

Crisis in Indian Steel Industry: Issues and Challenges

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Abstract- Steel is one of the most important raw materials in the modern world and forms the backbone of every industrial economy. India being one of the fastest growing economies in the world cannot deny the strategic importance of the steel sector. Steel finds its extensive application right from construction, infrastructure, and power, aerospace and industrial machinery to consumer products. The Indian steel sector has grown exponentially over the past few years to be the third largest producer of steel in the world. However, the steel sector is currently going through tough times with domestic supply greater than demand and yet India largely being a net importer of steel for last couple of years. The steel producers are also facing challenging financial times, reflected in negative profit growth rates. As of March 2017, the steel industry accounts for almost 22 per cent of the total debt under CDR cases in India.

Index Terms- Steel industry, economic development, Infrastructure, Non-Performing Assets (NPA)

I. INTRODUCTION

Steel being a key input to the country's infrastructure sector, plays a major role in the growth of a developing economy. In India the steel sector contributes nearly 2 per cent to the country's gross domestic product (GDP) and employs over 0.6 million people. In 2015, India became the third largest producer of crude steel as against its eighth position in 2003. The country is also the third largest consumer of finished steel in the world after China and USA (Committee, Annual Performance 2015-16)¹. The demand for the steel is mainly driven by construction, infrastructure and automobile sectors. These three sectors together, account for over 75 per cent of the total steel consumed in the country.

The growth of steel sector between 2003-04 and 2007-08 was remarkable. During this period the production and consumption grew at a compounded annual growth rate (CAGR) of 8.3 per cent and 12 per cent respectively. With consumption over taking production, India became the net importer of steel during this period (Bansal, Dr. V.K. Saraswat and Ripunjaya)². However, during the last five years, the performance of the Indian steel sector was in the doldrums. The supply of steel has been more than the demand and yet India has largely remained a net importer of steel (except 2013-14). In 2014-15, imports increased by over 71 per cent, primarily due to sharper fall in International steel prices than domestic prices. Further, fall in Chinese steel consumption along with still significant production growth has led to increase in exports from China, putting pressure on steel prices in India and globally (Committee, Performance Highlight 2014-15)³. Due to this, the profits of the steel companies have declined rapidly in nominal terms and have experienced huge losses. A number of big players are also resorting to debt restructuring with a growing incidence of non-performing assets (NPA).

In order to protect the domestic steel industry, the government has taken various steps such as imposition of safeguard duty of 20 per cent in March 2016 on hot-rolled flat products, imposed an anti-dumping duty for five years on imports of certain variety of hot-rolled flat products from China, Korea and Malaysia. The government has also imposed anti-dumping duty on imports of cold rolled flat products originating in or exported from China, Korea, European Union, South Africa, Taiwan, Thailand and USA. A series of tariff barriers along with the new National Steel Policy (NSP), 2017 is expected to bring impetus to the steel sector.

II. OBJECTIVE

The paper aims to study the current status of Indian Steel Industry. The broad objectives of the paper are to study the following:

- i. Production and consumption trends, installed capacity and utilization,
- ii. Import/export trends in the steel market
- iii. Price movements
- iv. Impact of international demand and supply factors on the Indian steel industry

III. DEMAND-SUPPLY ANALYSIS

a) Production and Consumption

India's steel production and consumption stood at 100.8 mt and 83.9 mt respectively in 2016-17 as shown in Figure 1 (PIB)⁴. During 2012-13 to 2015-16, production growth has witnessed a downward trend with the lowest growth recorded in 2014-15. Subdued demand from the construction and automobile sectors as well as unavailability of iron ore with the ban of mining activities in

¹ <http://www.jpcindiansteel.nic.in>

² Need for a New Steel Policy, NitiAyog

³ Performance Highlight 2014-15, JPC

⁴ Lok Sabha questions

Karnataka, Goa and Odisha have been the main reasons for this decline. However, with the launch of new policies by the government the steel production increased by a year-on-year growth of over 10 per cent in 2016-17. During 2013-14, consumption growth was sluggish due to slow industrial growth, and dismal project execution in the infrastructure space. In terms of per capita consumption of steel, India stands at 63 kg as against the world average of 225 kg, indicating a huge potential in the industry.

