

Steel prices hit a record high in June 2008 at over Rs.30, 000 per metric ton, but prices declined by more than 50% in the aftermath of global recession. Since then prices seem to be on strong uptrend again & domestically prices are firming up. Steel consumption in the country has risen faster than the production in the first ten months of the year led mainly by demand from housing, infrastructure and automobile sector.

Growth in sectors such as automobile & infrastructure would increase, giving room for steel prices to flourish further, as steel is voraciously used in these industries.

The increased demand for steel is being met by domestic production and higher imports. India's total steel consumption rose by 8.1% to 35.97 million tonnes in the April – November of financial year 2009 period, as compared to 33.27 million tonnes the same period a year ago, according to Ministry of Steel. The domestic production increased by a modest 3%; however the imports catered to the needs substantially when India increased its imports by 11% to 4.58 million tonnes in the year 2009, coupled with reduction in exports, which reported 39.4% contraction; that is India reduced their exports by 1.78 million tonnes.

As per official estimates, the Iron and Steel Industry contributes around 2% of the Gross Domestic Product (GDP) and its weight in the Index of Industrial Production (IIP) is 6.20%. India's GDP for 2nd quarter grew by 7.9% from its previous quarter figures of 6.1%. IIP rose to 10.3% for the month of October as compared to its previous figures of 9.1% for September. The estimates for November are again at double-digits.

Despite increase in production capacity in the country, India would be a net importer of steel for the next two years.

(Supply – Demand scenario)

Divisions	FY 09 In '000 tonnes	FY 08 In '000 tonnes
Capacity	64,400	59,845
Crude Steel Production	54,520	53,857
Finished Steel Production	49,825	50,173
Imports	5,775	7,029
Exports	3,750	5,077
Total Consumption	35970 (Apr-Nov)	33270

The prices of steel had faltered initially in the year, due to the reduction in statistics in imports, whereas the production increased by 7.61% on year on year basis. However, the consumption for steel for the month of November 2009 has increased by 7.6% to 4.66 million tonnes, whereas the production for November 2009 has only increased by 3.2% to 5 million tonnes.

As per, the Ministry of Steel, India's steel imports in November 2009 rose 29% from a year earlier due to a sharp rise in consumption and attractive prices in global markets. The country imported 654,000 metric tons of finished steel in November 2009, up from 507,000 tons in November 2008, due to a pickup in car sales and consumer good. The substantial increase of pace in demand for the month of October – November 2009, were not matched with domestic production, thus with higher

imports, the prices of steel were increased further. The prices may even flourish further, as demand picks up in sectors of infrastructure & automobiles.

Strong investments in Fixed-Assets should keep steel prices in the positive territory.

Auto Sales: The rise in buying of vehicles has been substantial, as new vehicles with unique concepts were developed, allowing to cater almost all needs of consumers. The passenger car sales have gone up to 61% for the month of November on the back of lower prices of steel during September – October. The demand for vehicles has shown forged figures, even after the festive season & the sales may continue as most companies forecast price increase in vehicles. The price hike is seen, as price of steel is envisaged to grow further on the back of renewed demand for raw-materials (Steel).

India's top passenger vehicle company Maruti Udyog posted a staggering growth in its sales. The sales went up 60.1% in November 2009 at 76,359 units as compared to sales of just 47,704 units in November 2008. Hyundai Motors the second largest car manufacturer in the country registered a growth of 92.8% in November at 28,162 units as compared to 14,605 units last year.

India's automobile industries have reported a record increase of 63% sales in November 2009, an extension of their upbeat performance for the past few months. The car sales are estimated to increase by 10%-12% for 2010-2011. Sales may also reach about 3 million units per annum by 2015.

Category	Automobile Sales (Domestic) '09	Automobile Sales (Domestic) '08
Passenger Sales	1551880	1549882
Commercial Vehicles	384122	490494
Three wheelers	349719	364781
Two wheelers	7437670	7249278
Grand Total	9723391	9654435

The automobile sector has rose by 0.71% in total, where passenger sales have increased by 0.13% & 2 – wheelers by 2.6%.

Infrastructure: India had decided during its 11th Five – Year Plan, a new scheme. “Scheme for promotion of Research and Development in Iron & Steel sector” has been approved with a stipulated spending (by the budgetary commission) of Rs. 118 crore for implementation. An interdisciplinary of researchers who work on Steel industry, set up by the Planning Commission for the 11th Five-Year Plan (2007-12) & has projected a total demand of 70.34 million tonnes for finished steel and a total production of 80.23 million tonnes of crude steel by the end of the 11th Five – Year Plan that is by 2011-12.

