

Steeling the show

India is set to emerge as a global leader in steel, with production and consumption growing in double digits. Billions of dollars are being invested by domestic and international firms, even as Indian tycoons make moves to acquire global giants, writes **N.B. Rao**

INDIA'S steel industry has been making waves globally of late, with steel tycoons like L.N. Mittal, the India-origin London-based entrepreneur, and other Indian industrialists, making strong bids for global steel giants. Mittal acquired arch rival Arcelor for \$32 billion after a five-month-long battle.

Tata Steel, the country's leading private sector giant, recently outbid a Brazilian rival and is in the process of acquiring UK-based Corus for about \$12.2 billion. The acquisition, the biggest ever by an Indian firm, will catapult Tata Steel to being the world's fifth-largest steel maker, from its current position of 56. The flagship of the Tata group will see its total production capacity multiply to 25 million tonnes a year, from just 5.6 million tonnes at present.

Indian steel tycoons are also eagerly eyeing other foreign steel companies, and analysts expect them to make their moves, acquiring firms around the globe. The ensuing months will see a lot of action in the unfolding steel saga, riveting global attention.

Domestically the industry is steeling itself for new challenges, as India charts an ambitious growth path, aiming to emerge as a global leader in steel. The government has set an aggressive production target of nearly 200 million tonnes of steel per annum by 2020 — up from the present 41 million tonnes. The earlier target of 110 million tonnes — implying a compounded annual growth rate of 7.3 per cent — has recently been

revised, following a sharp spurt in production (10 per cent growth) and consumption (12 per cent).

The National Steel Policy envisages an investment of over \$50 billion in the sector over the next 15 years. India is today the seventh largest steel producer, though per capita consumption of the metal is low - 35.3 kg, as compared to a world average of 183 kg, and far higher averages in China (230 kg), Europe (400 kg), the US (418 kg), Japan (630 kg) and South Korea (985 kg).

But the next 10 to 15 years should see dramatic changes in India's steel consumption — and production — pattern. According to the International Iron and Steel Institute (IISI), India's steel

consumption is expected to grow by 10 per cent this year, as against a world average of less than five per cent. Between 2010 and 2015, global steel demand is expected to grow annually by 4.2 per cent, in China by 6.2 per cent, and in India by 7.7 per cent.

Deutsche Bank, the leading German financial institution, projects India's crude steel production will expand at an annual rate of 6 per cent till 2015, touching the 68 million-tonne-mark. "The main reason for such high growth is the good performance of domestic customer industries, especially construction, automobiles, and mechanical engineering sectors," notes a DB research on the country's steel sector.

"The strategic objective is no longer simply to supply the domestic market. India is also trying to position itself more emphatically as an exporter of steel products over the medium term," notes the international bank. "According to government plans, the export share is to be grown from 14 per cent at present to 24 per cent in the medium-term."

Importantly, the bank points out, "the expansion of the industrial sector and thus also of steel consumption is absolutely essential to alleviate the poverty affecting broad sections of the population."

With India's gross domestic product (GDP) expanding by over 8 per cent annually for the past three years — it grew by 9.1 per cent during the first half of the current fiscal — demand for steel will naturally soar. Sectors like infrastructure, construction, automobiles



MAN OF METTLE: L. N. Mittal



GLOWING HOT: There is a sharp shift now towards flat products

and engineering — which are major consumers of steel — are witnessing record growth rates.

The construction sector accounts for 43 per cent of steel demand in India, followed by the mechanical engineering sector (32 per cent) and automobiles (5 per cent). The three growth drivers for the steel industry have also been experiencing explosive growth in recent years.

The automotive sector, for instance, has seen 16 per cent annual growth in production between 2000 and 2005. The mechanical engineering sector has seen a 10 per cent annual growth rate during the same period, and construction by at least six per cent.

Traditionally, the Indian steel industry focused on simple sectional (long) steel, though there is a sharp shift now towards flat products. The ratio of long to flat products is still 50:50 in India, though with increasing demand from white goods producers and the automobile industry, flat products will increase their share in production.

