Steel

NOVEMBER 2011

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Contents

Advantage India

2009

Market value: USD33 billion

2014E

Market value: USD83 billion

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

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

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

Contents

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

- Steel
  - Form
    - Liquid steel
    - Crude steel
      - Ingots
      - Semis
    - Finished steel
      - Flat
      - Non flat
  - Composition
    - Alloy
      - Stainless
      - Silicon electrical
      - High speed
    - Non-alloy steel
      - Low carbon steel
      - Medium carbon steel
      - High carbon steel
  - End use
    - Structural steel
    - Construction steel
    - Rail steel

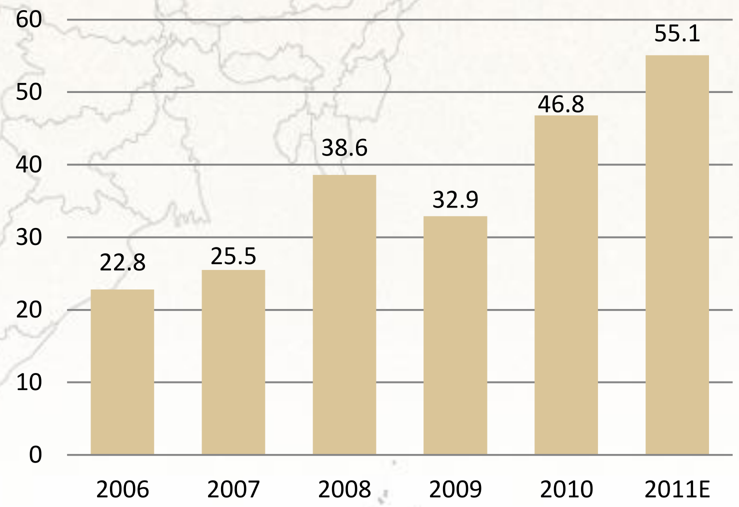
Source: Report on Indian steel industry by Competition Commission of India, Aranca Research

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

India steel market value (USD billion)



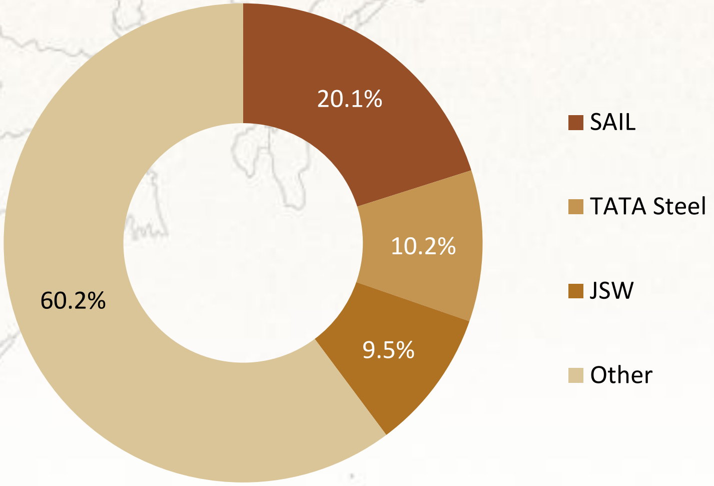
Source: Datamonitor, Aranca Research
Note: E- Estimates

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



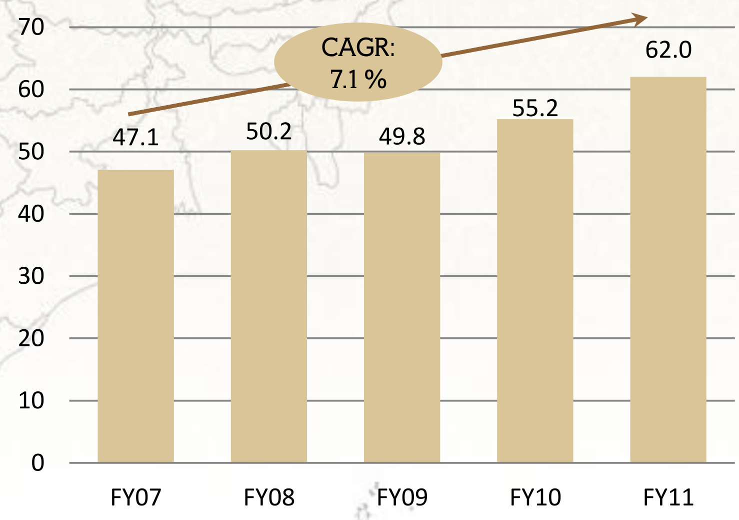
Source: Datamonitor, Aranca Research

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

Total steel production (in million tonnes)



