

Gleeds' India Bulletin
Material Price Escalation
 (Q2 2021)

The second wave of COVID-19 cases were seen rising in India since February 2021 which lead to a massive disruption in the economic recovery. The volatile global market impacted the Indian supply chain, resulting in an increase in material prices, primarily driven by steel, copper, aluminium, and others. This is certainly catapulting construction costs beyond reach across the sectors. The Construction sector is already facing higher costs towards COVID-19 protection measures at site such as labour accommodation, health and hygiene amongst others. The spike in commodity pricing, increased costs of transportation and logistics, along with higher preliminary and overhead costs is leading to increase in the pricing. The trade imbalance and material non availability in U.S, U.K has led to price increase in other global markets as well. The cost of power, fuel and freight has also led to the increase. Domestic flat steel prices have risen due to strong end-use demand and bullish trends in the global market. Prices are likely to remain high in the short term due to high export realisations and a low risk of imports.

However, prices could face temporary headwinds due to the predicted oncoming of the third wave of the pandemic.

As the world's largest construction market, China has been the primary driver of global metal markets for more than a decade. Metal prices are being pushed higher by the recovery in China and the United States, and analysts expect the commodities bull run to continue. Globally, demand is outpacing supply because of economic recovery with improving manufacturing and better demand forecast. Real estate in India is likely to bear the brunt of the commodity inflation as the metal price increases following on from the heavy investment infrastructure development.

