

**STEEL**

**Sector Outlook - Neutral**

**Background**

(Rs./tonne)

Prices*	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Pig Iron	32,441	25,939	21,765	21,228	21,594	21,619
Sponge Iron	26,911	17,919	15,378	15,572	14,320	14,445
HR Coil	45,288	42,511	34,217	34,038	34,288	34,652
CR Coil	48,235	44,350	37,306	36,178	37,353	38,477
Channels	39,948	34,374	33,405	31,496	28,852	28,500
TMT Bars	45,306	37,090	33,856	33,798	31,975	31,142

\*average market prices of four metros (inclusive of excise and sales tax/VAT)

Source: CMIE Database

Consumption	Apr-Nov FY09	Apr-Nov FY10	Y-o-Y (%)
Flats	17,037	18,587	9.10
Longs	17,294	18,499	6.97
Others	1,265	1,331	5.22
<b>Total finished steel</b>	<b>38,417</b>	<b>35,596</b>	<b>7.93</b>

Source: JPC

- The overall steel demand in India, which plummeted during Q3FY09 in line with the global downturn, recovered from Q4FY09 onwards, propped up by the Government's stimulus package, which triggered investments in infrastructure and capital goods sectors, and the sharp spurt in automobile production.
- Flat steel prices recovered from Q2FY10 and thereafter have remained stable. On the other hand, the recovery in construction has been tardy. Besides, the long products segment is significantly fragmented. Consequently, prices of long products have remained weak.
- Prices of the principal raw materials, iron ore and coking coal that had internationally been contracted at low levels for FY10 rose through the year led by substantial increase in imports from China. Consequently, the margins of the larger crude steel producers having captive raw materials or a greater proportion of contracted inputs, remained stable, while the margins of smaller producers, depending upon spot purchases, remained thin.
- In the short term, the prospects of the overall Indian steel industry appear stable, given the positive growth drivers in end-user sectors, the balance in demand and supply, and the key advantages of iron ore sufficiency and competitive costs. However, the enduring tightness in raw materials may serve to keep margins under pressure, especially for the smaller and less integrated steelmakers.

## Budget Proposals

1. Excise duty increased from current 8% to 10% for all ferrous products.
2. Surcharge on customs duty for domestic companies reduced from 10% to 7.5%.
3. A cess of Rs.50/tonne imposed on all coal produced and imported in India.
4. Proposed completion by the Railways of 1,000 route-kilometres of new lines in 2010-11.
5. Wagon procurement target set at 18,000 by the Railways for 2010-11.
6. Allocation of 46% of total funds to infrastructural developments and increase in allocation to power sector from Rs.2,230 crore to Rs.5,130 crore.
7. One per cent interest subvention on housing loans up to Rs.10 lakh (where the cost of the house does not exceed Rs.20 lakh) to be extended till March 31, 2011 from the earlier deadline of March 31, 2010.

## Duty Structure

(%)	Existing	Proposed
<b>CUSTOMS DUTY</b>		
· HR Coil	5	5
· CR Coil	5	5
· GP/GC	5	5
· Structural	5	5
· Bars & Rods	5	5
· Alloy Steel	5	5
· Pig Iron	5	5
· Sponge Iron	5	5
· Ferro Alloy	0	0
· Non coking coal	5	5
<b>EXCISE DUTY</b>		
· HR Coil	8	10
· CR Coil	8	10
· GP/GC	8	10
· Structural	8	10
· Bars & Rods	8	10
· Alloy Steel	8	10
· Pig Iron	8	10
· Sponge Iron	8	10
· Ferro Alloy	8	10
· Non coking coal	8	10

Excluding 2% Education cess and 1% secondary & higher education cess

**Budget Impact: Industry**

1. The increase in excise duty is expected to be negative for steel manufacturers; the overall impact is likely to depend upon their ability to pass on to their customers. For steel-made consumer goods, like automobiles, the overall cascading of the excise duties may be offset by the increase in personal disposable income, subsequent to the fiscal concessions proposed on personal income tax.
2. Reduction in surcharge on customs duty is likely to have marginally negative impact on domestic manufacturers of the steel products.
3. Imposition of cess of Rs.50/tonne on both domestically produced and imported coal is expected to adversely affect the overall industry – blast furnace-based users of metallurgical grade coal, sponge iron units and users of thermal coal for coal-based captive power plants.
4. Proposed addition of 1,000 route-kilometres by the Railways bodes well for rail manufacturers like SAIL and JSPL which are into manufacturing of rail routes. Similarly, the procurement target of 1,800 wagons is expected to trigger additional steel demand in the country.
5. Increased allocation on infrastructure and interest subvention for housing loans is likely to boost domestic steel demand.

**Budget Impact: Companies**

Company	Applicable Proposals	Overall Impact
SAIL	1,2,3,4,5,6,7	◄►
Tata Steel Ltd	1,2,3,6,7	◄►
JSW Steel Ltd	1,2,3,6,7	◄►
Ispat Industries Ltd	1,2,3,6,7	◄►

**Legends:**

▲▲	Highly Positive	▼	Negative	◄►	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals