

gleeds

Gleeds' Quarterly Report

A Barometer for Indian Construction Costs

October 2020



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Summary of the Indian Economic Outlook

GLOBAL

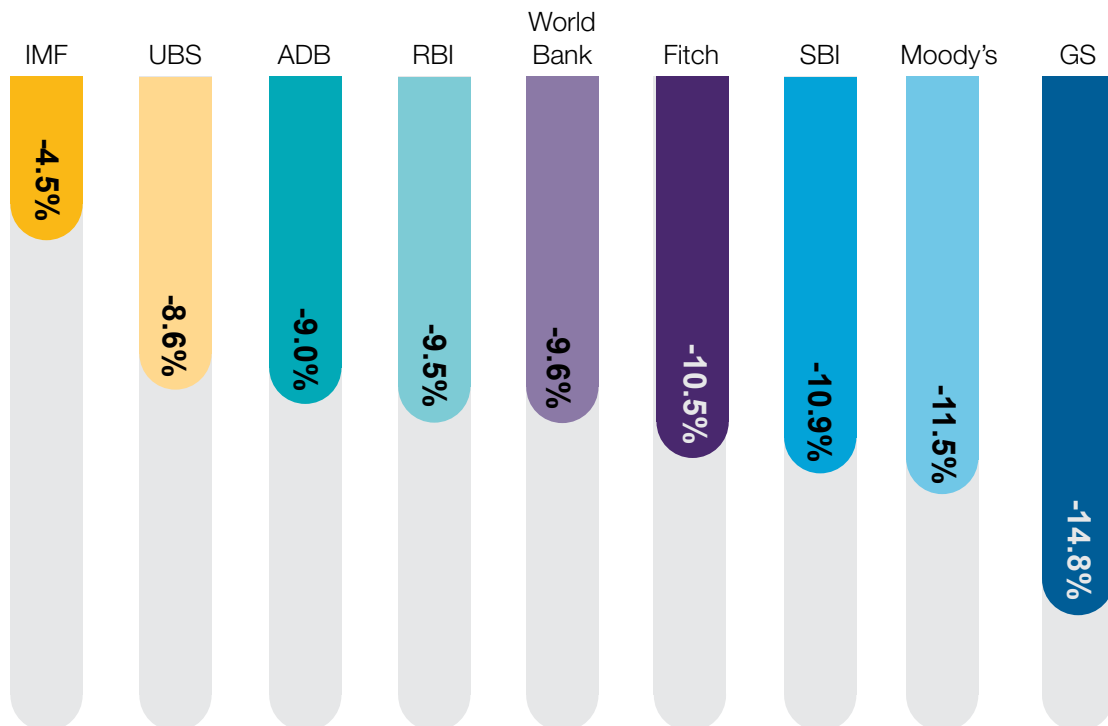
- Circa 35 million cases worldwide as on October 1st 2020, with a recovery rate of 75.25%
- IMF have predicted that the severity of the economy is far greater than the Great Depression in 1929-1933
- The global economic recovery has been predicted in various forms with L, V, U, W shapes depending on the country
- Actual recovery is likely to only manifest once a vaccine is found

INDIA

- Active cases pan India 6 million plus. Recovery rate at 84.13%
- Indian economy recovery is gradual since the lift of lockdown regulations
- The Indian economy contraction by 23.9% in the first quarter of 2020 per the Government data, is by far the worst in about 4 decades
- Unemployment rate is 6.6% as on 4th October 2020, an improvement from 23.4% in April 2020
- Global data, a leading analyst, predicts that the construction industry will shrink to about 14.9% in 2020 and will then rebound and grow to about 11.6% in 2021, as a result of pent up demand

Gross Domestic Product (GDP)

The GDP contracted to circa 24% in the quarter of April June 2020 as per the Government data, following which the global economists cut back their predictions for the year 2020-2021 as noted in the graph below:



Source: Media reports, various



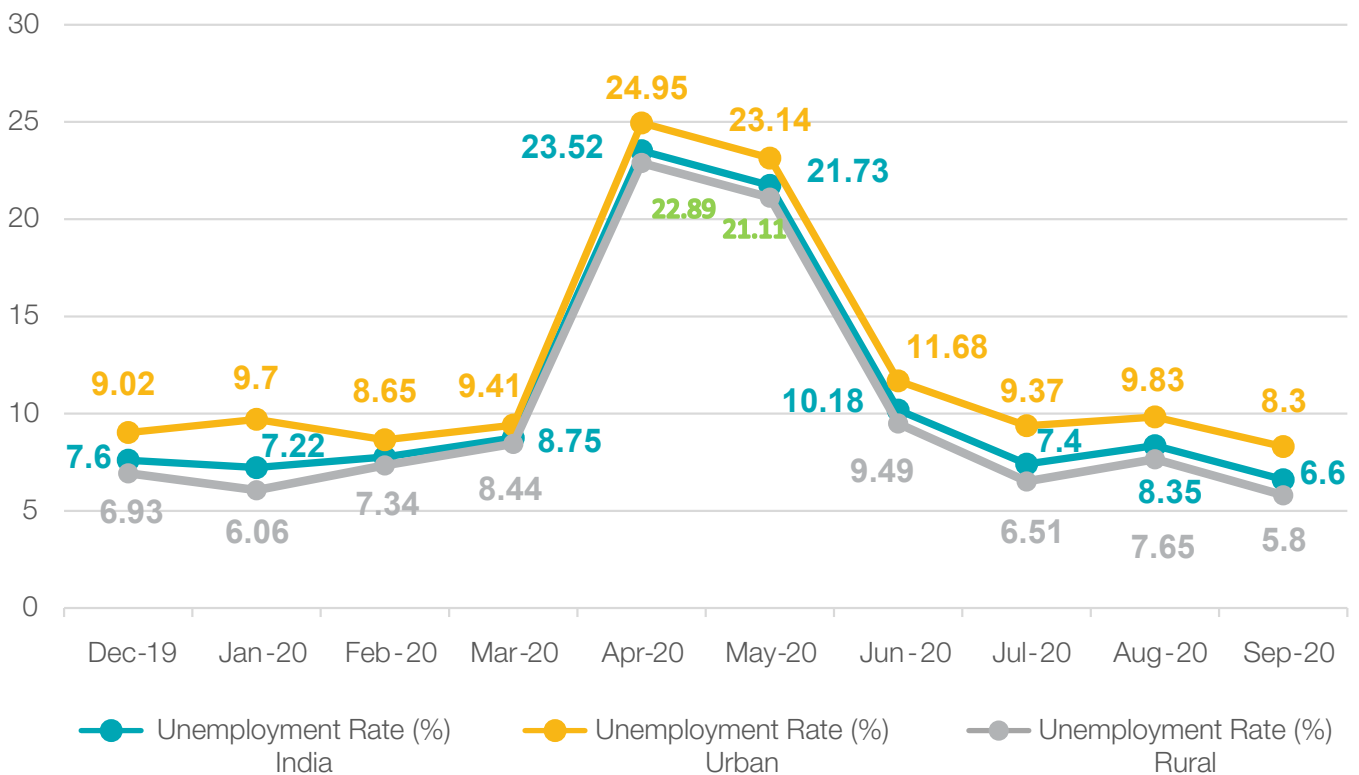
Unemployment

The rate of unemployment was as high as 23.4% in April-May 2020, after the announcement of the lockdown, the month of August 2020, showcased a dip to 8.35% a slight rise from July 2020.

Employment seems to have picked up drastically from, 18 million salaried jobs lost from April 2020 to 500,000 lost in July 2020. The present unemployment rate is at 6.6% in September 2020 as against 7.14% in September 2019.

It is imperative for employment to rise, to save the sinking economy, however, with the rise in cases, directly impacting

the health and well-being of the people, returning to an unsafe working environment is being met with hostility and doubt, especially by the migrant labour. Cutting corners to save on existing profits and a conservative approach to new projects are also contributing to this slow pick up in employment rate. The need to survive and work, is overpowering the fear of the consequences of contracting the virus and people are seen to be returning to work, whether it be industries or just workforce labour. This is gradual and normalisation is expected at least by the first half of 2021.



Source: Centre for Monitoring Indian Economy Pvt. Ltd. (CMIE)

Inflation

Retail inflation that came at about 6.7% in August has surpassed the Reserve Bank of India's inflation rate of 4% +/- 2%. The projected rate of inflation for the year 2020

was estimated to be 3.34% by Statista, which now has been far exceeded with the month of August 2020 being 6.69%. Below is the 5 year trendline for inflation.



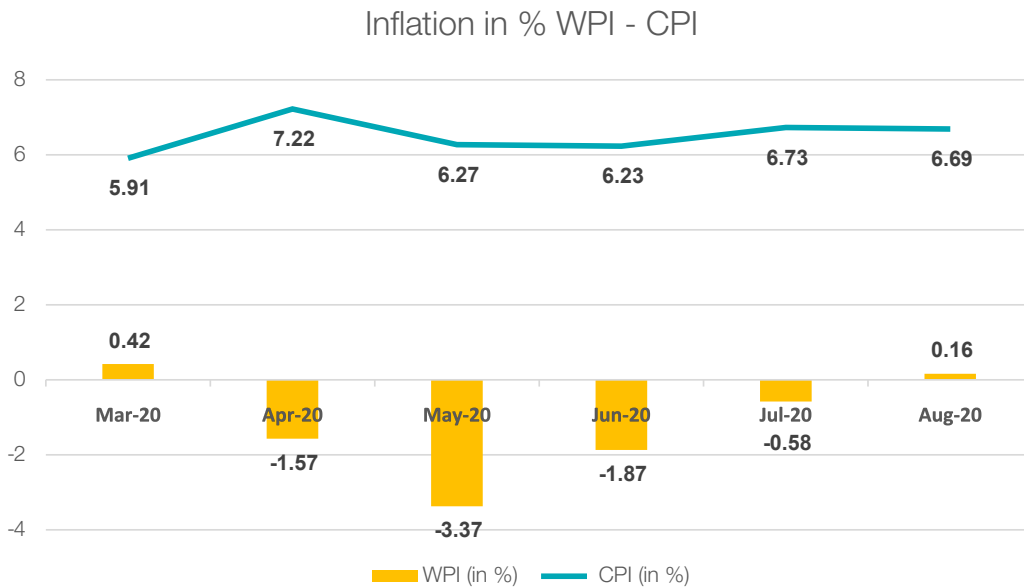
Source: Tradingeconomics | Ministry of Statistics and programme implementation (MOSPI)



WPI and CPI

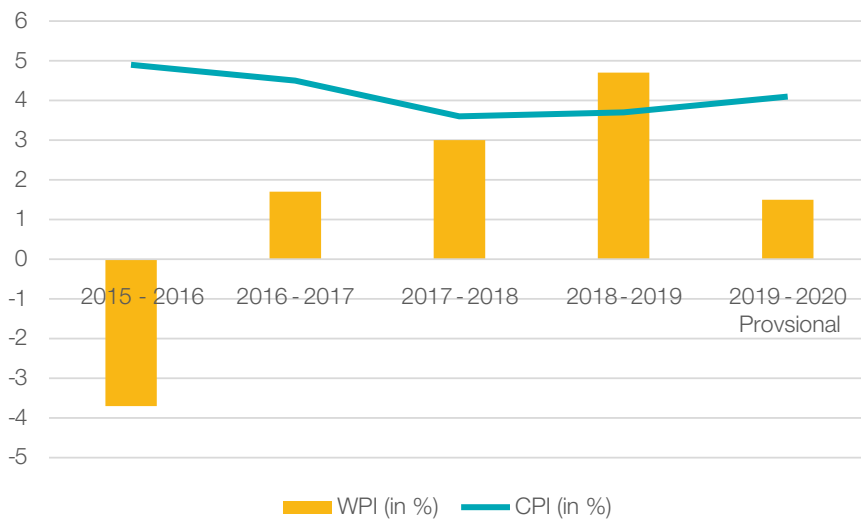
India's wholesale price index (WPI) for the month of August turned positive after a gap of four months. WPI inflation for August has turned positive to 0.16% as against a contraction in the past few months. Categories placed in the WPI index surged in prices from their year-ago level such as food products, oils, beverages, tobacco,