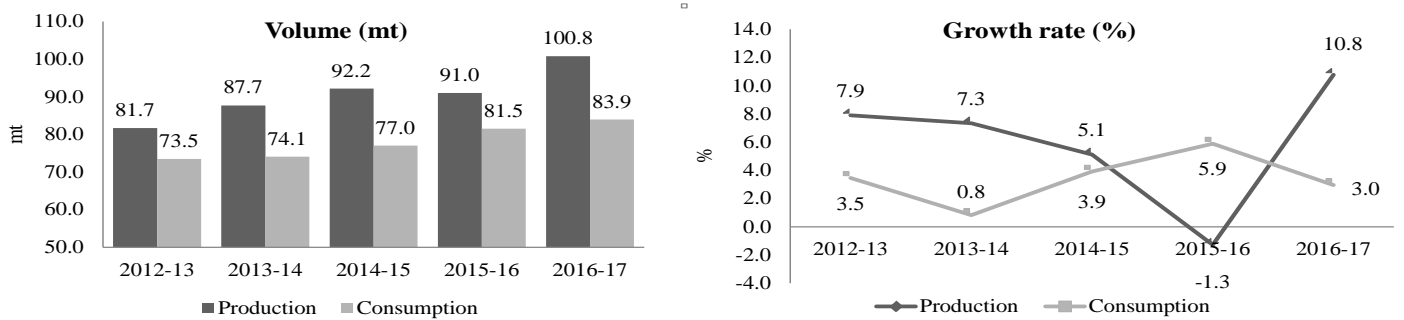


Figure1: Production and Consumption of Finished Steel in India

b) Import and Export

India has largely remained a net importer of steel in the last few years. In 2015-16, imports increased by over 71 per cent, primarily due to the global overcapacity leading to cheap exports into India, intermittent supply of raw materials, land acquisition etc. In 2016-17, India became net-exporter of steel after a gap of three years, aided by stiff tariff barriers restricting imports. In the last one year, steel exports from India increased by over 100 per cent to 8.2mt while imports fell by 36 per cent to 7.4 mt due to various trade protection measures including anti-dumping duty, safeguard duty and minimum import price imposed by the country(Steel)⁵. With many importing countries restricting shipments from China with high duties, exports from India are set to continue to rise for next few months also.

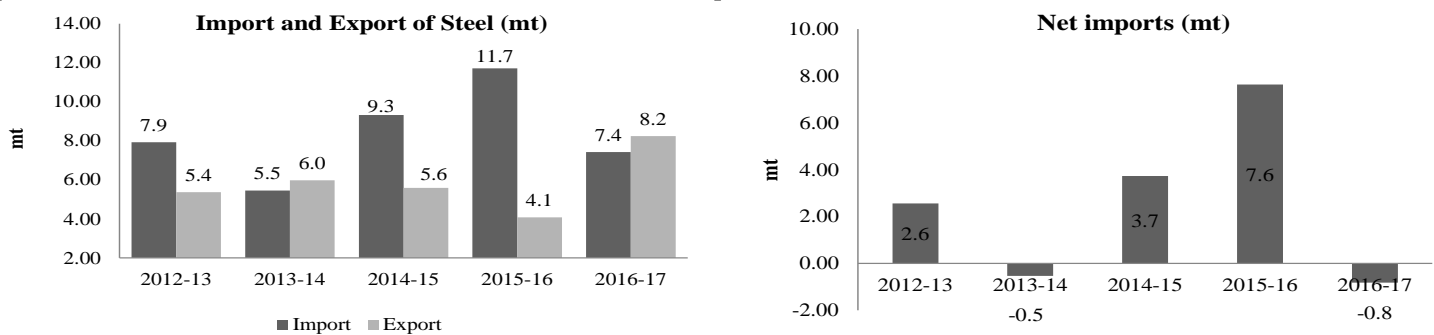


Figure2: Import and Export of Finished Steel in India

Country-wise analysis shows that China was the biggest importer of steel to India. More than 90 per cent of the total steel imports to India are from China, Korea and Japan. India has also been exporting steel to countries like Italy, Iran, UAE, USA, Vietnam and Belgium. During 2014-15 to 2016-17, the share of Iran and USA has fallen while the share of Belgium and Iran has increased(Commerce)⁶.The fall in the exports to USA from India can be attributed to greater tariff restrictions imposed by the former.

