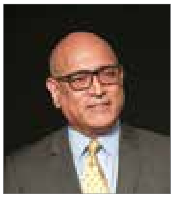
RATINGS AGENCY ICRA HAS SAID THAT IN the first nine months of FY 2018, steel demand has grown by 5.2%. With so many infrastructure projects in the pipeline all across the country and steady demand from the automotive industry, demand for steel is certainly looking up. So, what is in store for the Indian steel industry?

India is within striking distance of dislodging Japan as the second largest producer of steel. The gap came down to 3.3 million tonnes (MT) in 2017; Japan produced 104.7 MT of steel last year compared to India's 101.4 MT. Significantly, while India's output grew 6.2% in 2017, Japan's fell marginally by 0.1% in the year. India is therefore on its way to emerging as the second largest steel producer globally, next year.

Steel demand in India has witnessed steady growth over the last decade. The per capita consumption of steel has risen to 70 kgs as against 52 kgs a decade ago. But this is expected to change over the next few years with the growth in the Indian economy, which currently is at over 7%.

"India has become a net exporter last year. Many countries have anti-dumped Chinese steel and these markets have opened up for Indian exports. Many of the steel consuming sectors like automobiles, infrastructure and engineering have witnessed rebound in demand in India. The current budget lays emphasis on infrastructure and construction, which is a demand booster for the steel industry. It is reasonable to expect a growth of 10-15% in these sectors. Since no new greenfield steel capacities have been announced, the existing steel plants have to meet the emerging demand," says **Vikram Amin, executive director – sales & marketing, Essar Steel**.



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– Vikram Amin

NUMBER CRUNCHING

The high growth continues unabated in 2018. In fact, India's steel demand growth has improved by 5.2% year-on-year to 72.51 MT in the April-January period of FY2017-18. "Sustained buoyancy in the auto sector, recovery in construction and capital goods have led to the pick-up in domestic steel demand. Going forward, it is expected that domestic consumption growth will remain favourable on the back of the Government's thrust on infrastructure, in particular affordable housing, power transmission and the railways, in the Union Budget 2018-19," says **Vinaya Varma, CEO, mjunction**.

A combination of favourable domestic demand, remunerative prices in both international and domestic markets, and lower growth in imports are likely to support domestic steel production growth in the near term. Consolidation in the sector as part of the insolvency resolution of stressed steel assets is tipped to favour production growth in the steel sector. A turnaround in these stressed assets along with new capacities ramp-up could more or less meet the incremental demand, assuming import-exports levels remain steady. Nevertheless, increasing global trade protectionism could pose risk to exports and put some pressure on the domestic capacity utilisation.

