Business Standard Edition Delhi 12.07.2016 Page-16

सेल SAIL

'Demand growth to give scope to treble steel consumption'

Q&A

P K SINGH
Chairman, Steel Authority of India Limited

Till such time China goes through supply-side structural reforms of its steel industry, its exports will remain a threat to stability in global steel trade, Steel Authority of India Limited (SAIL) Chairman **P K SINGH** tells Kunal Bose. Imports are usurping a portion of India's steel demand but are keeping the prices low, hurting margins of local steelmakers.

You became SAIL chairman at one of the most difficult times for the industry. Responding to industry problems, the government took trade action to staunch imports. How do you view the immediate and medium-term outlook for Indian steel?

Indian steel is bearing the consequences of a slowdown in Chinese steel demand, which has caused a surge in imports at low prices, replacing domestic supply. We imported 11.71 million tonnes (mt) of steel in 2015-16, more than a 25 per cent rise over the previous year. As a result, a significant portion of Indian demand was met by cheap foreign-origin steel. Safeguard duty on hot rolled coils followed by minimum import price (MIP) on 173 steel products has given relief to Indian steelmakers.

India is one of the few countries where steel demand will continue to rise at decent rates. World Steel Association has forecast Indian steel demand growth at 5.4 per cent in 2016 and at the same rate in 2017. This is to happen on the back of the launch of major infrastructure projects relating to road, railways and ports development. House starts are also gaining in momentum. At the same time, domestic supply of steel is growing with regular commissioning of new capacity. This will see steel prices remaining stable in spite of MIP-led reduction in imports.

Will you say Indian steelmakers will soon be leaving the bad times behind?

Well, we local steelmakers believe that due to intrinsic steel demand growth potential here, the longer term opportunities remain strong. Steel consumption growth has got much to do with overall working of the economy and more specifically on investments made in fixed assets. Rural infrastructure building will continue to open up a new steel demand growth avenue. Our per capita consumption of steel is 60 kg against the global average of 208 kg. So the scope remains for us to treble steel consumption. Demand will get a shot if our steel-cement use ratio follows the pattern of more advanced economies. For this the economy's overall steel use intensity has to be increased, particularly in house-building and infrastructure sectors, by popularising steel-framed construction. Generous allocation of ₹220,000 crore ($33 billion) for infrastructure development in this year's Budget brings good omen for steel.

What impact is the global steel overcapacity making on supply and prices?

The average global steel capacity utilisation is declining. In 2015 it was 70 per cent, leaving about 600 mt capacity idle. Asian majors China, Japan and South Korea are all steel-surplus nations and are, therefore, heavily export dependent. India, with its growing steel use, remains vulnerable to dumping. Overcapacity in China and its big low-priced exports are putting pressure on world steel prices. This has prompted trade action by a number of countries. The growing world dismays over China's steel trade has finally prompted Beijing to declare that 150 mt of capacity will be decommissioned by 2020, including 45 mt this year. Till China completes supply-side steel structural reforms, its exports will remain a threat to stability in steel trade. Chinese steel exports in the first five months of 2016 were up 6.4 per cent to 46.28 mt. As this happens, a significant portion of metal demand in a number of steel-producing countries is usurped by cheap imports.

The government and other stakeholders are concerned about slippages in SAIL completing its ₹72,000-crore expansion and modernisation programme. Is completing the programme your top priority?

Capacity expansion and modernisation are complete at Salem, Rourkela, IISCO, Durgapur and Bokaro steel plants. The focus in all these places is now on ramping up production. As for Bhilai, some major new units like the 7-metre coke oven battery and 360 sq m sinter plant are in production. Other critical units, including a 1.2-mt universal rail mill and a 900,000-tonne bar & rod mill are due for completion this year.

The finance minister has spoken about the steel industry's big share in non-performing assets of banks. Do you think in a situation like this, it will be possible for India to achieve capacity of 300 mt by 2025?

India is on track to becoming the world's second-largest steel producer. However, capacity expansion would also depend on surpluses Indian steelmakers are able to generate. Hence, protection from cheap imports is essential for capacity growth.

Going up the value chain is a SAIL priority. Joining hands with ArcelorMittal is to further that process. Is the tie-up making progress?

While global overcapacity and weak demand remain a concern, demand is good for special and value-added steels for certain applications. Automotive steel is one where globally demand is growing.

Our partnership with ArcelorMittal is aimed at catering to the country's growing requirements of the automotive sector for high-strength steel. Such steel adds to automotive safety and fuel efficiency. The cooperation between SAIL and ArcelorMittal is to promote indigenisation of supply chain of high quality cold rolled and coated automotive steel.