

# Steel

NOVEMBER  
2011



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- ❖ Advantage India
- ❖ Market overview and trends
- ❖ Growth drivers
- ❖ Success stories: TATA Steel, JSW Steel
- ❖ Opportunities
- ❖ Useful information

## Advantage India

### Robust demand

- Demand to be supported by growth in the domestic market
- Infrastructure, oil & gas, and automotives will drive the growth of the industry

### Increasing investments

- Foreign investment of nearly USD40 billion committed in the steel sector in 2010
- Steel producers have signed 222 MoUs with state governments for a planned capacity addition of about 275.7 million tonnes by 2020

2014E

Market value:  
USD83 billion

## Advantage India

### Competitive advantages

- India is among the top producers of all forms of steel in the world
- Easy availability of low cost manpower and presence of abundant reserves make India competitive in the global setup

### Policy support

- 100 per cent foreign direct investment (FDI) through the automatic route is allowed in the sector
- Large infrastructure projects in Public-Private Partnership (PPP) mode are being formed

2009

Market value:  
USD33 billion

Notes: FDI – Foreign Direct Investment ,  
MoUs – Memorandum of Understanding, 2014E – estimated figure for the year 2014; these estimates are from Data monitor

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## Evolution of the Indian steel sector

1907-1918

- Production of steel started in India (TISCO was setup in 1907)
- IISC was set up in 1918 to compete with TISCO

1923-1948

- Mysore Iron and Steel Company was set up in 1923
- According to the new Industrial Policy Statement (1948) new ventures were undertaken only by the central government

1954-1964

- Hindustan Steel Ltd and Bokaro Steel Ltd were setup in 1954 and 1964 respectively
- In early 1990's, the public sector dominated the steel production
- Private players were in downstream production, mainly producing finished steel using crude steel products

1973-1992

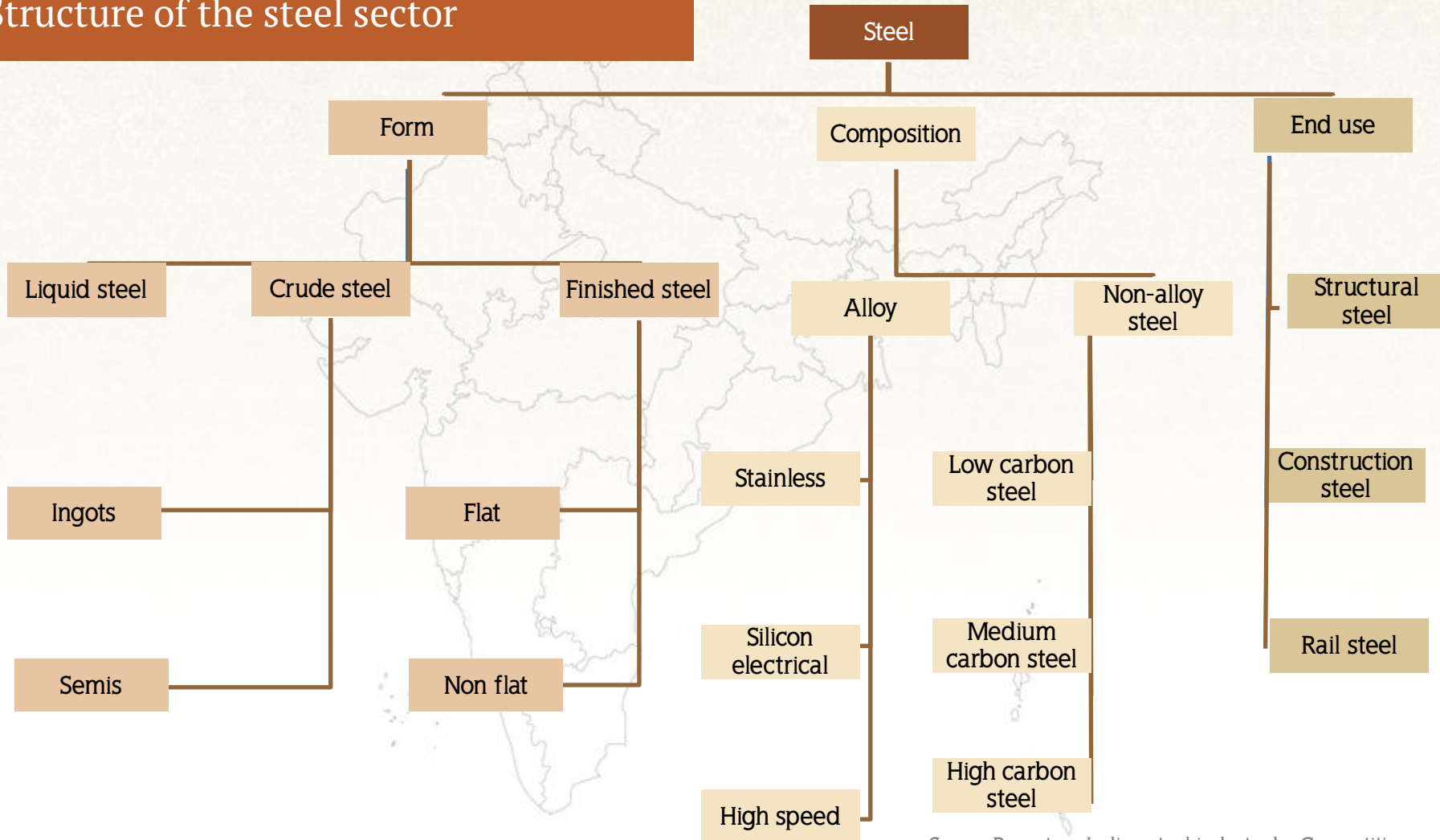
- SAIL was created in 1973 as a holding company to oversee most of India's iron & steel production
- In 1989 SAIL acquired Vivesvata Iron and Steel Ltd
- In 1993, the government set plans in motion to partially privatise SAIL

1993-2010

- Foreign players started entering Indian steel market
- No license requirement for capacity creation
- Export restrictions were eliminated
- Decontrol of domestic steel prices

Notes: TISCO - Tata Iron and Steel Company  
IISC - Indian Iron & Steel Company  
SAIL - Steel Authority of India Ltd

## Structure of the steel sector

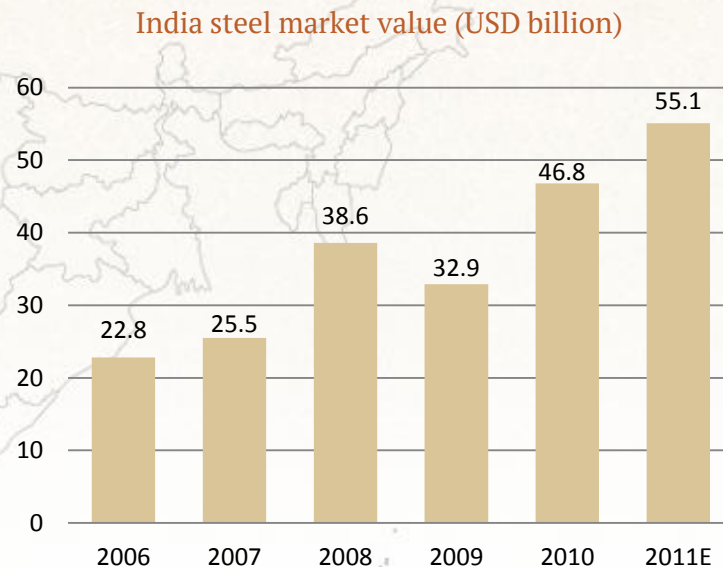


Source: Report on Indian steel industry by Competition Commission of India, Aranca Research

## Steel sector recorded healthy growth over 2006-11 ... (1/2)

- The market grew to an estimated USD55.1 billion in 2011 from USD22.8 billion in 2006
- CAGR of the market over the period was 19.3 per cent

Notes: CAGR – Compounded Annual Growth Rate



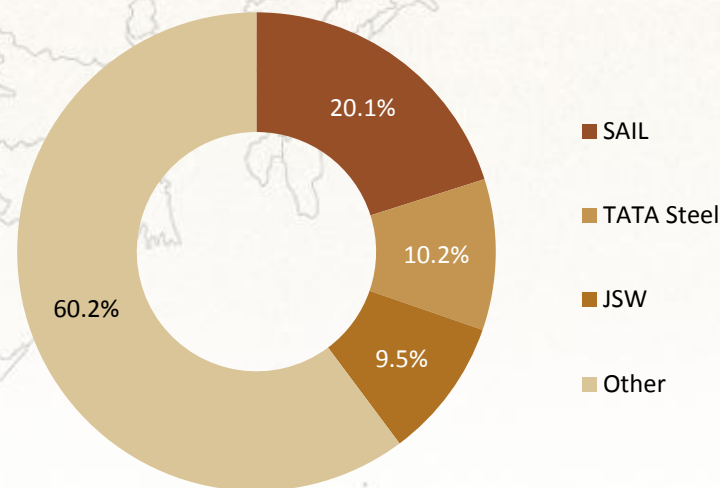
Source: Datamonitor, Aranca Research  
Note: E- Estimates

## Steel sector recorded healthy growth over 2006-11 ... (2/2)

- SAIL is the leading player in the Indian steel market with a market share of 20.1 per cent
- TATA Steel accounts for 10.2 per cent of the market

Notes: SAIL – Steel Authority of India Ltd

India steel market share by volume - 2010

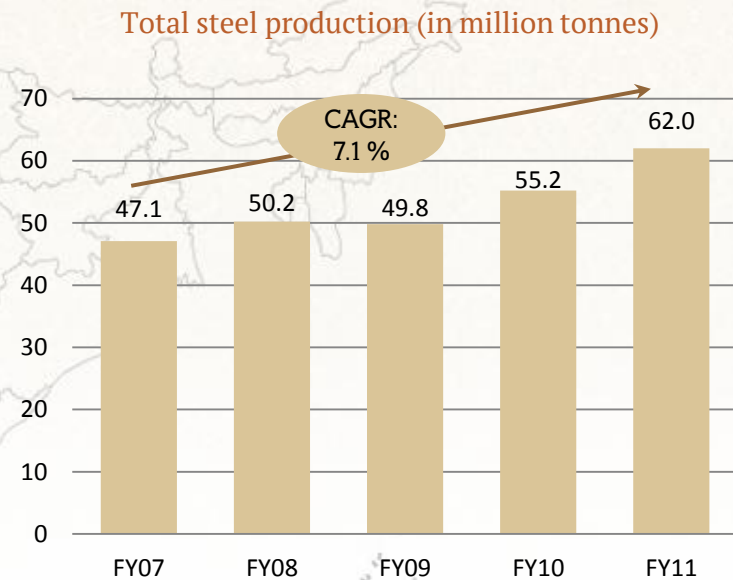


Source: Datamonitor, Aranca Research

## Demand has outpaced supply over the last five years ... (1/2)

- Total steel production grew to 62.0 MT in FY11 from 47.1 MT in FY07
- Industry analysts anticipate that capacity in the country is likely to reach 120 MT by FY12

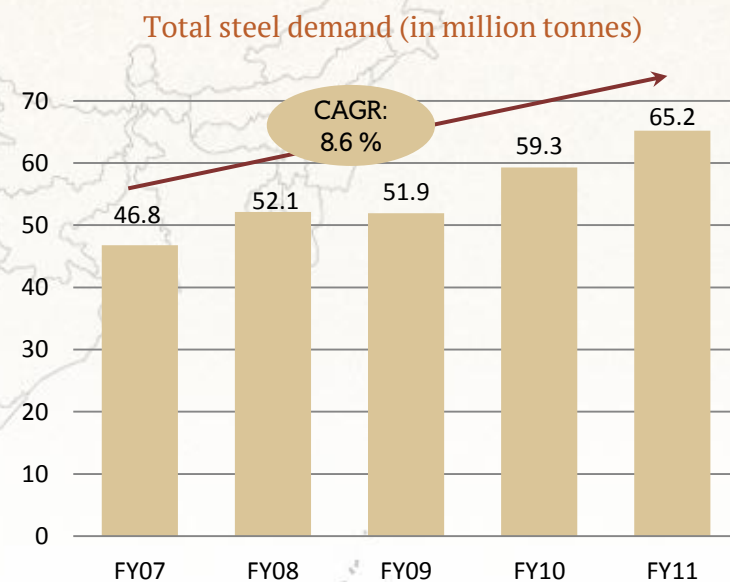
Notes: FY – Indian Financial Year (April – March)  
MT – Million Tonne



Source: Indian Steel Markets Conference, Aranca Research

## Demand has outpaced supply over the last five years ... (2/2)

- Total steel demand grew to 65.2 MT during FY11 as against 46.8 MT in FY07
- The demand expanded at a CAGR of 8.6 per cent over FY07-11



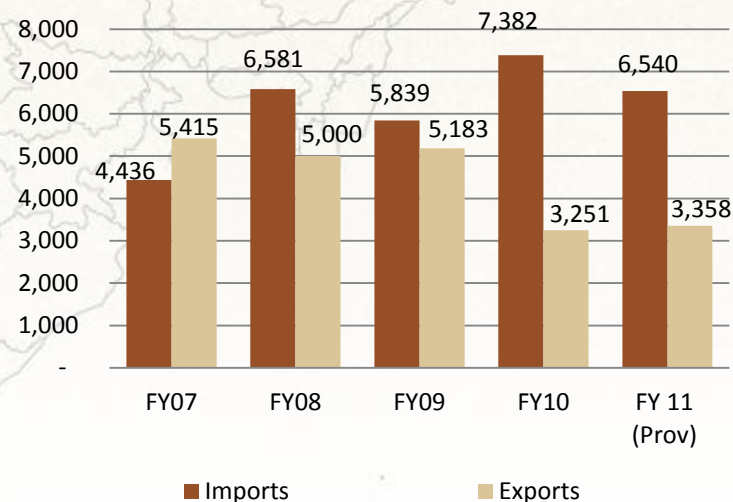
Source: Indian Steel Markets Conference, Aranca Research

## Construction and capital goods are major consumers ... (1/2)

- Demand for steel exceeded the pace of growth in production over the last few years, leading to import dependency
- Imports has increased at a CAGR of 10.2 per cent over FY07-11

Notes: FY – Indian Financial Year (April – March)

Steel exports and imports (in '000 tonnes)

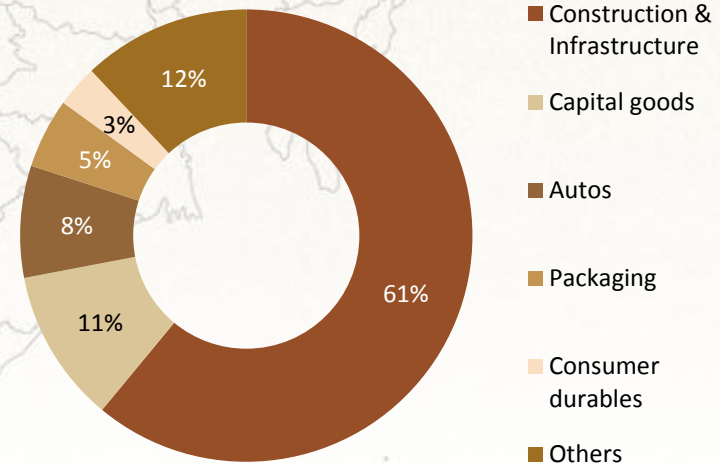


Source: Joint Plant Committee, Aranca Research

## Construction and capital goods are major consumers ... (2/2)

- 'Construction & infrastructure' is the largest consumer of steel in India, accounting for 61 per cent of total consumption in 2010
- 'Capital goods' is the next largest consumer, with 11 per cent of total consumption

Sector-wise steel consumption shares



Source: Crisil, Aranca Research

## Key players in the industry

	Company	Products
	Tata Steel Ltd	Finished steel (non-alloy steel)
	SAIL	Finished steel (non-alloy steel)
	J S W Steel Ltd	Hot rolled coils, strips, sheets
	Jindal Steel & Power Ltd	Iron and steel
	Ispat Industries Ltd	Hot rolled coils, strips, sheets
	Welspun-Gujarat Stahl Rohren Ltd	Tubes and pipes
	Bhushan Steel Ltd	Cold rolled coils, strips, sheets

## Notable trends in the Indian steel industry

### Growing investments

- 222 MoUs have been signed with various states such as Orissa, Jharkhand, Chhattisgarh, Gujarat and Karnataka for planned capacity of around 276 MT
- Investment in infrastructure, the largest consumer of steel, is expected to be USD1 trillion by 2017

### Vertical integration

- The major players in the industry, such as Tata Steel and SAIL, have vertically integrated to secure raw materials
- Tata Steel is self-sufficient in iron ore and coking coal supply; SAIL is self sufficient in iron ore

### Strategic alliances

- Global players have entered into JVs with Indian steel majors as they feel that greenfield projects may take longer to become profitable
- Sumitomo Metal has partnered with Bhushan Steel for technological and marketing collaboration
- SAIL has entered into a JV with POSCO to have FINEX technology at its Bokaro plant

### Entry of international companies

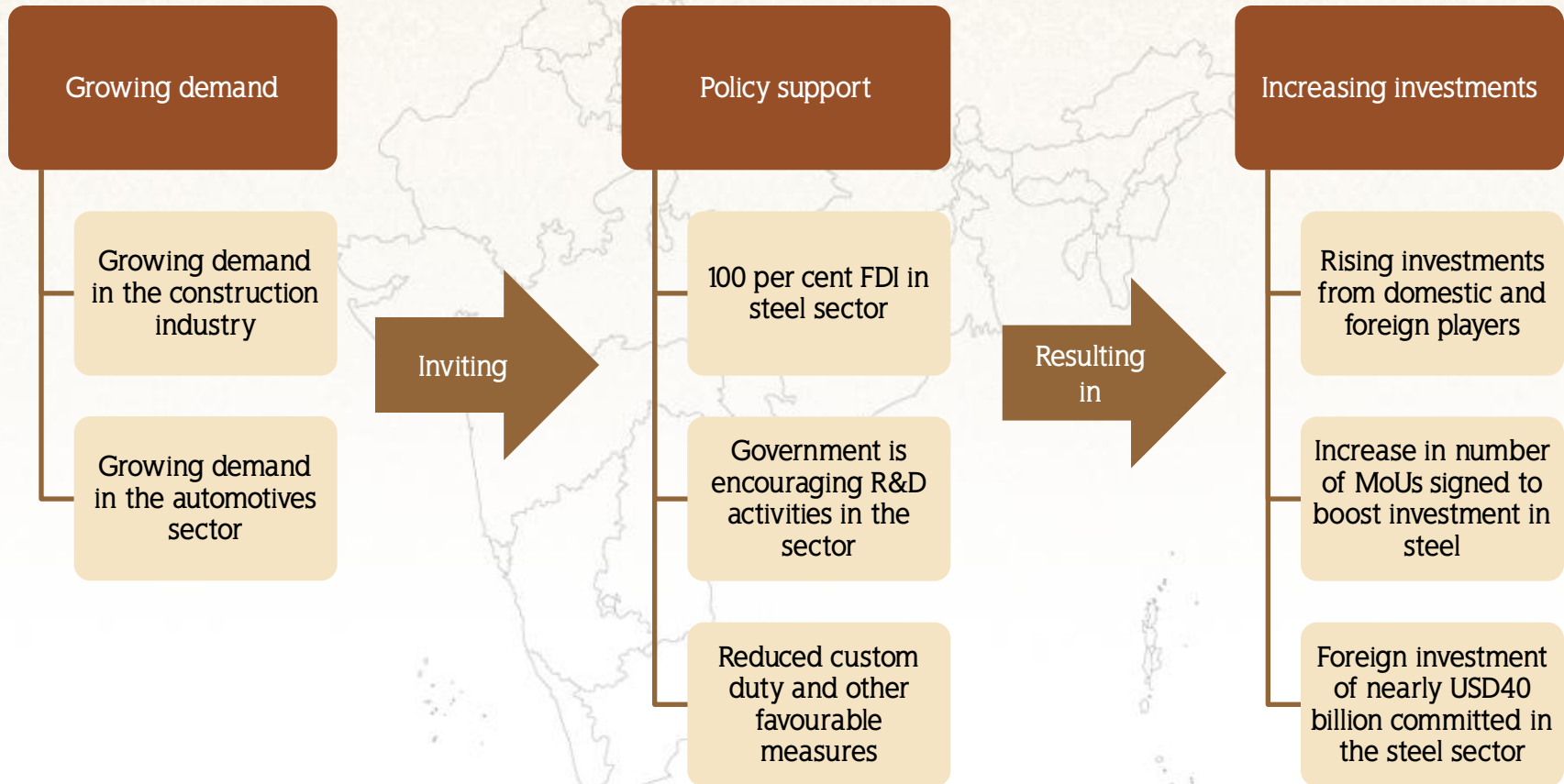
- Attracted by the growth potential of the Indian steel industry, several global steel players have been planning to enter the market
- Arcelor Mittal and POSCO have planned mega greenfield projects at various locations in India

Notes: MOUs – Memorandum of Understanding

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## Strong demand and policy support driving investments

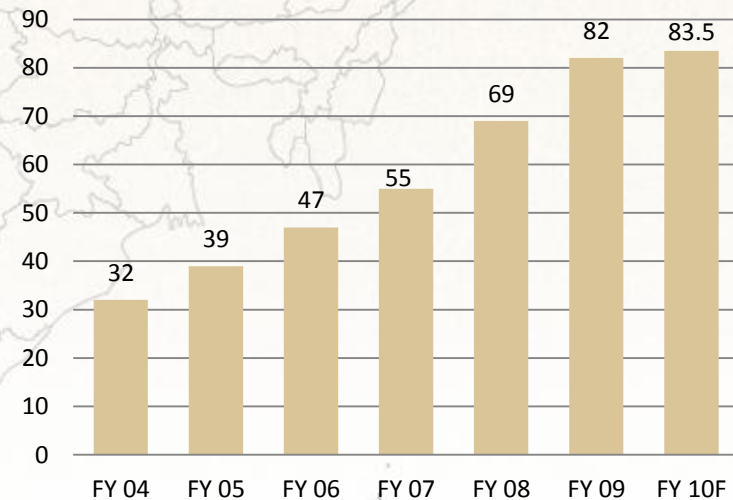


Notes: FDI – Foreign Direct Investment

## Construction and automotives sectors driving steel growth ... (1/2)

- Construction and infrastructure expanded at a CAGR of 17.3 per cent over FY04-10
- Planning Commission, in the Twelfth Five-Year Plan (2012–17), expects total investment in infrastructure to be USD1 trillion by FY12

Investment in infrastructure (In USD billion)



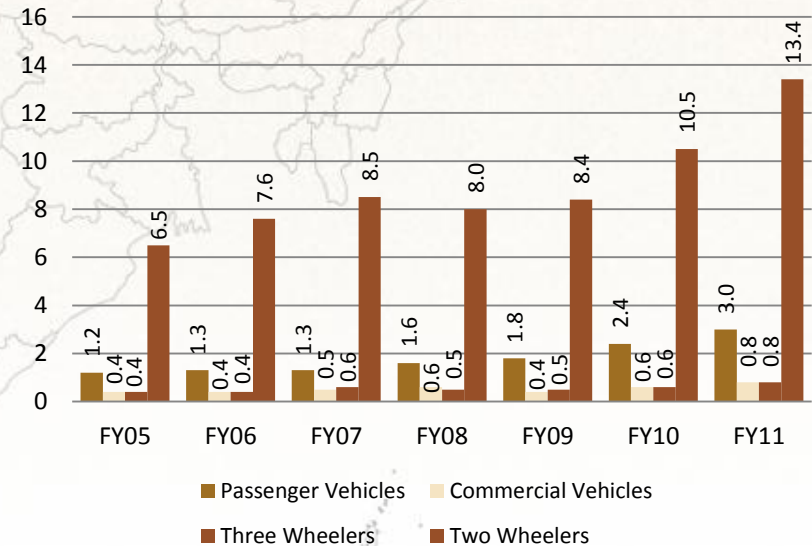
Source: Indian Economy Update (E&Y), Aranca Research

