

Alloy steel industry to continue its strong growth momentum

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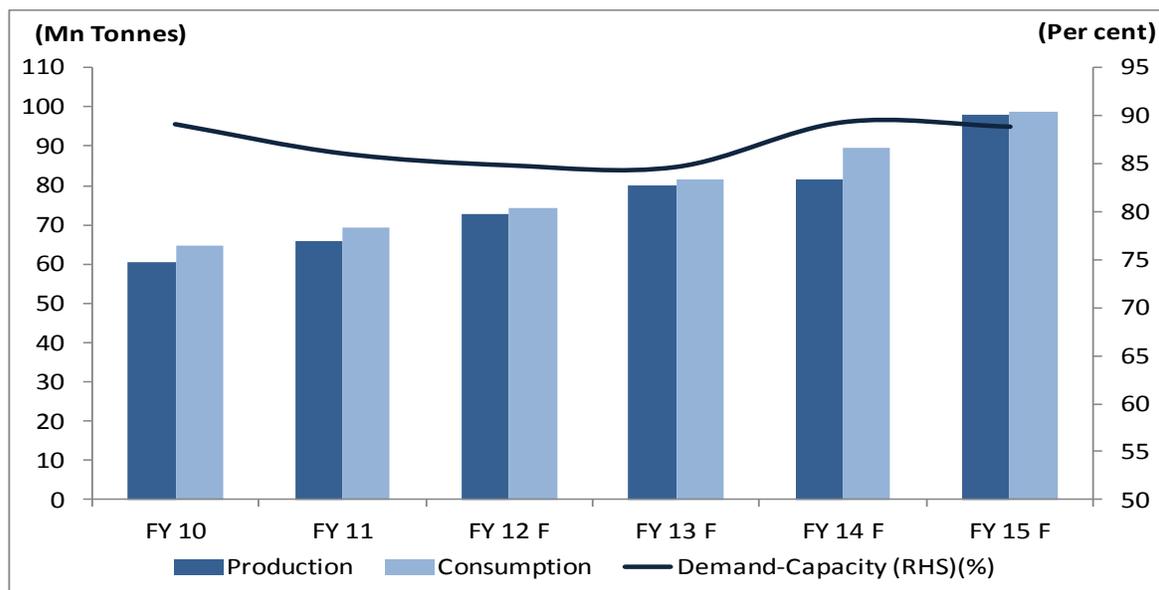
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Despite the gloom in the advanced and the European countries, domestic finished steel industry continued to register a strong growth during FY03 to FY11. Amid a sharp slowdown in the global demand (in the aftermath of the global financial crisis during FY09), the domestic finished steel industry along with China strongly contributed in the recovery in the global demand for the finished steel industry.

Going ahead, CARE Research foresees the industry growth to be muted in the short term as concerns over economic slowdown are expected to prevail for a while. Nevertheless, these concerns are expected to fade away in the medium term. CARE research estimates the domestic finished steel industry to grow at a Compound Annual Growth Rate (CAGR) of around 9.4 per cent during FY11 to FY16. In line with the growth in domestic demand,

domestic finished steel capacity is also likely to increase at a CAGR of around 8 per cent during the same period.