Source: Indian Steel Markets Conference, Aranca Research

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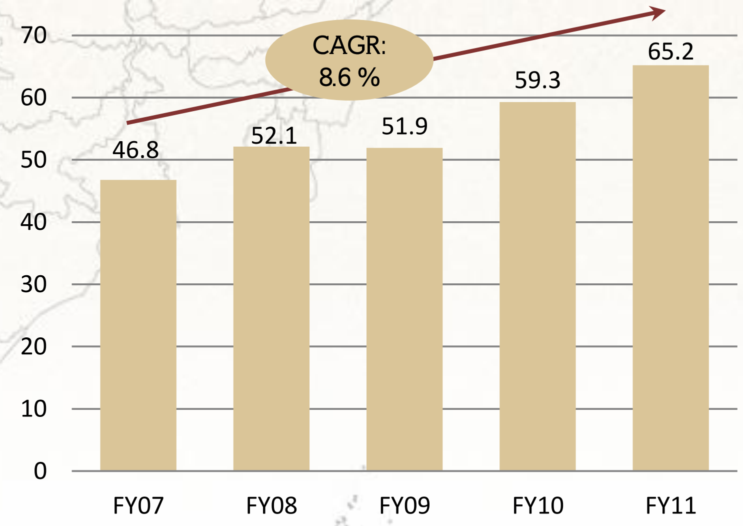
Demand has outpaced supply over the last five years … (2/2)

- 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

Total steel demand (in million tonnes)



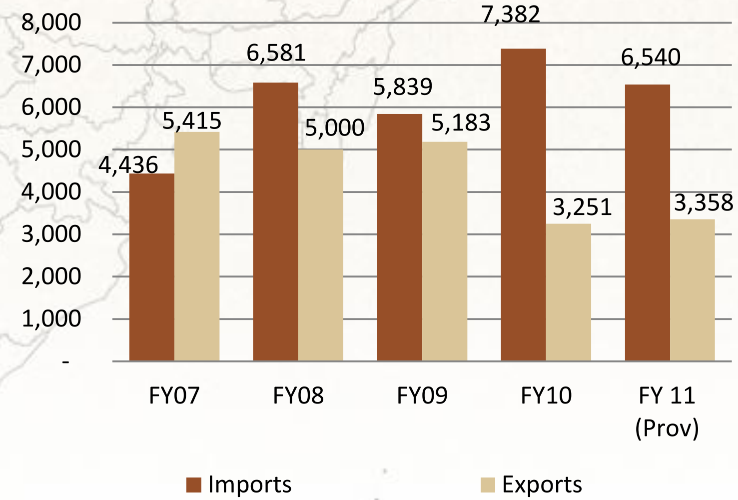
Source: Indian Steel Markets Conference, Aranca Research

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)

