Status of Infra industries: October 2017

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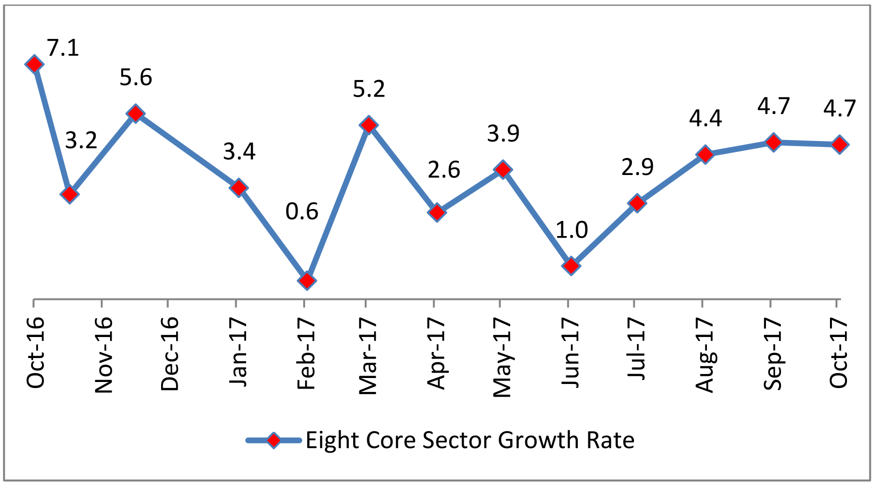
Overview

The Eight Core Industries which are classified as infrastructure sectors comprise 40.3% of the Index of Industrial Production (IIP). The combined Index of Eight Core Industries stands at 128.2 in October, 2017, which was 4.7% higher compared with October, 2016. Its cumulative growth during April to October, 2017-18 was 3.5%.

Chart 1: Eight Core Sector Growth Rate (%)



Source: DIPP

The Eight Core Sectors comprise domestic production of Coal, Crude Oil, Natural Gas, Petroleum Refinery products, Fertilizers, Steel, Cement and Electricity Generation.

The emerging picture suggests:

- ***Construction activity has not quite picked up notwithstanding higher government expenditure on capex projects.***
- ***Steel production has benefited from the uptick seen in some industries like machinery, automobiles.***
- ***Electricity generation has been stable so far and growth may be expected to be sustained. This is also getting reflected in coal production.***
- ***Production of crude oil is likely to pick up on the back of higher prices, if sustained.***
- ***Fertilizers production and imports have been lower so far. The future course of rabi crop would have a bearing on its prospects for the rest of the year.***
- ***There's a possibility to reduce import dependency by 10% by 2022, in the natural gas imports of LNG.***

Coal

Table 1: Cumulative Coal Production (in million tonnes)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Coal Production	336	342	1.8%

Source: DIPP

- Coal production is sustained by demand from the power sector on the back of renewed electricity demand. We expect the same to continue for the coming quarters.
- Imports were lower at 118.8 mn tonnes compared with 121.1 mn tonnes last year.
- Domestic Coal prices have remained steady during the entire period April-Oct 2017. Global coal prices (Indonesian and South-African) have witnessed an increase in prices in the range of 10-15% during April-Oct 2017 period.
- Lack of infrastructure especially evacuation and transportation of coal to the users is a major bottleneck for the industry.
- ***Domestic coal production is expected to recover but unlikely to achieve targets***. Coal India Limited had revised its yearly production target to 600MT from 660MT due to tepid demand from the power sector. Out of this, the Company has been able to produce 231.9 MT of coal during the first half.

Crude Oil

Table2: Cumulative Crude oil Production (in Thousand MT)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Crude Oil Production	21,115	21,063	-0.2%

Source: DIPP

Table 3: Imports of Crude oil (in Thousand MT)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Crude Oil Imports	1,25,057	1,25,810	0.6%

Source: PPAC

- In India’s crude oil consumption basket, 15% is domestic and the balance 85% is imported. The country wants to reduce import dependency of oil by 10% by 2022.
- Crude oil scenario has seemed to have improved in this month, as oil prices have been at an all-time high since mid- 2015, which makes upstream activities of exploration and production more profitable.
- We believe that there will be a marginal pick-up in production of domestic crude oil during the course of the year.
- Our estimate is that the price of Brent Oil will rise but it will not exceed $ 65/bbl as there remains a possibility of rising US inventories and production which will be keep the prices at bay.
    - However at the same time prices will remain remain above the $60/bbl range. Indian Basket of Crude to remain $2/bbl lower than the Brent prices on an average monthly basis.

