

PLI Scheme supports spirit of Atmanirbhar Bharat

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On 22nd July 2021, Union Cabinet, chaired by the Prime Minister, approved the Production Linked Incentive (PLI) Scheme for 'Specialty Steel' for a period of 5-year with financial outlay of Rs 6,322 Crore. The PLI scheme aims to promote the manufacturing of 'Specialty Steel' within the country by attracting capital investment, generating employment and promoting technology up-gradation in the steel sector. This would help in making the country Atmanirbhar in meeting the domestic demand for 'Specialty Steel'. This would also contribute in achieving the target of making India a \$ 5 Trillion economy.

➤ What is Speciality steel?

Specialty steel is value added steel wherein normal finished steel is worked upon by way of coating, plating, heat treatment, etc to convert it into high value-added steel which can be used in various strategic applications like Defence, Space, Power, apart from automobile sector, specialized capital goods etc.

● Industry background:

1. India was the second largest producer of steel in the world in FY21 but out of the total 102 million tonnes (mt) of steel production, only 18 mt were value added/specialty steel.
2. India's specialty steel production was ~85% of the domestic demand and India was a net importer resulting in a forex outgo of Rs 30,000 crores appx.
3. Out of 6.7 mt of finished steel imports in FY21, ~4 million tonnes import was of specialty steel alone. Alloy and stainless steel contribute disproportionately to the import bill by value as imports were mainly of high-grade alloy steel along with specialty steel.
4. In terms of tonnage India's exports were higher however, in terms of value, imports exceeded exports.
5. India's average import value is \$ 2,000-2,500/tonne (due to import of high-grade steel) whereas average export value for steel is \$ 600-800/tonne (due to export of basic grade steel).

The above shows that Indian steel industry is not competitive in production of higher- grade alloy steel. Thus, there is a need to incentivize the industry to move up the value chain and operate at the higher end of the value chain. This will happen by increasing the production of specialty/ value added steel.

● Features of PLI scheme:

1. Total Outlay – The total outlay will be Rs 6,322 crore.
2. Products covered - The five categories of specialty steel which have been chosen in the PLI Scheme are:
 - Coated/Plated Steel Products
 - High Strength/Wear resistant Steel
 - Specialty Rails
 - Alloy Steel Products and Steel wires
 - Electrical Steel
3. Tenure of scheme - The duration of the scheme will be five years from 2023-24 to 2027-28. The first incentive will be payable from 2023-24 based on the commercial production of 2022-23.
4. Flexibility - For some product categories, the initial year may be deferred by up to two years. In case of adverse circumstances, such as force majeure, companies may be allowed deferment of the initial year by one year with the approval of Empowered Group of Secretaries (EGoS).
5. Eligibility - A company registered in India under the companies Act 2013, that is engaged in manufacturing of the identified "Specialty steel" grades, subject to the input material being melted and poured within the country using iron ore/scrap/sponge iron/pellets etc. shall be eligible to apply for incentive under the scheme. End to end manufacturing will thus take place within the country.

6. Eligibility criteria also includes threshold minimum incremental production and minimum investment. Applicants are required to commit achieving either equal to or above threshold incremental production rate to be eligible for participation in PLI scheme.
7. Projected growth –

	FY20 (base year)		FY27 (Projected)		% growth
	Volume (million tonnes)	Rs Crore	Volume (million tonnes)	Rs Crore	
Production	17.6	97,287	42.2	2,42,838	140%
Import	3.7	29,256	0.9	7355	-76%
Export	1.6	9,474	5.5	33,024	244%

Note- Projection as per govt doc.

The scheme aims to increase India's specialty steel production from 17.6 mt to 42.2 mt by FY27. This will ensure that approximately 2.5 lakh crores worth of speciality steel will be produced and consumed in the country which would otherwise have been imported. Similarly, the export of specialty steel will become around 5.5 million tonnes as against the current 1.6 mt of specialty steel getting forex of Rs 33,000 crore.

8. With a budgetary outlay of Rs 6,322 crores, the scheme is expected to bring in investment of approximately Rs 40,000 crores and capacity addition of 25 MT for speciality steel.
9. The scheme will give employment to about 5,25,000 people of which 68,000 will be direct employment.
10. There are 3 slabs of PLI incentives, the lowest being 4 % and highest being 12% which has been provided for electrical steel (CRGO).
11. The PLI Scheme for specialty Scheme will ensure that the basic steel used is 'melted and poured' within the country which means that raw material (finished steel) used for making specialty steel will be made in India only, thereby ensuring that Scheme promotes end to end manufacturing within the country.

- **Concluding remarks:**

- The scheme addresses the supply chain issues for various end-user segments as specialty steel is required in various critical industries but almost 2/3rd of it is imported.
- End-to-end manufacturing ensures that the entire process from melting iron to manufacturing end product is done in India and no import of any parts is allowed.
- May increase foreign investments.
- Will enable domestic steel companies to move up the value chain from exporting finished steel to high value-added specialty grade steel.
- Will boost domestic steel and end-user industries.
- Domestic specialty steel sector was not cost competitive which resulted in higher imports but once economies of scale is achieved it will help in reducing imports.
- Domestic end-to end manufacturing of steel products also reduces supply chain risks like it happened during the early stage of Covid-19.

Contact:

Madan Sabnavis
Rashmi Rawat
Mradul Mishra

Chief Economist
Lead Analyst – Industry Research
(Media Contact)

madan.sabnavis@careratings.com
rashmi.rawat@careratings.com
mradul.mishra@careratings.com

+91-22-6837 4433
+91-22- 6837 4405
+91-22-6754 3573

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect :

