

Biggest Opportunities for the 'Men in Steel'

- Pankaj Jain
Sr. VP (Sales & Marketing),
Kalyani Steels Ltd.



Standing today, very few amongst us may be having doubt that India has an exciting future and soon will become a global economic force. Optimists like me feel that the Global economic shift has begun, and India is well poised to become the **next "Super Economy Power"**. But this will remain not just a dream, but an actionable vision if **all of us** do our "bit" of unlocking the big potential and preparing for the same.

Steel industry has always been considered the "backbone" of the economy. But when I see the P&L (say of last 12 quarters) of majority of the steel companies especially in India it scares me and two questions come to my mind:

(1) If we take a time frame of say 8 years from now - **How many will exist in 2025 ?** (With or without consolidation. Quite a large number of players are on "Sale" for some time, but hardly any deals been concluded)

(2) Among those who will – how many of them will be making profits enough to **"Enjoy being globally competitive in Steel"**. The Indian Steel Market is changing and it might be quite different in 2025 and beyond.

I am not trying to make prediction about any company at some future time, but to emphasize one point to all who are directly

or indirectly to steel business. **"Extinction is the rule of the day and Survival is the exception"**. Time is ripe to take a deep dive to assess your short term and long term strategies.

The choice of year 2025 has been made – as that is the year which Government of India aspires India to be making 300 Million T from current levels of 90 Million T (Crude Steel production in F16)

India today is a US \$2 trillion economy and surely has emerged as one of the world's fastest-growing economy. The predicted GDP growth rate for the period 2016-20 is estimated between 7.5 -8.0 % which is higher than any of the countries like China, Russia, Brazil etc.

Profitability and sustainability will depend upon who puts the house in order and is able to see the writing on the wall. Lots of data related to opportunity is floating around, but the challenge going forward will be – how many are able to turn data to information, and information to insight. Even those who have made money so far may start facing challenges if they do not change their ways.

Few mega - opportunities that come to my mind that hold relevance to the steel industry are as follows:

Railways & Metro

Government of India wishes to invest INR 8.5 Trillion over the next 5 years. There are going to be huge spending in laying of tracks, engines, wagons, safety equipments, infrastructure development etc. This sector is at an inflection point – poised to grow manifold.

Just to give a glimpse, the current 1483 Km freight corridor under execution between Delhi and Mumbai (one leg out of four) has a project outlay for USD 90 billion. On top of it, there is a clear roadmap for making of 7 new mega cities along the freight corridor along with 9 mega industrial zones, multiple logistic parks, three ports and six airports.

City metro systems also are being built across India, with more than ten projects under way. The market for metro-car manufacturers is estimated to USD 2 Billion an year by 2020.

Aerospace & Defense

The total investment is estimated to be in the range of USD \$150 bn, with two-thirds to be made before 2025. Mr Narendra Modi, our current Prime Minister has spoken of having 70% indigenous weapons procurement by 2020, roughly double today's figure, with more of it produced by the private sector.

Press reports suggest the armed forces



are short of some 300 fighter jets, at least a dozen submarines, over 1,000 combat helicopters, seven frigates and perhaps 3,000 artillery guns. We all are aware that a good portion of the entire requirement – be it steel or finished item is currently being imported at a huge cost. (Cost of a basic F-16 is approx. USD 40 Million whereas F 35 is crossing USD 100 million).

Urbanisation

With a population of around 1.3 Billion, no economist can doubt that India needs greater urbanisation, at a much faster pace. The good part is that now, urbanisation in India is faster than most of the parts in the world – and World Bank estimates that by 2050, India will lead the world's urban population growth with more than 75% living in cities against the current 33-34%. This can only happen if huge investment is done in areas of power, roads, sanitation, water supplies and everything required to improve ease of doing business. Just to give a glimpse of the situation - The number of registered vehicles grew 473 times in last 6 decades (1951-2011), whereas the roads grew just around 12 times. In the same time, the public transportation services (Buses) have shrunk by more than 90%.

Capital Machinery Sector

With India's growth as one of the fastest growing economy, the demand of capital machinery is also on a zoom. Between 2005 and 2015 the market size has increased from \$45 Billion to \$90 Billion, but the irony is that more than \$30 Billion was met by imports. The capital machinery import was the fourth largest import item after crude oil, electronics and gold. This sector as a whole is currently just about 0.6% of the GDP (against China's 4.1% of their GDP – but not

to forget that China's GDP is approximately 5 times than that of India).

Above mentioned are few of the **biggest opportunities for the "Men in Steel"**, but the tapping of potential will not happen by chance. All companies need to do a deep introspection to assess the roadblocks that obstructed growth in the past. If the same are not having a mitigation plan, we will also see only multinational companies enjoying the fruits.

In particular, they need to understand:

Technology Issues – Risk of Falling Behind

The Indian players (my personal view) are very poor on R&D. Today, this is a survival requirement. Look around – in steel industry whether it is steelmaking, rolling, inspection or any test equipment, technologies in most are either imported or licenses from global OEMs. **Indian companies need to rise above being a copier, fabricator or an assembler.**

Talent Issue

From the shop-floor personnel to the Chief Executive, there is a shortage of talent



in our country of more than 1.3 Billion. And whatever technical and managerial talent is available amongst the freshers, preference is given to services sector as against manufacturing sector. Serious efforts need to be made for skilling people for all levels. We should not forget that **"The only thing more expensive than training / skilling / education is ignorance and we all know it well. We should also not forget that if a flower doesn't bloom, we need to fix the environment in which it is growing, not the flower"**.

Insufficient Investments / Capacities to Capture Growth

Look at the capacities of most of the steel players in the country. Barring a few, there are 2 common observations. First, the claimed capacity has not changed for a long time (that means no investments) and also the claimed capacity has never been achieved. (Which means – the capacity need to be validated).

If we believe that even 50% of likely growth stated above come true, there is likelihood of serious short supply in almost all products. And if there is a technology barrier, for example – related to cleanliness of steel for any application, most of the players might find themselves simply outdated.

Private Industry Participation with Government

Good portion of the growth is coming by way of Government initiatives. Success cannot be achieved without proper and merit based partnership between Government and Private sector. The current Government of India has the best of intentions, but needs to be driven faster.

We are at the best of times – especially to be in India – "World's most youthful nation". Let us THINK BIG and make our dreams come true. **We cannot do anything that can change the past – but we can do everything that can change the future. The path of growth is going to be painful, changing the business style will also be painful; but staying at the same place or getting overtaken by somebody can be even more painful. There is no other option – grow fast or give space to others.**

Let the spirit of LION the "Make in India's logo" be in everybody's heart. We will then be unstoppable.