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India's year reviewed

While Covid-19 makes the future uncertain, Indian industry has already seen some significant recovery as the year 2020 nears its end. Kunal Bose reviews progress

What has a good monsoon yielding a bumper harvest of summer crops leaving good disposable income in rural and semi-urban areas got to do with the turnaround in fortunes of Indian steelmakers? Why should there be excitement in the steel industry that production and sales of cement are on the upswing again after the major setback in the first quarter (April to June) of the 2020-21 financial year in the wake of a strict nationwide lockdown that lasted from March 25 to May 17? And why is the rapid improvement in sales of cars and two-wheelers coinciding with the reopening of economic activities also appealing to steelmakers' ears?

Tata Steel CEO and managing director TV Narendran says that, riding on a good harvest, the "rural economy will recover faster than the urban economy. Demand for tractors and other farm equipment are pretty much at pre-Covid 19 levels. Government focus on rural infrastructure is also aiding steel demand (and that of cement). As we are seeing improvement in demand for passenger cars, sales of household appliances too have surged." Since steel use per capita in rural India is about 15 kg, by comparison with the national average of 76 kg, the industry is actively promoting steel consumption in the countryside.

The automobile sector has about 12% share of the country's annual steel use of around 100 million tonnes. Maruti Suzuki, which has more than 50% share of Indian car sales, is seen as the bellwether for the industry. Robust car sales in the quarter ended September and thereafter have not surprised company chairman RC Bhargava who says: "We have seen downturn for about a year and a half. So there is a demand pull from postponed purchases." He expects car sales to be brisk through the festive season ending December. An official of the Society of Indian Automobile Manufacturers says: "The fear of contracting the virus is leading a growing number of people to shun the crowded public transport and instead use their own vehicles. No wonder, between April and September, first-time buyers accounted for a record 50% of total car sales."

Carmakers are confident that rural demand will be sustained at a fairly high level since the winter crop too will be a bumper one. But Bhargava will not hazard a guess as to how urban car buying will fare beyond December "by when festival purchases are over and first-time buyer demand is satiated." Narendran said that Indian steelmakers have built capacity to meet almost the full demand of the automobile industry.

Aluminium for autos

Non-ferrous metals such as aluminium and copper also find significant application in the automobile industry. An official of Aluminium Association of India (AAI) said: "Till not long ago, car makers here would shun aluminium for steel, which comes much cheaper. Now, under government pressure to cut emissions, car makers have started using growing quantities of aluminium for light-weighting of vehicles. The white metal weighs one-third of steel per cubic foot." Pointing out that an Indian passenger vehicle uses about 30 kg of aluminium by contrast with the global average of over 160 kg, the immediate past chairman of the National Aluminium Company Tapan Chand said: "I have no doubt the next major area of application for the metal will be the transport sector. The country has a target to have 30% of all vehicles to be electric by 2030. New Delhi has given major tax incentives to popularise electric cars, which are highly aluminium intensive."

An official of the road transport ministry has ruled out the possibility of any tweaking of the 2030 electric vehicles production target due to the Covid-19 pandemic. Similarly, the government is not considering deferment of the target of manufacturing only electric two-wheelers by 2026. All this is good news for the aluminium industry, said Chand. An AAI official said the average amount of aluminium used in electric vehicles is at least 30% higher than cars with internal combustion engines.

Ajay Kapur, CEO of aluminium and power businesses of Vedanta group, said the sustained thrust by prime minister Narendra Modi on "Atma Nirbharata" (self-reliance) should see "India returning to pre-Covid growth levels starting next financial year. That is the time you will see demand for aluminium once again growing strongly in building & construction, packaging and electrical sectors. Aluminium has so far only scratched the surface in automotive application."

Import issues

The lockdown and thereafter the phased reopening of life and the economy have told on the demand for copper. Consequent

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A good harvest bodes well for India's rural economy to boost demand for consumer goods and farm equipment

upon the major contraction in industrial activities and slowing of infrastructure building, India's domestic market for the red metal in the three months to June shrank 53% to 91,000 tonnes from 195,000 tonnes in the same period of 2019. Margins of domestic producers dependent on imported copper concentrate – except for Hindustan Copper with its ownership of mines – have come under pressure as the benchmark TC/RC for this year is down 23% to 15.9 cents per pound. Imported copper meets 45-50% of India's domestic requirements.