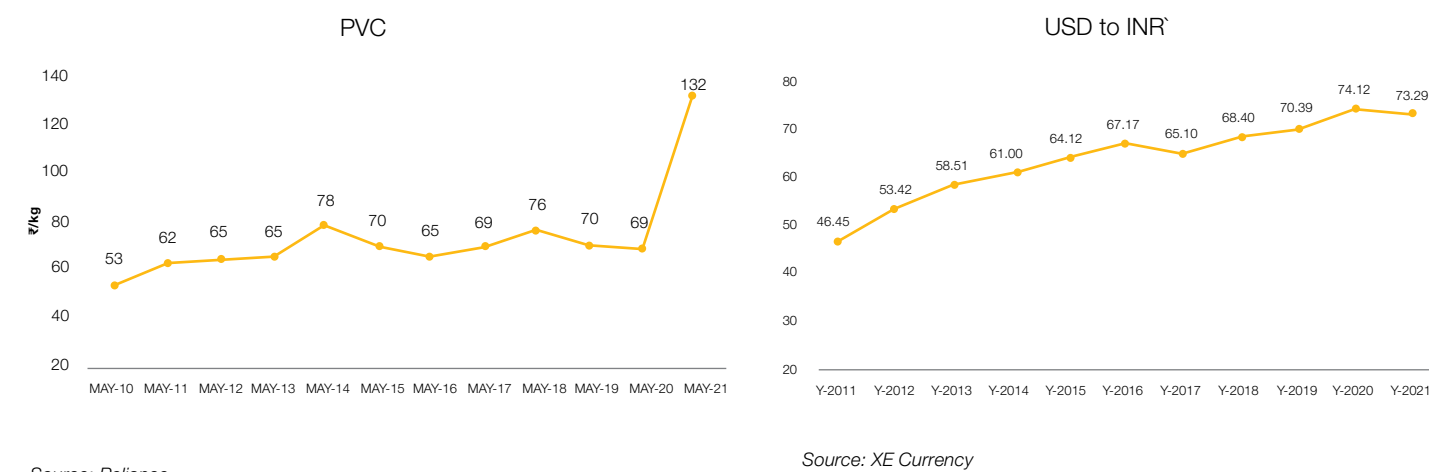
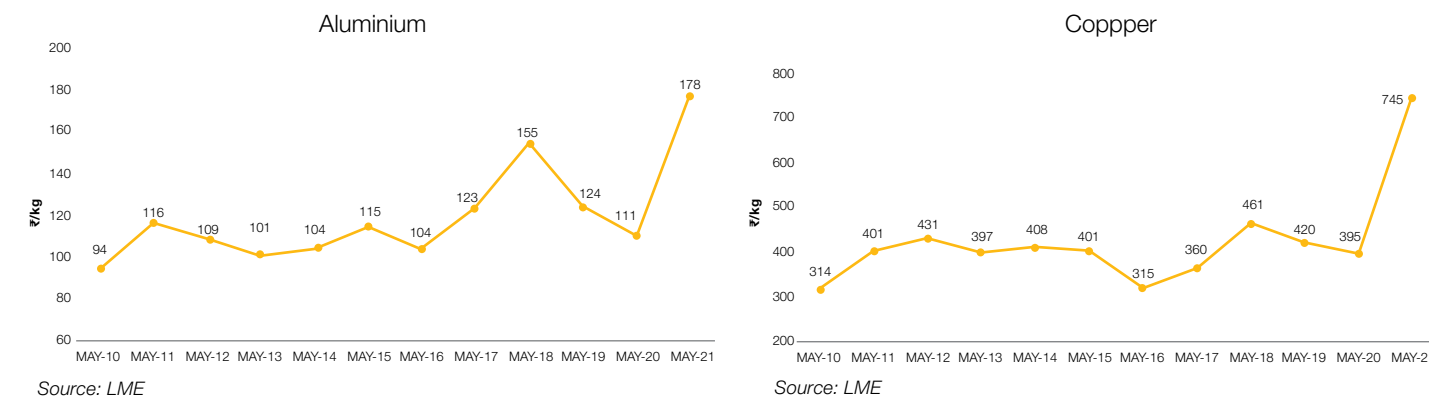
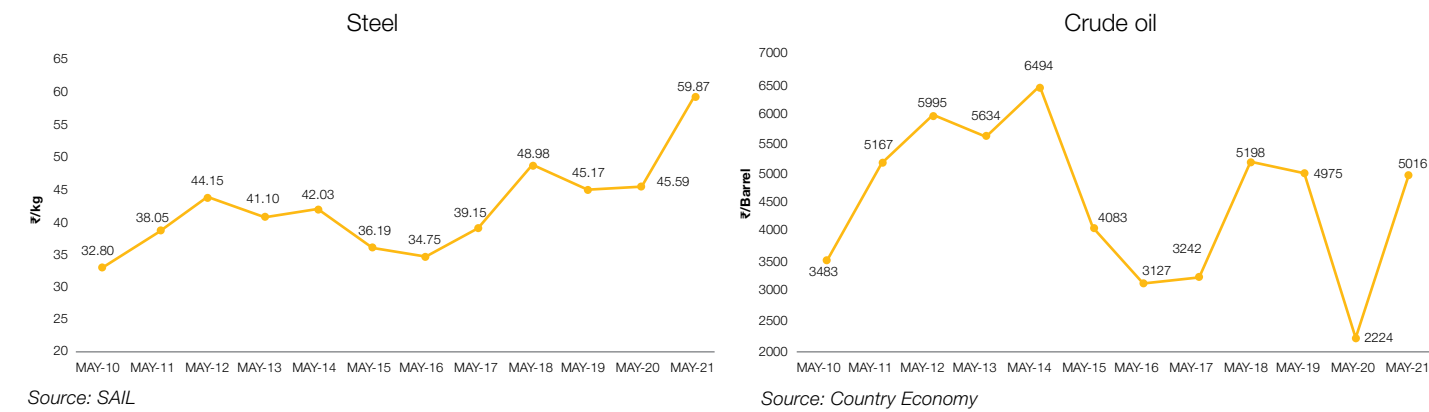
The global crude oil market is witnessing a sharp spurt in demand as the overall global economy has begun to pick up pace after vaccination drives across advanced economies, disruption to Libyan exports, expectations of a drop in U.S Crude inventories and rising virus cases in Asia limited gains and prices continue to soar, crippling the construction progress.

