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## Research Paper

## THE INDIAN STEEL INDUSTRY: PERFORMANCE HIGHLIGHTS AND PROSPECTS

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## ABSTRACT

*In a developing country like India, the performance of various industries greatly determines the growth of the economy. This realization has made the economic planners to implement various policies and programmes for the development of industries. Among the various industries, Steel industry has attracted much of the attention of the policy makers as it is one of the major industry in India. The domestic steel industry has faced new challenges and due to the high cost of commissioning of new projects, the developed markets face many problems. The domestic demand too has not improved to significant level. The litmus test of the steel industry will be to surmount these difficulties and remain globally competitive. This paper presents the Indian Steel scenario of steel industry as well as Production, consumption and growth of steel industry between 2014-15 to 2015-16 in India. In the second part; the author has made an attempt to highlight the the challenges and opportunities of Indian steel industry.*

**KEYWORDS:** Steel Industry, Domestic Demand, Supply, Production, Import, and Export

## INTRODUCTION

Steel is crucial to the development of any modern economy and is considered to be the backbone of human civilization. The level of per capita consumption of steel is treated as an important index of the level of socioeconomic development and living standards of the people in any country. Indian Steel industry has been the backbone of Indian Economy ever since Indian Economy gained global recognition and has been passing through many phases of ups and downs during ancient, medieval and modern days. Indian steel industry is one of the fastest growing industries.

**Overview of steel industry:-**

Steel products are used for a wide range of applications such as building, infrastructure, equipment, tools, machinery, appliances, weaponry, ships and vehicles (González & Kaminsk, 2011).

- The steel industry is one of the major industries in India.
- India is the world's third-largest producer of crude steel (up from eighth in 2003) and is expected to become the second-largest producer by 2017 as per world steel Association(WSA)..
- Industry contributes around 2 per cent of the Gross Domestic Product (GDP)
- The total employment in industry is more than two million(direct and indirect employment)
- Per capita consumption of steel in India has risen from 51 Kg in 2009-10 to about 61.9 Kg in 2015-16 much below that of the Developed World (around 350 kg)



**REVIEW OF LITERATURE**

- 1) Joyashree Roy, Moumita Roy and Kaustav Banerjee, writes in 2008 working paper series on Steel Sector in India: A Profile of the small producers, in Global Change Programme Jadavpur University Kolkata. which indicates the present scenario and future growth of the Indian steel industry, also indicated domestic production, consumption and export-import till 2008 and gives the factor affecting on the production and consumption in India.
- 2) OECD Steel Committee published in 2005 Iron and Steel Industry 2005, with Organization for Economic Co-operation and Development publication. In this This annual publication provides statistical tables showing steel production, consumption and trade data, as well as other indicators of activity such as employment levels, annual investment expenditures by sector and by country, export prices, domestic prices and indices for certain iron and steel products for OECD countries and other countries participating in the OECD Steel Committee as observers.
- 3) Mehta also estimated a productivity growth of 8.8 per cent in the Indian steel industry during the period 1953 to 1965. He also found the evidence of capital deepening in the production process of steel during this period..

**OBJECTIVES OF THE PRESENT STUDY**

- ✧ To present the Indian scenario of steel industry as well as the production, consumption and growth of steel industry between 2014-15 to 2015-16 in India.
- ✧ To highlights the challenges and opportunities of Indian steel industry.

**RESEARCH METHODOLOGY**

Write ups of various eminent authors, recent news in newspapers and various websites have been consulted for writing this paper.

