

CW[®]

₹200 January 2022 • Vol.24 No. 4

www.ConstructionWorld.in

[/CWmagazine](https://www.youtube.com/channel/UCWmagazine)

[/ConstructionWorldmagazine](https://www.facebook.com/ConstructionWorldmagazine)

- Construction Equipments Launches in 2022...50
- Steel: Rising Prices & Demand...60
- GST on HAM agreements...66
- 12th Cement Expo 2021-22...42



Construction World

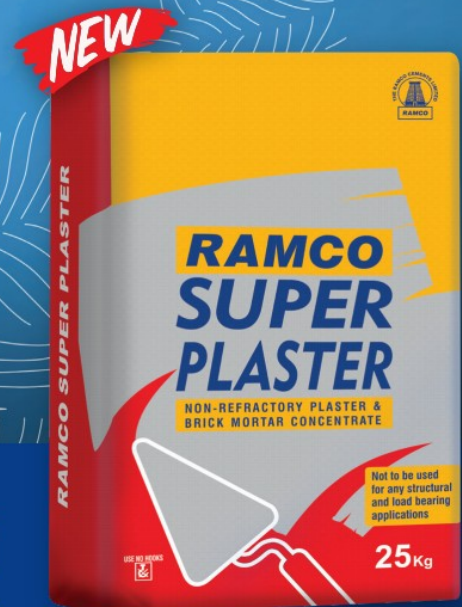
India's Largest Circulated Construction Business Magazine

Higher Coverage!
Super Finish!
No Cracks!

Great looking walls!

**RAMCO
SUPER
PLASTER**

NON-REFRACTORY PLASTER & BRICK MORTAR CONCENTRATE



Scan QR code & click the link



| For more details:

 **1800 425 5700**

www.ramcocements.in

Fountainhead 7296 - 2021



The Grip of Steel

If price rise and supply, and demand uncertainty are current issues facing the steel industry, environmental concerns may define the future.

The pandemic had a minimal impact on the global steel industry last year. The production of crude steel increased from 1,826 million tonne (mt) in 2018 to 1,878 mt in 2020, according to the World Steel Association. Demand for steel was around 1,775.4 mt in 2020, adds **Alok Sahay, Secretary-General, Indian Steel Association**. "Despite the influence of the pandemic, through its different regional impacts, the global steel industry was fortunate to end 2020 with only a minor contraction in steel demand. Steel use in China expanded while it contracted in the rest of the world."

Based on forecasts, Sahay expects normalisation in demand during 2021, owing to steady progress on vaccines and changed behaviour in the global society. "Demand for steel is expected to grow 4.5 per cent in CY 2021 and 2.2 per cent in CY 2022," he says.

QUICK BYTES

- In FY2022, the capex spend for listed steel companies to increase by around 70 per cent YOY.
- The industry's capacity utilisation to touch 80 per cent in FY2023.

102.6 mt in 2019 but fell to 88.5 mt in 2020 due to the pandemic. In CY 2021, India is expected to produce close to 120 mt of crude steel and consume around 105 mt of finished steel."

Positive decisions

Key positives in the steel sector include a surge in the earnings of domestic steel companies following the post-pandemic upcycle, says **Jayanta Roy, Senior Vice President & Group Head, Corporate Sector Ratings, ICRA**. "This has led to an accelerated pace of deleveraging for the overall industry, making mills more resilient to withstand any future exogenous shocks."

To reduce India's dependence on import of specialised steel grades like electrical steel, tinplate, and high-strength steel, among others, the Government has recently notified the Production-Linked Incentive (PLI) scheme for special

Where does India stand in all this?

"At present, India is the second largest producer of crude steel and the second largest consumer of finished steel in the world," shares Sahay. "Demand for steel in India has increased from 83.6 mt in 2016 to

Photo courtesy: Jindal Power & Steel



steel with a budgetary allocation of ₹6,322 crore, he adds.

The focus on divestment of assets in the steel space has led to healthy consolidation and the continued thrust on mining reforms will provide raw material security, observes **Rajeev Singhal**, Vice President, Marketing & Sales (Flat Products), Tata Steel.

Worrying trend

Amid these positives, a worrying trend in the steel sector is price rise.

Post-pandemic, concerted stimulus measures by governments and central banks and subsequent economic recovery saw international steel prices increase by over 160 per cent between May 2020 and May 2021, observes Roy.

This sharp rally would have adversely impacted infrastructure development, especially infrastructure classes where the intensity of steel use is high, such as power transmission and railway projects. Especially, "the viability of infrastructure projects without index-linked price escalation clauses would be adversely impacted," says Roy. "The attractiveness of PEBs [pre-engineered buildings], where steel is the most significant cost driver would also reduce over other alternate building construction materials from the developer standpoint."

