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METALS & MINING

08 September 2022

India Steel Conference 2022 – Demand outlook positive

- **Experts view at the India Steel Conference 2022 suggest 7-8% steel demand growth over the medium term supported by progress on NIP**
- **We remain positive on India's steel sector as we look beyond near-term uncertainty and focus on delivery of the next wave of expansion projects**
- **Prefer defensive play TATA (BUY, TP Rs 140) amid the current volatile environment**

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Steel users/producers positive on mid-to-long-term steel demand: We recently attended the India Steel Conference 2022 organised by Steel Users Federation of India (SUFI). While producers were generally more optimistic than investors, several participants expect medium-to-long-term growth potential of 7-8% p.a. for the steel sector, led by demand from roads, rail, water, construction, energy and auto. Their positive outlook is underpinned by progress on National Infrastructure Pipeline (NIP) investments, where 40-45% of identified projects are under execution. ICRA expects FY23 government capex to meet the average annual rate targeted under NIP, and the industry expects acceleration in execution over the next 1.5 years ahead of polls.

Modest recovery likely near term: Steel prices have stabilised and could rise with an uptick in demand. Conference discussions suggest the industry anticipates a modest recovery in demand from 27mt in Q1FY23 (18mt in Jul-Aug'22) to 28mt in Q3 and 30mt in Q4. Participants do not expect a rebound in exports in current environment even after export duty removal. For long producers, competition from secondary products is here to stay.

We remain constructive on India's steel sector: While near-term uncertainty persists owing to the China slowdown, we believe margins will stabilise to mid-cycle levels over H2FY23 as Chinese demand gradually recovers from Q4CY22. More importantly, we look forward to earnings growth from Indian steel players over FY23-FY25 as they deliver on the next wave of expansion projects. The return profile for these projects is quite healthy even in mid-cycle scenarios, with all players leveraging existing infrastructure for brownfield expansion. Efficiency improvement projects and downstream integration would also mitigate earnings volatility.

Prefer defensive play TATA: We prefer defensive play TATA (BUY, TP Rs 140) from amongst our steel coverage for its ability to generate sector-leading margins via better integration all the way to iron ore and for its focus on downstream and retail businesses to capture value-add. We also have a BUY on JSP (TP Rs 460) which has scope for a gradual rerating as the company demonstrates capital discipline and implements the next phase of growth.

Recommendation snapshot

Ticker	Price	Target	Rating
JSP IN	433	460	BUY
JSTL IN	685	655	HOLD
SAIL IN	82	90	HOLD
TATA IN	108	140	BUY

Price & Target in Rupees | Price as of 7 Sep 2022

India Steel Conference 2022: Key takeaways

We attended the India Steel Conference 2022 organised by SUFI on 25 Aug 2022, where participants included major steel producers, end-users, industry experts and steel analysts. Despite short-term disruptions and uncertainty, most participants remain optimistic about the Indian steel industry's medium- and long-term demand growth prospects. They highlighted the material progress on government investments, especially in infrastructure, and expect this to underpin 7-8% demand growth for steel over FY21-FY25.

Domestic demand outlook

Near-term – Modest recovery in H2FY23

Steel producers and users believe that steel prices have stabilised and could rise if demand moves up once destocking ends.

- Several industry representatives expect a modest recovery in demand from 27mt in Q1FY23 (18mt in Jul-Aug'22) to 28mt in Q3 and 30mt in Q4. The expectation implies modest growth of 3.7%/3.1% YoY in Q3/Q4FY23.
- Crisil also projects healthy steel demand growth at 6-8% in FY23 with improvement in H2 driven by construction and infrastructure projects. Crisil expects a further uptick to 7-9% in FY24 aided by lower prices and an increased governmental push for NIP execution ahead of elections.

Medium-term – Healthy 7-8% CAGR

Panel discussions suggest the industry expects steel demand to log a 7-8% CAGR over FY21-FY25 on the back of a positive outlook on government capex and progress on NIP investments. Contribution to growth is primarily expected from roads, railways, water, building & construction, energy and automobiles.