## Construction and automotives sectors driving steel growth ... (2/2)

- Automotives production expanded at a CAGR of 13.3 per cent over FY05-11
- Passenger vehicles are the fastest growing segment with a CAGR of 16.3 per cent over the same period

Notes: FY – Indian Financial Year (April – March)

Total production of automobiles in India (million units)



Source: SIAM, Aranca Research

## Policy support aiding growth in the steel sector

### National Steel Policy 2005

- Government of India has framed the National Steel Policy (NSP) to encourage the steel industry to reach global benchmarks in terms of quality, cost and efficiency
- The government expects steel production to rise to 100 million tonnes per annum by 2019-20
- The NSP provides a single-window clearance for larger projects and offers other necessary support for the growth of the steel industry

### R&D

- A new scheme named 'The scheme for the promotion of R&D in the iron and steel sector' has been approved with a budgetary provision of USD24.6 million to initiate and implement the provisions of the scheme

### Reduced custom duty

- The government significantly reduced the duty payable on finished steel products and has streamlined the associated approval process

### Deregulation

- Deregulation of pricing and distribution of steel
- The government still controls the excise, import and export duty levies

### Foreign direct investment

- 100 per cent FDI through the Automatic Route is allowed in the Indian steel sector

## Steel SEZs in India

Developer	Location	Product
Viraj Profiles Ltd	Thane, Maharashtra	Stainless steel engineering products
Jindal Stainless Ltd	Kalinga Nagar, Orissa	Stainless steel and ancillary/downstream industry
SAIL Salem SEZ Pvt Ltd	Salem, Tamil Nadu	Steel
JSW Bengal Steel Ltd	West Medinipur, West Bengal	Steel
Gremach Infrastructure Equipments & Projects	Kolhapur, Maharashtra	Metal
Orissa Industrial Infrastructure Development Corporation	Jajpur, Orissa	Metallurgical-based engineering and ancillary/downstream industry

*Source:* Formal approvals granted in the Board of Approvals after the SEZ rules coming into force as on 15 January 2009," Special Economic Zones in India website, www.sezindia.nic.in

## The sector witnessed rising investments in the last decade ... (1/2)

M&A scenario — details		
Period : 1 January 2010 to 30 November 2010		
<u>Deal type</u>	No of deals	Largest deal (USD million)
Inbound	3	1,029*
Outbound	5	541
Domestic	12	239.6

Cumulative FDI inflows	
Period: April 2000 to April 2011	
<u>Sector</u>	USD million
Metallurgical industries	4,286
Per cent of total FDI inflow	3.00

*Source:* Thompson ONE Banker, “Fact Sheet On Foreign Direct Investment (FDI)”, Department of Industrial Policy and Promotion; “JSW –JFE Partnership Press Meet Presentation”, Press releases; and Ministry of Steel, Government of India, Annual Report 2009–10

## The sector witnessed rising investments in the last decade ... (2/2)

State	MoUs signed	Capacity addition (MTPA)
Orissa	49	75.7
Jharkhand	65	104.2
Chhattisgarh	74	56.6
West Bengal	12	21.0
Other states	22	18.2
<b>Total</b>	<b>222</b>	<b>275.7</b>

Capacity addition plans	
Company	Plan
SAIL	SAIL will set up a 12 million tonnes plant in North India, Jharkhand
JSW Steel	JSW Steel plans to expand its annual capacity to 32 million tonnes by 2020
Varun Industries	Varun Industries will set up a stainless steel cum alloy plant in West India investing around USD171.8 millions

*Source:* Thompson ONE Banker, "Fact Sheet On Foreign Direct Investment (FDI)", Department of Industrial Policy and Promotion; "JSW -JFE Partnership Press Meet Presentation", Press releases; and Ministry of Steel, Government of India, Annual Report 2009-10

Note: MTPA – Million Tonne Per Annum

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## TATA Steel: A compelling growth story ... (1/3)

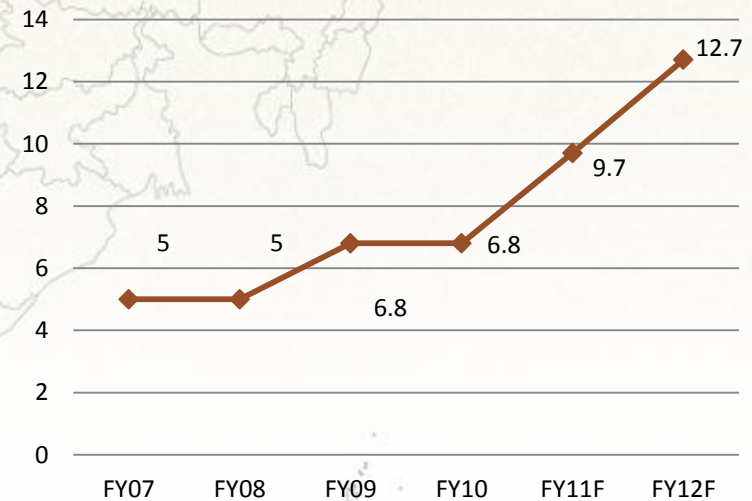
### TATA Steel Limited

Established in 1907, by the visionary-founder JN Tata, Tata Steel is among the top ten global steel companies with an annual crude steel capacity of over 28 million tonnes per annum (MTPA)

