

Automobile Sector to Boost Aluminum Demand



S. S. MOHANTY

Sashi Shekhar Mohanty is the President of Indian Institute of Metals, which is recognised throughout the world as one of the premier metallurgical organisations. He was appointed as Director (Technical), in March, 2012 with additional charge of Director (Projects & Business Planning) in SAIL, a flagship Maharatna Company and the largest steel maker in India. He is also a Working Committee member of the Indian Steel Association, an Apex body comprising all the leading steelmakers of the country.

As Director (Technical), he is responsible for the Operations of the

various steel plants/units, Research & Development, Environment Management, Materials Management, SAIL Refractory Unit and Growth Division. He had concurrently held the additional charge of Director (Commercial), SAIL from May 2013 to November 2013. He was in-charge of marketing department looking after various strategies including product-mix, sales/product promotion, after sales service, distribution network, logistics, warehousing, pricing, key customer relationship etc.

Mr. Mohanty is a Post Graduate in Mechanical Engineering along with a PG Diploma in Industrial Engineering. He started his career with SAIL in August 1978 at the Rourkela Steel Plant (RSP) where he joined the Silicon Steel Mill.

“Aluminum would continue to be counted on for its weight reduction potential in automobiles. This is more relevant than ever before, not just from the point of view of fuel conservation but also, increasingly, from the standpoint of environmental protection. While the burgeoning automobile sector in the country should keep afloat the demand for aluminum, the growth in power,

housing and construction sectors as well as the packaging industry would also contribute in this regard.” says, **Sashi Shekhar Mohanty, President, Indian Institute of Metals** in an exclusive interview with **Metalworld**. Excerpts

How do you see the present status of Indian metals industry?

- Talking about Steel, the world production of crude steel in 2014 was 1665 MT, a 1% growth over the figures of 2013. However, the demand for steel in 2015 has been estimated to dip by 1.7% to a level of 1513 MT. Although World Steel Association (WSA) projects a growth in demand by 0.7% in 2016, clearly the major growth cycle fueled by the Chinese economy has ended. The impact of the supply surplus cannot be overstated; it has not left even the major economies untouched.

Although the Indian steel industry is going through trying times, I have reasons to believe that there is light at the end of the tunnel. The current budget outlay of Rs 700,000 million for infrastructure, with impetus on ultra mega



power projects, increased railway and road network and the institution of the National Investment and Infrastructure Fund augur well for the domestic demand for steel. Indeed, the projected growth figures by WSA for steel demand in India (7.6%) are substantially higher than the corresponding global average figures (0.7%) for 2016.

With an expected investment of a trillion dollars on infrastructure, a projected quantum jump in the manufacturing sector, changing demographic pattern and increased rural steel consumption, the demand pattern promises to continue to be optimistic further into the future. However, the challenge lies in channelizing this demand to indigenous sources of supply, amidst the mounting pressure of cheap imports. While increased tariff barriers could help mitigate the problem by some measure in the short term, the steel industry needs to look inwards at opportunities for cost cutting, improving efficiencies and adding value to products and services in order to ensure long term sustainability.

Aluminum would continue to be counted on for its weight reduction potential in automobiles. This is more relevant than ever before, not just from the point of view of fuel conservation but also, increasingly, from the standpoint of environmental protection. While the burgeoning automobile sector in the country should keep afloat the demand for aluminum, the growth in power, housing and construction sectors as well as the packaging industry would also contribute in this regard. Globally, the world primary aluminum production in 2014 was 53.1 MT while the corresponding figures up to October 2015 stand at 43.3 MT.

World refined copper production is expected to grow by 2.3% in 2016 to reach a level of 23.2 MT from the estimated level of 22.7 MT in 2015, despite which the industry would likely face a demand surplus of 130,000 T. From electrical wiring, electronics, heating and refrigeration to automotive and antimicrobial applications, the wide and fascinating range of copper use is only expected to be innovated further.

India continues to be a net exporter of Zinc,

a metal that is so intimately related to steel for the corrosion resistant attributes it provides to galvanized products. In contrast, the demand for lead in the country cannot entirely be indigenously met. The refined zinc production according to the International Lead and Zinc Study Group (ILZSG) is projected to be 13.9 MT in the current year and grow to 14.21 MT in 2016. The corresponding ILZSG estimates for lead production globally is 10.83 MT for 2015 and 11.2 MT for 2016, there being a probability of a supply surplus of 0.9 MT in 2016.

What is the effect of slowdown on iron and steel industry?

- The current stress in the steel industry is mainly on account of both domestic and international overcapacity, a slower-than-expected pickup in demand and the consequent fall in steel prices.

Problems for the domestic steel sector are likely to continue in the near term as capacity utilisation in the sector is expected to decline amid sluggish demand. The capacity utilisation of Indian steel manufacturers to decline, as close to 12-14 million tonnes of crude steel capacity will come on board by FY16 with no significant hike in consumption demand.

This would put further pressure on large steel producers in terms of end-product pricing and EBITDA per tonne. The important challenges before the industry are lower-than-expected increase in domestic demand and sustained low prices on account of the global glut in steel. Significant revival of domestic demand and firming up of international steel prices are not possible in the short term.

Despite contradictory movement of some economic indicators, the volume-based indices signal a revival of fortunes for the steel industry. Latest import restrictive measures and the mandatory quality notification by the government must reiterate this trend.

Indian metal industry is currently affected by non availability of raw material. How do you see the impact of this problem on industry?

- Steel industry is presently facing depressed markets. The cost of raw materials for steel making especially Coking Coal and

Iron ore has also come down significantly in the last 2-3 years. However, the need for quality coal and iron ore remains an area of concern. With Indian Steel Industry planning for increasing production capacities to 300 MT in the near future, there is a need to focus on utilization of beneficiation and agglomeration technologies to conserve lump ore and reduce cost of production.

How do you see the future prospects of metal industry?

- Indian steel companies are also overleveraged and burdened with debt. A Credit Suisse report says the five top primary and secondary steel makers in the country - Tata, Jindal, Essar, Bhushan and JSW - have accumulated debt of around Rs 2,50,000 crore. With cash flow drying up, servicing these debts is a big worry. "As much as 37 per cent of India Inc's borrowings are held by companies, led by steel firms, that are not generating enough revenues to service their interest expenses - or stressed assets," the report says. "Further, banks' exposures to stressed steel companies are at 10-30 per cent of net worth." Similarly, the Reserve Bank of India's Financial Stability Report back in June last year itself had highlighted the distress in the sector. "Five out of top 10 private steel producing companies are under severe stress on account of delayed implementation of their projects due to land acquisition and environmental clearances among other factors," the report had said.

As a thumb rule, domestic companies incur losses at prices below Rs 28,000 per tonne. But today, imported steel prices are at much lower levels. Though Indian companies benefit from abundant supply of iron ore - a key raw material in steel making - freight cost in India is one of the highest in the world. At the same time, taxation on mining in India and statutory levies, including royalty in the sector, are also among the highest globally. According to estimates by Indian Steel Alliance, domestic steel companies suffer a price disadvantage of \$100 per tonne (Rs 6,600) due to higher taxes and interest costs compared to peers in countries such as China, Brazil, Japan or Korea.

"Globally, fixed costs, including taxes on steel, come to \$7-8 per tonne, but for Indian companies, it comes to about \$41 a tonne," says Seshagiri Rao, Joint Managing Director and Group CFO of JSW Steel, the country's largest private sector steel-maker. "Interest rates here are much higher at around 10-11 per cent, while in China, South Korea and Japan, they are far lower. There is no level-playing field for domestic steel producers and, certainly, domestic steel players need protection."

Another round of safeguard duty is in the offing and anti-dumping duties for specific countries may also be levied. However, estimates suggest the global industry is

burdened with massive excess capacity of around 550 million tonnes (25 per cent of global capacity). The biggest overcapacity of 250-300 million tonnes exists in China alone.

According to a survey done by Plants, a leading global energy, petrochemicals and metals information provider, the boom years have seen China build up crude steel production capacity of some 1.1 billion MT per year, of which only 73 per cent is being used currently. "Last year, China's steel consumption fell 3.4 per cent year-on-year, its first reversal in three decades. World Steel Association has forecast China's steel consumption will fall 3.5 per cent this year and by a further two per cent in 2016. The country's steel production in 2015 appears on track to fall one-two per cent on last year. Even BHP has scaled back its outlook for China's steel output to 935 million - 985 million MT by the middle of next decade from one billion MT previously. Rio insists Chinese output will still creep up by around one per cent a year to reach one billion MT by 2030," the survey states.

The uncertainty in the world's largest steel producing country only means increased volatility in global steel prices in 2016. As such, nobody can say for sure when steel prices will stabilise domestically. The Indian government is now looking at levying a minimum import price of around \$450 (Rs 30,000) per tonne for the sector. Such a move, however, would be untenable under World Trade Organization rules of fair trade, and India would be vulnerable to arbitration by any of the exporting countries.

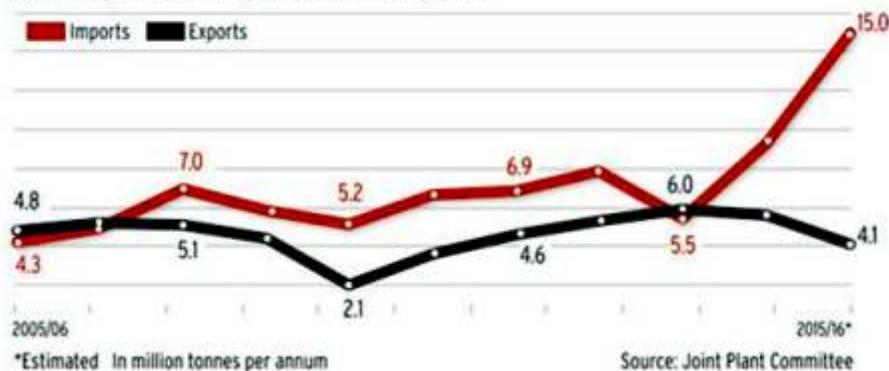
Tell us about the various activities of Indian Institute of Metals.

- The Indian Institute of Metals (IIM) is a premier professional organization set up in 1947 with the objective of promoting the studies and advances in science, design, engineering and technology concerned with minerals, metals, materials and their application.

The activities of the Institute include organizing Seminars / Conferences / Exhibitions in the fields of mineral, metals, metallurgy and material science involving its 10,000+ members and more than 150 organizations /academic institutes / research organizations across the country. As a tribute to the role of metallurgists in the country's economic development, the National Metallurgists' Day Celebrations is organized on Nov.14 every year. The National Metallurgist Day (NMD) Awards are announced and distributed on this day to the top metallurgists of the country. In addition, the Annual Technical Meeting(ATM) and an International Conference on a topical theme are organized as a part of NMD Celebrations.

The IIM undertakes projects of public interest on various aspects related to

SURGING IMPORTS
Steel imports and exports over the years



Metallurgy and Material Science. One study recently concluded on behalf of Ministry of Steel was to assess the manpower requirements at different levels in the iron & steel industry and to suggest a roadmap to meet this requirement in short, medium and long term. IIM also brings out a bi-monthly journal titled Transaction of IIM, managed by a Chief Editor and a team of editors in collaboration with springers. The journal is indexed in all relevant international abstracting journals. In addition, IIM in association with leading publishing houses, has initiated the process to publish a series of technical books in Metallurgy & Material Science.

How is IIM providing assistance to metal industry, especially when its going through bad phases as problems like non-availability of raw materials, economy slow down etc.?

- IIM over the years has provided support to the metals industry, irrespective of good and bad times, through its huge pool of human resource.

Various types of studies have been successfully carried out on behalf of the metals industry e.g. assessment of steel demand in the next 10 years, need for raw material beneficiation, alternative routes for iron making, technological strategies to minimize energy consumption in metal industry, requirement of skilled manpower with projected growth of steel production as per National Steel Policy etc.

The Govt. of India aims to triple the steel capacity to 300 million tons by 2025. IIM took the initiative of organizing an International Symposium on "Vision 2025 – Global Challenges & Opportunities before Steel Industry".

The captains of the steel industry, major technology providers and leading R&D organizations participated in the symposium to discuss the road map for the next ten years to ramp up production through green field and brown field expansion, technological

strategies that are to be adopted to make the iron and steel making processes less energy intensive. Further, R&D interventions are required to achieve international bench mark levels.

IIM also provides an effective networking between the metal industry and academic instituted through its various programs. It has helped over the years towards formulation and execution of a number of high impact research programs jointly by the industry academic institutes, which have helped immensely in a better understanding of the processes involved and have led to development of cost effective products.

What support does the industry require from the Govt. as regards policy making & implementation?

The support solicited from the Govt. may be as follows :

- Globally fixed costs including taxes come to around \$ 7-8 / ton. However, in India, this component is about \$ 41 / ton. The gap w.r.t. taxes needs to be narrowed to provide a level playing ground.
- Interest rate in India is ~10-11%, which is significantly higher than that of USA, UK, China, South Korea, Japan. This needs to be revisited.
- To minimize dumping of steel indiscriminately by China, Russia etc., the anti dumping duties needs to be enhanced.
- Infrastructure building in terms of roads, ports and railway needs to be facilitated by Govt. to provide smoothen flow of incoming raw material and finished products at lower cost and time.
- Ease of regulatory regime for easier compliances and avoidance of closures.
- Fostering of Steel R&D Mission.
- Enforcement of quality control orders across all steel grades.
- Inclusion of steel as priority sector in "Made in India" initiative.