

Celebration of National Metallurgists Day
IIM Delhi Chapter

A reflection on the financial health of Steel Sector
in India and a perspective towards its future...

February 24, 2018

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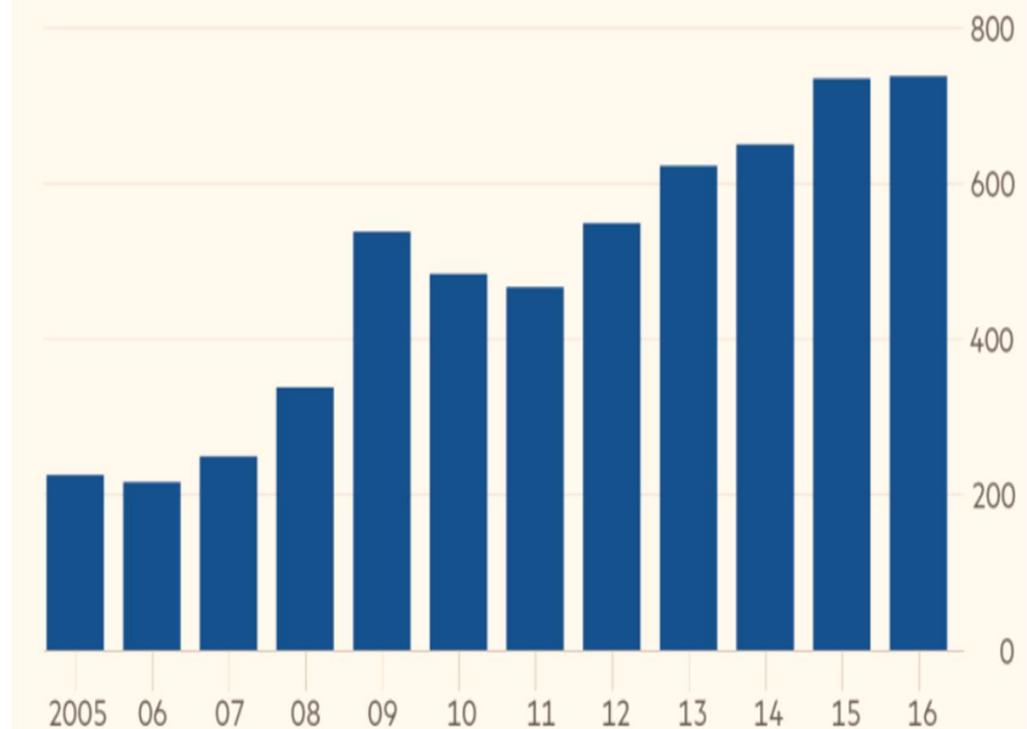
Honorary Secretary, IIM Delhi Chapter
Associate Vice President, Paul Wurth India, SMS group

Global Steel Scenario

- Global Overcapacity in Steel is around 760 Million Tons
- **Steel industry is grappling with curse of oversupply.**
- The global steel production is increases by 5.3%YoY in 2017.
- Steel Prices are firming up.
- In last 12 months prices increased by around \$100 / ton of Hot Rolled Coil.

Excess capacity in global steel industry

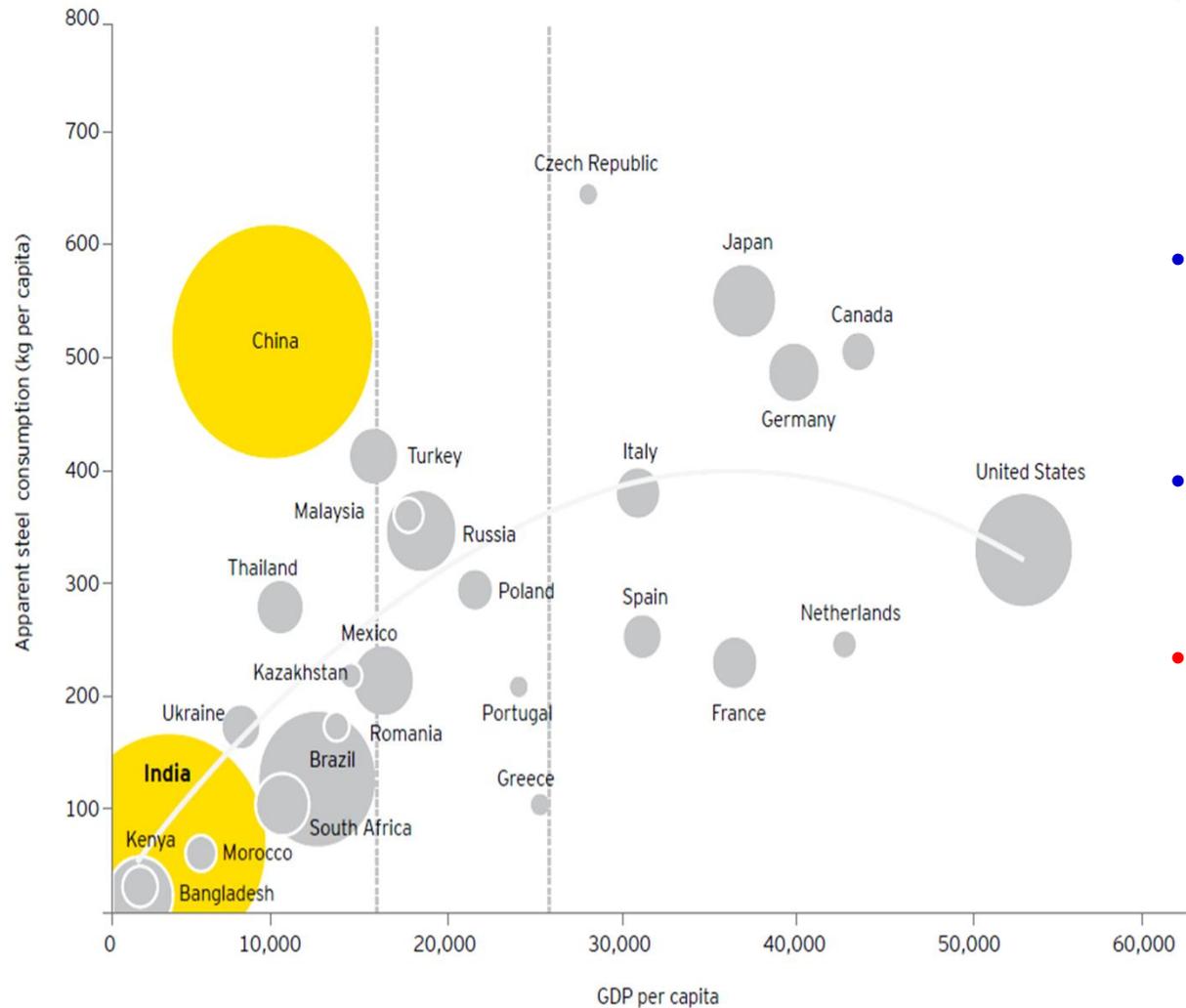
Crude steel (m tonnes)



Source: OECD
© FT

Steel Scenario in India

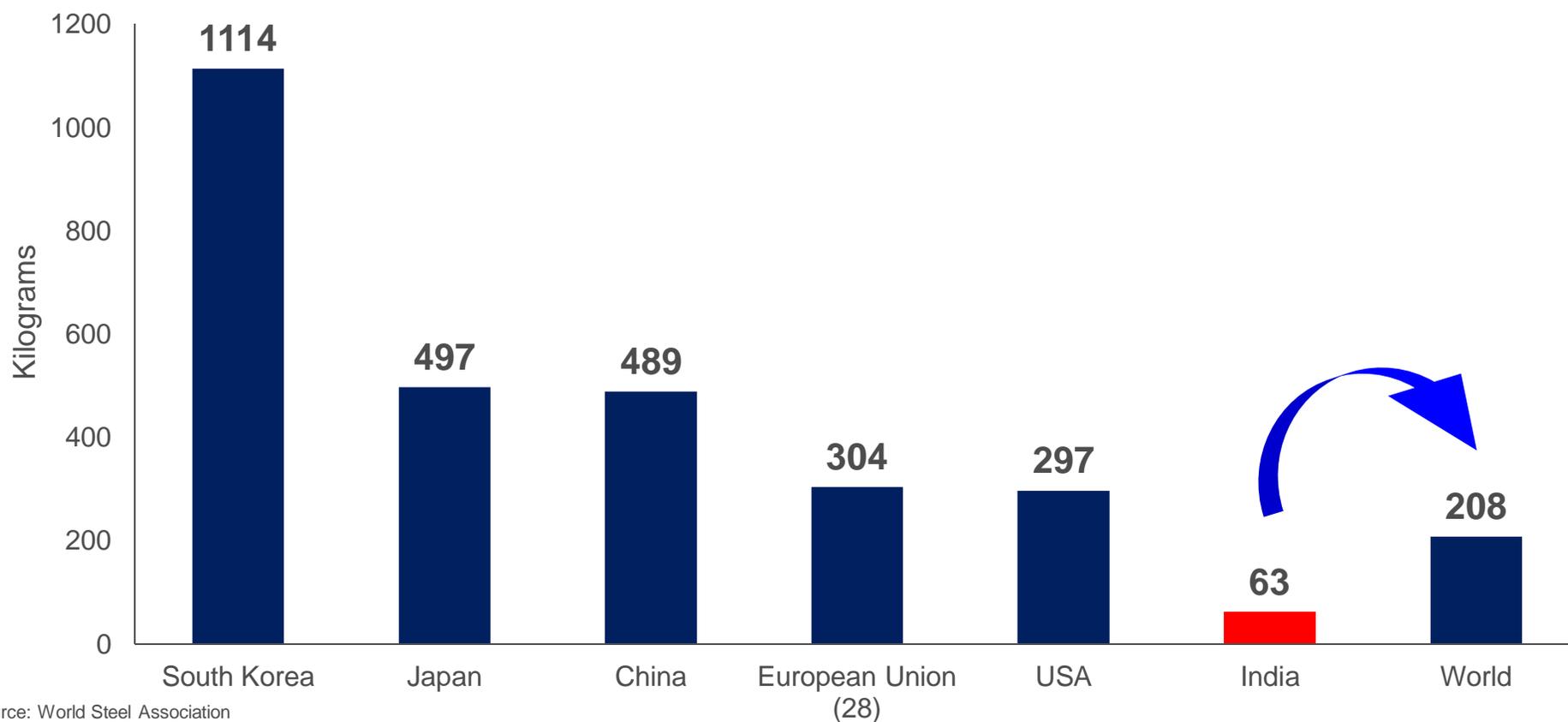
Current steel intensity



Source: World Steel Association, IMF

- The steel-intensity curve reflects India at the very low end of the per capita consumption of steel as compared with its peer groups in BRICs or with developed countries
- During the Twelfth Five Year Plan period (2012–17), the Government of India envisaged infrastructure investment up to US\$1 trillion.
- However, only 67% of the originally planned expenditure could be implemented.
- During last 12 months, 10 million tons of new Hot Metal Capacity has come on stream in India.

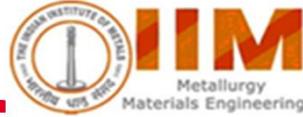
Per Capita Finished Steel Consumption



Source: World Steel Association

India aims to increase its per capita Steel Consumption by 158 Kg by 2030-31

Highlights of Steel sector in the year 2017



- Total Finished Steel Production for sale crossed 100 million tonnes (MT) for the first time in FY 17, which is an increase of 10.7% from FY16.
- The consumption of total finished steel was 83.6 MT during FY17, an increase of 3% over FY16.
- During May 2017, the Union Cabinet approved Indian National Steel Policy (NSP) – 2017
- The new steel policy targets INR 10 lakh crore (\$155 billion) investment to build more production capacity to reach 300 MT by 2030 – 31.
- India's crude steel production grew by 6.2% to 101.4 MT in the CY 2017 compared to 95.5 MT in CY 2016.
- Overleveraged steel companies keep reeling under debt, even though the banking sector has supported for a long time.
- **Around 20% of our annual steel production capacity is under insolvency.**

Today, many of our Indian steel companies are not even able to service their interest costs.

Current Status of our Indian Banks (1/2)

- India has been ranked fifth on the list of countries with highest *Non-Performing Assets (NPA), a recent report by CARE Ratings revealed.
- Total **stressed assets on the books of Indian banks are higher than the net worth of the entire banking sector - as per the report released by McKinsey in May 2017.
- Stressed assets in Indian banks are estimated at INR 10 trillion (\$155 billion) - as stated by India's Chief Economic Adviser, Mr. Arvind Subramanian in Oct 2017.
- India is reeling under a huge NPA burden of over INR 7.33 lakh crore as of June 2017.
- The situation is most acute for public sector banks which account for 70 percent of the Indian banking system.
- Twenty-nine state-owned banks wrote off a total of INR 1.14 lakh crore of bad debts between financial years 2013 and 2015, much more than they had done in the preceding nine years.
- Government of India in October 2017 announced a mega capital infusion plan of INR 2.11 lakh crore (\$33 billion).
- *Our Steel sector's bad debt comprised 28% of total NPAs of the banks.*
- For recovery of Bad loans, Insolvency and Bankruptcy Code is in place.

