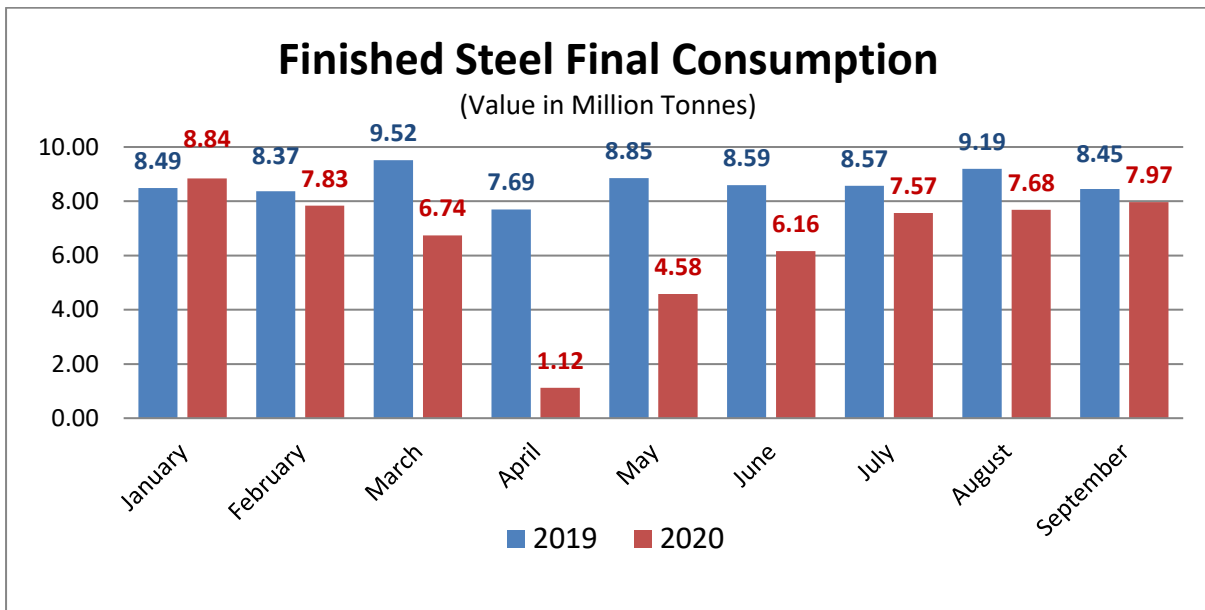


Decoding the Demand Outlook of India's Steel Consuming Sectors in Post COVID-19 Period

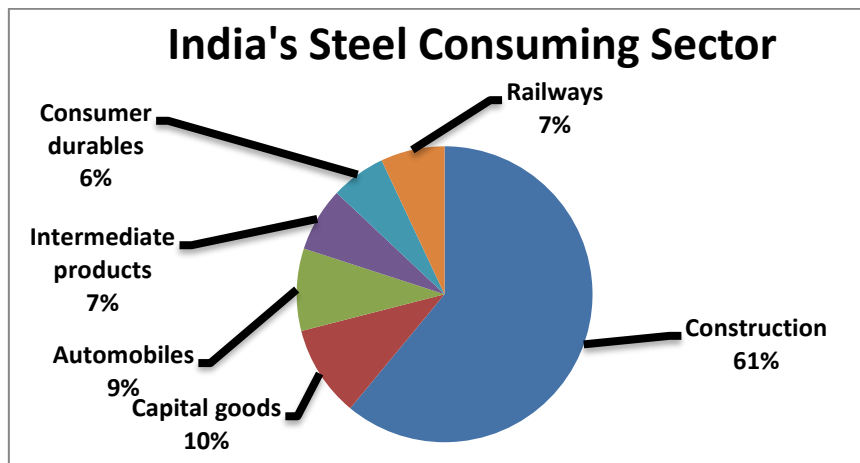
Zaki Hussain | New Delhi October, 2020

The domestic finished steel consumption in India has shown sign of recovery in the past few months and has come close to pre-COVID levels largely due to an increase in demand from certain sectors. The Finished steel consumption in India increased from around 1 MT (Million Tonnes) from April, 2020 to 7.9 MT in September 2020 at a compounded monthly growth rate of around 48 percent. In line with the consumption, the crude steel production has also been improving, following a decline from 9 MT in 2019 to 3.1 MT in April 2020. Since then the production grew at a compounded monthly growth of 22 percent and reached to 8.6 MT in September 2020 and was down by just 2 percent Y-o-Y, supported by higher exports.



