

Q&A with new SAIL chairman Prakash Kumar Singh

India's largest steelmaker, the state-owned Steel Authority of India Limited (SAIL), is ramping up production from newly-installed capacities at all of its five integrated works in eastern India. In an exclusive interview, newly-appointed chairman Prakash Kumar Singh explained his plans to raise finished steel output during the current fiscal ending next March to 15 million metric tons, up from last fiscal's 12 million mt.

For almost a decade SAIL has been in the process of lifting capacity across all of its steel plants. What is the present status of the expansion drive?

During the year to last March, SAIL completed several expansion projects that culminated in us achieving a total crude steel capacity of 19 million mt. This year we're proceeding with scheduled ongoing expansions, budgeted at Rupees 40 billion (\$601 million) while focusing on ramping up production and consolidating output from the newly-installed equipment.

New facilities due for completion this year include a 4,060 cubic meter blast furnace, 1.2 million mt/year universal rail mill and a 900,000 mt/year bar and rod mill at the Bhilai Steel Plant (BSP) in Chhattisgarh.

While these are bedding in, we aim to raise finished steel output to 15 million mt during the current financial year and to 17 million mt during the subsequent year. Our longer-term goal is to expand further to achieve 50 million mt/year capacity by 2025.

Finished steel sales at SAIL during April-June were only about 2.6 million mt, so achieving your sales target of 15 million mt seems like a Herculean task. How does SAIL expect to achieve these targets?

Yes, production continues to be much lower than our installed capacities. Crude steel output during the year to last March rose only by 2.7% to 14.3 million mt. During the April-June quarter, production rose only by 2.9% on-year to 2.64 million mt, unlike the previous quarter, when finished steel output was much higher at 3.5 million mt, a 6% y-o-y increase. However, Q4 (January-March) is typically a better quarter than Q1 (April-June) so we expect our numbers to improve as this year progresses. In parallel, we are focusing our efforts on squeezing the most we can from the new expansions and phasing out obsolete facilities to achieve greater efficiencies this year and next.

Meanwhile, almost all integrated steelmakers in India are adding capacity and stepping up production this year...

That's true. India's overall steel capacity is expected to rise by about 11-12% this year. We are likely to have excess capacity of about 9-10 million mt during the year since consumption is only expected to rise by 5% this year. However, the Indian government's plans to invest Rupees 1 trillion (\$15.03 billion) in infrastructure – especially in steel-intensive projects such as roads, highways, airports, ports, railways and power plants – are expected to drive steel demand by the end of the year.

Indian steelmakers have invested huge amounts in expansion activities. It takes an investment of about \$1 billion to add 1 million mt of new capacity. We are not going to back out now. India's overall finished steel consumption during the year ended last March rose by 6.6% y-o-y to 80.5 million mt, even though output was much higher at 90.4 million mt, albeit a decline by 2% y-o-y.

How can Indian steelmakers respond to overcapacity in global and domestic markets?

Import protection measures such as the Minimum Import Price scheme and anti-dumping duties announced by the government helped to insulate Indian steelmakers. The Indian government has given a strong signal that India is going to protect domestic steelmakers from international competition. We cannot allow other countries with lower costs of production to dump their steel into India.

Overcapacity may exist in steelmaking countries like China, but they have to understand that other steelmaking nations cannot suffer, because of their over-investment in steel facilities. Cheap steel exports from other countries led to huge losses being recorded by Indian mills when our producers were unable to compete. The Indian government is compelled to take a balanced as well as long term view of the situation. We cannot compete with foreign steel unless the playing field is truly leveled.

What can Indian mills do to raise their competitiveness?

Indian steelmakers cannot ask for protection all the time. The competition has to be fair



SAIL chairman Prakash Kumar Singh meets company staff. Source: SAIL

but the producers also need to be more competent and efficient.

That said, steel production costs in India are much higher than in other countries. We have become non-competitive because of factors such as high mining royalties, high state and central government taxes, high environmental duties, higher bank lending rates, higher utilities cost and poor infrastructure. The works of most Indian steel companies are in fairly remote locations and inland transportation costs between the mill to the end user is high. Our costs of production are about \$100/mt higher on average than elsewhere in the world.

For this reason Indian mills are seeking the government's help in reducing mining royalties and taxes, besides curtailing inland freight costs, to help us better control our costs.

