Infrastructure Projects to Drive Indian Steel Demand

- Steelworld Research Team

Infrastructure plays a critical role in the growth of any country's economy. A fast growing economy necessitates an even faster development of infrastructure. The construction industry has the strongest economic linkages with other sectors of the economy and has a very strong multiplier effect. The contribution of the sector is estimated at around 6-7% of India's GDP. But, if it's multiplier effect is taken into account on the critical sectors like steel and cement, the share in GDP would be much higher. There is a need for a focused and sustained attention towards this sector. It could be the main lever to unleash India's economic growth. Potential growth of infrastructure is proportional to the growth of the economy of a country. Construction creates the basic framework of the economy on which infrastructure development takes place. Various factors underline the fact that steel demand is strongly linked with infrastructure growth.

Mega Infrastructure Projects

Metro Rail

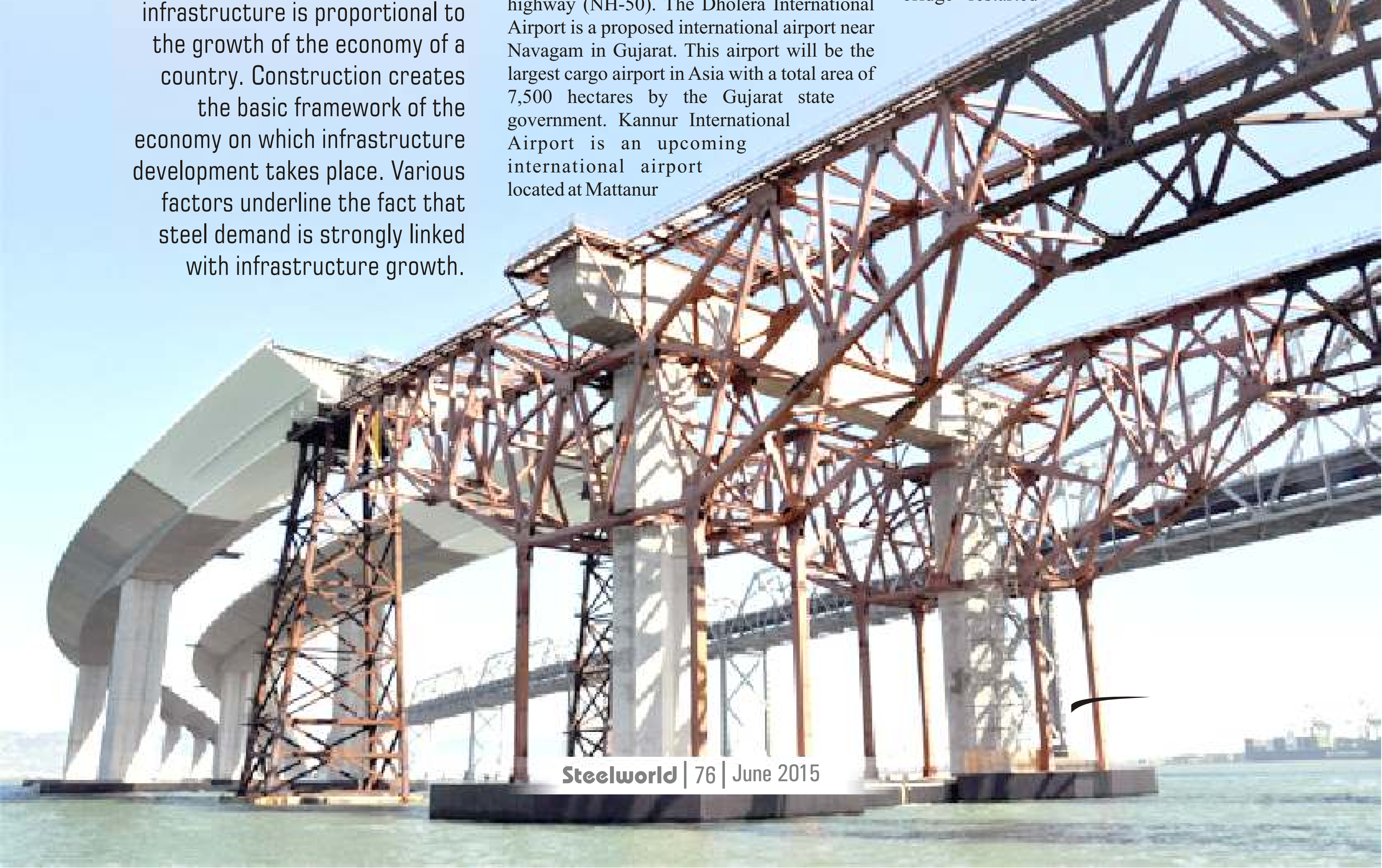
The Union urban development ministry has decided to consider the proposal for Metro in Tier II cities like Lucknow, Kanpur, Patna, Jaipur, Ahmedabad, Pune, Surat, Indore, Nagpur, Kochi, Coimbatore, Kozhikode.

Airport Project

Pakyong Airport is an airport under construction near Gangtok. It is spread over 400 hectares and expected to be completed by Dec 2014. Multi-modal International Cargo Hub and Airport at Nagpur (MIHAN) is an project for Dr. Babasaheb Ambedkar International Airport. It is the biggest economical development project currently underway in India in terms of investments. A brand new Pune International Airport-The area under consideration is between Chakan and Rajgurunagar, namely around the villages of Chandus and Shiroli at a distance of 40 km from Pune along the Pune-Nashik National highway (NH-50). The Dholera International Airport is a proposed international airport near Navagam in Gujarat. This airport will be the largest cargo airport in Asia with a total area of 7,500 hectares by the Gujarat state government. Kannur International Airport is an upcoming international airport located at Mattanur in Kannur District, Kerala, India. The airport is the fourth international airport in Kerala. It is expected to be operational by 2015. Navi Mumbai International Airport is being built through public-private partnership (PPP). Private sector partner will hold 74% equity while the Airports Authority of India (AAI) and the Government of Maharashtra (through CIDCO) each holding 13%. The airport will have a total area of 1160 hectares. The new airport will have a 10-lane approach road to its terminal building flanked by its two runways.

Chenab Bridge

The Chenab Bridge is an arch bridge under construction in India. It spans the Chenab River between Bakkal and Kauri, in Reasi district of Jammu and Kashmir. When completed, the bridge will be 1,263 m (4,144 ft) long, with a 480 m (1,570 ft) trussed arch span 359 m (1,178 ft) above the river Chenab and a 650 m (2,130 ft) long viaduct on the Kauri side. Work on the bridge restarted



in 2010 and once construction is completed in 2015 the Chenab Bridge is expected to be the world's highest rail bridge.

Gujarat International Finance Tech-City or GIFT

Gujarat International Finance Tech-City or GIFT is an under-construction central business district in Gujarat. It will be built on 986 acres of land. Its main purpose is to provide high quality physical infrastructure (electricity, water, gas, district cooling, roads, telecoms and broadband), so that finance and tech firms can relocate their operations there from the cities, where infrastructure is either inadequate or very expensive. The country's economy is trying to spread it's wings. However, to truly fly high, Infrastructure development urges a need of appropriate planning with close monitoring of the progress of the projects, and adoption of suitable policies to remove the constraints which obstruct the project completion. There is a need to resolve many of the legal, procedural and financial issues to evolve a public private partnership (PPP) model, which can result in the desired development of the sector. The model can be designed to promote fairness, transparency and fair pricing of materials.

Steel Consumption to Rise

All these infrastructure projects are set to give a significant push to steel consumption in India. According to S C Verma, ex-managing director, Steel Authority of India, said as the government is increasingly focusing on ramping up infrastructure and chalking out programmes to develop roads, ports and affordable housing, we expect steel consumption to grow eight-nine per cent in 2015-16. According to data from the Joint Plant Committee (JPC), a unit of the steel ministry, India's consumption of total finished steel saw a growth of 3.1 per cent in 2014-15 (76.355 mt) over the same period last year. For the first month of the current financial year, consumption of total finished steel grew 7.1 per cent to 5.503 mt, compared with April 2014 but registered a decline of 23.2 per cent over March 2015 (7.153 mt). There are several projects that are in the pipeline like smart cities, affordable housing as well as other supporting infrastructure requirements, which will help steel industry to increase financial performance. SAIL had reported 26 per cent fall in net profit to Rs 334 crore for the fourth quarter of 2014-15 from Rs 453 crore a year ago. Analysts also expect India's steel consumption to rise. According to industry body World Steel Association, steel consumption in India is expected to grow by 6.2 per cent to 80 MT in 2015 from 75.3 MT in 2014. In its short range forecast, the association pegs consumption of the metal to grow by 7.3 per cent to 85.8 MT in 2016 as compared to 2015. In April, its Director General Edwin Basson said world crude steel output is expected to jump by 400 MT by 2030 from 1.6 billion tonnes in 2014, largely supported by growth in India.

