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panorama

May 2024



New project announcements signal a strong investment momentum

- Pick up in project announcements primarily driven by the manufacturing sector
- Green hydrogen, green ammonia, steel, semiconductor, solar and pumped storage lead capex announcements
- Private sector announcements have surged over the past two years, indicating a revival in private capex
- Government project completion has improved due to an increase in government capital expenditure
- Industrial companies record steady growth in orders, driven by awards from state governments



Metal prices rise due to the revival in global manufacturing and the ban on Russian metals

- Metal prices tend to have a strong correlation with profit after tax and equity returns of metal companies
- Global manufacturing PMI has moved into expansion in 2024, supporting the demand for metals
- The LME's ban on Russian-origin metal and other restrictions also contribute to higher metal prices
- Commodity exchange inventories are below historical levels but have been gradually recovering
- Steel prices have remained subdued due to a steady rise in Chinese exports



Long-term opportunities in metals exist alongside short-term risks

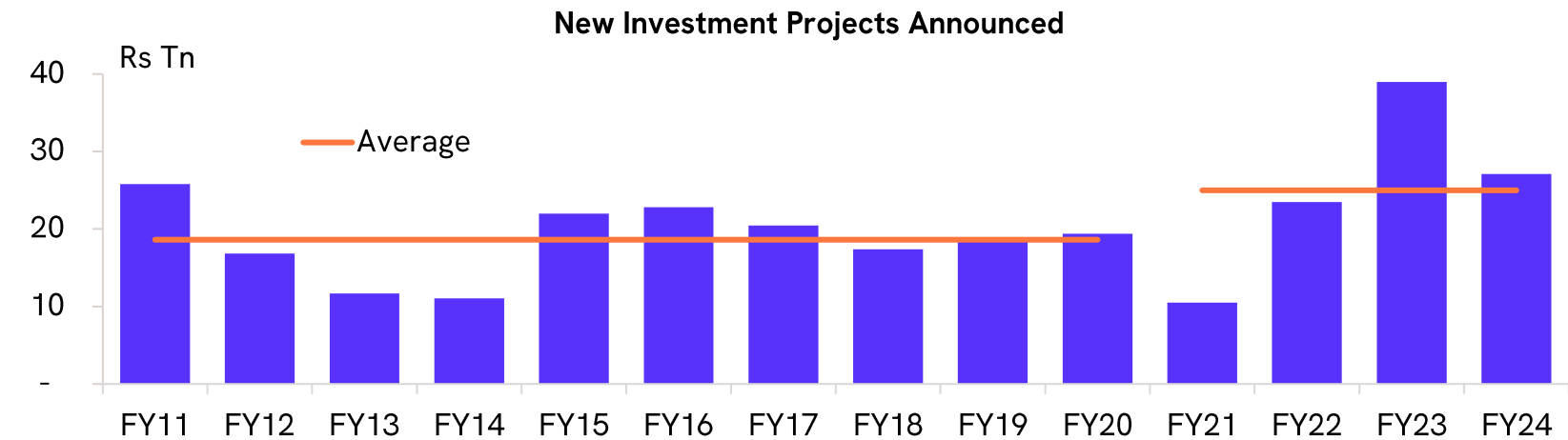
- Clean energy tech drives mineral/metal demand, while the mining sector has suffered from underinvestment
- Solar power plants, wind farms and electric vehicles require more minerals than fossil fuel-based counterparts
- Weak China real estate, higher for longer interest rates, and a slowdown in EV sales present short-term risks

Investments



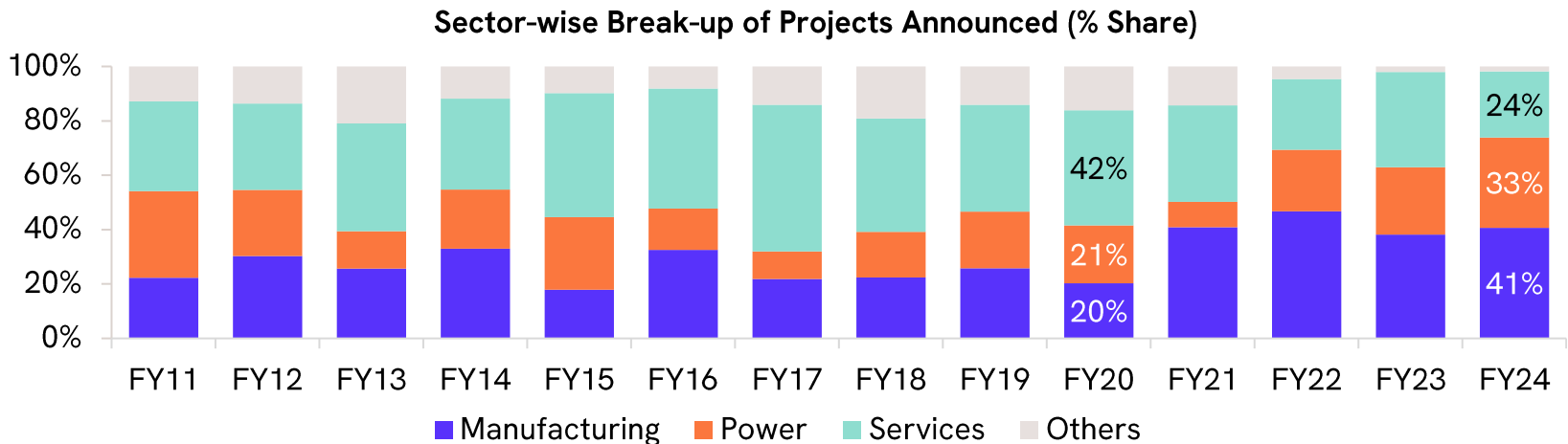
New project announcements signal a strong investment momentum

Manufacturing and power sectors drive new project announcements



According to CMIE's CapEx database, Rs 27 Tn worth of projects were announced in FY24, lower than the Rs 39 Tn worth of projects announced in FY23

However, the value of announcements remains higher than the average of ~ Rs 19 Tn per year in FY11-FY20.



