

Steel makers may have to cut prices on slowing demand

Jun 21, 2010 (Mint - McClatchy-Tribune Information Services via COMTEX) -- Indian steel makers may have to reduce prices for the second time in two months in July to stay in line with falling global prices and as steel demand in the construction business slows, industry analysts say.

Steel demand tends to slow in the monsoon season, a traditionally slack period for the construction industry. In June, steel companies cut prices by Rs2,000 to Rs4,500 a tonne.

Steel company officials, however, say they can hold on to current price levels given demand from automobiles, consumer durables and engineering fabrications.

Indeed, automobile sales have been robust, with India's largest car and two-wheeler makers, Maruti Suzuki (India) Ltd and Hero Honda Motors Ltd, respectively, posting record sales for the month of May.

Inflation for the month of May rose to 10.16%, driven largely by non-food manufactured goods even as food inflation declined.

Bhavesh Chauhan, steel analyst at SMC Global Securities Ltd, said a marginal cut of Rs500 to Rs1,000 in the price of steel per tonne is likely because of increasing imports from China.

"Though the demand from the Indian market is strong, the global scenario is not that good, which will have an impact on prices here because producers particularly from China will look to sell here, thus increasing supply," he said.

Chinese imports increased 133% to 17 million tonnes (mt) between January and May this year compared with the same period last year.

Pankaj Mittal, general manager (purchases) at Delhi-based Raheja Developers Ltd, said Chinese imports had already affected the market, but the company had not bought from China because of "quality and consistency issues".

"We also did not have much requirements in the past few months, but once our requirements grow we may also buy (from China)," he added.

At 550 mt a year, China produces roughly half of the world's global steel, but domestic demand is expected to ease as the government tries to cap rising property prices, forcing Chinese companies to look to outside markets.

Imports from China could rise even more as manufacturers there rush to export as much as they can ahead of a Chinese government proposal to cut export rebates, said Chirag Shah, an analyst at IDFC- SSKI Securities Ltd

"China wants its economy to be more domestic driven and hence they want to cut rebates," Shah said.

While domestic prices could soften a bit ahead of the monsoon season, Shah said domestic demand from other segments such as automobiles remains "extremely strong".

Companies, too, are confident that they can pull through the slack season.

"Demand is there from all sectors. May be it will drop in some products like galvanized sheets, which is used on roofs, pre-monsoon or may be in the spot market but not from long-term customers who receive material as and when they want," said Vikram Amin, executive director, sales and marketing, at Essar Steel Ltd, adding that demand would remain steady in line with overall economic growth.

The International Monetary Fund has projected 8% growth for India's gross domestic product in fiscal 2011, but finance minister Pranab Mukherjee in his Union Budget speech said the economy may beat the forecast.

Some buyers, especially in the construction and infrastructure business, are loathe to share that sunny outlook.

Mittal of Raheja Developers said he expected steel prices to fall further as large steel consuming projects such as the Delhi Metro and Commonwealth Games (CWG) projects near completion. CWG will take place in October.

"Demand from the Games will evaporate in the next two-three months and the third phase of the Delhi metro will only start in three years, which means that price cuts are definitely on the cards," he said.