



## Sponge iron industry's revenues to fall

### Profits to fall with lower realisations and higher input costs

The top line of the sponge iron industry is expected to have dropped in the December 2024 quarter due to a substantial decline in sales realisations. Prices of sponge iron have been falling on a year-on-year basis for the past several quarters following a steeper fall in the prices of steel, a key user industry. Besides weak realisations, a rise in the price of key raw materials like iron ore, is expected to result in lower profits in the December 2024 quarter compared to the corresponding year-ago quarter. The industry is likely to see a fall in sales revenues and profits even in the March 2025 quarter.

After recording a flattish 0.3 per cent growth in the March 2023 quarter, the top line of the sponge iron industry declined on a year-on-year (y-o-y) basis in the next four quarters ended March 2024. Revenues improved by seven per cent y-o-y in the June 2024 quarter, only to fall again in the September 2024 quarter by 20.5 per cent. The declining sales revenues are attributed to a significant drop in the industry's sales realisations. The average domestic prices of sponge iron have been descending since March 2023. Sponge iron prices dropped by 7.6 per cent during the October-December 2024 quarter, over and above an eight per cent fall seen in the corresponding year-ago quarter. As a result, we expect the industry to report a fall in its sales revenues in the December 2024 quarter as well.

**Growth in Sales Revenues: Sponge Iron**  
(%)



Sales volumes, however, are expected to grow and minimise the impact of weak realisations on the industry's top line in the reporting quarter. Sponge iron is used in the iron and steel industry as a

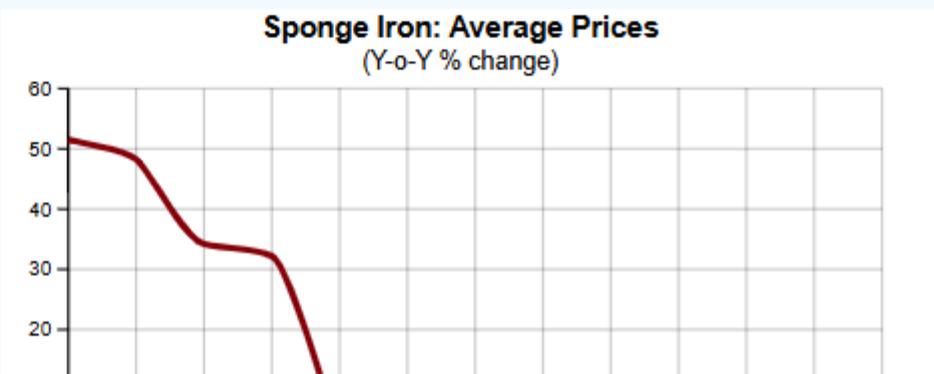


the reporting quarter. Sponge iron is used in the iron and steel industry as a substitute for scrap. Gross production of finished steel rose by 3.4 per cent in the December 2024 quarter. This growth came over a healthy 13 per cent rise in production levels in the corresponding year-ago quarter.

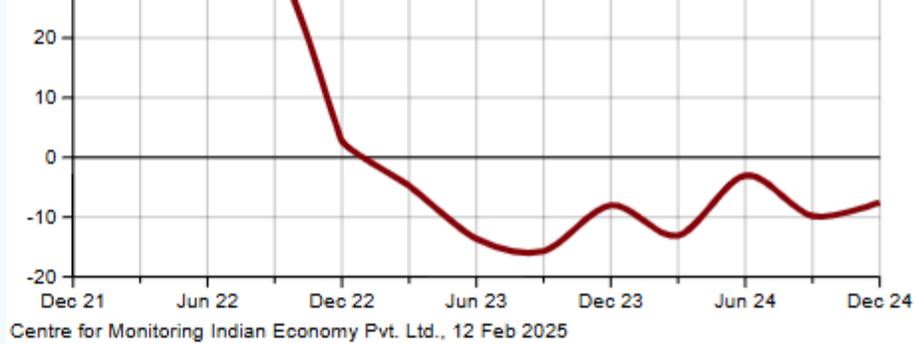
Sponge iron production depends mainly on inputs such as iron ore, coal and natural gas. Iron ore prices continued to grow on a year-on-year basis in the December 2024 quarter. Prices of iron ore lumps and fines increased by an average 17.2 per cent, over and above an average 44.4 per cent growth seen in the December 2023 quarter, according to NMDC, India's largest iron ore producer. About 84 per cent of sponge iron produced in India through coal-based route and the balance via gas-based route, as per data released by Joint Plant Committee (JPC). Wholesale prices of coal fell by just 0.9 per cent during October-December 2024, after peaking in the corresponding year-ago period. Higher input costs coupled with lower realisations are likely to have impacted the industry's profitability in the December 2024 quarter.

