

SMEs restrained by lower utilisation of installed steel capacity

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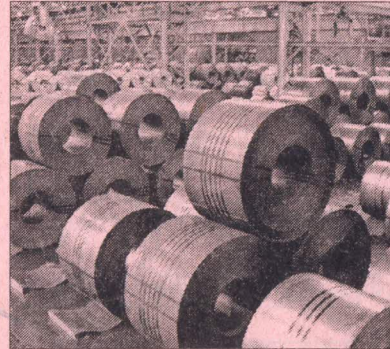


THE GLOBAL CRUDE steel production at 1,809 MT in 2018, indicating 4.6% growth over last year, can be considered a reasonably good performance, particularly in the context of falling trend of market expansion in the EU, Japan, South Korea and CIS countries. On account of Anti Trust guidelines, WSA has not been providing capacity utilisation ratio, leaving it to the wisdom of OECD Steel Committee which has last published global capacity data for 2017 (estimated). Thus, assuming that capacity closure by China (net capacity replacement figures) in 2018 is balanced by fresh capacity augmentation by India, Iran, Vietnam and other countries, the OECD figure of global capacity at 2,251 MT for 2017 can be taken for 2018 as well and according the current global capacity utilisation

ratio comes to a healthy 80.4%.

Regionwise, while EU-28 has produced steel lower than last year, Nafta has produced 4.1% more and Asia has rolled out 5.6% more steel in 2018 with CIS countries almost equalling last year's level. India has surpassed Japan to become the second-largest steel producer. It is important to note that belying all the projections by reputed agencies and the media, China at 928.3 MT has exhibited a 6.6% growth in crude steel production and the gap between India and China at 822 MT has become still larger. In December 2018 itself, China produced 76.1 MT of crude steel which exceeds last year's December production by 8.2%.

It appears that China has seriously challenged the hypothesis that the country is pursuing a conscious plan of consumption led economy away from FAI growth syndrome and capacity closure of unviable and polluting units that would necessarily imply lower volume of steel production. Available data indicates that FAI growth by China in ferrous sector in 2018 at 13.8% is substantially higher compared to the level achieved in last few years. Chinese experience has truly put a spanner to the age old theory of stagnant or marginally positive growth in



steel production observed in countries having restructured their economies with the above shift. Recently, IMF had projected a GDP growth in China which is progressively reducing from 6.6% in 2018 to 6.2% in the next year and similar growth in 2020. The relevant question is if a lower GDP growth would entail a lower steel production as any growth in crude steel production over and above the level achieved in 2018 by China in subsequent years and to sustain it appears nothing short of a miracle.

India has achieved a capacity utilisation rate of 77.2% in crude steel production in 2018. The current market growth

of more than 7.5% in the country makes it imperative to scale up the capacity utilisation by another 6-8% which would have enhanced domestic availability by additional 10 MT. Apparently, the same would have distorted the market by not getting absorbed due to limited market size. This may not be entirely true as higher availability from the SME sector at a relatively lower price would in any case have found the market at small and remote locations. While the major players are operating at a level of 81% of capacity, the SME sector is restrained by a much lower utilisation of installed capacity (68%), primarily due to raw material shortages in iron ore and non-coking coal.

Talking of steel capacity and production, it is imperative that a convergent view on these aspects is initiated. NSP 2017 stipulates a crude steel capacity of 300 MT to be set up by 2010-31 and hence it is to be compared with the current capacity of 138 MT which gives a 6.7% annual average growth rate during 2017-18 to 2010-31 spanning for 13 years.

India has produced 102 MT of crude steel in 2017-18 and hence it is not fair to announce that India needs to enhance production by 3 times to reach 300 MT by

2030-31. Assuming a high 85% capacity utilisation rate (from the current 77%) by the end of next 12 years, the estimated production level in 2030-31 comes to 255 MT which is 2.5 times the current level.

The requirement of raw materials (iron ore, coking and non-coking coal, limestone, dolomite, manganese ore, refractories, ferro alloys and other inputs) would depend on actual production and same is true for the logistics.

It is also often heard that India is currently consuming 90.5 MT steel and how we can consume around 300 MT or 210 MT additional steel in next 13 years. It may be mentioned that 90.5 MT of finished steel was consumed in the country in FY18. From 300 MT crude steel capacities, we would get around 255 MT of crude steel with 85% capacity utilisation and 230 MT of finished steel (applying 90% yield). Assuming a minimum of 97.5 MT of finished steel consumption in the country in FY19 (with a moderate 7.5% growth over FY18), Indian steel market needs to grow at an annual average rate of 7.4% during the next 12 years. This is indeed achievable under the current base scenario.

(Views expressed are personal)