India's infrastructure spending contributes about 6% of gross domestic product (GDP) in 2008-2009, which is estimated to increase to 9.3% by 2011-2012. The investments in power and roads— construction would be about half of the budgetary provision. Power sectors in India may expect orders for over 100Giga – Watt, worth Rs1.1 trillion over the next 24-30 months. Over the next 15 months, the expectation of orders may increase to over Rs1.6 trillion from power.

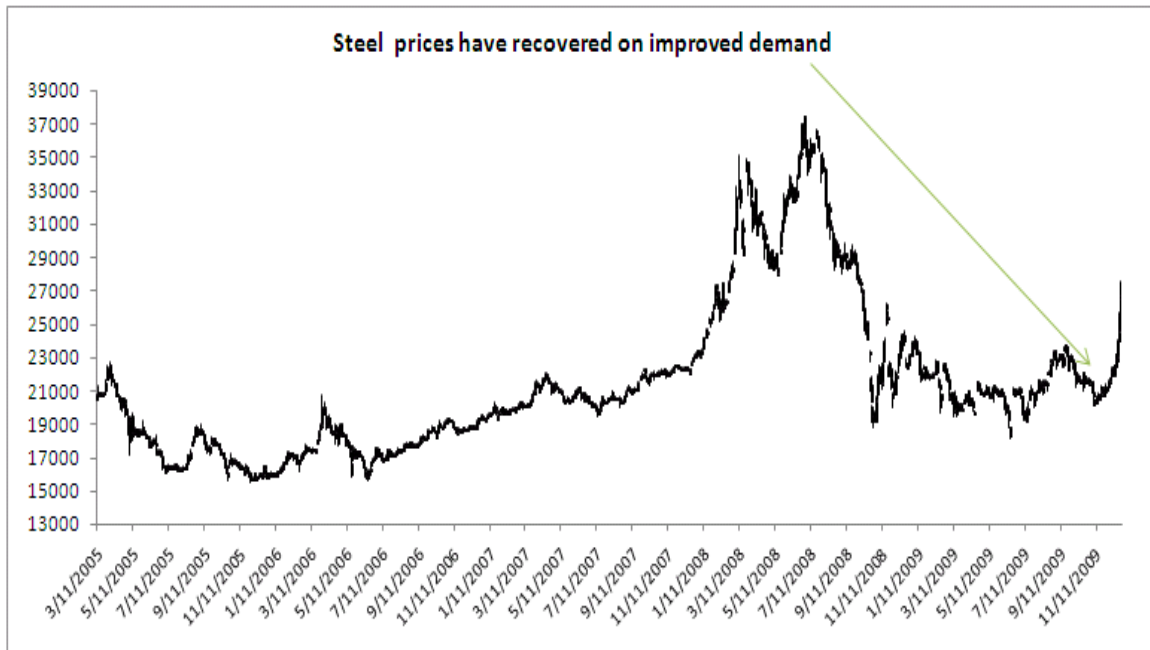
The National Steel Policy 2005 had forecasted the consumption levels may increase at 7% based on a GDP growth rate of 7-7.5% and production of 110 million tonnes by 2019-2020. These forecasts are expected to extend even further and it is envisaged that in the next five years, demand will grow at a considerably higher at an annual average rate of over 10% as compared to around 7% growth achieved between 1991-92 and 2005-06.

Outlook:

In our view, India would continue their higher spending in infrastructure sectors as commissioned from the Indian government. Moreover, consumers have increased their appetite in the automobile sector, as new concepts are developed to cater to consumers needs.

In other developments, Steel Minister Mr. Ram Vilas Paswan had said, that he would like to increase the per capita consumption of steel in the country. The Ministry has stated that they would appoint agents to sell steel at rural areas & usage of the metal in construction & infrastructure would only give rise to more per capita consumption.

Currently, India's per capita consumption is about 44 – 45 kgs. However, with investment of over Rs.1 trillion, the government is planning to spend would only give room for consumption to increase. The per capita consumption is projected to boost from the current rate of 45 kgs to 150 kgs. This requires that domestic production increases substantially & keep pace with the increasing demand. As per the projections made by the Ministry of Steel, crude steel production capacity may grow up to 124 million tonnes by 2011 – 2012.



Steel prices at NCDEX had reached its summit during the end of the year 2008 and fell in the beginning of 2009 after forming a double top and breaking below its neckline support at 28100. Prices failed to adopt a definite direction during the year and traded in a broad horizontal channel with its upward limit at 27530 and downward limit at 18520. However, the market recently broke the horizontal trend channel and posted a high of 27520.

We expect prices to appreciate further towards 30,000 levels in the medium term.

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