Caters to – Automotive, Construction, Consumer goods, Engineering, Packaging, Energy & Power, Ship Building, Rail, and Defence and Security

- Milestones
  - 2009 – Tata Ryerson and HMPCL merge with Tata Steel in 2009
  - 2007 – Integration of Tata Steel and Corus was accomplished at USD12 billion, making Tata Steel one among the top ten steel producers globally

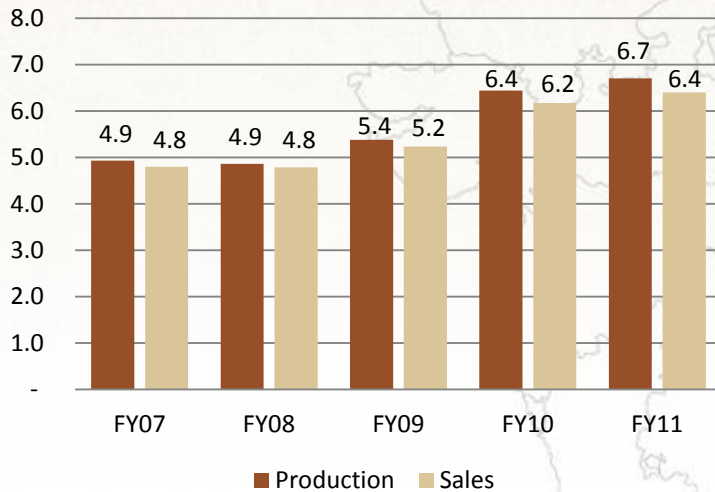
Expected capacity additions (In million tonnes)



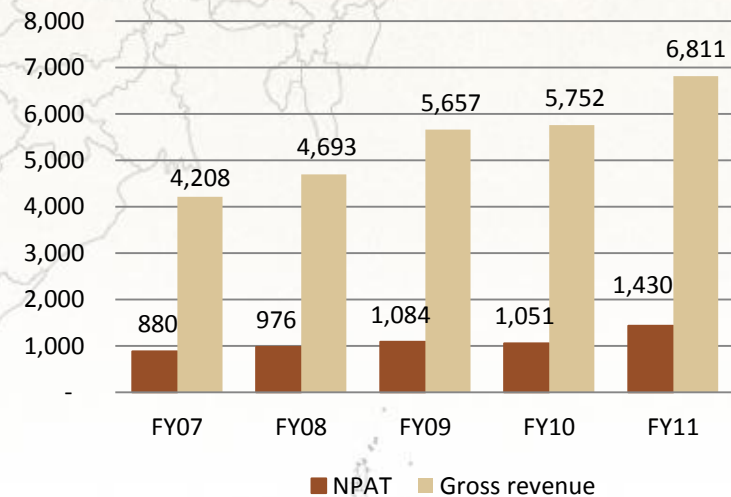
Source: Company website (www.tatasteel.com), India Steel Sector (Thomson Research), Aranca Research

## TATA Steel: A compelling growth story ... (2/3)

Production and sales of steel division (in million tonnes)

