US Import Tariff Hike on Steel & Aluminium: Impact Analysis on Indian Corporates

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Synopsis

- India's direct steel exports to the US are relatively low, constituting around 4% of its total exports in CY24. As a result, the direct impact on the steel sector's sales volume due to the imposition of tariffs by the US is not expected to be significant. However, there is likely to be an indirect effect on realisations if major steel exporters to the US divert some of their supplies to India.
- Global steel consumption is expected to decline for the second consecutive year in CY24, mainly due to a decline in consumption from major developed countries, including the USA, Japan and the European region.
- China, which accounts for nearly half of global steel production and demand, also experienced a continued decline in domestic consumption. However, the capacity utilisation rate of the Chinese steel industry remains above 80-85%. This, combined with declining domestic demand, has led to significant surplus production being exported, estimated at around 90-95 million tonnes (MnT) during CY24, an increase from approximately 65 MnT previously CY22.
- India continues to witness good demand for steel, growing at around 10-13% during the last three fiscal years (FY22 to FY24).
- Weakening demand in major steel-consuming economies has led to an over-supply situation, thereby adding pressure on realisations. Global steel prices (world export prices for Hot Rolled Coil) have averaged around US$ 535 per tonne during CY24, down from around US$ 788 per tonne recorded in CY22. Global steel prices declined in CY25, hovering around US$ 481 per tonne in January 2025.
- An increase in import tariff by the US could result in the diversion of surplus production by major Asian steel manufacturing countries to Indian markets, which is likely to keep realisations under check. During 10MFY25, realisations of the domestic steel industry have already witnessed moderation with growing imports of steel whereby India has turned a net importer vis-à-vis a net exporter up to FY24 – even though the overall volume of steel import into India is low compared to total domestic consumption, the realisations tend to mirror the landed cost parity with international prices.
- India is a major exporter of primary aluminium (around 40% of our domestic aluminium production is exported during CY24). India's direct aluminium exports to the US are around 6-8%. Consequently, the impact of the tariff hike on export volumes and its realisations for Indian aluminium producers is expected to be higher than that of domestic steel manufacturers. However, India remains one of the lowest-cost aluminium producers globally, mainly on account of the availability of quality bauxite reserves, which improves India's cost competitiveness in the global market – this can provide greater cushion to domestic aluminium producers to meet the increased competition from any over-supply scenario arising from the imposition of tariff by the US.

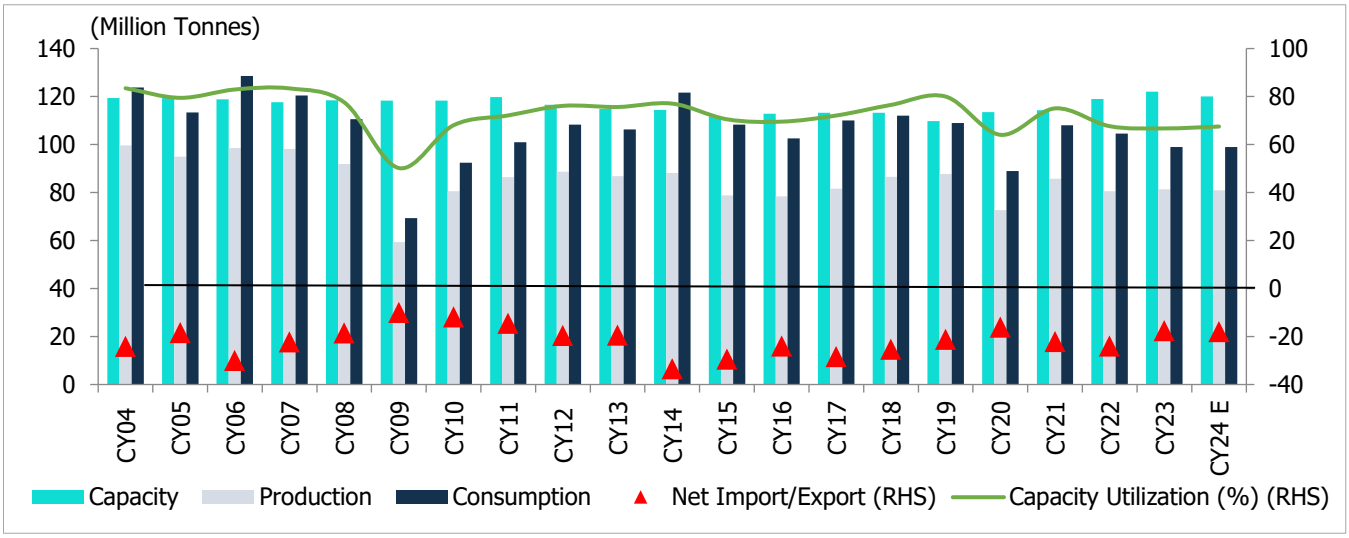
Impact of US tariff hike on steel and aluminium industry

The USA has imposed a 25% import tariff on steel and aluminium products worldwide to boost domestic production. A similar order was issued in 2018 after several bilateral talks with countries impacted by the tariff hike.

Subsequently, relief was extended to numerous significant and strategically important steel and aluminium exporting countries to the US. This time, however, the order also encompasses the termination of any previous exemptions granted to these countries.

Over the last two decades or more (CY04-24), the US has remained a major importer of steel in the global market, with imports on average accounting for around 20% of its total domestic steel consumption.

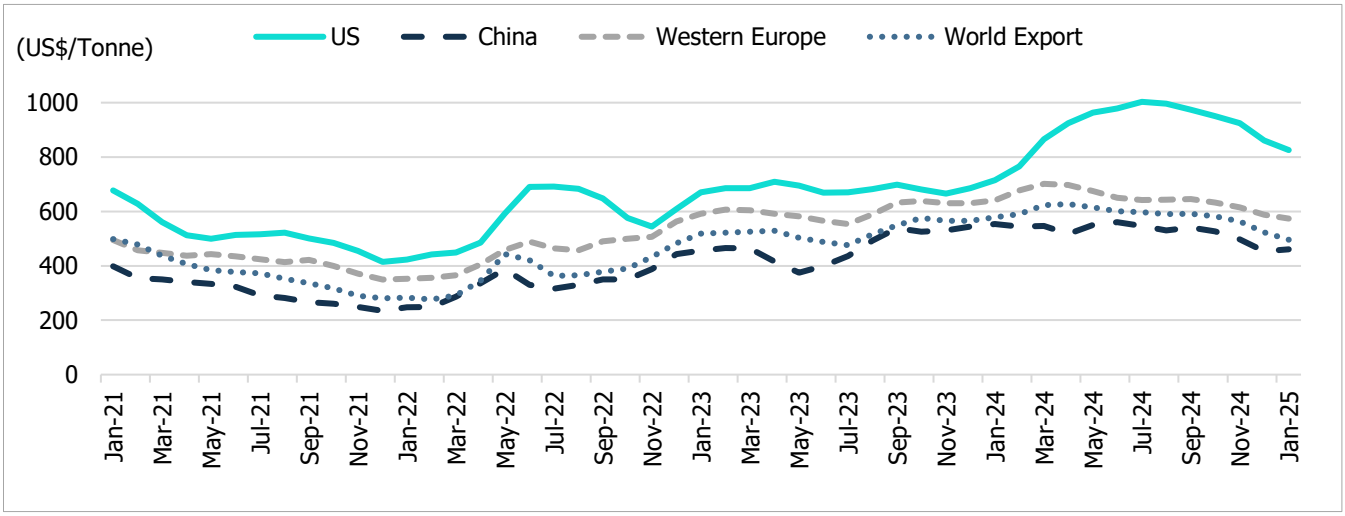
US Steel industry scenario:



Source: OECD, USGS, World Steel Association, CareEdge Ratings

Although US steel capacity is adequate to meet domestic demands, capacity utilisation levels have remained low, resulting in ongoing import dependence. This lower utilisation can also be attributed to higher production costs than other major steel-producing countries. The increased cost of production and subsequent import reliance have led US steel prices to command a significant premium, thereby attracting imports. Over the past four years (CY21 to CY24), US steel prices, on average, were approximately 50% higher than Chinese steel prices, while they were around 23% and 38% higher than Western European and global export prices, respectively.