pharmaceuticals, cement, basic metals among others. Retail inflation measured on CPI basis which the RBI decides its monetary policy remains above the RBI's targeted levels, raising hopes that the central bank will maintain the status quo. Government data is reported to have shown a retail inflation of 6.69% in August 2020.



Source: The Ministry of Statistics and Programme Implementation

Historic WPI and CPI % from the Government data, with 2019-2020 as provisional.

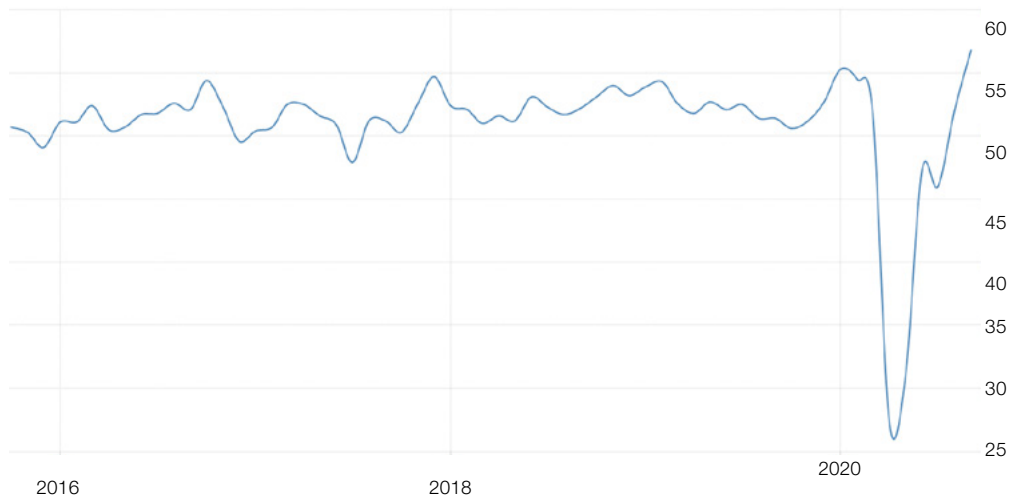


Source: India Budget Economic Survey Report, The Government of India, Ministry of Finance

Manufacturer's purchasing managers' index

India's manufacturing purchasing managers' index (PMI) rose to 56.8, the highest mark since January 2012, supported by accelerated increases in new orders and production, renewed expansions in export sales and input stocks as well as an improvement in business confidence.

Output prices rose for the first time in six months, reflecting an uptick in input costs. PMI services index also improved in August to 41.8 over 34.2 in July though it is still in the contractionary zone. The lowest recorded this year is 27.4.

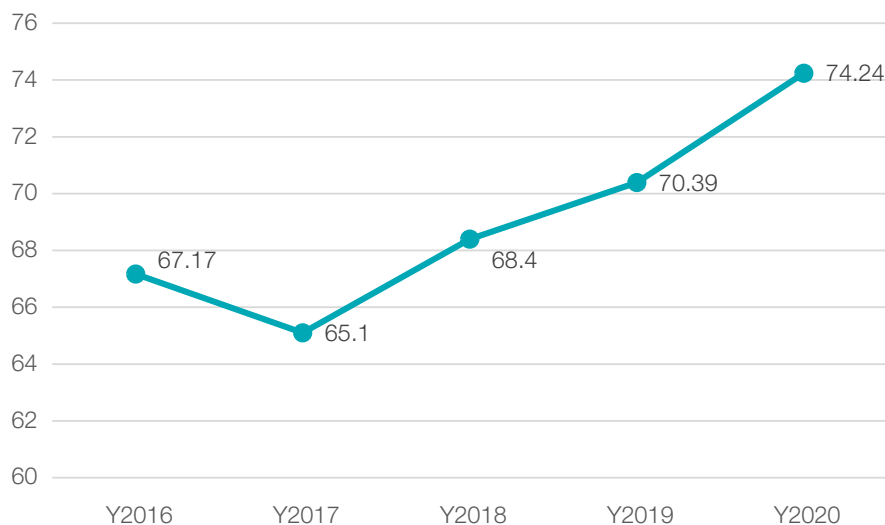


Source: Tradingeconomics, IHS Markit

USD to INR

The table below, shows a trendline graph of the Rupee against the US Dollar. The Rupee in April 2020 showed an all-time low of about 77 a Dollar, however it has been

resilient in the months to follow picking up in June 2020 and has averaged to circa 74 a dollar for the year 2020 thus far.