The government and the steel industry have also joined hands to unleash a massive advertising campaign to promote steel consumption in India.

Global and domestic steel majors have in recent months unveiled ambitious plans, both for expanding existing production lines, and for greenfield projects. According to figures compiled by the Steel Ministry, 116 memoranda of understanding (MoUs) have been signed between various state governments and steel producers so far.

This would enhance capacities by a whopping 150 million tonnes, easily exceeding even the government set target of 110 million tonnes. The new proposals would involve investments of over \$80 billion.

Says Steel Minister Ram Vilas Paswan: "The scenario in the sector has changed dramatically in the last two years. Demand in the domestic market has increased, but there is still a lot of potential for future growth." He says that earlier projections for 2019-20 at 110 million tonnes may have to be re-

vised if the current spate of investments is anything to go by.

The minister points out that even the short-term target of 65 million tonnes for 2011-12 may have to be revised upwards by 23 per cent to 80 million tonnes because of the new agreements signed with international steel majors.

One of the largest investments being made is by South Korea's Posco, the world's fifth-largest steel-maker, which has unveiled plans for a 12 million-tonnes steel plant near Paradip in Orissa, at a cost of over \$12 billion. Posco is also exploring other states, including Jharkhand and Chhattisgarh, and could set up large-scale steel production facilities — mainly for export purposes — at a cost of about \$20 billion. Other Korean steel firms, including Korean Iron & Steel, are also looking at India for setting up plants.

Korean and other international firms are eager to set up steel production facilities in India because of the presence of enormous iron ore reserves, adding up to over 24 billion tonnes. The three



AMBITIOUS PLANS: The Essar Steel plant at Hazira in Gujarat



CAPITAL-INTENSIVE INDUSTRY: It costs \$1,000 a tonne to set up an integrated steel plant

states of Orissa, Jharkhand and Chhattisgarh account for almost half of India's iron ore reserves.

Mittal Steel is also eager to invest billions of dollars in steel plants in these states, but wants to lease out the mines before committing to invest. The company has signed an MoU with the Orissa government for a 10 million tonne plant, and is considering the option of a similar project (with a \$4.5 billion investment) in neighbouring Jharkhand.

Tata Steel itself plans to invest over \$15 billion in these three minerals-rich eastern states, adding 23 million tonnes to its existing capacity of 5 million tonnes. Tata Steel is investing \$3.5 billion for a 6 million tonne plant in Orissa, \$9.5 billion in a 12 million tonne plant in Jharkhand and \$2.25 billion in a 5 million tonne plant in Chhattisgarh.

According to B. Muthuraman, managing director, Tata Steel, India is amongst a few countries having the dual advantage of fast growing domestic demand coupled with access to raw materials.

"The trend that is already discernible is that the axis of global steel production/

In the long run, Indian steel is likely to be more cost-effective since unlike China, India has relatively large reserves of iron ore.

consumption is shifting towards Asia," notes Muthuraman. "With their large populations, China and India already account for 35 per cent of the total world steel production - more than double of Europe. Asia is expected to outpace other regions of the world to an even greater extent in the coming years."

While admitting that China will continue to be the leader in global

steel — the country accounts for 35 per cent of global steel production of 1.1 billion tonnes, and 32 per cent of its consumption — Muthuraman points out that India is slated to emerge as the second Asian giant in the next 10 years.

"It is sun-rise time for India where the demand has increased by 7-8 per cent in the last couple of years," says the managing director of Tata Steel. "In the long run, Indian steel is likely to be more cost-effective since unlike China, India has relatively large reserves of iron ore, which if strategically exploited, can sustain domestic production of 120-130 million tonnes for at least 25-30 years."

But India does not have adequate reserves of coking coal. India's steel industry will have to contend with this problem, adds Muthuraman.

Public sector steel giants are also planning major investments. The 15 central public sector enterprises under the Ministry of Steel have reported a combined profit before tax of around \$1.5 billion during the first two quarters of the current fiscal. Steel Authority of India Ltd (SAIL) has unveiled a 'corporate



DRAMATIC TURNAROUND: The next four years will see capacities expand by another 270 million tonnes

plan - 2012,' which envisages capacity investment to a level of 22.9 million tonnes of hot metal, by investing about \$8.3 billion.

The government has also cleared the proposal of Rashtriya Ispat Nigam Ltd (RINL), the holding company of Visakhapatnam Steel Plant, to increase liquid steel capacity from 3 million tonnes to 6.3 million tonnes at a cost of nearly \$2 billion.

According to Y. Siva Sagar Rao, chairman and managing director, RINL, the company is working on a multi-pronged strategy to overcome the problem of sourcing iron ore. With states like Orissa, Jharkhand and Chhattisgarh keen to link the leasing of mines to the setting up of new steel plants in their states, Rao says companies may have to opt for the more expensive greenfield route, instead of the cheaper brownfield expansion.

RINL, together with other public sector giants, is also considering acquiring mines in South America and Africa, and even importing raw materials.

Consolidation has become a major growth strategy. India is emerging as a major destination for new facilities in steel making.

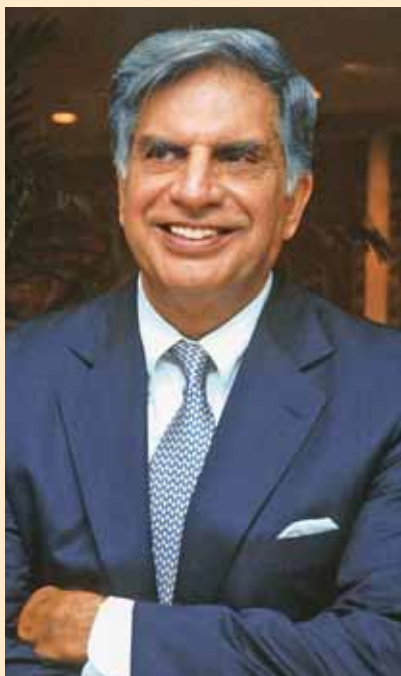
The steel industry is a capital-intensive one, and setting up a greenfield project requires huge investments. It costs about \$1,000 a tonne to set up an integrated steel plant, and with minimum competitive-sized plants being around 1.5 million tonnes, investors have to plough in at least \$1.5 billion for an average plant.

Shashi Ruia, chairman, Essar Steel, notes that many companies from the developed world are looking at setting up manufacturing facilities in emerging economies that have natural resources, both in terms of raw material and energy. "Industry consolidation is gathering pace as companies devise new strategies to tackle fragmentation in the industry," he points out. "Consolidation has become a major growth strategy. India is emerging as a major destination for new facilities in steel making, and global majors have already made progress for their plans for 'Destination India.'

Essar has invested about \$450 million in expansion and modernisation projects; it plans to expand capacity to 4.6 million tonnes per annum. Essar Steel has developed steel grades for high-end applications in the automobile and white goods sectors. It is also a leader in large-scale infrastructure development sector in the construction segment.

Steel is a very cyclical product, with sharp swings in its price. Muthuraman of Tata Steel says prices should remain

THE TATA CHARGE ABROAD



RELENTLESS PURSUIT: Ratan Tata

THE \$12 billion acquisition of Anglo-Dutch steel giant Corus by Tata Steel has pitch-forked India Inc into the big league of the global mergers and acquisitions (M&A) arena. For the first time in the history of independent India, the country will emerge as a net exporter of foreign capital in financial year 2006-07, ending March 31, 2007.

Indian corporates are building up huge war-chests, and preparing for bold moves internationally, ready to rustle up billions of dollars to acquire targets that are on their radar.

"This deal (to acquire Corus) will prove to be a visionary move," said Ratan Tata, chairman of India's premier industrial group. "When we launched the bid, many thought it was an audacious move because an Indian company taking over a European company much larger in size had not happened before."

