



ASHOK KUMAR TYAGI

Indian Steel Industry Passing through Tough Phase

Ashok Kumar Tyagi has taken charge as Chairman-cum-Managing Director of MECON Limited on August 1, 2013. Tyagi did his B.E. (Hons) in Civil Engineering from Maulana Azad College of Technology (now MANIT), Bhopal in 1977. He joined MECON on May 22, 1978. Tyagi also did a Post-graduate Diploma in Business Management with AIIMA in 1988.

During over 38 years of his service in MECON, he has made numerous contributions in the field of design, engineering, consultancy, preparation of DFRs, project execution, project management, marketing and project procurement services in metal, power, infrastructure and oil & gas fields and several managerial assignments. A.K. Tyagi, prior to taking the charge of CMD-MECON, has held the position of Director (Commercial) of MECON from March 1, 2012.

Some of the notable assignments are Rebuilding of Coke Oven Batteries; Revamping of Rolling Mills; Up-gradation of Blast Furnaces; Expansion of Rourkela Steel Plant; Rolling Mills; India's first major Jarosite Containment System; world's largest CNG and CGD network at New Delhi and Project Management of 3 MT Integrated Steel Plant at NMDC, Nagamar. Tyagi is actively involved in the recent studies of national importance like SPV framework for steel industry in the mineral rich states to increase steel

production capacity to 300 Mt by 2020-25; Long term perspective of steel sector - infrastructure requirement for steel sector including the need for steel freight corridor and its linkages with the proposed dedicated freight corridor, special mining zones, etc. to name a few. Tyagi has also worked in Nigeria and Oman.

He is Managing Director of Metallurgical & Engineering Consultants (Nigeria) Limited. He is also serving in the Governing Body of Jawaharlal Nehru Aluminium Research Development and Design Centre, Nagpur and is a Member of the IIMA Society (Indian Institute of Management, Ahmedabad).

He has written several technical papers, and is a council member of CEAI and various other professional bodies. He has keen interests in art & culture and is a sport enthusiast.

"Iron & Steel industry, the world over, is passing through a very difficult phase mainly due to overcapacity, slowdown in demand especially in China and sharp decline in steel prices since 2014. The ensuing predatory pricing mechanism targeting growing steel markets including India is further aggravating the industry." In an exclusive interview with 'Steelworld', Ashok Kumar Tyagi has discussed about the situation faced by the countries due to overcapacity from China. Excerpts



How in your opinion is the present status of Iron & Steel Industry?

- Iron & Steel industry, the world over, is passing through a very difficult phase mainly due to overcapacity, slowdown in demand especially in China and sharp decline in steel prices since 2014. The ensuing predatory pricing mechanism targeting growing steel markets including India is further aggravating the industry. China alone commands about 50 % of global steel capacity as well as production and thus largely influences the dynamics of global steel business. The various factors contributing to current dismal situation of steel industry are:

(i) Existence of over 30% global excess steel capacity (~550 Mt). China happens to be the single largest contributor to the tune of 300-400 Mt.

(ii) Slowdown of the Chinese economy/falling domestic steel consumption leading to surge in exports from 53-58 Mt per annum in 2012-13 to an all time high of 111.6 Mt in 2015.

(iii) Excess steel availability with sharp decline in demand has led to dumping of steel by Chinese steel mills at unbelievably low prices, below the marginal cost of production. This has led to anti-dumping measures by several countries to protect their domestic steel industry.

(iv) Slowdown of investment in Gulf has led to reduction in steel demand. This slowdown is due to slackening of crude oil demand, particularly from USA resulting in softening of crude oil prices.

(v) The Indian steel industry is also largely impacted owing to large scale import of cheap steel, mainly from China & FTA countries (South Korea, Japan) despite fiscal and non-tariff measures taken by the Govt. There has been increase in steel imports from 5.7 Mt in 2013-14 to 12.7 Mt in 2015-16. About 75% of steel imported is from China, Japan & South Korea. As a result, India has become a net importer of steel.

