

Analysis

Indian Steel :

Big Challenge Ahead

- Sanjay Sengupta

The Central Statistical Organisation (CSO) in its advance estimate for the financial year 2011-12 has projected that India's GDP growth will be 6.9 percent as compared with 8.4 percent in the preceding year. According to CSO's projection, the Manufacturing Sector having a weightage of 75.5 percent of the Index of Industrial Production (IIP) will grow by a low of 3.9 percent over 7.6 percent in the previous year. The growth of the Construction Sector, which has a share of about 60 percent in India's steel consumption, will record a low growth 4.8 percent in 2011-12 as against 8.0 percent in 2010-11. In actual terms, India's IIP grew by 3.6 percent during the first three quarters (April – December, 2011) of 2011-12 over 8.3 percent in the corresponding period of the previous year. During this period the manufacturing sector recorded a low growth of 3.9 percent as against 9.0 percent in April – December 2010. According to the recent data released by CSO, India's IIP rose by 4.0 percent between April, 2011 and January, 2012 as compared with 8.3 percent in the same period of the preceding year. The manufacturing sector recorded a growth of 4.4 percent during the above period over 8.9 percent achieved in April, 2010 to January, 2011 period.

Core Sector Growth

The eight infrastructure industries known as 'CORE SECTOR' registered a growth of 4.4 percent between April, 2011 and February, 2012 as against 5.8 percent during the corresponding period of the previous year. The growth of finished steel production was 6.8 percent over 9.2 percent during the same period of the previous year.

All the above indicators reveal that there has been a remarkable downtrend in the economic and industrial growth of the country in 2011-12 as compared with the preceding year. In case of the steel industry, decline in demand has become a cause of anxiety for the steel producers who are already suffering from the impact of rising input costs.

Automotive Growth Declines

Production, domestic sales and exports of the Indian automobile industry between April and December, 2011 are shown in Table - 1

Commercial vehicles have posted healthy growths in production, domestic sales and exports during the period under review.

The 3-wheeler segment has recorded a negative growth of 0.7 percent in domestic sales but its exports have gone up by a healthy 43.63 percent in the comparative periods under discussion.

The 2-wheeler group have posted healthy growths in production and domestic sales and has recorded a high growth of 29.75 percent in exports between April - December, 2011 over the same period of the preceding year.

Overall, the performance of the Indian automobile sector, which has a share of about 5 percent in the country's total steel consumption, during the first three quarters of 2011-12 has recorded a much lower growth than what was achieved during the same period of 2010-11.



Table - 1 : Production, Domestic Sales and Exports of Indian Automobile Industry : Apr. - Dec. 2011 (Unit : No. of Vehicles)

Type of Vehicles	Production			Domestic Sales			Exports		
	Apr.-Dec.'10	Apr.-Dec.'11	% Change	Apr.-Dec.'10	Apr.-Dec.'11	% Change	Apr.-Dec.'10	Apr.-Dec.'11	% Change
Passenger Vehicles	2145323	2200783	2.59	1795229	1804000	2.54	316527	373956	18.14
Total Commercial Vehicles	534670	662120	23.84	479848	572367	19.28	52737	65743	24.66
Three Wheelers	584411	663065	13.46	383355	383101	(-) 0.7	200757	286344	42.63
Two Wheelers	9840980	11537226	17.24	8673437	9994031	15.23	1156301	1500326	29.75
Grand Total	13105384	15063194	14.94	11331869	12753499	12.55	1726322	2226369	28.97

Source : SIAM

In the Passenger Vehicles group which consists of three segments like passenger cars, utility vehicles and multi - purpose vehicles passenger cars segment has the largest share. This segment has recorded an insignificant production growth of 0.47 percent during the April - December, 2011 while its domestic sales has posted a negative growth of 2.28 percent. The industry has attributed this as due to higher taxes and high cost of petrol. Passenger car exports have however, registered a growth of 18.29 percent during April - December, 2011 over the same period of the previous year.

Capacity of the Indian Steel Industry

The capacity of the Indian steel industry, the brownfield and greenfield expansions upto 2012-13 are shown in Table - 2.

