

STEELTM INSIGHTS

STEEL BUYER'S GUIDE



“
**Infra & government
projects to boost
steel demand**
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VR Sharma
Managing Director, JSPL

- 13 Imported scrap offers fall
- 14 India pig iron production up in August
- 15 India July sponge iron production remained flat
- 16 July crude steel production up 13.3% y-o-y
- 25 Steel cos see rising cost pressure
- 26 Steel demand momentum to continue: Rating agencies
- 29 High speed rail project on top gear
- 30 Coal India floats tender for solar PV wafer cell plant
- 31 Government set to announce PLI scheme for auto sector
- 33 Seaborne coking coal offers surge in August
- 34 Car sales in August takes a hit due to semiconductor shortage
- 36 Iron-ore handled by major ports down marginally
- 37 Indian Railways' iron-ore handling up 44% till July
- 38 Global crude steel output down 4% in July
- 39 Structural shifts in HR practices in core sector an immediate need
- 46 State funding for thyssenkrupp consortium project
- 47 Tata Steel eyes leadership in low-carbon steel
- 49 SAIL eyeing distribution reach expansion
- 51 Coal India on path of higher profitability
- 55 RINL August sales up 50%, production touches 5-lakh ton mark
- 57 NMDC eyes 44 mt output in FY22
- 59 Corporate update
- 61 Government update



6 | COVER STORY

“Infra & government projects to boost steel demand”

Interview of JSPL's Managing Director, V R Sharma.

17 | FEATURE

Monetisation creates opportunities in Rail, Power

May provide 5-6 percent of NIP outlay.



22 | FEATURE

Govt eyes ₹10,000 crore from scrappage policy

Incentives to promote scrapping old vehicles.

41 | INTERVIEW

“JSL increasing near-shore raw material sourcing”

Rajeev Garg, Sales Heads, Jindal Stainless, talks about company strategy.



44 | INTERNATIONAL

Chinese steel sector slowdown likely to continue

Moderation in construction activities seen.

INDIA COAL MARKET WATCH

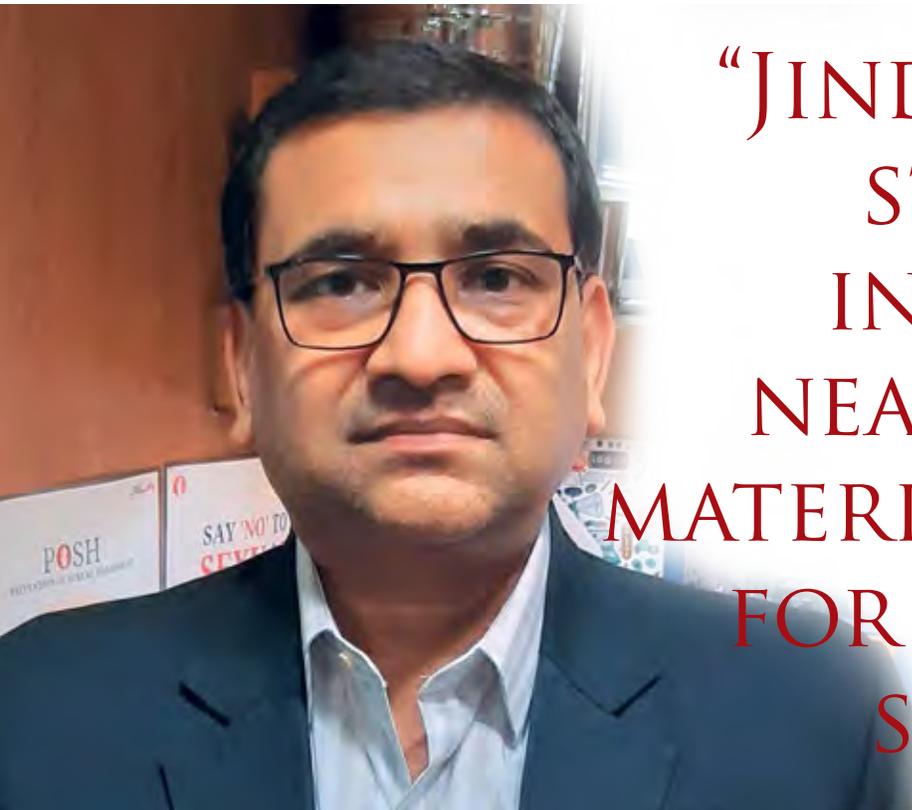
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“JINDAL STAINLESS STRATEGICALLY INCREASING ITS NEAR-SHORE RAW MATERIAL SOURCING FOR AN EFFECTIVE SUPPLY CHAIN”

With a total melting capacity of 2.9 million tons per annum, Jindal Stainless Ltd (JSL) is looking ahead at increased profitability by strengthening domestic sourcing mechanisms for quick availability of material with reduced working capital. JSL has been locally sourcing its entire pure nickel demand and eyes to increase the proportion of domestic ferro-scrap to 70 percent in the next couple of years. Further, the company is expecting the Centre's scrappage policy to generate around 7 million tons of domestic stainless steel scrap in the initial years, **Rajeev Garg, Heads of Sales, Jindal Stainless tells Ritwik Sinha of Steel Insights.**

Ferro-chrome, nickel, stainless steel scrap, and copper are the key raw materials for the stainless steel sector. What raw materials are being imported by JSL currently? How do you see their availability and price trends?

Stainless steel is majorly produced via the electric arc furnace (EAF) route in India. At Jindal Stainless Ltd (JSL), stainless steel manufacturing through the EAF route majorly requires scrap. Also, coal is required for generating power through the Captive Power Plant (CPP) and for manufacturing ferro-chrome in the ferro-chrome furnaces.

Other key raw materials include nickel bearing materials like nickel cathodes, ferro-nickel, various ferro-alloys like ferro-chrome, ferro-manganese, silico-manganese, ferro-silicon, etc., and other materials like ferrous scrap, steam coal, chrome ore, etc.

These raw materials account for 75 percent of our total production cost.

JSL largely sources its raw materials through a combination of domestic and import purchases. As per industry estimates,

demand for stainless steel is projected to grow by 5-6 percent over the next few years. This in turn is expected to raise demand for scrap.

Stainless steel pricing is based upon international benchmarking of raw material cost and finished goods prices. In context with the global commodity supercycle, prices of almost all commodities, including non-metals and consumables, have touched a multi-year high due to global economic recovery. This is largely driven by high demand in China, and the rest of the world, including India.

Historically, imports accounted for more than 60 percent of JSL's raw material sourcing. This over-reliance on imports exposed us to various market-linked price fluctuations and forex risks. To cope with this, we initiated several strategic sourcing measures in the last few years that helped us build and strengthen domestic sourcing mechanisms and shift towards strategic domestic procurement.

Today, we source all our pure nickel requirements from domestic sources, which were earlier fully imported. We did so by developing and leveraging domestic alliances with some of our strategic suppliers. This has ensured quick availability of material with reduced working capital.

To further reduce high dependency on imports, we have nurtured domestic vendors for supplying ferrous scrap. Earlier, we imported over 75 percent of our ferrous scrap. This has been brought down to 35 percent in the last 3 years.

JSL is now strategically increasing its near-shore raw material sourcing for an effective supply chain. We plan to increase this proportion of domestic sourcing to 70 percent from the current 65 percent in the next 2-3 years.

We are focusing on various operational efficiencies related to supply chain, standardization, further increase in local procurement, and automation. This is expected to increase our competitive advantage globally.

Will the Vehicle Scrapage policy help in generating stainless steel scrap locally?

As per industry estimates, demand for ferrous scrap in India is around 30 million tons (mt). Of this, 25 mt is catered domestically, and 5 mt is imported. As per data from Society of Indian Automobile Manufacturers and Indian government, there are about 28 million vehicles (excluding 2 wheelers) that are 15-year old and will have to be scrapped. Going by these estimates, domestic scrap will be generated to the tune of 6-7 mt in the initial years, considering 25 percent of total vehicles are scrapped in the first year. This estimation makes us self-dependent.

For the steel industry, using scrap as input from auto shredder plants will drastically reduce the dependency on imported mild steel shredded scrap. Consequently, dependency on other inferior grades of mild steel scrap will decrease,

making plant operations more efficient and cost-effective.

JSL has planned brownfield expansion with ₹2,150 crore. How do you see melting capacity, downstream expansion and backward integration help JSL's growth through the value chain in the context of post-merger scenario?

JSL has readily available infrastructure at Jajpur for a cost-efficient brownfield expansion. This includes land, roads, railways, as well as necessary environmental and statutory clearances. This offers JSL an immense opportunity for organic growth, while taking care of cost and time risks associated with future expansion.

