CHAPTER-10:
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Chapter 10: Suggested measures and Conclusion:

10.1. Strategies for turn around

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. It was sustained for seven years but after 1997-98 industry has passed through a stage of stagnation. Once again acceleration started after 2001-02 and now it is ruling the roost with demand surpassing supply by leaps and bounds. But how long this trend will continue is difficult to say. All experts have predicted that this trend will continue for coming several years. 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 difference between the mid 1990s euphoria and today’s optimism is that the globalisation process was still at a nascent stage then while it is quite mature now. All industries suffer when they pass through a transition phase. Hence the steel industry was exposed to an unpredictable situation in the 1990s when supply got over the demand. But now the situation is just the reverse. All the industries, including 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 strategy is very much essential. To survive in this tough competitive world in today’s unprotected ground, first specific ‘short run strategy’ is required for survival. Besides the short run strategy, adoption of specific long run strategy is very much essential for continuous growth & development. Both the strategies have to be integrated with a concrete action plan. The brief of the action plan of those proposed strategies is briefly explained below:

10.2. Short Run Strategies:

The short run strategy aims to ensure immediate survival of steel industry in India. The key goal of survival strategy is to ensure immediate financial turnaround
that would provide the industry with sufficient financial liquidity, necessary for running the operations effectively. Benchmarking as a strategic tool would be the key process to achieve the primary goal of financial turnaround for the steel industry. Benchmarking requires those advanced or best practices in a specific area and/or process is identified and existing practices are compared against best practices; when there are gaps between the two, the best practices are, to the extent possible, adopted. Ensuring a financial turnaround would demand benchmarking of all critical operations. Benchmarking would help the steel industry in cost reduction and control starting from procurement to delivery stage.

10.2(a). Cost Reduction

Cost reduction is probably the most important requirement for improving competitiveness. To ensure a competitive advantage, steel makers have to concentrate on the following areas:

- Reducing operating costs.
- Reduction in working capital costs.
- Reduction in product inventory (unsold stock).
- Improving techno-economic parameters.
- Substitution of raw material.
- Differentiated sourcing.
- Effective supply chain management.
- Social infrastructure costs.

Operating and working capital costs need to be brought down through a combination of benchmarking and strict cost control; potential for improvement in techno-economic parameters like energy consumption, yield etc need to be identified through benchmarking and implemented through in-house research and technological expertise. A major cost in steel manufacturing relates to the cost of raw material. There is a need to selectively focus on purchase of high-value items.

This can be achieved through focusing on the "Total Cost of Ownership" instead of just the purchase price and identifying critical levers that can be used to reduce the ultimate cost. Cost of raw material like imported coal is to be analysed with respect to its productivity and for the optimum purchase pattern. Efforts should also be made to develop product specific and differentiated sourcing strategies instead of current
practice of a single strategy for all purchases. The other opportunities for cost reduction lie in reducing internal business costs like inventory holding, transportation and purchase processing costs. Plants should also identify on a continuous basis the measures to increase revenue by reducing freight costs, cost of raisings, demurrage and non-confirmed orders. The social infrastructure costs may also be looked into for its effectiveness and brought down in a phased manner.

10.2(b). Revenue Maximisation

Maximising revenue is perhaps the only step that will enable the steel makers to remain in business. To maximise revenues, attempts should be made to achieve a favourable ratio of turnover to the net block. Revenue can be maximised by maximising collections not only in terms of quick recovery of outstanding payments, but also in terms of maximising net sales realisation by offering as less discounts as is possible. This would require meticulous planning, rigorous monitoring of outstanding dues, effective management of sundry debtors and efficient inventory management. The above should also be supplemented by aggressive order-book management too. There should efforts to select products and markets that give maximum return.

10.2(c). Focussed Marketing

The objective of focussed marketing is to have a differentiated marketing strategy for products and services. Though the concept may be new to the steel industry, it may be emphasized that focussed marketing with the help of differentiation strategy is the only way by which steel makers can outpace competition in today's business scenario. This would require modification of products and services for various segments of customers. Existing products need repositioning so that greater perceived value could be offered to customers. The manufacturing processes might have to be readjusted to suit prevailing market requirements. Focussed marketing would mean harmonizing all elements of the marketing mix- product, price, product, place, pace and people to their advantage. While it will be necessary to offer high quality of product in terms of adherence to specifications, it will also be necessary to adhere to extend competitive offer in terms of commercial terms, packaging, performance guarantee and services. These services could either be in terms of adding value to the offered product like
slitting of coils, side shearing etc and also in terms of providing pre and post sales service like offering information about the status of orders, fast redressal of claims, updating technical know-how and suggesting better application of existing products. Even if the profits are less, it is advisable to ensure fast selling of products to avoid accumulation of inventory and faster cash in-flow. This would lead to increase in sales turnover and better return on capital invested. The distribution strategy should ensure faster delivery of goods to the customers. Thus, while direct distribution should be continued, introduction of dealers/ stockists in the rural areas and smaller towns should be expedited.