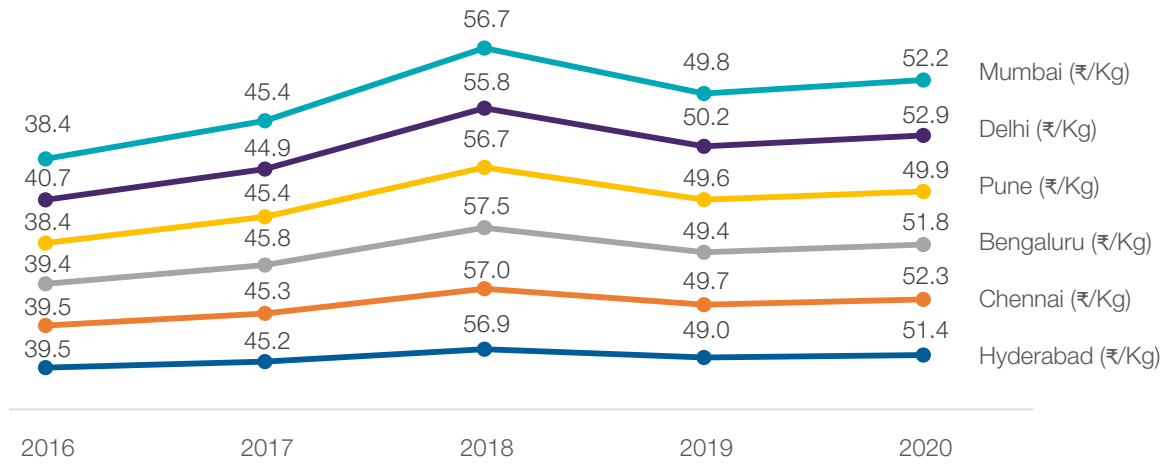


Source: XE Currency Charts as on the 30th of September 2020.

Key price trends

The price trends for the most used material in the industry are set to change as a consequence of the Covid-19 pandemic. Commonly used material price trends are demonstrated below:

Steel prices in major cities

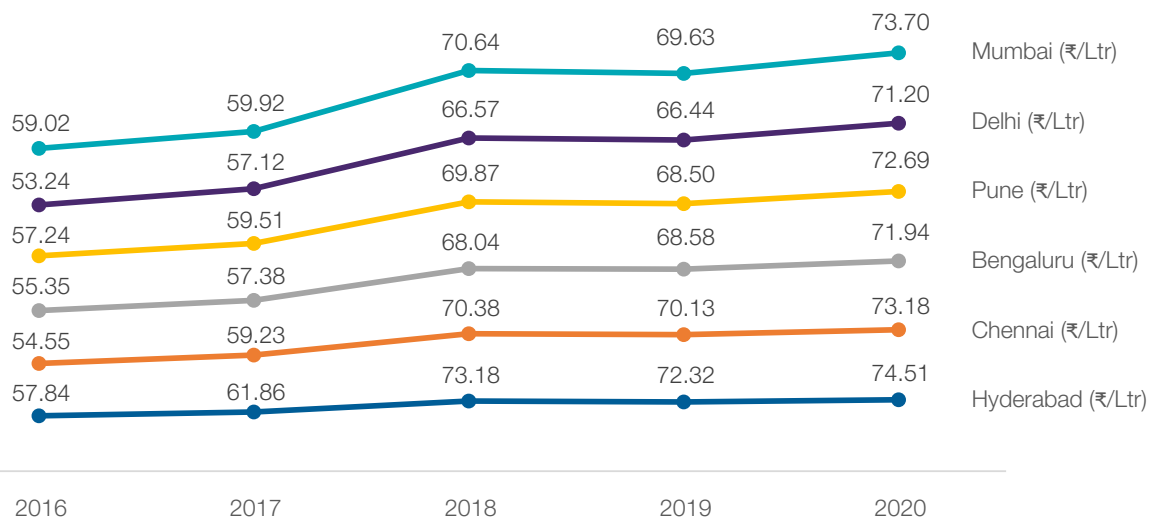


Sources: Sail. Note: All year prices are averaged and in INR, and Sail's last updated rates are in September 2020

All prices include GST.

Note: Created to demonstrate the trendlines only.

Diesel prices in major cities

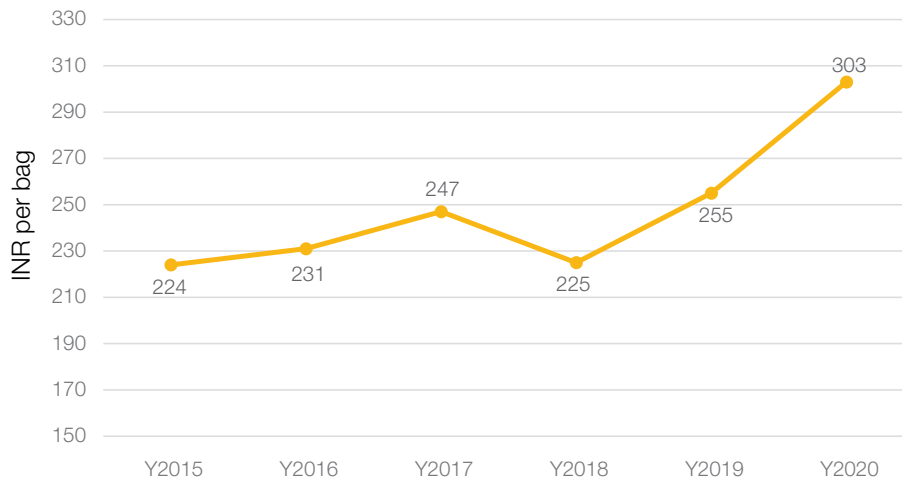


Source: My petrol price. Average price in INR per year and the year 2020 average price up until the 30th of September 2020 considered.

Note: Created to demonstrate the trendlines only.

