



# Indian Steel Industry

*Chetan Phalke*

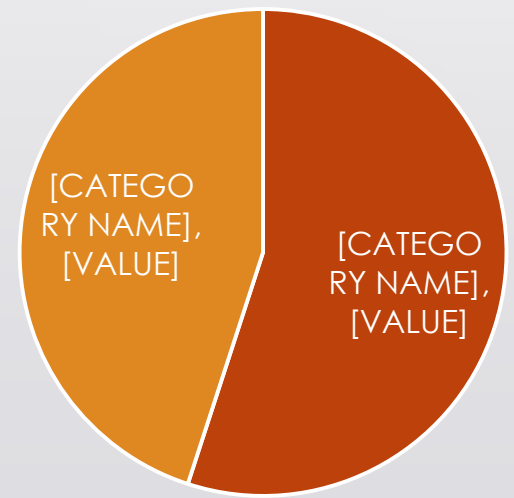
June 2018

# Steel Sector In India - Overview

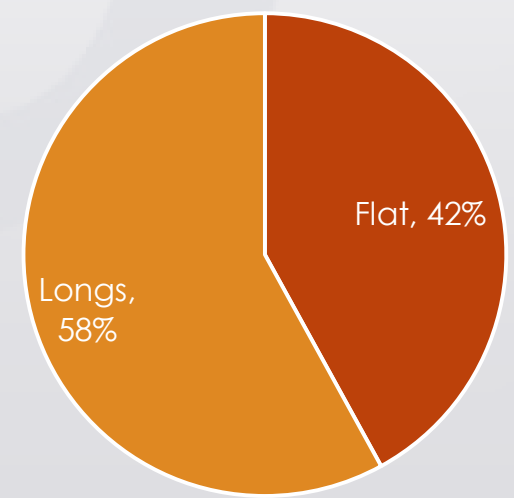
<b>Installed Capacity</b>	<b>132 MT</b>
Production	104 MT
Export	10 MT
IMPORT	8 MT
Domestic Consumption	90 MT