Table1: Change in Shares of Major Export Destinations of Indian Steel

Countries	Volume (000 tonnes)			Share in total exports (%)		Difference in share (A-B) %
	2014-15	2015-16	2016-17	(A) 2016-17	(B) 2014-15	
Belgium	198.39	287.42	1,112.31	13.5	3.5	9.9
Vietnam	163.12	38.11	961.26	11.7	2.9	8.7
Italy	470.86	345.41	942.92	11.4	8.4	3.0
USA	501.29	295.63	273.58	3.3	9.0	-5.6
Iran	495.8	321.43	144.01	1.7	8.9	-7.1

⁵Three years initiatives and achievements, Ministry of Steel, 2017

⁶Export Import Data Bank, Department of Commerce

A series of tariff barriers imposed by India to stop dumping of cheap steel and to provide level playing field to the domestic steel producers are (Steel)⁷:

- Imposed safeguard duty of 20 per cent in March 2016 on hot-rolled flat products of non-alloy steel, in coils of width of 600 mm or more.
- Levied the anti-dumping duty for five years on imports of certain variety of hot-rolled flat products of stainless steel from China (\$309 per tonne), Korea (\$180 per tonne) and Malaysia (\$316 per tonne).
- The government had earlier imposed anti-dumping duty ranging from 4.58 per cent to 57.39 per cent of landed value on cold rolled flat products of stainless steel from China, Korea, European Union, South Africa, Taiwan, Thailand and USA on 17.04.2014 as shown in Table 2.
- The anti-dumping duty on the above items was further extended by five more years on 11.12.2015 after it was found that there is continued dumping of these goods from above mentioned countries though the volume of imports has declined; the performance of the domestic industry has deteriorated in the current period due to the impact of the dumped imports from these countries; and the dumping is likely to continue if the duties are revoked.

Table 2: Anti-dumping duty imposed w.e.f. from 11.12.2015 (Bureau)⁸

Country	Anti-dumping duty (%)
China	57.39
European Union	29.41 - 52.56
South Africa	12.34 - 36.91
USA	9.47
Korea	5.39 - 13.44
Thailand	4.58 - 5.39

c) Capacity

The total installed capacity of steel industry increased to 125 mt in 2016-17, recording a year on year growth of 5.75 per cent. The capacity, however, has been higher than the off-take of the metal, resulting in under-utilization of the sector. During 2015-16, the capacity utilisation rate fell below 80 per cent from a high of about 84 per cent in 2014-15 due to ban on iron ore mining which led to a fall in the raw material available in the market. In 2016-17, the capacity utilization has increased with the reopening of iron ore mines in Goa and Odisha.

Table 3: Capacity installed and utilized

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Capacity Installed (mt)	96.7	99.6	109.9	118.2	125.0
Capacity Utilization (%) ⁹	81.0	80.9	83.9	76.5	80.6

IV. PRICE MOVEMENTS

a) Wholesale Price Index (WPI)

During 2014 to 2017, domestic steel prices have exhibited a declining trend largely due to falling iron ore prices and pressure from depressed steel prices world-wide. The iron-ore prices have shown a drastic downfall during 2015-16, due to re-opening of iron-ore mines in Goa, Karnataka and Odisha. Further, fall in Chinese steel consumption along with still significant production growth has led to increase in exports from China, putting pressure on steel prices in India and globally.

