Back to business, slowly
From high-end cars and steel to power and cement, demand is up

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On Tuesday, Škoda Auto will launch three new models, but the show will not happen in a five-star hotel. It will be livestreamed with the company’s boss in Prague in attendance—a first for Volkswagen India Group.

New models in the middle of a Covid-19 recession?

“Given the right products, we believe that enhancements to people’s lifestyle will overcome current negative sentiments,” said brand director Zac Hollis.

It’s back to business, but with a new twist. Volkswagen Group, of which Škoda is a part, has garnered over 300 bookings across its companies in May already (from zero in April), and the number is expected to go up after the Škoda launch. Most of its bookings are for cars with 10 lakh or above price tags.

Of course, 300 bookings are only 9-10 per cent of its normal monthly booking figures. The situation is far from business-as-usual. Sales are nowhere near last year’s levels and no one is counting projected growth for the year.

Yet, compared to the disaster of the previous month, broad swaths of the industry are seeing a sign of slow uptake in demand in May as lockdown is slowly relaxed.

Rajiv Bajaj, managing director (MD), Bajaj Auto, said after no bookings in April, the company had 20 per cent of the usual May bookings.

At Maruti Suzuki, despite the challenges of scaling up production and with limited labour, the company has got bookings for over 5,000 vehicles as of May 13.

Cement, an industry closely linked with construction and infrastructure, is showing an upturn. Said Cement Manufacturers Association in India President Mahendra Singh: “In April, as cement units started opening up, demand was around 15 per cent of what is normal for the month.”

Sources: Credit Suisse, Industry
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However, with road construction speeding up, rural infrastructure work starting, and pent-up demand from those who had to abruptly stop construction, we expect demand to hit 60 per cent of our projections for May.

Singh expects that with migrant labour returning to the villages, rural infrastructure projects will kick in, especially in the East and also because of reconstruction due to Cyclone Amphan. Metro projects will also open up further. His projection is that June demand will reach 70 per cent of normal demand for the month.

In steel, too, domestic demand is picking up. “For us, domestic constitutes 70 per cent of sales, with the rest from exports. That scenario got reversed in April, but now things have improved and we have some orders,” said R. Sharma, MD, Jindal Steel & Power, who expects domestic sales in June to hit 80 per cent of total sales.

Consumers also seem to be spending against supply normalising. In retail, Avenue Supermarts, which runs the DMart chain of stores, says in April its revenue growth declined 45 per cent. But in the first half of May, its revenue has increased 17 per cent. “Supply chains have improved, as manufacturers resumed operations and transport of goods was allowed,” said Avenue Supermarts MD and Chief Executive Officer Neville Noronha.

Nestlé India — an essential commodities supplier — did not stop business during the lockdown, but manufacturing came to a standstill. Chairman and MD Suresh Narayanan said production is now back to 70 per cent of normal levels.

“We are urging the authorities to raise the limit to at least 75 per cent. But, owing to the lockdown, our e-commerce business saw 90 per cent increase and its share of the total business has doubled to 3 per cent of revenue,” said Narayanan.

The soft drinks industry, dominated by Coca and PepsiCo, says if it pegs its volumes to last-year levels, it was able to reach 25 per cent of its volumes year-on-year (YoY) in April. That figure has now risen to 60 per cent.

Mobile phone demand is fuelled by pent-up demand and e-commerce players being allowed to sell non-essential goods. Some stores are also opening, prompting optimism in Hari Om Rai, chairman of Lava International.

“For May, we expect to end up at 80 per cent of our sales in the pre-lockdown months. There is pent-up demand for new phones. We are hopeful we will get to our regular numbers by June,” said Rai.

Even mobile services companies are seeing new customers coming back for a fresh connection.

Even mobile services companies are seeing new customers coming back for a fresh connection. After all, telcos see about 4 million additions every month, the bulk of them with Reliance Jio. Sources close to the company say they have already hit 70 per cent of their normal new SIM business in May.

Rajan S Mathews, director general of the Cellular Operators Association of India, said: “In April, new customer acquisition was not more than 10 per cent of the normal trend. But it is expected to be 50 per cent in May. The other good thing is that the number of recharges bought is about 85 per cent of pre-lockdown run rates”.

Other trends indicate some revival at a broader economic level, though it is far from uniform across states.

For instance, a Credit Suisse report says power demand was 27 per cent down YoY in mid-April, but is now down only 14 per cent.

IDFC notes that in Gujarat and Maharashtra, compared with the March 22 figure, peak electricity has increased by barely 1,000 units, as of last week.

Power demand has recovered sharply in May and is now 14-15 per cent lower than last year. This is mostly owing to the summer season setting in and domestic power demand due to increased use of air conditioners, refrigerators, etc.

The peak demand is currently at 157 gigawatt (Gw) — close to what it was pre-Covid. IDFC Securities observed in a note that if it was not for the super cyclone, the demand would have been close to 160-162 Gw — the normal demand in March before lockdown started.

“We reconcile demand in the West has been lower by 3-4 Gw due to Cyclone Amphan. Bengal demand has recovered from 2.9 Gw to 4.8 Gw,” it said in a note.

Yet, as many as 10.8 million e-way bills were generated in May, much higher than 8.6 million in April. This is nowhere near the 40.6 million e-way bills in March, but it is still seen as a cautious marker of revival.

“The increase in e-way bills in May is in sync with increased economic traction. With the government adopting a lenient approach on the movement of essential goods and some states opening up commercial units, the trend is along anticipated lines,” said Harpreet Singh, partner, KPMG.

Additional reporting by Arnab Datta & Shreyas Jai in New Delhi