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INDUSTRY OUTLOOK

IMPACT OF UNION BUDGET 2024-25 ON THE STEEL INDUSTRY OF INDIA

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Supply and Demand Situation of Steel

India's steel industry remains a bright spot in the global scenario and achieved its highest levels of production and consumption during FY24. Domestic finished steel production increased by 4.4 per cent year-over-year to 34.9 million tonnes, while domestic steel consumption rose by 15 per cent year-over-year to 35.5 million tonnes in Q1 (April-June).

This robust demand is expected to continue, with steel demand projected to surpass an 8 per cent year-over-year growth in FY25.



Impact of India's Growing Capex on the Steel Industry

India's growing capital expenditure (capex) significantly benefits the steel industry. The Union Budget 2024-25 allocated ₹11.11 lakh crore to enhance national infrastructure, creating millions of jobs and directly benefiting the steel industry. Increased capex on railways, housing, industrial parks, and other infrastructure projects is set to propel steel demand well above the anticipated 8 per cent growth. Infrastructure and housing sectors together account for 60-65 per cent of India's steel demand, ensuring sustained growth in steel consumption.

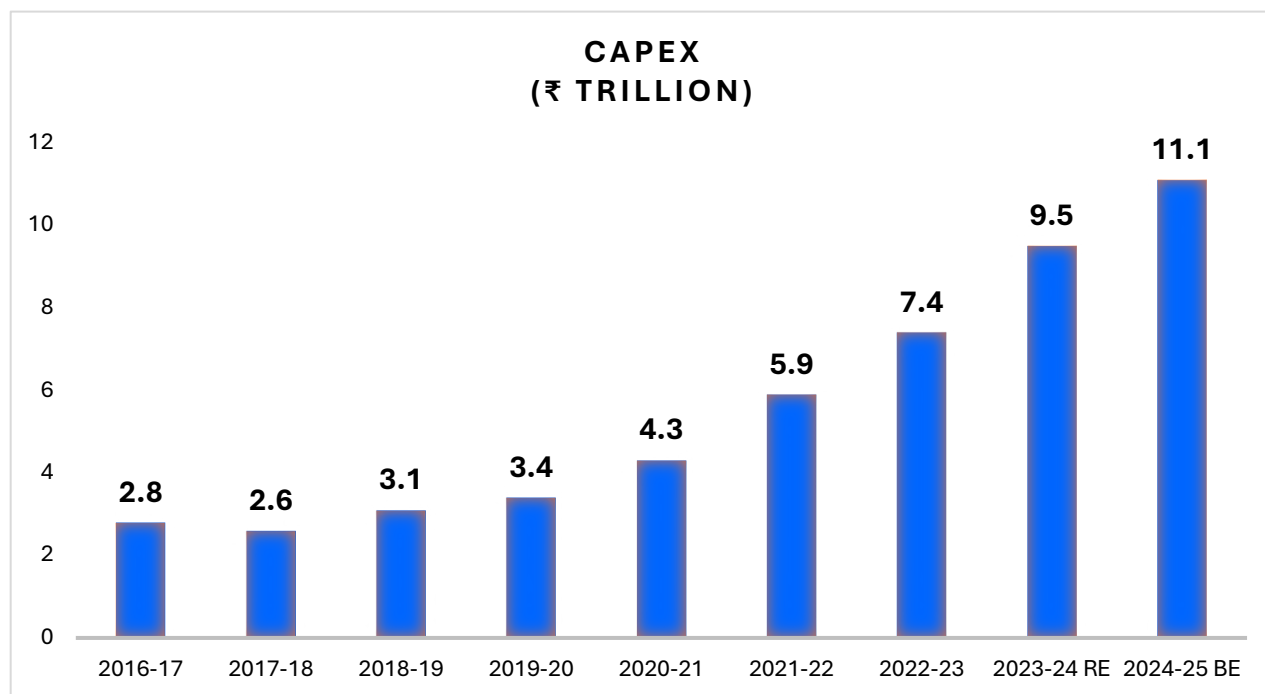
Increasing capital expenditure (Capex) and infrastructure investment is important for supporting industries and driving economic growth. The Union Budget 2024-25 allocated ₹11,11,111 crore (mentioned above) for capital expenditure, which is 3.4 per cent of the national GDP, underscoring the government's commitment to infrastructure development. This substantial investment includes provisions for long-term interest-free loans to support state governments' infrastructure projects.

The Finance Minister highlighted the strong multiplier effect of infrastructure investment on the economy, with significant fiscal support expected to continue over the next five years.

The Budget also promotes private sector investment in infrastructure through viability gap funding and supportive policies. Despite financial innovations in recent years, government capital expenditure remains central to funding large-scale projects, with the Union Government's capital expenditure increasing by 2.2 times and State governments by 2.1 times from FY21 to FY24. The net flow of funds to infrastructure sectors through bank credit between March 2023 and March 2024 was around ₹79,000 crore, highlighting the need for continued government support.

The external commercial borrowings for infrastructure sectors rose to US\$ 9.05 billion in FY24. The government's focus on infrastructure will drive demand across various sectors, promoting balanced development and economic stability.

Chart 1: Capital Expenditure Trend in India



Source: Union Budget, Government of India

Impact of Union Budget 2024-25 on the Steel Industry

The Union Budget 2024-25 provides several direct and indirect benefits to the steel industry. Among the direct benefits, the Budget includes the removal of the 2.5 per cent basic customs duty on ferronickel, a crucial raw material for stainless steel and specialty alloys, and introduces zero BCD on 25 critical minerals, including molybdenum, used in high-grade steel production. The exemption of BCD on ferrous scrap has been extended till March 31, 2026, encouraging recycling and reducing reliance on raw ore. Financial support measures are also in place to facilitate the manufacturing of high-grade steel, strengthening India's high-grade stainless-steel offerings.

Indirect benefits come from the Budget's emphasis on infrastructure-led economic growth with a 17.7 per cent increase in capex, expected to boost domestic steel demand. Plans to provide an additional two crore affordable houses over the next five years under the Pradhan Mantri Awas Yojana (PMAY) will further support steel demand. Increased spending on infrastructure and housing will support the credit profiles of domestic steel players by driving demand, which is significant given the weak global demand and overcapacity issues, particularly from China.

The Budget also impacts the steel industry's Environmental, Social, and Governance (ESG) aspects. Reduction in import duties on eco-friendly materials like ferronickel and critical minerals promotes the production of high-grade, energy-efficient steel, while encouraging recycling through extended ferrous scrap import exemptions minimizes environmental degradation and energy consumption.

Increased infrastructure spending supports the adoption of sustainable and eco-friendly practices in steel manufacturing. Socially, job creation through infrastructure and affordable housing projects enhances the social standing and economic well-being of communities, and financial support for high-grade steel manufacturing will lead to modernization and automation, improving working conditions and aligning with better social governance standards.

In terms of governance, government support and financial incentives for high-grade steel production may require stricter environmental and social governance compliance. Enhanced transparency and accountability are expected from steel companies leveraging government support, aligning their operations with best governance practices, and increased stakeholder engagement aligns ESG strategies with broader economic and social goals.

Overall, the Union Budget 2024 initiatives collectively drive the steel industry towards responsible environmental practices, improved social conditions, and stronger governance structures, enhancing the industry's performance and long-term sustainability in India.