Average prices of sponge iron in the domestic market fell by 6.1 per cent y-o-y in January 2025. Sponge iron prices are likely to continue to fall in the remaining two months of the March 2025 quarter. Prices of iron ore lumps and fines remained higher by an average five per cent in January 2025. Iron ore prices are expected to be higher on a year-on-year basis in February and March 2025. Lower realisations and higher input costs will continue to impact the industry's sales revenues and profitability in the March 2025 quarter as well.

The sponge iron industry, which comprises of listed companies like SAL Steel, Vraj Iron & Steel and Bihar Sponge Iron, reported a 20.5 per cent y-o-y drop in sales revenues in the September 2024 quarter. The top line of SAL Steel, Vraj



quarter. The top line of SAL Steel, Vraj Iron & Steel and Bihar Sponge Iron fell by 21.3 per cent, 23.9 per cent and 13.6 per cent, respectively, in the quarter.



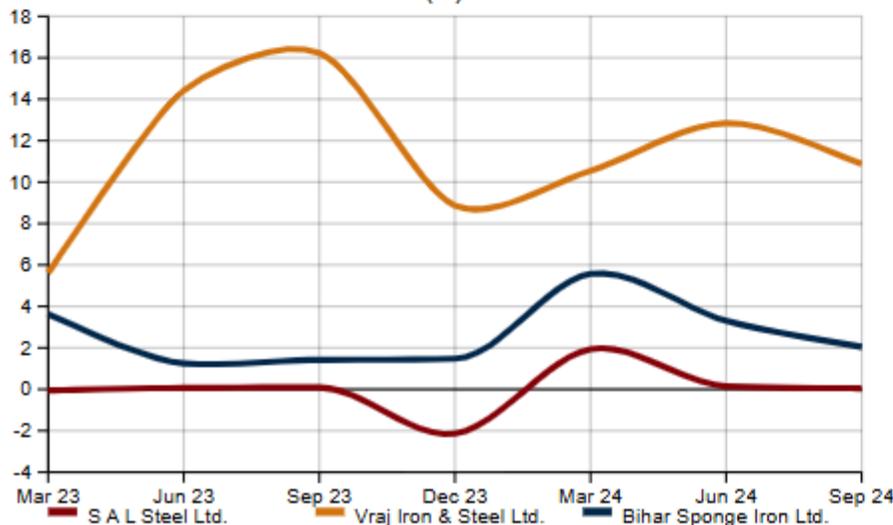
Average domestic prices of sponge iron plunged by 9.8 per cent in the September 2024 quarter, over a strong 15.7 per cent drop seen in the same quarter last year.

The substantial fall in sales realisations led to the fall in the industry's top line in the September 2024 quarter. Besides poor realisations, a weak growth in sales volumes also contributed towards a drop in the industry's revenues. Monsoon in August dampened steel demand in India. The monsoon season typically slows down construction and industrial activities, reducing the demand for steel and its raw materials like sponge iron.

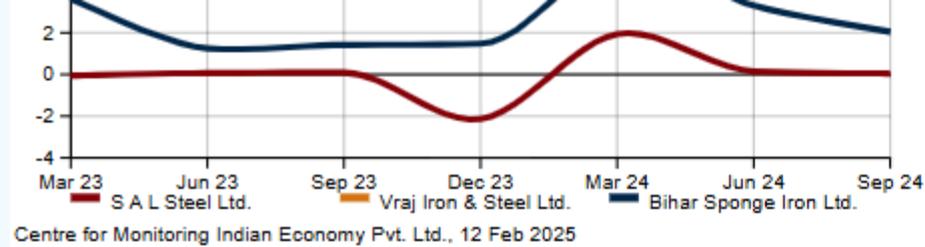
The raw material expenses of the sponge iron industry fell by 14.3 per cent y-o-y in the September 2024 quarter. Power and fuel expenses and salary expenses also dropped by 45 per cent and 13.2 per cent, respectively, during the quarter. Operating expenses corresponding to the total goods sold fell by 18.1 per cent, still slower compared to the 20.5 per cent fall in sales revenues.

The operating profit of the industry plummeted by 48.3 per cent y-o-y in the September 2024 quarter. Operating profit margin contracted by 280 basis points to 5.2 per cent in the quarter.

