Infrastructure boost to lift mood in steel industry

- Steelworld Research Team

The steel industry in India has been passing through a very tough phase for the past five years owing to low metal demand and extreme pressure on prices. The availability of principle raw material - iron ore - has been a challenge due to closure of various mines first in Goa and Karnataka and lately in Odisha. This has caused scarcity of iron ore besides the prices having gone up sharply. This is in spite of the fact that global suppliers have increased resulting in steady decline in prices of sea bound iron ore.

In just last few months, the steel prices have dropped by Rs4000- to Rs 5000 per ton, causing extreme financial hardship to the steel industry. The problem has been aggravated due to cancellation of the coal blocks by the Supreme Court, creating uncertainty over future availability of coal at competitive prices. The aggregation of challenged raw material availability, increase price trends in raw materials, declined demand in end products and the falling steel prices has been causing a severe blow to the Industry resulting in closure of numerous small and medium steel factories and putting operations and viability of larger ones in question.

Seeking sops

For survival of steel mills, the industry has sought following concessions from the banking sector to address the stress in the industry:-

a) Longer maturity of term loans for projects in operations on the lines of 5/25 scheme of RBI for projects under implementation to coincide with useful life of the plant to ease the pressure of cash flow. Under the 5/25 scheme, the viability of the project may be long (say 25 years) and therefore, the amortization of the debt may take that much time. Since banks can't think that long – they can't do 25 year borrowing to finance this – they want to divide the project into smaller chunks – say 5 years – with the hope that after that term, there will be a "bullet" repayment of the loan by takeout financing by other banks.

b) Advising the banks to extend credit for payment of penalties due to de-allocation of Coal Blocks by Supreme Court and payment of upfront bid amounts for participation in the bidding of Coal Block by deserving steel companies to ensure competitiveness of steel produced relative to imports of steel, a risk which has been translated into threat due to surging export of steel from China in global markets.

c) Refinancing of Rupee Term Loan through foreign currency loans and also refinancing of the external commercial borrowings (ECBs) through ECBs.

I. Refinancing of rupee term Loan by Foreign Currency Loans will help in reduction of cost and longer moratorium of repayments.

Price movement ($/tonne)			
Particulars	June 3	November 24	Variations (%)
Iron ore 62% Fe	92.5	70.42	(-)24
Iron ore 58% Fe	74.5	61.21	(-)18
Premium coking coal	181.0	112.27	(-)34
Steel CIS black sea exports	537.5	475	(-)12
China HR coil	558	465	(-)17

Source: *Bloomberg*

II. Currently ECB's are not permitted to be refinanced by ECB's, which is making it difficult to pilot any debt re-schedulement proposal within the ambit of RBI circulars.

The steel mills observed that refinancing of ECBs with fresh ECBs will not only help in cash flow mismatch but also in overall refinancing re-schedulement of loans which includes both Rupee Term Loan and Foreign Currency Loans.

d) Conversion of interest burden up to March 2016 into the term loans without impacting the asset classification to improve cash flows. Industry is finding it difficult to finance the interest currently and the only window to reduce the interest burden is to go through CDRwindow. Therefore it is requested to allow conversion of part interest into FITL to ease the cash flow position for the most stressful period, without changing the asset classification.

e) The existing condition of takeout financing for 25% exposure of existing lenders require to be taken out by new set of lenders is becoming a challenge due to reluctance of any new lender to join for re-financing, thus jeopardising refinancing efforts of corporates. Therefore condition of new set of lenders for 25% joining the existing lenders (for balance 75%) may kindly be dispensed with to enable the re-financing of loans by the existing lenders.

With this steel sector will be able to stand up and further add the capacity to meet the growing demand in time to come.

Research and development

The Union Minister of Steel & Mines Narendra Singh Tomar underscored the importance of sprucing up Research & Development (R&D) work in the iron and steel industry. “Better R&D means better resource utilization, better cost efficiency, better products and world-class exports,” he averred. Tomar informed the gathering that the ministry has taken a decision to set up a forum for Research & Development in steel sector with proposed initial corpus of Rs 100 crore from Steel Development Fund (SDF). Expressing concern over the shortage of iron ore for several domestic producers, Tomar said, “Iron ore production has fallen from the level of 218 million tonne (MT) to around 150 MT owing to various reasons. In line with the recommendations of Supreme Court and the Shah Commission, we have revised mining guidelines in the country to make the process more transparent and efficient.” The government also stressed upon the need to beneficiate raw materials to optimize natural resources.

Comparing India’s per capita average consumption of steel at 60 kg with the global average of 215 kg, the minister expressed confidence in the growth potential of domestic steel industry, despite tough market conditions. Steelmakers requires to take a holistic view of this industry, considering the employment potential inherent in it, owing to forward and backward linkages.

The government has accorded in-principle approval for setting up Steel Research & Technology Mission of India (SRTMI), in line with the Prime Minister’s vision ‘Make in India’. The mission envisages to increase R&D investment from the present level of 0.2-0.3 % of turnover to international benchmark of 1-2 % of turnover by the leading companies.