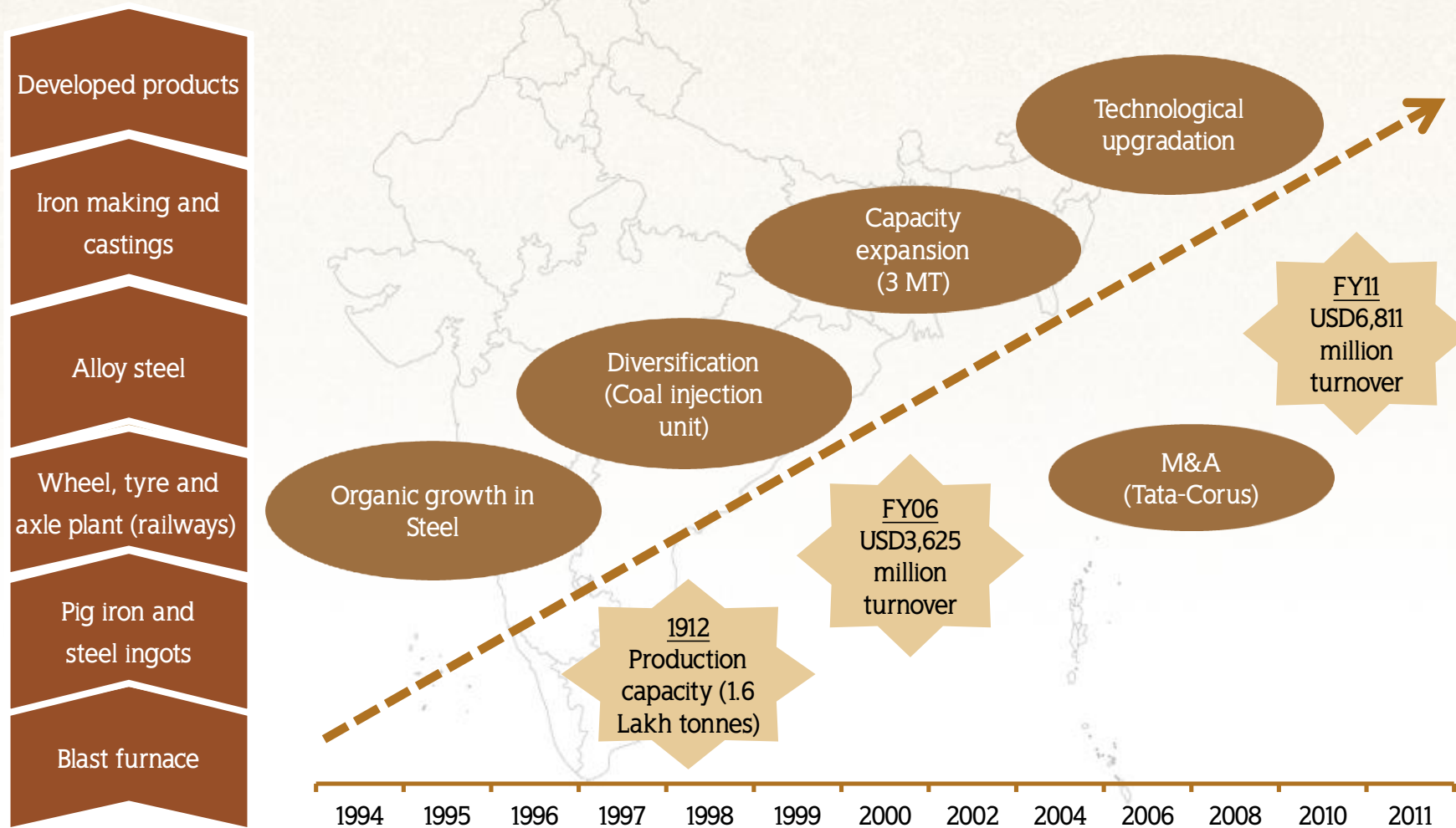


Financial growth (in USD million)



Notes : NPAT – Net Profit After Tax

## TATA Steel: A compelling growth story ... (3/3)



## JSW Steel: Surging ahead on cost competitiveness ... (1/3)

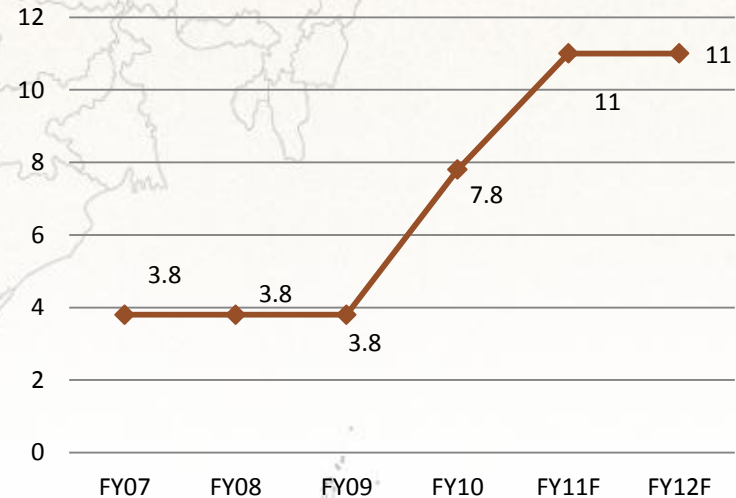
### JSW Steel

Established in 1994, JSW Steel Ltd manufactures iron and steel products in India and abroad

Products– Hot rolled coils, plates, and sheets; cold rolled coils and sheets; galvanised sheets and coils; pre-painted galvanised coils, sheets, and galvanised corrugated sheets

- Achievements –
  - 2008 – Gold Award in Metal and Mining Sector
  - 2006 – India Manufacturing Excellence Award (Frost & Sullivan)
  - 2006 – Gold Award in Metal and Mining Sector (Greentech Foundation)

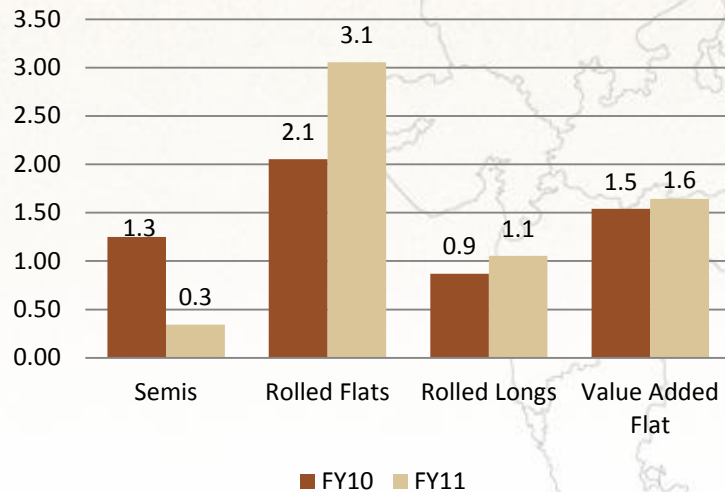
Expected capacity additions (In million tonnes)



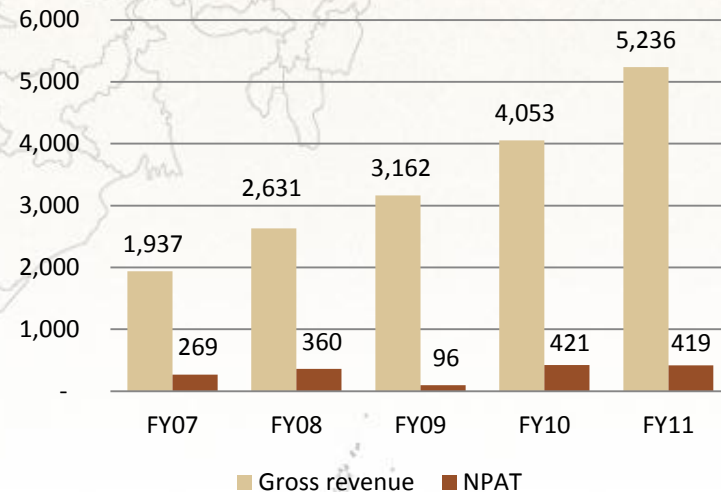
Source: Company website (www.jsw.in) & India Steel Sector (Thomson Research), Aranca Research; FY12F – Forecasts for FY12

