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Dr. A. S. Firoz

Steel industry expect Government support for cost reduction and infrastructure improvement

- Investment in health infrastructure to boost the demand for steel
- Post COVID-19 : Government spending on infrastructure would increase the consumption of steel
- Preparing for Post COVID 19 – Time to act before it's too late
- Secondary steelmakers face mounting challenges amidst Covid-19 pandemic

D. A. Chandekar
Editor

Dear Readers,

The situation in the Indian economic world seems to be easing out a bit, not because the pandemic situation has improved but because the corporate and industry world has slowly started adjusting itself with this new unforeseen and unprecedented situation.

The iron & steel industry in the country is also trying to stand up and gradually start its activities. AS mentioned in our last piece, the eastern states of the country have in fact gained from the migration of labour. The availability of labour in these states has increased and the situation is supportive to restart the manufacturing operations. The covid situation in these states is also not that grave as it is in some western states and the mega cities.

As per the 'Steelworld's survey, more than 60 % of the steel companies from eastern and central part of the country are operating at more than 50 % of capacity utilization, mostly in the longs segment. The construction sector, one of the major consumer sectors of steel has also started functioning thus giving the required support to the steel units to step up their production. Of course the auto and infra sectors will take lot more time to start functioning and the steel production will have to suffer to that extent and till that time.

The steel industry was always in a better control of supply side and the recently announced 20 lakh crore stimulus package will certainly help the industry to reduce its financial anxiety. Also, the industry looks quite comfortable as far as availability of raw materials is concerned. The diesel price hike will surely affect the logistics price but I suppose to a small extent. Thus in my opinion, the most challenging thing in front of the industry is restoration of demand. Once the demand is restored, everything including, finance, raw materials, labour, logistics will fall in line.

Having said this, we must remember that restoration of steel demand is not that easy as it seems. Many industry verticals which are using steel have suffered due to disruptions at many points in their supply chain. To ensure the smooth functioning of these industry verticals, all the disruptions have to be resolved. Only after all this the steel demand will be restored. Now how much time it will take is anybody's guess.

This year's monsoon seems to be ok, which will ensure some extra money in the pockets of large section of population. This will surely start turning the economy wheel which in turn will give a boost to steel demand in the country.

Overall, I feel that the iron & steel industry in the country has begun well post covid-19 but still a very long way ahead !

Write your comments : https://steelworldblog.wordpress.com/

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Conventional 3-section top fired transformed into Yuxing top fired with a catenary dome by cutting the top portion of the existing stove shell

Reference of Yuxing Top Fired Stove for BF with volume 40-50% of China's steel capacity since 2017 to April

Sr. No	Client	BF no	Blast volume Nm3/min
1	Hebei Zongtie Steel	1	7800
2	Hebei Zongtie Steel	2	7800
3	Hebei Zongtie Steel	3	7800
4	Hebei Zongheng Steel	3	8400
5	Hebei Zongheng Steel	4	8400
6	HBIS LaoTing	1	9700
7	HBIS LaoTing	2	9700
8	HBIS LaoTing	3	9700
9	Tangshan RuiFeng Steel	4	8000
10	Tangshan JinXi Steel		6300
11	Tangshan JinXi Steel		6300

Notes: China accounts for 50% of the world's steel capacity, and Hebei
Since 2017 to the present moment, Yuxing top fired stove adoption rate
Total reference nos of Yuxing top fired: 550.

Yuxing top fired stove with a catenary dome achieved monthly mean HBT of 1314.7 oC

Low nox emission - temperature difference between dome
than 83mg (international standard less than 150 mg)
from 83.5-88.9% (9-10% greater than that for other top
Long life span - Application practice has proven that the
years (the lifetime of the catenary dome combustion
High HBT - Monthly mean HBT of 1314.7 oC delivered
than that by other stove under same conditions)
combustion technology, the lower the better concept is

YUXING

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International Leading Technology Level Stove project reference nos up to 550, highest monthly mean HBT of 1314.7 deg C achieved in China

Henan Yuxing Engineering & Technology of Hot Blast Stove Co
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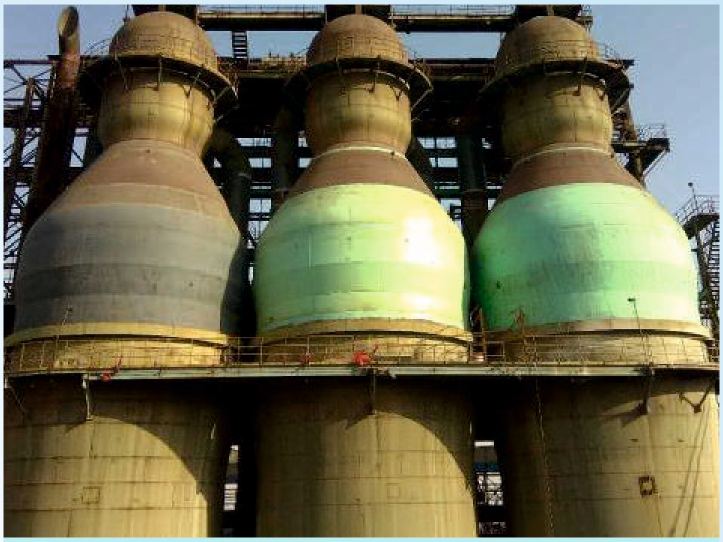

Conventional 3-section top fired stoves for 3x2500m3 BFs converted into Yuxing 4-section top fired by cutting the top portion of the existing stove shell

over 2000m3 at Hebei Province which accounts for 2019, adoption rate of Yuxing top fired up to 84.6%.

	Stove type	Blast time mins	HBT oC
	Yuxing 4-section	45	1250
	Yuxing 4-section	45	1250
	Yuxing 4-section	45	1250
	Yuxing Caternary	45	1250
	Yuxing Caternary	45	1250
	Yuxing 4-section	45	1250
	Yuxing 4-section	45	1250
	Yuxing 4-section	45	1250
	Yuxing Caternary	45	1250
	Yuxing 4-section	45	1250
	Yuxing 4-section	45	1250

province accounts for 40-50% of China's steel capacity.
for BFs with volume over 2000m3 in Hebei reaches to 84.6%.

and HB at 30 oC approximately, nox emission less
Higher thermal efficiency - Thermal efficiency ranging
fired stove)
lifetimes of catenary dome have been in excess of 44
chamber of Yuxing stove over 30 years)
(HBT delivered by Yuxing stove is 15-20 oC higher
Lower air excess - 1.05-1.06 (Associated with
not always right)

3x3580m3 BFs configured with Yuxing 4-section top fired stoves

Internal combustion chamber stoves for 1497m3 BF at JianLong Steel converted into Yuxing top fired with a catenary dome

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Steel industry expect Government support for cost reduction and infrastructure improvement

"Covid-19 was the most unpredicted and unprecedented eventuality. To overcome it, we have to first know how long we will be under its influence and the fact that we still don't know when this pandemic will be over"

Dr. A. S. Firoz
Policy Advisor and Strategist Minerals, Petrochemicals and Pharmaceuticals

Dr. A.S. Firoz served as Chief Economist at the Economic Research Unit of the Ministry of Steel till recently, studied Economics in India's prestigious Jawaharlal Nehru University, New Delhi, to acquire is his Masters (MA) ,M.Phil. and Doctorate (Ph.D.) degrees. He has wide exposure and expertise in steel, aluminium, coal, metallurgical coke, petroleum coke, iron ore, pharmaceuticals, etc. in both the Indian and global context. He worked also for organizations such as Bureau of Industrial Costs and Prices (BICP) and Observer India Ltd. In the early days of his career.