Source: CMIE Industry Outlook

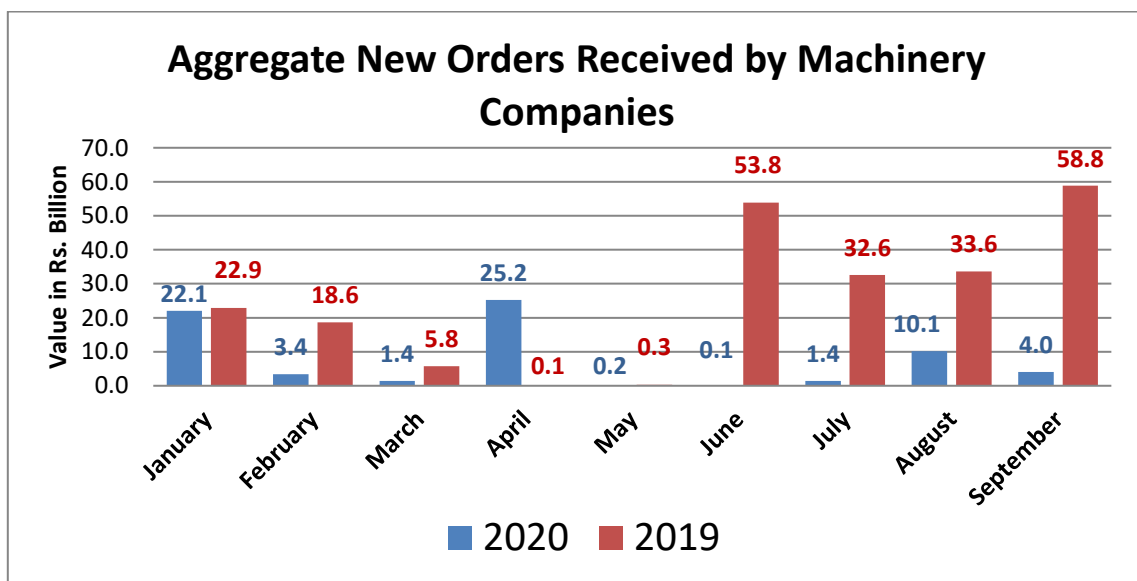
The demand for steel products in India broadly comes from six sectors, these sectors includes Construction, Automobile, Capital goods, Consumer Durables, Intermediate goods and Railways.



Source: Author Compilation

Construction sector: The sector includes physical infrastructure (excluding railways) and real estate, and contributes roughly 61% of India’s steel use or steel demand. The sector grew by around 3.4 percent in CY 2019. In CY 2020, the sector has been badly hit by the pandemic and is expected to decline by around 15 percent. The sector is mainly driven by road, irrigation and oil & gas projects. It has been estimated that the total infrastructure segment to witness a positive growth of 10-15% in H2 2020. In June, 2020 the Infrastructure projects under implementation have returned to December 2019 level. Real Estate on the other hand is likely to remain weak in 2020 mainly due to weaker private investment, delaying of commercial projects, and liquidity issues of small builders. The infrastructure sector, currently a huge focus area of the government, will drive growth in this sector as well as overall steel demand. The sector is expected to grow by around 17 percent in CY 2021 and is likely to return to CY 2019 level in terms of gross value addition, mainly due to the road projects, urban infrastructure, affordable housing and smart cities initiatives.

Capital goods: The sector contributes about 10 percent of steel demand. It has several sub-segments, of which machinery and equipment are the most prominent. The machinery and equipment segment can be further divided into construction and earth-moving machinery, plant machinery, heavy electrical machinery and machine tools. Therefore, the sector highly depends on construction, mining, and heavy and light industries. This particular sector has also been badly affected by the pandemic. To give an example, the aggregate new orders received by machinery companies for the period January to September 2019 was recorded around worth 227 billion rupees which reduced to 68 billion rupees in the current year for the same period.