The manufacturing sector has primarily driven the improvement in project announcements, followed by the power sector

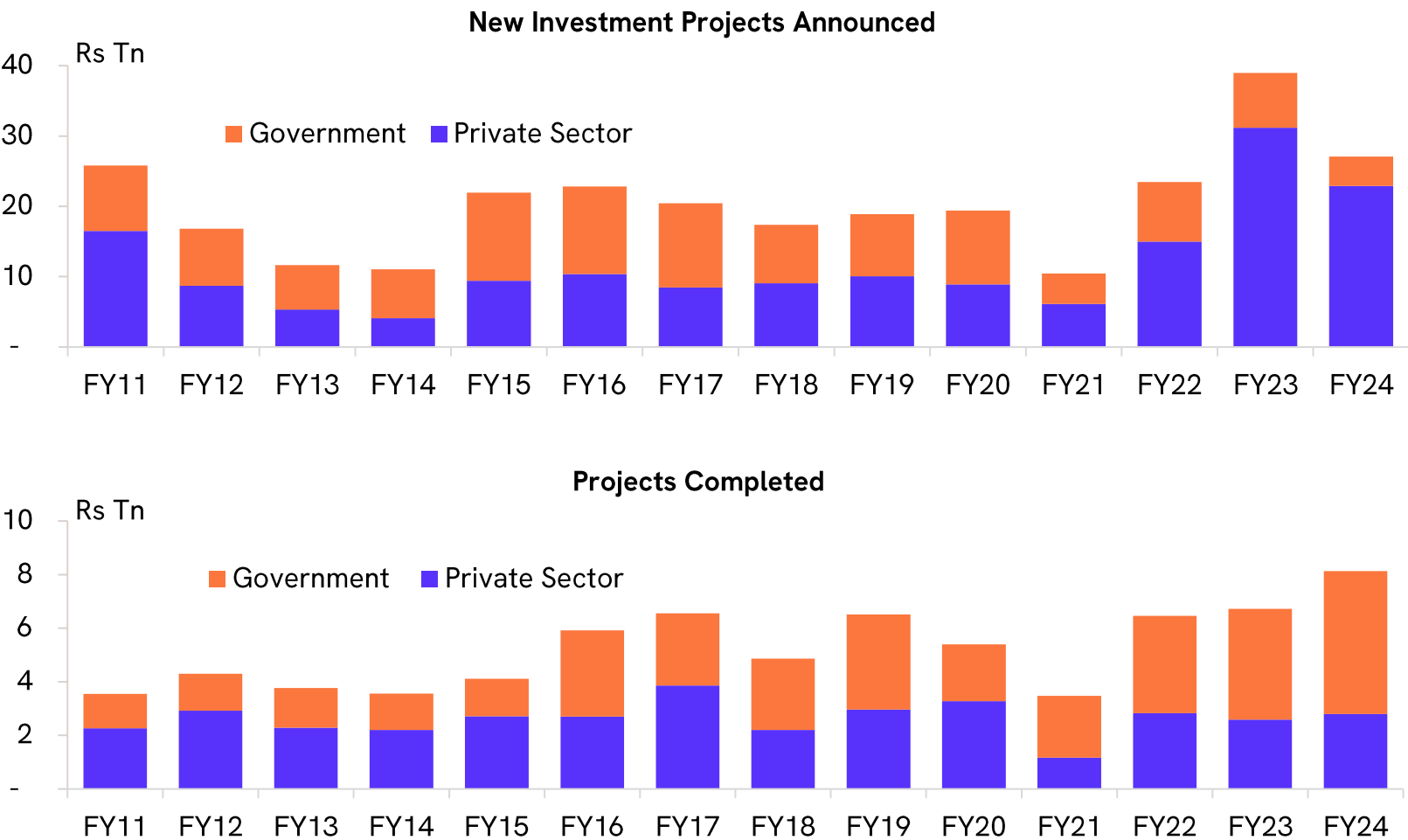
The manufacturing sector accounted for 41% of the total announcements in FY24, up from 20% in FY20

The share of services has declined to 24% from 42% during the same period

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Private sector capex announcements have surged over the past 2 years

Project completions have improved over the past three years, driven solely by the government sector



The surge in new project announcements propelled by an increase in private sector announcements

However, not all announcements will convert to actual capital expenditure

Nonetheless, this surge still indicates a revival in private sector capex

Government thrust on capex is visible in the steady improvement in project completion

The value of government project completion has more than doubled to around Rs 5 tn from around Rs 2 tn in FY20

Private sector project completion is mostly flat at around Rs 2.8-3.3 tn

Source: CMIE, 360 ONE Asset Research

Renewables, green hydrogen, & semiconductors lead announcements

Transportation services announcements skewed by large aircraft orders

New Investment Announcements (Rs Bn)	FY20	FY21	FY22	FY23	FY24
Manufacturing	3,925	4,275	10,973	14,859	11,020
of which, Chemicals & Chemical Products	2,295	1,693	3,215	7,831	5,101
Metals & Metal Products	591	1,583	2,785	1,696	1,525
Machinery	70	276	3,503	3,199	2,634
Transport Equipment	496	290	587	814	1,018
Power	4,134	979	5,321	9,650	8,983
Mining	386	502	381	192	42
Irrigation	140	228	29	77	57
Services	8,223	3,724	6,108	13,684	6,601
of which, Transport services	6,628	2,029	4,346	11,770	5,439
Information technology	410	500	498	1,109	607
Construction & Real Estate	2,595	765	663	503	391
All Industries	19,403	10,473	23,475	38,965	27,092

Chemical sector announcements are driven by green hydrogen and green ammonia manufacturing

