

# Without funds, the steel vision could rust

Realising the National Steel Policy's vision of doubling the domestic steel capacity by FY2025 requires \$108 billion in debt and \$54 bn in equity. Given the metals sector's weak credit history in the recent past, rebuilding the banks' confidence in lending to the steel sector would take time



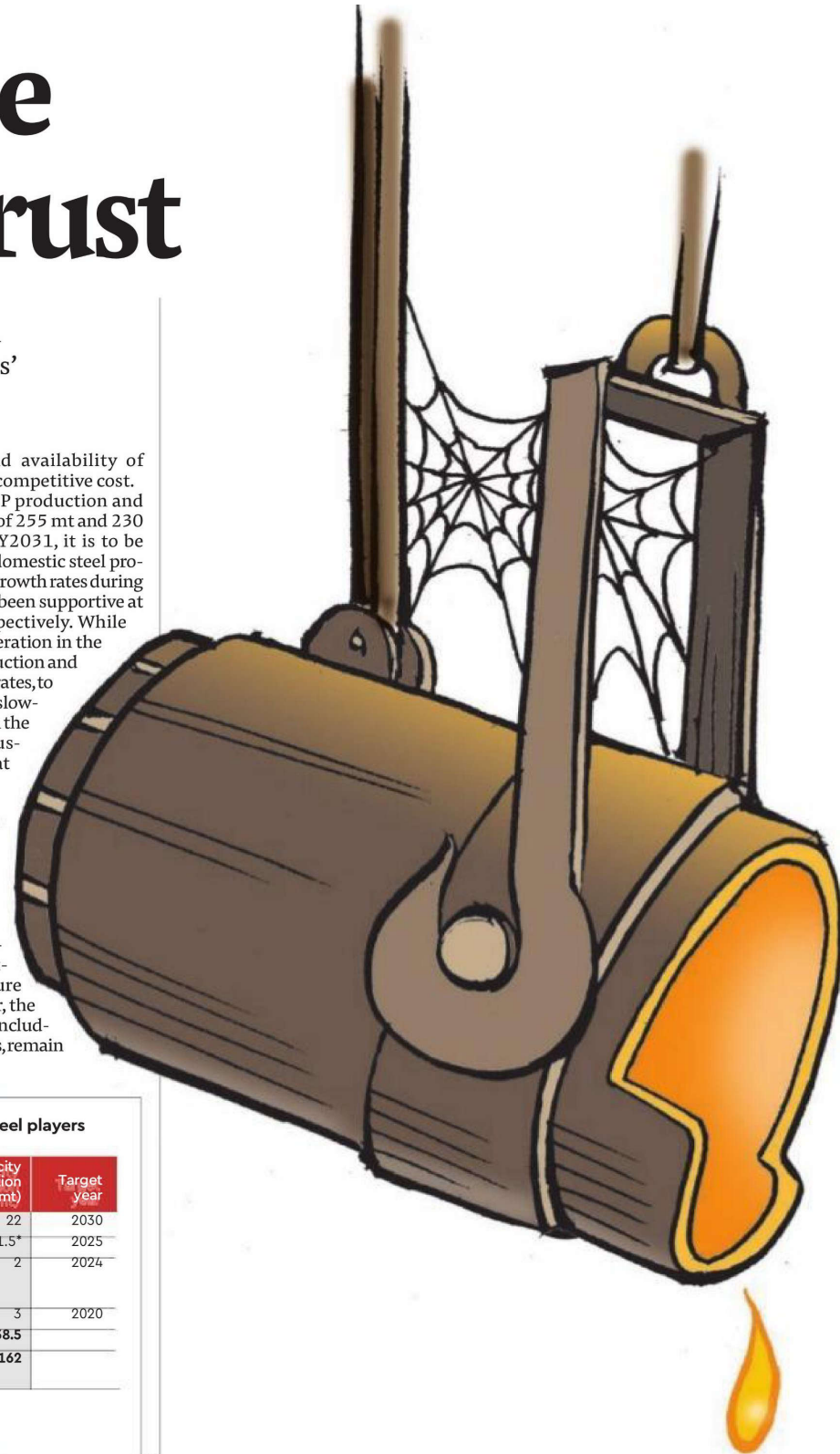
**I**N DECEMBER, THE ministry of steel released a draft policy for the promotion of greenfield steel plants in India to the tune of 25-30 million tonne per annum (mtpa) capacity by FY2025, which could potentially bring in investments of a minimum of ₹1-1.5 lakh crore. This policy is nested within the government's overall aspirational target of more than doubling the domestic steel capacity to 300 mtpa by FY2031 (as per the National Steel Policy (NSP) announced in 2017). The government's renewed focus on setting up greenfield steel plants comes at a time when only a handful have been

able to successfully commission greenfield plants in India due to challenges associated with high capital cost, land acquisition related issues, delays in seeking environmental & forest clearances, lack of captive iron ore availability, and bottlenecks in logistical infrastructure. In the past decade (2010-2019), out of the 69 mtpa of incremental domestic steel capacity, the share of large integrated new greenfield plants was just around 12 mtpa, contributing only 17% to the total incremental capacity. Tata Steel's 3 mtpa Kalinganagar plant and Jindal Steel & Power's 5 mtpa Angul plant were the two largest greenfield steel projects that came up in the last decade.