Fig 1 – Steel demand drivers

Sector	Share in steel demand (%)	FY16-20 CAGR (%)	FY23P (%)	FY24P (%)	FY21-25P CAGR (%)	Key drivers
Building & Construction	35-40	3-4	4-6	5-7	5-6	Affordable housing, *kutcha* (temporary) to *pucca* (permanent) house conversions in rural belts, especially in the east and central regions, and real estate construction (given construction slowdown and RERA compliance)
Infrastructure	25-30	6-7	9-11	9-11	8-10	Roads, metro projects, railways, large-scale irrigation projects, especially in the south and west
Engineering & Packaging	20-30	4-5	6-8	6-8	4.5-5.5	Weak conventional power segment but good demand from consumer durables and packaging sectors. Consumer durables likely to continue its growth streak, rising in double-digits
Automotive	8-10	2-3	8-10	7-9	9-10	India the second-fastest growing market after China clocking double-digit growth in automobiles and a 19% CAGR in auto components over the past five years

Source: Crisil Research, ICRA, Joint Planning Committee, BOBCAPS Research

- **Building and construction (B&C):** The B&C segment accounts for 35-40% steel consumption in India. Conference participants were positive on the growth prospects for this segment, citing 1-2bn sqft of housing space under construction in India's top 8 cities. Housing alone contributes 70-75% of demand from the B&C segment.

Also, structural drivers support a longer-term positive growth outlook for the segment, such as a growing population, urbanisation, increasing pace of nuclearisation, and concretisation of temporary (*kutcha)* houses. Within urban centres, a growing share of high-rise buildings, reduction in column size, and use of modern construction techniques such as monolithic construction for faster execution would also fuel an increase in steel intensity.

- **Infrastructure:** The infrastructure segment contributes 25-30% of steel consumption in India. While 50% of demand from this segment comes from roads and railways, the balance is contributed by irrigation, dams, water supply and sanitation. Infrastructure contributed to 6-7% annual growth in steel demand over FY16-FY20 driven by investments in national highways, dedicated freight corridors (DFC), electrification of railway lines and metro projects.

  Industry participants expect growth to pick up to an 8-10% CAGR over FY21-FY25 as investments in NIP gather momentum. Currently, 40-45% of the projects identified under NIP are under execution and another 20% are being readied for implementation. The industry expects the government to accelerate execution over the next 1.5 years to showcase material progress ahead of the next elections. ICRA expects FY23 government capex to reach the average annual rate of Rs 22trn targeted in the NIP.

- **NIP:** Industry participants estimate 140-180mt of steel demand from NIP implementation, with a total allocation of Rs 111trn over FY20-FY25. The government's active pursuit of projects is visible from the increase in number of identified projects from 6,835 at the time of NIP launch to 7,435 in Jun'21 and 9,335 in Jun'22. Of these, 2,195 projects are under development and 782 have been completed.

  Within NIP, participants specifically flagged the progress on government programmes such as PM Awas Yojana (affordable housing for the urban and rural poor), Bharatmala (centrally funded roads and highways development project), freight corridors, and Jal Jeevan Mission (piped water access for every Indian household).

Fig 2 – Key areas for steel demand under National Infrastructure Pipeline (NIP)

Segments	Steel demand (mt)	Scope identified for development	Status
PMAY	70-80	To construct 29.5mn houses with basic amenities in rural areas and 11.2mn houses in urban areas	31mn houses completed, of which 5.8mn were PMAY-Urban
Bharatmala	18-25	Phase 1: 34,800km of road development	5,835km of highways constructed in FY22
Sagarmala	13-23	To complete Rs 2.1trn of projects by FY24 out of >800 projects identified, with a potential investment of Rs 5.5tn for port modernisation and waterways connectivity	Limited progress
Freight corridors	6-8	To develop 3,360km of two major DFCs (East and West)	Progress at 63%/61% under eastern/ western corridors
Jal Jeevan Mission	11-18	To provide safe drinking water to every household	Tap water supply provided to 99.3mn households (52%) as on 3-Aug-22
Gas pipeline networks	12	Urja Ganga Gas pipeline (3,384km)	-
Udaan	7-10	To construct 100 new airports over next 20 years	Limited progress
National Solar Mission	4.5-5.0	-	-
Total	**140-180**	**-**	**-**

Source: Welspun, Shyam Metalics, Brajesh Sohro- ex-President & Head SCM, Welspunt, BOBCAPS Research

Long-term – Demand outlook optimistic

Industry participants were optimistic about the long-term growth potential of the steel sector, highlighting that India needs to spend US$ 1.4tn on infrastructure to become a US$ 5tn economy as per the RBI's Economic Survey, which could support long-term steel demand growth.

Integrated metal producer Shyam Metalics said it expects an 8.5% CAGR in the steel sector over FY20-FY25 backed by an investment push across sectors, followed by a moderate 6.3% CAGR over FY25-FY30.