**Top 5 Producers** - SAIL, JSPL, Tata Steel, JSW, RINL – 55% of the capacity , 50% of the production

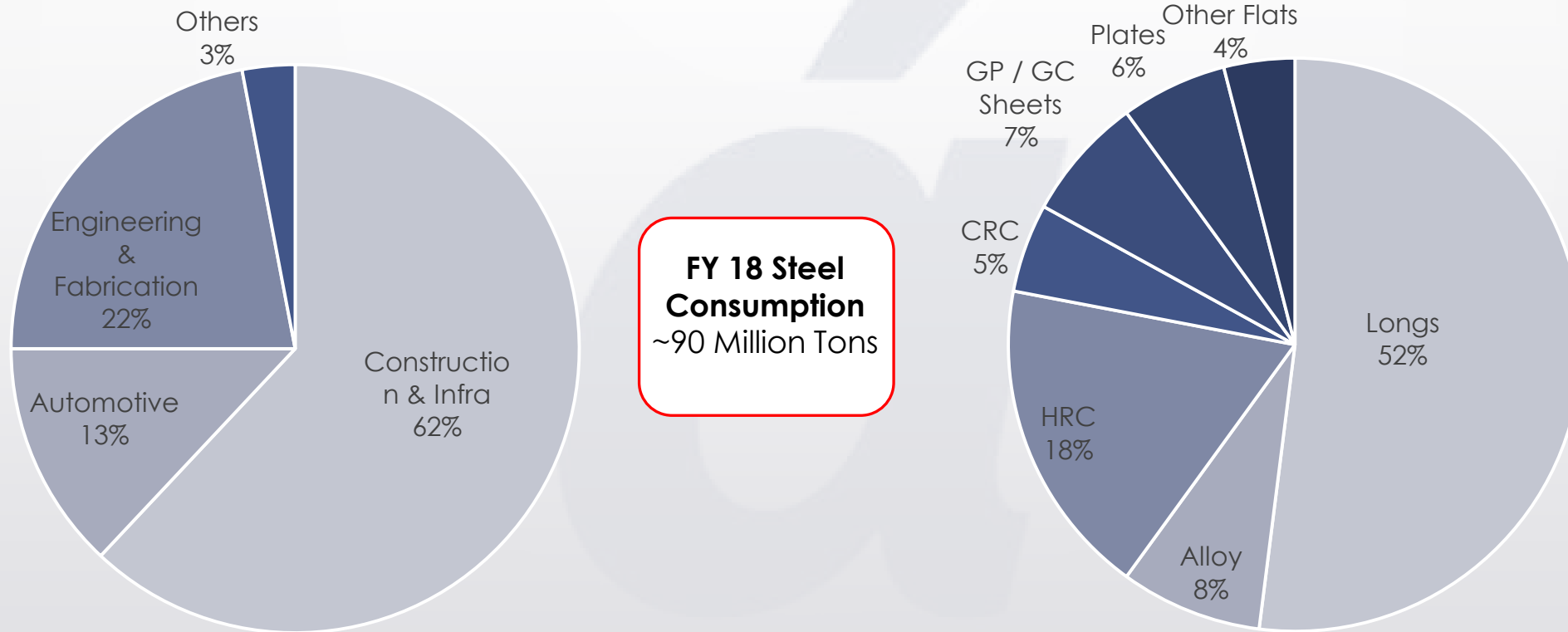
Production



Consumption



## Infrastructure Moves The Needle

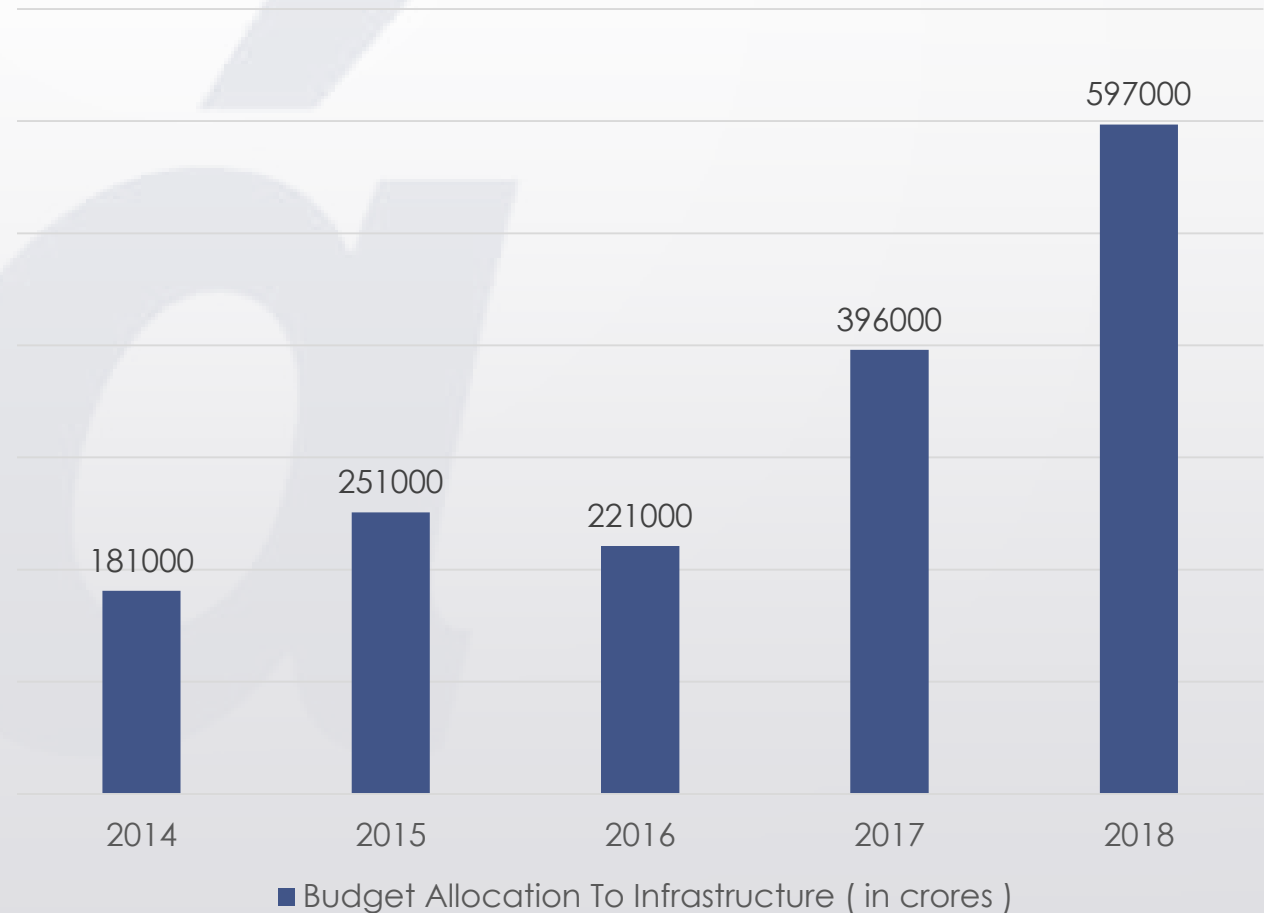


Majority of the steel demand comes from Infrastructure and construction sector. Infrastructure, auto are doing well. Engineering & fabrication too should improve as private sector capex picks up.

Nearly 52% demand comes from long products i.e. wire rods, TMT bars which are used in infrastructure & construction. Flat products are used mainly in auto, capital goods, consumer goods etc.

## The Beginning Of Massive Infrastructure Spends

- Government has stepped up its overall spend on infrastructure projects.
- With a clear objective to create more jobs, improve infrastructure & boost domestic demand along with private sector capex.
- Above spend is cumulative spend for smart cities, Amrut + railways ( 1.48 lakh cr ) + roads & highways ( 1.2 lakh cr ) + bharatmala, sagarmala etc.
- As the economy grows & budget size grows, expect more acceleration towards infrastructure spends.



## GDP Multiplier Back Above 1x

Year	2015	2016	2017	2018	2021 Est
Consumption ( MT )	77	81.5	84	~90	~115
Consumption Growth %	3.90%	5.90%	3%	~7.1%	~8%
GDP Growth %	7.90%	7%	7.20%	~6.5%	~7.5%
GDP Multiplier (x)	0.5	0.8	0.4	~1.1	~1.1

While demand is expected to pick up, supply is likely to remain tight. Very few new capacities are coming online by 2021. Most of the existing integrated steel producers will run at full production capacities by 2021 & domestic prices too shall remain firm.

- Significant increase in infrastructure spends has led to bounce back in steel demand.
- Steel consumption growth has bounced back to 7.1% during FY 18. GDP multiplier is back above 1.1x for the first time since 2013.
- Historically GDP multiplier has always been more than 1. Even in the so called 'hindu rate of growth' era prior to 1990's. GDP is expected to bounce back towards 7.5% in the financial year 2019 as per the Economic Survey Of India 2018. After absorbing the Demonetization shock, economy is expected to continue to grow at 7-8% going forward.
- With GDP multiplier getting back above 1.1x, steel consumption will continue to grow at 8-10% or even more in the coming years.



## India's Steel Sector – The Troubled Years



## Lower Capacity Utilizations

Significant capacities were commissioned during 2010-2014. Mostly funded via debt.

Slowing growth plus influx of cheap Chinese imports resulted in lower capacity utilizations across the industry. Steelmakers with weak balance-sheets started going bankrupt.