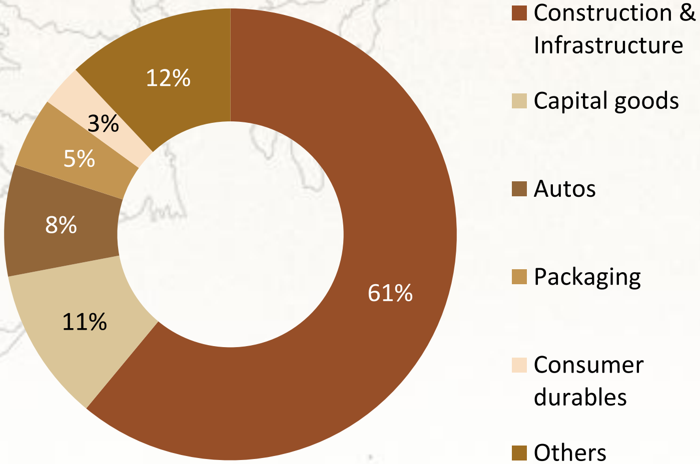


Source: Joint Plant Committee, Aranca Research

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	Tata Steel Ltd	Finished steel (non-alloy steel)
सेल SAIL	SAIL	Finished steel (non-alloy steel)
JSW	J S W Steel Ltd	Hot rolled coils, strips, sheets
JINDAL STEEL & POWER	Jindal Steel & Power Ltd	Iron and steel
ISPAT	Ispat Industries Ltd	Hot rolled coils, strips, sheets
WELSPUN Dare to Commit Welspun Gujarat Stahl Rohren Ltd.	Welspun-Gujarat Stahl Rohren Ltd	Tubes and pipes
BHUSHAN	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

Contents

Strong demand and policy support driving investments

Growing demand

- Growing demand in the construction industry
- Growing demand in the automotives sector

Inviting →

Policy support

- 100 per cent FDI in steel sector
- Government is encouraging R&D activities in the sector
- Reduced custom duty and other favourable measures

Resulting in →

Increasing investments

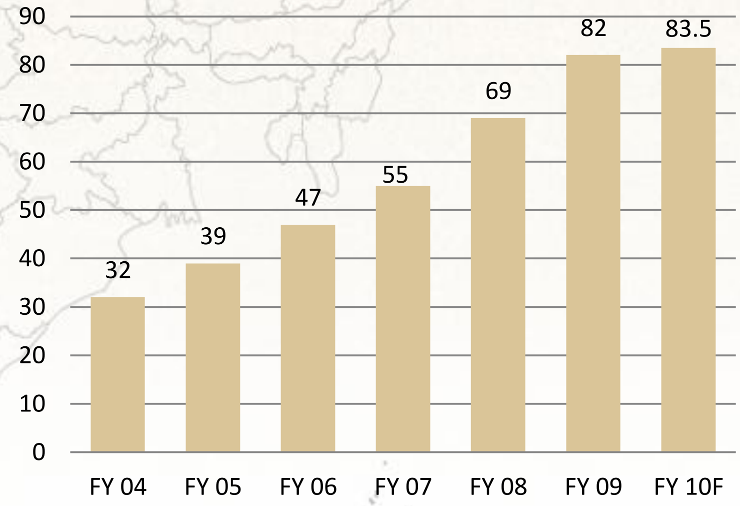
- Rising investments from domestic and foreign players
- Increase in number of MoUs signed to boost investment in steel
- Foreign investment of nearly USD40 billion committed in the steel sector

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)



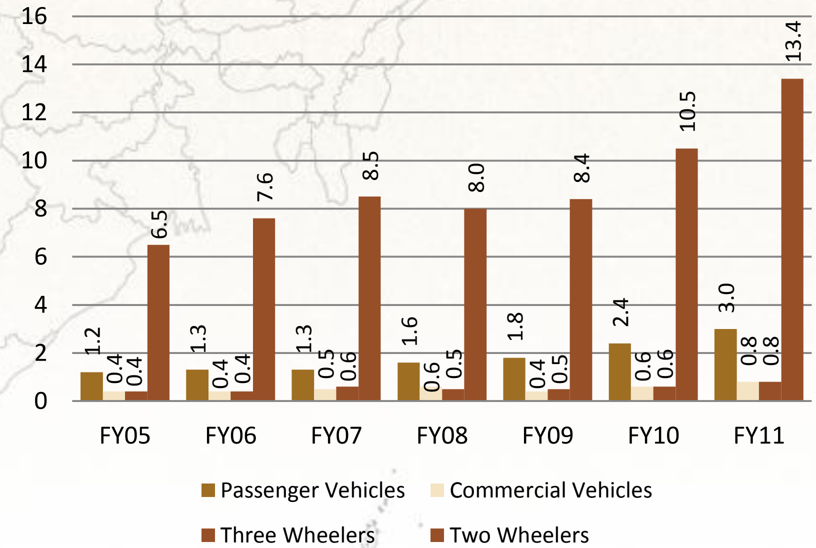
Source: Indian Economy Update (E&Y), Aranca Research