Table 1: Price escalation – Major construction material

Description	Price	% increase from last quarter (Q1 2021)	Price influencers
Cement (Mumbai)	Rs 290 / 50kg bag	4% - 6%	Increase in demand and variable input cost for the quarter was high.
Primary Steel (Mumbai)	Rs 58,000 to 60,000 per MT	Circa 9%	The price reached an all-time high at the start of the quarter, then fell in March before rising again in May 2021.
Plastics (PVC) (Mumbai)	Rs 122 / Kg	7%	Production has not been fully resumed, but there has been an increase in exports, a deficit for domestic demand, and supply chain management. Increase in crude, has contributed to increase in prices, which is critical in the production of plastic.
Aluminium	\$ 2443 / ton Rs 178 / kg	20%	Demand has been very strong in China and inventories are coming down. Producers in China are struggling to catch up with demand uptick.
Copper	\$ 9799 / ton Rs 717 / kg	26%	For the first time in a decade copper is notching super high as a result of widening supply, demand deficits and low inventories in rapidly growing industrial sectors such as electric vehicle batteries and semi-conductor wiring.
Crude Oil	\$ 71.74 / Barrel Rs 5250 / Barrel	39%	Disruption to Libyan exports and expectations of a drop in U.S crude inventories.
Petrol (Base - Mumbai)	Rs 103.69 / litre	24%	Crude oil prices have risen by over 50% and key oil producing countries has cut its daily output.
Diesel (Base - Mumbai)	Rs 95.77 / litre	30%	

Sources: Gleeds internal data base, SAIL, LME, Country economy, Media reports. All prices as on June 20th, 2021.

Graph 1: Major material prices and USD price trend

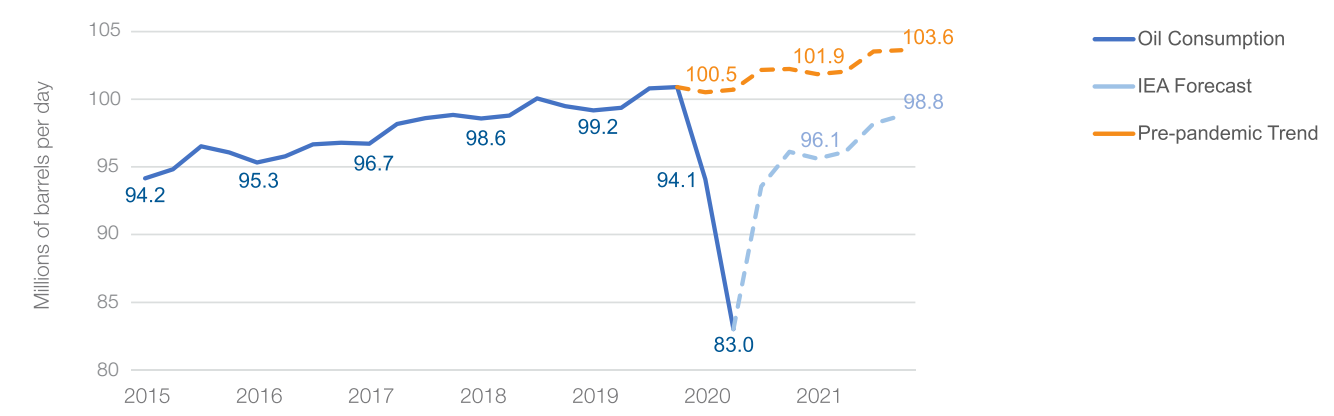


Source: Reliance
 Note: All prices exclude taxes

For any further queries please contact **Gleeds India Insight and Analytics** at insights@gleeds.in

