

Steel Policy and industry booster

Contact:

Madan Sabnavis

Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Darshini Kansara

Research Analyst
darshini.kansara@careratings.com
91-22-67543679

Mradul Mishra (Media Contact)

mradul.mishra@careratings.com
91-22-67543515

Disclaimer: This report is prepared by Credit Analysis & Research Limited [CARE Ratings]. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE (including all divisions) has no financial liability whatsoever to the user of this report

On back of rapid industrial development, India has become the 3rd largest steel producer globally contributing about 2% of the country's GDP with production of 91.9 MT and a capacity of 122 MT in FY16. Production crossed the 100 million tonnes mark in FY17.

The Union Cabinet has given its approval for National Steel Policy (NSP) 2017. The policy represents the long term vision of the Government to give required momentum to the steel sector. It seeks to enhance domestic steel consumption and ensure high quality steel production and create a technologically advanced and globally competitive steel industry.

The New steel policy, 2017 has the following aspirations:

- Achieve 300 MT of steelmaking capacity by 2030.
- Additional investment of Rs. 10 lakh crore by 2030-31.
- Consumption of steel to increase on the back of growth in infrastructure, automobiles and housing.
- Aim is to increase per capita steel consumption to the level of 160 Kgs by 2030 from existing level of around 60 Kg.
- Adoption of energy efficient technologies in the MSME steel sector is to be encouraged to improve overall productivity & reduce energy intensity.
- Steel Ministry will facilitate R&D in the sector through the establishment of Steel Research and Technology Mission of India (SRTMI). The initiative is aimed to spearhead R&D of national importance in iron & steel sector utilising tripartite synergy amongst industry, national R&D laboratories and academic institutes.
- Ministry through policy measures will ensure availability of raw materials like Iron ore, Coking coal and non-coking coal, Natural gas etc. at competitive rates.

With the roll out of the National Steel Policy - 2017, it is envisaged that the industry will be steered towards creating an environment for promoting domestic steel and thereby ensuring a scenario where production meets the anticipated pace of growth in consumption, through a technologically advanced and globally competitive steel industry.

CARE View

Table 1: Steel production (million tonnes)

Year	Production Capacity	Production
2011-12	91	75.7
2012-13	97	78.8
2013-14	102	87.8
2014-15	110	92.0
2015-16	122	91.9
2016-17	n.a.	100.5

Source: Office of Economic Advisor, National Steel Policy 2017

1. Production capacity of steel as of FY16 was 121.9 million tonnes which grew at a CAGR of about 8% during 2012 and 2016 while the production increased at a CAGR of about 4% during the same period. The production crossed the mark of 100 million tonnes in FY17. ***In order to reach the level of 300 mn tonnes, growth in capacity has to move towards the 6% mark starting from 2015-16.***
2. As of March 2017, the Gross bank credit for iron and steel industry stands at Rs 3,195 billion which has increased at a CAGR of about 6% between FY15 and FY17. The industry needs an additional investment of Rs 10 lakh crore (Rs 10,000 billion), to reach the capacity of 300 MT by 2030 which implies an annual credit of about Rs 770 billion between FY18 to FY30. For investment requirement, the industry has two options:
 1. Banking system
 2. Corporate bond market