**A PERFORMANCE HIGHLIGHTS**

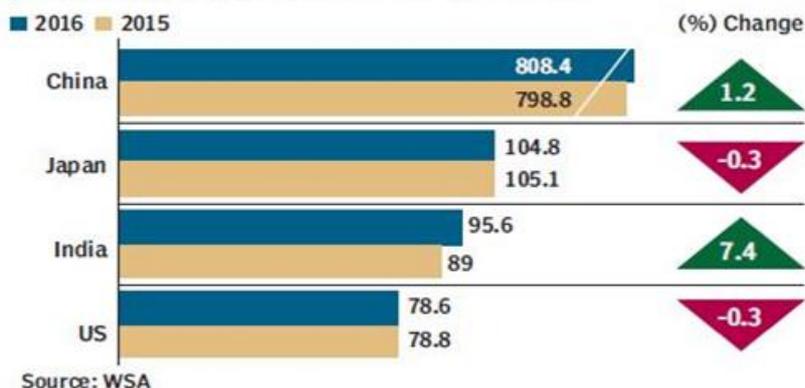
A modest consumption growth driven mainly by a record level of imports, an indigenous supply side that slipped into the red, plunging exports, “recovering” prices, sliding bottomlines, expanding capacity - these summed up the domestic steel scene during 2015-16. On hindsight, 2015-16 was a year that offered very few takeaways to the Indian steel industry, excepting perhaps for a handful of important lessons - to develop a strong domestic market and adopt measures to sharpen competitiveness in a global market, which time and again, will be wont to pass through upheavals and volatility of unpredictable extents. Here’s a look at some of key statistics reflecting the performance of the Indian iron and steel industry during 2015-16 as per provisional data released by the JPC:

Item	Indian Steel: Performance Highlights		
	2015-16 (mt)	2014-15 (mt)	%change
Crude steel production	89.78	88.98	0.9
Crude steel capacity	118.20	109.85	7.6
Hot metal production	57.13	56.41	1.3
Pig iron production for sale	9.63	9.69	-0.6
Sponge iron production for sale	16.28	20.38	-20.1
Total Finished Steel (alloy + non alloy)			
Production for sale	90.39	92.16	-1.9
Import	11.71	9.32	25.7
Export	4.08	5.59	-27.1
Consumption	80.45	76.99	4.5
Source: JPC; mt=million tones;			

- ✓ Production of crude steel was at 89.78 million tonnes (mt), a growth of 0.9 per cent.
- ✓ Crude steel capacity reached 118.2 mt, a growth of 7.6 per cent.
- ✓ Production for sale of sponge iron was 16.28 mt, a decline of 20 per cent.
- ✓ Pig iron production for sale was 9.63 mt, a decline of 0.6 per cent.
- ✓ Hot metal production was 57.13 mt, an increase of 1.3 per cent.
- ✓ Total finished steel production for sale was 90.39 mt, a decline of 1.9 per cent.

- ✓ Export of total finished steel reached 4.08 mt, a decline of 27.1 per cent.
- ✓ Import of total finished steel was 11.71 mt, an increase of 25.6 per cent.
- ✓ India was a net importer of total finished steel and imports accounted for 15 per cent of domestic steel consumption, in sharp contrast to the average 10 per cent rate achieved for the five year period ending 2014-15
- ✓ Consumption of total finished steel was 80.45 mt, an increase of 4.5 per cent
- ✓ Per capita total finished steel consumption stood at 61.9 kg, an increase of 1.8 per cent.

### Top steel-producing countries and their production (MT) in 2016 Vs 2015



## CHALLENGES AND OPPORTUNITIES OF INDIAN STEEL INDUSTRY

### Challenges:-

#### High Cost of Capital

Steel is a capital intensive industry; steel companies in India are charged an interest rate of around 14% on capital as compared to 2.4% in Japan and 6.4% in USA.

#### Lack of Technology:

Throughout the 1960s and up to the oil crisis in mid-1970s, Indian steel industry was characterized by a high degree of technological efficiency. This technology was mainly from abroad. But during the following two decades after the oil crisis, steep hike in energy costs and escalation of costs of other inputs, reduced the margin of profit of the steel plants. This resulted in lower levels of investment in technological developments. Consequently, the industry lost its technology edge and is now way behind the advanced countries in this regard. Material value productivity in India is still very low.

#### Low Productivity:

The per capita labour productivity in India is at 90-100 tonnes which is one of the lowest in the world. The labour productivity in Japan, Korea and some other major steel producing countries is about 600-700 tonnes per man per year. Therefore, there is an urgent need to

increase the productivity which requires retraining and redevelopment of the labour force.

