

# The evolving Impact of duties and tariffs on India's steel sector



Primus Partners India



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# Steel Industry Duty PoV

## Overview

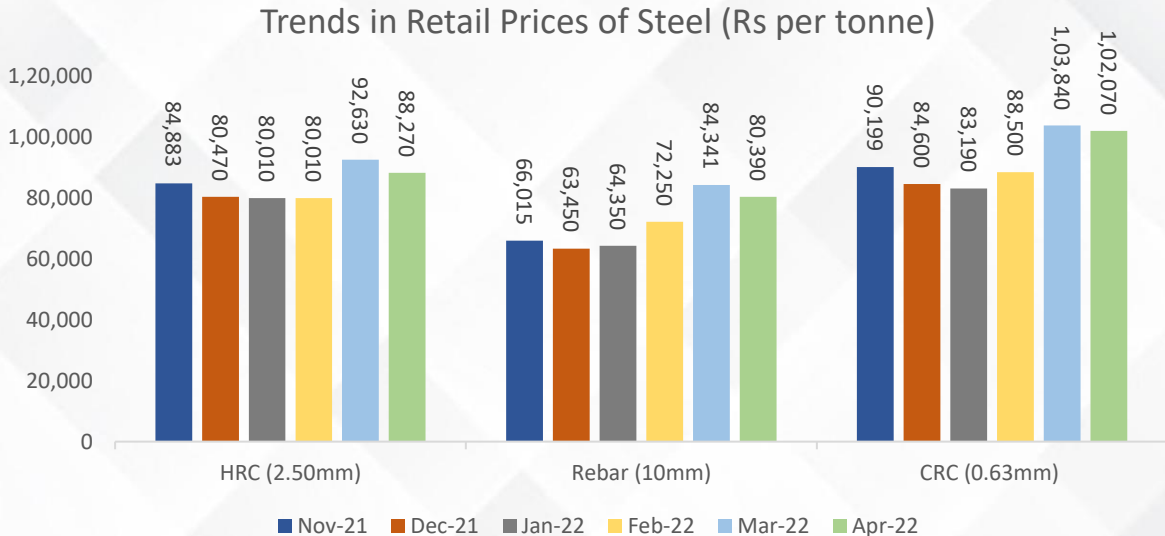
The past two years have seen a dramatic increase in the global price of steel. The price increase greatly benefited the Indian Steel producing industry which logged record levels of production and exports, as well as a massive improvement in its margins.

- The Indian Steel producing industry is the second-largest producer of crude steel and recorded production of over 120 million tonnes of crude steel in 2021-22. In 2020-21, India produced around 102 million tonnes of crude steel.
- In FY22, India exported 13.5 million tonnes (MT) of finished steel, compared with 10.8 million tonnes (MT) in FY21.
- India's domestic steel consumption also increased to 106 million tonnes (MT) during the same period, up from 94 MT in FY21.

However, the increase in the price of steel has negatively affected the steel end-user industry which relies on steel as a critical input for its operations, and dented consumer demand in a big way with increased input costs hurting profitability, especially for the MSME Industry.

In December 2021, the central government met with key steel industry stakeholders and emphasized the need for an easier and cost-effective supply of steel to small industries which are heavily reliant on steel for the manufacturing of components and other engineering products. The government also urged the steel manufacturers to consider offering relief to the Micro, Small, and Medium Enterprises (MSME) sector by reassessing the high prices of benchmark hot-rolled coil (HRC).

Trends in Retail Prices of Steel (Rs per tonne)



## Steel Duty Imposition

On 21<sup>st</sup> May 2022, the government decided to levy a 15% export tax on steel products and iron ore and lowered import duty on three key raw materials for steel production to reduce domestic steel prices and curb domestic inflation. The government also raised export duty on one item and imposed it again on ten other items. Iron ore and concentrates have seen their duty increase to 50% while for nine other classes of iron ore and steel intermediates, a 15% export duty has been imposed, including on Flat-rolled products of iron or non-alloy steel. The government's actions are likely to lead to an increase in the availability of steel in the domestic market alongside a price reduction.