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		
Deal type	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	
Sector	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
Total	222	275.7

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

Contents

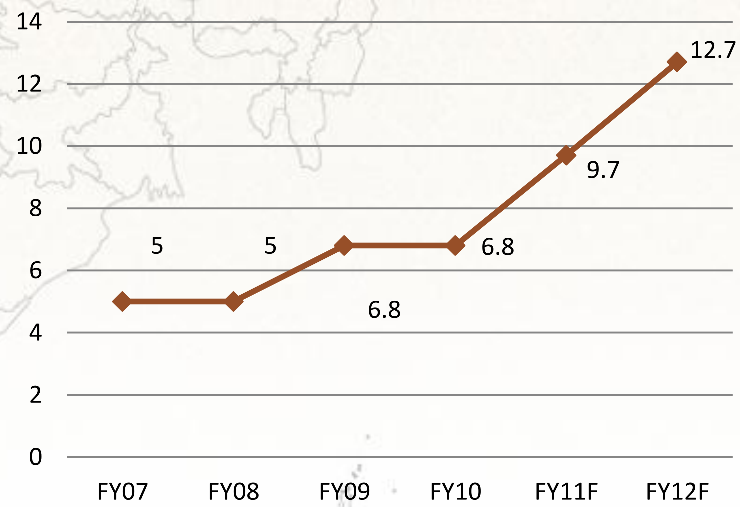
TATA Steel: A compelling growth story … (1/3)

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

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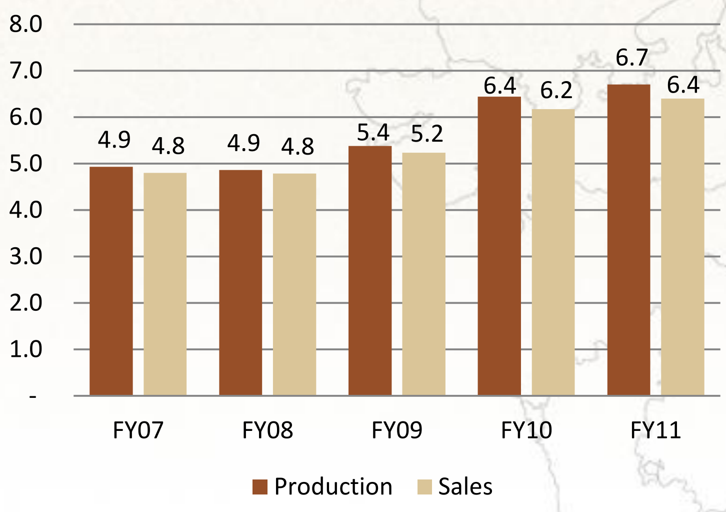
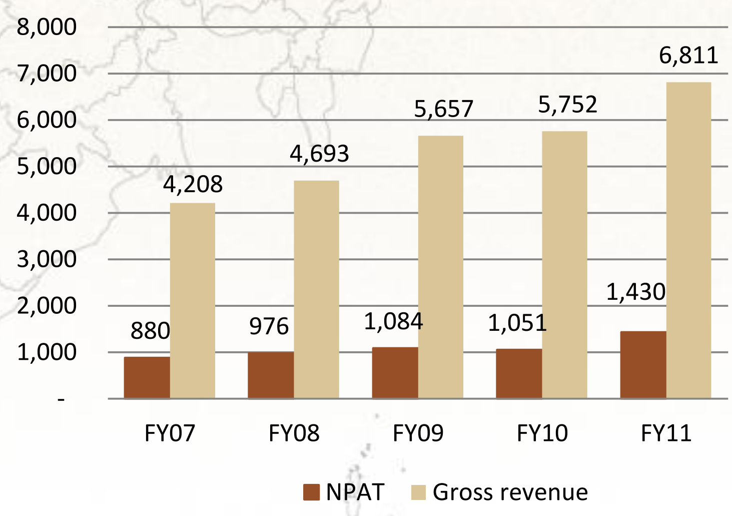
TATA Steel: A compelling growth story … (2/3)

