 steel makers reduce net debt by 16% for their Indian operations



Note: Financials are indicated for a sample set of 21 listed steel companies. Small and mid-sized steelmakers include a portfolio mix of flat, long, alloy and stainless steel manufacturers
Financials for Tata and JSPL have been considered for Indian operations only. Net debt for SAIL has been estimated.
(Net debt = Long-term borrowing + Short-term borrowing + Other long-term liabilities – Cash and cash balances)
Source: Company reports, CRISIL Research

This fiscal, deleveraged balance sheets will drive capacity expansion plans (both brownfield and greenfield) and capex to their previous peaks. Capex deferred during the previous cycle will also kick in. The ongoing capex cycle will continue to be driven by large steel makers, which are expected to add more than 95% of the new capacities coming on stream over the medium term.

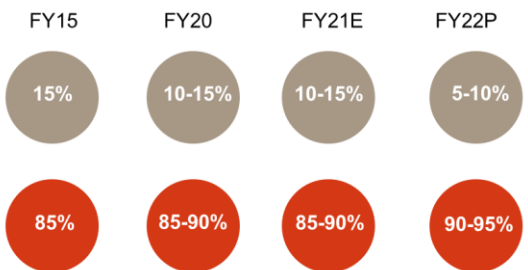
Capex outgo to reach its earlier peak



**Small and
mid-sized
steel makers**

**Top 5
large steel
makers**

**Share in total capex
Large player share in capex rises**



Note: Top 5 large steel makers include JSW Steel, Tata Steel, SAIL, AMNS and JSPL. Net debt for SAIL has been estimated using latest available earnings release for 9MFY21. Source: Company reports, CRISIL Research

Some key capacity expansions by large steelmakers will include the following brownfield additions:

- Tata Steel Kalinganagar (5 mtpa)
- JSPL Angul (6 mtpa)
- JSW Steel Vijayanagar (5 mtpa expansion + 1.5 mtpa blast furnace revamp)

However, these capacities are expected to be commissioned in/after fiscal 2024.

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