

IMaCS has brought out an Industry Report on the Indian Steel Industry, April 2014. The full report is available at <http://www.imacs.in/reports/index.php>

EXECUTIVE SUMMARY

- **Consumption Trends and Growth:** World consumption of finished steel is estimated at 1,475 million tonnes (mt) in 2013, making it world's most used metal. Over 2009 to 2013, world steel consumption grew by an estimated compounded average growth rate (CAGR) of 3.8%. Growth has slowed down substantially from 14.4% in 2010 to 3% in 2013.
- **Sectoral Usage:** Globally, the use of steel by major sectors stands at construction (51%), automotive (12%), other transportation (5%), machinery (15%), metal products (13%), electrical equipment (3%), and domestic appliances (2%). By comparison, the bulk of India's demand is accounted for by the construction sector (45%), followed by machinery (30%), metal products (18%), and transport (4%). Steel's main markets are China, which represented 47.4% of worldwide demand in 2013, followed by US (6.6%), India (5%), Japan (4.3%), and South Korea (5.5%).
- **Domestic Consumption Growth and Outlook:** India's steel consumption is estimated to increase 3% in FY2014 to around 71 mt. Consumption is expected to grow at 5% in FY2015. The slowdown is primarily because of weak construction activity and decline/low growth in production of capital goods. With an expected real GDP growth of around 6-6.5% per annum during FY2015-17, India's carbon steel demand is expected to increase at an annual rate of 7-8% in the medium-term. The growth is expected to be driven by anticipated growth in construction, automobile, oil and gas transportation, and infrastructure sectors of the economy. Since steel consumption is positively linked to GDP growth and more so to growth in infrastructure, a healthy growth in steel consumption can be expected in the medium term. Although India's annual per capita steel consumption has increased from 24 kg in 1996 to 57 kg in 2013, it is around 13% of China's per capita consumption of 488 kg. India's per capita consumption is unlikely to increase at the same rate as China because of lower share of industrial sector in India's GDP, and lower proportion of manufactured products in India's merchandise exports.
- **Domestic Capacity Additions:** India's crude steelmaking capacity has increased from 40 mt in FY2003 to around 96 mt at present. Based on current plans, crude steelmaking capacity is forecast to increase to 135-140 mtpa by 2017. Capacity growth is expected to be higher for flat products than for long steel products. If the implementation of firm projects is on expected lines, domestic crude steel capacity over the medium-term will be more than sufficient to meet domestic demand. Considering the medium term expected demand growth of 7-8% per annum during FY2014-18, a growing portion of India's new production capacity could be for export. India is characterised by several advantages such as low per capita steel consumption, increasing infrastructure spending, increasing per capita income and consumer spending, low interest rate & inflation, availability of low cost iron ore and low labour costs. These are countered to some extent with shortage of prime coking coal, coke & scrap, high energy costs, infrastructure bottlenecks, declining duty protection, and poor labour productivity. However, Indian steel companies have taken effective steps to nullify the disadvantages (e.g. through

measures such as setting up of captive power plant to meet energy shortages). While, the duty protection level for the industry is declining, it is unlikely to affect the Indian steel industry given its low production cost and raw material availability.

- **Price Outlook:** World steel prices are expected to decline during 2014 reflecting declines in input costs (primarily coking coal and iron ore) and weak demand conditions. For 2014, significant increases in the price of steelmaking raw materials and therefore production costs are not expected.