

Focus: Rekindling Steel Sector Growth

A vibrant steel industry has historically been the foundation of a nation's rapid industrial development. A robust and competitive steel sector signifies strong industrial base and economic growth of a country.

India has now become the world's second largest steel producer, riding on the back of a rapidly growing Indian economy powered by the Government's massive drive in infrastructure and construction sectors. Today the domestic steel industry contributes approximately 2% to the country's GDP and employs nearly 6 lakh people directly and 20 lakh indirectly.

Globally, demand slowdown and over-capacity resulted in historically low international steel prices. But overcoming the difficulties, the domestic steel sector is bouncing back to realize its full potential. The Government has taken many forward-looking steps to rejuvenate and boost growth of the steel industry. A major fillip to the domestic sector, the National Steel Policy 2017 envisages achieving 300 MT of steel-making capacity by 2030-31, which would translate into Rs 10 lakh crore investment and 1.1 million additional employment generation. This would further increase per capita

consumption to 160 kg by 2030-31 from the current level of 90 kg. The estimated import of plant & equipment for meeting 300 MT steel capacities would be in the range of US\$ 25 billion apart from US\$ 500 million annually for import of proprietary and other spares.

Government has further implemented the Domestically Manufactured Iron and Steel Policy which provides for minimum 15% value addition to boost domestic steel consumption, which envisages preference in sourcing of domestic iron and steel for infrastructure projects being developed by state-run companies.

With clear signals of growth recovery, it is important to keep in mind the key challenges which need to be attended for sustainable growth of the sector.

Raw material security: The Indian steel industry grapples with uncertainties on the availability and consistent supplies of raw materials. Coal and iron ore remains a challenge, with recent closure of mines in Goa.

Cheaper imports: In the backdrop of the recent slowdown of steel consumption in China, the Chinese steel producers have relied on exports, which in turn has had an impact on high growth centres of steel

consumption in 'steel-non-mature' nations like India. Also, the recent imposition of tariffs by the United States as an outcome Section 232 investigation of the Trade Expansion Act of 1962, the 'steel-mature' countries like China, Japan, South Korea, etc will look at India with immense interest.

Restructuring current debt: There is need to resolve insolvency issues and improve access to working capital for current capacities as well as future requirements.

Logistics capability: In view of the steel capacity target to grow to 300 MT under the National Steel Policy, transport logistics from the mining areas need to be improved to handle movement of around 1150 MT cargo and mitigate lag in evacuation of iron ore, coal and other minerals.

While the Indian Industry needs to gear up for these, it is capable of achieving much more at global level. More importantly, it must sustain the competitive advantage of the domestic industry and ensure availability of good quality steel at affordable prices in both domestic and export markets. ■

Chandrajit Banerjee

Director General

Confederation of Indian Industry

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Focus on Infrastructure for a Competitive Steel Industry

The Government has set a target of 300 MT output in the National Steel Policy at an envisaged investment of Rs 10 lakh crore. Raw material security is one of the key challenges in achieving this target. What according to you are some of the steps that the Government should take to alleviate the issue?

India, endowed with abundant natural resources namely, iron ore, lime stone, manganese, coal etc gives a comparative advantage in producing steel within India. After liberalisation in 1991, several entrepreneurs came forward in setting up large steel plants with massive investments and created capacities on the premise that these natural resources will be allocated to them to have a sustainable business model. Unfortunately securing these key inputs that are abundantly available in India did not fructify due to discretionary allocation of these resources and the resultant litigations. The amendment in 2015 to the MMDR Act providing the allocation of these resources only through auction route is again a landmark reform that is expected to change the landscape enabling several of the existing and prospective Indian steel companies to secure these scarce natural resources. In order to achieve the objective of raw material security to the steel sector to achieve the target of 300 MTPA installed capacity as envisioned in National Steel Policy in 2017, the following initiatives are to be taken on war footing.

- Price Discovery - The auctions that are being done by the Government for several mines including coal and iron ore are with a view to maximise value (rightly so). While this objective is laudable, if limited number of mines are offered for a resource starved industry, the price discovered in the auction route will be artificially at an elevated level, thus making exploitation of these resources at those prices becomes unviable and unsustainable. In spite of auction of some coal and iron ore mines in the last few years, very few mines are today operational as the successful bidders are reluctant to invest and make



Seshagiri Rao M V S

Chairman,

*CII National Committee on Steel and
Joint Managing Director and Group CFO,
JSW Steel Limited*

these mines operational for the sole reasons of un-sustainability. Hence, the Government should offer enough mines for auction considering the estimated requirement of the industry so as to make it sustainable proposition both for the industry and the Government.

