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सेल SAIL

SAIL's performance since Q4FY16 has shown marked improvement

The steel market in India has witnessed a downturn in the last couple of years that has left companies bleeding. India's largest steel producer Steel Authority of India (SAIL) also closed 2015-16 with a net loss of Rs 4,137.26 crore. While this year has brought some relief in the form of lower imports of cheap steel and a gradual pick up in demand, the road ahead remains difficult. SAIL chairman ***PK Singh*** *gives* ***Subhash Narayan*** *his assessment and insights into the industry. Excerpts:*

■ The last couple of years have not been too good for the steel industry with both output and steel demand staying subdued while falling commodity prices have shrunk the margins of firms. Is the worst over now?

The environment for the steel industry continues to be challenging. The global steel industry is divided between China and rest of the world. Any decline or growth of production in China has a big influence on the global steel output. According to the short-range outlook of World Steel Association, steel demand in China is projected to fall by (-) 1 per cent in 2016 and by (-) 2 per cent in 2017. This a result of sharp fall in growth rates of realty and construction sector in the country from a level of 20-30 per cent to just about 5 per cent now. So there is quite a slump in China. This has created a surplus of about 150 million tonnes (mt) of steel in China, which is almost 10 per cent of the total world production. This is a huge amount, which has the potential to disturb and disrupt the global industry.

■ How are we countering the pressure of cheap steel from China disrupting global markets?

All countries are erecting barriers against Chinese imports. India too has been forced to act upon the predatory imports from China and other countries in the form of anti-dumping duties and minimum import price on certain grades of steel.

■ Have steps like MIP helped in curbing cheap imports?

The imposition of anti-dumping duty and MIP has put a brake on imports of steel in the country. There has been substantial drop in imports in FY17, from a record of 1mt a month in FY16. MIP is a necessity as anti-dumping duty has only been put on some products like hot rolled and cold rolled products and wire rods. Imposition of anti-dumping duty requires that the proposal get the support of 50 per cent of the industry for a particular product category for a longer period of injury. This support becomes difficult to gauge in case of long steel items, where 60 per cent of the industry is unorganised. So, we urged the government to continue with MIP till the market stabilises and some indication we get from China that they are reducing production.

■ What should be the strategy for Indian producers to remain relevant?

CORRIDORS OF POWER

PK SINGH

The fundamentals of Indian economy, as far as steel production and consumption is concerned, are strong. Our per capita steel consumption is only 62 kg while the world average is over 200 kg. So there is immense potential. Steel use in the country has the potential to rise by three and three-and-half times. The firms also need to be globally competitive both in terms of cost and quality and explore markets outside the country.

■ What has been SAIL's effort in this direction to remain competitive?

In Q1FY17, we have reduced our cost of production by 10 per cent. This has been achieved by following a two-pronged strategy: improving output from efficient route and reducing it from the inefficient route. This strategy will continue to drive our efforts to reduce cost.

■ When do you see SAIL coming out of losses?

SAIL's performance, since the last quarter of FY16, has shown marked improvement. We clocked record sales of saleable steel of around 3.8mt, which was 20 per cent up over the corresponding period of previous financial year. In Q1FY17 also we have posted the highest ever production of saleable steel with 11 per cent growth and our operations have turned profitable. The Ebidta during the quarter also rose 9 per cent over the previous year. Though the prospects look good in the long run, in the immediate term there would be a lot of pressure because prices are not rising and we are unable to recover cost of production. Cost cutting has to go on.

■ Does this also involve cutting firm's huge manpower?

We are not taking away jobs, but are redeploying and retraining our workers so that they become more productive and useful in a new and modern setup. Today, we are 85,000 people. Every year there is a reduction of nearly 5,000 people from our regular workforce. We also had a VRS this year that was opted by 1,000 people. All these steps have reduced manpower. Our manpower cost is high and accounts for 20 per cent of our cost of output. We want to lower it to 15 per cent in the next few years.

■ The steel industry is faced with another challenge in the form of spike in global coking coal prices. What will be its impact?

Metallurgical coal is an important raw material that we import to the tune of 80 per cent. There, the prices have nearly doubled in the past two months from about $80 a tonne to nearly $200 now. It has impacted every producer in the country except Tatas, where imported coal use is not high. The rise in coking coal prices is a cause of concern, but we hope this to stabilise soon. The reason for the spike is combination of factors. Coking coal output has fallen as the earlier low prices forced firms in red to go for repairs or liquidate some assets. Also, China reduced mining days from 330 so their internal output has reduced while imports have picked up. Unusually high level of rain in Australia has also impacted production.

■ Will the government's 'make In India' initiative and focus on infrastructure boost steel consumption even in this difficult period?

India is amongst the large economies of the world. The demand for steel is expected to be above 5 per cent in future as been observed in the last two years. The favourable policies of the government like 'make in India' and ease of doing business contributes to a favourable climate in the country. We can have sustained growth on account of focus on the road and other infrastructure segments and the pradhan mantri awas yojana. All this will boost steel demand. Also, the culture of using less steel has to change. Steel is cheaper as compared with other materials in case we consider life cycle cost basis.

■How is the proposed joint venture with ArcelorMittal progressing?

It's moving in a positive direction and in the next few months, a pact will be in place. We intend to set up 1.5 mt greenfield plant producing auto grade steel. We have identified few places like Gujarat, AP and Maharashtra that are closer to auto hubs. But a final decision on locations is yet to be taken.

■ What about steel exports?

With our capacity of steel increasing to 20mt in the near future, we have plans to export around 10 per cent of output on a regular basis. In Q1, we exported just over 1 mt, but in Q2 it would double. We are in the process of identifying new markets including Europe.

subhashnarayan@mydigitalfc.com