Chart: Expected growth in the domestic finished Steel industry



Source: Joint Plant Committee (JPC), CARE Research F: Forecasted

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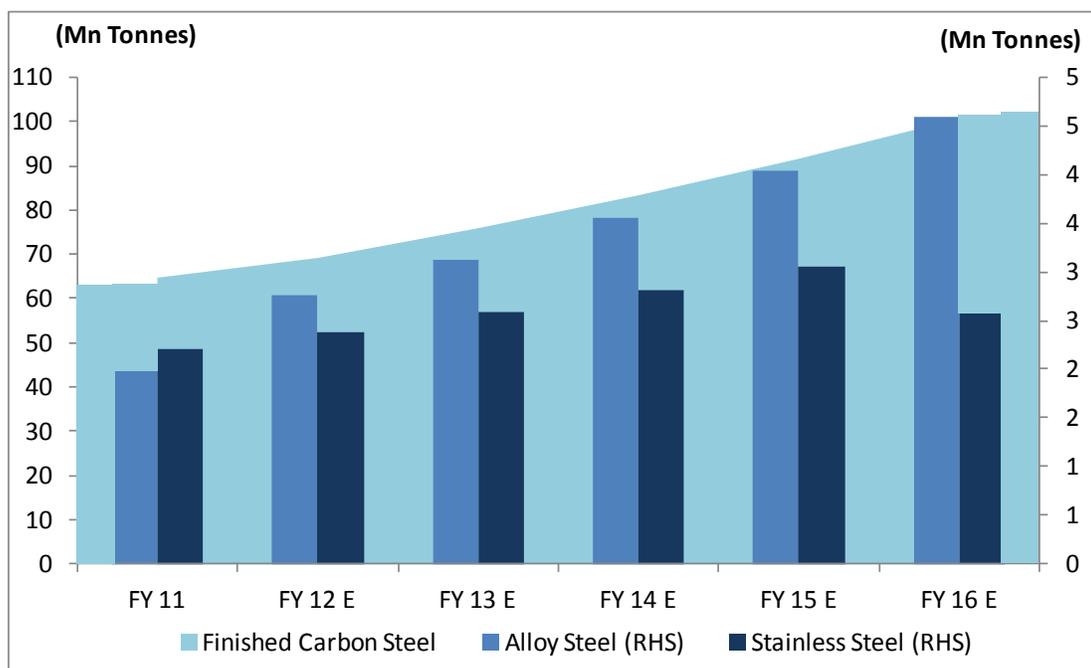
Based on its physical properties and its end-use consumption pattern, domestic demand for finished steel can be further categorized into demand for finished carbon steel and alloy & stainless steel.

During FY03 to FY11, while the demand for finished carbon steel increased at a CAGR of about 9.2 per cent, during the same period, demand for alloy and stainless steel recorded a robust (CAGR) growth of about 14 per cent.

CARE Research estimates the domestic finished carbon steel industry to grow at a CAGR of around 9.2 per cent during FY11 to FY16. Demand for alloy & stainless steel during the same period is likely to increase at a CAGR of about 11.3 per

cent during the same period. Rise in demand from the OEM’s (original equipment manufacturers) as also replacement demand and the increasing spend on the infrastructural activities is likely to remain the key driver for the domestic demand for alloy steel in the medium to long term period. The industry is also likely to be benefited from the increasing capital spend in the oil and gas and the power sector.

Chart: Outlook on consumption of Carbon and alloy steel industry



Source: JPC, CARE Research *F: Forecasted*

Alloy & Stainless Steel

During FY03 to FY11, domestic alloy & stainless steel consumption almost tripled up, growing at a CAGR of about 14 percent from about 1.6 mn tonnes to 4.6 mn tonnes. Imports of alloy & stainless steel products in the domestic market have increased at a CAGR of about 22 per cent during the same period. However, despite rising import levels, the capacity utilization rate of the alloy & stainless steel industry continues to remain very low at around 50-55 per cent.

Alloy steel:

The auto ancillary sector accounts for about 70 per cent of the end-use consumption of alloy steel while the rest is accounted by the engineering and oil and gas sector. During the last decade (FY01 to FY11), domestic auto ancillary industry has recorded a robust CAGR growth in excess of over 15 per cent. Apart from the automobile industry, rising demand for energy (power and oil & gas) has also attracted huge investments in this sector thereby increasing the

consumption of alloy steel products in the domestic markets. Going ahead, CARE Research expects the domestic alloy steel demand to grow at a CAGR of 13.6 percent during the period FY11 to FY16.

Table: Sectoral demand for Alloy steel

Sectors	Share (%) FY 11	CAGR FY 11-16(%)
Auto Ancillary Industry	70	15
Oil and Gas Industry	15	12
Power Generation	8	8
Others	7	8

Source: CARE Research and Industry

Stainless steel

The utensils and kitchenware sector accounts for about 62 per cent of the end-use consumption pattern while the rest is accounted by the processing, construction and transportation sector. With the rise in usage from processing and transportation sectors, share of kitchenware/utensils segment in the total stainless steel consumption is likely to fall from 62 per cent in FY11 to about 55 per cent in FY16. CARE Research estimates that the use of stainless steel by the processing and transportation sectors is likely to grow significantly at a CAGR of about 12 per cent and 20 per cent, respectively during the same period.

CARE Research estimates the demand for domestic stainless steel industry to grow at a CAGR of about 8.5 percent during the period FY11 to FY16.

Table: Sectoral demand for Stainless Steel

Sectors	Share (%) FY 11	CAGR FY 11-16 (%)
Kitchenware	62	7
Process Industry	11	12
Construction (ABC)	7	8
Engineering	6	8
Transportation (Railways/ Air/Roads)	4	20
Electronics	2	12
Others	9	8

Source: CARE Research and Industry

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