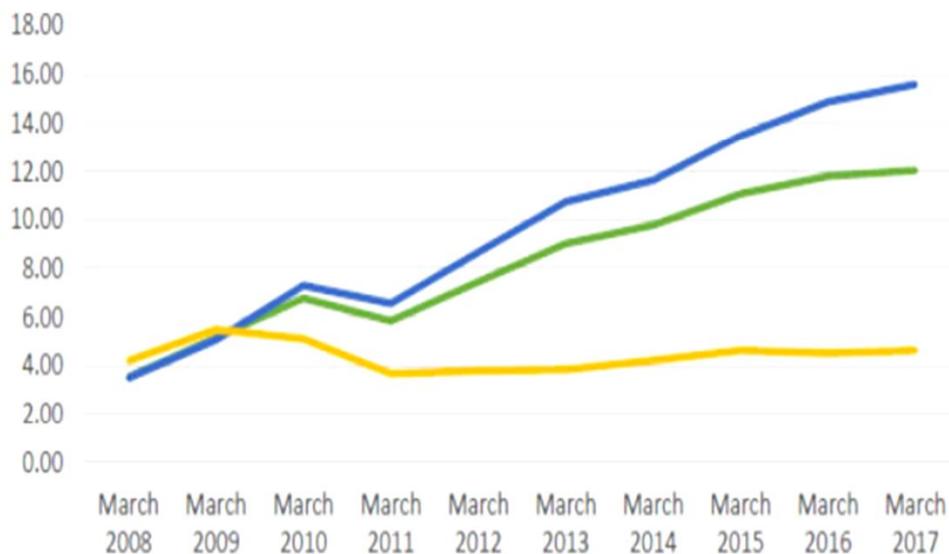
**A non-performing asset (NPA) is a loan for which the principal or interest payment has not been paid for 90 days or more*

***Stressed Asset = NPAs + Restructured Loans + Written off assets.*

Current Status of our Indian Banks (1/2)

- The stress in bank assets has been mounting since 2011 and has now materially crystallized in the form of non-performing assets (NPAs).

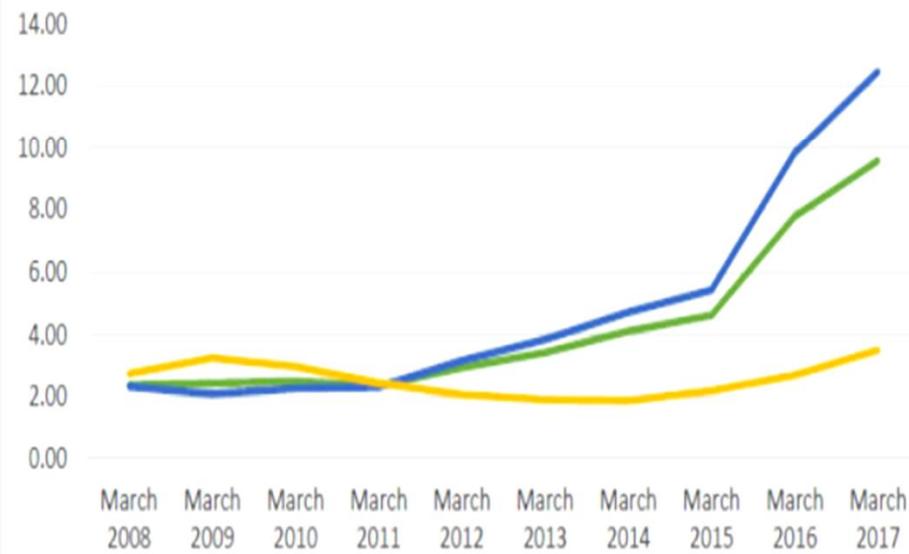
Figure A: Stressed Assets Ratio (%) for Indian banks



RBI Report

— All Banks — PSBs — Pvt Banks

Figure B: Gross NPA Ratio (%) for Indian Banks



— All Banks — PSBs — Pvt Banks

When bank balance-sheets are weak, they cannot support a healthy credit growth. Question is who is responsible for this mess – Creditors / Promoters / Regulators ?