Ministry of Steel will set up a “Steel Research & Technology Mission of India” (SRTMI) to promote collaborative research programmes in steel sector. Union Minister of Steel, Mines, Labour & Employment Shri Narendra Singh Tomar accorded in-principle approval for setting up SRTMI, in a meeting with senior Ministry officials on 20.10.2014. Shri Tomar remarked that SRTMI will be steel industry’s contribution to ‘Make in India, Made in India’ initiative. Investment on Research & Development in the steel sector must increase from present level of 0.2-0.3 % of turnover to international benchmark of 1-2 % of turnover by the leading companies, he added.

The conceptualization of SRTMI was done by a high level task force set up by the Ministry of Steel. The task force had recommended that SRTMI is to be formed as a registered society in close cooperation amongst the steel companies, Ministry of Steel, academia and relevant institutions in the country. SRTMI will be governed by a Governing Board of CEOs of steel and associated companies, domain experts of national and international repute, and one nominee from Ministry of Steel. There will be an Oversight Committee under the Chairmanship of Secretary (Steel) to periodically assess the functioning & performance of SRTMI.

SRTMI will carry out R&D in priority areas of national importance covering best usage of available raw materials & conservation of natural resources, optimum energy conservation & minimum emissions leading to innovations and in-house development of design, engineering & manufacturing facilities of key steel plant equipment. The task force further proposed that SAIL, Tata Steel, JSW Steel, JSPL, Essar Steel, RINL, NMDC & MECON will be the initial participating companies who will sign MOU besides Ministry of Steel.

Subdued price trend

Global steel prices during the last fortnight across geographies largely declined. World Steel Association (WSA) also cut its global steel demand growth projections to 2% for the calendar year 2014 and 2015 indicating persistent weakness in demand. Iron ore (62.5% Fe) prices fell by 24 per cent to hit

$70.42 a tonne. Analysts believe that the weakness in steel prices is likely to remain subdued going forward.

Domestic steel prices for flats were stagnant in major mandis while long prices were lower by Rs300-500/ tonne. No significant movement in infra projects along with increasing threat of imports could have led to the decline in prices of long products. The prices could further decline in the ensuing days as waning demand, increase in imports and decline in global raw material prices should weigh heavy.

Premium coking coal price also fell in tandem with iron ore thereby witnessing a decline of 34 per cent since June. Currently coking coal is traded at $112.27 a tonne. Steel prices have fallen by 12 per cent to $475 a tonne.

Infrastructure boost on card

India's infrastructure sector story in the past decade has been a roller coaster ride. The sector initially witnessed large investments across each of its sub-segments aided by the economy, which was growing at a high rate. The share of the private sector has increased steadily over the years, with enabling policy and regulatory environments being put in most segments, said a report by the global consultancy firm KPMG.

However, over the last few years, the infrastructure sector has been going through a troubling phase due to an economic slowdown, restricted access to capital, and decline in investors' confidence. While the specific reasons for this have differed across each sub-sector, they have included: slow government decision-making, challenges in land acquisition, delays in obtaining environmental clearances, overly aggressive bidding by developers, high interest rates, and underestimating the challenges to be faced in execution.

India's new Government, armed with a decisive mandate has initiated a number of measures to kick start investment. This has significantly improved investor sentiment, reflected in the increasing market value of infrastructure companies and a significant number of M&A transactions that have been closed by strategic and financial investors, domestic and international. The new Government considers railways as the 'growth engine' of the country. The rail sector in India is a central government monopoly and has witnessed the least private sector participation. Given the large investments that this sector requires and financial health of Indian Railways, the new Government has started a process of transformation of the railways sector with increased private sector participation and more liberal foreign direct investment in railway projects. In the MoUs signed recently with Japan and China, the railways sector and specifically, high speed railway lines between Mumbai and Ahmedabad and from Delhi to Patna were specifically recognized.

In the highways sector, in recent years PPPs have emerged as the preferred mode for implementing road projects. The National Highway Authority of India plans to award road projects on an Engineering Procurement Construction (EPC) basis to start with and at the same time address issues to kick start the stalled projects. The budget has set aside US$7 billion for building 8,000 kilometers of new roads. The Indian civil aviation industry is among the top 10 in the world with an estimated value of USD$16 billion. This is a fraction of what it can actually achieve. The next generation of aviation growth in India will be triggered by regional airports. Many Indian states have started taking pro-active measures to promote air connectivity. In addition there are going to be interesting PPP opportunities for investors in the new greenfield airports at Navi Mumbai and Goa (Mopa) that are going to come to the market shortly.

Similarly, in the energy sector, the new government is working a number of initiatives to increase the supply of domestic coal, promoting renewable in much larger scale to put them at the center of the fuel basket and undertaking distribution reforms. It is also revisiting the Electricity Act, which need changes to get private sector interest back into this key sector.

A number of opportunities around the urban infrastructure, water, and waste management and sanitation sectors are available, as the government implements its ambitious program of building 'smart cities'. While the past few years have seen a decline in interest around the infrastructure sector, the new government is taking a number of measures to revive investment and interest in it.