Production and sales of steel division (in million tonnes)

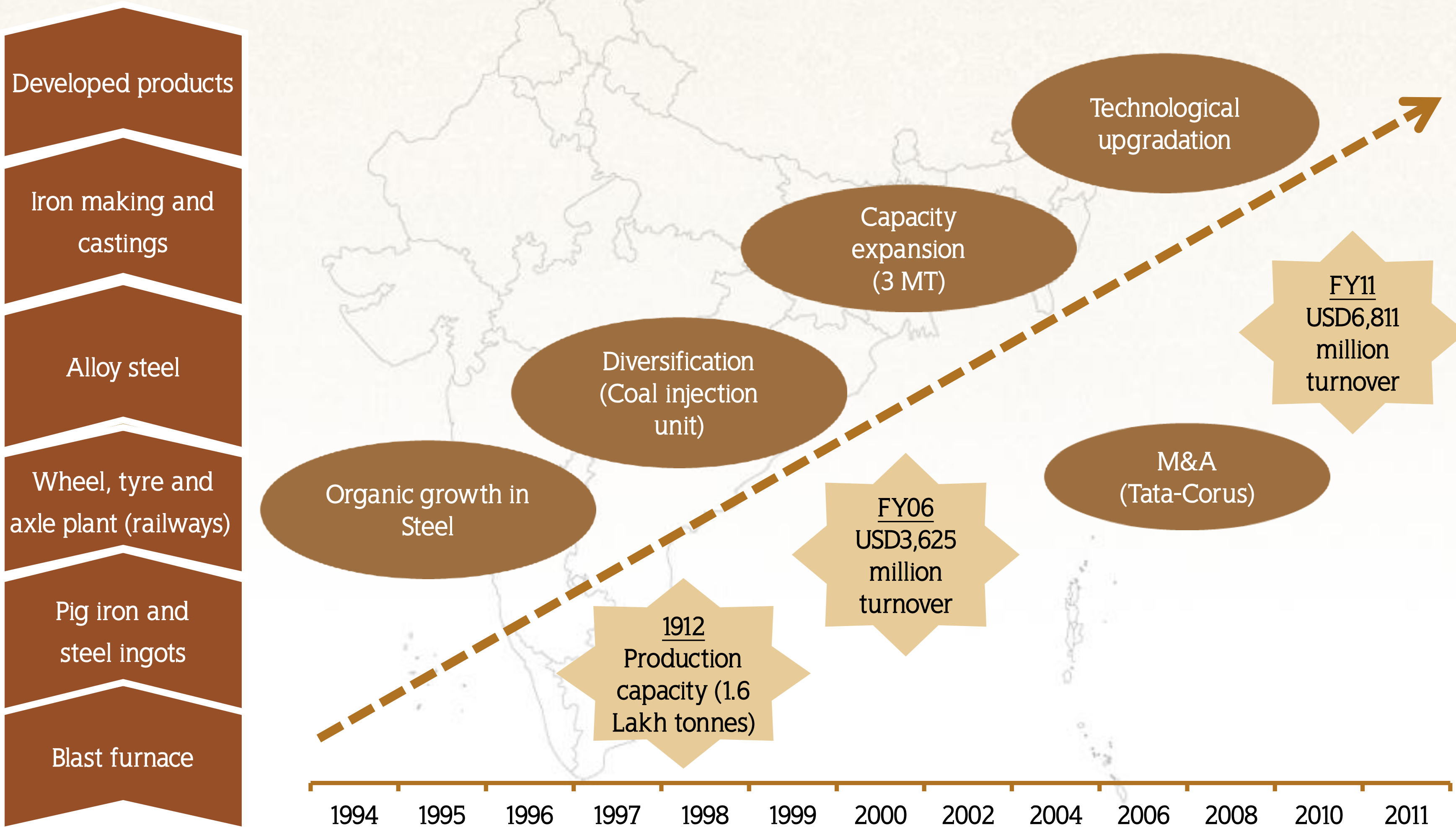


Financial growth (in USD million)