Price trend indices for cement

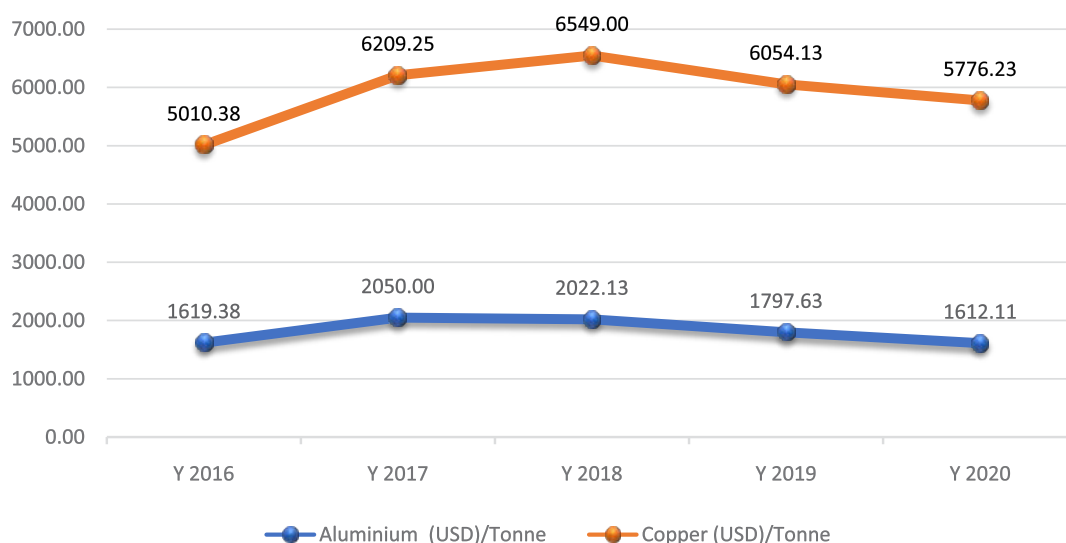
The below graph shows a price trend for cement prices in Mumbai. This year there has been a price fluctuation following on from the demand and the Covid-19 situation and the price of cement averaged to about 303per bag.



Source: Gleeds Internal Data (Mumbai). Prices are in INR and exclude GST. Average price till 30th September considered for 2020.

Aluminium and copper

To protect the local producers, the Indian Government is planning to develop policies to curb imports of aluminium and copper. This should cater to the existing demand which may bring down prices in the near future.



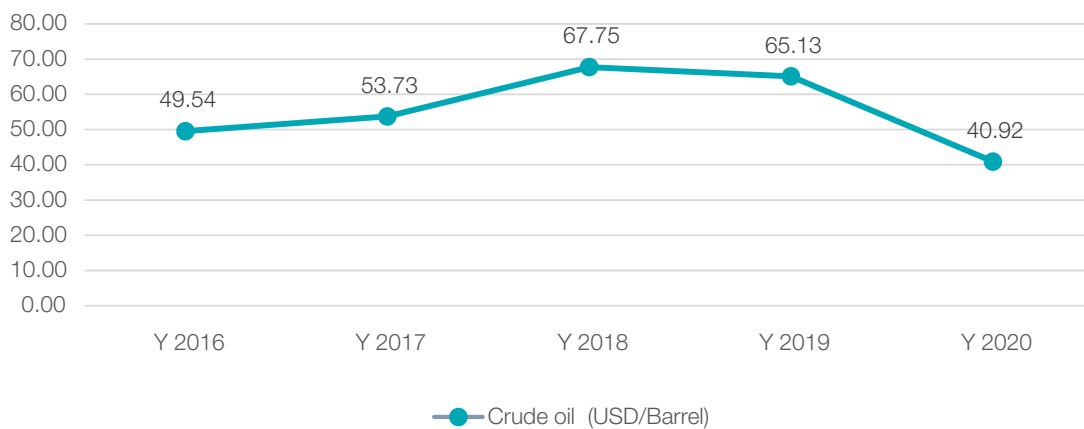
Source: London metal exchange

Prices noted are in USD and are averaged for the year. Averaged price until the 30th of September 2020 considered.

Crude oil

Crude oil had dipped considerably in mid-September to circa \$38 per barrel after it picked up in August which averaged to \$44 per barrel, the prices slowly picked up again towards the end of September to close at \$40.91 closer to the rate in June 2020 when the lockdown was being lifted. This value is much higher than the dip of \$18.28 in April 2020, during the lockdown. These price fluctuations seem to be a result of a strong dollar and

the oversupply with the 1/3rd cut in requirement with lock down, creating a significant oil price volatility with cascading geopolitical impacts. This has also resulted in India's crude oil and natural sourcing ability to improve, according to Minister for Petroleum and Natural Gas. India is looking to create strategic partnerships with oil producing countries.



Source: Country economy data.

Labour

The pandemic has affected the labour workforce in more ways than one. Whilst the strict lockdown, forced the labour-force to move back to their hometowns of several hundred kilometres by foot, the lack of work in rural areas for their skill set is bringing them back to the cities in search of work. Construction sites that came to a standstill part construction due to Government implemented restrictions of the past are now struggling to bring labour back to work, as they are still sceptical of their health and safety in the work site. Tier II cities are benefiting from this situation with the labour sentiment of staying closer to

home is more evident now. There is an increase in cost of labour, no doubt, with costs towards preliminary costs and maintenance of the labour camps, maintenance of health and hygiene, higher bonus offers, paying airfare for their travel to return to site and personal protection equipment, all accounting to the labour cost component in addition to the daily wages. It is to be noted that wages being paid on site is varied and bespoke based on the availability of labour and the immediate requirement of the project. These dynamics are likely to subsidise in the near future, depending on the finding of a vaccine.

25% to 50% labour were estimated to have returned to work on construction sites in the Q4 2020 as per the survey Gleeds' India conducted in August 2020.