**Company-wise Net Margin: Sponge iron (%)**



Non-operating expenses such as interest expenses and tax expenses fell by 7.3 per cent and 45.7 per cent, respectively, compared to the September 2023 quarter. Depreciation expenses, however, rose by 1.8 per cent y-o-y in the September 2024 quarter. Other income grew by 16.8 per cent in the quarter. The net profit of the sponge iron industry slumped by 45 per cent in the September 2024 quarter



quarter. Other income grew by 16.8 per cent in the quarter. The net profit of the sponge iron industry slumped by 45 per cent in the September 2024 quarter against the same quarter in the previous

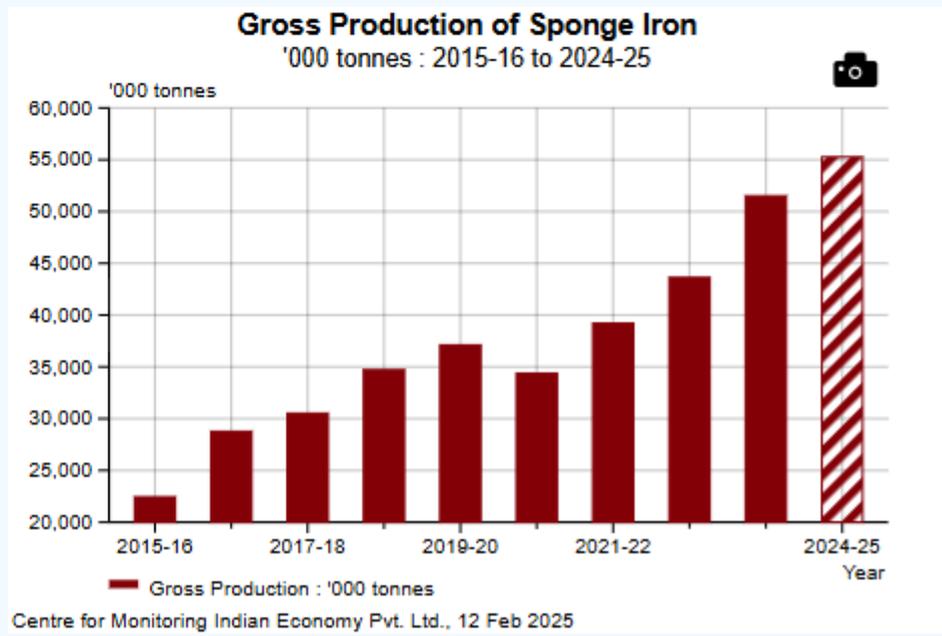
year. Net profit margin of the industry contracted by 186 basis points to 3.9 per cent in the quarter.

The net profit margin of Vraj Iron & Steel contracted by 534 basis points to 10.9 per cent, while that of Bihar Sponge Iron improved by 62 basis points to two per cent in the September 2024 quarter. SAL Steel's net profit margin remained almost the same at 0.1 per cent when compared to the September 2023 quarter.

## Sponge iron production to grow by 7.3% in 2024-25

Production of sponge iron is expected to grow on a year-on-year basis for the fourth consecutive year ending March 2025. The industry recorded a healthy double-digit growth in production in the previous three years. The metal's production rose by 8.5 per cent y-o-y in the first nine months of the ongoing financial year. We expect the sponge iron output to grow by 7.3 per cent in 2024-25, over and above the previous year's 18.1 per cent production growth.

The northward trajectory in the sponge iron production volumes is likely due to increasing demand from the secondary steel sector, which uses sponge iron in place of scrap to make high-grade steel. Secondary steel is used in applications where high-strength primary steel is not strictly necessary. It is used in building construction and infrastructure industry to support and reinforce structural steel. It is widely used to build bridges, highways, airports and other infrastructure projects.



The building construction activity is on the rise due to growing demand for affordable, mid-size and premium housing segments and traction in office leasing and commercial real estate. Schemes such as Pradhan Mantri Awas Yojana (PMAY) 2.0 and increased government spending on infrastructure are also expected to support growth in construction and infrastructure development activities during 2024-25.



The real estate industry is expected to record its third highest project completions worth Rs.749.9 billion in the year 2024-25. India recorded the highest-ever annual sales volume in the residential property market in 2024, according to a report by JLL India, a real estate consultant. With demand scaling to record volumes and steady price growth during the year, momentum in the residential market is expected to remain robust in

2024-25. The commercial real estate industry is also expected to perform well as net office absorption reached about 50 million square feet, highest in five years, in 2024, according to reports by real estate consultancies, Cushman and Wakefield and JLL Research.

