Report

Infrastructure Spending to Boost Steel Demand

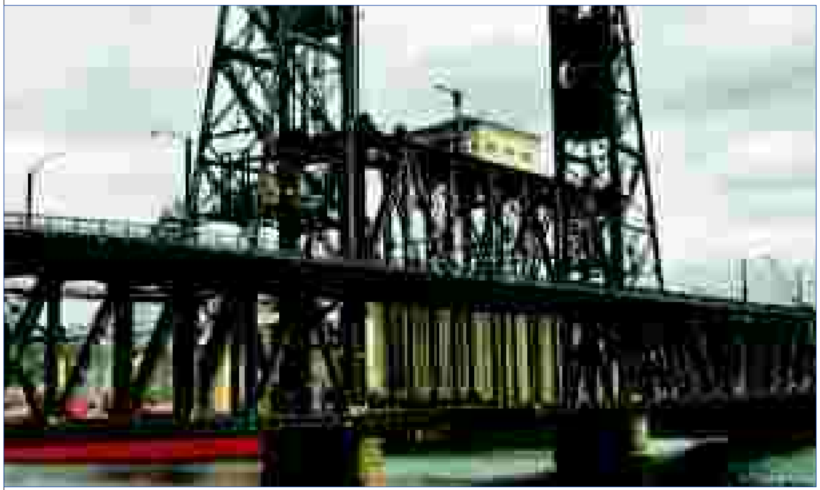
- Steelworld Research Team

After experiencing the harsh recessionary wave in last year, Indian steel industry, the world's 5th largest steel producer, is looking forward for new beginning. In 2008, the steel industry along with its end-user sectors- construction, automotive and consumer durable- were among the most affected. The slowdown in those sectors ultimately pulled down steel demand all over the globe.

Construction industry is the largest consumer of steel; it accounts about 50 percent consumption of steel. But construction industry faced the worst period in 2008 after enjoying heydays for about a decade, and its consequences hit the steel industry too. Still India is considered as a prospective market for real estate and infrastructure sectors. And the government is also taking measures to bolster these sectors by announcing various stimulus packages. Before recessionary period, the construction industry was one of the fastest growing sectors and billions of rupees were being poured through FDI and other foreign investment vehicles. Though steel prices were reached at its highest prices due to the surging demand during the same period, construction industry was able to sustain the rising steel prices. But the sub-prime crisis in America turned the table for construction and steel industry, as more financial majors in U.S. started to collapse and began to look for government aids for survival. And everyone is aware with the reasons behind the bankruptcy.

Still in the mid of recessionary time, the Ministry of Steel has projected India's steel capacity is expected to touch 124.06 million tons in 2011-20. But this dream depends on construction and infrastructure, which includes roads, railways, airport and power industries, at a large extent. The Indian Government plans to invest over US$ 350 billion in industries related to infrastructure and construction. In such context, the Indian steel industry would have a bright future.

According to an estimate, with the growing need for oil and gas transportation, an US$ 118 billion opportunity is



waiting to be tapped by steel manufacturers in the next five years. According to a study by ICICI Direct, Indian steel companies are likely to get 19 per cent of the total global demand in the years to come. The Goldman Sachs report says, real estate prices in India are needed to come down by 30% to spur demand.

The Eleventh Plan has lined up massive investment in all the related sectors. As per the reports of the Indian Steel Alliance, the projected investment towards infrastructure during the Eleventh Plan is likely to be Rs 20,27,000 crore. This is an increase of 180 percent over the Tenth Plan where investment was envisaged at around Rs 8,80,550 crore.

According to recent reports, the major sectorwise anticipated investment for the Eleventh Plan are $200 billion in power, $80 billion in railways, $48 billion in roads, $13 billion in ports and $9 billion in airports. In this, the outlay of railways is 198 percent higher than in the previous Plan period. Moreover, the power sector too is due to add over 1,00,000 MW in the Eleventh Plan.

The National Steel Policy has outlined that the per capita steel consumption in rural India should go up from the existing 2 kg to 4 kg by 2019-20. To facilitate this, the Institute for Steel Development and Growth (INSDAG) has taken several initiatives to increase steel usage in rural houses and rural construction.

With opportunities galore, the Indian steel sector is all set to grow. The flux in the existing society has opened up new channels for the development. This change is not only driving the demand for steel but also creating new horizons for innovative state-of-the-art usage of steel.

With the stimulus package oiling the wheels of the economy, by touching across key growth generating sectors like auto, textiles, housing,

ferrous and non-ferrous metals and cement, the move is expected to give a robust push to the economy.

The package bolsters sectors like steel and cement with the removal of exemption of countervailing duty (CVD) on TMT bars-an important component in the construction and housing industry-and structural cement.

The withdrawal of exemptions on basic customs duty on zinc and ferro alloys will also guard the domestic industry against cheap imports.

Importers will now be required to pay a CVD on TMT bars and a 5% customs duty on zinc and ferro alloys, benefiting companies like Hindustan Zinc, Tata Steel, JSW, Sail, among others.

Some confidence has also been instilled in the real estate sector, which had been worst hit by liquidity problems.

Niranjan Hiranandani, chairman, Hiranandani group said that the real estate and construction industry has been sick because of bad liquidity problems, not because of low demand. RBI's liquidity package is a step in the right direction.

The move to open up external commercial borrowings for township has been lauded, since the sector was in dire need for larger sums of money, which was not immediately available. "The benefit would take around 3-6 months to percolate,'' said Hiranandani.

With the return of confidence, realty players expect lending to pick up fuelling demand generation. Net , the package aims at providing much higher and cheaper funds in the economy along with additional expenditure by the centre and India's steel futures are expected to climb on hopes domestic demand may improve after the government's second stimulus package, but gains may not be sustained as they are sentiment-led. An analyst from Hyderabad-based Karvy Comtrade said, "We expect higher movement in prices on expectations of recovery in demand from the construction sector," said. The federal government withdrew exemptions from countervailing duty (CVD) on TMT bars, used in construction activity and structurals in its second stimulus package. India slashed its main interest rates by 1 percentage point, its fourth cut in four months, and tried to draw more funds into the country to boost growth as it warned of a tough year ahead.