We are also responsible for ensuring that our mill operations have the smallest possible impact on the environment. As a state-owned company we cannot purely be a commercial player. We are also responsible to provide social services such as free education, medical facilities, housing for employees. Indian steelmakers bear a huge social cost of steel production. For instance, development should not be mindless like China's growth over the past 20 years. Development should be backed by domestic consumption, and not merely be export-driven.

What can Indian steelmakers and SAIL do to address these challenges?

At SAIL we are adopting a three-step approach. We have to increase our efficiencies by using better mining and steelmaking technologies. We have achieved this to a considerable extent and have reduced our costs of production by 10% over the past two quarters from the quarters previous to that. We are moving from labor-intensive technologies to mechanized methods of mining and steelmaking.

Also, as a large state-owned steelmaker SAIL has huge manpower costs. We are investing in developing the skills of our employees and to improve their productivity. Several of our works were not efficiently run and we have recently made a number of changes to increase efficiency in operations.

Besides, we are also tying up with foreign steelmakers to add value to our steelmaking

INDIA'S TOP FIVE EXPORT DESTINATIONS (mt)

	April-July 2016	April-July 2015	Change y-o-y
US	74,050	159,520	-54%
UAE	174,340	110,690	58%
Italy	163,860	139,850	17%
Nepal	187,580	126,940	48%
Bangladesh	262,130	131,250	100%
Belgium	221,170	83,530	165%
Others	923,160	986,370	-6%
Total	2,006,290	1,738,150	15%

Source: Joint Plant Committee

INDIA'S TOP FIVE STEEL SUPPLIERS (mt)

	April-July 2016	April-July 2015	Change y-o-y
China	706,460	714,030	-1%
Japan	399,920	406,250	-2%
South Korea	677,800	486,110	39%
Russia	184,580	63,670	190%
Others	651,580	2,279,780	-71%
Total	2,620,340	3,949,840	-34%

Source: Joint Plant Committee

INDIA'S CRUDE STEEL OUTPUT (mt)

	Jul-16	Jul-15	Change y-o-y
Steel Authority of India Limited	1,169,000	1,182,000	-1.10%
Rashtriya Ispat Nigam Limited	346,000	272,000	27.20%
Tata Steel Limited	907,000	835,000	8.60%
Essar Steel	439,000	291,000	50.90%
JSW Steel	1,383,000	1,138,000	21.50%
Jindal Steel & Power Limited	297,000	274,000	8.40%
Others	3,541,000	3,486,000	1.60%
Total	8,082,000	7,478,000	8.10%

Source: Joint Plant Committee

processes, such as our joint venture with ArcelorMittal to set up a 1.5 million mt/y continuous annealing and galvanizing line at the Rourkela Steel Plant in Odisha state to produce automotive grade steel products.

India's per capita steel consumption is only currently 60kgs compared to the global per capita average of 250 kgs. Rural per capita consumption is only at 10-15 kg. However, there's huge potential to more than double rural consumption in the next 5-10 years to 15 million mt/year, from the current 7-8 million mt/year. For instance, steel could be substituted for traditional construction materials to better warehouse grains and steel wires could be used on such storage facilities to deter birds from landing and thus avoid seed loss.

Finally, what trends do you see in India's steel industry over the coming years?

The thrust to infrastructure development will drive steel demand during the coming years. We're particularly interested in the "string of pearls" project New Delhi has initiated to develop 12 ports and connect 1,208 islands

with inland road, rail and coastal waterways. The project aims to promote port-led development in the country by harnessing India's 7,500-km long coastline, and 14,500-km of potentially navigable waterways.

Besides the push to infrastructure, steel demand will also rise from the localization of manufacturing in sectors such as ship building, defense, construction equipment, and renewable energy. SAIL has already secured orders to supply high tensile alloy steel plates from the defense sector for applications such as the manufacture of submarine hulls, naval warships and bullet proof vehicles.

The recent seventh pay commission announced the doubling of salaries of central government employees, starting January to be paid in arrears. This will boost consumption for appliances, automobiles and housing, thus impacting steel demand by the end of this year.

SAIL is expanding further to achieve steelmaking capacity of 50 million metric by 2025, so we are prepared for the rise in steel demand.

— *Charlotte Rao*