- The successful bidder is obligated to obtain all the approvals within a time frame. There is no single nodal agency to accord these approvals and it is taking sufficiently long time to secure these approvals. In case a council comprising of State and Central officials is formed, empowering it to accord approvals at once it will expedite the ease of securing approvals to make the mines operational at the earliest.
- Necessary amendments are required to be carried out in the MMDR Act to enable auction of mines without insisting for a G-2 level exploration and auctioning of mines sufficiently in advance prior to their expiry on 31 March 2020 to avoid disruption in supplies to the industry.
- Coking coal mines are majorly held today in the Government sector and they are not operating for various reasons. A concerted effort is required by the State Government, Central Government and the industry to leverage the coking coal resources which are burnt underground (Jharia mines). The country has been importing coking coal of over 40 million tons per annum and this requirement continues to grow unless we

make focussed effort involving the private sector to operationalise these mines.

- Inadequate washing facilities at the mines being operated by CIL is forcing them to sell these valuable coking coal to the power sector at the price of thermal coal. The Government should encourage the private sector to set up washing facilities and, in the meantime to sell this coal to the steel industry at a premium instead of offering it at lower prices to the power sector.
- Royalties and taxes in the mining industry is exorbitantly high in India. As the set off under GST is not available for many of the components of these taxes, it has a cascading impact on the cost of production for the steel industry denting its competitiveness. It is therefore essential to consider substantial reduction in these taxes and also exempt the mines under auction from payment of these taxes.

The Indian steel industry is competitive at global level despite significant cost of funds, cost of logistics, cost of raw material. How can we sustain these competitive advantages to ensure that India continues to produce steel required for the domestic industry?

It is heartening to note that many of the Indian steel companies figure in the top 35 world class steel companies compiled by World Steel Dynamics. The Indian steel industry has been heavily investing in environmental-friendly technologies to produce less carbon emission intensive steel. The industry has also been focussing on investment in digitalisation, automation, and in new technologies to use inferior quality of raw material and to improve operational efficiency that would keep them to sustain its competitiveness. While logistic costs remain high for one and all in India, the steel industry, being strategic core industry for the Indian economic development, should get priority allocation in getting rakes from railways, concessional freight rates to mitigate to certain extent the exorbitantly high logistic costs. Besides, the steel industry has been seeking infrastructure status enabling it to raise funds at competitive rates.

Despite safeguard measures taken by the Government, cheaper imports are still happening from China and other countries. Moreover, recent imposition of tariffs by the United States as an outcome Section 232 investigation of the Trade Expansion Act of 1962, countries like China, Japan, South Korea, among others will look at India with immense interest. What are the measures that you think should be put in place to reduce cheaper imports into India which will distort the Indian market?

It is important to note that in the first 10 months of the financial year 2018-19, the Indian export of steel fell by 40% while imports grew. The concerning fact is growing imports at 0% duty from FTA countries. While USA, Canada, Europe and Turkey imposed suo-moto duties of 25% on steel, the export dependent countries, namely Japan, Korea, Russia and China are looking for markets to export their surplus steel at a price lower than their domestic price resulting into trade diversion into India. It is also a grave concern that non-prime, defective and secondary steel is coming into India as the differential duty between primary and secondary steel is nominal. While the Indian steel industry is scrupulously adhering to the BIS standard, the non BIS compliant steel is coming into India threatening security and safety of the country as there is no effective monitoring of compliance to BIS standard. It is therefore necessary that the Government should:

- Suo-moto impose safe guard duty of at least 25% on all import of steel products.
- Extend quality control orders on more steel products and introduce an effective monitoring mechanism to ensure to the standards.
- Increase value addition norms in Policy for Preference to Domestically Manufactured Iron and Steel Products for Government Procurement (DMI&SP).
- Trade actions to be made more effective by removing Lesser Duty Rule (LDR) and imposing fixed duty in place of reference price mechanism.
- Trade actions viz. anti-dumping, countervailing duty and safeguard to be fast-tracked to arrest unfair exports being dumped into India.



Source: TGeorgelshutterstock.com

India today is the second largest steel producer in the world and the industry has come a long way from its inception. How has the journey been on the front of adapting to various technological advancements in the steel production?