Material rates

Material prices (noted in INR) in various cities:

Description	UoM	Mumbai	Delhi	Bengaluru
Cement				
Grade 43	INR/MT	6,900	6,900	6,000
Steel				
Reinforcement	INR/MT	39,800	41,000	39,000
Structural Steel	INR/MT	46,000	45,000	44,000
Clear Glass				
6mm	INR /Sqft	65-70	65-70	80-90
8mm	INR /Sqft	80-90	80-90	90-105
Stone				
Granite	INR/ Sqft	150-250	120-250	90-250
Marble	INR/ Sqft	220-500	220-500	180-500
Makrana	INR/ Sqft	250-1000	250-1000	250-1000
Kota	INR/ Sqft	40-50	30-40	40-50
Cuddappa	INR/ Sqft	20-25	20-25	15-25
Wood				
Salwood	INR/ cuft	1,750	1,650	1,400
Plywood 12mm thick	INR/ sqft	65-80	65-80	65-70
Paints				
Emulsion	INR /20 ltr	3,100-3,300	2900 - 3100	3100 - 3300
Metals				
Aluminium	INR/ Kg	150	145	150
Stainless steel	INR/ Kg	195	180	190
Plumbing				
GI pipes- 50mm to 100mm C class heavy	INR/mtr	337 to 767	320 to 729	355 to 807
uPVC- 32- 110 mm	INR/mtr	59 to 414	63 to 450	64 to 446
cPVC- 50 to 100 mm SDR 11	INR/mtr	647 to 3058	672 to 3180	660 to 3119
CI- 100 to 150 mm Single Socket	INR/mtr	649 to 1108	714 to 1742	778 to 1900

Source: As per Gleeds' database in the month of September 2020 unless noted otherwise. All prices exclude GST. All prices are supply prices and a guidance only. Transportation, and any other abnormalities are not included. All prices are a bulk wholesale price and might vary from site to site.

Material prices (noted in INR) in various cities:

Description	UoM	Hyderabad	Chennai	Pune
Cement				
Grade 43	INR/MT	6,900	6,500	6,100
Steel				
Reinforcement	INR/MT	39,000	39,500	35,169
Structural Steel	INR/MT	41,000	43,000	40,500
Clear Glass				
6mm	INR /Sqft	60-70	65-75	65-70
8mm	INR /Sqft	80-90	85-95	80-90
Stone				
Granite	INR/ Sqft	90-250	115-250	115-250
Marble	INR/ Sqft	175-500	150-500	180-500
Makrana	INR/ Sqft	250-1000	250-1000	250-1000
Kota	INR/ Sqft	40-50	35-45	30-40
Cuddappa	INR/ Sqft	15-25	20-25	15-25
Wood				
Salwood	INR/ cuft	1,100	1,350	1,350
Plywood 12mm thick	INR/ sqft	65-70	60-65	60-70
Paints				
Emulsion	INR /20 ltr	3200-3400	3300-3500	3200-3400
Metals				
Aluminium	INR/ Kg	160	145	150
Stainless steel	INR/ Kg	200	190	190
Plumbing				
GI pipes- 50mm to 100mm C class heavy	INR/mtr	355 to 807	355 to 807	337 to 767
uPVC- 32- 110 mm	INR/mtr	64 to 446	64 to 446	59 to 414
cPVC- 50 to 100 mm SDR 11	INR/mtr	660 to 3119	660 to 3119	647 to 3058
CI- 100 to 150 mm Single Socket	INR/mtr	778 to 1900	778 to 1900	649 to 1108

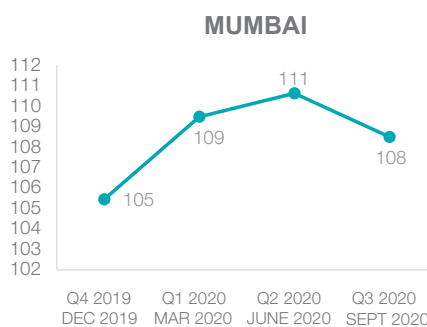
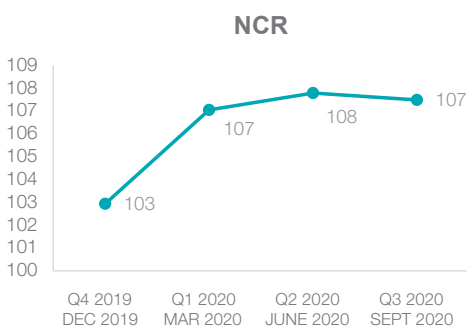
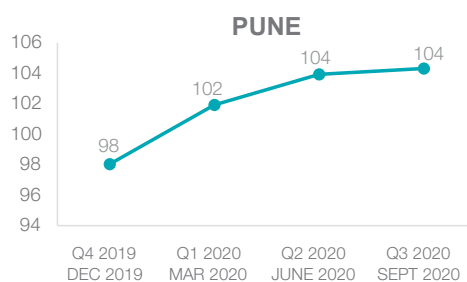
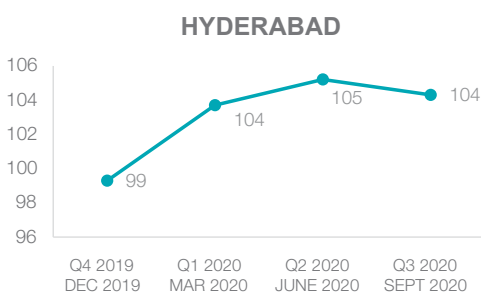
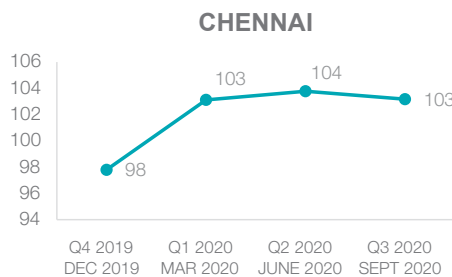
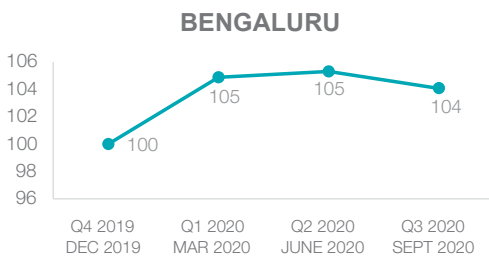
Source: As per Gleeds' database in the month of September 2020 unless noted otherwise. All prices exclude GST. All prices are supply prices and a guidance only. Transportation, and any other abnormals are not included. All prices are a bulk wholesale price and might vary from site to site.

