



ORIGINAL RESEARCH PAPER

Management

GOVERNMENT POLICY AND FDI TRIGGERING GROWTH OPPORTUNITIES OF IRON STEEL IN INDIA

KEY WORDS: : Foreign Direct Investment, Economic Liberalization, CAGR, Five Year Plans, Quantitative Restrictions, Steel Policy, Growth prospects.

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ABSTRACT

The Indian Iron and Steel is nearly a century old, with Tata Iron and Steel co. as first integrated steel plant to be set up in 1907. It was the first core sector to be completely freed from the licensing regime in 1990-1991. The New Economic Policy initiated in the 1990's influenced the Indian Iron and Steel industry in many ways. For steel makers, economic reforms opened up new channels for their inputs at competitive prices from the overseas markets while unveiling new markets for their products. It also led to a greater access to information on global operations and techniques in manufacturing. Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. The Indian National Government has been pretty liberal with their approach to the foreign direct investment being made in the country. The Indian government has also relaxed the various foreign investment laws. This has led to more international steel giants coming to India to tap the abundant resources present in the country. The increased interest shown by such companies has led to a growth in the steel industry of India. The steel industry of India has a very high growth potential and is expected to register significant growth in the coming decades. India is expected to emerge as a strong force in the global steel market in coming years. The Researcher has made an attempt to know the review on Government Policy and FDI and its impact on Indian Steel Industry growth.

INTRODUCTION:

The structure of the Indian Steel Industry has witnessed a significant change since the start of economic liberalization in India. Prior to this, the state owned firm SAIL had played a very important and key role in the growth and development of steel industry in India. In 1991, a substantial number of economic reforms were introduced by the Indian Government. These reforms boosted the development process of a number of industries – the steel industry in India in particular – which has subsequently developed quite rapidly. India continually posts phenomenal growth records in steel production. In 1992, India produced 14.33 million tones of finished carbon steels and 1.59 million tones of pig iron. Furthermore, the steel production capacity of the country has increased rapidly since 1991. India produced nearly 46.575 million tones of finished steels and 4.393 million tones of pig iron in 2008. Since liberalization, a triple structure of main, secondary and small scale producers has emerged. Amongst the main producers consisting of incumbent integrated firms, technological upgrading and institutional reforms have been slow for SAIL, while Tata Steel has gradually upgraded its facilities as well as the quality of its products. It is investing about 34 per cent of the country's GNP in all production activities, out of which around 50 per cent happens to be in construction. During the Twelfth Plan period (2012–17), the Government of India envisions infrastructure investment up to US\$1 trillion, indicating that demand for steel from the sector will remain strong. Growth in the infrastructure and construction segment is expected to be driven by power, roads, irrigation and urban infrastructure. The Government has identified infrastructure as a priority sector to bolster the GDP growth rate. In line, more sectors have been added as eligible sectors for Viability Gap Funding under the scheme "Support to PPP in infrastructure." According to Industry Ministry data, India received FDI of \$19.39 billion during January-June 2015, an increase of 30 per cent over the same period last year. The Modi government in the last few months had introduced many FDI policy reforms in sectors such as defense, rail infrastructure, construction development, insurance, pension, medical devices. The struggling construction sector will be a major beneficiary as radical changes in FDI norms have been brought in to boost demand for steel, cement and spur economic activity, ultimately with an aim to help build 50 million affordable houses for the poor. According to Industry Ministry data, India received FDI of \$19.39 billion during January-June 2015, an increase of 30% over the same period last year. The World Bank had recently improved India's ranking by 12 places (to 130th rank from 142nd rank last year) in the 2016 Study of Ease of Doing

Business. Besides, many global institutions have projected India as the leading destination for FDI in the World. IMF has branded India as the brightest spot in the global economy whereas the World Bank has retained the growth forecast for India at 7.5% for FY16. With the current focus on infrastructure development, it is the rural areas that need to be attended to and included to ensure the overall development of the country. Further, encouraging infrastructure projects in the form of roads, rail and port facilities would encourage the domestic steel verticals to remain competitive. The completion of major infrastructure projects like flyovers, Metro rail, there is a growing confidence in steel as a reliable, cost and time efficient material. Cabinet has approved the National Steel Policy, which seeks to outline a roadmap to increase the country's annual steel production to 300 million tonnes by 2025. The National Steel Policy 2017 aims to make India self-sufficient in steel production. It projects crude steel capacity of 300 million tonnes (mt), production of 255mt and per capita consumption of 158kg of finished steel by 2030-31, as against the current consumption of 61kg. The policy also envisages adequate local manufacturing to meet the demand for high-grade automotive steel, electrical steel, special steels and alloys for strategic applications by the same year.

METHODOLOGY:

This study is based on secondary data collection through banking books, journals, internet (websites), research papers etc. The Secondary data has been collected from various journals, Research Papers, Reports of various Study Groups, Newspapers, official web-sites, Books, Internet sites and other relevant sources on Steel Industry.

REVIEW OF LITERATURE:

Steel Tycoon Mr. Lakshmi Nivas Mittal (2001) advised to securing land and iron ore mining locations are issues that need to be solved by the state governments in India for further growth. He also suggested that the Indian government should not lift the qualitative and quantitative restrictions on iron ore exports.

Mr. K. Bhattacharya (2003) has that the entire steel world today looks mainly to India where huge investments have been announced for capacity increase of all major existing plants and installation of new plants.

B. K. Tripathy (2003) said that the Indian steel industry was deregulated and the control mechanism founded on the four basic precepts of state regulation on capacity creation, imports and

exports, price and distribution for the major producers was dismantled paving the way for a market-centric industry. There is need to stimulate demand by increasing investment in industrial and economic infrastructure.

Mr.Nitish SenGupta (2005) pointed out that though Indian Steel policy is liberalized the global steel market should not be ignored any more by the domestic players. He opined that the competitiveness in international market should become a compulsion for the Indian steel industry and there is a need for modernization.

J. J. Irani while examined the National Steel Policy (2005) and opined that the new initiatives like the FDI in steel sector will help a lot the Indian Steel sector in developing the infrastructure. With the upturn in the steel industry, the foreign companies have started showing interest in the investment by way of Foreign Direct Investment in Indian Steel Industry by investing in the existing company or in setting up of Green field steel projects.

Dr Ghosh,Sajal (2006) has expressed that a booming Indian economy and a strong growth in demand in sectors such as real-estate, infrastructure and automobiles translate into the buoyancy in steel industry. Obviously, India has finally emerged as a steelmaking location for global players. The global steel industry appears to be in a race to invest in high growth zones such as India. The sector has received investment of US\$ 5,994 millions lined up through 102 memorandums of Understanding signed by different state governments to add 103 million tones in steel capacity.

Mr.J.J.Irani(2007) has commented that it is not desirable to export high grade iron ore from the country. He opined that the existing steel plants in the country should enjoy assured supply of iron ore for the next 20-25 years, taking into consideration their expansion plans.

Mr. Y. Siva Sagar Rao (2007) has envisaged that the target of 200 million tones by 2020 can be achieved and in fact the output may even touch 300 million tones mark, but there are quite a few challenges ahead like land acquisition, allotment of captive iron-ore mines, logistics, upgrading of technologies and environment were some of the key issues.

Dr. Man Mohan Singh (2007) said that the government would do whatever is necessary to ensure that the industry is able to meet the growing demand for steel and called upon Indian steel tycoons seeking global opportunities to pay equal attention to the market opportunities within India. It is investing about 34 per cent of the country's GNP in all production activities, out of which around 50 per cent happens to be in construction. 34 per cent of the country's GNP in all production activities, out of which around 50 per cent happens to be in construction. He also pointed out that the increasing number of global steel majors who have announced plans to set up steel making facilities in India gives a fair indication of the competitive advantages of making steel in the country.

Mr. S.K.Roongta and Mr.Muthurman (2008) said that the major two companies in India have embarked on major capacity expansions to ramp up production capacities. They aim at increasing the output to 26 million tones at a cost of more than Rs. 50,000 crore.

International Research Journal of Business and Management – IRJBM,2013 edition,India's foreign investment policy has been formulated with a view to inviting and encouraging FDI into India. The process of regulation and approval has been substantially liberalized. Government of India welcomes FDI in all sectors where it is permitted, especially for development of infrastructure, technological upgradation of Indian industry through 'greenfield' investments and in projects having the potential of creating employment opportunities on a large scale. Investment for setting up Special Economic Zones (SEZs) and establishing manufacturing units are also welcomed.