Let's listen to this video



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Status of steel companies referred to Insolvency Court (NCLT)

Company	Existing Plant Capacity	Total Debt (INR crores) as on DEC 2017	Referred to NCLT	Resolution Professional	Current Status
Bhushan Steel	5.6 MTPA	48,153	Jun-17	Deloitte	TATA Steel is the highest bidder
Bhushan Power & Steel	2.3 MTPA	37,403	Jun-17	BDO India	TATA Steel is the highest bidder
Monnet Ispat	1.5 MTPA	12,262	Jun-17	Grant Thornton	JSW is the sole bidder
Essar Steel	10 MTPA	40,000	Jun-17	A&M/EY	NuMetal and ArcelorMittal submitted their bids on Feb 12, 2018
Electrosteel	2.5 MTPA	10,288	Jun-17	PwC	Vedanta is the highest bidder
Uttam Galva	1.2 MTPA	7,500	Jan -18		
Adhunik Metaliks	0.45 MTPA	5,000	Jan -18		
Jayaswal Neco	1 MTPA	3,853	Jan -18		
Visa Steel	0.5 MTPA	3,600	Jan -18		

An interesting analogy....

- ArcelorMittal has produced 93 million tonnes of crude steel in the calendar year 2017
- As of December 2017, the gross debt of ArcelorMittal was at **\$12.9 billion**

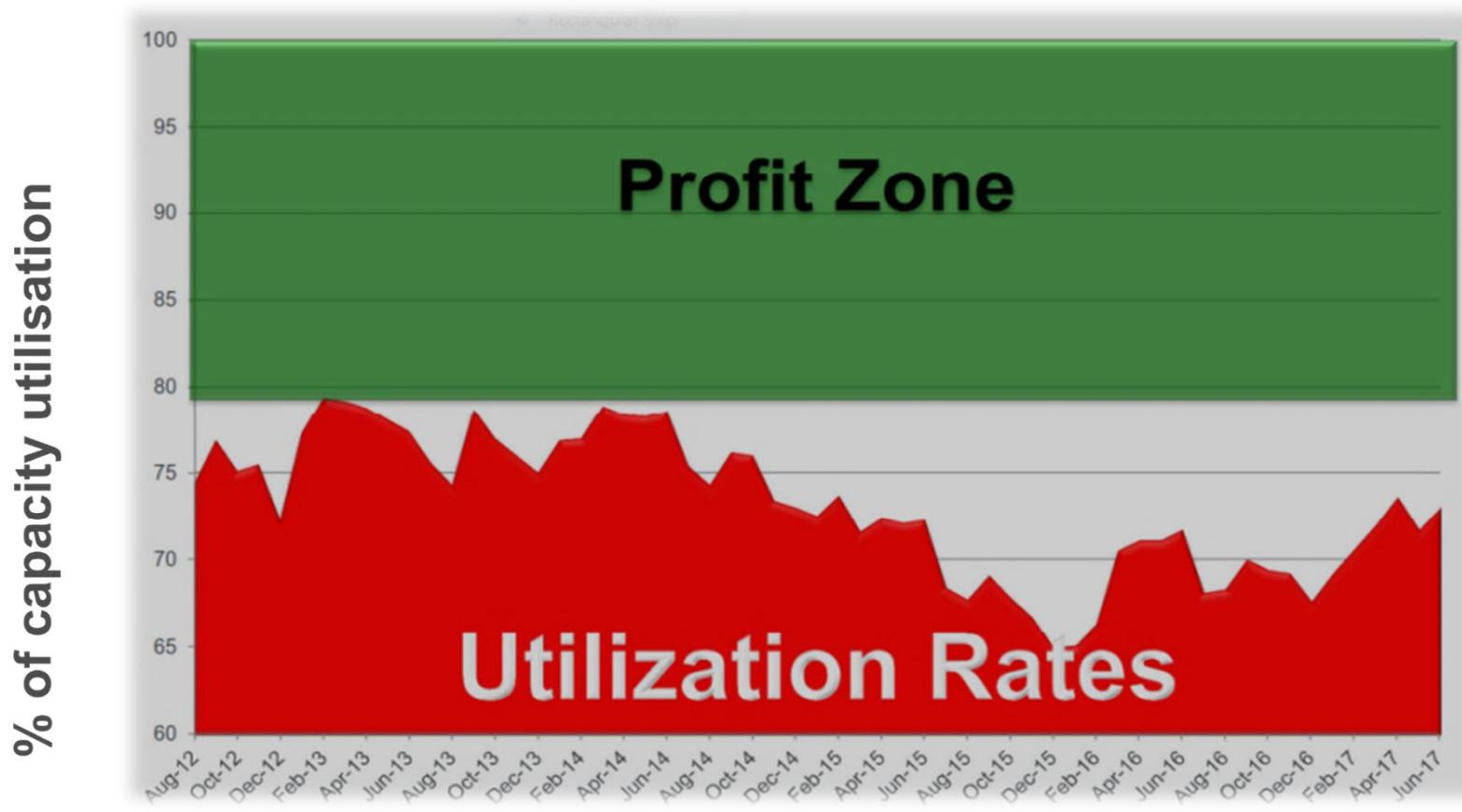
Source : corporate.arcelormittal.com/investors/results