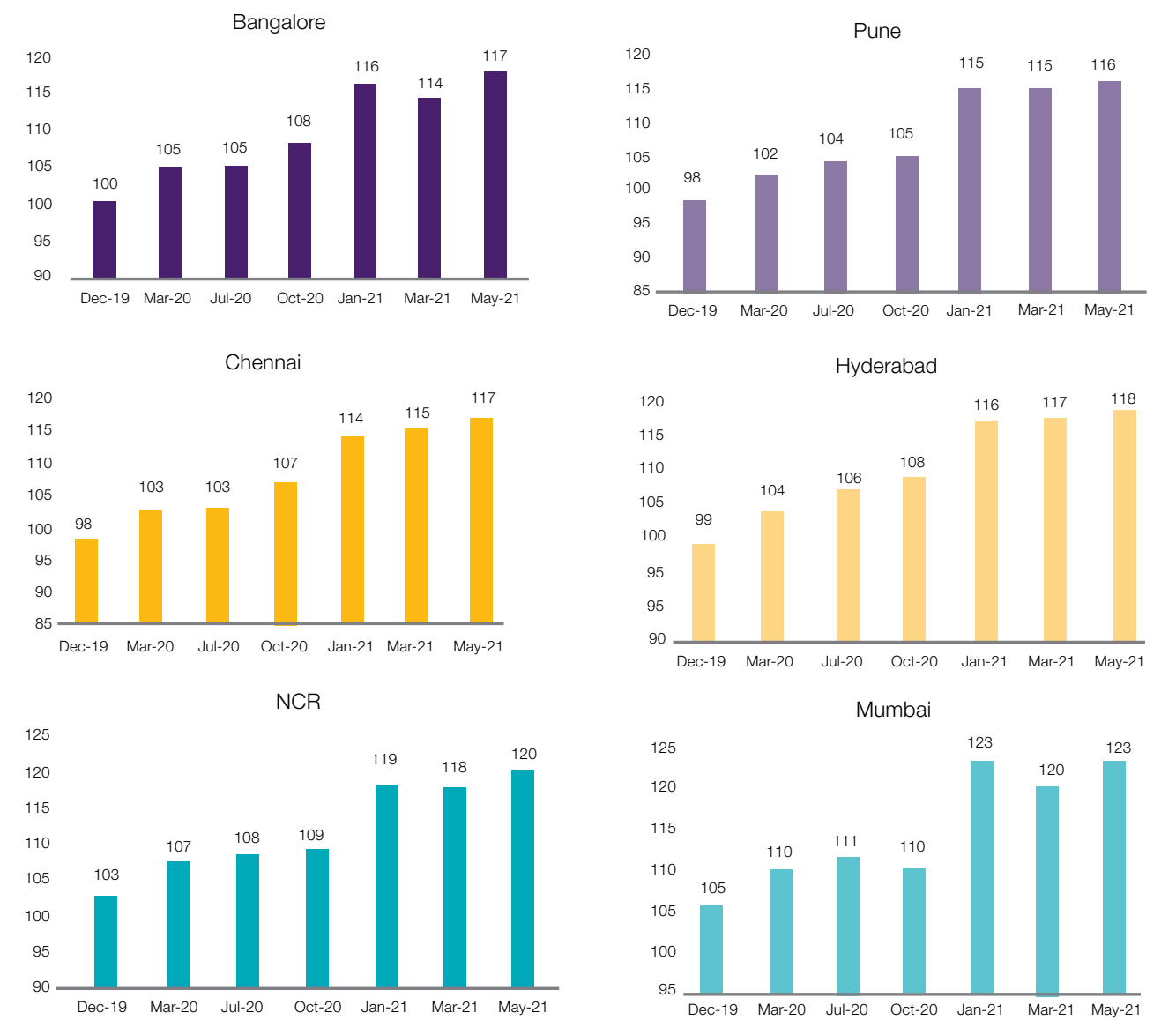
Legal Disclaimer: This paper was prepared by Gleeds India Consulting (I) Pvt. Ltd. and is for general information only. Neither Gleeds nor any of their partners, directors, employees or other persons acting on their behalf makes any warranty, express or implied and assumes any liability with respect to the information or methods contained in this paper to any person or party. This document is subject to copyright and must not be reproduced.