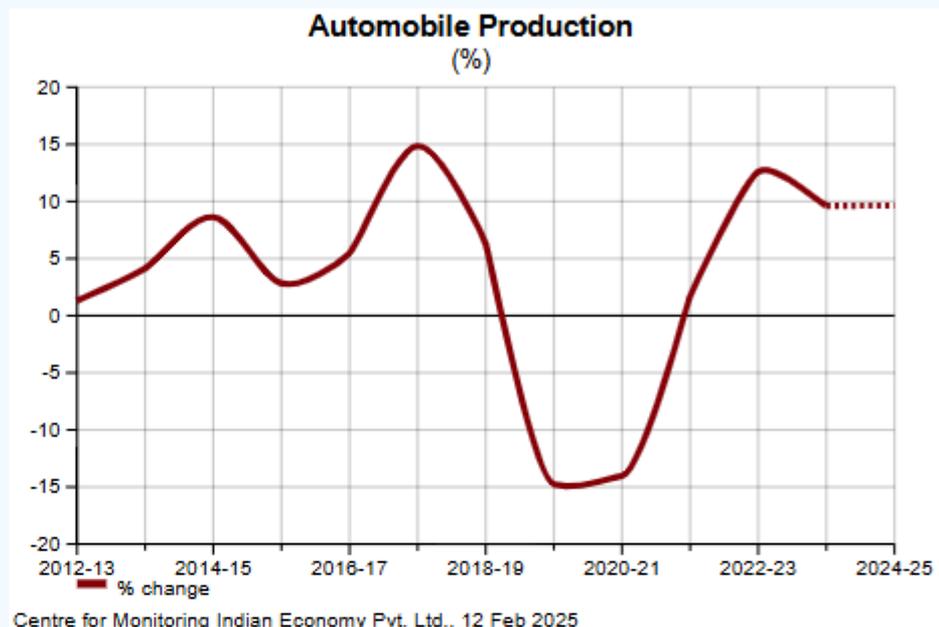
The central government has launched the second phase of the PMAY scheme by extending it for another five years from 2024 to 2029. Under the PMAY-Urban 2.0 scheme, the government will provide financial assistance of Rs.2.3 trillion to build 10 million houses for urban poor and middle-class families. Under the PMAY-Gramin scheme, the government will provide financial assistance of Rs.120,000 to build houses in plain areas and Rs.130,000 for houses in north eastern and hilly areas with an aim to build an additional 20 million houses in the next five years. These schemes are expected to give a boost to the real estate sector.

The central government is continuing to focus on improving the country's infrastructure. In the Union Budget 2024-25, the government had announced the provisioning of Rs.11.1 trillion, 11 per cent higher compared to last year, for capital expenditure. The government has reportedly utilised around 46.2 per

compared to last year, for capital expenditure. The government has reportedly utilised around 46.2 per cent of the budgeted effective capital expenditure (ECE) in the first eight months of the financial year 2024-25.

With this, demand for secondary steel is likely to gallop this year. This will subsequently improve the demand for sponge iron.

Secondary steel is also widely used in the automotive industry to make automobiles and their vehicle parts, which include car frames, chassis, wheel rims, bearings and bushings. The automotive industry is expected to witness healthy growth in its production in the current financial year, owing to factors such as a rise in income levels, easy finance availability and growing transportation, construction and agricultural activities. The production of



automobiles, which include passenger and commercial vehicles and two and three-wheelers, is expected to grow by around 10 per cent in the year 2024-25. This will further improve demand for secondary steel and sponge iron.

Other than steel, sponge iron is also used as a substitute for scrap in the foundry industry to produce high-quality cast iron products. It can also act as a catalyst in certain chemical processes and can be utilised as a coolant in electric arc furnaces during steel-making. Traction in the iron and steel industry is expected to augur well for the sponge iron industry.