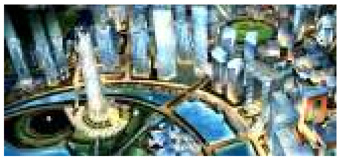
Muted Demand in 2014-15

Indian steel demand remained muted in fiscal 2014-15 due to stalled projects in the infrastructure and real estate sectors. Steel makers are worried that stagnant demand and rising imports are putting pressure on costs. India's consumption of total finished steel grew 3.1 per cent in 2014-15 at 76.35 million tonnes. This is while total availability (including imports) of steel grew 8.3 per cent at 94.37 million tonnes.

According to the Centre for Monitoring Indian Economy, as of March 31, 146 projects, with an investment of Rs 82,406.7 crore, remained stalled primarily due to unfavorable market conditions and lack of promoter interest. CMIE said the real estate sector was the worst hit with 34 projects worth Rs 37,300-crore investments being stalled. Of these, 24 were housing construction projects. More than 30 projects pan-India have been stalled over the past year or so. The delays are because of a combination of factors, including slow sales, mismatch between pricing and market affordability, rising cost of finance for the developers, and wrong product offerings. The most heavily impacted sector has been residential, but retail real estate deployment has also been hit in cases where a perceptible lack of retailer activity has caused projects to stall. The real estate and infrastructure sectors are waiting for clarity to emerge on the Land Acquisition Bill. The sector has welcomed several positive schemes but these now need to be implemented to ensure on-ground progress. Likewise, the engine of infrastructural development also needs to be kick-started, most large infrastructure projects are struggling with land acquisition.

Other Projects

Indian Pride and major infrastructure projects includes the Metro Rail, Chenab Bridge, Qazigund Tunnel and Eastern Freeway along with the Golden Quadrilatera highway network, port connectivity and national waterways. These amazing infrastructure project of India ranked well in the world and makes us proud, other great infrastructure also includes Tehri Dam,Pamban Bridge, Gurgaon Toll Plaza, high rise buildings and big IT parks.



Future Outlook

Meanwhile, The Indian government increased import duty on steel by 2.5%, a much awaited move considering that imports increased from 5.45mn tonnes in FY14 to 9.32mn tonnes in FY15. Import duty on flat products now stands at 10% up from 7.5% and that for long products at 7.5% from 5% earlier and is currently at a decade high. Steelmakers would have expected a larger increase as this hike is expected to provide only a temporary relief and will not drastically curb imports. Further, domestic players continue to enjoy a premium of ~3,500-4,000/tonne for both flat and long products and this move will not be applicable for imports from countries like Japan and Korea as India has signed FTA (Free Trade Agreement) with them. Domestic players are expected to continue to enjoy ~10% premium to landed costs. This has increased from the usual levels of ~5% historically and hence the increase of 2.5% in import duty might not translate in a similar quantum of price hike. Domestic prices have corrected by ~18% over the past few quarters as compared to a near 25% correction in global steel prices, which triggered the sudden increase in cheap imports.

While the current move by the Government of India is a step in the right direction, the quantum of increase in duty is insignificant to make a material impact considering the existing high premiums. Also, ~40% of the steel imports in FY15 came from Japan and Korea with whom GOI has signed FTA and attract only a negligible duty. Further, the quality of steel from China is below par than that from Korea & Japan which is good with low level of rejections. Going forward, whilst 1QFY16E is expected to remain weak for steel players, with raw material prices falling with a lag and domestic demand expected to pick up, non-integrated players like JSW Steel are better placed over the next few years due to operational efficiency and continued focus on selling value-added products. The fall in prices would support mega infrastructure projects to expedite speedy completion at lower project cost.