(vi) The adverse global situation has led to deteriorating performance of Indian steel sector reflected by declining profits / capacity utilization. Most of the large steel companies both in public & private sector are making losses aggregating to over Rs. 10, 000 cr.

(vii) Worldwide there has been considerable expansion of mining capacity in anticipation of continuing growth prospects for steel industry leading to glut in raw material availability and sharp fall in international prices.

(viii) Rapidly rising debt burden of Indian steel industry is due to modernization-cum-expansion programmes undertaken in the past, mainly financed by debt (predominantly bank loans). Unfortunately, this coincided with a period when RBI was raising interest rates to combat

inflation. Hence the combination of rising debt burden and escalating interest rate led to a sharp deterioration in the interest coverage ratio of major companies.

(ix) Banks are reluctant to fund steel sector projects since their outstanding has reached a mammoth Rs 3.10 lakh crore. The gross NPA of steel sector has reached Rs. 1.15 lakh crore, which is ~37% of total industry NPA. 93% of steel companies are facing negative cash flows.

In a nut shell, it can be said that Indian iron & steel industry is passing through one of the toughest phases and one only hopes that this crisis will subside soon.

What is your opinion about prospects of Indian Iron & Steel industry in short term and long term?

- In the short term, the situation is not going to ease sufficiently despite anti-dumping measures taken by Govt. of India and RBI's 5/25 scheme to restructure the loans over a longer period of repayment as per the economic life with periodic refinancing as well as S4A scheme. The industry has to go for cost cutting measures wherever possible, optimise operations, focus more on value addition and try to reduce their cost of production by taking full advantages of declining raw material prices. Under this situation, Industry has to work within reduced margin and at least avoid operating loss.

However, on a longer term perspective, the potential demand drivers for steel remain strong for India for the following reasons:

- India being one of the fastest growing economies, with GDP growing at over 7% - the overall economic growth shall drive demand in end-use sectors.

- Steel, being a core industry, every developed country in the world, from the long term economic security, has endeavoured to become self-reliant and largely fuelled their major infrastructure development programmes from the steel produced by them. India, being a huge country of over 1.25 billion people, will require millions of tonnes of steel to meet its infrastructure requirement.

- New Manufacturing policy and 'Make in India' drive of the Government is slated to increase the share of manufacturing in GDP from 15-16% to 25% by 2022. Increase in manufacturing shall lead to generation of considerable steel demand.

- Current per capita consumption hovering around 60.6 kg is very low in comparison to developed economies of say, USA (297.4 kg), France (194.2 kg), China (488.6 kg), Japan (497.3 kg), South Korea (1113.6 kg), etc. It has been seen that per capita consumption will increase sharply as steel consumption is made in massive infrastructure projects.

India enjoys competitive advantage in terms of cheap skilled labour and favourable endowments of raw materials particularly iron ore & coal. Further, a large part of the country still remains unexplored and Govt. has initiated efforts in this direction by amending the MMDR act. This is likely to raise potential of additional resources.

- Besides indigenous metallurgical quality coking coal, country is also pursuing the policy of acquiring good coking coal assets abroad to ensure long term raw material security.

- It has been found that per capita use of steel typically rises with per capita income, though it begins to decline after a certain point. India's per capita income is slated to see a substantial rise in the future.

Indian steelmaking capacity projection for 2025 is around 300 Mt, please comment.

- The draft national steel policy envisages Indian steel capacity to reach 300 Mt by 2025 from the present level of 118.2 Mt. This appears to be a tall order in the wake of prevailing stressed situation. However, long



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term domestic demand prospect appears to be good in view of growing economy with large population base, rising income levels, massive investment plans in infrastructure, urbanization/smart cities, new manufacturing policy, Make in India initiative, growing rural consumption etc.