According to him, the underlying driver for the acquisition has been the growth factor. "We would like to grow in different geographies, and legal and regulatory framework allows this today," he said. B. Muthuraman, Managing Director, Tata Steel, points out that the group had over the past decade evolved a strategy for

global acquisitions. The successful bid for Corus was a direct consequence of this strategy.

India's Minister for Commerce and Industry, Kamal Nath, says the deal is a reflection of the country's economic strength. "Indian firms are reaching out for consolidation and market access," notes the minister. "This deal suggests more Indian companies will move ahead not just in steel but other areas also."

R. Seshasayee, President, Confederation of Indian Industry (CII), describes it as "the coming of age" of Indian industry. The Tata acquisition of Corus "takes mergers and acquisition levels to a different paradigm," he adds.

The Tatas have been at the forefront of India's overseas M&A deals over the past few years. The group's major acquisitions include:

- ❖ Tata Tea's acquisition of Energy Brands Inc of the US for \$677 million
- ❖ Tata Tea's acquisition of Tetley Tea of the UK for \$432 million
- ❖ Tata Steel's acquisition of NatSteel of Singapore and Millennium Steel of Thailand for \$421 million
- ❖ VSNL's acquisition of Teleglobe International for \$239 million
- ❖ Tata Tea's \$220 million acquisition of Eight O'Clock Coffee of the US
- ❖ Indian Hotel's \$170 million acquisition of the Ritz-Carlton Hotel
- ❖ VSNL's acquisition of Tyco Global Network for \$150 million
- ❖ Tata Chemicals' \$113 million partial acquisition of UK's Brunner Mond group
- ❖ Tata Motors' acquisition of Daewoo Commercial Vehicle of Korea for \$102 million

Other Indian companies have also been investing millions of dollars in acquisitions in recent months. Dr Reddy's Laboratory acquired Betapharm for \$570 million, while Suzlon Energy bought over Hansen Transmission for \$565 million. Ranbaxy Laboratories acquired Terapia of Romania for \$324 million, and Mahindra & Mahindra acquired Jeco Holding AG for \$120.45 million.

Not surprisingly, outbound acquisitions will overtake inbound investments for the first time this fiscal.

stable at current levels of \$330 to \$340 per tonne, and stabilise at \$450 a tonne in the long run.

Jagdishwar Toppo, head analyst — metals, Enam Securities Pvt Ltd, feels that despite the new investments, there is unlikely to be a glut in the Indian steel industry, if demand grows at the expected 8 to 10 per cent annual rate. As for pricing, "it all depends on economic factors," says Toppo. "Under normal case situation, prices will remain stable. Maybe 10 years hence, prices could fall sharply due to serious oversupply, but this will not happen over the next few years. Prices will still be at historical high levels."

The global steel industry underwent a major crisis just about four years ago, when the price of hot-rolled coils (flat steel, used in white goods) plunged to around \$160 a tonne, there was about 200 million tonnes of excess capacity internationally, and many countries became over-protective about their steel industry.

The industry has witnessed a dramatic turnaround, with HR steel product prices having peaked at around \$630 early last year. The United Nations Conference on Trade and Development (UNCTAD) estimates global capacity of 1.35 billion tonnes, with actual production of 1.2 billion tonnes. The next four years will see capacities expand by another 270 million tonnes. The IISI estimates that global demand for steel will grow by 4.9 per cent till 2010, but both India and China will see faster growth in consumption - 7 per cent and 8.4 per cent respectively.

India will emerge as the strongest market in the world between 2010 and 2015, when demand will grow annually at 7.7 per cent, outstripping China's consumption of 6.2 per cent, says the IISI. This year, steel consumption in India is expected to grow by a hefty 10 per cent (last year, the country had to import about 4.7 million tonnes of steel), but China will see a 14 per cent increase in use of the metal.

The steel scenario in India will continue to remain buoyant over the next few years, as the hunger for the metal keeps rising, thanks to vibrant end-user demand. 