Given our past performance, a business-as-usual scenario would make the 25-30 mtpa greenfield capacity addition a very stiff target. At the moment, apart from the NMDC's 3 mtpa steel plant in Chhattisgarh, no other major steelmaker has committed any capital for setting up a greenfield steel plant. That said, the broader question that encounters policymakers is whether a 300 mtpa capacity target is realistically possible, amidst the challenges that the industry faces in critical resources like

land availability and availability of financial capital at a competitive cost.

Looking at the NSP production and consumption targets of 255 mt and 230 mt respectively by FY2031, it is to be noted that historical domestic steel production and demand growth rates during FY2001-FY2016 had been supportive at 7.9% and 7.8%, respectively. While there has been a moderation in the last four years in production and consumption growth rates, to 3% and 7%, due to a slow-down in demand from the major end-user industries, ICRA believes that the consumption growth rate of 7.6% required during FY2021-FY2031 to attain the NSP 2017 targets is achievable, given India's expected economic growth and the government's commitment to infrastructure investments. However, the supply side concerns, including funding challenges, remain formidable.

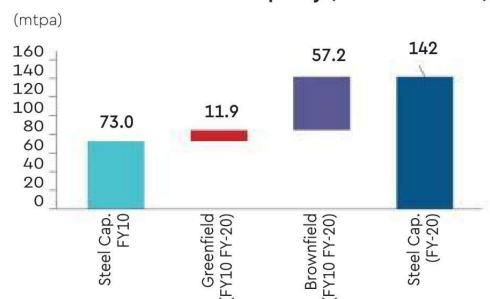


To achieve the NSP target of 300 mt of steel capacity by FY2031, India would need to set up fresh capacities of 12 million tonnes (mt) every year till 2031. However, capacity additions in the last three years have remained below the required rate of 12 mtpa (a total of 16 mt achieved as against the requirement of 36 mt). Also, the capacity addition plans in the recent past that have been announced have all been made by large steel players with deep pockets, as medium or small steel players with moderate credit profiles are unlikely to participate in any large-scale capacity additions, at least in the medium term.

Setting up of 162 mt of fresh steel capacity between FY2019-FY2031 would require around \$162 billion of investment, considering that setting up of a greenfield integrated steel plant of 1.0 mt capacity, typically requires about \$1.0 billion of investment. Assuming a debt-to-equity mix of 2:1 for funding the project, the total debt required would be \$108 billion (₹7.7 trillion), and the total equity required would amount to \$54 billion (₹3.85 trillion).

These requirements seem quite sizeable compared to the banking sector exposure to the domestic steel industry of ₹2.7 trillion as on September 30, 2019 (10% of total bank credit). Also, the metals sector has the highest concentration of stressed assets (steel comprises 76% of total exposure within metals and has the lion's share in stressed assets) in the banking system with a share of 29%. Given the sector's weak credit history in the recent past, rebuilding the banks' confidence in lending to the steel sector would take time. In addition, a shallow corporate bond market in India poses significant challenges to steelmakers to raise debt to part-fund large greenfield steel projects. Like debt, raising of equity to the tune of ₹3.85 trillion is expected to be equally challenging for the domestic steelmakers. Beyond the large steel players, other existing players do not have the financial capacity to raise such equity because of their leveraged balance sheets and/or limited financial flexibility. In the absence of supportive capital markets, it may be left to international steel majors for setting up fresh capacities in India; else steel imports would have to go up to meet domestic demand.

Increase in domestic steel capacity (FY2010 - FY2020)



Source: JPC, PIB, ICRA research, Company websites and annual reports, ICRA research

Long-term capacity addition targets of large steel players

Company name	Existing capacity (in mt)	Strategic target capacity (in mt)	Capacity addition (in mt)	Target year
JSW Steel	18	40	22	2030
Tata Steel	18.5	30	11.5*	2025
ArcelorMittal (for Essar Steel)	6.5*	8.5*	2	2024
NMDC	0	3	3	2020
Total	43	81.5	38.5	
Capacity addition target as per NSP 2017 between FY2019 and FY2031			162	

Note: \*: These are production values and not capacity