According to Working Group on steel for the 12th Plan period, India's steelmaking capacity is expected to go upto 104.66 Mt in 2012-13, to 119.01 Mt in 2013-14, to 129.39 Mt in 2014-15, to 140.57 Mt in 2015-16 and to 149 Mt in the final year of the 12th plan in 2016-17.

The Group observed that to support an additional capacity creation of about

60 Mt (over 78 Mt in 2010-11), requirement of the financial resources will be a challenging task. The Group said it was imperative to review steel-related sectoral caps by banks and easing by norms relating to External Commercial Borrowings (ECBS). Special purpose long-term financing facility may also be created to finance huge investments in new steel plants.

Production of Crude Steel

Production of crude steel in India during April - December, 2011 vis-à-vis the same period of the previous year is shown in Table - 3.

The overall growth in production

Producers	Capacity in 2009-10	Expansion Planned		Total Capacity in 2012-13
		Brownfield	Greenfield	
Private Sector				
Tata Steel	6.80	3.20	3.00*	13.00*
Essar Steel	4.60	3.90	6.00*	14.50*
JSW Steel	6.60	4.40	==	11.00
JSPL	2.40	4.80	3.25	10.45
Ispat Industries	3.60	0.60	==	4.20
Bhushan Power & Steel	1.20	1.60	==	2.80
Bhushan Steel	0.80	2.20	==	3.00
Others & Secondary	31.00	3.20	==	34.20
Public Sector				
SAIL	12.84	10.66	==	23.50
RINL-VSP	2.90	3.40	==	6.30
Total	72.74	37.96	12.25	122.95

Source : Ministry of Steel. Ispat Industries is now known as JSW Ispat

Producer	Apr. – Dec. 2011 (P)	Apr. – Dec. 2010 (P)	% Change
SAIL	9958	10239	(-) 2.7
RINL (VSP)	2298	2340	(-) 1.8
Tata Steel	5302	5078	4.4
JSW	5365	5090	5.4
JSW Ispat	1858	1612	15.3
Essar Steel	3209	2486	29.1
JSPL	1994	1649	20.9
Other Producer (Estimated)	23373	23079	1.3
Grand Total Production	53357	51573	3.5

Data Source : JPC (P) = Provisional

has been 3.5 percent in April – December, 2011 over the same period of the previous year.

Public sector producers, SAIL and RINL (VSP) have posted negative growths. JSWSL was the highest producer in April – December, 2011 period while Essar Steel has recorded the highest rate of growth in production.

India was the 4th highest global producer of crude steel in the calendar year of 2011 as per WSA, with a production of 72.2 Mt.

Production for Sale

Categorywise production of carbon finished steel in India during April – December, 2011 vis-à-vis the same period of the previous year are shown

in Table – 4.

The overall growth in production for sale of carbon finished steel during April – December, 2011 has been 6.71 percent over the same period of the preceding year. The growth in production for sale of long products was 5.12 percent and for flat products the same was 8.36 percent in the above comparative periods. HR Coils recorded the highest growth of 15.49 percent (the contribution of skelp being insignificant). Besides HR Coils, Tinplates and Pipes (Large – dia) have also posted double – digit growths in production for sale during April – December, 2011 over the corresponding period of the previous year.

Imports

Categorywise imports of carbon finished steel by India during April – December, 2011 vis-à-vis April – December, 2010 are shown in Table– 5.

Overall, imports of carbon finished steel declined by 17.69 percent during April – December, 2011 over April – December, 2010. Import of long products has declined by 24.31 percent while that of flat products has gone down by 16.91 percent. All products have posted negative growth in imports in the above comparative periods except CR Sheets / Coils and Pipes (Large – Dia). The lower imports of during April – December, 2011 may be attributed to the low growth of construction sector (for long products) and manufacturing sector (for flat products)

Exports

Categorywise exports of carbon finished steel during April – December, 2011 vis-à-vis April – December, 2010 are shown in Table – 6.

The overall increase in the export of carbon finished steel during April – December, 2011 over April – December, 2010 has been 25.17 percent. High growths in exports are seen in case of Bars & Rods, Plates and HR Coils. Negative growths in exports occurred in case of Tinplate (including waste / waste) and Pipes (Large-dia). India was a net exporter of Railway Materials GP/GC Sheets and Pipes (large-dia). India remained a net importer of carbon finished steel during April–December, 2011.