Year	2010	2011	2012	2013	2014	2015	2016	2017
Capacity ( MT )	75	80.3	90.8	97	102	109	122	125
Production ( MT )	65.8	70.6	74.2	78.4	81.6	88.9	89.7	97.3
Utilization %	88%	88%	82%	81%	80%	81%	74%	78%
Consumption ( MT )	59.3	66.4	71	73.4	74	77	81.5	84
Consumption Growth %	13.30%	11.90%	6.90%	3.50%	0.80%	3.90%	5.90%	3%
GDP Growth %	8.90%	5.50%	5.60%	6.60%	7.20%	7.90%	7%	7.20%
GDP Multiplier (x)	1.5	2.1	1.2	0.5	0.1	0.5	0.8	0.4
Exports ( MT )	3.2	3.6	4.5	5.3	5.9	5.5	4	8.2
Imports ( MT )	7.3	6.6	6.8	7.9	5.4	9.3	11.7	7.4
Net Imports ( MT )	4.1	3	2.2	2.5	-0.5	3.7	7.6	-0.8

Government starts responding with Excise duties & Minimum import prices. Eventually leading to anti dumping duties in early 2017.

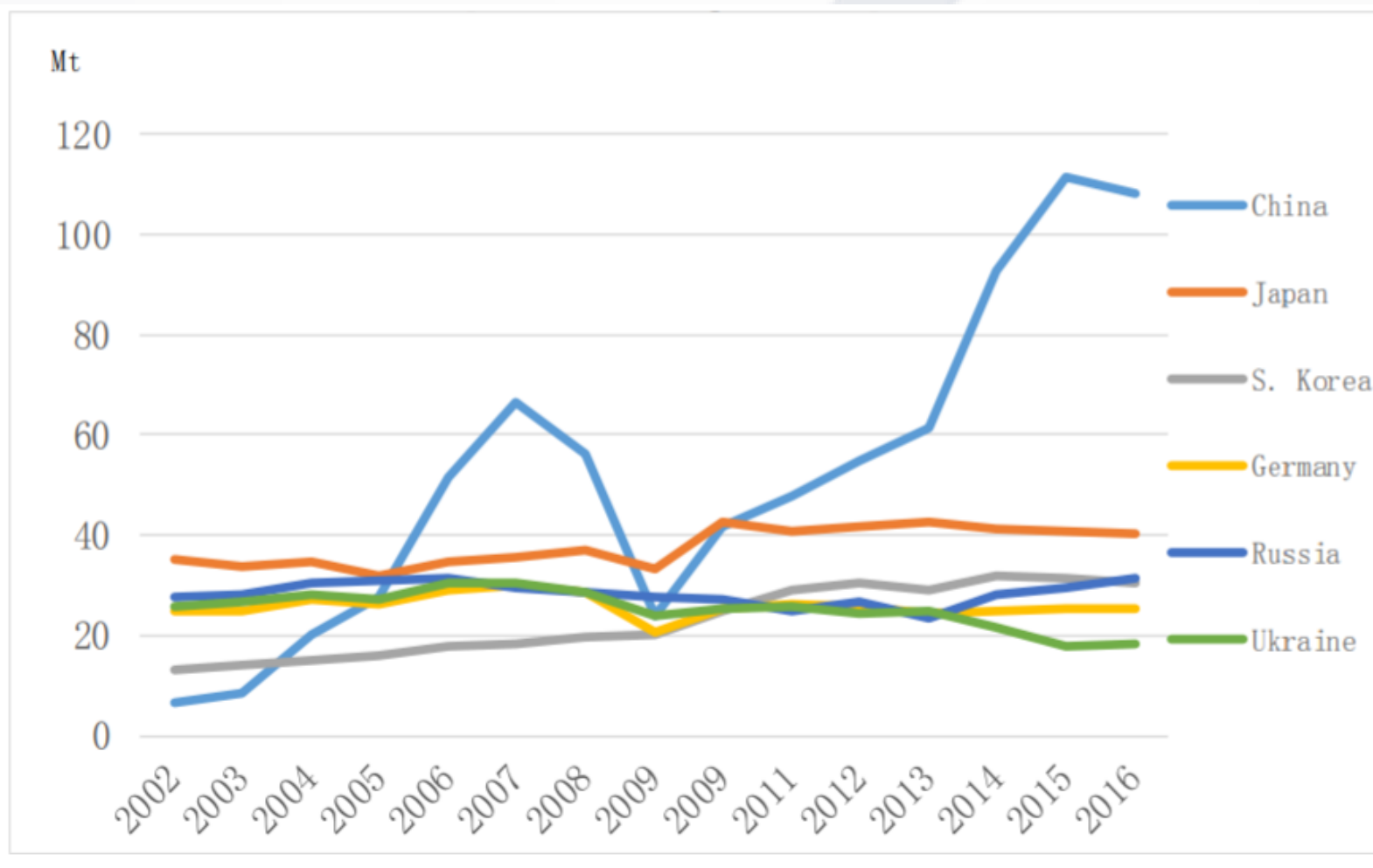
## China...400 MT Excess Capacity !

**Table 1 Crude steel production and capacity**

Year	China		
	Production (million tons)	Capacity (million tons)	Capacity utilization (percent)
2005	355.8	406.2	87.6%
2006	421.0	472.5	89.1%
2007	489.7	610.3	80.2%
2008	512.3	644.3	79.5%
2009	577.1	718.0	80.4%
2010	638.7	800.3	79.8%
2011	702.0	863.3	81.3%
2012	731.0	959.9	76.2%
2013	822.0	1106.2	74.3%
2014	822.7	1128.5	72.9%
2015	803.8	1200.0	67.0%

