Research

CRISIL
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NSP 2017

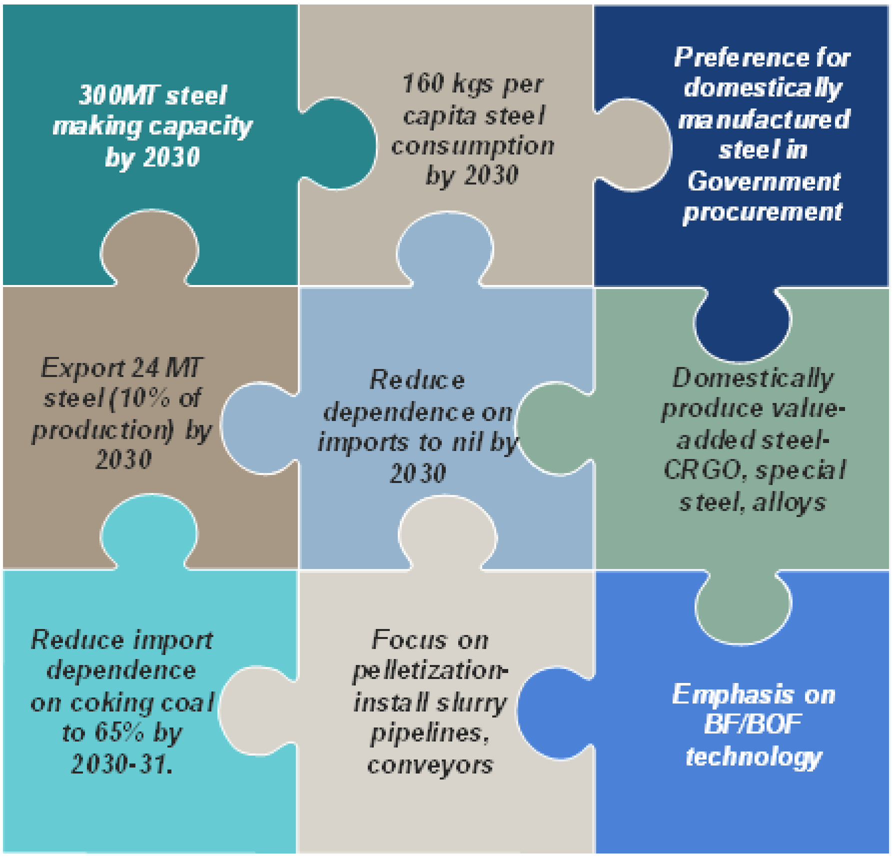
Impact Note

May 2017

Background:

The Union Cabinet approved the National Steel Policy (NSP), 2017 on May 3rd. The new NSP is in step with the government's long term vision to give thrust to the steel sector. It seeks to enhance domestic steel consumption, ensure high quality steel production, and create a technologically advanced and globally competitive steel industry.

Key Elements of NSP:



Source: Draft NSP, Ministry of Steel

Vision on demand, supply and trade in the NSP

- Increase consumption of steel across major segments of infrastructure, automobiles, and housing, resulting in a potential rise in per capita steel consumption to 160 kg by 2030 from ~60 kg at present.
- Achieve 300 MT of steel-making capacity by 2030 through additional investments of Rs 10 lakh crore by 2030-31.
- Domestically produce steel for high-end applications - electrical steel (CRGO), special steel and alloys for power equipment, aerospace, defence, and nuclear applications
- Reduce reliance on imports to nil and export ~24 MT of steel by 2030

Vision on raw materials access and development of cost effective advanced technology

- Ensure availability of raw materials such as iron ore, coking coal and non-coking coal, natural gas, etc., at competitive rates through policy measures, asset acquisitions, etc.
- Raise availability of washed coking coal to reduce import dependence on it to 65% by 2030-31 (from 85% at present)
- Focus on pelletisation, through investment in slurry pipelines and conveyors
- Emphasis on increasing share of Blast Furnace (BF) route to 68% by 2030 (as per draft steel policy)
- Adoption of energy efficient technologies in the micro, small and medium enterprise steel sector, to improve overall productivity and reduce energy intensity

Historical trend and NSP vision of Indian steel industry

MT	2006-07	2016-17	2030-31
Crude Steel Capacity	58	118	300
Net Additions		60	182
Crude Steel Production	51	97	255
CAGR		6.7%	7.1%
Domestic Demand	47	84	206
CAGR		6%	6.6%
Import	4.9	7.4	-
CAGR		4.2%	-
Export	5.2	8.2	24
CAGR		4.6%	8.3%

Source: Draft NSP, Joint Plant Committee (JPC)

Our perspective

Demand

The government envisages domestic steel consumption to grow 7% through 2030. In the last decade (2006-07 to 2016-17), domestic steel consumption grew at a steady pace of 6%. After a stellar performance of 9% between 2006-07 and 2010-11, demand growth slowed down significantly from 2011-12 onwards, and averaged 3.4% in the past five years, mirroring the slowdown in gross fixed capital formation and other consuming sectors. (Steel demand to GDP multiplier averaged 0.5x during the past five years, as against 1.2x in the past two decades).

Over the next five years, CRISIL Research expects steel demand to register 6-6.5% growth driven by various government led initiatives in affordable housing and infrastructure sector, coupled with robust growth in automotive and capital goods segments. A similar trajectory of growth in expected to continue even in long run, subject to continuation of government's initiatives. Also, the policy is expected to encourage in-house production of flat and alloy steel products, reducing their share in overall imports.

Capacity

The government's vision of adding 182 MT of new capacities over the next 14 years seems unlikely, given that only 60 MT of capacity was added in the past decade. Further, stagnant demand in past five years has impacted utilisation, and also aggravated the debt position of the steel sector. Several global steel majors such as POSCO and Arcelor Mittal have scrapped various greenfield steel projects, owing to land acquisition and raw material linkage issues.

CRISIL Research expects 24-26 MT of steel capacities to be added over the next five years, leading to aggregate steel capacity to rise to 140-145 MT by 2021-22. Beyond this, the trajectory of demand growth, continued government support, and pricing environment in backdrop of global over-capacity led by China would be key determinants of pace of capacity addition.

Trade

The government envisages India's steel exports to rise to 24 MT by 2030-31 (from 4.1 MT in 2015-16 and 8.2 MT in 2016-17). Even in its NSP 2005, it had envisioned exports to touch 26 MT by 2019-20. However, low cost competitiveness in global markets, and over-capacity in China, led exports to stagnate at ~5 MT over the past decade or so. In 2016-17, there was a recovery, as numerous trade barriers on Chinese steelmakers and muted domestic demand saw exports rise 102% to touch 8.2MT. However, in the long term, with markets getting more concentrated, and looming risk associated with over-capacity in China, **we expect exports to stay range bound between 8-10 MT**.

The NSP has envisioned nil imports by 2030. After a surge in 2015-16, government safeguards capped imports in 2016-17 at 7.4 MT. Reduction in imports will be a function of development and partnerships for advanced technology to manufacture value added steel, as well as global trade agreements (relevance of FTA signed with key countries).

Raw materials access and technology development

Rising share of large players and emphasis on high quality/grade steel has resulted in a jump in the share of BF from 41% to 48% in the past decade**. Over the next five years, we expect its share to rise further to 53%, with large players adding capacities through the BF route**. Even in the long term, we expect BF to continue its dominance.

However, rising availability of scrap on the back of vehicle scrappage policy, development of domestic scrap collection market and shredding facilities, and rising coking coal price could limit expansions through BF route.

India is expected to continue largely relying on coking coal imports, and government efforts to reduce coking coal dependence to 65% looks farfetched as this would entail a fourfold increase in domestic met coal output from current levels of 14 MT (last five year production declined at 3 per cent CAGR). Further even after employing modern coal washing technology , the ash content is expected to reduce to about ~15-20%, which still renders the coal unsuitable for steel making without significant blending of high grade imported coal. Moreover, yield rates (raw to washed coal) of washeries is only 20-25%, which will also restrict the domestic supply.

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