Apparent Consumption

Categorywise apparent consumption of carbon finished steel during April – December, 2011 vis-à-vis April – December, 2010 are shown in Table – 7.

Overall, India's consumption of carbon finished steel has grown by a low of 2.6 percent during April – December, 2011 over the same period of the previous year. The growth of long product consumption has been a moderate 6.0 percent while that of flat products has recorded a meager growth of 1.4 percent. Double counting occurs only in case of flat products.

Table – 4 : Categorywise Production for Sale of Carbon Finished Steel during April – December, 2011 vis-à-vis April – December, 2011 ('000 tonnes)

Category	Production for Sale		% Change
	Apr. – Dec. 2011 (P)	Apr. – Dec. 2010 (P)	
Bars & Rods	19023	18081	5.21
Structurals	4368	4120	6.02
Rly. Materials	792	805	(-) 1.61
Total Long Products	24183	23006	5.12
Plates	3104	3040	2.11
HR Coils / Skelp	10120	8763	15.49
HR Sheets	369	420	(-) 12.14
CR Sheets / Coils	4294	4258	0.85
GP / GC Sheets	4426	4134	7.06
Elec. Sheets	120	133	(-) 9.77
Tinplate (Incl. w/w)	123	174	10.92
Pipes (Large – Dia)	1532	1372	11.66
Total Flat Products	24158	22294	8.36
Total Carbon Fin. Steel	48341	45300	6.71

Data Source : JPC (P) = Provisinal

Table – 5 : Categorywise Imports of Carbon Finished Steel by India during April – December, 2011 vis-à-vis April – December, 2011 ('000 tonnes)

Category	Imports During		% Change
	Apr. – Dec. 2011 (P)	Apr. – Dec. 2010 (P)	
Bars & Rods	314	385	(-) 18.44
Structurals	34	77	(-) 55.86
Rly. Materials	7	7	==
Total Long Products	355	469	(-) 24.31
Plates	468	642	(-) 27.10
HR Coils / Skelp	1110	1941	(-) 42.81
HR Sheets	44	61	(-) 27.87
CR Sheets / Coils	1155	831	38.99
GP / GC Sheets	264	264	==
Elec. Sheets	206	248	(-) 16.94
Tinplate (Incl. w/w)	114	144	(-) 20.83
TMBP	1	1	==
Pipes (Large – Dia)	99	32	209.38
Tin-free Steel	37	48	(-) 22.92
Total Flat Products	3498	4212	(-) 16.95
Total Carbon Fin. Steel	3853	4681	(-) 17.69

Data Source : JPC (P) = Provisinal

After deducting the double counting figures from the apparent consumption of the above two periods the real consumption of flat products works out at a negative 0.88 percent. This reveals a grim picture of the flat product industry. This has happened due to a low growth of 3.9 percent of the manufacturing sector during April –

December, 2011 as compared with a healthy 9.0 percent achieved during the corresponding period of the preceding year.

Overseas Ventures

The Indian steel producers are earnestly trying to build steel plants and acquire overseas iron ore and

coking coal mines to ensure raw material security. Some of the major development, in this regard are mentioned below :

SAIL



- SAIL has planned to make agreements with the coking coal miners in Australia and South Africa. The value of the two mines in South Africa and one in Australia is likely to be US\$ 1.5 billion and would be used to reduce SAIL's import bill. SAIL presently imports about 10 Mt coking coal annually which will go up in future.

- SAIL is planning to set up a 3 to 5 Mtpy capacity steel plant in South Africa. According to industry sources, the South African govt. has proposed a joint venture plant with SAIL and has agreed to offer iron ore and coking coal mines for use by the proposed steel plant.

- SAIL will set up a steel plant in the Sultanate of Oman which is a gas rich country and would get gas from Oman at a cheap rate.

- SAIL-led Afghan Iron & Steel Consortium (AFISCO) has secured mining rights for Afghanistan's HAJIGAK iron ore deposits and has proposed building of a 6.12 Mtpy capacity steel plant in Afghanistan. SAIL's other partners in the Consortium are RINL, NMDC, JSW Steel, JSPL, JSW Ispat and Monnet I&E Ltd.