## JSW Steel: Surging ahead on cost competitiveness ... (2/3)

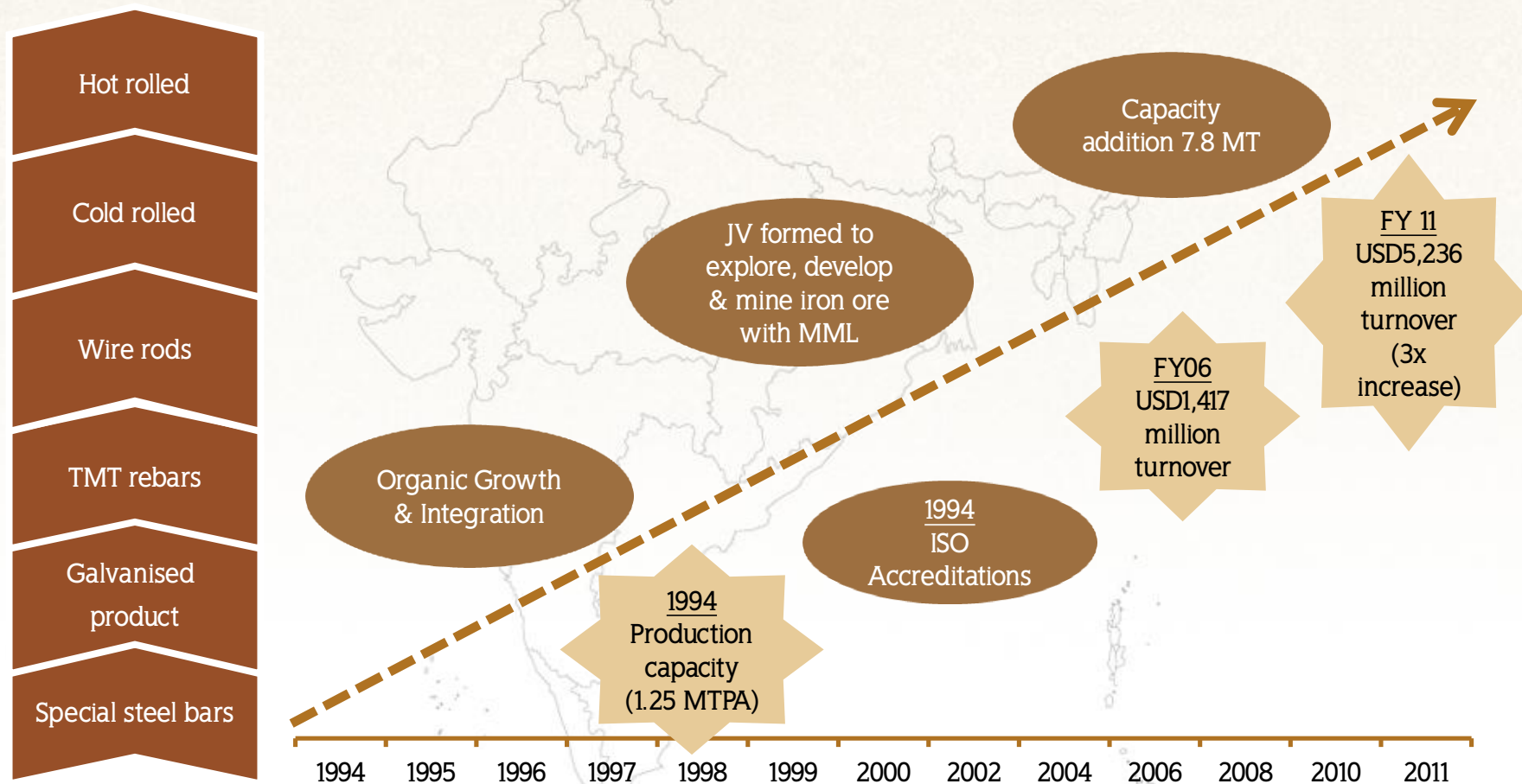
Product group-wise sales (in million tonnes)



Financial growth (in USD million)



## JSW Steel: Surging ahead on cost competitiveness ... (3/3)



Notes: JV – Joint Venture TMT – Thermo Mechanically Treated  
MML – Mysore Minerals Limited MTPA – Million Tonnes Per Annum

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## Opportunities ... (1/2)

### Automotive

- The size of the automotives industry is estimated to touch USD145 billion in 2016
- With increasing capacity addition by the automotives industry, demand for steel from the sector is expected to be robust

### Capital goods

- Capital goods accounts for 11 per cent of steel consumption, and has the potential to increase in tonnage and market share
- Corporate India's capex is expected to grow and generate greater demand for steel

### Infrastructure

- Government aims to increase expenditure spent on infrastructure from current 7.2 per cent of GDP to 9 per cent of GDP by 2014
- Due to such a huge investment in infrastructure the demand for long products of steel will be increasing in years ahead

### Airports

- More and more modern and private airports expected to be set up
- Development of Tier-II city airports will sustain consumption growth
- The estimated steel consumption in airport building is likely to grow more than 20 per cent over next few years

Notes: Capex – Capital Expenditure

## Opportunities ... (2/2)

### Railways

- Dedicated Rail Freight Corridor (DRFC) network expansion will be enhanced in future
- Gauge conversion, setting up of new lines, and electrification will drive steel demand in the near future

### Oil and gas

- Pipeline network for liquid fuel transportation is likely to grow from the present 16,800 km to 22,000 km in 2014
- This would lead to an increase in demand of steel tubes and pipes and hence provides a lucrative opportunity to the steel industry

### Power

- Government targets adding 100,000 MW capacity by 2012
- Both generation and transmission capacities will be enhanced, thereby raising steel demand from the sector

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## Industry associations

### Indian Stainless Steel Development Association

L-22/4, DLF Phase-II  
Gurgaon, Haryana –122 002  
Phone: 91-124-4375501  
Fax: 91-124-4375509  
E-mail: [nissda@gmail.com](mailto:nissda@gmail.com)



## Glossary

- **CAGR:** Compound Annual Growth Rate
- **FDI:** Foreign Direct Investment
- **FY:** Indian Financial Year (April to March)
  - So FY10 implies April 2009 to March 2010
- **JV:** Joint Venture
- **MoU:** Memorandum of Understanding
- **MT:** Million tonnes
- **MTPA:** Million tonnes per annum
- **NPAT:** Net Profit After Tax
- **SEZ:** Special Economic Zone
- **TMT:** Thermo Mechanically Treated
- **USD:** US Dollar
  - Conversion rate used: USD1 = INR48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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