The steel industry priority is to produce steel through the most environment friendly technology and contribute in reducing carbon emission intensity from the sector. In this direction, steel industry is spearheading several initiatives in adopting new technologies; automation, robotics, internet of things and Industry 4.0 to optimise the operational efficiencies and reduce energy consumption and also produce high strength light weight steel to give sustainable advantage to customer. Besides, the steel industry has been focussing on utilising the waste heat to micro fines enhancing the solid waste utilisation thus reducing use of virgin raw material. The industry focus is to maximise the reuse the steel scraps in the production of steel which will again a big contributor in reducing carbon emission intensity. At the same time, the industry has been working out efficient mode of transporting the raw material through pipe lines, reducing the burden on the stressed rail and road traffic.

The steel industry is currently on a consolidation mode. Since the Insolvency and Bankruptcy Code (IBC) came into effect, around 30 million tonnes (mt) of idle steel production capacity has been ripe for the picking. How does the Indian story play out? Your views please.

The Insolvency and Bankruptcy Code (IBC) is once again a transformational reform that would change the credit culture and the Indian industry land scape. As the IBC is a new legislation, there are certain interpretational issues of law that are raised and they are being put to rest by the Courts with their rulings. It is a matter of time that all these issues are put behind and the process under IBC will get smoothened. It is an opportunity for Indian steel industry to consolidate itself and become much stronger to accelerate growth to become a 300 million tonne capacity country by 2030.

The National Steel Policy envisages per capita steel consumption to touch 160 kg by 2030-31. Which are the major segments which will drive the consumption for steel going forward?

The major drivers for steel consumption in any developing economy like India are housing, infrastructure, transport, general engineering / capital goods and packaging, among others. While the Government is driving the infrastructure investments with large outlays on roads, bridges, tunnels, metro stations and affordable housing among others, the transportation sector is also set to grow to meet the increasing demands from aspirational society of India. Steel made readymade structures, steel furniture, doors and utensils are gaining attention due to cost competitiveness, aesthetics, durability and reuse. The industry is making every effort to bring awareness about the use of steel in various segments of society and the steel consumption is expected to grow exponentially in India. ■

Key CII Recommendations for Rekindling Steel Sector Growth

Indicators	Recommendations
Addressing supply side issues of graphite electrodes	
High import prices and output costs	Withdrawal of the anti-dumping duty on graphite electrodes produced in China
	Abolish the Basic Customs Duty from the current 7.5% to nil
Low availability but higher export of graphite electrodes	De-incentivize exports either through imposition of substantive export duty and/or other quantitative restrictions
	Encourage domestic production
	Domestic users to get the first right of using electrodes produced in India
Demand	
Low metal intensity in key sectors	Introduce motor specific regulations to drive electric steel growth
	Robust building and construction standards to drive metal intensity in buildings (Incentivize prefab buildings)
	Incentivize R&D in product development of high value metals
Looming threats of imports, trade tariff policy and local metal manufacturing	Incentivize creation of SEZ park linked to Indian primary metal producers
	Re-evaluate existing (ASEAN, Japan, Korea) and forthcoming (RCEP) FTAs for development of domestic metal; Bring Steel in the negative list, in addition to other metals like Copper, Aluminium and Zinc
	Enhance the domestic metal industry competitiveness by rationalizing taxes
Auction process	
Auction rules	Modify auction rules, such as <ul style="list-style-type: none"> • Allow consortiums and unincorporated joint ventures to participate • Expand the indicative list of specified end use • Permit State Governments to proceed with a single bidder if needed in the second time auction