Firoz is globally recognized as an expert in metals and energy. As an independent consultant, during 2006-2009, on sabbatical, he worked on several important research projects involving coal, iron ore, steel and oil with industry behemoths such as BHP Billiton, Rio Tinto, POSCO, the Aditya Birla Group, etc.. His work on economics of investment in coking coal was widely held at high esteem.

He was deeply involved in major research works with organizations such as Indian Council for Research on International Economic Relations (ICRIER), National Council for Applied Economic Research (NCAER), Federation of Indian Mineral Industries (FIMI), Hatch (UK), etc..

Firoz is currently a member of the Expert Group in the government project Mining 2035 undertaken under the auspices of Niti Aayog, the government's most important think tank and policy driver. He is also a member of a similar group on the steel industry set up by Niti Aayog.

Mr. D Chandekar, Editor, Steelworld had an face to face interaction with
Dr. A. S. Firoz, Policy Advisor and Strategist to understand the status of Indian steel companies and how covid-19 will have on supply side disruption and what would be the time frame for the industry to be back on track etc.

What is the status of steel companies today in the country?

Covid-19 was the most unpredicted and unprecedented eventuality. No one was really prepared for it. To decide the strategy to overcome it, we have to first know how long we will be under its influence and the fact is we still don't know when this pandemic will be over.

We also don't know whether it will come back or not. In such a situation the industry has to gradually open up, intelligently, carefully and calibrated way. The steel user sectors like construction, autos were already under pressure even before this pandemic. The first two months of the lockdown period have seen almost zero economic activity but now I feel at this stage around 50 % of the economic activity has started.

What effect covid-19 will have on supply side of the industry?

Frankly, steel industry did not get much from the recently announced 20 lakh cr stimulus package. Apart from finance, supply side also means making of the product and taking it to the markets. This involves the whole supply chain like raw materials; logistics etc. and I feel the steel industry was quite well in control of these things. Of course, the disruptions happened because of covid-19 have to be corrected but those will not be major ones in my opinion. At the same time they will certainly require some external support.

Do you think imposing duties on finished steel imports or reducing duties on imports of raw materials like coking coal, scrap etc. will help the industry ?

The government itself needs to care about its own revenue. I do not think such measures will help the industry to a large extent and drastically improve their balance sheets. Instead, the government can support the industry by improving the quality of logistics, reducing its cost, improving infrastructure needed for the industry to operate smoothly etc.

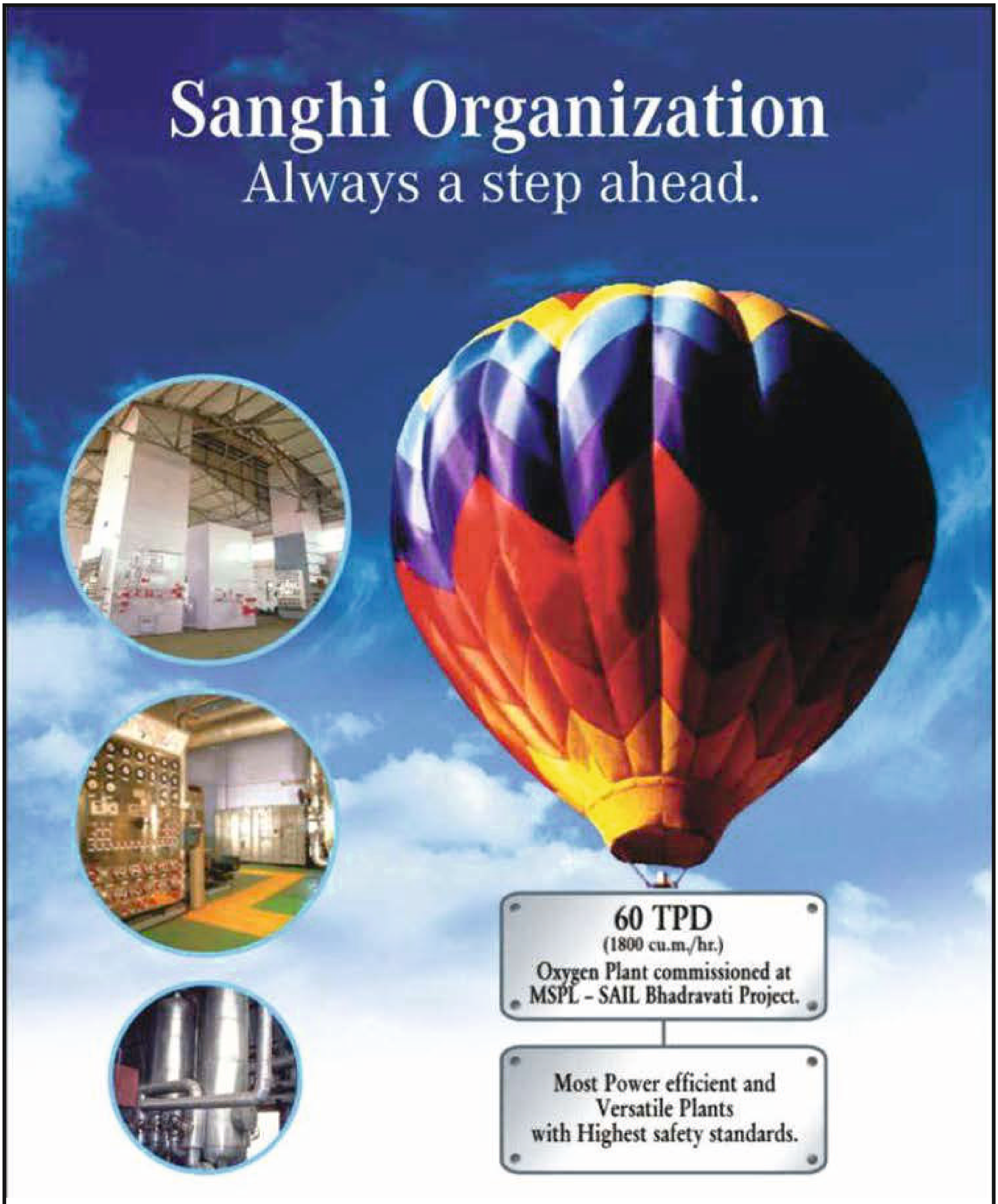
How can the industry deal with the issue of migrant labours?

Let us first accept that nobody had thought that this issue will be of such a huge magnitude. All were busy worrying about loss of jobs and the food for the poor. Now that most of these people have gone back to their native place, I don't think all of them will come back to work.

The gap will have to be filled by the local labour by teaching them the required skill set whenever needed. This situation will nesseciate more automation in the whole process but we will have to accept that there will slowdown in every area of process chain due to the issue of migrant labour. The companies will have to operate at lower capacity utilisation.

What is the time frame you have in mind for the industry to be back on track ? What is your advice to the companies?

There are two unknowns in this equation. Firstly, we do not know how long this pandemic remains. Also, we are hearing about possible second wave. Secondly the steel supply chain is very long and there are many disruptions at many places. As you know, in steel a company, once the blast furnace is shut, it is a very big decision when to re-start it. This will depend on so many factors such as continuity of raw materials supply, demand in the market, the prevalent price etc. One has to weigh things in the proper perspective, take cautious decisions, access the market rationally, preserve cash. Also I will advise promoters not to put all your eggs in one basket. You make a loss in one vertical, there is a chance to recover it from the other vertical.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Investment in health infrastructure to boost the demand for steel

> ***Such a prolonged recession with the loss to life and property, in production and working capital, in demand and supply of essentials shows us that health of people may well constitute the major chunk of our economy***

The post covid-19 pandemic situation has an adverse effect on the Indian economy along with the global market as well. Such cascading effects has almost slumped the world economy and setting it into a vicious cycle of contraction. Such a prolonged recession with the loss to life and property, in production and working capital, in demand and supply of essentials shows us that health of people may well constitute the major chunk of our economy.

Dr Susmita Dasgupta
JCE, Economic Research Unit
Joint Plant Committee

Therefore, it makes sense for countries across the world to reorient public expenditure from defence to public health. The lock down, of course, the only way to stop the pandemic is also extremely severe because we are lacking in hospital capacities to treat the ill. Hence, the number of beds is a fair indicator of the expenditure on health of nations.

Whichever way we may look at stuff, we cannot disregard the fact that much like in individual cases, where illness can dissolve family assets, for the nation, one pandemic can erase decades of accumulation of public assets. Therefore, health is wealth as the cliché goes.

Hospital beds per thousand people in India is the lowest in the world and this is despite the fact that India is the world's fifth largest economy and is emerging at the fourth position by beating France. Yet, India is below Bangladesh in health indicators.

Interestingly some of the high performing countries in terms of bed per thousand persons are Japan, Russia and Kazakhstan at 13.4, 6.7 and 8.2 respectively. China is at 4.2.

If we look at the data from Italy, Spain and the USA, we find that these figures are 3.4, 3 and 2.9 respectively. Japan has 13.4 beds per thousand persons; Germany has 8.3 and France 6.5. On the face of things, it is apparent that the number of beds has something to do with survival rates in Covid 19 attack. The number of beds is a fair indicator of the expenditure on health of nations.

Planning around health does not merely stop at hospitals and ventilators; planning around health goes much deeper. In cases of dengue, a city's water supply, security of its tenants, ethics and values of its landlords, land prices of the city and so many other factors can be identified as the underlying causes of the pandemic.

If one does not have a steady and assured flow of water supply, one is likely to store water and that is the singular source of dengue in most cities. Naturally water supply of municipalities and landlords' running pumps regularly to fill in overhead tanks so that water is not stored in drums inside the room is the key in the elimination of dengue. Thus, matters should not cease with spraying of sanitizers and repellents but in planning the city life well. In a way, it should be the same with the Covid 19, we need to reorient our economy around this disease. Therefore, healthcare industry in India comprises of hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. It is entirely possible to have an economy around health. Indeed, the city of Chennai, then Madras grew its economy around the excellent health care system by the famous doctors who set up hospitals of high standards.

The city developed with clinics, medical supplies, testing labs and the accompanying city services of meals, accommodation, transport, education and then huge chains of "madrasi" stores.

Expenditure on public health means healthy multipliers of a diverse production of basic chemicals, medicines, medical supplies, PPE, kits and spends on medical education, training of para medical staff, investments in testing laboratories. These then spill into other essentials as people earn wages and demand various goods of consumption. Profits from these are no less than investing in steel making capacities; steel industry faces non-performing assets and irrecoverable debts, who have ever heard of a hospital going down the drain? Edith Penrose writes in her tome on the growth of firms in the 1950's America that the growth of firms is a psychological affair as entrepreneurs invest in those areas in which they feel they have an opportunity to grow. This "feeling" is dictated by the productive resources they already control and the anticipations of future growth. The government has a role to play by announcing what a country needs in the future; for instance India

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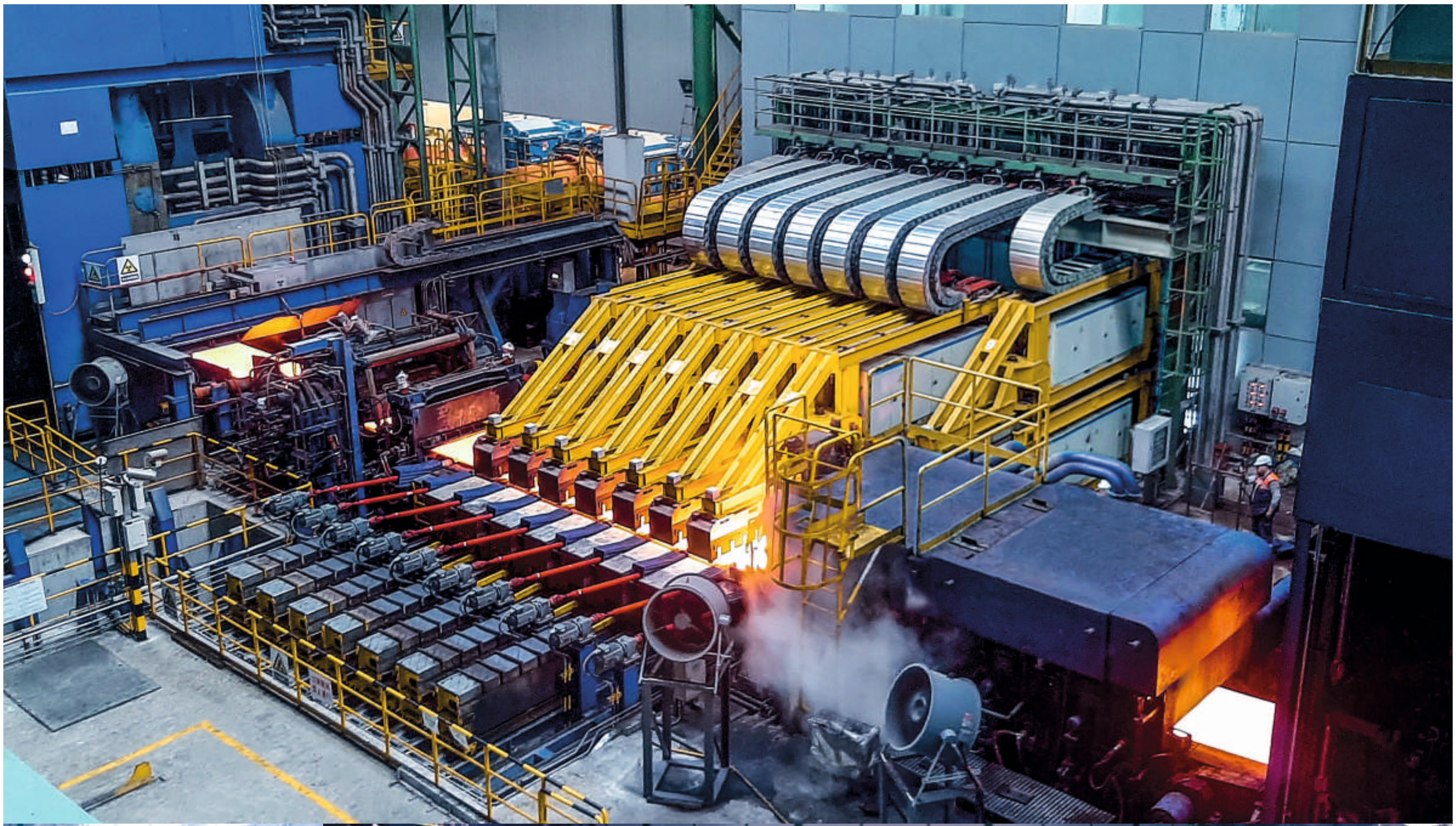
expands its steel industry because the Ministry of Steel says that we need 300 million tonnes of steel capacity, which is thrice as large as we have at present. Similarly, if we say that we need hospitals; investors would definitely shift their priorities to the hospital sector.