Cost indices

Gleeds carried out an extensive exercise to map the costs across the various Indian cities.

The following methodology was adopted to derive the indices.

- A basket of items comprising of most commonly used materials in construction, labour and consumables was established. These goods have been identified and known to demonstrate the inflation and dynamic nature of the goods typically used in the construction sector. Approximate individual quantities within the items were taken to represent standard type of commercial building. Appropriate weightage was given to each of the items and based on weighted average method, a base Index was calculated.
- December has been considered as this is the best representation of costs before the uncertainty of the pandemic. The base city taken for calculation of Index is Bengaluru.
- Cost movement for the different cities across similar timelines has been mapped and the indices were thus derived.



The graph indicates the construction costs indices for the six major cities for the last four quarters, with Bengaluru as the base. Index for Bengaluru is 100 in December 2019.

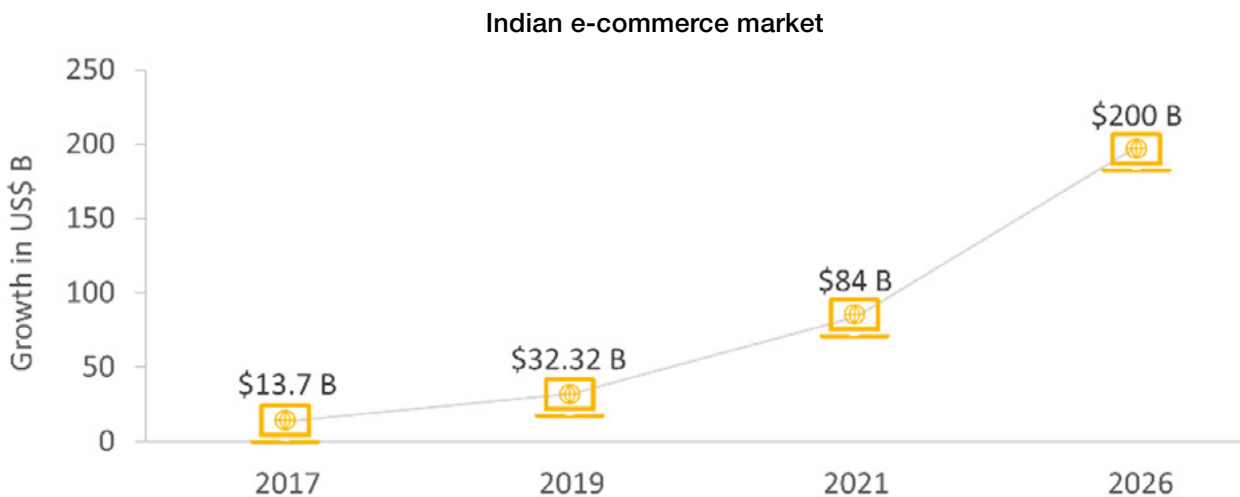
Sector spotlight

The market outlook of construction cost August 2020 report by Gleeds based of a market survey of the industry's stakeholders, predicted the moderate recovery of warehouses and datacentres.

Warehouses

This sector has been growing steadily in the past 5-6 years for several reasons including GST, demonetisation, growing domestic consumption and growth in foreign and private investments. The e-commerce market was on

the growth trajectory, which only accelerated during the pandemic and this sector is predicted to look better in 2021 than it did in 2019.



A report by Knight Frank has predicted a potential of 93 million sqft. of new warehouse supply build pan India. The demand for e-commerce and the competitiveness and easy delivery option models have forced packaging and delivery to be carried out from the single warehouse location, increasing the demand for warehouse spaces. The current scenario of countries contemplating to change the location of their manufacturing units out of China, may as well be India's gain, considering India has more than sufficient land and resources to offer.

The look into the options of digitisation, where there is an availability of operated vehicles as against manual

labour, may attract foreign funds. There also seems to be a big demand for warehouses in tier II and tier III cities like Guwahati, Patna, Jaipur, Indore, Lucknow and Bhubaneswar which has seen a growth of around 20% in FY 2020. Demand has especially been strong from industries like Third Party Logistics (3PL), e-commerce, Fast Moving Consumer Goods (FMCG) and pharmaceutical, which is expected to continue in FY21. The warehousing sectors is seen to be one of the first sector to recover from the COVID-19 impact in construction.

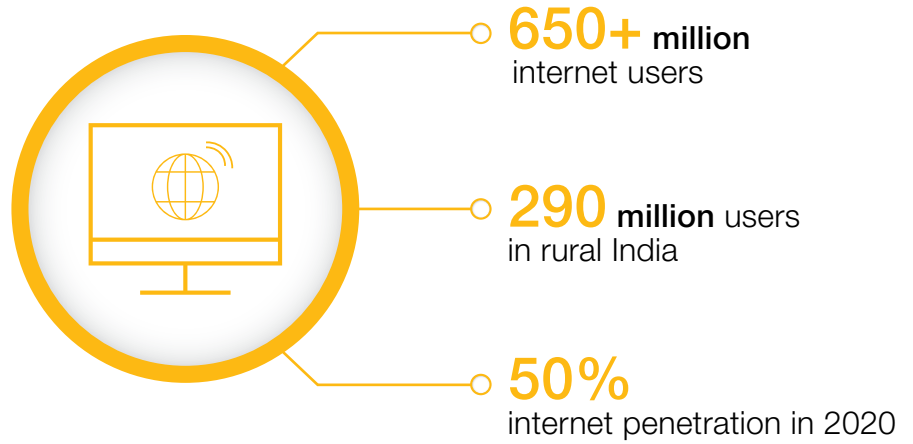


Recovery

Moderate

Datacentres

650+ million internet users saw the growth of datacentres across the country in the past few years.