The Consortium will sign a project contract with Afghanistan's mines ministry to explore and develop the deposits. An initial investment of about US\$ 75 million would be needed towards exploration and geological studies of the deposits. The study may take three years to complete.

The entire project including the steel works and infrastructure building would take 8-10 years to complete. The overall project estimated investment may reach US\$ 10.8 billion.

The HAJIGAK deposits have an estimated 1.7 billion tones of high

quality magnetite ore etc.

- SAIL has signed a MoU with the Indonesian govt. for getting coking coal mines from that country. SAIL has also plans to setup a steel plant in Indonesia.

- SAIL is also planning to get raw materials from Mongolia.

Tata Steel



- Tata Steel has acquired coal mines in Mozambique jointly with Rio Tinto. The production in these mines was scheduled to start from March 2012. The coal would be sent to Tata Steel's plants in Europe and Jamshedpur for Indian operations.

- Tata Steel has signed a binding agreement with the Canadian iron ore miner, New Millennium Capital Corporation (NMCC) to develop the taconite iron ore deposits in Canada. The taconite project, cited as the world's largest under-developed project, includes the LabMag and the KeMag iron ore deposits in Labrador, eastern Canada. Tata Steel will have a 80 percent stake in the joint venture.

- Tata Steel has iron ore assets in Ivory Coast. The company signed a deal with the Ivorian State Mining firm in 2007 to develop iron ore mines at Mount Nimba and the geological assessment of the area was to be completed by end 2011.

- Tata Steel is setting up a joint venture integrated steel plant with Vietnam Steel Corporation (VINSTEEL), Vietnam's largest steel company. Tata Steel will have a share of 65 percent in equity in the steel plant and 30 percent stake in the mines. The plant is likely to be operational by 2013.

Essar Steel



Table – 6 : Categorywise Exports of Carbon Finished Steel by India during April – December, 2011 vis-à-vis April – December, 2010 ('000 tonnes)

Category	Exports During		% Change
	Apr. – Dec. 2011 (P)	Apr. – Dec. 2010 (P)	
Bars & Rods	154	109	41.28
Structurals	29	25	16.00
Rly. Materials	26	0	==
Total Long Products	209	134	55.97
Plates	316	66	378.79
HR Coils / Skelp	743	415	79.04
HR Sheets	32	0	==
CR Sheets / Coils	210	205	2.44
GP / GC Sheets	939	927	1.29
Elec. Sheets	1	0	==
Tinplate (Incl. w/w)	23	53	(-) 56.60
Pipes (Large – Dia)	275	397	(-) 30.73
Tin-free Steel	2	0	==
Total Flat Products	2541	2063	23.17
Total Carbon Fin. Steel	2750	2197	25.17

Data Source : JPC (P) = Provisinal

Table – 7 : Categorywise Apparent Consumption of Carbon Finished Steel during April – December, 2011 vis-à-vis April – December, 2010 ('000 tonnes)

Category	Apparent Consumption		% Change
	Apr. – Dec. 2011 (P)	Apr. – Dec. 2010 (P)	
Bars & Rods	19424	18233	6.5
Structurals	4403	4212	4.5
Rly. Materials	830	809	2.6
Total Long Products	24657	23254	6.0
Plates	3224	3539	(-) 8.9
HR Coils / Skelp	10455	10421	0.3
HR Sheets	388	482	(-) 19.5
CR Sheets / Coils	5237	4947	5.9
GP / GC Sheets	3685	3523	4.6
Elec. Sheets	316	378	(-) 16.4
Tinplate (Incl. w/w)	281	267	5.2
TMBP	1	1	==
Pipes (Large – Dia)	1320	1002	31.7
Tin-free Steel	35	48	(-) 27.1
Total Flat Products	24942	24608	1.4
Less Double Counting	2318	1782	30.1
Total Carbon Fin. Steel	47281	46080	2.6

Data Source : JPC (P) = Provisinal

- East Africa Steel Holdings Ltd. (EAHL) a privately held company of the Essar Group, has formed two joint venture companies with the Zimbabwe Govt. One of these is for reviving Zimbabwe Iron & Steel Co. (ZISCO) and the other for developing iron ore mines. EAHL will have an access to a probable

iron ore reserves of 20 to 25 Mt.