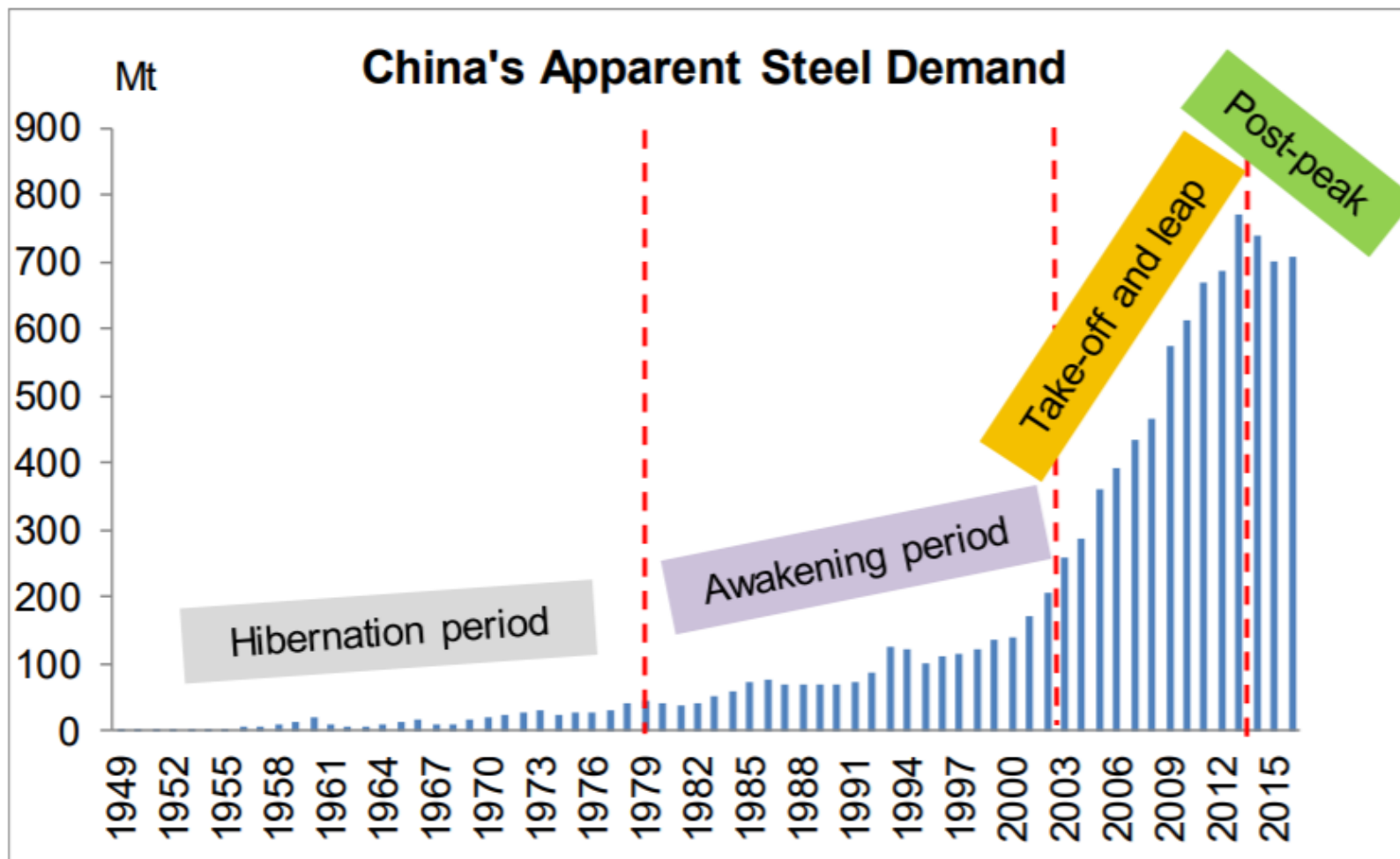


## Chinese Steel Exports...Just Dump It !

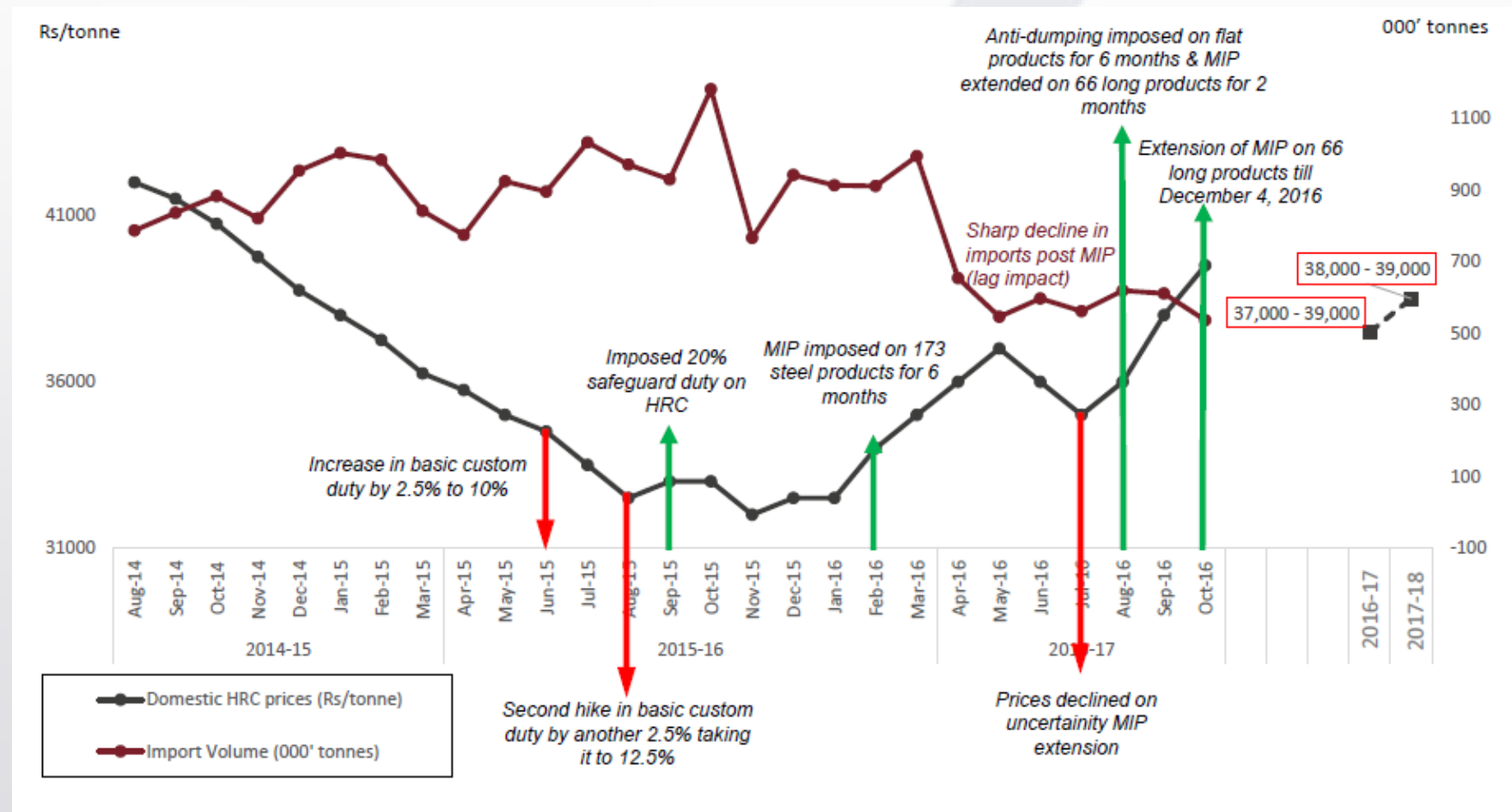


## China...Course Correction

### 4-Phased Development of the Chinese Steel Industry

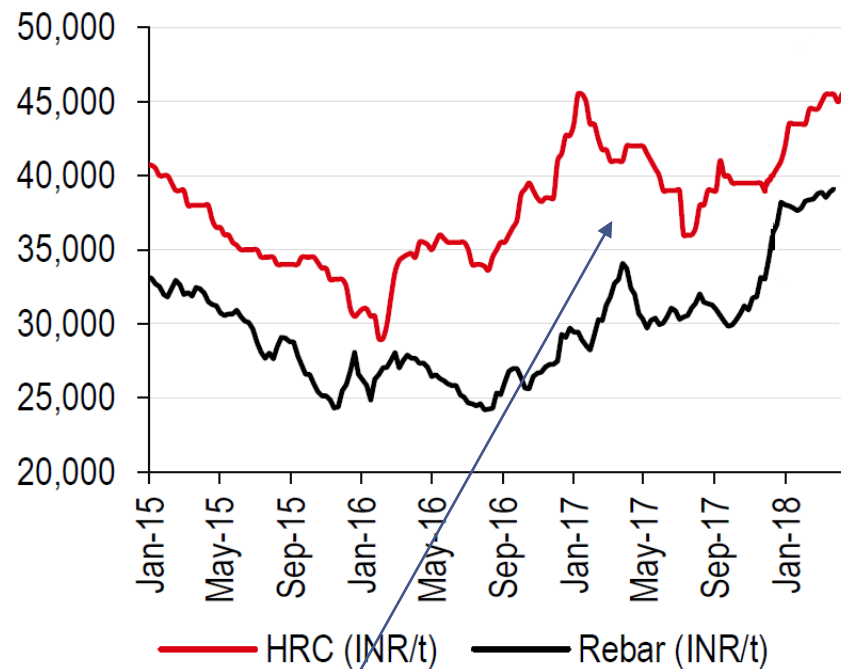


## Controlling Imports – Effective Government Intervention

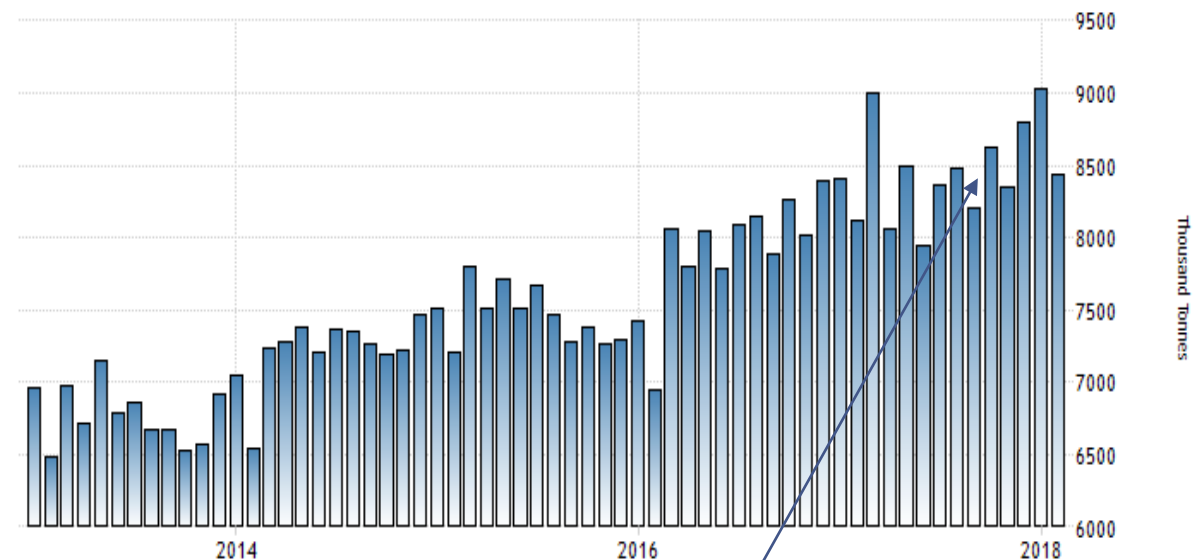


- Steel ministry started with safe guard duties. Followed by minimum import prices.
- Due to rampant circumvention, finally anti dumping duties were imposed in early 2017.

## Stable Prices & Production – Effective Government Intervention



Steel prices have firmed up on the back of government measures, firm domestic demand. International prices too have recovered.