Natural Gas

- Domestic production of natural gas seems to have commenced on a positive note for the current financial year as there has been a 4.7% rise from the domestic production comparing to the corresponding period last year. Reason for the increase in production could be attributed to the favorable policies which have been invoked to enhance domestic exploration and production of oil and natural gas and due to the aim of reducing import dependency by 10% by 2022. India is also on the move to shift towards a gas based economy.

- Imports of LNG on the other hand have been reduced as there has been a rise in domestic production.
- Prices of domestic natural gas adopt the New Domestic Gas Pricing Policy, which are revised every 6 months. Price of natural gas for the September- March period is $2.89/mmbtu per GCV.
- Our estimate is that gas production for 2017-18 to be at 32.6 BCM.

Table 4: Cumulative Domestic Natural Gas Production (in Million Cubic Meters)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Natural Gas Production	17,900	18,744	4.7%

Source: DIPP

Table 5: Imports of LNG (in Million Cubic Meters)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
LNG Imports	14,833	14,777	-0.4%

Source: PPAC

Refinery Products

Table 6: Production of Petroleum Refinery (in Thousand Tonnes)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Petroleum Refinery Production	1,40,915	1,45,046	2.9%

Source: DIPP

- Production of Refinery products include LPG, naphtha, MS-III, MS- IV, MS others, ATF, SKO, HSD-III, HSD- IV, HSD others, LDO, Lubes, FO, LSHS, Bitumen, RPC/Petcoke and a few more. India is a net exporter of petroleum refinery products.
- The performance of the refinery segment was subdued during April-October 2017 with 2.9% growth compared with 8% last year.
- We expect that the production of petroleum refinery to be subdued in the short run given the hike in crude oil prices after the decision was taken by OPEC and Russia to cut down production of crude oil by 1.8 million barrels per day in order to stabilize the global supply glut.

Fertilizers

Table 7: Fertilizer Production (in thousand tonnes)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Fertilizer Production	24,258	23,937	-1.3%

Source: DIPP

Table 8: Imports of Fertilizers (in thousand tonnes)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Fertilizer Imports	11,918	11,225	-5.8%

Source: CMIE

- Fertilizer production has been low since this financial year as all the companies are in the process of destocking and liquidating their inventories. During the first half of FY18 production scenario, urea dominated with about 57% share in total.
- Imports too have been low this financial year indicating consumption of fertilizers to be subdued in this financial year. India imports almost a third of its consumption needs.
- Going forward, we expect a pickup in production during the second half of the year as the sowing season for Rabi crops has begun. We could observe this in the increase in production in the October 2017 production compared with last year.
- Our projection of fertilizer production is around 42,500-43,000 thousand tonnes.

Steel

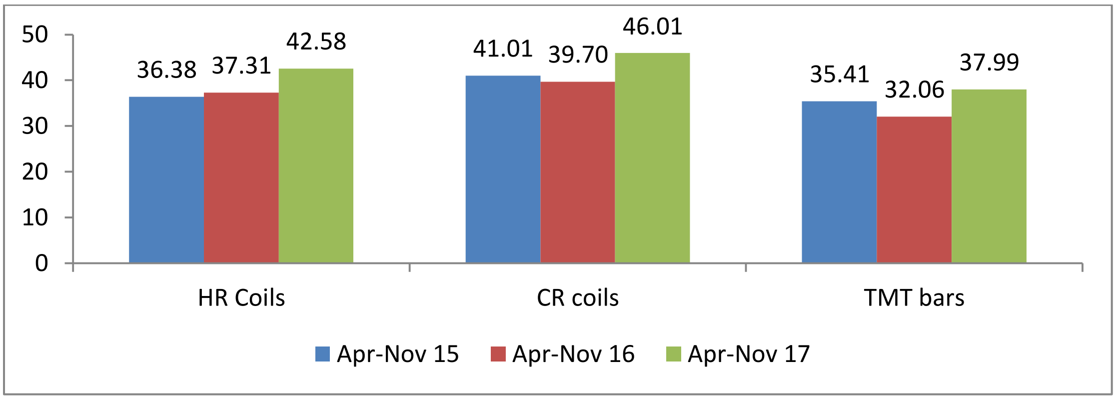
Table 9: Cumulative Steel Production (in thousand tonnes)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Steel Production	57,768	61,223	6.0%