10.2(d). Financial Strategy

The initial financial objective should be to generate adequate internal resources through operational efficiency for self-sustained growth. Efforts should also be made to maximize the market valuation of the company, manage the accumulated cash and engage in long term financial planning for future business growth. The important components of the financial strategy should be:

- Realistic projections of liquid costs and expenditure.
- Mobilising short/long term external funds at minimum cost.
- Maximising internal resource generation.
- Ensuring maximum return on investments through financial analysis and evaluation of projects.
- Improve profitability through regulation and control of expenditure.
- Develop a deep sense of cost-consciousness by inculcating a sense of ownership.
- Participation for influencing policy-making related to steel industry for safeguarding interest.

10.2(e). Financial Restructuring

The financial restructuring would intend to improve financial health of the steelmakers. The focus would be on repayments of large borrowings for capital expenditure, manage cost and time overruns increasing the cost of new assets without corresponding return on capital employed and ensuring sufficient future cash flows to
meet debt servicing and capital expenditure requirements. There is thus a need to religiously monitor important parameters like sales, gross margins, interest and depreciation, profit after tax, net worth, total debt and debt equity ratio. The key feature of a financial restructuring would be:

- Restructuring of asset values by writing down to the extent of interest capitalised.
- Writing off loans and interests to the extent possible.
- Restructuring of capital and liabilities through reduction of debts by financial institutions, to the extent possible.
- Reduction in plant inventory through just-in-time procurement.
- Strategic partnership in non-core businesses.
- Outsourcing of non-core services.

Financial restructuring will have a positive impact on the profitability of the company through reduction of interest and depreciation charges as well as efficient deployment of capital.

It will also help in mitigating the financial risks by reducing the debt-equity ratio and improving debt servicing capability of steel industry.

10.2(f). Business Restructuring

Business restructuring is a process by which companies are transformed into entities that are fighting fit. The process includes trimming of extra fat from the organizations like rightsizing of manpower, concentrating on core competency, hiving off of non-core assets, prioritizing capital expenditure decisions and raising self sufficient profit centres.

Redesigning corporate key processes is essential in this respect. Every activity across the board needs analysis as to its value adding capacity. A value-chain is thus to be prepared and all activities done in the process of manufacturing and delivering products and services are to be evaluated. The concept of Strategic Business Units is relevant in this context. Under this concept, each set of activity from starting to the end, is analyzed for its efficacy of delivering value against a cost and efforts are made to enhance the value on a continual basis while minimising the cost. Strategic
Business Units provide steelmakers with the sharpness to deal with competition, increase speed of response and enhance customer service that are essential in today's context. Possibilities of strategic alliances and collaborative arrangements among competitors in mutually beneficial areas could be explored. Joint R&D may save a lot of investments and joint marketing in non-competitive areas will help in getting better results at lower costs. However, as the Indian steel industry is extremely fragmented, it will be more reasonable to expect an evolutionary rather than a revolutionary consolidation.

10.2(g). Operational Restructuring

The operations of steel making need to be relooked in view of the intense competition today. This involves change in technology, optimising existing operations and enhancing employee competence to support these. A review of operational parameters has already been suggested in the previous paragraphs. Implementation of total quality system will positively affect operational levels across the board. Operational restructuring by implementing total quality system can result in:

- Reduction in scrap, rework and extra labour.
- Reduction of work in progress (WIP), inventory levels, material handling and excessive capital equipment replacement.
- Improving the utilisation of tools and equipment and operational efficiency.
- Reducing the amount of customer complaints, warranty and liability claims.
- Accelerating the waste elimination within organisation.