Fig 3 – Sector-wise growth forecasts

Steel demand (mt)	FY20	FY25	FY30	FY20-25 CAGR (%)	FY25-30 CAGR (%)
Construction	47.0	70.8	94.2	8.5	5.9
Automobiles	6.9	10.4	14.6	8.6	7.0
Capital Goods	7.7	11.6	15.7	8.5	6.2
Consumer Durables	4.6	7.0	9.9	8.8	7.2
Railways	5.4	8.1	11.8	8.4	7.8
Intermediates (General Engineering)	5.4	8.1	11.0	8.4	6.3
Total	**77.0**	**116.0**	**157.2**	**8.5**	**6.3**

Source: Shyam Metalics, BOBCAPS Research

Long products demand to rise

Shyam Metalics expects 3.7-4.6% growth in long products usage in the construction sector over FY20-FY25 and 5.7-5.9% growth over FY25-FY30.

Fig 4 – Long products demand outlook from construction sector

Product	FY20	FY25	FY30	FY20-25 CAGR (%)	FY25-30 CAGR (%)
TMT	26	32	41	4.2	5.1
Bars	5	6	8	3.7	5.9
Wire rods	2	2	3	-	-
Stainless steel	1	1	1	-	-
Structurals	7	8	11	2.7	6.6
Total	**40**	**48-50**	**64-66**	**3.7-4.6**	**5.7-5.9**

Source: Shyam Metaliks, BOBCAPS Research

Competition from secondary producers here to stay

The quality of secondary steel has improved and has become acceptable in the industry. L&T is willing to use such steel in its projects so long as bid conditions do not prohibit it. Secondary steel forms 35-40% of total consumption.

Emerging applications to boost steel demand

- Per industry experts, metal roofing conversion can generate 15-20mt of demand. At present, 32% of urban and 66% of rural houses in India use clay tiles, burnt brick and stone for roof construction.
- Pre-engineered building (PEB) structures or steel tubular structures can substitute reinforced concrete (RCC) with 30-50% lower construction time. APL Apollo Tube indicated that construction time is reduced to 8 days per slab from 25 days per slab for RCC construction. Also, while project cost is 5% higher, the project IRR still works out 1.5% higher than RCC construction due to savings on time and interest cost.

  Seven hospitals in Delhi have recently used this type of construction. Other prominent examples include (i) TC-II, L&T Business Park, Powai; (ii) AM Naik Tower, Powai; (iii) Pharmaceutical Building, Pune; (iv) DRDO, Bengaluru; and (v) Paradise Avenue, Jammu. Such applications can substantially increase steel consumption due to the use of steel-made columns, rafters, purlins and girts.
- The use of steel instead of RCC structures in bridge construction offers more durability due to the usage of two-thirds steel in the mix vs. a third in RCC design.
- The industry estimates that continuously reinforced concrete pavement (CRCP) and concrete roads have a potential for 25-30mt of steel consumption.
- Metal beam crash barriers are now mandated by National Highways Authority of India (NHAI) on national highways and on road stretches on high altitudes and those with heavy traffic. Usage on both sides of the road will push up steel demand.
- Wayside amenities on national highways can bolster demand for steel. NHAI plans to install wayside amenities every 50-60km to improve passenger convenience, in line with global practices.
- Opportunities for new steel applications are also present in renewables power generation (solar, wind and hydel), electric vehicles, and localisation in defence.

Export demand muted

Industry participants believe the removal of export duty may not immediately kickstart steel exports due to inadequate visibility on export orders. However, ICRA is more optimistic about the export outcome this year, forecasting 16.9mt of steel exports in FY23 vs. 18.4mt in FY22 with an increase in semis sales.

Stainless steel outlook robust

Stainless steel has been growing at twice the rate of steel and 1.5x of aluminium globally, as per Jindal Stainless Steel, and its consumption accounts for 3.5% of steel consumption in India and globally. Stainless steel applications have been expanding in India to new value-added categories from its primary usage in cookware durables. The product has been gaining traction in several new-age applications such as railways/metro wagons and coaches, foot overbridges/rollover bridges, auto exhaust systems and fuel tanks, e-rickshaws, dairy infrastructure, pharmaceutical equipment, overhead water tanks, and urban infrastructure.

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Fig 5 – Peer comparison

Ticker	CMP (Rs)	Rating	TP (Rs)	Upside (%)	EV/Sales (x)		EV/EBITDA (x)		Net income (Rs bn)		P/B (x)		P/E (x)	
					FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
TATA IN	108	BUY	140	30.1	0.8	0.9	4.2	4.3	221	190	1.1	0.9	5.9	6.8
JSTL IN	685	HOLD	655	(4.3)	1.4	1.4	7.9	6.0	122	175	2.5	1.8	13.5	9.5
JSP IN	433	BUY	460	6.3	1.0	1.0	4.6	4.1	53	59	1.2	1.0	8.4	7.5
SAIL IN	82	HOLD	90	9.4	0.5	0.5	4.4	3.4	49	67	0.6	0.5	6.9	5.1

Source: BOBCAPS Research

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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Note: Recommendation structure changed with effect from 21 June 2021

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