The market size by investment was projected to be over \$4 billion by 2025, growing at a CAGR of 4% with the base year in 2019. With the pandemic, demand has spiralled following on from increased use of the internet and work from home options. Companies are facing challenges of data breach, with the use of individual home networks that could be subject to malicious cyber-attack and unencrypted web traffic. This in turn is looking

at companies investing in datacentres to protect and preserve the company's valuable data, forcing the growth of this sector. There are many key players in the market who are now accelerating growth to meet the demand. The existing growth paired with the surge in demand post the COVID-19 is perceived to be a boost in the datacentre construction and maintenance in India.



Recovery

Moderate



Other sectors- highlights

Commercial

The commercial sector showcased resilience and reported to have a net absorption of 5.4 million sqft in quarter ending in September, which is a 64% rise against the June quarter. While IT-enabled segment leasing dipped, e-commerce and manufacturing sectors gained a significant share in the market. Bengaluru and Hyderabad

have accounted for 80% of the net absorption. The overall vacancy is now at 13.5% a marginal increase from 13.1% in the previous quarter. This slight recovery from the previous quarter is encouraging, showing an upward trend.



Recovery

Low

Residential

With the COVID-19 impact, there has been a turbulence in the residential market. With the drop-in interest rates, attractive offers from developers and flexible payment offers, including commencement of payment of EMIs, at a later date and cutting of stamp duty (initiative by the Maharashtra Government) has revived sales especially for the ready to move-in houses. The new buyers are only a

small 'slice in the pie' which is not sufficient to restore the growth of the sector. New supply of residential projects have fallen steeply by nearly 60% in January-September 2020, and the low demand has forced developers to go slow on launches. Developers are now to assess the supply and demand, realign their expectations and invest sensibly to sustain in the market.



Recovery

Low

Retail

Whilst this sector is still in degrowth, the lift in lockdown has granted some relaxation to the sector, which has met the festival and pent up demand. Whilst, the consumer spend is slightly conservative, the changes and safety measures incorporated in stores and malls and the accommodation of e-commerce demand by various merchants and the

reopening of cinemas at reduced capacity is contributing to the slow and steady recovery. Whilst the construction of new buildings for this sector may not be seen in the horizon, associated sectors such as warehousing and retrofitting the existing spaces are proceeding onward.



Recovery

Low

Infrastructure

The COVID-19 has accelerated slowdown and sectors that have reported a major decline in project tenders are roads (down 60% year-on-year), power distribution (down 52%), water supply and irrigation (down 45-50%) and even railways (down 31%). However, the Government is keen in investing in infrastructure projects.

On the brighter side, the National Highways Authority of India (NHA) has awarded a total of 40 projects for a total cumulative length of 1330 km during April to September 2020 with a capital cost of circa INR 472 billion. The Tapa-Karjan pipeline link irrigation scheme which is envisaged to irrigate 16,919 ha of command area in the districts of Tapi and Surat of Gujarat.

68 development works mostly related to smart city and worth circa INR 13.31 billion is set to commence in Rajasthan. These projects are related to the Smart

City Mission, the Amrut Yojana, the Rajasthan Urban Infrastructure Development Project and the Urban Development Departments under the Jaipur, Ajmer and Udaipur divisions.

The Rail Land Development Authority (RLDA) a statutory body under the Ministry of Railway, has taken up redevelopment works of several railway stations across the Indian Railways network. They are set out to develop five railway stations in the state of Bihar. They will be equipped with state-of-the-art amenities such as restaurants, food plaza, parking zones with links to station platforms, cafeteria, internet, shopping areas along with medical emergency booth, amongst others.

It is relieving to know that despite the temporary slowing down caused by the pandemic, the infrastructure sector continues on.



Recovery

Low



Conclusion

With the lifting of the lockdown since June 2020, most businesses are reopening including the very recent cinemas at 50% capacity and tourist spots like Kerala, Sikkim, Uttarakhand and Odisha. Restaurants for a dine-in or take away, are mostly opened pan India. Schools have also opened up for the older children of 9th to 12th standard. Malls and shopping centres have resumed, and most businesses are moving back to their office space in a staggered form, for work.

Acceptance of the coexistence with the COVID-19 has become more evident, in this quarter compared to the last and industries are seen to recoup pan India. While most are trying to stay afloat, some sectors like the hospitality and retail will have to fight harder than the others.

The real estate which is the second-largest contributor to the Indian Economy is driving the Government keenness in investing in infrastructure, noting it to have a crucial role in the uplifting of the Indian Economy, be it contributing to the GDP or creating employment. The COVID-19 experience has led to new requirements which may lead to an upward trend.

It is now up to the industry to regenerate gradually and bring about a radical change, whether it be adopting new strategies of growth or the mindset and expectations of the investors or innovative methods to enhance efficiency.

Abbreviations:

MRICS:	Member of the Royal Institution of Chartered Surveyors.	Ltr:	Litre
USD:	United States Dollar	Mtr:	Linear metre
INR:	Indian National Rupee	MT:	Metric tonne
GST:	Goods and Services Tax	GI:	Galvanised iron
MEP:	Mechanical, Electrical and Plumbing	uPVC:	Unplasticised Polyvinyl Chloride
BUA:	Built-up area	cPVC:	Chlorinated Polyvinyl Chloride
CA:	Carpet area	CI:	Cast iron
Sqft:	Square foot	NCR:	National Capital Region
Cuft:	Cubic feet	MW:	Mega Watt

References:

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- Media reports: Economic Times, NDTV, Business Standard, The Hindu Business Line, Moneycontrol, India today, LiveMint and Zee business.

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