10.2(h). Servicing Steel

Though steel plants have capability to produce steel products in small tonnages in varied size range, production is usually done in economic lots, which are generally quite large, to minimize cost by taking advantage of economies of scale. Steel service centres are processing and distributing intermediaries who act as bridge to meet the gap between steel makers and customers by processing steel into tailor made sizes in smaller lots “just in time” as generally required by small or medium customers. The area of steel servicing is gaining more and more importance today and
time has come to consider it as a critical element of steel supply chain because of the following reasons:

(a) End users want to reduce their own financial investments and overhead. By taking help of service centres, they can get the kind of material they want without spending on equipment and machinery meant to do so.

(b) The end user can better assure quality of the parts used in his products by having service centres for further processing.

10.2(i). Market Expansion

Enhancing steel consumption could prove to be a potent medium-term strategy for the Indian steel manufacturing units. New avenues should be explored and market expanded for steel companies to turnaround. As is evident today, most of the consumption of steel is concentrated in the urban institutional segment and a smaller chunk goes to the urban trade. There is a need today to expand the market beyond to the rural market, agricultural sector, coated galvanised steel for manufacturing of car bodies, ultra light steel auto body (ULSAB), fabricated and similar other areas. Efforts should also be made to penetrate the trade and medium and small customers in a big way to touch high volume turnover and reduce financial risks. Besides the conventional segments and markets, there is also need to look for non-traditional segments. The use of non-traditional steel may encompass areas where steel is still insignificant and also areas where steel use has to be initiated afresh. Some such segments could be steel almirah in rural households, non-mechanised transport like bullock carts, tonga, thela, doors, windows, grills and other building components and irrigation. Others could be silos for grain storage, scaffoldings for building construction, appliances and kitchenware etc. These marketing services should be augmented for better customer service. This includes information at every stage of order processing, pre and post sales service, providing technological knowledge, settling claims, and helping customers to achieve better productivity.
10.3 Long run strategies:

While short run strategy must ensure that the company should survive and sustain itself, it becomes necessary that effective long-term strategies should also be formulated that could go beyond the immediate present and ensure the company’s future prospects. A carefully formulated growth strategy is essential to managing changes in a competitive market. Such a growth strategy should not only envisage the competitive position of the industry but should also foresee the comparative strengths of the industry. The elements of such a growth strategy should follow a systemic approach, where all its elements are unified to each other and synergise together for achieving the desired goals.

The long-term plan is formulated to ensure long term growth of the industry. The key process to achieve long term growth would be continual improvement. A key to the long-term vitality and competitive edge for an organization will be to get better and better at improving itself. Continual improvement could be in an area where quantification can be carried out such as production, or it could be in an intangible area such as attitudes and commitment towards a certain objective. But continual improvement cannot be directionless, there must exist an approach by which it can be achieved. Organizations need to learn more effective ways of assimilating dramatic improvements on a continuing basis. They need to get better at understanding requirements, surveying, evaluating, selecting, integrating, developing, testing, and applying the improvements. And they need to get better and better at deploying the improvements into rapidly shifting organizational targets.

10.3(a). Steel Research-Strategic Direction

Strategic research will play a pivotal role in sustainable turnaround. There must exist a balance between “generation” of new information (or knowledge) and better “exploitation” and “extrapolation” of existing body of knowledge (or information) available. Steel R&D need to focus on new ways of meeting user needs (both internal and external) in an increasingly demanding market-place; more important, this goal is to be met utilizing existing elements of resources, such as available raw material, manufacturing capacity and marketing capability.
The main objective should be improving R&D’s role in overall business scenario both through incremental and major improvements. This can be achieved by maximum possible exploitation and utilisation of existing technology to minimize investment in new technology. The development process must cover all improvement aspects of process/ product/ service—both internal (steel industry) and external (customers). A few such areas are:

- Optimisation of existing process technologies for maximization of productivity at minimum cost, (eg, through simulation models and data-base management).

- Maximising existing steel quality (even beyond specifications) to attract and retain customers.

- Recommend remedial measures for cost saving through energy conservation, elimination of low value steps of operation, minimising losses, (eg, yield of liquid steel).

- Intense focus on product development activities, specifically developing difficult-to-make and high value steel grades to meet global challenges with continuously modified strategies, (eg, win back the auto-sector customers from aluminium, composite materials, back to alloy steels).

- Devote on application engineering areas including design and use, such that the "product development to marketing" cycle is as short as possible.

- Maximum possible reduction in the specific consumption rates of raw materials through quality upgradation and improvement of yield.

- Improvement of physico-chemical properties of raw materials for iron making through improved techniques of beneficiation, sizing, agglomeration and process control.

- Improvement of blast furnace productivity and reduction in the coke requirement by burden

- preparation including increasing use of agglomerates, improved design of blast furnaces and stoves to increase the top pressure, blast temperature and control of burden distribution and auxiliary fuel injection.

- Introduction of technologies of pre-treatment of hot metal to reduce the metallurgical load on the steel melting units.
➢ Reduction of energy requirement and improvement of yield in rolling processes and improvement of quality of products.
➢ Reduction in the heat duration in steel making.
➢ Making the plant pollution-free through various technological measures including novel waste utilisation efforts, (eg, EAF dust treatment to recover costly alloy elements).
➢ Skill transfer and technology transfer.

Besides by involving customers in the various stages of research steel industry can provide them a better opportunity to offer suggestions and recommendations on various key aspects of the product.

10.3(b). Technological Strategy

Technology strategy should involve assessment and benchmarking of the strengths and weaknesses of the technological scenario of the whole industry and consequent identification of technological threats and opportunities. In addition, formulation of strategy must also rely on informed prediction/forecasting of future likely change in technologies that may influence the iron and steel industry in a big way. Besides, following broad aspects need to be carefully analysed while formulating the technology plan:

✓ The specific constraints faced by steel plants in general and individually.
✓ The present state of technology of iron and steel industry in the international sphere.
✓ The return on investment on each technology.
✓ The possibility of bridging the technology gap in a phased and cost-effective manner.
✓ Selection of proven technologies and systems for modernisation.
✓ Overall Technological Targets
✓ Superior quality of finished products.
✓ Increase in production.
✓ Improvement in yield.
✓ Increase in labour productivity.
✓ Reduction in cost of production.
Reduction in energy consumption.

Reduction in environmental pollution.

Improvement in working conditions.

Provision of flexibility in the process of manufacture to cater to the changing customer needs of quality and variety.

Full exploitation of existing facilities to minimize the investments on new facilities.

Selective conversion of relatively obsolete facilities into modern efficient units.

Introduction of automation and computerisation on a large scale.

The objective would be to adopt state-of-the-art technologies in a phase manner based on carefully analysed “return on investment”.

10.3(c). Automation in Technology Area

Automation, done in right earnest has been proved to be highly productive and cost effective in steel industry across the world. Few important areas that need immediate attention are:

- Computer control operation of coke ovens including computerized firing control.
- Ore burden computer control operation in blast furnace.
- Sophisticated process control and operation in BOF/EAF.
- Automatic width control, gauge control, on-line shape measurement, ultrasonic testing etc of flat products.

10.3(d). Market Sustenance

In order to be ahead of the competition, it is necessary for the Indian steel industry to aggressively handle the market and adopt either the differentiated strategy, strategy of cost leadership or the strategy of focus. With the help of these generic strategies, the steel manufacturers can formulate a potent marketing strategy by analysing the products’ stage in the product life cycle.
Thus, the steel manufacturers can sustain the market through the following steps:

(a) Identifying core competency and aligning it to the products and services.
(b) Segmenting markets and analyzing the changing customer needs.
(c) Understanding the industry standards and positioning their offering vis-a-vis competition.
(d) Establishing channels of distribution and reaching out to the customers most effectively.
(e) Taking care of the customers with sensitivity, speed and responsiveness.
(f) Building relationship for a long-term sustenance of the company.

10.3(e). Brand Equity of Steel

Branding of steel as a ‘futuristic product’ would provide sustenance to steel market. The reasons to given for this promotion are:

- Excellent strength/performance characteristics
- Price/performance
- Ease of fabrication and joining
- Formability
- Recyclables
- Quality
- Ability to meet increasing safety requirements.

10.3(f). HRD Strategy

In the ultimate analysis, the success of the plans to substantially raise production, master sophisticated technology and introduce large scale automation and achieve market leadership would depend upon effective human endeavour. Competitive superiority of the industry could result from relative superiority in knowledge, skills and resources that business can deploy. To this extent, it would be the competence of manpower that would ultimately give the industry the competitive edge. This
competence defined in terms of ability to achieve pre-determined goals must be supplemented with a conducive environment for work, systems that enable employees to perform better and processes that help them to ensure maximum productivity at their work place.

10.3(g). IT Strategy

The advantage of a proper IT-based information system is that accurate information can be obtained at a much faster rate, reducing downtime and speeding up decision making process. Since, time is more than money, it would have direct impact on cost. The objective would be to implement IT in all operations and to integrate these with day-to-day decision making process. IT applications will help in streamlining both process chain and supply chain and would thereby result in cost reduction and increase in productivity in the following manner:

- Cycle time (production to sales) reduction.
- Information availability.
- Improved cash flow.
- Savings in inventory carrying costs.
- Reduction in communication costs.
- Enterprise integration.
- Better design of products and services.
- Faster response to market changes.
- Ease of operation and reduction in manual effort

The overall emphasis should be to align with global trend of e-commerce in steel as early as possible.
10.4. KEY DRIVING FORCES

Sustainable implementation of the strategy would require reinforcement (driving force). The three kinds of reinforcements required are discussed here.

10.4(a). Quality Reinforcement

The objective is clearly optimizing three Cs (Cost, Customer, Competition), centred on Q (Quality). The importance of quality at the core of the objective cannot be over emphasized.

In times of strong economic expansion and growth, major business forces squeeze the profit structure of all organizations. Factors such as increasing customer expectations, aggressive global competition, acquisitions and mergers can cause more pressure on the expenses companies incur in providing products and services. Therefore, it is essential for delivering the perceived quality value for today’s customer’s demand.

10.4(b). Organisational Reinforcement

Effective organizational turnaround would require reinforcement of organizational strength. This is achievable through maximizing the effectiveness of the nine intra-organizational factors. These factors leadership, supervision, people, strategy, systems and structure, cultural synergy, sensitivity, speed and superior values provide the basic framework for successful turnaround. The inter-relationship of these factors and their cumulative effect would have a significant effect on the company’s competitive edge.

An effective strategic process requires the optimization of these nine factors. Enumerated as Nine Ss, these nine factors provide the What, Who and How of the strategic process for effective management of change in an organization. There are three factors in each of these aspects. What is the first aspect of the strategic process that signifies the essential factors that need to be managed for successful sustenance? These include the systems/structure, cultural synergy and superior values. They are of
crucial importance and must be managed in order to manage change. How is the second aspect for effective management of change that works as prime instruments for managing change? These include strategy, speed and sensitivity. It is with these three factors that any turnaround management process could be successfully accomplished. The third aspect is the Who. This aspect signifies the stewardship, supervision and self. It has been observed that it is the people at all strata of the organizational hierarchy that influence any effective management of change. These three sets of factors, each with three sub factors hold the key to any effective management of change.


10.4(1d). Government Initiatives

Infrastructure development is the engine of steel demand growth, and hence it is a priority area. The potential for increasing steel consumption is immense once major investments take place in power, ports, roads and other infrastructure primarily through government’s own resources because of the long gestation period in such projects. Commercialisation of the infrastructure in the private sector however should be welcome. It is imperative to have a master plan for upgrading infrastructure in different segments of the economy.

Project clearance procedures are still very complicated. Fast track clearance of infrastructure projects and further boost to housing and construction activity would help in demand generation for increased steel consumption. There is an urgent need for implementation of large infrastructure/construction project, mega power plants, ports, bridges etc. in a specified time frame.

Low steel usage in infrastructure and the underdeveloped state of our infrastructure are bottlenecks in increasing steel capacity. These need to be corrected to boost consumption. There is a need also for having intensive programmes for developing rural infrastructure to safeguard the interest of agricultural sector. Large amount of steel should flow into the rural sector to build roads, water resources, storage space for agriculture produce, power, transportation and communication and for mechanization of farming. This is a priority area for the Government.
There is an urgent need for creation of incremental steel demand. The stagnation of steel demand can get momentum through effective tapping of the vast unutilised markets by identifying and propagating the use of steel for several new applications. This has to be done by integrating the supply chain so as to counter the threats of substitution by other materials.

This would involve educating the steel user about the Superiority and utility of steel in various applications. Institutional arrangements are necessary in this context. There is an urgent need for promotion of steel usage by having intensive promotional drives to boost per capita consumption. Steel producers have to join hands and make intensive efforts to promote consumption of steel.

Most infrastructure services are traditionally provided by centrally managed public sector enterprises or government departments. Gradual privatisation of these infrastructure services might make them more responsive to the user needs. It might be desirable to constitute an Infrastructure Investments Co-ordination Committee at the central level on the same lines as Foreign Investment promotion Board which would ensure single window clearance of projects. It is essential to ensure transparency in such clearances through well established guidelines.

The government should encourage purchase of Steel by government agencies only from domestic sources. There has to be a restructuring of the domestic steel industry which will enable it to rectify the supply demand imbalance in the Indian iron and steel industry. It would be necessary to rectify the excess supply situation in certain categories through the restructuring route of mergers and acquisitions as has been done globally. Unviable production units would have to be closed down. Steel exports must not only be an integral part of the overall policy for development of Indian steel sector, but its prime mover also. Focused attention is needed in the following system areas.
1. Infrastructure/logistic – this would involve development of ports and easing transportation to and from ports along with rationalisations of Inland freight charges.

2. There are several international trade disputes as a consequence of multi-lateral trading regimes. The government has to build institutional arrangements which would provide support for fighting unfair trading practices both at home and abroad. There are genuine cases of denial of market access to Indian steel exporters.

3. Even better performing steel companies are finding it difficult to access world capital market. This is adversely impacting the long-term viability of the steel industry. A global agreement on the lines of OPEC may be in order to keep global prices, and, hence, profitability of the steel sector, at reasonable levels.

There is a need to initiate dialogues with neighbouring countries to open up all avenues to facilitate increased steel export from India.

The domestic producers in the liberalised regime faced threats from low priced imports termed as seconds and defectives. This has to be regulated. There is also a case for increase in customs duty for import of finished steel up to WTO bound rates. There is a need for government to encourage consolidation of the smaller steel making and rolling units and help the process by providing market and technical information to the industry. An institutional framework needs to be created for this purpose.

The competitiveness of Indian steel product suffers due to non-tariff barriers in the global market. This situation needs immediate corrective measures in the WTO. There is a need to establish proper linkages of raw materials, energy and other utilities and services with competitive price. The prices of input materials and energy source need detailed evaluation and rational scrutiny.

In view of the scarcity of good quality domestic coal, government should completely abolish import duty on coking coal and non-coking coal for metallurgical applications. Anti-dumping duty on coke should be removed. It should also reduce import duty on melting scarp.
All major steel producers should be allowed to go in for joint ventures in mining both in India and abroad.

There is a zero duty for import of mega power projects. This places Indian domestic steel producers to disadvantage. This decision needs to be reconsidered to allow domestic steel supplies to these projects to be treated as deemed exports in order to provide a level playing field for the domestic steel industry.

India’s high transportation costs are suffocating its steel industry. The freight and handling costs of iron and steel products are quite significant in the total cost of steel. There is thus, a need for rationalisation of freight structure for movement of iron and steel products.

Currently natural gas is being used only in the production of sponge iron in the steel sector. The quota allocated to the sponge iron sector is very merger and does not meet the requirements of existing units. In addition, the price to be paid for natural gas by the sponge iron producers is high. Thus, both the availability and the price of natural gas need careful consideration.

The administered prices for coal, power and natural gas are very high in comparison to other global steel producers. This results in high operating costs. These inputs account for nearly 35 per cent of total cost of production. There is need for rationalization of prices for these essential inputs.

The tariff rates for import of energy saving and productivity / quality oriented technologies and equipments need to be further reduced and optimized.

Private sector must be encouraged in steel and related infrastructure areas like power generation, distribution, iron ore mining, coal mining, ports and road development.

The government should ensure allocation of iron ore mining lease to all major steel producers. This will result in both control and improved economy for steel production units.

The WTO agreement on anti-dumping practices regulates anti-dumping actions of member countries against their trading partners. Anti dumping probes are basically targeted at the discriminatory pricing practices indulged in by individual enterprises. As such, Government is not a party to anti-dumping investigations against Indian export products. If however, the domestic company feels that the investigating authorities have not followed the procedural requirements, Government could step in
to help it take recourse to judicial review under the domestic law of the member countries imposing anti-dumping duties and in the multilateral foray.

The government should strengthen anti-dumping safeguard institutions in the country to prevent unfairly traded foreign products. This should be done with special institutional arrangements devoted to iron and steel sector.

There is need for creating of a corpus fund for R&D in technology related issues in the steel sector.

As steel industry is being restructured through privatization mergers / acquisitions, there should be an arrangement for ploughing back of the disinvestment proceeds back to the steel industry.

There is need for constituting a Co-ordination Committee comprising of the financial institutions and the concerned Ministries for ensuring completion of half-finished / ongoing steel projects in a stipulated time-frame.

10.4(2d). Industry Initiatives

The Indian steel industry possesses several competitive advantages, e.g., formidable raw material base, large internal markets, competent and technologically inclined manpower etc. The Government and industry would have to join hands and take advantage of these facts. These considerations should be leveraged for low cost of production and low cost of delivery of steel to the customers.

Upgrading of steel technology and enhancing capacity utilization are absolutely essential for the survival of all steel plants including the efficient ones. It is imperative to determine the dynamics of technological change and to be efficient in the implementation of new projects.

Customer orientation rather than production orientation has to be a major thrust area for Indian steel producers. Steel inventories in some of the production units had reached alarming proportions because of emphasis on tonnage production.

There has to be rationalization of mining policies keeping in view the increased need for good quality raw materials. The mining policy needs to be pragmatic to ease mining and reward exploration, keeping in view the environmental parameters.
We have to ensure cost / price competitiveness of the domestic steel industry. It is imperative to minimize our cost of production and to become one of the lowest cost producers in the world. This is a feasible proposition in Indian set-up. Tata Steel and Bhilai Steel in India have become amongst the lowest cost producers of hot metal in the world. Apart from the cost of production, cost of transportation both inland and overseas, will have to be reduced through establishment of efficient transportation network.

Indian coking coal has high percentage of ash. Beneficiation of coking coal by washing to reduce ash is necessary. Coal companies should take initiative themselves and also encourage washing industries to come up to improve coking coal quality. Industry has to take initiative for fuelling the demand for steel in the domestic market and realize the full potential of the Indian market. Steel demand should be enhanced by:

(i) reducing cost thereby reducing the threats of substitution of steel by other materials,
(ii) identifying the need of the consumers through close interaction,
(iii) making steel widely available in remote areas,
(iv) catalyzing building of infrastructure.

The Indian steel producers have to become quality conscious and cost efficient. Indian steel producers, particularly the modern mills, have already established themselves in the international markets for flat products and wire rods. The steel industry should continue to pursue fierce cost cutting and technological upgradation as its survival strategy. Initiatives have already been taken by several steel producers. TISCO and SAIL have taken several initiatives in this regard.

The assimilation of knowledge and ideas and innovation of bench marking has to be against the best in the world. Business results can be improved considerably by continuous bench marking and by having collaboration with technology leaders,
The Indian steel operating units have comparatively lower manpower productivity, lower yield rates, and lower energy efficiency. These factors contribute to push the cost of production. Tremendous potential exists for improving our performance indices by 25 to 40 per cent in our different operating units. This potential has to be exploited for the benefit of the Indian steel sector. Domestic steel producers should aim and achieve internationally competitive technological performance indices through improvement in productivity, yield special consumption of raw materials and energy.

It is expected that manufacturing activities will shift from developed countries to developing countries as higher cost of manpower, raw material and strict environmental enforcement would make steel production unremunerative in the developed countries. Only finishing facility will be located in the developed countries. India can benefit immensely from this situation because of its low manpower cost, reserves of high-grade iron ore and its capability of supplying semis to the global market at highly competitive prices. Export of steel products has to be a business philosophy rather than any matter of expediency.

The growth for indigenous steel demand is increasing. We also have surplus capacity in flat products. There is need for evolving a strategy for tapping of export market on a long-term basis. We should strive to export at least 20 percent of total steel production on a long-term basis.

There has to be concerted efforts at improving steel usage in different sector of Indian economy. This would mean, in addition to intensive campaigns, promoting the qualities of steel through intensive R&D and developing new processes, new grades, new applications, and new designs for steel intensive products. The promotional
activities undertaken by the Steel Alliance in the USA can serve as useful examples, which need to be replicated in India.

Joint efforts by the government and industry to increase the use of steel through institutions like INSDAG and other agencies should be speeded up.

There is a lot surplus capacity available in different regions of the globe. It would be worthwhile considering investment and taking over the management and operations of certain finishing units aboard like Pipe, Plants, cold rolling, coating units etc. It is felt that these facilities could be used to process Indian semis including Hot Rolled Coils aboard.

The R&D investment on futuristic technology development should be through a corpus fund.

Steel producers should involve themselves in downstream activities like setting up ventures on pre-fabricated building materials / houses / bridges etc. in order to augment steel usage.

Steel plants should establish service centres to supply to customers material in cut length and size for ease of further processing and fabrication at the customer's end.

There is need to synergise tie-ups / mergers between primary and secondary steel makers for effecting consolidation of production facilities.

Major steel producers should set up autonomous education and training institutes for development of a permanent steel cadre.

The Indian steel industry has to make increased utilization of the E-commerce revolution and the resultant benefits from access to large customer base. E-commerce revolution would also result in reduction of transaction costs.

Manpower productivity in Indian steel plants is still very low when compared to international standards. The advantage of low manpower cost is slowly getting dissipated. There is tremendous scope and potential for rationalising manpower especially in public sector tonnage plants. This potential has to be exploited.
The financial maladies which are affecting the performance of Indian steel companies can be broadly classified as:

(i) Over capitalisation
(ii) Cost over-runs due to exchange rate fluctuations
(iii) Time over-runs due to delays in commitments in equity by the sponsoring agency
(iv) A high debt equity ratio
(v) A high degree of maturity mismatch arising out of short-term financing.
(vi) A very high proportion of interest during construction, sometimes going as high as 33 per cent of the total project cost.
(vii) High depreciation ($45-50) per tonne), high interest ($90 – 100) per tonne) in India compared to the international norms of $5 – 20 per tonne resulting in low net margins and suppressed cash flows.

These drawbacks are generally due to the scarcity of capital and sometimes unwillingness of the promoters to commit large amounts of equity in a single project. The cost of capital in India is still very high. There is a case for reducing interest rates on domestic market borrowings. This process has started and some welcome signs are already visible.

The average cost of capital in India is 12 – 13 per cent p.a. as compared to 6 – 7 per cent p.a. in the global market. This adversely affects the viability of domestic steel producers.

Because of the surplus steel capacity in the domestic steel sector, the financial institutions are not encouraging any proposal for setting up grassroots steel projects. Financial institutions should currently focus attention and resources on completion of the already assisted steel projects, which are under implementation. However need based capital expenditure by existing units for modernization, technology upgradation, capacity balancing etc. should be considered on merit. These investments
are expected to improve the competitiveness of Indian steel and also its long term viability.

Some ongoing steel projects are held up on account of non-availability of funds. In fact some of the projects are held up at the last stage of their completion. Funding for the last mile project needs to be cleared otherwise large investments made in the new project is blocked.

An important area of attention will be the restructuring and consolidation of the steel industry. This is one area where the traditional conflicts of interests will have to give way to the economic compulsions of widespread cooperation and strategic alliances

Mergers and acquisitions do not solve the problem of the market. However, consolidation helps to reduce the scale of competition in the market. It also helps companies to develop products and markets and reduce overheads. This potential in Indian steel sector has not been exploited fully.
10.5. Conclusive remarks:

"We still have a number of persons in our country in SAIL, TISCO and other big and small steel plants who have the capabilities. They have the will to excel and transform the country, given a long term vision."

"We should be ready to compete in outside markets.....If our steel industry gears up in about 3 to 4 years, Indian steel can be both in Indian and foreign markets. Our vision should be towards this."

- Indian 2020: A vision for the new millennium by APJ Abdul Kalam and YS Rajan

The Government envisions India becoming a developed nation by 2020 with a per capita GDP of $1540. For a nation that is economically strong, free of the problems of underdevelopment and plays a meaningful role in the world as befits a nation of over one billion people, the groundwork would have to begin right now. The Indian Steel Industry will be required and is willing to play a critical role in achieving this target.

A 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 steel age is very much around.

India should be producing 65 million tonnes by 2010 and more than 110 million tonnes per annum by 2020, according to the National Steel Policy. The focus of the policy is to achieve global competitiveness in terms of cost, quality and product-mix, as well as global benchmarks of efficiency and productivity. No doubt, India has the capacity to achieve the target of 110 million tonnes of steel production in the next 13 years.

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. Liberalisation 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. The recent movement of Tata steel is also a big evidence for the development of Indian steel industry. The acquisition of Corus Steel immediately increases the production of capacity of Tata steel by 12 mt.

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. The amount of activity in the sector has picked up speed in the past few years. The sector has received investments of US$ 5,994 lined up through 102 memorandum of understanding (MoUs) signed by different state governments to add 103 million tones (mt) in steel capacity.

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.