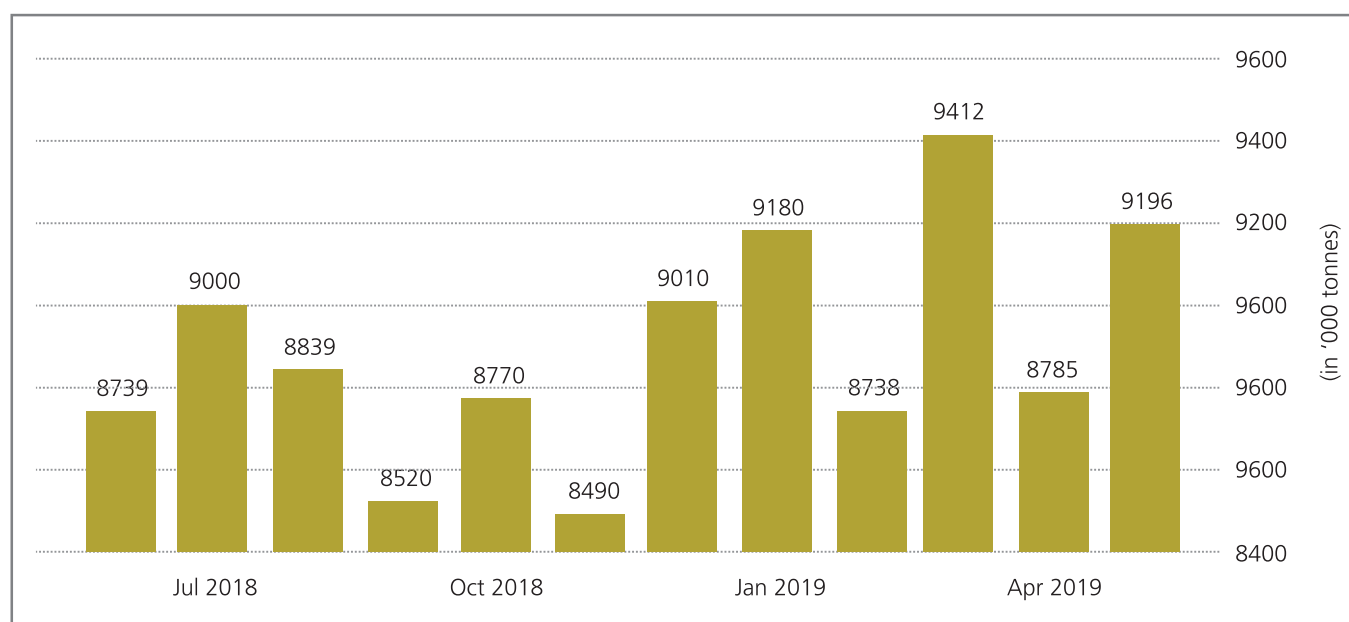
Indicators	Recommendations
Expiring mining leases in 2020	Complete auction process for mines by March 2020; Consider auctioning larger mineral blocks for optimized mining
Improving auction process for coking coal blocks	
Mandatory use of non-coking coal in bidder's own End Use Plant	Allow conversion of coal to Power for steel end use
	Allow non-coking coal for sale after washing
Utilization of washery by-products like middling / tailings etc in Coal Preparation Plant (CPP)	Permission for the sale of Middling in the open market as against current condition of sales to Coal India Ltd at 15% discounted price
Upfront Payment	Reduce to 0.5% of intrinsic value compared to current 10%
Capacity utilization of the End Use Plant	Capacity utilization percentage needs to increase to 95% level from the current 85%
Auction without all documents in place	The documents to include updated Geological Model, land schedule, lease hold boundary details, Government guidelines on R&R policy
Government support for Statutory Clearance	Single window time bound clearance
Coal blocks clubbed for auctions without segregating	Exclusive auction for end use in the steel sector
Infrastructure and logistics	
Transport logistics from the mining areas relies on rail	Promote alternates to rail, such as coastal freight and inland haulage (remove 50% duty on coastal movements; streamline DGFT approvals); Rationalization of rail freight for bulk commodities like Bauxite & Aluminium
Logistics infrastructure strategy	De-bottleneck railways through efficiency improvement (Turn Around Time, utilization percentage and proactive buildup of additional capacity on constrained routes)
	Time bound implementation of all infrastructure projects (Dedicated Freight Corridor, water ways)
	Tax breaks/ lower cost of financing for pipelined transmission
Compliance to environmental regulatory	
Delay in operationalizing of mines	Coal & Iron Ore blocks to be free of lien before being placed for auction, including a priori forest and environmental clearances
Lack of market access	5 X 5 Export market push (5 markets*, 5-year plan) – evolve an integrated export-oriented approach comprising
Need for making mining self-sustainable	Undertake feasibility assessment of technologies for ecologically sustainable sub-surface iron ore mining

Trends in India's Steel Production in 2018-19

- India is currently the 2nd largest producer of crude steel in the world.
- In 2018-19, production of total finished steel (alloy and non alloy) was 131.572 MT, a growth of 3.7% over last year.
- Production of Pig Iron in 2018-19 was 6.055 MT, a growth of 5.7% over last year.
- India is the largest producer of Sponge Iron in the world. The coal based route accounted for 79% of total Sponge Iron production (33.040 MT) in the country in 2018-19.
- World Steel Association has projected Indian steel demand to grow by 7.1% in 2019 while globally, steel demand has been projected to grow by 1.3% in 2019. Chinese steel use is projected to grow at 1.0% in 2019.