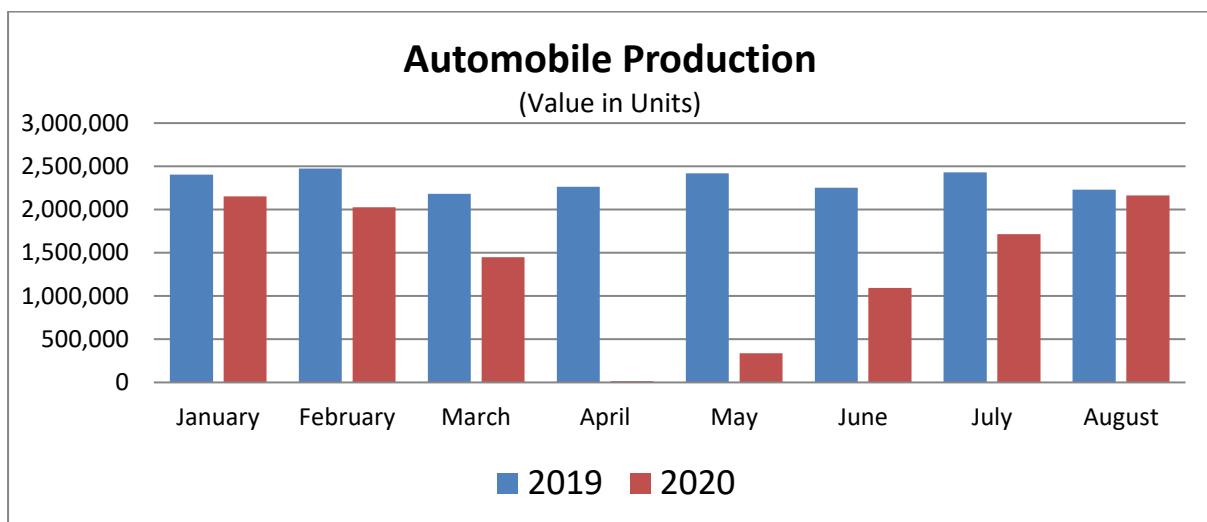


Source: CMIE Industry Outlook

It is expected that the capital goods sector recovery to start from early 2021. The electrical machinery segment to witness positive growth from Q1 2021, the segment will mainly be driven by renewable energy projects and the gradual revival in export of electrical equipment. Mechanical Machineries to see revival only in H2 2021 as most capital expenditure projects have been postponed by six to twelve months. Further the demand for earthmoving machinery is expected to rise in near future due to progress in infrastructure and mining activity.

The automotive sector contributes to around 9% of steel demand in India. India is the largest manufacturer of two wheelers, three wheelers and tractors, the fourth largest producer of passenger vehicles, and the seventh largest in commercial vehicles globally. Two-wheelers occupy a dominant position with around 80 percent market share and overall passenger vehicles compose 13 percent of the market. India’s automobile sector is domestic market oriented, with domestic sales accounting for over 80 percent of sales.

After rapid growth in the last few years, the sector experienced significant slowdown in 2019. The outbreak of pandemic has further impacted the sector badly, where the total domestic automobiles sales became almost negligible in April, 2020. However, in the last few months the sector has shown sign of recovery, with automobile production coming close to Pre-COVID level in the month of August, 2020 (See figure below). It is further estimated that the two wheelers & passenger vehicles segments sales are likely to cross Pre-COVID level in coming months. The sales are expected to get a boost from sustained demand from commuter segment and with the continued rise in rural penetration. The commercial vehicle segment on the other hand is expected to witness slower recovery mainly due to the poor transporter profitability & deferred purchase in addition to that there has been weak demand for buses due to reluctance to travel.



Source: CMIE Industry Outlook

Intermediate products: The sector contributes around 7 % of India’s steel demand. This segment is closely linked to the auto sector as well as the oil and gas sector, besides industrial activity. The most prominent products under this sector include gear boxes, bearings, pipes, packaging materials like drums and barrels etc. Due to the country wide lockdown there has been weak automotive growth which has impacted the demand for gear boxes, bearings, etc. The Packaging segment (drums and barrels) on the other hand is also expected to remain weak due to contraction in exports. The outlook for the sector in CY 2021 is positive as a revival is expected in the auto sector and the oil and gas sector will continue to grow with government-led spending.

Railways: This sector, which contributes 7 % of steel demand, has been growing at a fast pace in pre COVID period. It grew by 13.4% and 32.7 % in CY 2018 and CY 2019 respectively. The sector is expected to see a positive growth from Q4 2020 onwards. Railway manufacturing (rolling stocks) has witnessed gradual recovery since June onwards. Most of the key railway infrastructure projects including the construction of metro work continued during the lockdown. Projects like 100% track electrification, dedicated freight corridors connecting industrial hubs in western and eastern India and high-speed rail corridors are expected to boost steel demand further in CY 2021.

The consumer durables sector accounts for remaining 5 % of the steel use. The sector is mainly driven by segments like air-conditioners, refrigerators, furniture etc. Demand for consumer durables is likely to recover from H2 CY20 with gradual recovery in consumption. For that revival of consumption, demand from informal and rural sector is crucial. Consumer Durables sector has negative growth due to stress in rural and informal economy. The sector's revival would depend upon recovery in private consumption expenditure. It is expected that the sector will gradually grow in festive season. The sector will likely to return to pre COVID level of production in first quarter of 2021.

In conclusion, the overall economic outlook of the country is expected to revive but remain weak. The shape and pace of recovery post festivals would indicate the quantum of contraction in FY21 and recovery in FY22. As per estimates by the Indian Steel Association the steel demand from consuming sectors is estimated to contract by 17.6% in CY 2020 and to recover by 22.9% in CY 2021. Based on estimates, India's Apparent Steel Use is estimated to be at 81.9 Mnt in 2020 and 100.4 Mnt in 2021.