

Infrastructure and Housing Sectors to Drive Long Steel Products Demand

- Steelworld Research Team



The government focus on infrastructure development is set to revive demand of steel long products in coming years. After long ignored, the government has started reviving port, airport, railway and road projects with a massive investment allocation. With an emphasis of improving inland connectivity, the infrastructure sector in India is set to witness a boost in the next couple of years. Apart from that, the government has laid emphasis on housing sector with an ambition for house for all by 2022 would also improve overall sentiment in infrastructure sector. All these initiatives would improve overall infrastructure spend there upon steel demand of both flat and long products in India. Especially, the proposed revival in infrastructure and housing sectors would boost long products demand in the next few years. According to Anjani Agrawal, National Leader, Metals and Mining, Ernst & Young, Primary demand is expected to come from ports, oil and gas, power and construction in the near future. Urbanization will further increase demand for steel. As per industry estimates, the Indian real estate market is estimated to grow to approximately \$ 140 billion by 2017, which is likely to contribute to a significant portion of long-steel demand. Steel long category includes steel products in long, bar or rod shape like reinforced rods made of sponge iron. The steel long products are required to produce concrete, blocks, bars, tools, gears and engineering products. Long products contribute nearly half of steel production in India.

Infrastructure Outlay

Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. India needs Rs 31 trillion (US\$ 465 billion) to be spent on infrastructure development over the next five years, with 70 per cent of funds needed for power, roads and urban infrastructure segments. The Indian power sector itself has an investment potential of US\$ 250 billion in the next 4-5 years, providing immense opportunities in power generation, distribution, transmission and equipment, according to Piyush Goyal, Union minister of coal, power and renewable energy. The Indian construction equipment industry is reviving after a gap of four years and is expected to grow to US\$ 5 billion by FY2019-20 from current size of US\$ 2.8 billion, according to a report² released by the Indian Construction Equipment Manufacturers Association (Icema). Foreign direct investment (FDI) received in construction development sector from April 2000 to September 2015 stood at US\$ 24.16 billion, according to the Department of Industrial Policy and Promotion (DIPP).

India will invest as much as Rs 2.21 trillion in creating and upgrading infrastructure in the next fiscal year, finance minister Arun Jaitley said in his budget speech. Calling infrastructure investment



the fifth support pillar in the transformation of India, Jaitley said the government was speeding up construction of new roads and upgrading state highways to national ones. Together with the capital expenditure announced for the railways, the total capex outlay for roads and railways in 2016-17 will be a mammoth Rs 218,000 crore. The government further expects to approve nearly 10,000km of national highways in 2016-17. This will be much higher than the two previous years. Total capital expenditure outlay for infrastructure during the fiscal will be Rs 221,246 crore. In 2015, India awarded the highest number of road projects by length and produced the highest number. In 2015, India awarded the highest number of road projects by length and produced the highest number of motor vehicles. This is a sign of growth of the economy, but it presents a challenge also. Therefore, we have speeded up the process of road construction. I have proposed to allocate a sum of Rs 55,000 crore in the budget for roads and highways.

The government plans to develop road projects spanning 50,000km and entailing investments of about \$250 billion over the next five to six years. The government has put infrastructure development at the top of its agenda. Apart from Rs 55,000 crore, the road sector will see a further Rs 15,000 crore being raised by the National Highways Authority of India (NHAI) through bond sales. The total investment in the road sector including the rural Pradhan Mantri Gram Sadak Yojana allocation would be Rs.97,000 crore. The pace of completion of road projects will also rise to 10,000km in 2016-17. In addition, nearly 50,000km of state highways will also be taken up for up-gradation to national highways. In the

road sector, there were more than 70 languishing projects at the beginning of the year due to legacy factors. Aggregate length of these projects was 8,300km involving Rs 100,000 crore of investment. NHAI has a target of awarding 10,000km of projects this fiscal year. Up to January, 6,353km of projects had already been awarded.

India is witnessing significant interest from international investors in the infrastructure space. Many Spanish companies are keen on collaborating with India on infrastructure, high speed trains, renewable energy and developing smart cities. The Government of India has earmarked Rs 50,000 crore (US\$ 7.5 billion) to develop 100 smart cities across the country. The Government released its list of 98 cities for the smart cities project in August 2015.

Steel Demand

Steel demand in India is expected to grow by 5.4 per cent to 83.8 million tonnes (MT) this year on the back of low oil prices, reform momentum, the World Steel Association (WSA) said. The global industry body has also forecasted that demand in the world's third largest producer will again grow at 5.4 per cent to 88.3 MT in 2017. "India's prospects are brightening due to low oil prices, the reform momentum and policies to increase infrastructure and manufacturing output. India's steel demand will increase by 5.4 per cent in both 2016 and 2017 reaching 88.3 MT in 2017," WSA said in a statement. With the integration of China in the global manufacturing supply chain, steel sector has slowed as a consequence of weak growth in global trade. Manufacturing exports in emerging economies, particularly Asia, declined owing to slower Chinese demand. The same is true for developed countries

experiencing a reduction in the exports of consumer goods and machinery. Mechanical machinery, metal goods and other transport sectors are weakening, but the automotive sector will maintain its growth momentum supported by strong demand in many countries. Commenting on the outlook, World Steel Economics Committee Chairman TV Narendran said the economic environment facing steel industry continues to be challenging with China's slowdown impacting globally across a range of indicators contributing to volatility in financial markets, sluggish growth in global trade and low oil and other commodity prices.