Live Mint e-paper(9.9.2017);It states that the new National Steel Policy aims to make India self-sufficient in steel production. It projects crude steel capacity of 300 million tonnes (mt), production of 255mt and per capita consumption of 158kg of finished steel by 2030-31, as against the current consumption of 61kg. The policy has a waiver for specific kinds of steel not manufactured in the country, or where domestic makers can't meet the quality standards required by a project.This is a supportive mechanism to the domestic steel producers. This will also go a long way to address the growth appetite the government is envisaging. It will further boost demand," said Anjani Agrawal, global steel leader at audit and consulting firm EY.

STUDY OBJECTIVES:

1. To review and compare the growth prospects for Indian steel industry in Pre and Post- liberalized context.
2. To know the impact of Indian Government policies and FDI on growth prospects of Indian steel industry.

FINDINGS:

The analysis is a comparative as well as prospective study of Indian steel industry before and after economic liberalisation. Liberalisation policy has been adopted in the year 1991-92. The researcher has wishes to compare the performance of Indian steel industry in pre-liberalization (Before 1991) and post-liberalization (after 1991) period.



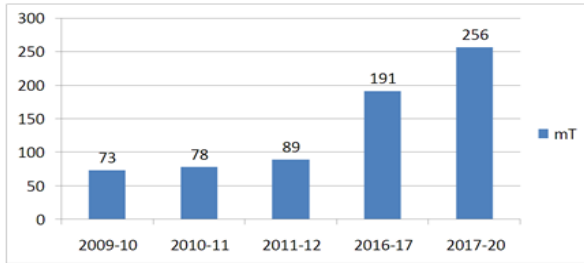
From the graph above it can be seen that the growth of the Indian steel was slower before liberalization and took a rapid pace in the post liberalization era.

Comparative Rates of Growth in Indian Steel Before and After Liberalization(in terms of production and consumption)

Production:

The finished steel production in India has grown from a mere 1.1 m. t. in 1951 to 50.20 m. t. in 2006-07. During the first two decades of planned economic development, i.e., 1950-60and 1960-70, the average annual growth rate of steel production exceeded 8 per cent. However, this growth rate could not be sustained in the following decades due to lack of demand. During 1970-80, the growth rate in steel production came down to 5.7 per cent p.a. and picked up marginally to 6.4 per cent p.a. during 1980-90[GOI, 2005a], which further increased to 8.61 per cent p.a. during 1990-2000. The addition in production is all the more significant after recovery of the industry on domestic as well as the global clues, i.e., after 2001-02. When CAGR is estimated for the pre-liberalization (1975-76 to 1991-92) and post-liberalisation (1991-92 to 2006-07) periods, it is noted that growth rate is understandably higher in the later period at 8.11 per cent compared to 4.96 per cent for the earlier period . After liberalisation, there have been no shortages of iron and steel materials in the country as production has augmented. India's rapid economic growth and soaring demand by sectors like infrastructure, real estate and automobiles, at home and abroad,

has put Indian steel industry on the global map. The production of finished steel increased from 14.33 million tonnes in 1991-92 to 23.82 million tonnes in 1998-99. The private sector's contribution in the availability of finished steel has constantly been increasing. From 51.4 per cent in 1991-92 it increased to over 68 per cent in 1998-99. The steel industry in India was delicensed and decontrolled in the years 1991 and 1992 respectively. In 2014-15, production for sale of total finished steel (alloy + non alloy) was 91.46 Million Tonnes, a growth of 4.3% over 2013-14. Production for sale of Pig Iron in 2014-15 was 9.7 Million Tonnes, a growth of 22% over 2013-14. India is the largest producer of sponge iron in the world with the coal based route accounting for 90% of total sponge iron production in the country. Data on production for sale of pig iron, sponge iron and total finished steel (alloy + non-alloy) are given below for last five years.

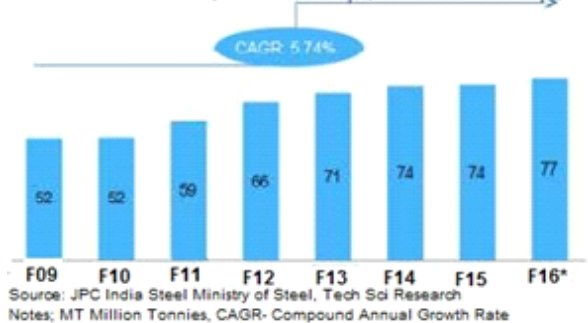


From the above graph it can be concluded that production of steel is growing year by year and is expected to grow further.

Consumption:

Apparent Consumption: The apparent consumption (as commonly referred to) of steel is arrived at by subtracting export of steel from the total domestic production and adding the import of steel. Change in stock is also adjusted in getting the consumption figures. It is treated as the actual domestic demand of steel in the country. Apparent consumption of finished steel kept pace with production as it increased from 14.84 m. t. in 1991-92 to 44.33 m. t. in 2006-07 with the CAGR of 6.26 per cent p.a. over the post-liberalisation period as against 5.53 per cent in the pre-liberalization period (figure 1). The CAGR for the entire period is 6.19 per cent. However, the potential demand for steel in India is still vast, as the present per capita consumption in the country is only around 46 kg [GOI, 2008a, p. 10] against the world average of 150 kg and that of 400 kg in the developed countries. The consumption of iron and steel is primarily driven by the manufacturing, construction and infrastructure sectors, which have witnessed impressive growth in India in the past few years. The prospects for the market might get brighter, if supported by government initiatives in the infrastructure sector, and an expected early revival in the manufacturing sector.

Real consumption of steel (in million tonnes)



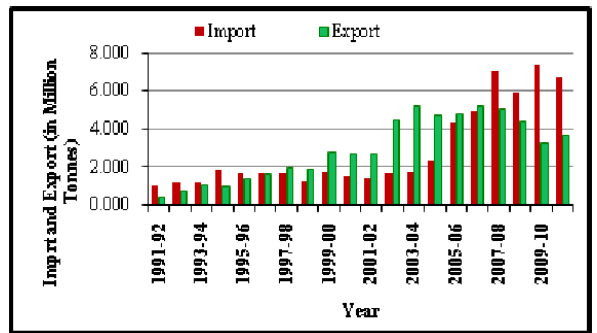
In FY15, the consumption of finished steel grew to 76.99 MT while the CAGR increased to 5.74 per cent during FY08-15. Driven by rising infrastructure development and growing demand for automobiles, steel consumption is expected to reach 104 MT by 2017. It is expected that consumption per capita would increase supported by rapid growth in the industrial sector, and rising infrastructure expenditure projects in railways, roads & highways, etc. For FY15, per capita consumption of steel in India was 60 kg against the

world average of 222 kg.

Exports:

Although India started steel production as early as in 1911, steel exports began only in 1964. Exports in the first five years were mainly due to demand downturn in the domestic iron and steel market. Once domestic demand revived, exports declined. India once again started exporting steel only in 1975, touching a figure of 1 million tonne of pig iron and 1.4 million tonnes of steel export in 1976-77. Thereafter, exports again fell rapidly to meet the challenges arising from increased domestic demand.

There has been a substantial growth in export of steel during the post-liberation period. It increased from 0.9 million tonnes valued at Rs.2580 crore in 1992-93 to 3.4 million tonnes valued at Rs.2580 crore in 1997-98, even overtaking sectors like electronic goods and man-made fabrics. There has been a qualitative change in the export of steel items. Earlier, export consisted mainly of plates, bars and rods and structurals, whereas, now semis, hot-rolled coils, cold-rolled coils and galvanized sheets are also being exported. India's present per capita consumption of crude steel is only 24 kg. which is very low compared to the developed and developing countries- 422 kg. in USA, 417 kg. in Germany 109 kg. in Russia and 87 kg. in China. Our consumption is less than one fifth of the world average (121 kg.).



GOVERNMENT INITIATIVES:

The Government has been making all-out efforts to help the domestic steel industry to overcome the problems faced by them. To boost the demand and consumption of steel, an Institution for Steel Development & Growth (INSDAG) was set up involving leading steel producers in the country. The Development Commissioner for Iron & Steel had launched a National Campaign for increasing the demand for steel in non-traditional sectors, particularly in the construction, rural and agro-based industrial sectors. Other areas include reduction in power and railway tariffs, reduction in input costs, strengthening of antidumping mechanism, setting up a steel exporter's forum and an empowered committee for research and development.

OPPORTUNITIES FOR GROWTH OF IRON AND STEEL:

The New Industrial policy opened up the Indian iron and steel industry for private investment by (a) removing it from the list of industries reserved for public sector and (b) exempting it from compulsory licensing. Imports of foreign technology as well as foreign direct investment are now freely permitted up to certain limits under an automatic route. Ministry of Steel plays the role of a facilitator, providing broad directions and assistance to new and existing steel plants, in the liberalized scenario.

The liberalization of industrial policy and other initiatives taken by the Government have given a definite impetus for entry, participation and growth of the private sector in the steel industry. While the existing units are being modernized/expanded, a large number of new steel plants have also come up in different parts of the country based on modern, cost effective, state-of-the-art technologies. In the last few years, the rapid and stable growth of the demand side has also prompted domestic entrepreneurs to set up fresh greenfield projects in different states of the country. Crude steel capacity was 121.97 mt in 2015-16, up by 11% over

2014-15 and India, which emerged as the 3rd largest producer of crude steel in the world in 2015 as per ranking released by the World Steel Association, has to its credit, the capability to produce a variety of grades and that too, of international quality standards. The country is expected to become the 2nd largest producer of crude steel in the world soon, provided all requirements for creation of fresh capacity are adequately met.

The new National Steel Policy 2017 aims to make India self-sufficient in steel production. It projects crude steel capacity of 300 million tonnes (mt), production of 255mt and per capita consumption of 158kg of finished steel by 2030-31, as against the current consumption of 61kg. This projection will further pave the growth of the industry in the coming future.

SUGGESTED MEASURES AND CONCLUSION:

It is true, that "steel" like many other sectors, grows in a cyclic order. After the starting of economic liberalisation process, steel industry has grown with positive & higher growth rate. India hopes to double its production volume by 2010, and by 2020, total production will go up to over 150 million tonnes as per government projection. If this happens, it can safely be said that it is just the beginning of good times for the Indian Steel Industry. The per capita steel consumption in this country is less than 32 kg while it is more than 300 kg in advanced nations. So we have a long way to go before we reach the international levels. The steel, are now well aware of the nuances of globalisation and in the process they have garnered knowledge to stay afloat in the competition. At this moment two tier strategies is very much essential. To survive in this tough competitive world in today's unprotected ground, first specific 'short run strategy' (Financial Strategy, Financial Restructuring, Business Restructuring, Operational Restructuring, Servicing Steel, Market Expansion) is required for survival. Besides the short run strategy, adoption of specific long run strategies (Technological Strategy, Automation in Technology Area, Market Sustenance, Brand Equity of Steel, HRD Strategy, IT Strategy) is very much essential for continuous growth & development. Both the strategies have to be integrated with a three key driving forces e.g. Quality Reinforcement, Organizational Reinforcement, Policy Reinforcement. Integration of these all with today's booming economy and a strong growth in demand in sectors such as real estate, infrastructure and automobiles translate into the buoyancy in steel industry. The buoyancy in the Indian steel industry would not have been possible without the liberalization of industrial policy and other initiatives taken by the Government time to time. Liberalization policies have given a definite impetus for entry, participation and growth of the private sector in the steel industry. While the existing units are being modernized/expanded, a large number of new/Greenfield steel plants have also come up in different parts of the country based on modern, cost effective, state-of-the-art technologies. Indian steel players, now, concentrate on the global market as they know the trend of world market of steel. Moreover, India has finally emerged as a steelmaking location for global players. The global steel industry appears to be in a race to invest in high-growth zones such as India. So, The Indian steel industry has a bright future. The domestic producers gradually overcome the short run depression in the post-liberalisation phase. Now they are confident enough to claim that "We are in a position to produce over 100 million tonne steel and we must do it. If China can produce nearly 300 mt of steel every year, why can't India?" So if this growth rate in this sector continues then definitely within few years India will be considered as a "Developed Country" and that will be based on Steel Industry which would not have been possible without economic liberalisation or globalisation. However, the reduction of the cost is the major factor in the survival of the Indian steel industry in the age of globalization. The cost reduction would be the main aspect of the improvement pertaining to the competitiveness of the industry. The manufacturers under the steel industry in India have to focus their attention in the areas such as the reduction in the cost of operations, the transportation of basic material for production and many more to face worldwide competition.

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