Industry sources point out that cumulative finished steel consumption in India on a year-to-date basis up until November 21 is down ~2 per cent as against pre-COVID consumption levels. Flat steel consumption is trailing by ~8 per cent. This indicates that apart from macroeconomic factors, pricing may have impacted the PEB segment.

Another segment suffering from the rise in steel prices and supply uncertainty is composed of foundry,



"The global steel industry was fortunate to end 2020 with only a minor contraction in steel demand."

- **Alok Sahay**, Secretary-General, Indian Steel Association



"International steel prices increased by over 160 per cent between May 2020 and May 2021."

- **Jayanta Roy**, Senior Vice President & Group Head, Corporate Sector Ratings, ICRA

forging and fabrication units across India that provide intermediary metal components for equipment related to heavy engineering, mining, railways, construction, etc. Mostly these units are MSMEs and regarded as critical manufacturing units providing essential employability to the masses.

"Steel comprises almost 60-70 per cent of our product cost, thus slight variation in its price [rise] is squeezing the minimal margins of MSME foundry units," says **Indranil**

Dutta, Chief Executive Officer, Datre Corporation, a steel foundry in West Bengal.

Variable pricing

Last year's price rise prompts **VR Sharma**, Managing Director, Jindal Power & Steel, to suggest that "contractors should always get into contracts that take into account price variations, both increases and decreases. Any deviation in raw material prices beyond 1 per cent should be recovered from customers to ensure some relief for the contractor." The challenge for steel product makers is that, sometimes, their clients aren't receptive to variable pricing.

"We operate with very low margins and have no resources for innovation because our OEM clients refuse to accept variable price clauses," says **Dutta**. "Young OEMs are sandwiched between large steel makers, influencing our raw material costs and our large customers, who are reluctant to absorb this price increase in their products."

Foundry units have been calling for monthly price revisions and for clients to prepare for such revisions to keep their industry afloat. In pockets such as Gujarat, steep price increases and associated working capital shortages have compelled some foundry units to cut



In FY2023, the steel industry is expected to grow 10-15 per cent annually in its capex spend.

our domestic business," says Singhal. "Our current global capacity is 33 mt."

"We propose to increase our capacity by an additional 6 mtpa by 2023," shares Sharma. "The next decade is for steel considering the Government's focus on infrastructure. In addition to construction bars and rebars, we will introduce flat products, such as different kinds of sheets and plates."

In the next 10 years, the [annual] demand for steel is expected to rise to close to 170 mt, adds Sahay. "Construction, including railways, will consume close to 115 mt in this timeframe spearheading growth."

Flagship infrastructure expansion schemes like the \$ 1.5 trillion National Infrastructure Pipeline (NIP) will spur healthy growth in steel demand in the medium to long term, adds Roy.

The demand for steel is expected to grow in tandem with GDP growth given the Government's massive investment in infrastructure through schemes like the NIP and PM Gatishakti, agrees Singhal.

Future concerns

Not everyone shares a wholly optimistic view.

"Expansion decisions are based on a 10-year picture; we have a clear picture up to 2027 but not beyond that," observes Sabarna Roy. "So, new capacities could remain idle. If the entire NIP budget is expanded, the fiscal deficit will increase significantly and our borrowing capacity will reduce."

Because of these reasons, Sabarna Roy believes major expansions are unlikely. "Also, the Indian Government has ratified the Paris climate accord, and that may put pressure on polluting industries like steel and cement. Expansions would increase their emission thresholds, making their



Domestic steelmakers will add around 34 MTPA of new capacity.



Officer, Datre Corporation

"Our OEM clients refuse to accept variable price clauses."

- Indranil Dutta, Chief Executive

Lok Sabha election will happen in 2024. While he doesn't foresee a change of Government, one cannot be sure. "If the BJP continues in Government, I expect some slippage of projects up to 2027, boosting demand for steel and steel products."

Globally, a major structural shift marked by China's evolving role is impacting the steel market, observes Singhal. "From being a dominant exporter in the last decade, China is now cutting down on its production aligned with its pursuit of achieving net neutrality by 2060. This has resulted in stability in the world steel trade."

As net neutrality and sustainability-related conversations take centre-stage globally and India's stated aim to achieve net-zero carbon emissions by 2070, the steel industry, too, will need to define its decarbonisation roadmap, predicts Singhal. "This will enable accelerated research and adoption of green steel."

Evidently, major decisions lie ahead for the Indian steel industry.

- CHARU BAHRI | CW |



- VR Sharma, Managing Director, Jindal Power & Steel

"Deviation in raw material prices beyond 1% should be recovered from customers."

environmental assessments by pollution boards tougher. Any minor expansion will happen through the brownfield route, which costs less [than the greenfield route] and gives a faster return on investment."

While Roy agrees that NIP projects will generate a lot of demand for steel and steel products up until 2025, beyond that, a

To share your views, write in at feedback@ConstructionWorld.in