Notes : NPAT – Net Profit After Tax

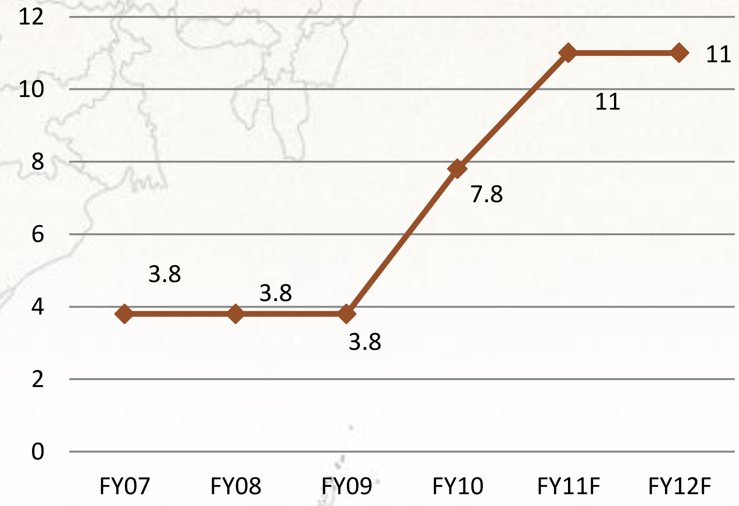
TATA Steel: A compelling growth story … (3/3)



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)

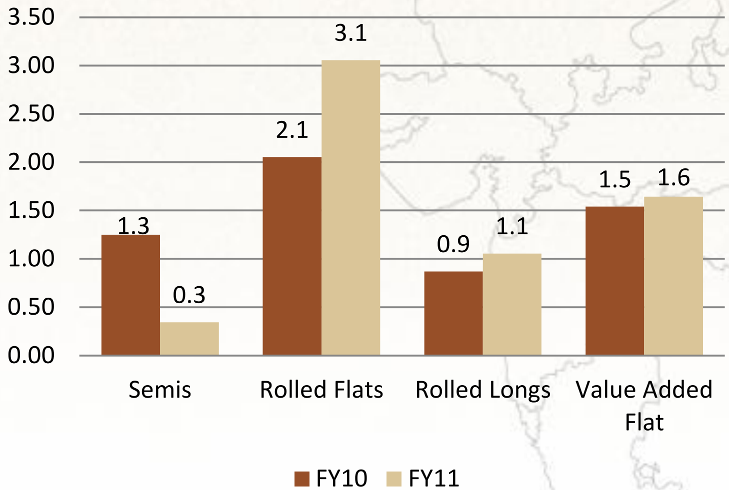
Expected capacity additions (In million tonnes)



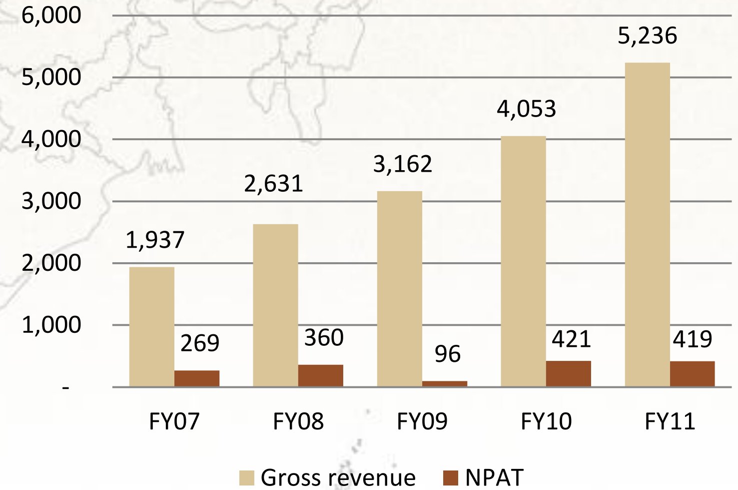
Source: Company website (www.jsw.in) & India Steel Sector (Thomson Research), Aranca Research; FY12F – Forecasts for FY12