India in the Global Forefront

India is the world's third-largest producer of crude steel (up from eighth in 2003) and is expected to become the second-largest producer by 2016. The growth in the Indian steel sector has been driven by domestic availability of raw materials such as iron ore and cost-effective labour. Consequently, the steel sector has been a major contributor to India's manufacturing output. The Indian steel industry is very modern with state-of-the-art steel mills. It has always strived for continuous modernisation and up-gradation of older plants and higher energy efficiency levels. India's crude steel capacity reached 109.85 million tonnes (MT) in 2014-15, a growth of 7.4 per cent. Production of crude steel grew by 8.9 per cent to 88.98 MT. Total finished steel production for sale increased by 5.1 per cent to 92.16 MT. Consumption of total finished steel increased 3.9 per cent to 76.99 MT. India produced 7.34 MT of steel in the month of September 2015, which was nearly equal to the country's steel production in September 2014. The steel sector in India contributes nearly two per cent of the country's gross domestic product (GDP) and employs over 600,000 people. The per capita consumption of total finished steel in the country has risen from 51 kg in 2009-10 to about 59 kg in 2014-15. India's steel consumption for FY 2015-16 is estimated to increase by 7 per cent, higher than 2 per cent growth last year, due to improving economic activity, as per E&Y's 'Global Steel 2015-16' report. Jayant Acharya, Director (Commercial), JSW Steel estimates India's steel demand to rise further higher single digit in 2016-17 on huge infrastructure spend planned by the government.

Steel Companies on Expansion Spree

Major steel and mining companies have proposed huge spending to capture the growth trend in steel demand. Steel industry and its



associated mining and metallurgy sectors have seen a number of major investments and developments in the recent past. According to the data released by Department of Industrial Policy and Promotion (DIPP), the Indian metallurgical industries attracted Foreign Direct Investments (FDI) to the tune of US\$ 8.7 billion, respectively, in the period April 2000–September 2015.

National Mineral Development Corporation (NMDC) has planned to invest Rs 40,000 crore (US\$ 6.1 billion) in the next eight years to achieve mining capacity of 75 million tonnes per annum (MTPA) by FY2018-19 and 100 MTPA by FY2021-22, compared to 48 MTPA current capacity. Posco Korea, the multinational Korean steel company, has signed an agreement with Shree Uttam Steel and Power (part of Uttam Galva Group) to set up a steel plant at Satarda in Maharashtra. Iron ore output in India is expected to increase by 25 per cent to 153 Million Tonnes in FY 2016, which in turn will help reduce iron ore imports by two-thirds to five Million Tonnes, SAIL plans to invest US\$23.8 billion to increase the steel production to 50 MTPA by 2025. ArcelorMittal, world's leading steel maker, has agreed a joint venture with Steel Authority of India Ltd (SAIL) to set up an automotive steel manufacturing facility in India. Iran has evinced interest in strengthening ties with India in the steel and mines sector, said ambassador of the Islamic Republic of Iran, Gholamreza

Ansari in his conversation with Minister of Steel and Mines, Narendra Singh Tomar. Public sector mining giant NMDC Ltd will set up a greenfield 3-million tonne per annum steel mill in Karnataka jointly with the state government at an estimated investment of Rs 18,000 crore (US\$ 2.8 billion). JSW Steel has announced to add capacity to make its plant in Karnataka the largest at 20 MT by 2022.

The Government of India is aiming to scale up steel production in the country to 300 MT by 2025 from 81 MT in 2013-14. The Ministry of Steel has announced to invest in modernisation and expansion of steel plants of Steel Authority of India Limited (SAIL) and Rashtriya Ispat Nigam Limited (RINL) in various states to enhance the crude steel production capacity in the current phase from 12.8 MTPA to 21.4 MTPA and from 3.0 MTPA to 6.3 MTPA respectively. The Ministry of Steel is facilitating setting up of an industry driven Steel Research and Technology Mission of India (SRTMI) in association with the public and private sector steel companies to spearhead research and development activities in the iron and steel industry at an initial corpus of Rs 200 crore (US\$ 31.67 million).

Government Initiatives

Government of India plans to auction eight coal blocks with reserves of 1,143 million tonnes to steel and cement firms in January 2016, as per coal secretary Anil Swarup, Disinvestment Secretary, Government of India.

The government has planned Special Purpose Vehicles (SPVs) with four iron ore rich states i.e., Karnataka, Jharkhand, Orissa, and Chhattisgarh to set up plants having capacity between 3 to 6 MTPA. SAIL plans to invest US\$ 23.8 billion for increasing its production to 50 MTPA by 2025. SAIL is currently expanding its capacity from 13 MTPA to 23 MTPA, at an investment of US\$ 9.6 billion. A Project Monitoring Group (PMG) has been constituted under the Cabinet Secretariat to fast track various clearances/resolution of issues related to investments of Rs 1,000 crore (US\$ 152 million) or more. To increase domestic value addition and improve iron ore availability for domestic steel industry, duty on export of iron ore has been increased to 30 per cent.

Future Growth Potential

Indian steel demand is expected to grow year on year by a mid – to high – single digit percentage because of increased infrastructure spending. The country is expected to remain a bright spot in the Asia region where steel production volumes will decrease primarily because of the decline in Chinese demand, according to Moody's latest report on Asian steel companies. Huge scope for growth is offered by India comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors.