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'Make in India' to create new opportunities for energy and commodity sectors, despite challenges - S&P Global Platts

LONDON and NEW DELHI, April 20, 2017 /PRNewswire/ -- The sweeping reforms introduced by India's National Democratic Alliance government since coming to power have infused momentum into India's manufacturing sector. This will trigger massive requirements for oil, gas and other resources according to a new S&P Global Platts special report: "'Make in India' A new window of opportunity for commodities". A series of new projects have been announced and implemented, helping to drive up demand for industrial resources. This is expected to set the stage for sustainable long-term economic growth and create jobs for the millions of young people joining the workforce. There are already signs of success.

"To secure long-term energy and resource needs, India will need partners, it will need reliable supply chains and it will need foreign investment, if it is to grasp the opportunity that awaits", said **Sambit Mohanty, Lead Author of the report and Senior Editor-Asia Pacific at S&P Global Platts**.

"There are indeed reasons to remain optimistic about the Indian manufacturing growth story. The signs are visible in demand for various commodities. But the final level of success, and thus the upturn in demand for commodities, will ultimately depend on the continuation of the strong government policy initiatives that have been launched and implemented so far by the government,'" **Mohanty added**.

According to the Platts report, the country's demand for a variety of energy and non-energy commodities is forecast to outstrip strong GDP growth.

- **Petroleum**: India's crude oil demand is expected to rise by just over 7% in 2017 and at a Compound Average Annual Growth (CAGR) rate of 5% between 2015-2020 to 5.2 million b/d. Oil products demand is expected to grow annually by 7-9% over the next 5-10 years. Security of energy supply will remain a critical issue.
- **Natural Gas**: Gas demand is forecast to rise at a CAGR of 4% to 183 MMcm/d by 2021. Utilization of LNG terminal capacity is expected to grow from around the current 16 million mt to 30 mt/year by 2022.
- **Thermal Coal**: A rapid expansion in domestic production has seen Indian thermal coal imports peak. Targets for boosting output remain ambitious, but are likely to be sufficiently successful to further reduce the country's dependence on imported coal. India's coal-for-power generation expansion may start to peter out after 2022, potentially leaving some assets stranded in a 10-15 year time frame.
- **Petrochemicals**: Already the third-largest polymer market in the world, demand is growing at 10% a year, a growth rate expected to be sustained over the next decade. Combined polyethylene and polypropylene demand is expected to rise to 21.5 million mt by 2026 from the current 9.6 million mt. Polyolefins consumption is forecast to grow from around 6 kg/person per year to 15 kg/ person per year by 2026.
- **Steel**: Short term steel demand is forecast to grow at 4.5-5.5%, accelerating to 6.0-6.5% CAGR through 2020-21, driven by the steel-intensive railway and urban infrastructure sectors. While India is already self-sufficient in commercial grade steel, deficits are expected in high value-added steel.
- **Power**: The national system is moving into surplus. The country is experiencing a boom in renewable energy. However, industrial consumers are paying high tariffs to subsidize rural constituents, while the financial position and lack of cost recovery of state-level distribution companies represents a major weakness affecting industrial competitiveness. Nonetheless, power demand is forecast to surge 44% from 2016 levels by 2020.

Platts report notes that, there is little prospect that domestic production of many primary and secondary commodities will keep pace with demand growth. Import gaps are a certainty. The demand potential has already led major international companies, such as Shell, BP, Rosneft, Trafigura and Saudi Aramco to either consider expansion or explore joint ventures opportunities to establish presence in the country.

Dharmakirti Joshi, Chief Economist, CRISIL explains, "Unlike the sharp recovery seen after the global financial crisis of 2008, the current one has not only been gradual, but more sustainable. That's because the growth we are seeing is not driven by monetary and fiscal steroids." To achieve 'Make in India', "growth must be based on both the domestic market, which will require a broader distribution of income, and a more competitive economy that allows Indian manufacturers to expand their presence in foreign markets."

S&P Global Ratings remains comfortable forecasting an 8 percent annual GDP growth forecast for India over the next few years.

Key analysis and forecasts to the Platts report were contributed by CRISIL Research, PIRA Energy Group, S&P Global Ratings and Platts Analytics, all part of the S&P Global group.

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