The implementation of the reform agenda of the Govt. aimed to eliminate structural bottlenecks viz. coal block allocation through auction, MMDR (amendment) Act 2015 facilitating major mineral allocation through auction, new RFCTLARR Act for land acquisition etc. is expected to steer the Indian Steel Industry on fast track growth trajectory, albeit not immediately, but definitively over mid to long term perspective.

The Steel capacity has to increase substantially to meet the burgeoning demand in future. As mega steel projects have a long gestation period, there is a need to make future planning considering long term perspective. The combined effect of a slew of measures taken by Govt. will be visible after some time. There could be a delay of few years in achieving the target capacity of 300 Mt.

MECON has been involved in designing and commissioning in many mega steel projects. What are the today’s bottlenecks in green field expansion in steel industry?

- The greatest bottleneck in my view, is delay in land acquisition and settlement of related R&R issues as well as delay in securing mineral linkages and various statutory approvals and clearances.

Therefore, there is a need to evolve and adopt a single window clearance system with specific time line set. As of now the above activities consume 3-4 years. In fact to fast track the setting up of mega steel projects, MECON, for the first time conceptualised the

SPV mode of taking up such projects by floating a separate Special Purpose Vehicle. SPV model follows the guiding principle of sustainable and inclusive growth and has a two-tier structure. In tier-1 linkage of iron ore is ensured through a Joint Venture (JV) with concerned States and in tier-2, development of the steel plant is to be carried out. SPV partners along with State Govt. would undertake project development activities such as land acquisition / R&R, securing approvals / clearances and linkages for ore, water etc. The ready to invest site, thereafter will be offered for competitive bidding to the prospective investors, both in public & private sectors, including foreign companies to attract new investments in steel sector.

Another challenge for the steel industry is the availability of organized Rail infrastructure for transportation of huge quantities of bulk raw materials and finished products. Augmentation of Rail infrastructure, a prerequisite for industrial growth, is a focus area for the Govt. and Dedicated Freight Corridors (DFCs) are being implemented with this in view. However, further augmentation for linkage of ports, mines and steel plants is required to cope up with the freight that shall be generated due to the envisaged 300 MT. MECON has prepared for MoS, GoI, a comprehensive eastern zone Infrastructure Report for dedicated Steel Freight Corridors (SFCs) that include possible connections with the ongoing and future DFCs.

For all such critical initiatives, effective project management is imperative as is the constitution of an empowered high level project management team to take decisions and pre-emptive measures to counteract any issue likely to affect timely implementation.

Tell us something about the MECON’s present activity profile and how are

you planning to expand it in coming years?

- As you are aware, MECON is a leading design, engineering, consultancy and contracting organization in India. The organization derives its core competence from its six decade long experience of handling projects pan India and on Global basis. Today, it enjoys a market leadership position in Metals sector. Metals, in particular Steel, are a stressed sector globally and India is not an exception.

MECON being an organisation with strong fundamentals, focused marketing approach and ready to meet challenges, has been able to moderate its business strategy to focus on areas like engineering in allied areas, Infrastructure, Energy (Power and Oil & Gas) sectors and to improve its presence in non-metal sectors as well in terms of business procurement, to obviate the perennial steel cycle effect. MECON is actively pursuing initiatives in new areas through concerted efforts in gaining the requisite technological expertise and entering into strategic partnership to meet the challenges emerging from changed business scenario.

The iconic initiatives of the Government like Make in India, FDI in Defence sector, PFA 24x7, NSP 2012 Draft, Namami Gange, Urja Ganga etc. have the potential to jump start the industrial investment scenario and MECON with its technological expertise in various sectors and is poised to provide its services to reinforce indigenous capabilities particularly in the arena of energy efficiency, zero discharge, development of electrical steel, clean coal technologies, mining, desalination plants, CGD/CNG Networks, Smart City development, strategic projects etc. We are confident that we will continue to strengthen our market position in these emerging areas as we did successfully for the Metals sector.