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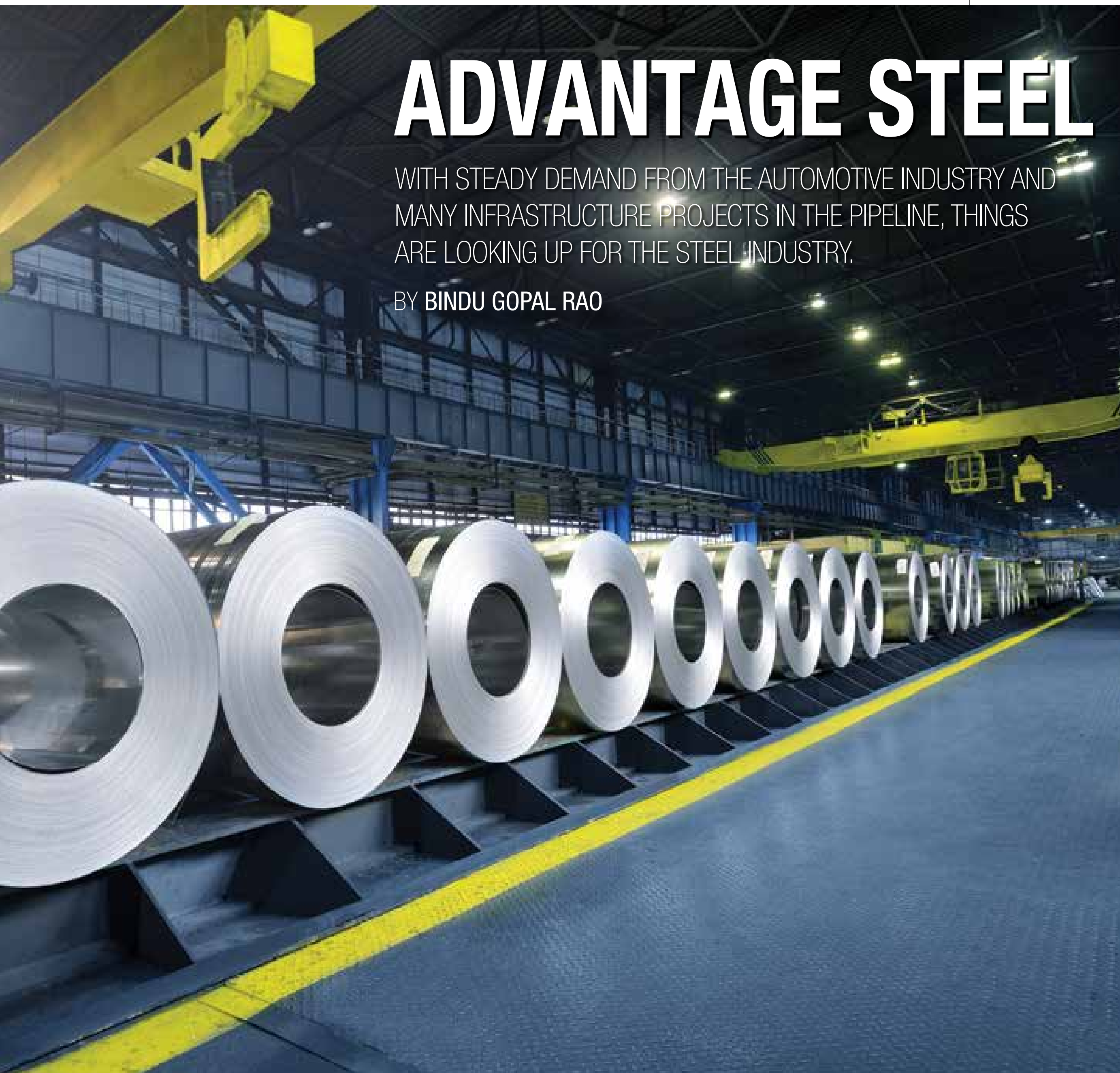
DEMAND DRIVERS

Ashim Sharma, partner & group head – business performance improvement (auto, engineering & logistics), NRI (Nomura Research Institute) Consulting & Solutions, says, "From an automotive per-

ADVANTAGE STEEL

WITH STEADY DEMAND FROM THE AUTOMOTIVE INDUSTRY AND MANY INFRASTRUCTURE PROJECTS IN THE PIPELINE, THINGS ARE LOOKING UP FOR THE STEEL INDUSTRY.

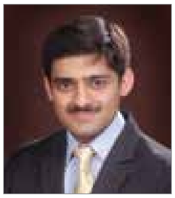
BY BINDU GOPAL RAO



spective, demand drivers include tool steel, a variety of steel still largely imported and the demand for which will increase in India on the back of the forces of increasing market volumes, shortening product life cycles and increasing variety of vehicle models on offer. The other segment is steel used in Body in White (BIW) parts, e.g. high-strength low-alloy steel, which is also imported and the demand for which will rise with increasing emission and safety regulations."

India's per capita steel consumption is much lower than the global average. According to a report published by the Ministry of Steel, per capita consumption of steel in India is 61 kgs, while per capita consumption of steel in rural India is only 10 kgs. These numbers are much lower than the global average which is 208 kgs/person. If India manages to sustain a growth rate of 7% or more, it is expected that demand for steel would grow significantly.

"The major demand for steel is likely to come from growth in construction, roads and railways, infrastructure and automobile sectors. As it seems that the policy makers are shifting their focus on the rural sector,



"From an automotive perspective, demand drivers include tool steel, a variety of steel still largely imported and the demand for which will increase in India."
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2. In the recent past, the Indian steel industry has faced a number of threats from increased imports from countries like China.

the pent-up demand in this sector can drive demand for steel in the short- to medium-run. Also, growth of real estate and demand for automobiles from the rural, semi-urban and urban sectors can be growth drivers for the steel sector," says **Professor Parthapratim Pal, Indian Institute of Management, Kolkata**.

GOVERNMENT IMPETUS

In the recent past, the Indian steel industry has faced a number of threats from increased imports from countries like China. The government introduced certain trade measures like the Minimum Import Price (MIP) and anti-dumping duties to protect domestic producers of steel. The MIP was subsequently withdrawn, but due to these policies, along with certain external factors, the Indian domestic steel industry has bounced back.

"The external factors which helped the steel industry include cutting back of steel production by China and some recovery in international steel prices since the middle of 2017. It is expected that after its trouble in 2016-17, the domestic steel industry is now on a firmer footing. It is also expected that increase in domestic demand for steel will remain high in the years to come," says Pal.

TECH TALK

Naturally, companies in the industry are all set to bite into the pie. For instance, mjunction is using an optimum mix of technology along with its marketing strength to tap this potential. "With a pan India presence helping it to reach out to the end users faster, experienced category managers, and a deep understanding of the offered products, mjunction has uniquely positioned itself as an e-marketplace for selling various steel products. Further, mjunction is using the latest machine learning tools that help in analysing the latest price trends and predicting the customer behavior," says Varma.

As the steel industry is poised for growth, companies are looking to infuse technology-based solutions to create a multiplier effect. "As the largest marketplace, we are investing in digital solutions to integrate various channels to achieve greater scale. Not only will this open new digitalisation opportunities, but also ensure greater throughput as volumes go up. To contain costs, we are applying Artificial Intelligence and Robotic Process Automation (RPA) led solutions. All our platforms and applications are constantly being engineered for the seamless experience of our buyers and sellers," says Varma.

Essar Steel has deployed the latest technology in all its operations which are environment-friendly, efficient and produce better quality products. The recycling of by-products is a step towards conserving the environment and optimising costs. Amin explains, "We pride ourselves in developing newer grades of steel to meet the specific requirements of

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our customers. We have been constantly developing new grades and are capable of producing over 300 grades for every conceivable end-use. This has insulated us to a large extent from market vagaries. Further, our entire production is presold and hence we do not carry any inventory of finished goods. We have also pioneered in organised steel retailing domestically to address the needs of the SME segment, which has witnessed robust demand on a continual basis. Our target for the next fiscal is to achieve a production of 8 million tonnes. Our special grades of steel branded as Rockstar & Borostar have been well accepted and have become recognised international brands."

THE PRICE FACTOR

However, the export markets will remain subdued in the short-run. Many countries in the world are increasingly protecting their steel sectors. For example, the USA has announced increased tariff on imports of steel products. It is expected that other countries may follow suit and will protect their own steel sectors.

"The dynamics of this possible retaliation is not yet clear but there is a strong possibility that there would be growing uncertainty about export markets in the short-term. While this possible shrinking of market access in other countries may hurt India's domestic producers, this global protectionist bandwagon may also allow India to accord higher level of protection to its domestic producers. As India has a large and growing economy, overall, this trade off may benefit Indian steel producers," says Pal.

A protectionist regime in steel can raise domestic prices of steel, which can increase the cost of production of a large number of products which use steel as an intermediate good. This may lead to a cascading effect on prices and negatively affect the competitiveness of producers of these final goods (such as cars). It will also negatively affect the consumers of these goods.

Recently US President Trump has announced that he would direct the US Government to impose global tariffs of 25% on all imported steel. The Department of Commerce had recommended the President to implement a tariff of 24% on steel imports from all countries, with tariffs of at least 53% on imports from 12 countries including India. These countries also would have a quota that would prevent them from exporting more steel to the United States than they did last year. However, this decision again will not impact Indian steel production much as India's share in the US steel imports is only at around 2.4%.

"The global steel industry will continue to face challenges in the coming years, however, India will be in a comparatively better position. As both China and Europe continue to face excess capacity, hence, Indian producers may face some challenge in finding a ready alternate market for exports. However, with China focusing on supply-side reforms, India is expected to continue on the growth trajectory," avers Verma.

While India may be catching up with Japan on steel production, India is still trying to diversify further from coking coal dependency on Australia. Japan has far higher blast furnace rates and broader sources of met coals by country and grade, with these coals taking higher market shares than in India. Though there has been major competition in the global market, the line-up of massive infrastructure projects itself poses a huge opportunity for the domestic steel sector. Owing to the huge pipeline of infrastructure, railways and real estate, order inflows are expected to remain strong. MT

"We are investing in digital solutions to integrate various channels to achieve greater scale."
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