The metal sector is driven by steel

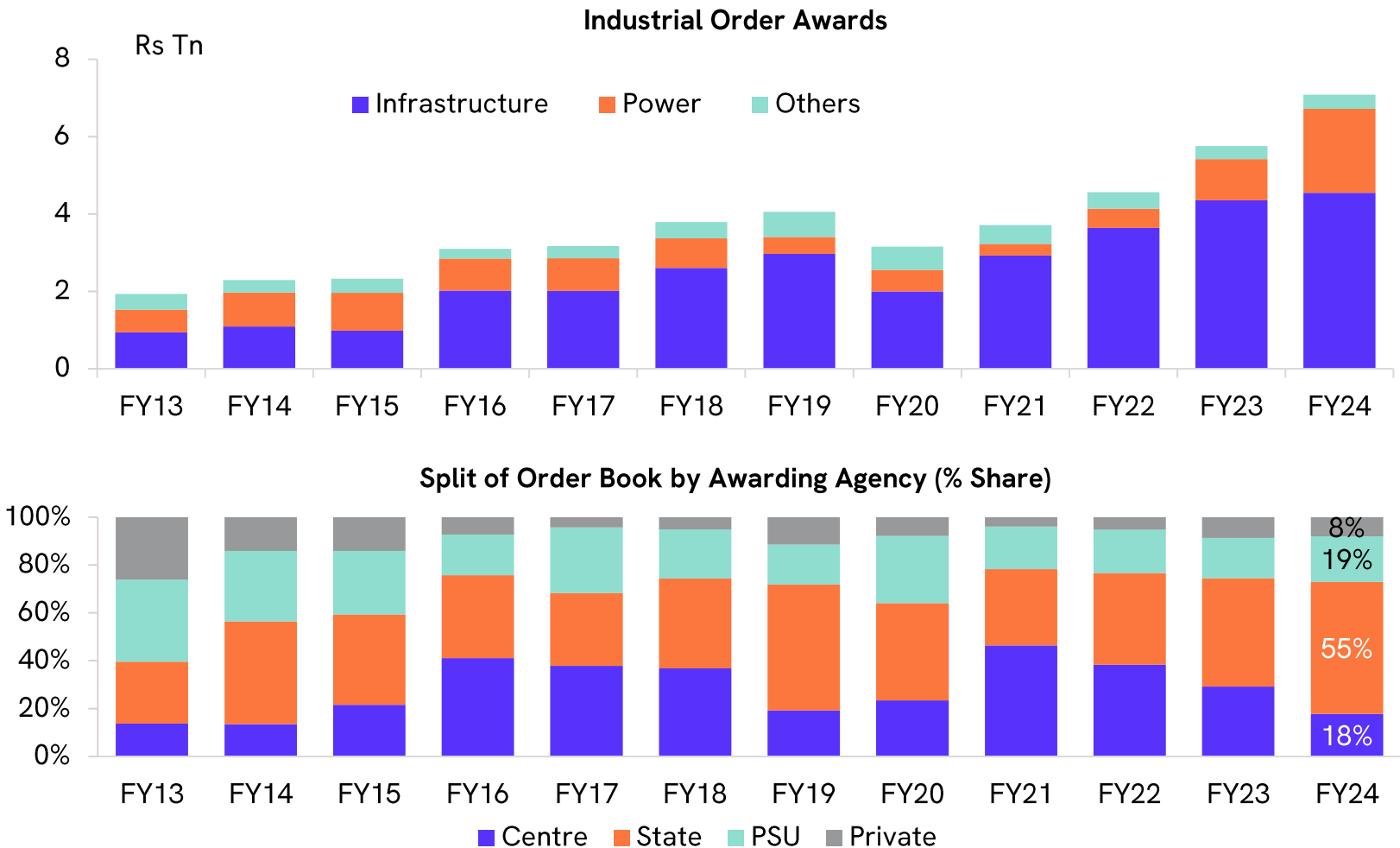
Led by semiconductor fabrication units

The power sector is driven by renewable electricity – solar power projects, hybrid, and pumped storage power projects

Includes Rs 6.7 tn worth of aircraft orders in FY23 and Rs 4.0 tn worth of aircraft orders in FY24

Industrial companies record steady growth in order awards

State governments increasingly account for a higher share of order awards, while the Centre's share declines



Industrial companies recorded order awards of ~ Rs 7 tn in FY24, higher than Rs 5.8 in FY23

Industrial order awards are led by power generation & transmission, roads, water & irrigation, and buildings & factories

State governments are increasingly accounting for a higher share of order awards, while the central government's share has steadily declined

Source: Investec Securities Research, 360 ONE Asset Research

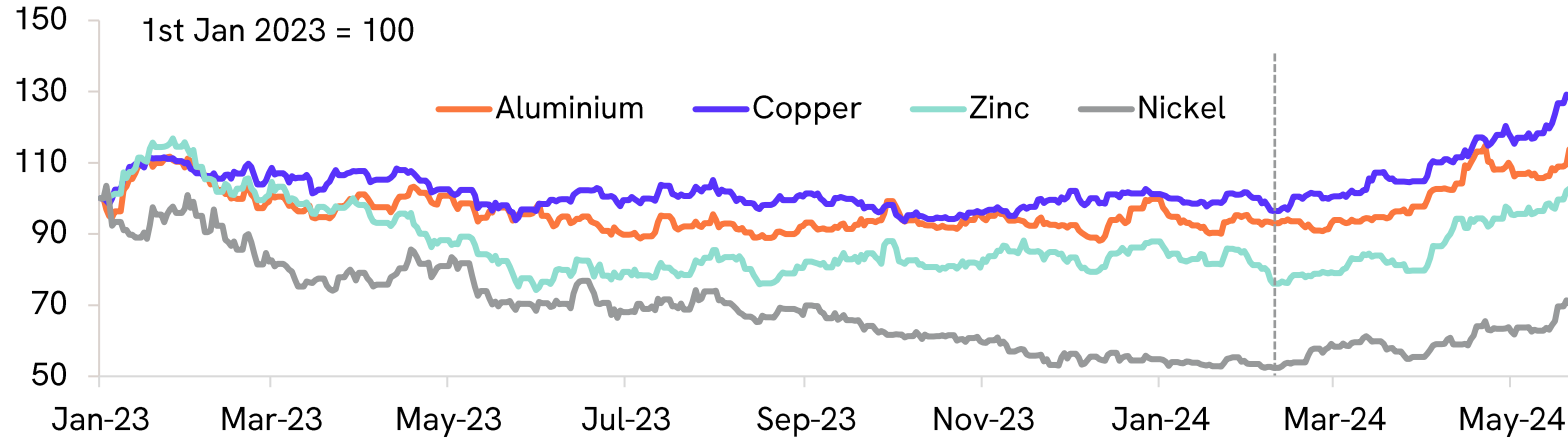
Metals



Metal prices have witnessed a broad-based rise since mid-February

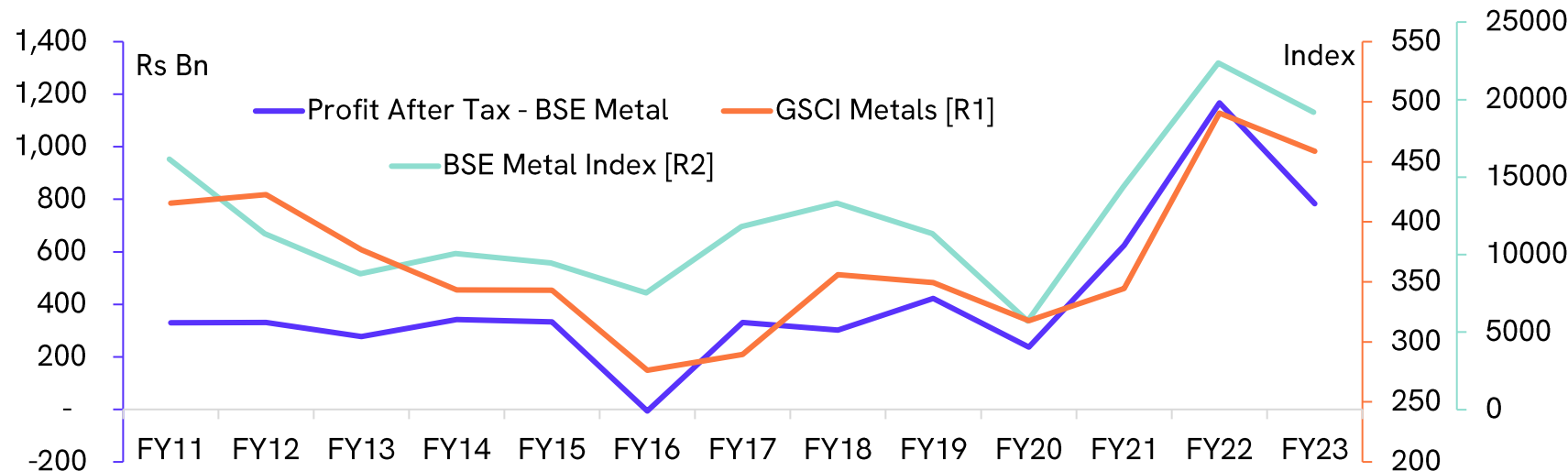
Metals prices have a strong correlation with the profits and equity returns of metal companies

Metal Prices



Base metal prices have shot up since mid-Feb'24

The rise has been broad-based across copper, aluminium, zinc, nickel etc.



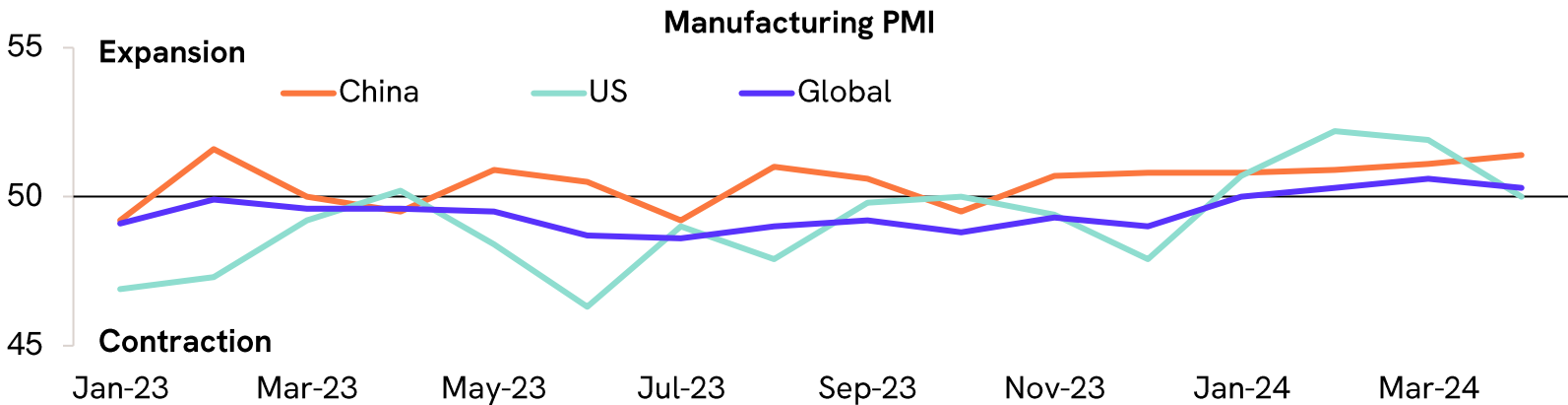
Metal prices (GSCI Metals) tend to have a strong correlation with profits and equity returns of metal companies (BSE Metal Index)

Source: Kotak Institutional Equities, Ace Equity, Bloomberg, BSE, 360 ONE Asset Research

Note: GSCI metals index is the benchmark for investment performance in the industrial metals market

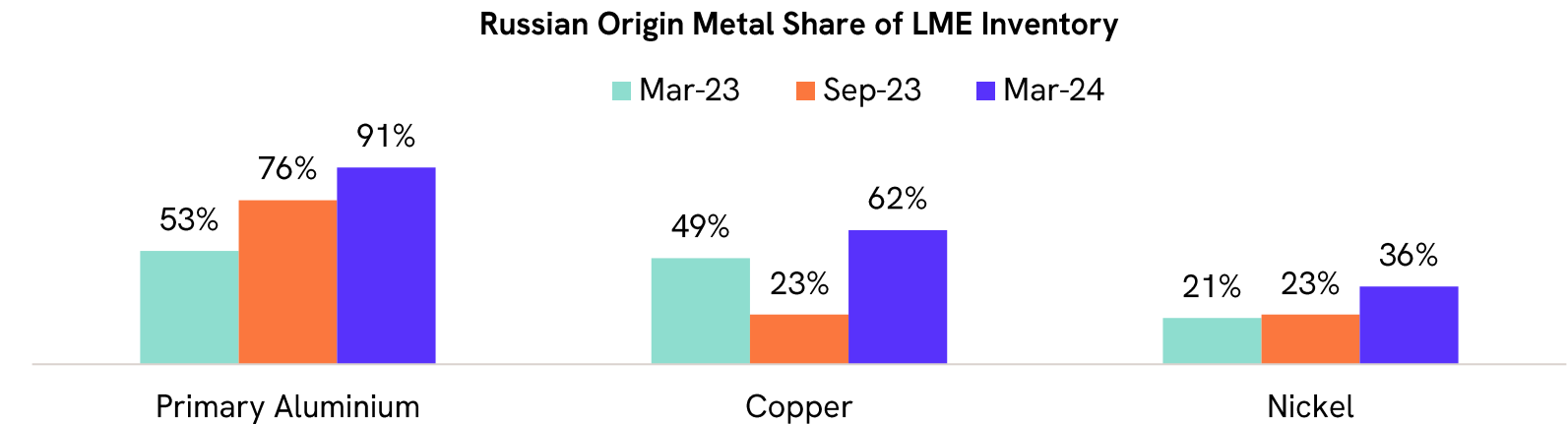
Revival in global manufacturing led to the rise in metals prices

