

# Steel demand revival hinges on govt spending

SWANSY AFONSO & DIVYA PATIL

24 January

A revival in India's steel consumption from the weakest estimated growth in at least four years hinges on the government boosting spending on infrastructure, housing and road projects to absorb record output.

Finance Minister Arun Jaitley will announce on February 1 higher outlays for national highways, rural roads, railways and low-cost housing, Goldman Sachs Group Inc predicted in a report. Any major Budget initiatives in infrastructure and construction would stimulate domestic steel demand, according to Seshagiri Rao, joint managing director at India's second-biggest mill, JSW Steel Ltd.

Mills in India such as JSW, Steel Authority of India and Tata Steel are projected to produce a record amount of the metal this year in anticipation of Prime Minister Narendra Modi's infrastructure push. Their plans were disrupted in November when a move to ban some high-denomination currency notes tightened spending and prompted Morgan Stanley to predict flat sales in the 12 months through March 31.

The bank expects usage to grow at five percent next year. Steel demand could expand by around 10 percent if all the projects promised by the government are implemented, JSW's Rao said.

"We are quite positive on India even though demonetization had an impact," he said. Cash liquidity returning to the economy and more digital transactions "will act positively and demand will come back into the system. Budget is

very important. We have to see as regards to policies on higher outlay and stimulating domestic demand."

The government will increase spending on railways, roads and urban development by 160 billion rupees (\$2.3 billion) in the budget for the next fiscal year, according to CARE Ratings Ltd.

Steel consumption in India grew 3.3 percent to 61.5 million tons from a year earlier in the April-December period, while output jumped 10.5 percent to 73.8 million tons, according to steel ministry data.

## Biggest spender

"The biggest spender in the country is the government of India and the biggest user of steel is also the government," said New Delhi-based Sanak Mishra, secretary general of the Indian Steel Association, which represents 60 percent of the industry. "We would hope to see large government budgets in infrastructure, railways and construction."

SAIL will produce a record 15 million tons of crude steel this fiscal year and plans to ramp up capacity to 50 million tons over the next decade, while JSW forecasts output to reach an all-time high of 15.8 million tons and aims to almost double capacity to 40 million tons by 2025. Tata Steel expects production this year will get a boost of 1 million to 1.5 million tons from its new Kalinganagar plant in Odisha.

The industry has expanded capacities in the last five years, but producers will boost output only if there is a greater government thrust to boost per capita consumption that is far below the world average, Mishra said.