Recently, the Zimbabwe Govt. has asked EAHL to assume the day-to-day management control of ZISCO. The local government owns 40 percent in the JV while the rest is held by EAHL. Essar plans to refurbish the

steelmaking facility at ZISCO at an investment of US\$ 115 million in the first phase to take the production capacity to 0.5 Mtpy. In the second phase, a further US\$ 275 million investment will raise the production capacity to 1.2 Mtpy and for setting up of a 50 MW multi-fuel co-generation power plant and an oxygen plant. ZISCO has stopped production since 2008.

- Essar Steel Holdings, a part of Essar Group, which has acquired the US-based Minnesota Steel, is setting up a steel plant of 2.5 Mtpy capacity at a cost of about US\$ 1.6 billion. Synergies of the plant will be provided by a captive supply of iron ore already procured by Essar Steel Holdings.

A technical report prepared by Metchem Canada Inc. in connection with the Minnesota Iron Ore project was measured and indicated resources for the project at an estimated 1.77 billion Mt, with a grading of 31.78 percent total iron. Inferred mineral reserves and resources are estimated at 201 Mt.

- Essar Group will increase the capacity of its proposed Pellet Plant at Minnesota from 4.1 Mtpy to 7.0 Mtpy. This will help to provide raw materials for Essar Steel's steel plant at Algoma in Canada and will also enable Essar to sell about 1 Mtpy of pellets in the open market.

- Essar Group has acquired a coal mine in Indonesia for its thermal power projects at a cost of Rs. 900 crore. The mine located at the Kutai region of East Kalimantan, has a reserve of 100 Mt of thermal coal.

Jindal South West Steel Ltd. (JSWSL)



- JSWSL has acquired a coking coal mine in West Virginia in the USA. It has a total resource of 123 Mt while reserves in the area where drilling has already been done are estimated at 45 Mt.

- JSWSL has planned to invest about

US\$ 500 million for buying coal mines in South Africa and Australia to secure supplies for its local expansions.

- JSWSL has picked up a 5 percent share in JFE of Japan and JFE has purchased 15 percent equity in the Indian company. The two companies together will make auto grade steel in India using JFE's technology and buy iron ore mines globally.

- JSWSL has formed a joint venture for setting up a steel plant in Georgia. **Jindal Steel & Power Ltd. (JSPL)**



- JSPL has decided to invest US\$ 600 million in part development of the EI Mutan iron ore mines in Bolivia, South America. EI Mutan is the world's largest iron ore deposit in a single location with a reserve of 40 billion tonnes. JSPL will pay US\$ 600 million by April, 2012. It is part of the overall US\$ 2.1 billion project to be fully commissioned over the next eight years. JSPL has won rights of development for half of the 40 billion tonne reserves for 40 years in, 2007.

Apart from mining, the project includes setting up of a 1.7 Mtpy steel plant, a 6 Mtpy capacity Sponge Iron Plant, a 10 Mtpy Pellet Plant and a 450 MW power project.

- JSPL has acquired Oman's Shaded Iron & Steel Company of 1 Mtpy capacity in July, 2011 at cost of US\$ 500 million. JSPL plans to increase its capacity to 5 Mtpy by 2016. A sponge iron unit is also being built.

- JSPL and the US coking coal major, Massey Energy Co. have decided to work jointly on bids to develop and operate underground coal mining projects in India, Mongolia, Australia and the U.S. **NMDC Ltd.**

- NMDC has acquired a 26 percent stake in the Brazilian iron ore producer Amplus, which has an estimated reserve of one billion tonnes.



- NMDC has agreed with a company in Mozambique to acquire coking coal deposits and is hopeful to sign the deal by September, 2012.

- NMDC has signed a MoU with Legacy Iron Ore Ltd. Australia, to acquire a 50 percent stake in the Australian mining company. By this investment, NMDC would expand its geological foot print and position itself for acquisition of additional mineral assets of iron ore and coal in Australia. **Monnet Ispat & Energy Ltd.**



- Monnet Ispat and Energy Ltd. has acquired a coal mine in Indonesia from PT Sarwa Sembada Karya Bhumi, at a cost of about US\$ 24 million. The company will use the high grade Indonesian coal for its proposed thermal power projects in India.