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

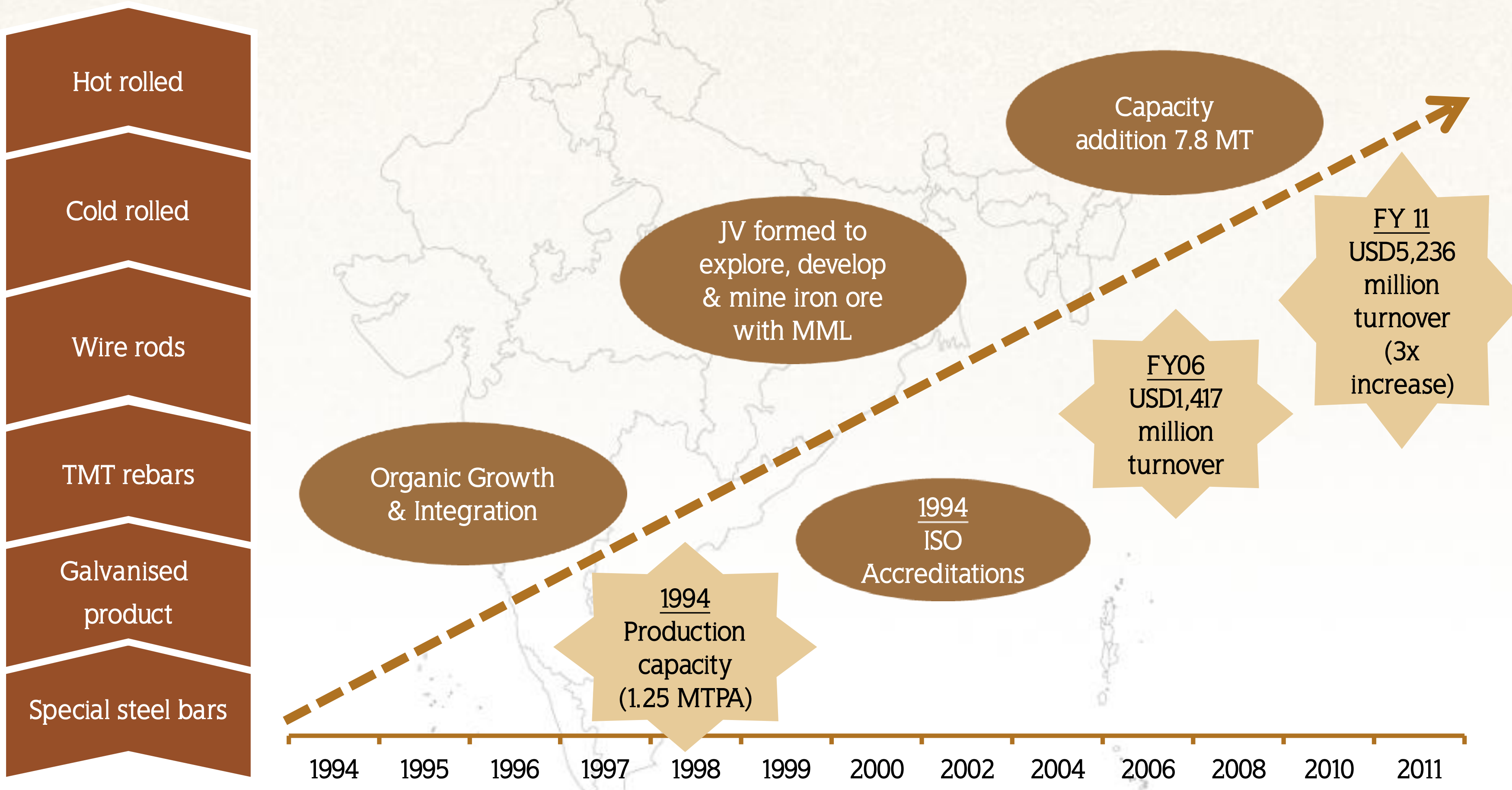
Product group-wise sales (in million tonnes)



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

Contents

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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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Contents

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Industry associations

Indian Stainless Steel Development Association

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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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