The LME ban on trading and storage of Russian metal, along with other restrictions, also contributed to the rise in prices



Global manufacturing activity has recovered in 2024, as indicated by manufacturing PMIs

China's manufacturing PMI has been consistently in expansion (above 50) since Nov'23



Russian metal accounts for a significant share of aluminium and copper LME inventory

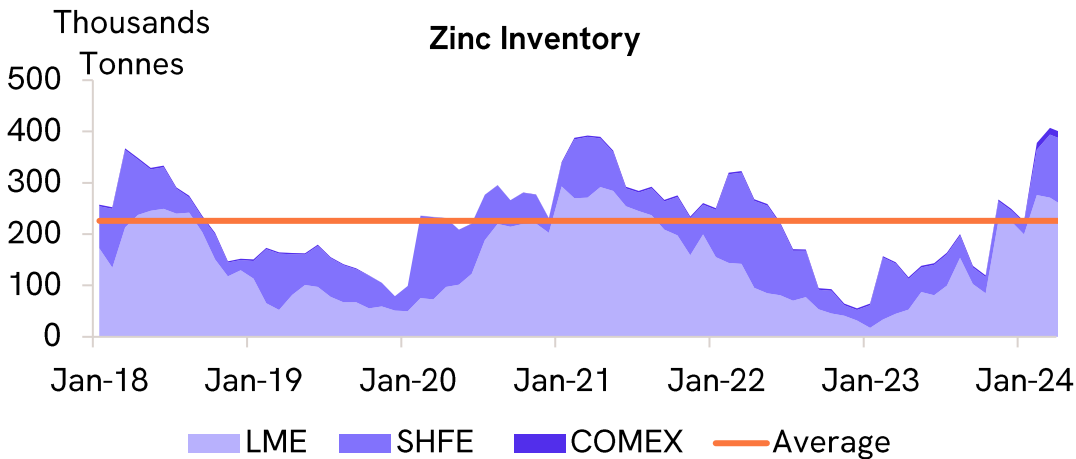
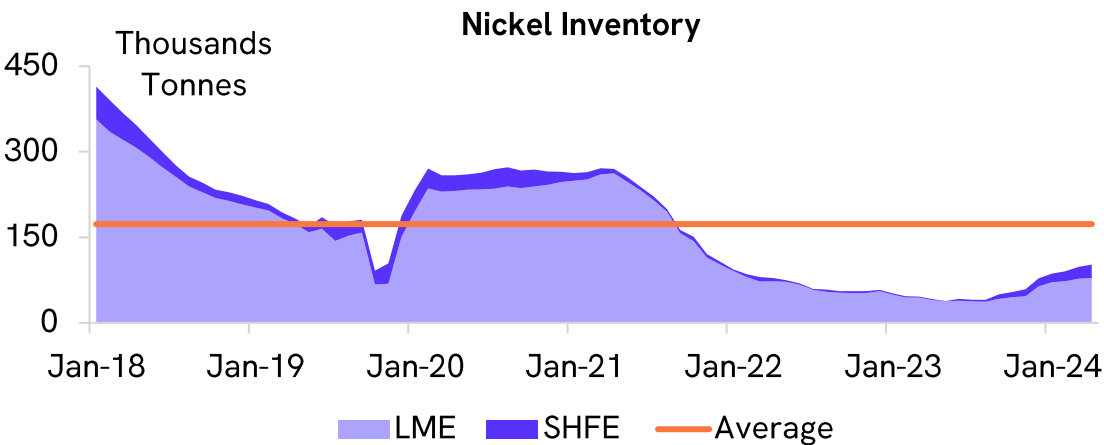
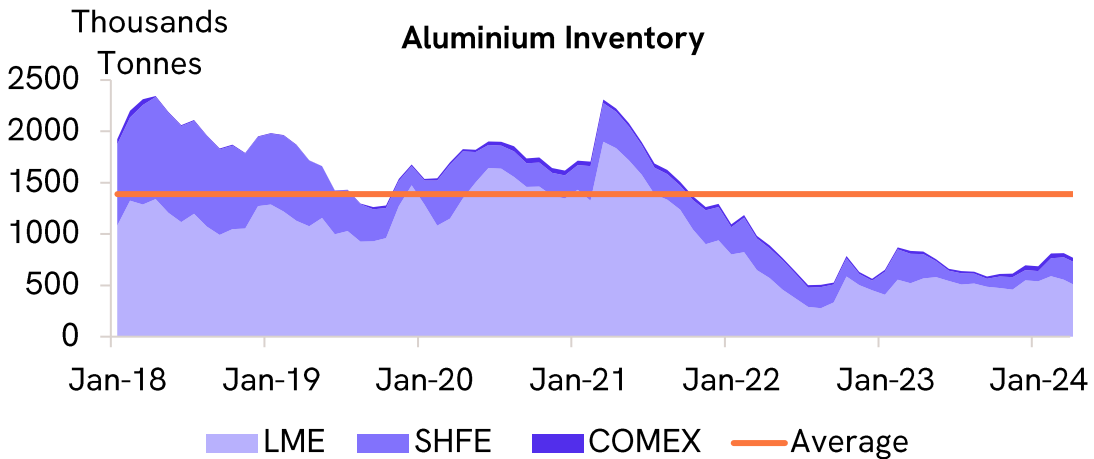
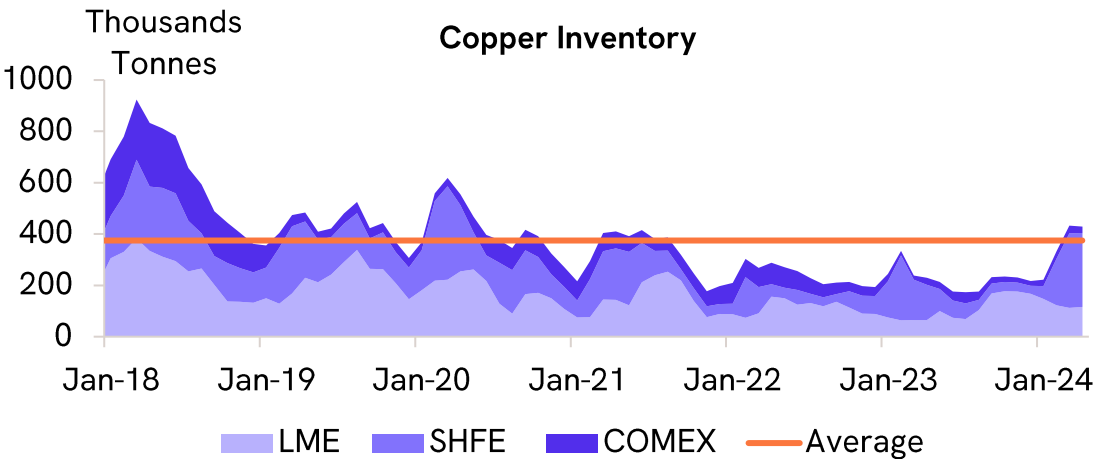
LME has banned trading/storage of Russian metal produced after 13th April 2024