#### Inefficiency of public sector units:

Most of the public sector units are plagued by inefficiency caused by heavy investment on social overheads, poor labour relations, inefficient management, under- utilisation of capacity, etc. This hinders proper functioning of the steel plants and results in heavy losses.

#### Shortage of metallurgical coal:

Although India has huge deposits of high grade iron ore, her coal reserves, especially high grade cooking coal for smelting iron are limited. Many steel plants are forced to import metallurgical coal. For example, steel plant at Vishakhapatnam has to import coal from Australia. Serious thought is now being given to replace imported coal by natural gas from Krishna-Godavari basin.

#### Inferior quality of products:

Lack of modern technological and capital inputs and weak infrastructural facilities leads to a process of steel making which is more time consuming, expensive and yields inferior variety of goods. Such a situation forces us to import better quality steel from abroad. Thus there is urgent need to improve the situation and take the country out of desperate position.

#### Changing Government Policies:

Ever since the new government came to power in India, the policies related to mining including past

allotment of crucial raw materials like Iron ore & Coal were overturned impacting large steelmaking capacities.

## OPPORTUNITIES

### Railways:

- The Dedicated Rail Freight Corridor (DRFC) network expansion would be enhanced in future.
- Gauge conversion, setting up of new lines and electrification would drive steel demand.
- Indian Railways started the PPP mode of funding and has already awarded projects worth around USD1.73 billion during the first seven months (April-October) of FY16.

### Oil and Gas:

- The liquid fuel transportation pipeline network is likely to grow from the present 16,800 km to 22,000 km in 2014.
- Oil and gas amongst major end-user segment accounted for ~34.4 per cent of primary energy consumption in FY16.
- This would lead to an increase in demand of steel tubes and pipes, providing a lucrative opportunity to the steel industry.
- Investment of USD70 billion are expected during 2012-17

### Power:

- The government targets capacity addition of 88.5 GW under the 12<sup>th</sup> Five-Year Plan (2012–17) and around 100 GW under the 13<sup>th</sup> Five-Year Plan (2017–22).
- Both generation and transmission capacities would be enhanced, thereby raising steel demand from the sector.
- Conventional power capacity addition of 23.98 GW has registered to be the highest in FY16.

### Rural India:

- Rural India is expected to reach per capita consumption of 12.11 kg to 14 kg for finished steel by 2020.
- Policies like Food for Work Programme (FWP) and Indira Awaas Yojana, Pradhan Mantri Gram Sadak Yojana are driving growing demand for construction steel in rural India
- In FY16, per capita consumption of steel in rural India is estimated at 60 kg, which is lower in comparison with the global average of 216 kg

### Infrastructure

- The infrastructure sector accounts for 9 per cent of steel consumption and expected to increase 11 per cent by 2025-26.

- Due to such a huge investment in infrastructure the demand for long steel products would increase in the years ahead

### Airports:

- More and more modern and private airports are expected to be set up
- In 2016, passenger traffic at Indian airport stood at 223.61 million and number of operational airports stood at 95 in FY16
- Development of Tier-II city airports would sustain consumption growth
- Estimated steel consumption in airport building is likely to grow more than 20 per cent over next few years

### Automotive

- The automotives industry is forecasted to grow in size by USD74 billion in 2015 to USD260-300 billion by 2026
- With increasing capacity addition in the automotive industry, demand for steel from the sector is expected to be robust
- In 2016, Indian automotive sector is estimated to be third largest automotive market, by volume.

## CONCLUSION

The Indian steel industry is among the upcoming industries of the world. It has a number of iron ores, which means that it has plenty of resources from which to draw its raw material. The rate of production of steel in India has been going up at a steady rate in the last few years. It is expected that consumption per capita would increase supported by rapid growth in the industrial sector, and rising infra expenditure projects in railways, roads & highways, etc. Driven by rising infrastructure development and growing demand for automotives, steel consumption is expected to reach 104 MT by 2017.

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