Source: DIPP

- Finished steel output increased by 8.4% in October 2017 over the corresponding month a year ago. The production continued to grow for the seventh month in a row on a y-o-y basis and the overall output rose by 6% to about 61 million tonnes during the first seven months of FY 2017-18 on a y-o-y basis.
- We expect steel production to remain steady in the coming months of the current financial year backed by various initiatives undertaken by the government on infrastructure front and the focus on using domestic steel for government-funded and related projects. Therefore, we expect finished steel production to rise in the range of 6%-8% during 2017-18.
- Iron and steel exports surged by 58.5% to 6.15 million tonnes during April-October 2017 on a y-o-y basis. The upward trend in exports is likely to continue in the coming months on account of expected improvement in international steel prices which, in turn, would encourage more exports from the country.
- During April-October 2017, steel imports grew by 33.4% to 6.20 million tonnes which was almost the same as exports.
- India had turned net importer of steel in 2007-08 and continued to remain a net importer till 2015-16 except for the year 2013-14 when the country became net exporter of steel. Again, the country managed to become a net exporter of steel in the financial year 2016-17 with various anti-dumping measures being pursued. We expect the country will continue to keep a check on the imports during the current financial year as well with adoption of measures that will protect the domestic steel industry.

Chart 2: Average prices of HR coils, CR coils, and TMT bars (in Rs.'000 /tonne)



Source: CMIE

- The average domestic flat steel prices (HR coils and CR coils) and long steel products (bars/rods) increased by 14%-19% during April-November 2017 compared with the corresponding period a year ago. During this period, the average prices of HR coils, CR coils and TMT bars stood at Rs. 42,580, Rs. 46,012 per tonne and Rs. 37,989 per tonne respectively
- The improvement in steel prices was on account of improved domestic consumption and higher international steel prices. We expect the steel prices to remain firm in the coming months on account of expected higher domestic consumption backed by government's infrastructure initiatives and likely improvement in international steel prices on account of better outlook for global steel industry. In addition to this, production cuts by the Chinese government to reduce over capacity and handle pollution is also expected to support the steel prices.

Cement

Table 10: Cumulative Cement Production (in thousand tonnes)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Cement Production	1,68,307	1,65,588	-1.6%

Source: DIPP

- Cement prices across markets have fallen during the month of October 2017 by Rs. 2 per 50kg bag as per data. The industry has been witnessing subdued demand on the back a tepid real estate market which constitutes 2/3rd of the demand for the industry.
- Demand for cement industry is expected to improve during the second half of the year. Government's new schemes- for development of ports under "Sagarmala" and nation-wide road-network development under "Bharatmala, are expected to aid growth in cement consumption.
- Housing sector which has been subdued on the back of demonetization and RERA shock, which lead rapid fall in new inventory addition of housing units, is expected to witness some recovery especially in tier 2 and tier 3 markets beginning Q4 FY18. Most of this new demand for housing would be in the low ticket housing unit segment which is covered under the Pradhan Mantri Awas Yojana.
- We *had projected growth of 3.5% this year, which could be lower in case the government's new schemes do not pick up or if the low-ticket housing segment does not witness a turnaround.*

Electricity Generation

Table 11: Cumulative Electricity Generation (in Million KWH)

	2016-17(Apr-Oct)	2017-18(Apr-Oct)	% Change
Overall Electricity Generation	7,38,164	7,76,266	5.2%

Source: DIPP

- Issue of disruption in power generation due to coal shortage has been addressed to an extent with coal stocks improving across thermal power plants.
- Electricity generation was slower on an annual basis.
- We expect electricity generation to grow in the range of 5.5-6.5% for FY18.

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