The problem of high dependence on imports has been exacerbated since Vedanta's 400,000 tonne per year copper smelter at Thoothukudi in Tamil Nadu was shut on May 22, 2018 on state government order for allegedly causing pollution. The closure happened when the company was to start work on doubling smelter capacity to 800,000 tpy to replace imports, but local villagers backed by others launched a campaign that derailed the capacity expansion programme. This resulted in the closure of the plant that met about 35% of the country's copper requirements. The plant management says that it has made significant investments over the years to make the plant's operations, including sulphur dioxide emissions, comply with international norms, but Vedanta has so far failed to get the approval needed to resume production at the plant.

Processing units downstream, many in Tamil Nadu that depended on the smelter for copper cathodes and rods, are not finding it easy to procure the materials from alternative sources. A spokesperson for the Winding Wires Manufacturers Association (WWMA) said: "Once the economy recovers from the pandemic impact, the country's requirements of copper will rise. If the Vedanta smelter continues to remain shut, we will end up with so much more imports and that will go against Modi's self-reliance goal." WWMA hopes that a "suitable solution will still be found within the existing legal framework."

The levels of aluminium imported to India concern that industry. "In the prevailing circumstances, high copper imports are unavoidable. But why should imports be meeting close to 60% of our aluminium requirements when the country has built smelting capacity of over 4.1 million tonnes and production almost equals domestic use of the metal? Indian aluminium demand in 2019-20 fell by 6% to 3.72 million tonnes in which the share of imports was 2.170 million tonnes. This is forcing the industry to export a major part of its production. Local producers will, however, prefer selling in the domestic market where prices include import duty and freight charges," said an official of Confederation of Indian Industry.

The government did not put any production restrictions on aluminium smelters during the two-month lockdown, but since consuming industries were not functioning then, domestic aluminium demand during April to June was down by 57% year-on-year to 433,000 tonnes, of which the share of imports was 246,000 tonnes.

According to Hindalco Industries managing director Satish Pai, the situation became such that "we had to export 90% of our production in April and 80% in May." Large duty-free imports from ASEAN countries under free trade agreements at all times leave Indian aluminium makers with no alternative but to be aggressive sellers in the world market. The pandemic-related drying up of domestic demand has put extra export pressure on the industry. Industry officials say their main concern is to see that plant level inventories do not rise.

Kapur said as the industry awaits the

outcome of free trade agreements review by New Delhi, "the industry will end up exporting up to 65% of production this financial year." Except for the government-owned NALCO where aluminium production is regulated depending on "coal availability and LME price," the smelters in the private sector used about 80% capacity during the lockdown. Now these are fully operational and the value-adding units downstream are stepping up production with rises in local demand.

The industry looks set to vigorously pursue the government for the return of duties and taxes amounting to around 15% of aluminium production costs on export consignments. Kapur said: "Duties and taxes are not to be exported. These should be remitted back to domestic producers to encourage local value addition for export of finished products. We can compete with China in the world market with some government help."

New Delhi has, however, yet to find a middle ground between the demand of primary producers to raise import tariff barriers on metal and scrap and the pleadings of downstream units engaged in scrap recycling and making aluminium products to dispense with import duty.

What the government has done in the meantime is to introduce countervailing duty on wire rods imports from Malaysia. It has also begun an anti-dumping inquiry into imports of certain flat rolled products "originating in or exported from China" causing injury to local manufacturers. Moreover, like in steel, the government has constituted an import monitoring cell for primary aluminium and products.

Is the worst over?

Is the worst over for Indian metal industries? The answer is 'yes' going by metals production returning to pre-Covid level and improvement in prices. All this is aided by support logistics being back in place with migrant workers returning and a steady improvement in demand from user industries. A 10% rise in Goods and Services Tax revenue in October over the same month a year ago confirms economic recovery. But if there is a second wave of the virus, the economy will once again have to bear the brunt.

Following border skirmishes in the Himalayan region earlier this year, New Delhi told local industries to scale down imports from China. But China has helped Indian steelmakers by restricting its own steel exports this year and also importing good quantities of steel from India. In the first half of 2020-21, India managed to export 10.98 million tonnes of steel against 8.24 million tonnes in the whole of 2019-20. As domestic demand started picking up from June onwards, imports between April and September were restricted to 2.11 million tonnes against 6.69 million tonnes in the previous 12 months.

In April, logistical constraints and a plunge in domestic demand to 1.09 million tonnes from 9.17 million tonnes in January restricted mill capacity use to 40%. That was the time when the industry was exporting around 90% of production. For the first time India became a net exporter of steel to China. The second quarter ended in September saw leading steel groups such as Tata Steel and JSW Steel ramping up steelmaking and downstream operations to pre-Covid levels and also stepping up supplies in the domestic market. Tata Steel exports in the second quarter were down to 24% of total deliveries against around 50% in the first quarter. As things are, the company will end up exporting more than its normal annual exports of 15% of production this year, according to Narendran.