The US and UK have also banned imports of Russian metals

These restrictions are likely to have only a short-term impact on metal prices

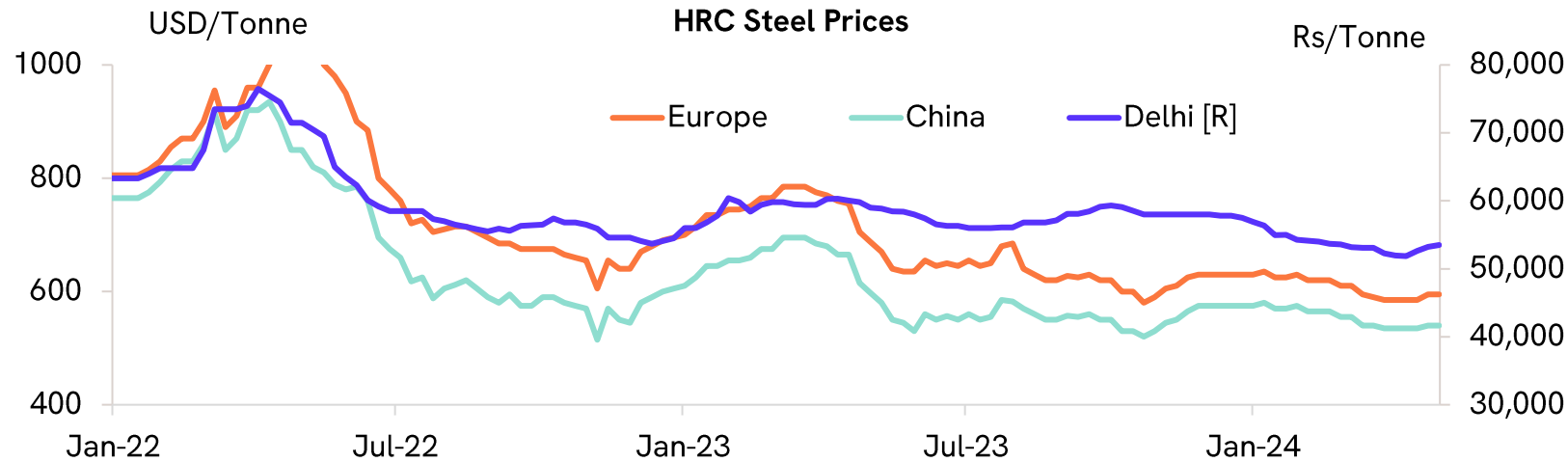
Commodity exchange inventories are lower than the historical levels

However, inventory levels have been recovering over the past few months



Steel prices have remained subdued, in contrast to non-ferrous metals

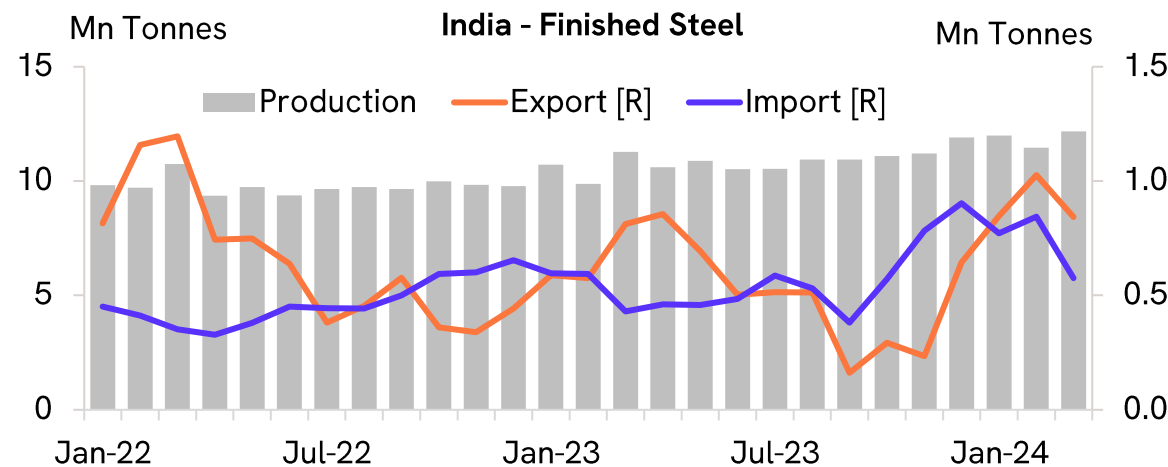
A steady rise in Chinese exports, amid weaker domestic demand, keeps global steel prices subdued



Global steel prices have remained subdued due to a steady rise in Chinese exports

China's domestic demand remains weak due to the sluggish real estate sector

India's domestic production has also witnessed steady growth, accompanied by a simultaneous rise in exports and imports over the past few months