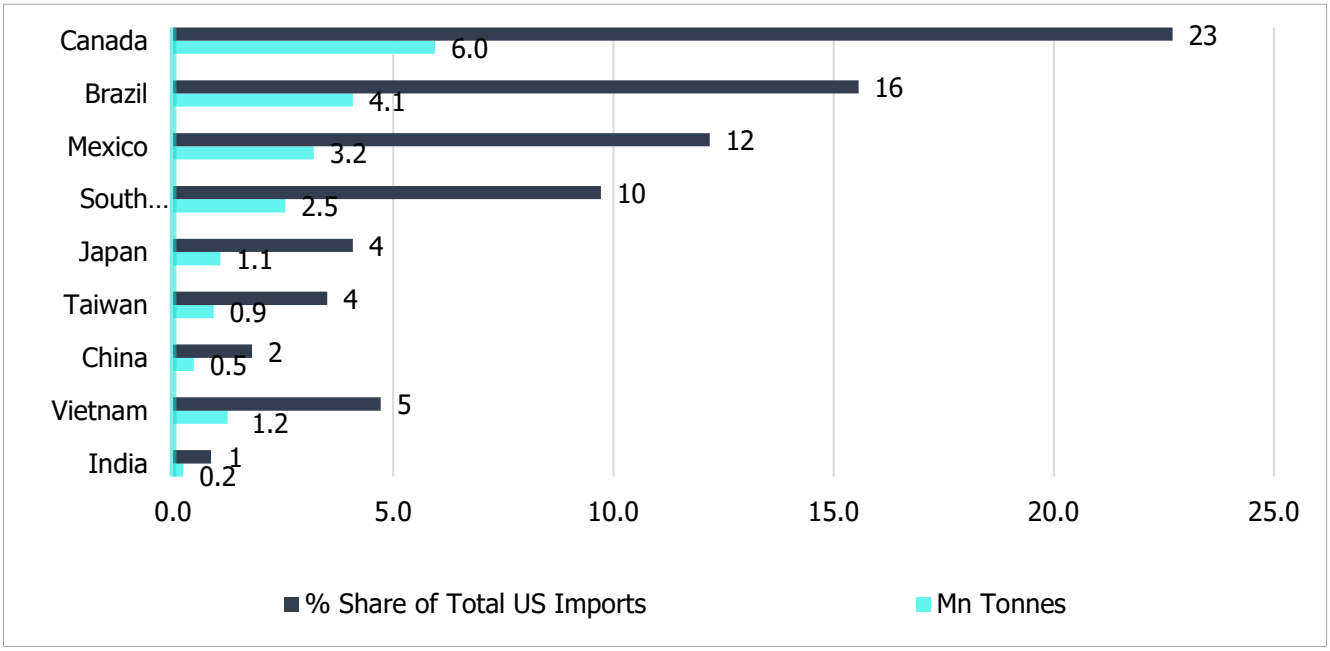
Hot-Rolled Band steel prices



Source: Steel Benchmarker

The tariff order comes in as a respite for the US steel industry, given the subdued demand environment for the metal as reflected from the declining trend of steel consumption in last two-three years, which along with higher levels of import has resulted in prolonged lower capacity utilization rates and lower profitability margins for the US steel producers.

Canada, Brazil, and Mexico remained the major steel exporters to the US market during CY24. Meanwhile, several Asian countries, such as South Korea, Japan, Taiwan, China, and Vietnam, contributed significantly to steel exports to the US market. Considering the tariff increase by the US, surplus steel production could be redirected to other countries, including India.