Monthly production growth is accelerating after a long stagnation

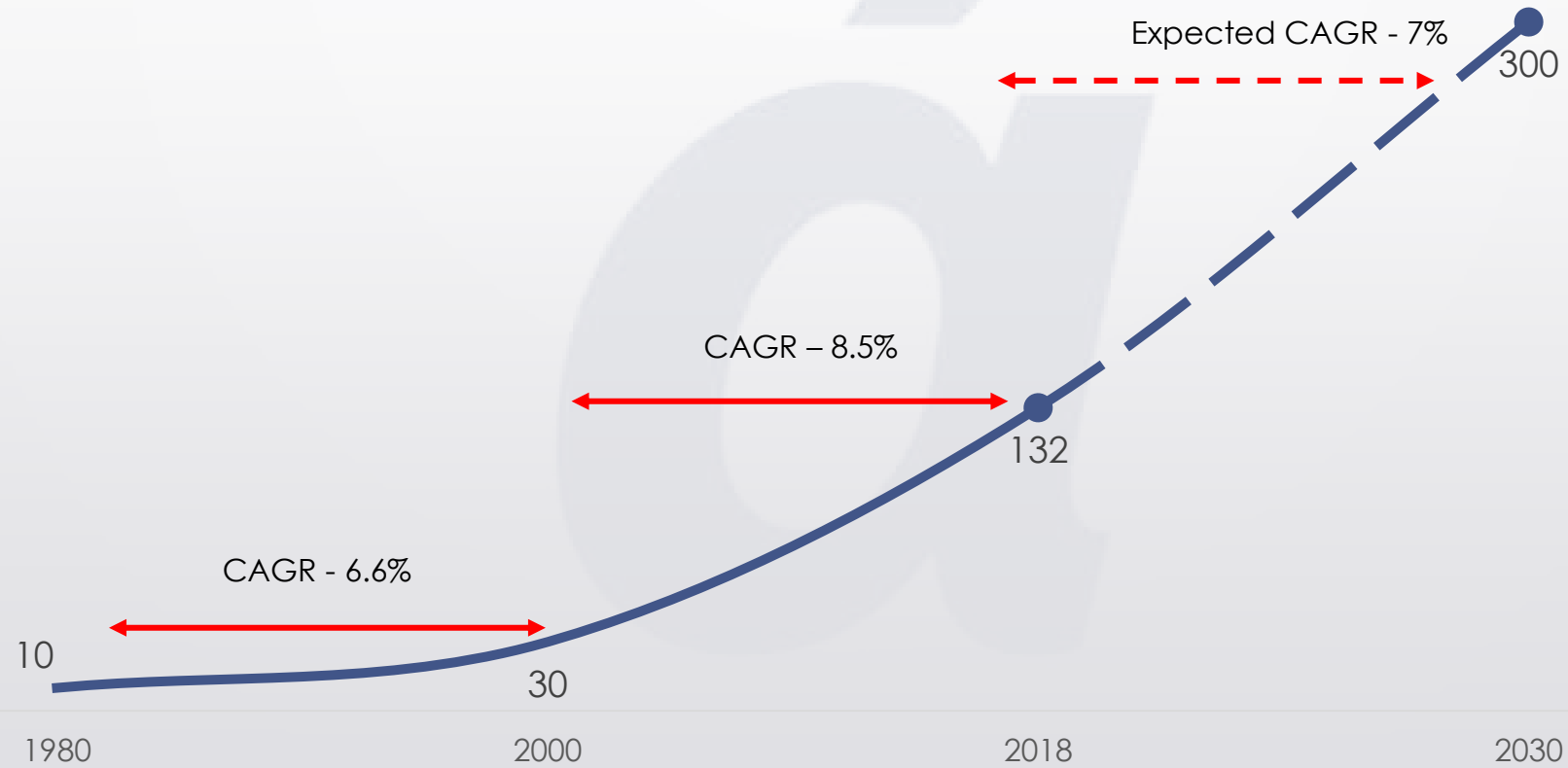


# National Steel Policy

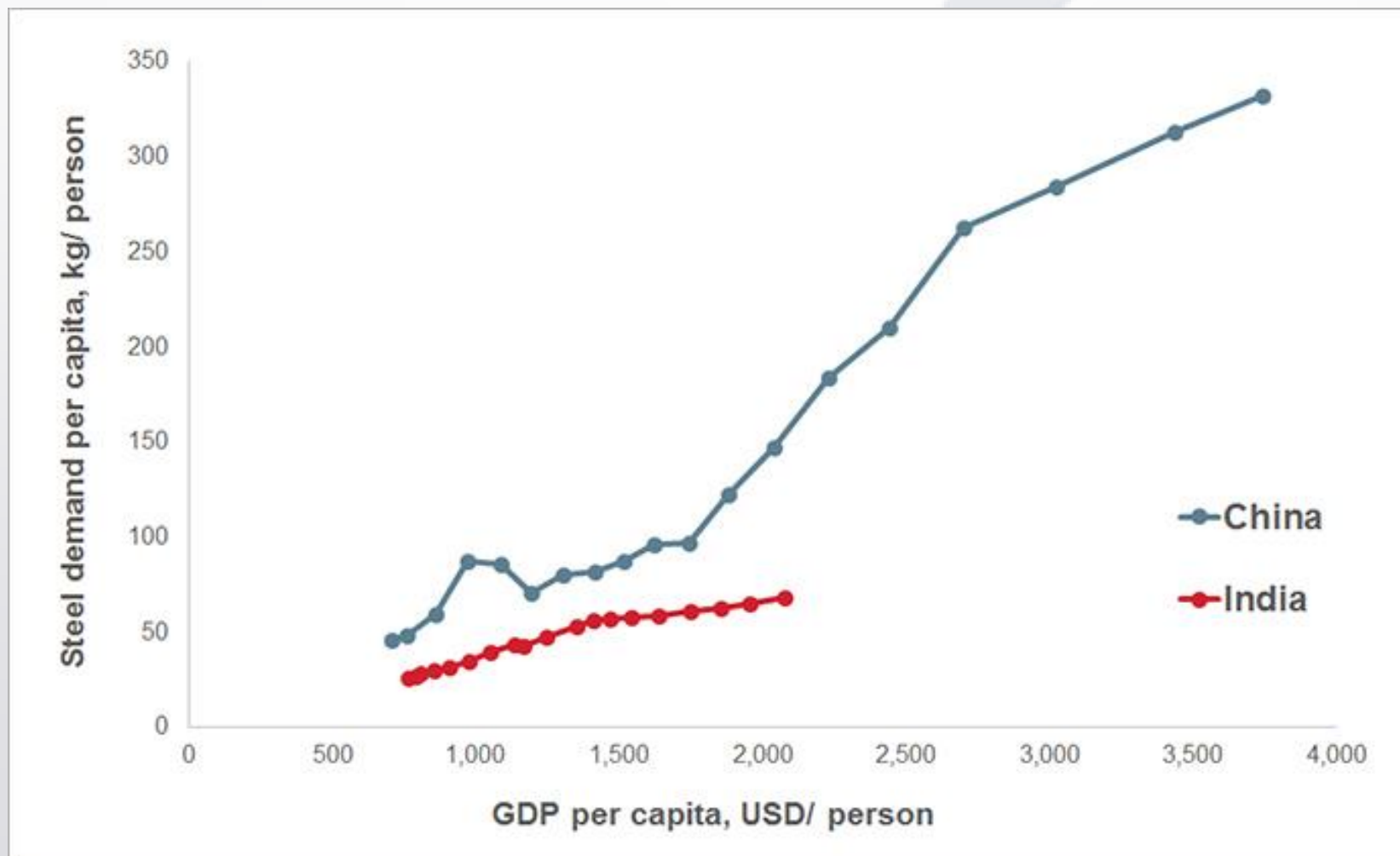


## National Steel Policy – 300 MT Target Is Not A Big Deal !

India's Installed Steel Capacity ( MT )



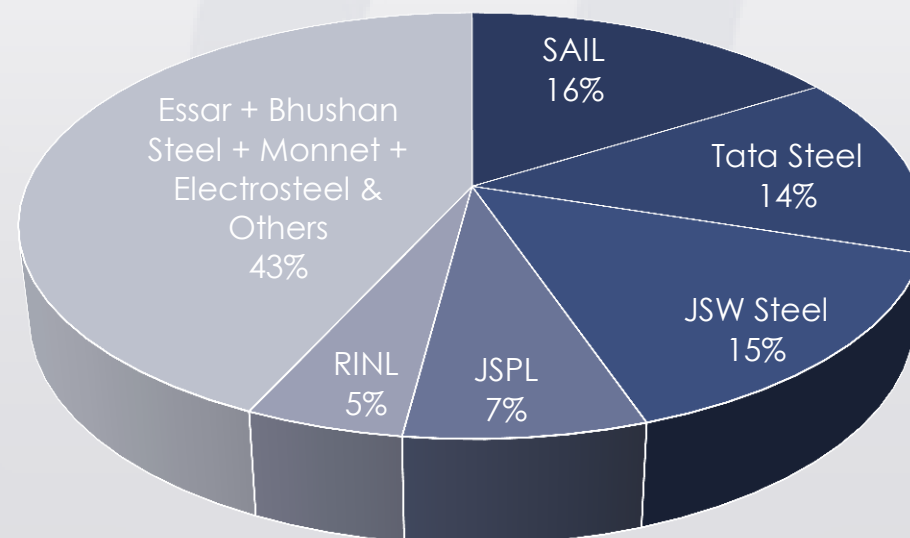
## Can India's Steel Demand Breakout On The Higher Side ?



Year	Production
1970	21 MT
1975	25 MT
1982	27 MT
1989	61 MT
1996	112 MT
2003	210 MT
2009	580 MT
2016	800 MT

## India's Steel Supply – Existing Capacities To Hit Full Production

132 MT Capacity As On March 2018





## No New Capex Till 2021

# numbers in MT ( million tons )  
# JSW & Tata Steel est production adjusted for Monnet & Bhushan acquisition.

Company	Existing Capacity	Production ( FY 18 )	Upcoming Capex	
Steel Authority Of India	21.4	~15	None	No capex plans. Priority to ramp up existing capacity & deleverage the stretched balance sheet. New capex to come only after 2022. SAIL's capex is complete & hot metal capacity has moved up from 17 MT to 21.4 MT from April 2018.