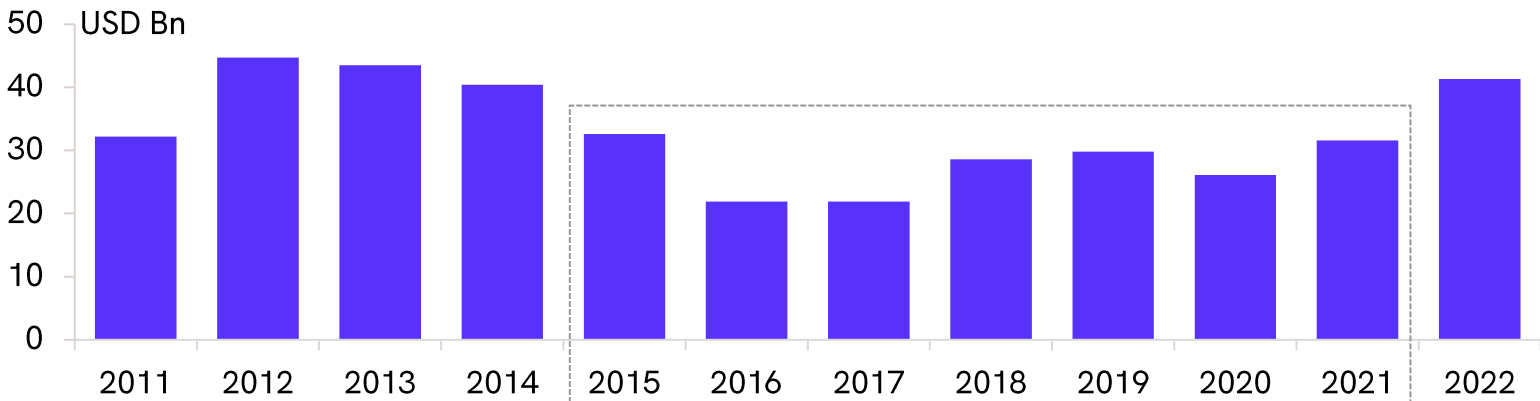


Source: IIFL- Institutional Equity Research, 360 ONE Asset Research

There has been underinvestment in mining over the past few years

Concurrently, there has been a rise in clean energy investment, which typically requires significant metals/minerals resources

Capital Expenditure on Non-ferrous Metal Production by 20 Major Mining Companies

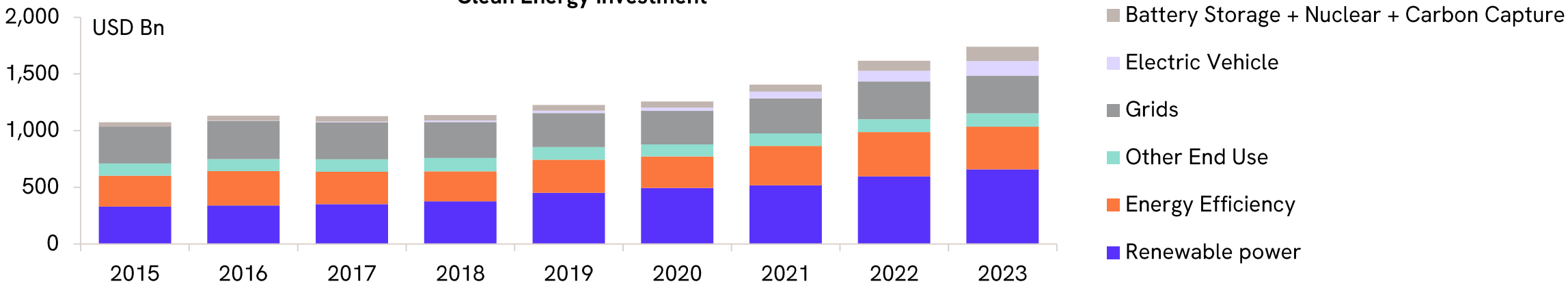


In recent years, the mining sector has experienced underinvestment

At the same time, there has been a notable surge in demand for metals and minerals due to increased investments in clean energy technologies

Consequently, the expected supply-demand imbalance is likely to drive up metal prices

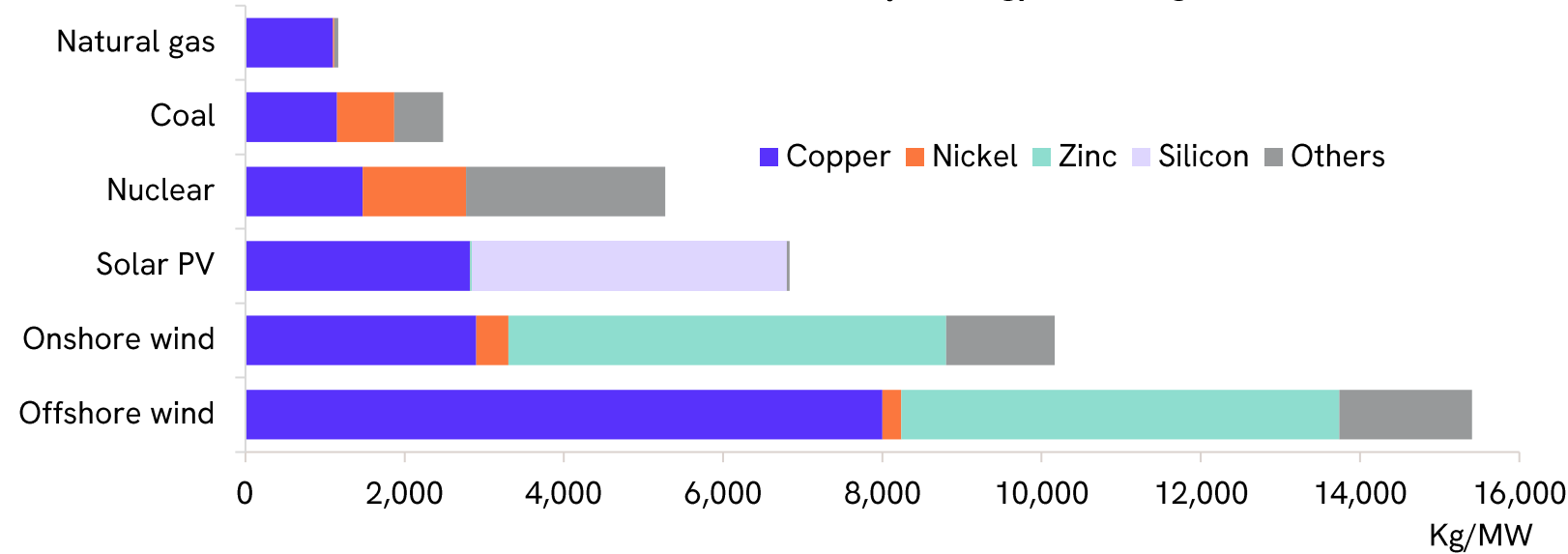
Clean Energy Investment



Clean energy transition to boost the demand for metals/minerals

Solar power plants, wind farms and electric vehicles require more minerals than their fossil fuel-based counterparts