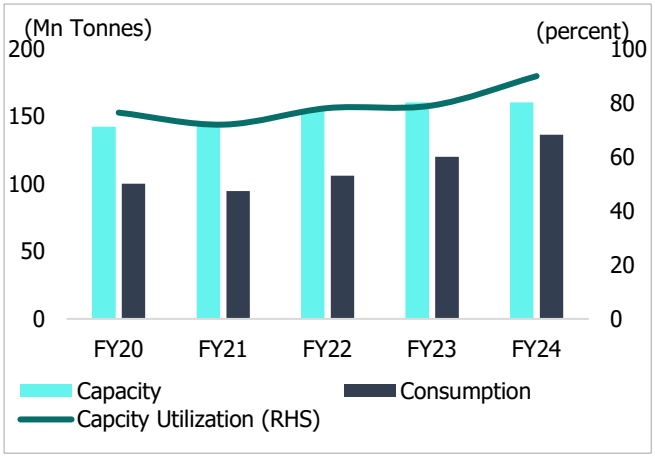
Source: US Department of Commerce

Indian Steel Industry

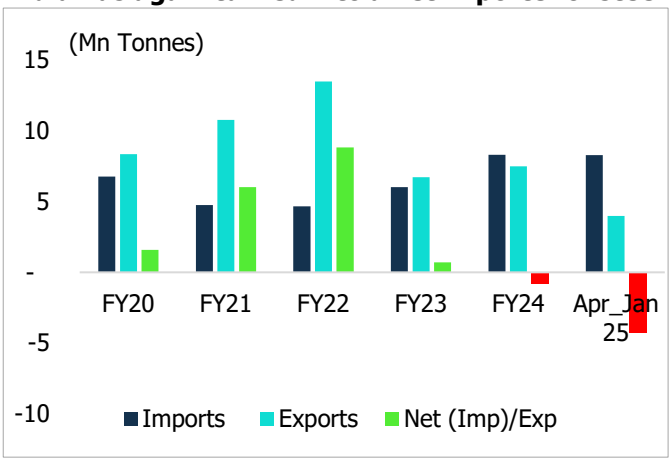
Over the past decade (FY14-24), India's steel capacity has achieved a compound annual growth rate (CAGR) of approximately 4.60%, while domestic steel consumption has risen at a CAGR of about 6.30%. In the FY20-24 period, while capacity expanded at a CAGR of roughly 3%, consumption surged by around 8%, benefitting the domestic steel industry. Most domestic steel capacity additions were undertaken with the significant growth in domestic steel consumption in mind. However, from FY24 onwards, India has become a net importer of steel products.

Domestic steel consumption has increased by around 13-14% during FY24 and H1FY25. Despite a robust growth in domestic steel consumption, realisations during this period have remained under pressure, mainly due to the decline in global steel prices. Domestic prices are based on the landed cost parity with international prices. During FY24, imports in the domestic market increased by around 38% and 20% during the first 10 months of FY25. While India's exports increased by around 11% in FY24, it recorded a sharp decline of around 29% during the first 10 months of FY25.

Indian steel industry scenario:



India has again turned into a net importer of steel:

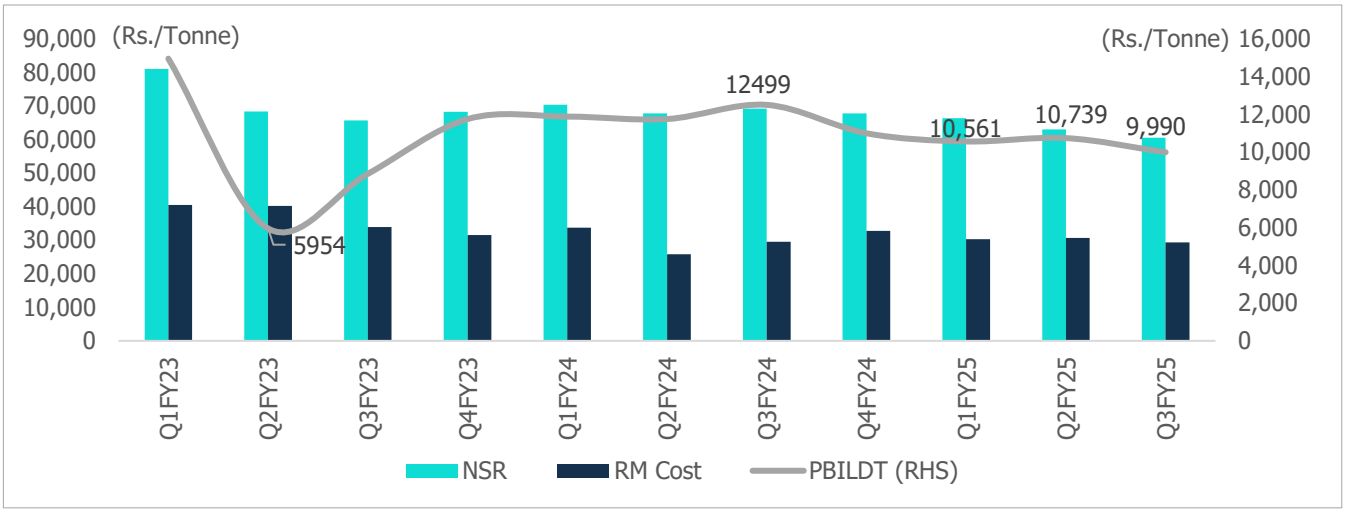


Source: CMIE, JPC, CareEdge Ratings

The surge in import volumes has resulted in lower realisation in domestic prices, thereby impacting the profitability of domestic steel producers.

Aggregated quarterly data for the sample set of four large integrated steel players in the domestic market, which represents around 48% of the total domestic steel capacity, has shown a decline in net sales realisations (NSR) of around Rs 5,850 per tonne and profitability (PBILDT) of around Rs. 1,600 per tonne during the first 9MFY25 when compared with the same period last year. However, softening in key raw material prices has partially aided the decline in profitability for these players.

Profitability margins for domestic integrated steel producers:

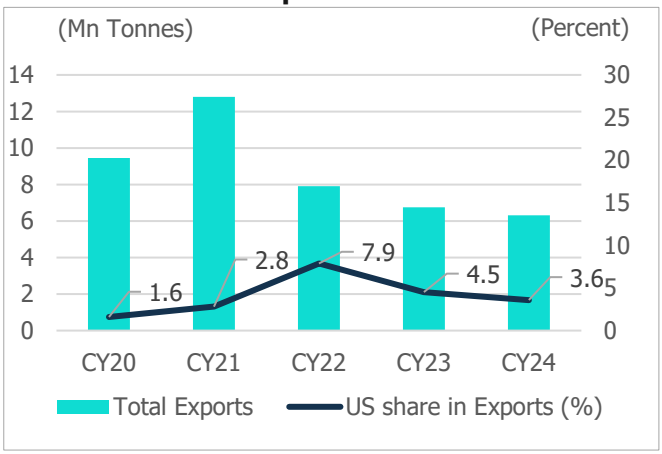


Source: Company presentations, CareEdge Ratings

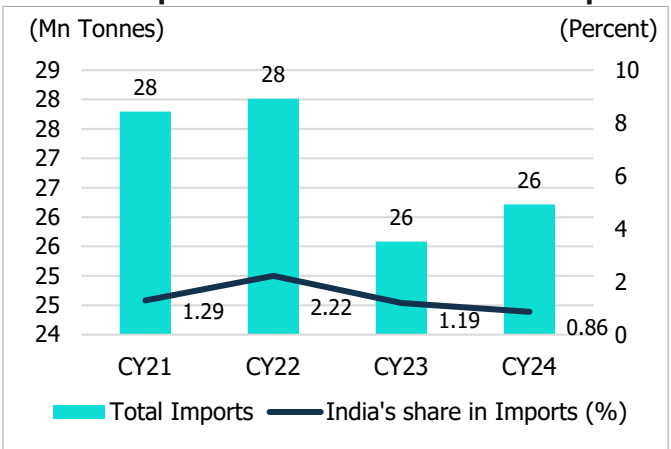
Globally, India is the second largest producer and consumer of steel after China. Given the robust growth in India's domestic steel demand as against an otherwise subdued global steel industry and the negligible level of direct steel exports from India to the US, CareEdge Ratings believes that although the recent tariff order may not directly affect the Indian steel producers; but it has the potential to keep their sales realisations under check if some of the major suppliers to the US start diverting their exports to other markets, including India. Further, India exported around 6.3 MnT of steel during CY24. Given the anticipated rise in competition in export markets, Indian players may

encounter lower export volumes, which would increase domestic supply and subsequently exert pressure on realisations.