JSW Steel	19.5	~16.5	5 MT	5 MT brownfield expansion is underway at Dolvi. Expected to get commissioned by the end of 2020. New capex to come only after Dolvi production ramps up i.e. after 2021. Post acquisition of Monnet Ispat, JSW's capacity has moved from 18 MT to 19.5 MT. JSW may try for another acquisition via NCLT.
Tata Steel	18.3	~15	6 MT	5 MT at Kalinganagar, expected to get completed by the end of 2021. New capex to come after 2022 once kalinganagar ramps up. Post Bhushan Steel's acquisition via NCLT, Tata Steel's India capacity has moved up from 12.7 MT to 18.3 MT. Might try for another acquisition.
Jindal Steel & Power	9.6	5.2	None	No. Priority to ramp up existing capacity & deleverage the balance sheet. New capex to come only after 2021-2022. JSPL has commissioned its integrated steel complex at Angul. Its India capacity stands at 9.6 MT.
RINL	6.3	4.5	1 MT	1 MT by the end of FY 19. Has a stretched balance sheet. New capex not possible for the next 2-3 years.

- 5 companies constitute nearly 55% of India's overall steel production capacity of 131 MT as of FY18.
- New capacity expansion plans are likely to be announced only after 2021. It takes 3 years to set up a steel plant & stabilize the operation from the zero date.
- Even if new capex is announced in 2021-2022, new capacities are unlikely to get commissioned before 2024.