*As per rating agency ICRA, the government's move to impose an export duty on finished steel, coupled with weak demand during the seasonally weak monsoon quarter could lead to a 10-15% correction in domestic steel prices in the coming months.*

Some of the major steel items affected by the decision of the government have been listed in the table below:

### Export Duty on Iron and Steel Intermediaries

	Earlier	Now
Export of Iron ore and concentrates	30%	50%
Iron Pellets	NIL	45%
Pig Iron	NIL	15%
Stainless Steel	NIL	15%

### Import duty on raw materials of steel

	Earlier	Now
Coking Coal and Anthracite	2.5%	NIL
Coke and Semi Coke	5.0%	NIL
Ferronickel	2.5%	NIL

The customs duty introduced by the government has contributed to taming prices in the domestic steel market.

- *As per Steelmint, a market intelligence agency, the prices of domestic benchmark hot-rolled coil (HRC) steel at the traders' end have slipped by about 8% or Rs 5,500.*

### Impact of the Steel duty on various sectors

While the imposition of export duty on steel is likely to negatively affect the steel-producing industry, the reduction in customs duties on raw materials is likely to positively impact different sectors such as automotive, real estate, construction, capital goods, etc., for which steel forms a critical input.

- The real estate sector will benefit from reduced prices of steel and cement with manufacturers likely to pass on the benefit of price cuts to end-users, giving a push to demand in the sector and helping homebuyers.
- The move will also positively impact the MSME sector which has been reeling under the high price of steel. A reduction in steel prices will help reduce the manufacturing costs for engineering exporters and help boost the \$109 billion worth of engineering exports in FY22 while also working to improve the competitiveness of Indian MSMEs in the global market.
- The roads and infrastructure sectors are expected to benefit from the increase in export duty on steel while the scrapping of import duty on pet coke and semicoke will help reduce costs for manufacturers of cement.

### Expected Impact on steel capex and exports

The imposition of the export duty on steel products of 15% has had a massive impact on the steel sector and is likely to force steel manufacturers to review their ambitious capital expenditure plans as new plants may now become uneconomical. The duty may lead to a fall in capacity utilization and set back the government's target of increasing steelmaking capacity to three hundred million tonnes by 2030 from around one hundred million tonnes.

*Currently, major steel manufacturers have allocated capital expenditure of more than Rs 1 lakh crore in the sector over the next two to three years with firms such as Tata Steel, JSW, and Arcelor Mittal having ambitious expansion plans over the next decade.*

Further, steel exports are also likely to get negatively impacted by the move.

- As per the Indian Steel Alliance (ISA), the export duty on steel products would send a negative signal to investors, adversely impacting capacity expansion projects under the PLI scheme for specialty steel and preventing Indian steelmakers from becoming a greater part of the global supply chains.
- Furthermore, the steel duty may also prove to be a hindrance to the government's disinvestment plans complicating the divestment of the Nagarnar Steel plant of NMDC and RINL, with prospective companies rethinking their bids for the PSUs.



## Consistency of Policy

As the country aims to become a greater part of global supply chains and present itself as a manufacturing alternative to China, consistency in government policy remains key to building confidence and driving investments from the private sector to become a globally competitive economy.

While the move to impose an export duty on steel brings much-needed relief to the MSME sector that had long requested the government for measures to ease the burden of high steel prices, the unanticipated imposition of export duty on steel, coupled with the government's decision to ban exports of wheat holds the potential of undermining the country's credibility as a reliable alternative to China and a dependable supplier to world markets.

Over the past two years, India has seen a significant increase in its engineering and steel exports due to the consistent efforts of the government in promoting the export of finished goods, resulting in India's finished steel exports reaching record highs in FY21-22 while simultaneously working to reduce the high input costs of raw materials to MSMEs. However, despite the government's tough balancing act through the imposition of the export duty, there remains a danger of the country losing an opportunity to become a reliable net exporter of steel from being a net importer until a few years back.

As Indian steelmakers have become an integral part of global supply chains, the imposition of such a duty is likely to negatively impact its reputation among its global customers with companies reviewing their capacity expansion plans for catering to global markets. The government should aim to come out with policies with longer-term horizons to encourage more sustained investments into the sector.

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### About Primus Partners

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Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).



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