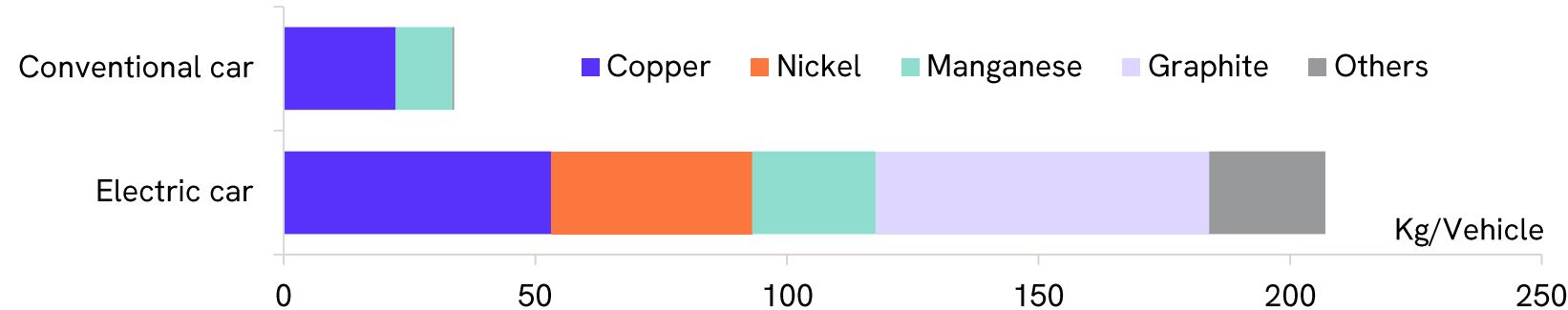
Minerals Used in Major Energy Technologies



An onshore wind plant requires four times more mineral resources than a thermal power plant

An offshore wind plant requires six times more mineral resources

Minerals Used in Electric Cars Vs Conventional Cars



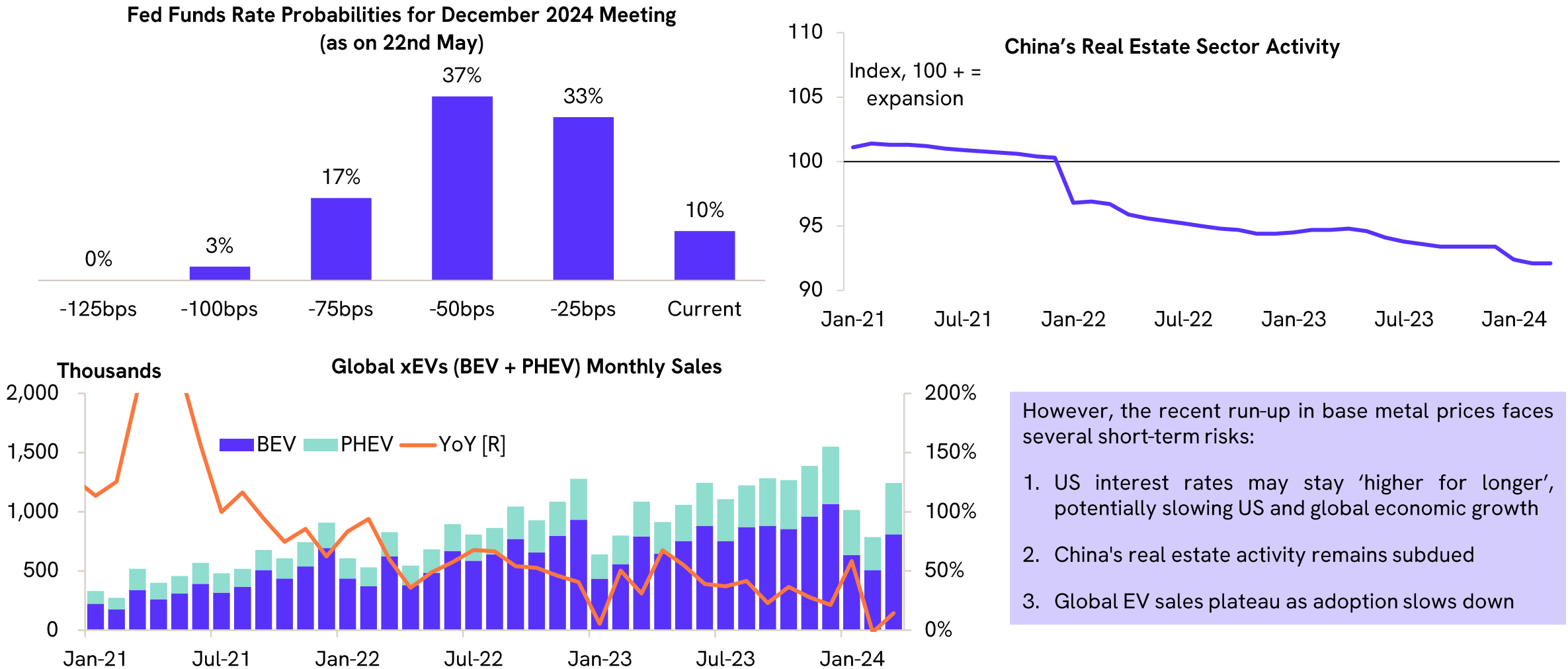
A typical electric car requires six times the mineral inputs of a conventional car

Source: IEA, 360 ONE Asset Research

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Short-term risks: higher interest rates, weak China RE and EV slowdown

Metal prices could correct in the near term if the global economy slows as central banks keep rates higher for longer



Source: CME FedWatch Tool, Bernstein Research (EV data), World Bank Commodity Markets Outlook - April 2024, 360 ONE Asset Research

Note: BEV - Battery Electric Vehicles, PHEV - Plug-In Hybrid Electric Vehicles

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