- India has produced 101 million tonnes of crude steel in the calendar year 2017.
- As of 22nd December 2017, the gross bank credit to the Indian iron and steel sector stood at ~ **\$50 billion**

Source : RBI Report

This shows we have a serious problem in the financial health of our steel sector.

Why the Greenfield steel plants are making loss...



Source:Worldsteel.org

High depreciation and interest costs, cancellation of Iron Ore mines and Coal Blocks, underutilization of capacity and an unfavorable capital structure pushed our steel companies into red.

Should we add new Greenfield steel capacities

- In the steel sector, a whole ecosystem is now evolving around the IBC and the RBI.
- The RBI has also advised banks to make higher provisions for these accounts which are under IBC.
- Critical challenges confronting the Indian economy is “Twin Balance Sheet Syndrome”.
- Moreover, the steel industry is losing its role as a big job creator, contrary to popular perception.
- We have to forget steel sector as a core employer.



▲ The Voestalpine Stahl Donawitz GmbH plant. PHOTOGRAPHER: LISI NIESNER/BLOOMBERG

Just 14 People Make 500,000 Tons of Steel a Year in Austria

**Getting bank finance for new steel capacity addition will be a big challenge.
From where will the INR 10 lakh crore come from to move towards 300 million tons ?**

Should we add new Greenfield steel capacities

“If we compare the estimated demand for finished steel products in 2035 with existing installed capacity, then we can very safely say there is already today enough capacity installed globally to satisfy demand for the next 20 years; it makes sense NOT to focus on building too much new capacity.” -

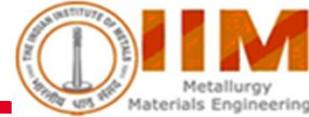
Edwin Basson, director-general of the World Steel Association.



What is the need of the hour

SMART MODERNIZATION

Recent Rebuilding of a Blast Furnace in India



Parameters	Before Re-Construction	After Re-Construction
Annual Production (Mtpa)	0,9	1,88
Avg. Daily Production (t/day)	2700	5250
<i>% Increase</i>		<i>94%</i>
Productivity (t/m ³)	2,50	2,64
Working Volume (m ³)	1107	2000
Inner Volume (m ³)	1250	2307
Hearth Diameter (meter)	8,0	10,4
Blast Temperature	1050	1250

Shutdown : 110 days

- The upgraded Blast Furnace is supported on the old but reinforced foundations and fits into the existing square tower.
- The above figures represent one of the largest capacity increases ever seen from one single Blast Furnace rebuild.
- In India, the cost of production of hot metal through Blast Furnace route is around 60% of cost of finished steel product. **Thus, any improvement in the cost structure in the primary areas of integrated steel plant has a multiplier effect on the savings in cost of finished steel product.**

A perspective towards future...

- There should be a concerted effort to utilize nearly 95% of installed steel production capacities in India, with best possible techno-economic parameters
- Focus on increasing the export turnover.
- Creditors (Lenders) should build an independent ecosystem which will facilitate collaboration of technology suppliers, steel plant operators and turnaround specialists.
- Instead of putting Greenfield Steel Plants in a new location, rebuilding and upgradation of existing steel facilities will unlock the values of our steel companies without putting much burden on exchequer.

Thank you

Author has 25 years of working experience in various management functions in Steel sector. He worked 15 years in SAIL, Rourkela Steel Plant, around 5 years in ArcelorMittal and has been associated since last five years with Paul Wurth, SMS group.

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