

Press Release

May 14, 2018 | Mumbai

Top steelmakers to gain as a fifth of capacity changes hand

NCLT I and II resolutions to alter flat steel landscape; pricing power to improve

Companies with around 22 million tonne (MT) of crude steel capacity have been referred to National Company Law Tribunal (NCLT) in the first round of the stressed assets resolution process by the Reserve Bank of India (RBI).

CRISIL Research believes resolution of these cases will alter India's steel sector landscape in three ways:

One, over half of steel sector's outstanding debt of Rs 3.26 lakh crore will stand resolved.

Two, about a fifth of India's crude steel capacity held by these companies will move to stronger hands resulting in better working capital and liquidity management. That, in turn, would lead to improving utilisation levels.

And three, the flat steel segment would consolidate further and be controlled by fewer players – both domestic and global.

Says Prasad Koparkar, Senior Director, CRISIL Research, "For acquirers of these assets, apart from attractive product portfolios and locational advantages, these assets also offer easy scalability. The 22 MT of capacities under resolution have brownfield expansion potential of another 20-21 MT – based on their environment clearance and regulatory filings."

India's flat steel market is dominated by 6 players that account for ~85% of the capacity with the rest being distributed between smaller players and re-rollers. Of the six, three are currently part of NCLT I resolution process. In other words, they are being eyed by large domestic and international steel makers for expansion or entry strategies.

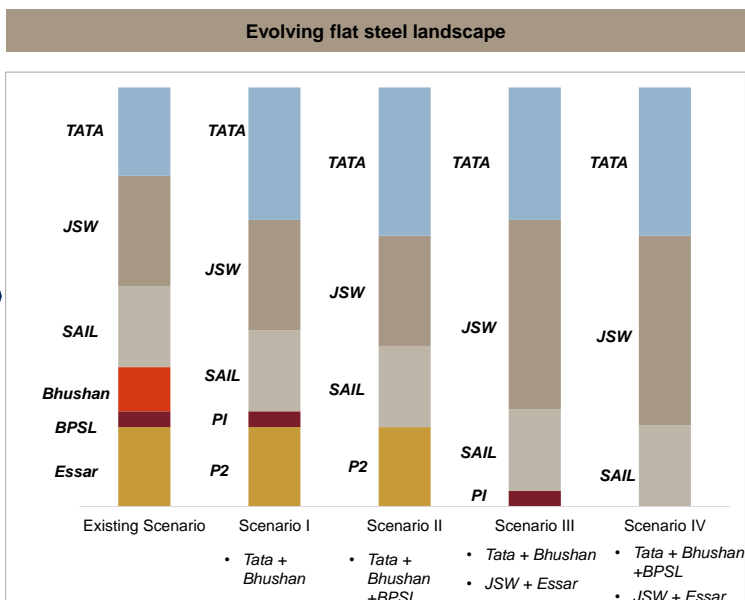
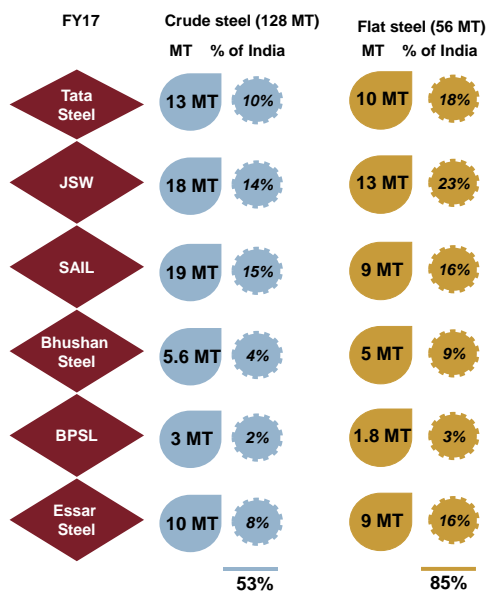
Based on various acquisition scenarios, the flat steel market in India is expected to consolidate further from the current scenario of (85% being controlled by six players) to anywhere between 3 to 4 players. Further, with few flat re-rollers being referred to NCLT II, even these assets can be acquired by the large players thereby strengthening their position. While the impact might not be very pronounced in Scenario I (*refer to chart in annexure*), in the case of other scenarios, the impact would be more accentuated.

Says Rahul Prithiani, Director, CRISIL Research, "As the dynamics of a more consolidated industry play out in India's flat steel space, spreads between landed and domestic prices are expected to narrow. Higher utilisation and volumes, coupled with better pricing, will bode well for the profitability of players."

But if the consequent rise in prices hurts consumers, there is a risk of the government intervening. Global prices would also have a bearing, as will domestic demand and supply.

Annexure

The four possible scenarios



Notes:

Study covers only 85% of the flat steel market

Scenario I assumes Tata acquiring Bhushan Steel and two new players (P1 and P2) acquiring BPSL and Essar;

Scenario II assumes Tata acquiring Bhushan and BPSL and new player (P2) acquiring Essar;

Scenario III assumes Tata acquiring Bhushan, and JSW acquiring Essar and new player (P1) acquiring BPSL;

Scenario IV assumes Tata acquiring Bhushan and BPSL, and JSW acquiring Essar.

Source: JPC, industry, company reports, CRISIL Research

For further information,

Analytical contacts

Prasad Koparkar

Senior Director
CRISIL Limited
B: +91 22 3342 3000
prasad.koparkar@crisil.com

Rahul Prithiani

Director
CRISIL Limited
B: +91 22 3342 3000
rahul.prithiani@crisil.com

Media contacts

Saman Khan
Media Relations
CRISIL Limited
D: +91 22 3342 3895
M: +91 95940 60612
B: +91 22 3342 3000
saman.khan@crisil.com

Hiral Jani Vasani
Media Relations
CRISIL Limited
D: +91 22 3342 5916
M: +91 982003 9681
B: +91 22 3342 3000
Hiral.Vasani@crisil.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India's foremost provider of ratings, data, research, analytics and solutions, with a strong track record of growth, culture of innovation and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

Connect with us: [LINKEDIN](#) | [TWITTER](#) | [YOUTUBE](#) | [FACEBOOK](#)

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

CRISIL Privacy Notice

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at <https://www.spglobal.com/privacy>

Last updated: April 2016

Disclaimer

This Press Release is transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press release may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. However, CRISIL alone has the sole right of distribution of its Press Releases for consideration or otherwise through any media including websites, portals etc.

CRISIL has taken due care and caution in preparing this Press Release. Information has been obtained by CRISIL from sources which it considers reliable. However, CRISIL does not guarantee the accuracy, adequacy or completeness of information on which this Press Release is based and is not responsible for any errors or omissions or for the results obtained from the use of this Press Release. CRISIL, especially states that it has no financial liability whatsoever to the subscribers/ users/ transmitters/ distributors of this Press Release.