Graph 2: Historic and future trend graph – Oil



Sources: IEA March 2021

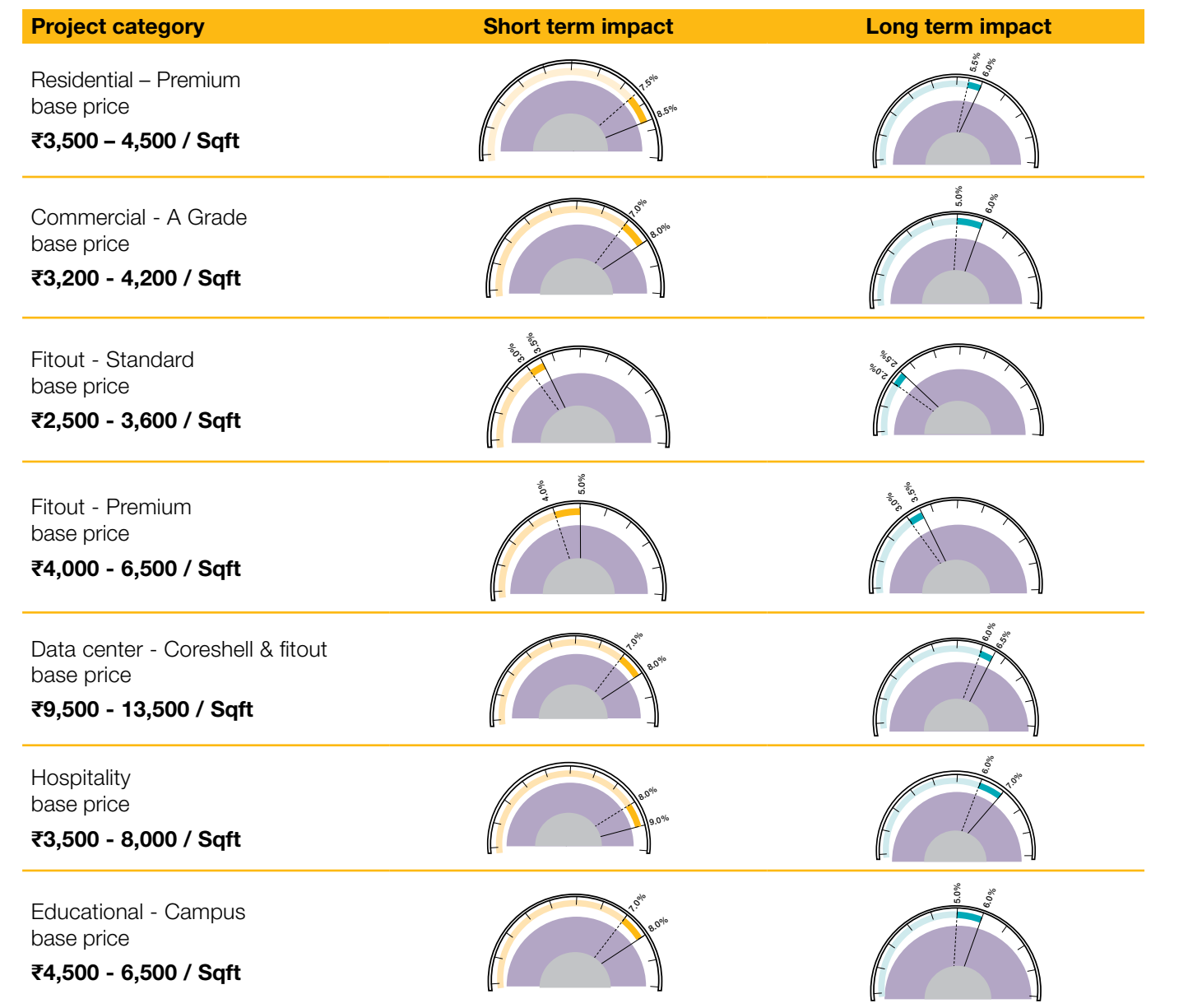
Graph 3: Gleeds construction cost index



The cost trend has been impacted based on material, labour trends, prelims, COVID-19 impacts on various sectors and fluctuation in the market due to huge demand and shortage of material supply.

Cost Impact on construction costs – Sector wise

The impact of short and long-term costs on construction is illustrated for each project category on the base cost. The impact of market volatility is dependent on a number of factors, however a range is provided. While there are numerous cost drivers that may impact the project, to note that the data being referred to is an average cost range based on the Gleeds' database. The costs are only for hard construction expenditures and do not include any taxes or soft costs. The cost ranges are normalized as on June 15, 2021. Any site abnormalities, force majeure situations, FF&E charges for hotels, and client-supplied data centre equipment are not included in the costs.



- Short term cost influencers:**
- Material price escalation (due to supply chain distortion, conservative production)
 - Inflated labour rate based on un-availability.
 - Higher transportation and logistics costs
 - Market uncertainty (global impact)
 - COVID-19 measures (HSE and productivity)
- Long term cost influencers:**
- Material prices subsidised (reduced upon market stability)
 - COVID-19 Measures (HSE and productivity)
 - Higher labour rates (reduced upon market stability)
 - More stable supply chain
 - Forex (Foreign exchange)

Whilst the surge in prices continue pressuring the continuity of construction work progress, companies are now to rethink on strategies, look at alternative supply chains and investigate to gain a better insight on market dynamics, in the aim to mitigate price risks as far as possible.

Source: Gleeds internal data base