The Union Budget & Steel Industry for 2012-13

In India's Union Budget 2012-13 major proposals impacting the steel industry are mentioned below :

- Increase in the import on flat rolled products from 5 percent to 7.5 percent.

- Reduction in Customs Duty from 7.5 percent to 2.5 percent for the equipment used in iron ore beneficiation and pelletisation.

- Reduction in the basic Customs Duty on coating materials for the manufacture of electrical steel from 7.5 percent to 5 percent.

- Enhancement of export duty on

Chromium Ore from Rs. 3000 per tonne to 30 percent ad Valorem.

- Excise Duty increased to 12 percent from 10 percent.
- Service Tax hiked to 12 percent from 10 percent.

The increase in the import duty on flat steel products will discourage their imports and will help to protect the interests of the domestic producers.

Reduction in Customs Duty on equipment required for iron ore beneficiation and pelletisation will give a boost to the pellet making industry. Iron ore fines constitutes over 55 percent of India's iron ore production. These are not used by the steel industry and are exported. The budget proposals will be a boon to India's Pelletisation Industry which has planned to increase its capacity by about threefolds from 18 Mt in 2009-10 to 51.7 Mt by 2015. Exports of iron ore pellets has been fully exempted from export duty to encourage the domestic value addition process of iron ore fines.

The increase in Excise Duty will compel the steel produced to hike their prices. Some increases have already been announced by the leading steel producers.

Export Duty on iron ore was increased to 30 percent some time back but the ban on export as demanded by the steel producers has not been accepted.

Also, in view of the shortage of coal and its high cost of imports, the steel industry demanded exemption from its Custom Duty which has not yet acceded to by the government.

Experts have opined that the thrust on the infrastructural development of the country in the 12th Five Year Plan, starting on 1st April, 2012, will be conducive to the growth of the Indian steel industry.

H. M. Nerurkar, M.D., Tata Steel has aptly rated the Union Budget for 2012-13 as 'neutral to positive'.

World Steel Dynamics (WSD) on Indian Steel Industry

WSD in its issue dated 29th February, 2012 has made the following observation on Indian Steel industry :

- In India, hot-rolled band capacity



additions will likely well exceed the rise in underlying demand in the country. In the fiscal year ending March, 2012. Indian steel sheet consumption may be about 30 million tones, with the figure for the fiscal year ended March 2013 probably not more than 32 million tones due to the current slow growth rate for the Indian economy and the sizeable reduction in startups of new investment projects in the country at the present time. In comparison, HRB capacity was about 31 million tones in the fiscal year ended March, 2011, with the figure forecast to rise about 5.5 million tones in the fiscal year ended March 2012 and another 3.3 million tones in the next fiscal years.

- In India, the production of plants with coal-based DRI facilities and induction furnaces (that may have a capacity of about 30 million tones) is declining because of higher raw material costs and the need to combat air pollution. Some of these mills are no longer able to purchase iron ore at bargain prices from the illegal iron ore suppliers.

- In India, an oversupply of iron ore seems likely this year :

1. In March, it's expected that the country's Supreme Court will permit iron ore production to resume at a number of non-government owned mines in Karnataka.

2. JSW and Essar Steel are planning to use for large quantities of lower

grade iron ore in 2012 now that they have added capacity of iron ore beneficiation plants. The increase in usage could be 20 million tones, which compares with India's estimated iron ore consumption in 2012 of 110 million tones.

3. The government has placed 30% export duty, versus 20% previously, on iron ore exports since September, 2011. The duty restricts offshore deliveries.

4. Hot-rolled band steel mills in India in 2012, as noted above, are facing an over supply glut—a factor that will restrain the rise in Indian steel production in 2012.

Bleak Picture of Indian Steel Industry in the 12th Plan Period

The Ministry of Steel, Government of India, has painted a bleak picture of the Indian Steel sector during 12th Five Year Plan period beginning in April, 2012. It has predicted a demand growth that would be lower than even that during the 10th Plan, while begging production only a notch higher. Also, both the growth indicators would just be marginally higher than the 11th Plan achievements.