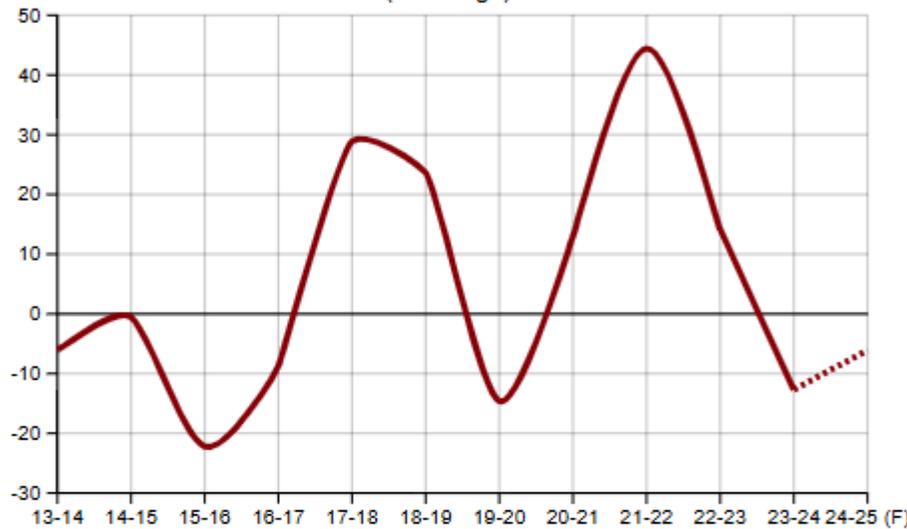
Additionally, sponge iron is increasingly gaining recognition for its sustainability and quality attributes. Sponge iron reduces carbon emissions in steel production by acting as pre-reduced iron ore that requires less fuel in the steel-making process. Less energy because sinter plants and coke ovens are unused, resulting in lower energy as well as production costs.

**Sponge iron prices to continue to decline**

## Sponge iron prices to continue to decline

Sponge iron prices are expected to fall for the second time in a row in 2024-25. The average price of sponge iron fell by 12.7 per cent in 2023-24, after increasing by a strong double-digit rate in the previous three financial years. The significant decline in prices last year was led by a fall in the prices of steel, a key user segment of sponge iron.

**Sponge Iron: Average Prices**  
(% change)



Centre for Monitoring Indian Economy Pvt. Ltd., 12 Feb 2025

Oversupply of steel in global markets due to tepid demand had resulted in an increase in steel imports in 2023-24. Import quantity of finished steel surged by 38.2 per cent in 2023-24, over and above a strong 29 per cent growth recorded in the previous year, making India a net importer of steel for the first time since 2018-19. With finished steel production also increasing by a healthy 12.7 per cent during the year, there was a

glut in the domestic market which exerted downward pressure on the prices. The average finished steel prices in the domestic market dropped by 8.1 per cent in 2023-24. This led to a fall in the prices of sponge iron during the year.

Steel prices continued to decline in the ongoing financial year as well. Following this, sponge iron prices also fell. The average price of sponge iron dropped by 6.7 per cent year-on-year in the first 10 months of the year 2024-25. We expect the sponge iron prices to decline by 6.1 per cent in the current financial year.

## Project completions to remain high in 2024-25

The sponge iron industry will continue to see strong capex activity in 2024-25, after recording a spurt in investments last year. Projects entailing an investment of Rs.12.7 billion are scheduled to come on stream during the ongoing financial year. This is likely to be the third-highest investment in the

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The strong capex activity is attributed to the growing consumption of sponge iron from user segments such as steel-making, iron casting and ferrous alloys.

Additionally, some top sponge iron manufacturers have reported high capacity utilisation. This is expected to encourage them to add more capacities to meet the growing demand for sponge iron.

JSW Steel, one of the largest sponge iron manufacturers, has reported an average

capacity utilisation level of 90-92 per cent in the last two years. Jindal Steel, whose Raigarh plant is claimed to be the largest coal-based sponge iron manufacturing facility globally, reported capacity utilisation level at 95 per cent during 2023-24. Capacity utilisation of direct reduced iron (DRI), also known as sponge iron, is almost at the full level in the plant, said the company's chief executive officer, Pankaj Malhan.

New project announcements in the sponge iron industry have surged in the last five years on the back of strong demand from user segments. The industry witnessed 25 new project announcements in 2019-20, 24 new project announcements in 2020-21, a robust 44 project announcements in 2021-22 and 27 new project announcements in 2022-23. In the previous year, there were 18 new project announcements. The count is likely to be high this year as well, with June 2024, September 2024 and December 2024 quarters witnessing 10, eight and seven new project announcements, respectively. The total outstanding projects have nearly doubled in five years from 77 projects in the December 2019 quarter to 169 projects in the December 2024 quarter. With the commissioning of these outstanding projects, the industry is expected to witness a surge in project completions in the next couple of years.