Steel Production in India

Steel Production in India averaged 3242.88 thousand tonnes from 1980 until 2018, reaching an all-time high of 9227 thousand tonnes in March 2018 and a record low of 713 thousand tonnes in September 1980.



Trade of Finished Steel

India emerged as a net exporter of total finished steel in 2016-17 and 2017-18 but is currently a net importer.

Indian Steel Industry: Import of Total Finished Steel

(million tonnes)

Category	2014-15	2015-16	2016-17	2017-18	2018-19	April-May 2019-20*
Quantity	9.32	11.71	7.23	7.48	7.83	1.12

Source: Joint Plant Committee

Indian Steel Industry: Export of Total Finished Steel

(million tonnes)

Category	2014-15	2015-16	2016-17	2017-18	2018-19	April-May 2019-20*
Quantity	5.59	4.08	8.24	9.62	6.36	0.72

Source: Joint Plant Committee

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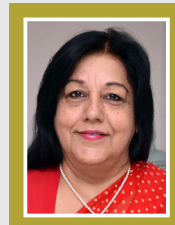


India has emerged as the 2nd largest producer of steel in the world with production of about 106 million tonnes in 2018. Continued focus on infrastructure development augurs well for the steel industry, assuring sustained demand for steel. The promulgation of the Quality Control Orders by the Government is an important step in ensuring supply of quality steel in the domestic market. The year 2018 witnessed significant consolidation in the steel industry through the IBC process. Over the last 5 years, the domestic industry has become more resilient both financially and operationally. I expect the growth trajectory going forward to be steeper with the industry's renewed customer centricity coupled with introduction of newer technologies which will help the companies remain ahead in the cost curve and produce green steel – all ingredients for sustaining the competitiveness and future of the Indian steel industry.

Anand Sen

Co-Chair, CII National Committee on Steel and President (TQM and Steel Business), Tata Steel Ltd

Sustaining competitiveness in the steel industry is critical for achieving the goal of 300 million tonnes steel capacity by 2030 in the country. Two impediments to the competitiveness of steel industry are high costs of logistics and capital. I see a lot of action on building transport infrastructure in the country and this should help in lowering the logistics costs. However, given the structure of Indian steel industry, where a large number of medium and small players compete with a few large integrated steel players, the drivers for competitiveness are not uniform for all steel manufacturing companies. The lack of access to debt capital for small and medium size steel companies together with delays in disbursement of sanctioned loans by banks has constrained the competitiveness in about two-thirds of the steelmaking capacity in the country. This issue requires attention.

**Rita Singh**

Member, CII National Committee on Steel and CMD, Mesco Steel

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The competitiveness of an industry is determined not by price competitiveness alone, but by a host of other inter related factors like market share, managerial excellence, motivated and productive employees, ethics and industry image including transparency in business operations. Over the years with a paradigm shift in the market dynamics, these factors have gained significance in enhancing the competitiveness of a manufacturing unit. Steel industry in India with a combination of large, medium and small players have also excelled in one or more of these identified indicators. The EBIDTA margin in each product category being the outcome of the performance in raw material sourcing, production, marketing, financing matters, personnel issues including skill development culminating into customer satisfaction would probably decide the competitiveness in a sustainable manner. The Government has a major role to play in enhancing the competitiveness of Indian steel industry by reducing raw material sourcing cost, logistic and capital costs.



Sushim Banerjee

Member, CII National Committee on Steel and Director General, INSDAG



India has moved up the ladder to be the world's second largest steel producer. Considering the growth momentum of the economy, the country is bound to witness enhanced steel consumption in future years. The National Steel Policy charts out the roadmap for the Indian steel industry. While India has competitive advantages of steel making, it confronts challenges of cheap imports primarily from capacity-excess nations. The Indian steel industry needs to channelize its efforts and energies to develop India-centric solutions through indigenous R&D efforts for development of processes and products in tandem with the natural resources of the country. It must be at par with the global efficiency benchmarks in terms of cost, quality and environment efficiency.

Anil Kumar Chaudhary

Chairman, Steel Authority of India Ltd



For suggestions, please contact Sharmila Kantha, Corporate Communications at sharmila.kantha@cii.in

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