A host of issues, including a historic low demand, supply constraints at the back of a lull in commissioning of greenfield projects coupled with a severe raw material crunch from the ongoing crisis in coal and iron ore sectors, brought down the steel



sector's growth to an all time low.

According to the government's working group for the 12th Five Year Plan, 'the prospects of domestic demand appear grim and gloomy on the eve of launching the 12th Plan. It also mentioned that 'all the macro-economic indicators point out the onset of overall economic slowdown of the Indian economy which will have a profound impact on investment.'

Both production and consumption of steel during the 11th Plan period at 5.8 percent and 8.8 percent respectively – were significantly lower than the 9.4 percent and 10.4 percent achieved during the 10th Plan period. Even for the 12th Plan period, the steel sector is unlikely to achieve a double – digit growth – a target that was initially set for the 11th Plan period. The government expects a modest 9.1 percent growth in consumption during the 12th Five Year Plan period, even assuming a high GDP growth rate of over 8 percent, as against 8.8 percent in the past five years.

Steel demand grew by 8.8 percent during the first four years of the 11th Plan period compared to 10.4 percent in the 10th Five Year Plan period.

Crisil Research on Indian Steel & Its Input Prices in 2012-13

CRISIL research has made the following observation on Indian steel and its input prices in 2012-13:

In the past few years, up to 2011-12, prices of long steel and flat steel products have always moved in tandem. But CRISIL research expects a departure from this trend in 2012-13.

Domestic prices of flat steel products are likely to decline by about

5-7 percent in 2012-13. By contrast, prices of long products are poised to rise by 4-6 percent. The contributing factor is the dichotomy in prices of coking coal and non-coking coal.

The price of coking coal used by large producers shot up to historical high of US\$ 330 per tonne in January, 2011 due to floods in Queensland, Australia, which is the world's dominant exporter of coking coal. But with gradual recovery in production, CRISIL Research expects the average coking coal prices in 2012-13 to be in the range of US\$ 220-240 per tonne, over 20 percent lower on year-on-year basis.

Hence, for large producers, the cost of steel production will decline in 2012-13 over the previous year. On the other hand, the cost of production will go up for small and mid size producers who use non-coking coal as input.

In India, non-coking coal has been historically cheaper than coking coal because Coal India Ltd. (CIL), the only domestic supplier of coal, kept the domestic prices on non-coking coal lower than the international prices. Because of this, small and mid-size steel producers were able to produce steel at lower cost combined with large producers.

In 2011-12, however, prices of non-coking coal spurted by 30 percent as CIL hiked prices to narrow the difference between domestic and global prices. This increased the cost of production in 2011-12 for small and mid-size producers by about 22 percent.

The higher cost of production will force small and mid-size producers to increase the prices of long products, to

provide cushion to their operating margins. Small and mid-size producers account for about 60 percent of all domestic production of long products. Large producers, too, will follow suit with price increases in long products.

By contrast, prices of flat steel products, made in India mostly by large producers will fall in 2012-13 due to lower production cost arising from year-on-year fall in coking coal prices.

The price of other critical input, iron ore, too, is expected to be firm in the domestic market in 2012-13 as supply constraints continue to plague the market. Also, the ban on iron ore mining in Karnataka, coupled with the governments drive to close illegal mines, will continue to support high domestic iron ore prices.

The net effect of all these, is that constructing homes, dams and power plants will become costlier, while car and consumer durables manufacturers will benefit from a decline in the price of flat steel.

Conclusion

India's economic and industrial growth during the 11th Five Year Plan period have belied the expectations of the planners and have created an atmosphere of despair.

For the steel industry, the year 2011-12 has presented a dismal picture as the country's industrial growth in general and that of the manufacturing sector in particular have nose-dived to lower levels.

The picture for the 12th Plan period in respect of the steel industry is also not bright as the prospects of a healthy rise in demand is not visible. Massive development of the infrastructure may help the steel industry to some extent if the projects are implemented properly.

The huge investments for the steel industry visualized by the Working Group for the 12th Plan period are almost unachievable. The steel demand is not expected to rise by 10 percent during the 12th Plan period as projected by the steel ministry earlier.

The Indian steel industry has great challenges to face in the future years for its healthy survival and growth.