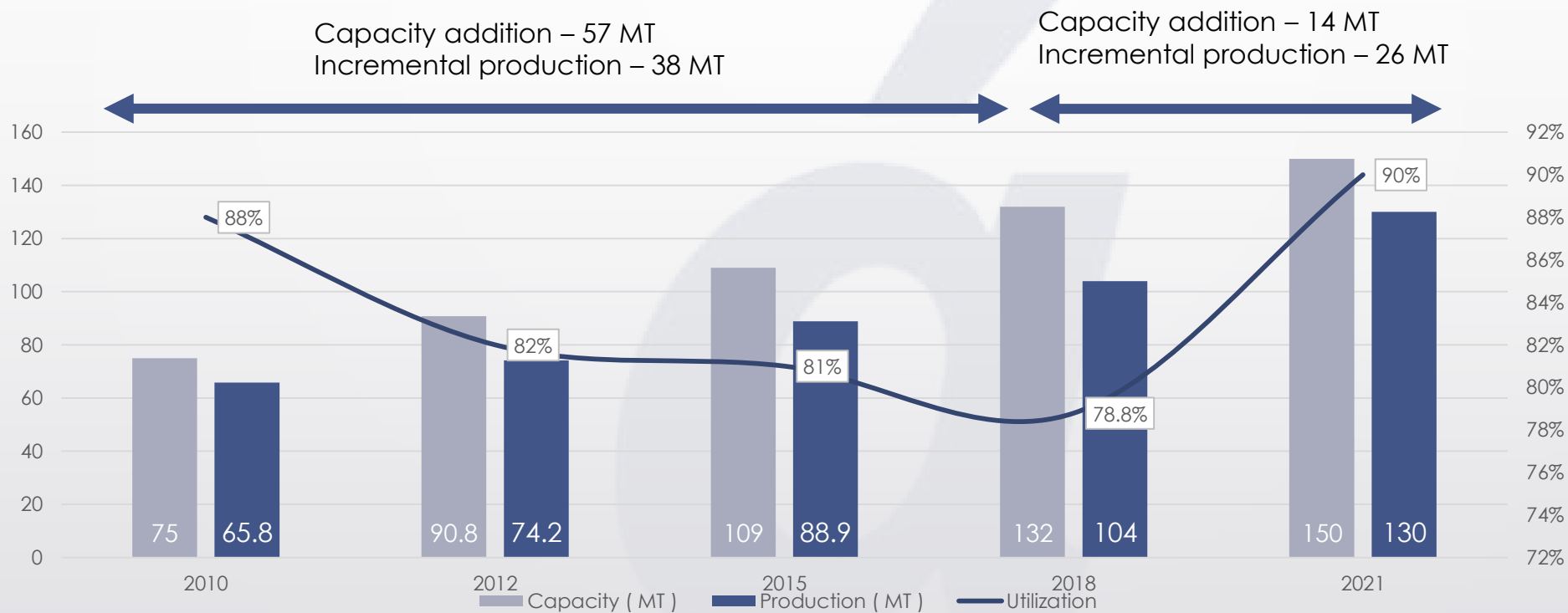
## Bankruptcy Code & NCLT Resolutions

# numbers in MT ( million tons )

Company	Capacity	9M FY18 Production	Balance Ramp Up	NCLT Status
Bhushan Steel	5.6 MT	2.7 MT	2.2 MT	Acquired by Tata Steel for 36400 Cr
Bhushan Power & Steel	3.2 MT	NA	3.2 MT	Resolution In Progress
Electrosteel Steel	2.51 MT	0.6 MT	2 MT	Acquired By Vedanta For 5200 Cr
Essar Steel	10 MT	6.3 MT	3 MT	Resolution In Progress
Monnet Ispat	1.8 MT	0.2 MT	1.5 MT	Acquired By JSW Steel For 3700 Cr

- Nearly 21 MT of 132 MT capacity went in stress, eventually became NPA's.
- Banks are more than willing to take haircuts & resolve at the earliest.
- Out of 21 MT in stress, only ~9 MT is being actively producing steel. These facilities are either shut down or underutilized due to working capital crunch.
- ~12 MT of idle capacity in these companies will be ramped up once resolutions are in place, and new owners take control.

## Good Days Ahead



# **New Capacities Coming Up by 2021** : Tata Steel Kalinganagar 5 MT + JSW Steel Dolvi 5 MT + RINL 1 MT + NMDC 3 MT  
 # 2018 capacity of 132 MT includes NCLT company capacities. Utilization likely to cross 90% in FY 21 even if balance capacity of NCLT companies is ramped up fully.

## Consolidation & De-leveraging Of Steel Sector

### **Tight supply + Strong Demand**

- ✓ Strong domestic steel prices
  - ✓ Capacity utilizations should move up
  - ✓ De-leveraging of the balance sheets
  - ✓ Banks wont lend further till balance sheets are repaired
  - ✓ Governments anti-dumping duties to continue till 2022. And will be extended further.
  - ✓ All integrated steel companies are going to make profits. ALL !
- 
- New capacity expansion plans are likely to be announced only after 2021. It takes 3 years to set up a steel plant & stabilize the operation.
  - Even if new capex is announced in 2021-2022, new capacities are unlikely to get commissioned before 2024-2025. Very high probability to have 88-90% or more utilization for next 4-5 years.

## Steel Sector Re-rating On Cards ?

- Industry will be protected
- 10 MT of steel import adds 50000 cr to import bill. Unlikel !
- Tight Supply
- Greenfield capex viable at 10000 rs EBIDTA per ton ( ROE of 9.5% on a 60 : 40 debt to equity, 6500 cr per MT )
- Brownfield capex viable at 7000 rs EBIDTA per ton ( ROE of 9.5% on a 60 : 40 debt to equity, 4500 cr per MT )
- Companies with brownfield expansion capabilities should do well
- Domestic consumption story



Thank You