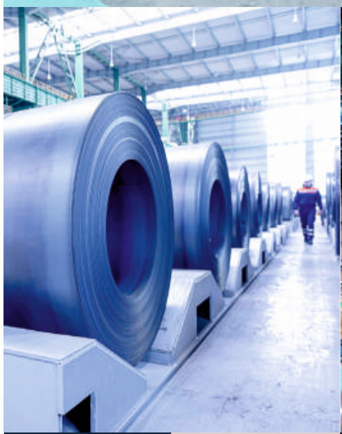
A possible reason why we have not invested in health is perhaps due to guilt that health should be given free by the State. India never had that kind of a surplus to provide free education and free health; even if it did have some surplus, the State did not know how to collect the same. So health was never seen as an industry, subject to the same laws of demand and supply, expansion through strong demand, economies of scale, multipliers and accelerators; its backward and forward linkages were never calculated.

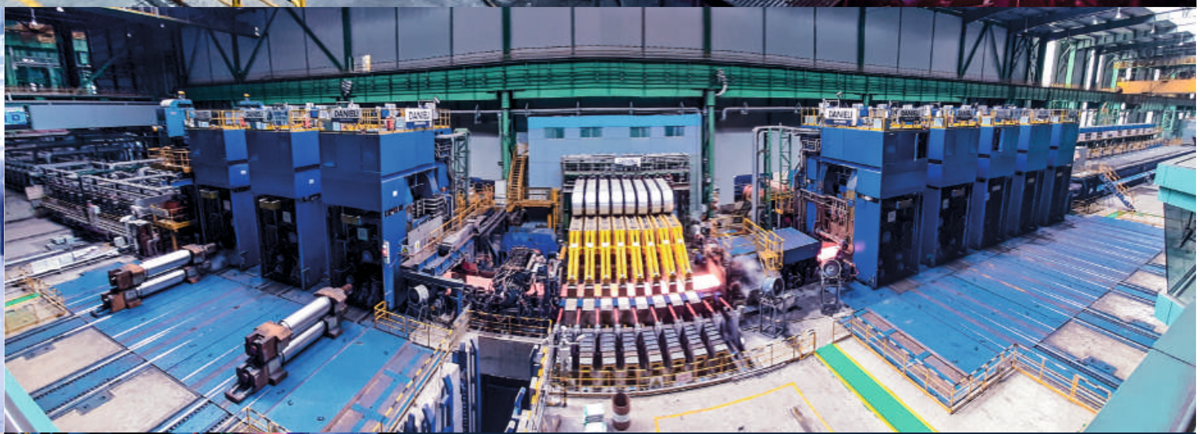
Once these are done, the economies of scale kicks in, health may well be affordable through the very market forces that the investors are fond of. Only, the government needs to realise the potential investment towards public health industry which is a jolly good one for returns on capital, with a vast network of complementary activities. Once, it says build 3000 hospitals just as it said make 300 million tonnes of steel and pushed India from the 6th largest steel maker in 2000 to the 2nd largest at present, the Indian health industry too can emerge as the world's largest.

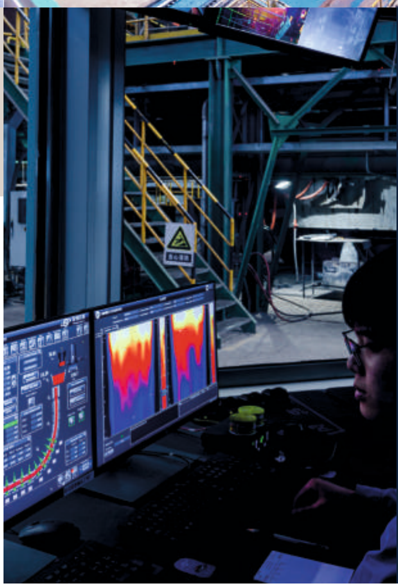
P.S The weight of a fowler bed which is 100 percent made of steel weighs around 150 kgs. If India moves from 3.4 to 13.4 beds per 1000 population, then that would mean an addition of 10 x 150 kgs per thousand persons. This alone adds 1.5 kgs to the per capita steel consumption.

Dr Susmita Dasgupta is a policy economist with the Joint Plant Committee of Ministry of Steel for the past 34 years. She is the author of the Economics of the Indian Steel Industry published in 2017 from United Kingdom.









Post COVID-19 : Government spending on infrastructure would increase the consumption of steel

The lockdown enforced by various regions across world, now in hindsight, seems to have only delayed the rise in the curve but not the malady itself, and by now all the people are feeling uncomfortable in the lockdown situation and adjusting to the realities of activities under threat of COVID.

On the brighter side, the public has adopted regular hand washing and sanitization and this habit is growing on to the public as also social distancing and orderly movement without crowding.

What does this situation mean for the economics of our industry?

Higher operating costs :-

Frequent sanitation measures and thermal scanning will have their own running costs. Apart from that the increased insurance premiums that units will have to pay on account t of work related risk on account of possible exposure to virus.

B) Lower Demand consequently lower Consumption

The Fear Psychosis causes people to hold on the cash, and lower their investments as also spending on non-essentials, which we have observed by way of lower GST collections over the last quarter which has however recovered last month to approx. 90% of the normal in June 2020.

"With the proposed increase in Government spending on railways, metros & other infrastructure, we predict a healthy increase in the consumption of steel and other manufactures"

By Haresh Melwani,
Mine Owner

Our Government has realized that these impacts need to be countered by increased Confidence building measures and as we are observing have announced a slew of measures as :-

1) Buy / encourage Made in India even at slightly escalated costs
2) Increased liquidity into the Banking system and easier funding to industrial sector and availability of housing

finance at low rates.

3) Increased Government spending in the Infrastructure sector.

These major steps are showing a result as we have seen in the GST collections have shown a good growth and leads me to believe that the economy and public mood is gradually mending.

Moreover, as the lockdown are being eased, we are seeing localized spurt in infection, as also we have had a massive migration of the workers back to Orissa, Bihar and Jharkhand etc.

In effect, the industry will have to increase the levels of automation, but here too a lot of automation equipment originated from China, so that too is an obstacle to be overcome by developing indigenous technologies.

With the increase in Government spending on railways, metros & other infrastructure, I predict a healthy increase in the consumption of steel and other manufactures.

The biggest opportunity will be in the import substitution of the various metals and alloys.

For Mining, I foresee an increased prospecting particularly for Rare Earth Minerals as also the research into recovery of additional minerals from the extractions, and I hope that our Government comes out with attractive policy to encourage the same as also the enabling legislation to realize the same.

I would like to end on an optimistic note and this is the right time for Government and Industry to change gears to ensure INDIA in a prominent position and SELF SUFFICIENT.

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Preparing for Post COVID 19 – Time to act before it's too late

"The world has survived different kinds of crises. People have seen world wars and the various economic depressions, but the human spirit has endured and survived. I am confident, COVID 19 will also be history soon"
by Pankaj Jain, CEO, Blue Ocean Steels

Covid 19 has proved to be a litmus test for humanity across the world, like never before. Life and it's many routines that all of us used to have, is experiencing a "real disruption". *The word disruption implies making the earlier product / process / business model obsolete – and that is what COVID 19 is doing to our lives.*

While all of us keep watching the corona curve ; trying to understand, when we will hit the peak and then possibly the curve starts to recede in India. I was trying to make an assessment how much we can convert this

Pankaj Jain
CEO, Blue Ocean Steels

"Stressed Situation" to a wonderful opportunity.

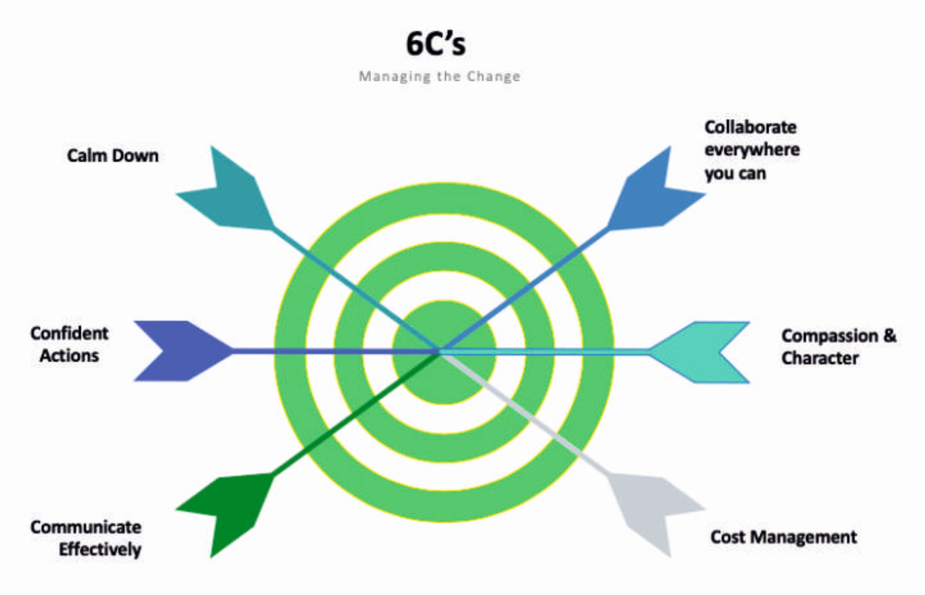
At this juncture, it will be important for all of us to understand that a precious thing like diamond is nothing more than a charcoal ; the only difference is that this batch of charcoal had the capability to handle the extreme stress exceptionally well. And after doing so, it has turned into what we call diamonds.

This is the time for all of us – to push our limits – and come out of the comfort zones. This is a time to create diamonds in our own spheres. COVID 19 is likely to radically change everything which we used to consider normal. Some things may even change upside down. We need to come out from our comfort zones otherwise we may start getting suffocated.

In this age of disruption, businesses will survive or die which will be based on their ability to adapt and act fast.

The world has survived different kinds of crises. People have seen world wars and the various economic depressions, but the human spirit has endured and survived. I am confident, COVID 19 will also be history soon.

The situation is no doubt complicated and complex ; but in my view the solution lies in doing some basic and simple steps. I am sharing my thoughts in form of 6 C's which might help companies emerge stronger post COVID 19.



The 1st thing is to Calm down – this is the best time to do a deep introspection.

Corona has pushed the pause button – and since we do not have much options, it's the best time to step back & take stock of the situation.

This may sound a bit different, something which few of us do in our routine life...but trust me – it's essential to be done now.

Go back to the basics – analyse every single thing that is being done at your organisation.

Success is neither magical nor mysterious. Success is the natural consequence of consistently applying the basic fundamentals.

The 2nd "C" is to confidently start taking the steps.

Once the blueprint of action plan is ready, its time to take Confident steps for execution. In normal circumstances, team wants to be guided by a leader who projects confidence. This becomes extremely important in hard or uncertain times. People don't want to follow leaders who show uncertainty, inconsistency or the ones who do not exhibit confidence.

In COVID 19 type of situation, leaders need to walk on a tight rope. Please remember – no decision is a right decision or a wrong decision. The best decision is to take the "Right Decision" ....the next best decision is to take a wrong decision (which can always be corrected) ....but the worst situation would be not to take a decision itself.

The 3rd important "C" is communicating effectively especially when we are moving to the virtual platforms for all of our communications.

As the world makes a paradigm shift to a virtual environment and we all get into "Teams" or "Zoom" meetings whether internal or external, driving productivity, communicating and building consensus becomes all the more challenging. With the loss (or reduction) of visual and auditory clues, virtual communication presents huge challenges which require a lot of care and the learning of techniques to guarantee the effectiveness of teamwork and meetings. It may not be a bad idea to train at least the team members to handle the same.

The 4th important "C" is collaborating. Without compromising on the quality of work, it's time that we move to new models of engagement with all the service providers and resources. The approach has to be task based which an individual or the agency completes. This step will even challenge the old

models of "Full time employment" partially. Every resource that you were hiring on full time term basis ; it's time to assess whether you require them on full time basis or you can do on fractional time basis.

The 5th important "C" is compassion & character. Today, social isolation is mandated, and it is likely to continue for some more time. While dealing with teams and even your other stake holders, it's important that we use our heads and hearts both, without changing the character. Leaders also need to understand the emotional patterns of each of the team members. This time might result into defeatist thoughts amongst some, but it will be very important to encourage new patterns of thinking to help them be more successful going forward.

The 6th & very important "C" is Managing costs & cash flow management

Very simply put, cash flow management is managing the inflow and outflow of cash.

Managing cash in today's situation is extremely important. All businessmen have receivables and have commitments. Commitments are towards banks, stakeholders, suppliers, employees etc ; and receivables are from your sales or any other earnings. You have to ensure receivables keep coming, failing which your payables will be seriously impacted. At this point of time, it is extremely important to keep a check on the health of your debtors. You need to understand the financial risks of your key trading partners, customers, and suppliers is a critical consideration in times like these.

Start thinking that as if you were the CFO, and had to manage the cash flow, how would you have done.

My message to all my reader friends is that "Life isn't about waiting for the storm to pass. It's about learning how to dance in the rain."

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Secondary steelmakers face mounting challenges amidst Covid-19 pandemic

Priyesh Ruparelia,
Vice President &
Co-Head - ICRA

"ICRA expects domestic demand to contract by about 22-23% in FY2021 and capacity utilisation rates to drop to 60% from 77% reported in FY2020. The fall in capacity utilisation rates would be even higher for the secondary steel producers in FY20201 given the demand destruction witnessed in April and May 2020 and their inability to cash in on export opportunities"

India is currently the second largest steel producer in the world after China and has an installed steel capacity of about 142 million tonnes per annum (mtpa) as on March 31, 2020. The steel industry in India remains concentrated, with the share of top six steel producers contributing about 55% to the total installed capacity. The share of these steel producers is dominant even in terms of steelmaking technology, with the share of the blast furnace/basic oxygen furnace (BOF) remaining the highest at about 45%, while the electric arc furnace (EAF) and the induction furnace (IF) routes have a share of about 26% and 30% respectively (Exhibit 1). India's steel capacity utilisation, after remaining above 80% levels till FY2015 (Exhibit 2), have remained at sub-80% in the last five years due to a mix of factors such as modest demand conditions and sizeable capacity additions during this period.

Exhibit 1: Trend in crude steel production by process route

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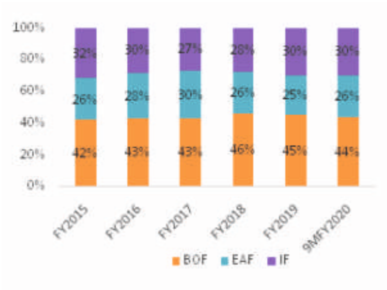
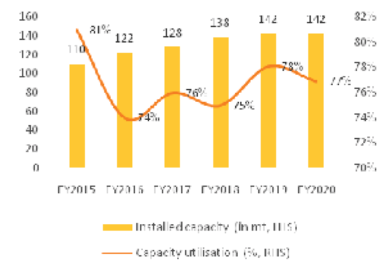


Exhibit 2: Installed capacity and utilisation trends



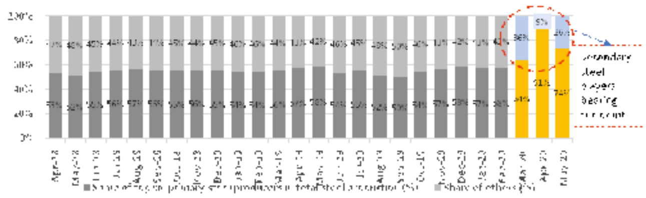
Source: *Ministry of Steel (MoS), ICRA research*
Source: MoS, JPC, ICRA research

While secondary steel producers use IF or EAF route for steelmaking, there are a few large integrated steel producers, which use sponge iron kiln and EAF technology to produce steel. Since production data for such entities is not available, ICRA for its analysis has considered steelmakers other than the top six players highlighted above as secondary steel producers.

Large integrated steel players better placed than secondary ones

The share of secondary steel producers in India's steel production has remained in the range of 42-50% during the last couple of years (Exhibit 3), but the same sharply reduced to as low as 9% in April 2020 due to the countrywide lockdown, indicating the maximum brunt being borne by the secondary players.

Exhibit: 3: Share of large vs secondary steel players in monthly steel production



Source: *MoS, JPC, ICRA research*

This was due to the complete absence of domestic demand at that time and their limited financial flexibility and ability to export in large volumes. Similarly, Exhibit 4 below reflects the fact that the top six players have been reporting higher growth rates than secondary steel players for most part of the last two years and managed to report a lower dip of 72% in April than the nearly 100% fall in production reported by secondary steel players. This was because the large steelmakers were able to offload steel volumes produced during April and May 2020 to export markets in the absence of domestic demand, even though at less remunerative export realisations.

Exhibit: 4: Monthly production growth trends of large vs secondary steel players

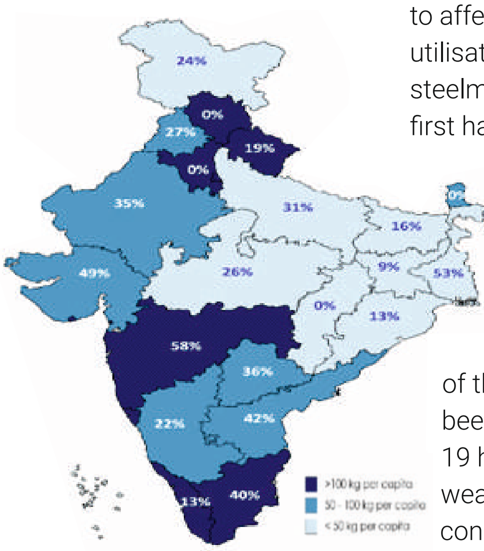
Source*: MoS, JPC, ICRA research*

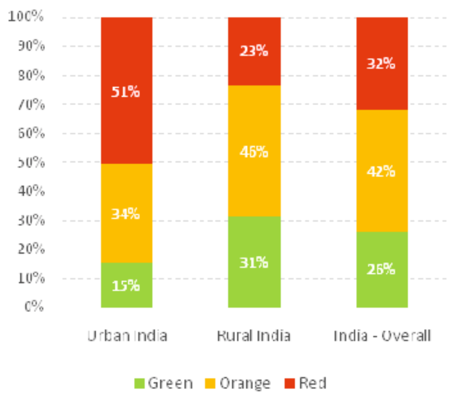
Overlapping of Covid-19 and steel demand hotspots, and labour availability key challenges faced by secondary steel producers

One of the key challenges being faced by domestic steel producers, which would in turn hurt demand recovery in the current fiscal, is the overlapping of steel demand hotspots with Covid-19 affected areas. States which have a higher intensity of steel consumption per capita (compared to the national average) such as Maharashtra, Tamil Nadu, Gujarat, Andhra Pradesh, Telangana, Delhi, and Punjab also reported a high share of its population living in the red zones (Exhibit 5). On scanning population data on the urban vs. rural divide, ICRA notes that 51% of India's urban population lived in districts marked as red zones (Exhibit 6) as on April 30, 2020. With urban centres being steel consumption 'hotspots', stricter lockdown measures in urban areas are expected to constrain the recovery in India's steel demand till the time the health-related risks are brought under control in these cities.

Exhibit 5: State-wise steel consumption per capita (in kg)* & **Exhibit 6:** % of population living in red, orange and green zones

% of population living in





Source: Census data, Ministry of Health & Family Welfare, World Steel Association, ICRA research; *state-wise consumption data is for CY2015, when India's average steel consumption per capita was 61 kg per capita, as against 72 kg per capita in CY2018

As per ICRA's channel check, among the key challenges being faced by the domestic steelmakers, one of the most prominent one is labour availability, which is being felt across the steel value chain and is likely to affect the capacity utilisation levels of domestic steelmakers, at least till the first half of FY2021. Steel demand also remains a concern as most of the tier-1 cities have been identified as Covid-19 hotspots. A seasonally weak second quarter for construction activities compounds this problem. Supply chain issues like port congestion, detention and demurrage charges, loading unloading problems due to labour unavailability also remain the key pain points for steel companies. For the secondary steel industry, availability of local scrap is also a challenge due to contamination fears. The liquidity profile of a large section of the steelmakers too remains under stress, with their receivables stuck, in addition to them having to pay high fixed charges on electricity even while not operating at meaningful capacity utilisation rates.

However, healthy rural demand and sales of branded steel products remain the silver lining for the secondary steel players.

Expectations of good monsoons this year and the recent increase in minimum support price for key kharif crops augur well for rural demand for steel and may offer some breathing space to the industry as a whole including secondary players.

Amidst these challenges, there has been a 3.4% drop in India's gross tax collections in FY2020. Also, out of the Rs. 20 lakh-crore Covid-19 package announced in May 2020, a bulk of the allocations has been directed towards social sector spending and enabling credit flow to the stressed/ vulnerable sectors of the economy. As a result, the stimulus may not lead to an immediate rebound in domestic steel demand.

Extension of the credit-linked subsidy scheme (CLSS) for the middle-income group under the Pradhan Mantri Awas Yojana (PMAY) by one more year until March 2021 is among a few key positives which have the potential to stimulate steel demand in the near term.

Profitability of secondary

steelmakers remains weak due to tepid demand and firm scrap prices

Exhibit 7: Trend in domestic HRC and rebar prices

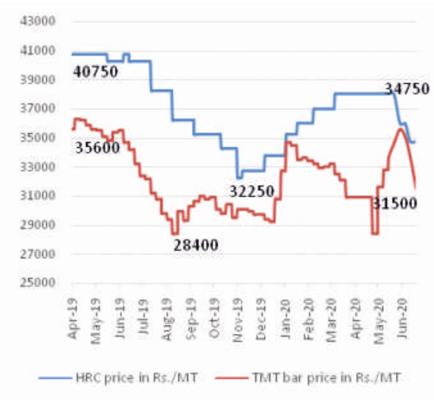
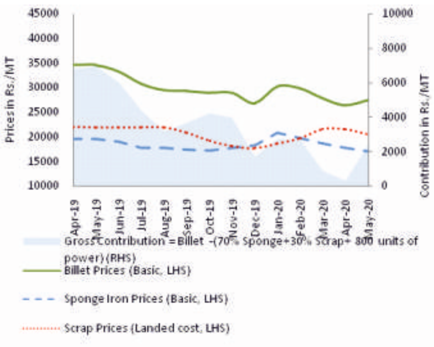


Exhibit 8: Trend in spreads of domestic billet manufacturers



Source: Metalbulletin, ICRA research

Source: Metalbulletin, ICRA research

Domestic hot-rolled coil (HRC) prices were supported by favourable international steel prices since December 2019 and are still at the Rs. 34750/MT level (Exhibit 7) due to the protection in the form of anti-dumping duty available till August 2021. However, domestic rebar prices witnessed a sharp fall last year due to weak demand from the construction sector and witnessed a retreat recently following a short-lived recovery during May 2020. Similarly, looking at the gross contribution trends of billet manufacturers in the recent months, there has been a consistent fall in the same and the spreads contracted to as low as Rs. 350/MT in April 2020 (Exhibit 8) due to a steep fall in billet and firm scrap prices. Even though contribution levels have improved thereafter, ICRA expects steel spreads for secondary steel players to remain under pressure at least till H1 FY2021 due to low capacity utilisation levels and soft price trends.

Outlook for the domestic steelmakers remains negative in FY2021

ICRA expects domestic demand to contract by about 22-23% in FY2021 and capacity utilisation rates to drop to 60% from 77% reported in FY2020. The fall in capacity utilisation rates would be even higher for the secondary steel producers in FY20201 given the demand destruction witnessed in April and May 2020 and their inability to cash in on export opportunities. In the current downturn induced by the pandemic, steelmakers would have to grapple with not only weakening spreads, but also lower deliveries. This would adversely impact the operating profitability and debt protection metrics of the domestic steel industry in FY2021. Consequently, ICRA's outlook on the domestic steel industry remains negative. Given the sharp slowdown in domestic sales for steel mills at the moment, liquidity management would take centre stage, and in this context, steel companies with stronger balance sheets, large cash and liquid investment balances, and high financial flexibility would find it easier to manoeuvre during this period of stress.

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Weak demand, oversupply and price decline to hit Indian steel industry: Ind-Ra

Steel prices are expected to fall in the second quarter of this fiscal due to oversupply, further reducing margins for domestic steel producers. A report by credit ratings agency India Ratings and Research has estimated that prices of both hot rolled coils (HRC) and rebars will fall in the coming few months.

Both HRC and rebar prices were down 3% and 4% month-on-month in June. In May 2020, steel prices temporarily rose although higher inventories were available with steel players. This was due to logistical constraints and man-power availability issues, resulting in limited supply to end-use industries which gradually re-opened post relaxations in the lockdown.

"Domestic gross spreads per tonne (realisation per tonne of steel less the raw material cost per tonne of steel) for both hot rolled coil (HRC) and rebar are expected to fall further in 2QFY21 with a further fall in steel prices due to oversupply," the report said. "This is because domestic production will gradually increase with the easing of lockdown restrictions along with no corresponding increase in steel demand. However, rebar spreads are likely to be less impacted over the near term up to end-FY21 compared to HRC due to a likely better demand pick-up, leading to a price increase backed by the expected implementation of government spending on infrastructure."

Small- and mid-sized steel players (especially those within the micro, small and medium enterprises category) have been impacted more and are likely to face tight liquidity due to delays in the receipt of receivables and payment of fixed charges towards labour, electricity etc. However, most steel producers are have raised a plea for the waiver of fixed demand charges and surcharges on electricity bills and charging of the actual units consumed during the lockdown period by the respective state electricity boards as well as relaxation in terms of payments of electricity bills, till the situation is favourable for the smooth running of steel plants.

Steel industry benefits from rise in exports to China: Report

The domestic steel industry, which has been facing headwinds for the past couple of months due to dull domestic demand and the COVID-19 woes, has benefited from increase in exports to China, though at lower margins, according to a report by India Ratings.

Small and mid-sized steel players, especially those in the micro, small and medium enterprises (MSME) category, have been impacted more and are likely to face tight liquidity due to delays in the receipt of receivables and payment of fixed charges towards labour, electricity, among others, said the rating agency.

"The increase in Chinese imports benefited domestic steel players, especially the large steel players who were operational at lower utilisation levels during the lockdown and who compensated for the dull domestic demand by increasing steel exports (majorly to China) albeit at lower margins," the report said.

Domestic realisation per tonne of steel by raw material cost for both hot-rolled coil and rebar are expected to fall further in the second quarter of the financial year 2020-21 with a further fall in steel prices due to oversupply as the production is expected to gradually increase with the easing of lockdown restrictions along with no corresponding increase in steel demand.

Both hot-rolled coil and rebar prices were down 3 per cent and 4 per cent, month-on-month, respectively, in mid-June 2020.

In May 2020, steel prices temporarily rose although higher inventories were available with steel players, mainly due to logistical constraints and manpower availability issues, resulting in limited supply to end-use industries which gradually re-opened after relaxations in the lockdown.

India Ratings, however, noted that timely policy support from the government would help bolster the demand for the domestic steel sector.

"Steel producers have already raised a plea for the waiver of fixed demand charges and surcharges on electricity bills and charging of the actual units consumed during the lockdown period by the respective state electricity boards as well as relaxation in terms of payments of electricity bills, till the situation is favourable for the smooth running of steel plants,"

CMI FPE Ltd. changed its name to John Cockerill India Limited

After the official approval by the Registrar of Companies, of the State of Maharashtra in Mumbai, CMI FPE Limited, the Indian hub of the John Cockerill Group with headquarters in Belgium, announced its corporate name change to John Cockerill India Limited, effective June 16, 2020.

John Cockerill India's (formerly CMI FPE) clients, vendors, and partners will find no change in the quality of products or services offered, obtaining information on products or services, or conducting business with the newly renamed company.

Along with the name change, John Cockerill India will fully align with the new John Cockerill brand identity, including the John Cockerill logo and all future business activity will be conducted under the new name.

"With the name change, we fully connect with our Group's roots and the visionary and entrepreneurial spirit of our founder, John Cockerill. This is a major milestone for our company, perfectly illustrating our growing ambition on the Indian sub-continent." said Vivek Bhide, Managing Director of John Cockerill India, "Clearly, for our clients and business partners and the interactions with our teams, nothing changes, and we look forward to continuing our successful and friendly collaboration with all of our stakeholders under our new company name."

"With the support of the Industry Sector's other worldwide entities, John Cockerill India will continue to provide best-in-class technological solutions for the steel industry, while our clients will reap the many benefits of the global John Cockerill brand." adds João Felix Da Silva, Chairman of the board of John Cockerill India, and Executive President of John Cockerill Industry, the Group's sector of which John Cockerill India is a part.

"The brand John Cockerill and our new identity illustrate the state of mind that guides us on a daily basis: to think differently, to take a fresh look at things, to provide answers to the needs of our time and tailor-made solutions to our clients." concludes Mr. Felix Da Silva.

Worldsteel

SAIL and Danieli Corus successfully completed performance test at Rourkela Plant

A joint team of SAIL and Danieli Corus operational experts have successfully completed the performance test for the rebuilt blast furnace #1 at Rourkela Steel Plant, India. The furnace, as well as ancillary plant equipment, was rebuilt under a contract signed in 2014 – the BF having been enlarged to a 1710 m³ inner volume.

