# Standstill 2013

## Hope Alive for the Next Year

The domestic steel industry has gone through a big cyclical downturn in 2013 with revenues getting battered due to weak demand and expenses bloating on the back of higher cost of production due to weak rupee. However, increased exports amid depreciating rupee cushioned companies during the year. In 2014, however, steel industry will see a volume-led growth. Companies engage in aggressive marketing in not just urban market but also into domestic rural areas through their retail initiatives.

### The Industry

India has become the world's fourth-largest producer of crude steel. The country is slated to become the second-largest steel producer by 2015 as large public and private sector players strengthen steel production capacity in view of the rising demand. The total market value of the steel sector in India stood at US$ 57.8 billion in 2011 and is expected to touch US$ 95.3 billion by 2016. Total crude and finished steel production grew at a compound annual growth rate (CAGR) of 6.6 per cent and 4.2 per cent over FY08-11 to reach 69.6 million tonnes (MT) and 66 MT respectively. Steel consumption is expected to grow at an average rate of 6.8 per cent to reach 104 MT by 2017 driven by rising infrastructure development and growing demand for automotives. The infrastructure sector is India's largest steel consumer, accounting for 63 per cent of total consumption in FY11. Attracted by the growth potential of the Indian steel industry, several global steel players have been planning to enter the market. The Government of India (GOI) has allowed 100 per cent foreign direct investment (FDI) in the sector through automatic route in order to attract foreign investments. Latest figures by World Steel Association (WSA) has revealed that India's steel production increased by 3 per cent to 59.62 million tonne (MT) in the first nine months of 2013, as against 57.90 MT in the corresponding period last year. Moreover, the data showed that India's rate of production growth was the second-best following China among the major global producers. India's steel output grew to 6.54 MT in September 2013 from 6.24 MT during the same month in 2012.

### Corporate Investments

- The deal marks Heidelberg's philosophy of moving away from less profitable assets and focussing on more strategic and competent areas. JSW Steel had acquired the company through the erstwhile JSW Ispat Steel, which is now its merged associate firm.
- JSW Steel has acquired Heidelberg Cement India's 0.6 million tonne per annum (MTPA)-cement grinding facility in Raigad, Maharashtra for an undisclosed sum. The two companies have inked the Business Transfer Agreements recently.
- Leitwind Shriram Manufacturing has received a Rs 346 crore (US$ 56.18 million)-order for the supply and installation of machines from Neyveli Lignite Corporation for a 51 megawatt (MW) wind energy plant at Kaluneerkulam near Tirunelveli in Tamil Nadu.
- Leitwind, an India-European joint

venture (JV) between Shriram Group and Windfin BV (formerly Leitwind BV) which makes wind electric generators, has recently completed a project encompassing supply, erection and commissioning of a wind farm of a capacity of 43.2 MW in Tadipatri in Andhra Pradesh for Orient Green Power Company Limited.

- Leitwind has the onus to procure land, desig, manufacture, supply, install, test, commission the machines, and also take care of the operation and maintenance of farm. The order is to be executed over a period of 10 months.
- Meanwhile, Jindal Steel and Power Ltd (JSPL) has secured five exploration licences for iron ore mining in African countries including Namibia, Gabon, Sierra Leone, Mauritania and one in South Africa. Navin Jindal-led company has already commenced assessing and checking the exact number of reserves in the region. It is also mulling over steel production and mining projects in Brazil, Indonesia and Mongolia. It has recently commissioned a steel melting shop and its allied unit of the 6 MTPA integrated steel plant at Angul in Odisha.
- JSPL has a steel capacity of about 5.5 MTPA in India and 2 MTPA in Oman, outside India. It intends to increase its total steel capacity to 11.5 MTPA by 2015-16. The iron ore will also be used for its steel plant in Oman. It mainly exports steel in West Asia, Africa, Southeast Asia, Taiwan and the Arabian Peninsula. The exports contribute 20-25 per cent of total steel products.
- Tata Steel is all geared – up to launch 30 new products in Europe in Fy14. The company had launched 17 steel products in the European market in FY13. Also, Tata Steel has commissioned a 3 MT unit in Jamshedpur while it has spent Rs 10,000 crore so far for the first phase of another 3 MT plant in Kalinganagar, Odisha. The plant is scheduled to be commissioned in the second half of FY15.

### Expectations from 2014

Steel industry saw an overall 3-4 per cent growth in steel demand next year," said Giriraj Daga, senior analyst from Nirmal Bang.

On the raw material front, global coking coal prices bear the risk of an upward trend in the near-term if weather conditions in Australia, the leading supplier of coal to steel majors across globe, turn hostile.

Impact of this price rise, however, would depend on the extent of reliance of the steel company on Australian coal. Steel Authority of India Ltd and JSW Steel largely depend on Australian coking coal imports, while Tata Steel meets about 60 per cent of its coking coal requirements from its own captive mines. Coking coal and iron ore are the two raw materials used by the steel industry in the making of the alloy. "December to February is usually the period when cyclones hit Australia causing disruption to mining and port acitivities there," said Jain of Centrum Broking. Due to this, prices of coking rise on the back of tight supply situation, he said. At present, coking coal prices are stable at about $150-155 per tonne. On the domestic iron ore supply side, shortage of ore in Karnataka and ongoing mining ban in Goa will continue to keep prices of the material elevated in coming months, said analysts.

In Karnataka, at present, only 15 mines are operational with an annual production of 5.5 million tonnes. However, companies like Sesa Sterlite and NMDC are expected to enhance production in Karnataka, whereas the same for Goa is dependant on the Supreme Court's approval. Among the top steel companies, Mumbai-based JSW Steel Ltd has no captive source to meet its iron ore requirement and is relying on Karnataka ore to meet its need. The company has a 10-million-tonne plant in Karnataka which is currently running at 75-80 percent of the capacity. Not much is expected to change about the ongoing mining ban front in Goa, said analysts. The mining ban issue in Goa seems to be going the Karnataka way, said an analyst with a domestic brokerage. Even if the ban in Goa is lifted now, it will take quite some time for mines to start producing given the several clearances and procedures miners have to go through before commencing operations, he said.

Tata Steel, Steel Authority of India, Essar Steel, Jindal Steel & Power and JSW Steel have retail initiatives that cater to small size requirements mainly in tier-I, tier-II cities. Tata Steel can engage itself in aggressive marketing strategies especially at its European operations in order to maintain or increase its volumes, they said. The company could also look to tap its non-traditional market to increase its customer base. Demand in Europe has not looked up despite better purchase managers index data and so companies there will have to make additional efforts to churn bigger revenue growth, said analysts. Centrum brokerage in its recent report said it sees downside risks for Europe operations of Tata Stel.

South-East Asian operations are also under pressure currently due to shutdown in Thailand (due to political tensions) affecting volumes and narrowing spreads at Natsteel, said the brokerage. Increasing steel exports and improving efficiency should be the focal point for SAIL, opined analysts. Brokerages are bearish on SAIL stock due to its high operational cost structure in a tough demand environment and competitive market. The state-owned company reported an EBITDA margin of 9.6 percent in Apr-Jun which contracted

further to 7.6 percent in Jul-Sep. “Of the lot, JSW Steel seems to be most efficient,” said Jain of Centrum. The company's capex cycle has peaked out and is also exporting substantial quantity, he said. Though the company is facing issues on procurement of iron ore in Karnataka, it has been managing with the help of beneficiation plants at its Vijayanagar unit, which converts the low-grade ore to high-grade ore which in turn can be used to make quality steel. “Overall for the steel sector, it will be a wait-and-watch period for first six months atleast, and once the new government is formed then there may be some spurt in construction and manufacturing sector we are hoping,”said an official from state-owned Rashtriya Ispat Nigam Ltd. “The steel sector will see slight uptrend in 2014 but cannot expect much buoyancy this time (in 2014),” he said.

## World Scene

Steel is the one of the world's most essential materials and is present everywhere around our lives. It is used in almost every sphere like buildings, vehicles or even a tin can that preserves food. The steel industry has often been considered an economic indicator, as it has always gone hand in hand with economic development. World crude steel production has grown from 851 megatons (Mt) in 2001 to 1,548 Mt in 2012. However, despite its size, the steel industry remains relatively fragmented coupled with its highly cyclical and intensely competitive nature. As urban population increases globally, so will the need for steel to build skyscrapers and public-transport infrastructure. Emerging economies will also continue to be a major driver of demand as these necessitate a huge amount of steel for urbanization and industrialization. The demand for steel will thus remain strong for years to come. This positive long-term backdrop notwithstanding, the industry's near- to medium-term outlook is a function of the health of the global economy, which is far from favorable at present.

After witnessing sturdy growth for most of the initial phase in the last decade, the steel industry suffered a setback due to the recession in 2008 as consumers utilized existing inventories rather than buying new stocks. The industry witnessed a turnaround in late 2009 and continued to grow thereafter in sync with the global economic recovery. Demand for steel benefited from growth in the developing economies that helped counter the sluggishness in developed countries. Asia, particularly China, continued to be the principal growth driver.

Demand for steel products, nonetheless, remained below pre-recession levels. In 2012, the continuing Euro-zone sovereign debt crisis, economic stagnation or slow growth in developed economies and a cooling of emerging market economies took a toll on the industry. Growth in the Chinese economy, which in recent years has been one of the main demand drivers for steel, slowed. These challenging economic conditions continued into 2013, hinder the industry's prospects.

World crude steel production was a record 1,548 Mt in 2012, outperforming the 2011 level by 1.2%. In the first three quarters of 2013, world crude steel production increased 2.7% year over year to 1,186 Mt. China retained its leadership position, yielding almost 50% of the global output at 587 Mt, an 8% annual rise. Production in Japan, the second largest producer, increased 1.4% year over year to 82 Mt. The United States held the third position, producing 65 Mt of crude steel, a 4% annual decline. Production in Europe and South America were a dampener, declining 4% and 1.2%, to 124 Mt and 34 Mt, respectively. In Asia, production increased 5.9% to 795 Mt and rose 6.8% to 19 Mt in the Middle East.

The average capacity utilization ratio in 2012 was 78.8% compared with 80.7% in 2011. Despite the global rise in supply in 2013, total capacity utilization continues to be low. World crude steel capacity utilization ratio in 2013 was the lowest in Jan at 71.2%. Even though it has rebounded; it has remained stubbornly at the 80% level since then. It also continues to decline on year-on-year comparisons.

## Conclusion

In 2013, the steel industry continued to face headwinds in the form of overcapacity and surge of imports. The steel companies are going through a restructuring process, which will have a positive impact on operations in the medium and long term. Some major industry trends are strategic cost reduction, vertical integration and capital optimization.

Global steel demand is expected to improve gradually in 2013 and thereafter in 2014. Growth in the United States will be supported by strong momentum in the auto sector and recovery in construction markets. Efforts of the Chinese government to rebalance its economy will contribute to the domestic and global steel demand. India will also stoke steel demand in the future, thanks to a rising middle class along with increased urbanization.

Steel selling prices will improve hand-in-hand with improved demand across most regions along with higher raw material prices. In addition to raw material prices, the sustainability of higher steel prices will continue to depend on an increase in sustainable real demand, and no further worsening of the Euro-zone debt crisis.