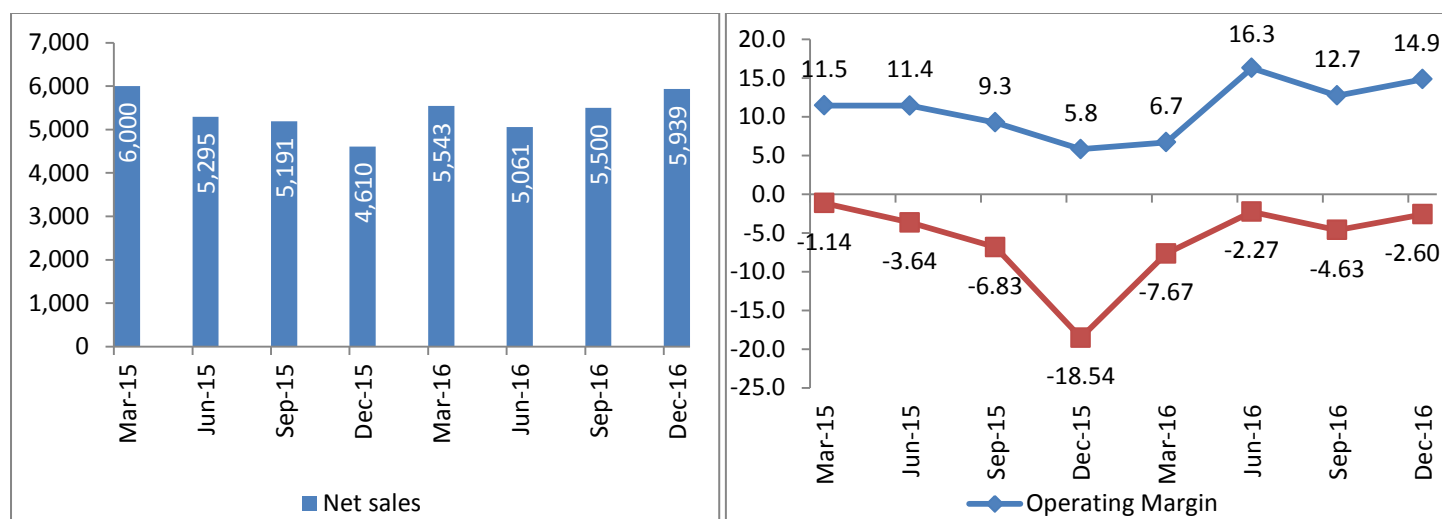
However, as per RBI's FSR the stressed advanced ratio was the highest for basic metals and their products at 42.9% as of September 2016. Therefore, the banking system hasn't been lending much to the industry which has to depend progressively on the bond market. For this the companies in the industry will need to have a strong credit standing.

Financial Performance

The introduction of the Minimum import price (MIP) on steel by the government during the FY17 supported the player's margins during the year. The industry's losses reduced during April-December 2016 compared to the corresponding period last year. Sales of the 111 steel companies improved during Apr-Dec 2016 where the industry's revenues grew by 9.3% on a y-o-y basis during the period backed by an increase in prices and production. However, the net margins still remained negative despite higher sales during the year.

In the December 2016 quarter, the industry reported a significant improvement on the sales and profits front on account of improved prices and production. On a y-o-y basis, industry’s sales increased by 29% and it reported notable reduction in net losses during the quarter ended December 2016. The industry’s results are based on the financial results of 111 listed steel companies.

Chart 1: Sales (Rs crore) and margins of players (%)



Source: AceEquity

Quite clearly the industry’s financial performance would have to improve sharply to be in a position to borrow from the bond market.

3. Steel consumption is required to increase in double digits to move in line with that of the production. While the majority of demand comes from government spending on infrastructure, railways and roads, with the Real Estate Regulation Act (RERA) coming into effect from 1st May, 2017, we expect the demand for steel to only increase going forward. The infrastructure demand is expected to drive the demand i.e., consumption for steel as the government (PSU) is the major player in the sector while Automobile, Engineering and Machinery and Housing has private players involved. Currently around 40% of the steel consumption is from construction & infrastructure sectors which are expected to increase to around 60% by 2030-31.

The government has also announced a policy for providing preference to domestically manufactured Iron & Steel products in Government procurement. The policy mandates the following:

- To provide preference to Domestically Manufactured Iron & Steel Products (DMI&SP) in Government Procurement.
- It will be applicable on all government tenders where price bid is yet to be opened.
- DMI&SP policy provides a minimum value addition of 15% in notified steel products which are covered under preferential procurement (Ministry to review specified steel products and the minimum value addition criterion).

- Domestic manufacturer to provide self-certification to the procuring Government agency declaring that the iron & steel products are domestically manufactured in terms of the domestic value addition prescribed.
 - o It shall not normally be the responsibility of procuring agency to verify the correctness of the claim. In few cases, the onus of demonstrating the correctness of the same shall be on the bidder when asked to do so.
- There are provisions in the policy for waivers to all such procurements, where specific grades of steel are not manufactured in the country, or the quantities as per the demand of the project cannot be met through domestic sources.

CARE View

The policy is being considered as a positive measure taken by the government to increase the off-take of domestic production while not putting restrictions on the imports. The government plans to domestically meet entire demand of high grade automotive steel, electrical steel, special steels and alloys for strategic applications. The government also plans to increase domestic availability of washed coking coal so as to reduce import dependence on coking coal to 50%. The policy is envisaged to promote growth and development of domestic steel industry and reduce the inclination to use, low quality low cost imported steel in Government funded projects.

On the whole these two measures should give a fillip to the steel industry in the coming years and should be viewed positively.

CORPORATE OFFICE:

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

Follow us on  [/company/CARE Ratings](https://www.linkedin.com/company/CARE-Ratings)

 [/company/CARE Ratings](https://www.youtube.com/channel/UC...)