Table 4: Movement in WPI of Steel and Iron ore (2004-05=Base Year) (Adviser)¹⁰

WPI	2012-13	2013-14	2014-15	2015-16	2016-17
Steel	126.2	126.2	130.6	127.9	125.0
Iron ore	623.7	523.1	517.6	343.4	315.2

⁷Three years initiatives and achievements, Ministry of Steel, 2017

⁸Anti-Dumping duty on steel imports, PIB

⁹Capacity utilization rate is calculated as (Production/Capacity installed)*100

¹⁰WPI Data, Base Year= 2004-05, Office of Economic Adviser

b) Retail Prices

The retail prices also exhibited a similar falling trend like WPI as shown in Table 5(Steel, Joint Plant Committee, Monthly Steel Scene).¹¹The retail price of almost all the varieties of steel had witnessed a downfall during April 2012 and April 2016. The Rs per tonne price of 12 mm rounds in Delhi market fell by more than 30 per cent in the five year period.

Table 5: Average Market Prices of Leading Items of Finished Steel (Rs per tonne)¹²

Category	Apr-12	Apr-13	Apr-14	Apr-15	Apr-16
Rounds (12 mm)	48,980	45,330	43,500	40,250	34,100
TMT (10 mm)	51,580	47,010	44,500	42,538	35,250
Plates (10 mm)	49,770	49,420	46,000	40,100	35,700
HR coils (2 mm)	49,070	48,770	46,000	39,100	36,000
CR coils (0.63 mm)	54,100	52,980	52,500	44,533	39,000

However, the retail prices have increased after the imposition of minimum import prices and other tariff barriers after observing a downward trend. The per tonne retail prices in January 2017, increased by 19.7 per cent and 29.3 per cent for TMT and HRC respectively in comparison to January 2016(Steel, Joint Plant Committee, Monthly Steel Scene). The increase in the retail prices in last one year can be attributed to series of measures taken to curb dumping of steel by few importing countries who adopted predatory pricing strategy.

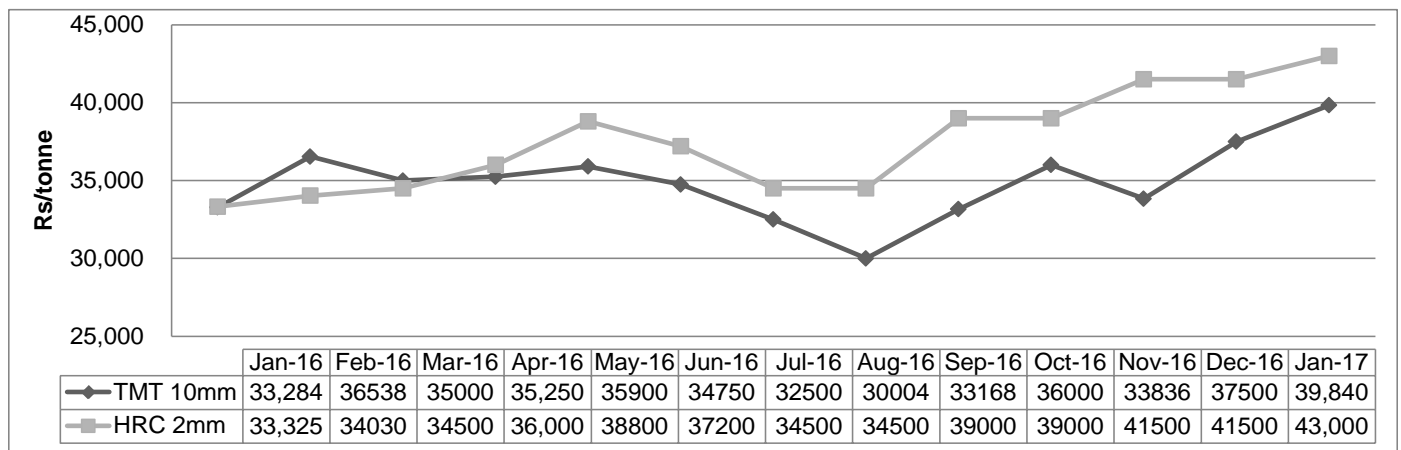


Figure 3: Retail steel prices in Delhi market (Rs per tonne)

V. CURRENT FINANCIAL DISTRESS IN THE STEEL SECTOR

The steel companies have put up a subdued financial performance in last couple of years. As shown in Table 6(Exchange)¹³profits after tax (PAT) have declined in nominal terms between 2014–15 and 2016–17 for all big steel producers. Falling profits have been associated with rapidly rising debt burden in the industry. During the period of boom in the economy many steel companies embarked on large expansion plans financed by debt predominantly bank loans. As noted in Figure 4 the growth of bank credit to the iron and steel industry peaked to over 30 per cent in 2011. Since, this coincided with a period when the Reserve Bank of India (RBI) was raising interest rates sharply in order to combat inflation the combination of rising debt burden and interest rate led to failure of debt service by major companies.

Table 6: PAT of leading players (Rs billion)

Company	Profit/Loss after Tax		
	2014-15	2015-16	2016-17
SAIL	21.6	-44.1	-29.5
JSW Steel	18.0	-8.50	34.50
Tata Steel	-39.3	-30.5	-41.68
JSPL	-12.8	-19.9	-25.40

¹¹ Monthly steel scene report by Ministry of Steel

¹² Prices are taken for Delhi Retail Market

¹³ PAT figures are taken from Consolidated financial results from Bombay Stock Exchange (BSE)

Under the dual pressure of rising debt-service burden and falling profit rate bank credit growth has been falling for years as banks get wary of lending to companies for fear of a spike in bad loans. As shown in figure 4, the growth of bank credit to iron and steel industry fell to an all-time low of 2.5 per cent in 2017 (India)¹⁴. As many players were unable to service their debt on time, this led to a large number of companies going for corporate debt restructuring (CDR) programme. With the total debt of Rs 39,770 crore the iron and steel industry accounted for 22 per cent of the total debt under CDR cases in the country as of March 31, 2017 (India, Corporate Debt Restructuring Mechanism)¹⁵. Moreover, according to the RBI's financial stability report, 2016, steel sector is the second most debt-ridden sector. It also highlights that the sector is expected to register highest gross NPAs by March 2018 (Financial Stability Report, December 2016)¹⁶.

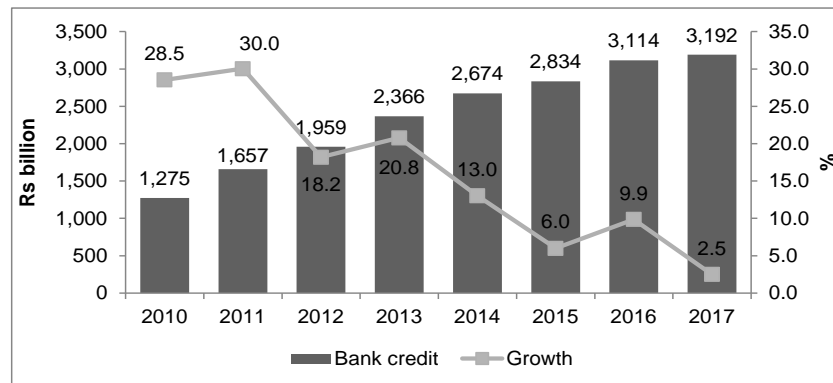


Figure 4: Bank Credit to iron and steel (Rs billion)

VI. CONCLUSION

According to the World Steel Association (WSA), India is expected to be one of the fastest growing markets in steel usage in the coming years. The demand for steel will surge with a revival in the economy. The re-opening of mines in Karnataka and Goa will also boost steel production in the country. With the imposition of tariff barriers the steel imports will further fall and alleviate pricing pressures in the coming months. Moreover, with the government's thrust on starting stalled projects followed by large infrastructure projects coming up in the country it is expected that the demand for steel will pick up. However, unless prompt measures are taken for debt relief and improving the profitability of the industry, there may be several cases of bankruptcies making it difficult to meet the demand for steel as the economy recovers.

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¹⁴ Bank Credit by sector, RBI

¹⁵ Corporate Debt Restructuring Mechanism, RBI

¹⁶ Financial Stability Report, RBI