The furnace was commissioned earlier, but now was submitted to a final Performance Test, as agreed in the contract. For this test, a setpoint for a daily production of 2,700 tons of hot metal was calculated based on a variety of factors, such as the quality parameters of the available raw materials.

This guaranteed value was not only surpassed, but the daily production rate of 3,415 tons of hot metal achieved during the test was an all-time record for the furnace, since its initial blow–in in 2018.

The rebuild of blast furnace #1 at Rourkela Steel Plant was part of the modernization program committed to by SAIL. Under this program, a fifth – 4,060 m³ – greenfield blast furnace also was built by Danieli Corus. With the new blast furnace #5, the rebuilt blast furnace #1 and the existing blast furnace #4, Rourkela Steel Plant has doubled its annual saleable steel output to 4 Mtpy from the previous level of around 1.7 Mtpy.

ASEAN steel industry coping with COVID-19 - Mysteel

by Olivia Zhang, zhangwd@mysteel.com

The COVID-19 pandemic has imposed a devastating impact worldwide including the ASEAN region, but with the prompt and effective coping measures, the prognosis for the steel industry in the region in the post-pandemic era might not be as bleak as expected, Yeoh Wee Jin, secretary general of the South East Asia Iron & Steel Institute (SEAISI), shared when presenting at the 2020 SEAISI e-Conference on June 30.

With the ASEAN countries' efforts to rescue their economies from COVID-19, "I am sure there will be more positive results," Yeoh maintained.

Having coped with several crises over the past two decades including the Asian financial crisis in 1998, the severe acute respiratory syndrome (SARS) epidemic in 2003 and the global financial crisis in 2008, ASEAN governments can now "better manage" their economies, he pointed out. Steel consumption will likely take a "shorter time" to recover from the coronavirus crisis, he predicted confidently.

ASEAN economies, steel-consuming sectors hit hard by COVID-19

The economies and steel consuming sectors of the ASEAN-6 countries – comprising Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam – have been seriously affected by the pandemic this year, according to Yeoh, particularly the construction sector which accounts for 73% of steel use among the ASEAN-6. Building projects have stalled throughout the region due to various lockdowns and restrictions, he noted.

The six ASEAN countries saw their GDP growths slow significantly in the first quarter of 2020 against strong growths last year, with Singapore, Thailand and

	GDP growth 2019 (%)	GDP growth Q1 2020 (%)	Construction Growth 2019 (%)	Construction Growth Q1 2020 (%)
Indonesia	5	3	5.8	-6.9
Malaysia	4.3	0.7	-1	-6.3
Philippines	5.9	-0.2	9.4	-1.8
Singapore	0.7	-2.2	2.1	-4
Thailand	2.4	-1.8	2	-9.9
Vietnam	7	3.8	9.1	5.2

Source: Various ASEAN countries' statistics

Automobile production and sales, another key consumption sector for steel across the region, are also decidedly in the slow lane for now, he indicated to delegates. Motor vehicle sales throughout ASEAN began weakening during H2 2019, and during Q1 this year fell 19% on year to 701,000 units, Yeoh noted, warning that the remainder of 2020 will be challenging for this industry. The automotive sector accounts for 11% of ASEAN steel demand.

Not just autos, manufacturing generally throughout the ASEAN-6 also experienced a third straight month of decline in May, even though the falloff was less severe than in April because several governments had relaxed some of the strict lockdowns and other measures imposed earlier on their citizens to curb the spread of the contagion, according to Yeoh.

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A V-shape recovery?

Although COVID-19 and efforts to contain it have severely disrupted regional commerce and industry, the countries of ASEAN are expected to see V-shape recoveries in the economic growth – as well as steel consumption – after the peak of the virus passes, Yeoh maintained.

"The ASEAN-6 economies have been resilient since the Asian financial crisis," he told delegates, reminding them that it did not take long for the countries to bounce back to vibrancy from the economic challenges that followed including SARS and the global financial crisis.

During the 1997-1998 Asian financial crisis, countries in the ASEAN region took an average of six years – some longer, some shorter – for their steel consumption to return to the levels prior to the crisis.

However, after the SARS outbreak in 2003, most only required one year for their steel sectors to regain their health, and a year to recover from the global financial crisis later, according to him. Now amid the coronavirus crisis, with better management by their governments, the time needed for recovery may be even shorter, he argued.

Yeoh noted that as of June 16, the ASEAN-6 countries had announced the introduction of economic stimulus packages equivalent to $332 billion.

Apparent steel consumption among the ASEAN-6 is expected to dip to 79.3 million tonnes in 2020, down 2.1% from the 81 million tonnes in 2019, according to SEAISI estimation. However, in 2021 consumption is forecast to rebound strongly to 83.2 million tonnes.

Opportunities, threats to ASEAN steel trade remain

The pummelling their economies have received from COVID-19 has forced most policy planners throughout the region to return to basics and seek out export markets in order to counter the declines in domestic demand. This strategy presents both opportunities and threats to ASEAN, especially in terms of steel trade with China, Yeoh pointed out.

Over January-April, ASEAN exported a total of 4.8 million tonnes of steel products. Among the major items, long steel products (especially wire rod) accounted for 31%, flat products including hot-rolled coil and plate occupied 29%, semis took 24% and steel scrap 7%, Yeoh shared.

China was the largest receiver of ASEAN steel exports except for countries within the ASEAN-6 grouping itself. Within the total, 24% of the 4.8 million travelled to China as the country was among the first of the major economies to emerge from the COVID-19 crisis. In the China-bound exports, 14% were semis, followed by wire rod (5%), according to him.

Malaysia, Vietnam and Indonesia were major exporters to China during the lockdown periods, with Malaysia mainly exporting bars and wire rods, according to Yeoh. Vietnam supplied large quantities of billets and slabs, whereas Indonesia exported mainly stainless steel and cold-rolled coils.

ASEAN steel exports to China

Products	Jan-Apr 2019 ('000 t)	Jan-Apr 2020 ('000 t)	Change
Semis	**179**	**824**	**360%**
Billets	4	447	
Slabs	5	314	
Blooms, beams	100	0	
Others	70	64	
Finished steel	**204**	**326**	**59.8%**
Bars	1	134	
Wire rods	0	63	
Cold-rolled coils	29	85	
Others	174	45	
Total	**382**	**1,150**	**201%**

Source: SEAISI

At the same time, ASEAN fears a repeat of the 'Export Tsunami' from China that the countries' steel sectors witnessed over 2014-2017. However, though the region's steelmakers cite the high steel inventories China is carrying currently and Beijing's rises in tax rebates since March 20 to highlight their concerns, over January-April China's exports to ASEAN decreased 12.1% on year to 5.9 million tonnes.

China's steel exports to ASEAN

As of June 24, China's steel stocks totalled 20.5 million tonnes, according to Mysteel's databank. Though this represented a huge fall of 47.3% from the historical high recorded in mid-March, the stocks nonetheless were still 27.1% higher on year.

Meanwhile, the possibility of foreign investment in ASEAN causing a surge in upstream and downstream steel facilities remains a crucial threat to the region's steel industry, Yeoh pointed out. If all the integrated steel mill projects planned for the region take shape, ASEAN will face an overcapacity of more than 61.5 million tonnes/year, requiring around 18.9-20.4 years for consumption to catch up, he noted, adding that the COVID-19 situation had worsened the scenario substantially. ASEAN now hosts 89.4 million t/y of crude steel capacity.

Written by **Olivia Zhang,**
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