India's total steel exports and US share in it



US steel Imports and India's share in US imports

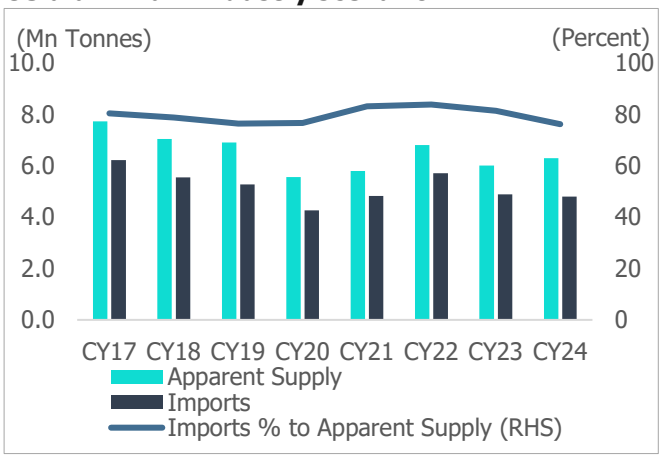


Source: JPC, US Department of Commerce

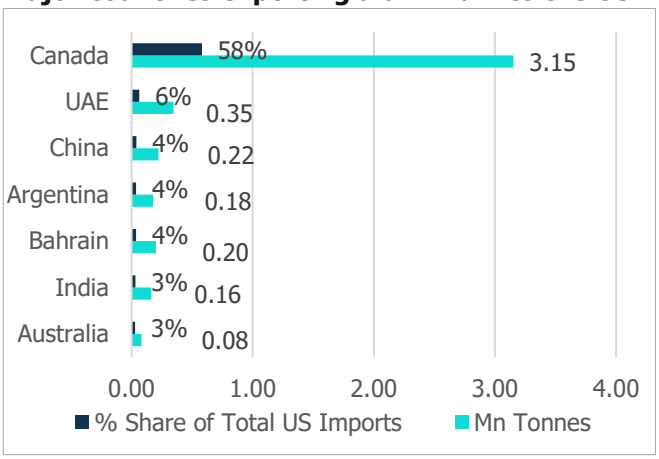
Aluminium:

Aluminium production through the primary route remains lower in the US than in the secondary route (scrap route). However, the US aluminium industry remains significantly dependent on imports, with around 75% of the US aluminium's apparent supply (primary + secondary production + imports–exports + adjustments for stock changes; excludes imported scrap) being primarily met through imports. Canada remains the largest exporter of aluminium to the US, followed by UAE and China.

US aluminium industry scenario:



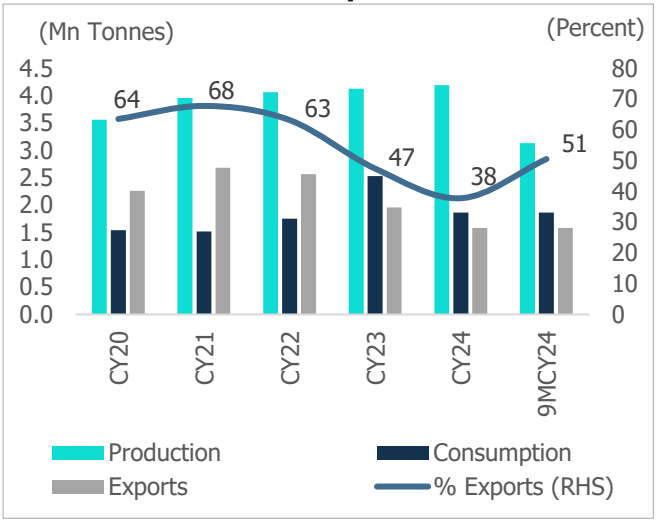
Major countries exporting aluminium to the US:



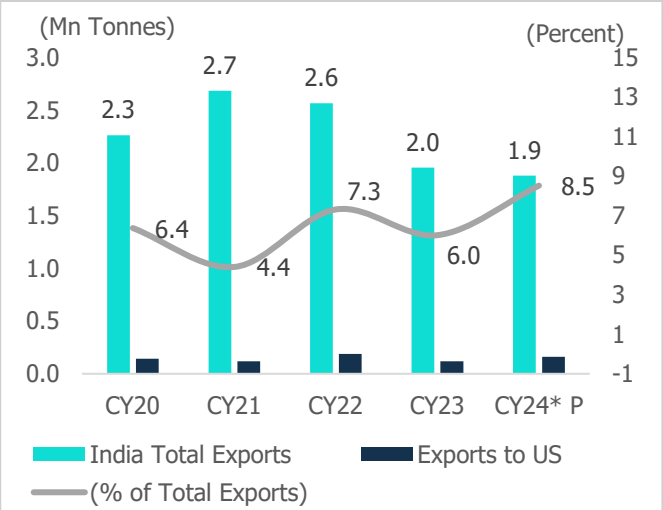
Source: USGS, US Department of Commerce

China remains the largest producer of primary aluminium, holding approximately 60% of the global production share, while India ranks as the second largest producer, contributing around 6%. Unlike steel, India is a net exporter of aluminium, with nearly 40% of its primary aluminium output being exported. The US accounts for about 6-8% of India's total aluminium exports, representing a larger share of aluminium exports than steel exports.

Indian aluminium industry scenario:



India's aluminium exports and the US's share in it



Source: CMIE, US Department of Commerce

Likely impact on the Indian steel and aluminium industry:

- Diversion of surplus steel to India and consequent increased competition: Given the tariff hike by the US, surplus steel production could be redirected to other countries. Even if we consider the current major Asian steel exporters to the US (which include Vietnam, China, Japan, South Korea, and Taiwan), these countries collectively exported approximately 6.2 million tonnes (MnT) of steel in CY24. Considering that around 50% of this steel is being redirected to the Asian market, with India being the only significant growth market, this could raise the supply by about 3 MnT. The proportion of shipments redirected to India may increase notably, particularly from countries like South Korea and Japan, with which India also has a Free Trade Agreement. Both countries exported around 3.7 MnT of steel to the US during CY24.
- Pressure on domestic steel prices and profitability: Despite good growth in domestic steel demand, NSR in the domestic market remains under pressure, impacting domestic companies' profitability. CareEdge Ratings believes NSR and profitability margins may remain under pressure with the likely surge in imports in the domestic market.
- Impact on domestic aluminium manufacturers: India exports primary aluminium (around 40% of our domestic aluminium production is exported). India's direct aluminium exports to the US are around 6-8%. Consequently, the surge in tariff in the US is likely to have a relatively higher impact on export volumes and its realisations for Indian aluminium manufacturers than steel manufacturers. However, India, one of the lowest cost producers of aluminium globally on account of good quality of bauxite reserves, is expected to provide some cushion to the impact.

CareEdge Ratings' View

"Amid a subdued global environment, growth in Indian steel demand is expected to continue at a CAGR of around 8% over the next 2-3 years, primarily driven by sustained momentum in end-user sectors such as infrastructure and construction. The tariff hike by the US may lead to a substantial amount of surplus production being redirected to other countries, notably the Indian market, which is among the fastest-growing globally. Over the past 3-4 quarters, the domestic steel industry has faced margin pressure owing to a significant decline in realisations, influenced by cheaper imports of steel products. This trend may persist due to an increased steel surplus resulting from the recently imposed tariffs by the US. The impact on aluminium manufacturers is anticipated to surpass steel,

as exports account for 40% of India's primary aluminium output. However, India stands to gain from being one of the lowest-cost aluminium producers, owing to the availability of high-quality bauxite reserves," says Hitesh Avachat, Associate Director, CareEdge Ratings.

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