Post merger of JSL and Jindal Stainless (Hisar), the consolidated melt capacity of JSL will be 1.9 million tons per annum (mtpa). With the recently announced addition of 1 mtpa melt capacity at Jajpur, the total melt capacity will be 2.9 mtpa.

The merger will integrate high volumes and niche diversified products with a 360-degree outreach. It will also provide a product basket large enough to cater to domestic and international markets.

What is the stainless steel consumption pattern in India and what is the JSL's group market share? What kind of growth potential does the stainless steel sector have in India and in which sectors?

As per International Stainless Steel Forum (ISSF), with a production at 3.2 mt of stainless steel in 2020, India was the second-largest producer in the world. The Indian stainless steel demand is anticipated to have a CAGR of 8-9 percent.

Stainless steel finds application in various organised and unorganized sectors like ART (Automobile, Railways & Transport), process industries (nuclear power, oil & gas industries, pharma, energy, petrochemicals), ABC (Architecture, Building & Construction), household

goods (white goods, utensils, etc.), razor blades, coin blanks, etc. It also has wide usage in upcoming segments like medical & healthcare, defence, and aerospace. This is further streamlined in the following table:

Segment	% share	Applications
ART	13	exhausts, disc brakes, automobile parts, railway wagons, coaches, metro, etc.
Process/ Capital Goods	30	chemicals, petrochemicals, pharmaceuticals, food processing, power, water treatment, nuclear, etc.
ABC	12	furniture, elevators, architectural / decorative products, etc.
Household/ Durables	44	kitchenware, utensils, cutlery, commercial kitchen, cooker, gas stove, chimney, etc.
Others	1	razor blade and coin blanks

In terms of production patterns, the household segment is primarily served by the MSME segment. Other segments are served by organised stainless steel players in the country. Indian stainless steel producers are capable of manufacturing world-class products as per stringent quality benchmarks for critical applications. This indicates India's self-reliance as a stainless steel producing nation.

JSL has the capability to produce a wide range of products in all stainless steel grades as per BIS (Bureau of Indian Standards) and various international standards. A major share of the domestic stainless steel demand for JSL comes from the Indian Railways, mainly from railway wagons and coaches, railway infrastructure like foot-over-bridges, station modernization, and dedicated freight corridors.

The company holds 70 percent and 60 percent share in the railway wagon and coach market, respectively. JSL's overall share in the domestic market is about 45 percent. As India's largest stainless steel producer, JSL has been a regular exporter to various developed economies in the EU and US regions as well.

Stainless steel demand is expected to grow significantly in the construction

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segment owing to the government’s thrust on major areas like redevelopment of railway stations, new highways, and upcoming transit building projects like metro and new airports across Indian cities. Plans to upgrade civil infrastructure will encourage demand in the construction sector.

How is JSL gearing up to deal with the third wave of the pandemic, if it comes?

Since the onset of the pandemic in India in 2020, JSL has adopted several agile business strategies to counter the ongoing and evolving business uncertainty. We first secured the internal environment of the Company, prioritizing the health and safety of our employees.

Adhering to Covid protocols, the company operated on a flexible Work-from-Home/ staggered shifts mechanism to continue production with an optimized workforce. We brought in the highest protocols for safety across our manufacturing locations and offices.

Apart from this, we have been multi-skilling our people so that they could fill in for each other whenever required. We resorted to virtual meetings and hence, minimized unwarranted travel during the

pandemic. We have a 24-hour support group to offer medical support to any employee or their family member.

We are in the process of achieving 100 percent vaccination for our entire workforce and their families to ensure their safety and well-being. Under this initiative, the company is bearing the entire vaccination cost of over 35,000 employees, contractual workers, retainers, and their immediate family members across multiple locations.

On the operational side, we optimised our production and supply chain to ensure demand is fulfilled at all times, even in case of adverse circumstances. In addition to this, we increased our communication frequency with all our stakeholders, including customers, vendors, transporters, etc., to maintain a regular flow of information. All our stakeholders, by now, are already conversant with virtual connect mediums, and we have stopped non-essential visitor entry at all premises.

Not only are we managing our operational efficiency and employee well-being, we are much better prepared to deal with Covid uncertainty in the future.

Indonesia is expected to overtake India as the largest stainless steel producer in 2021, removal of import duty on stainless steel is now a big threat to the stainless steel sector in the country, please share your thoughts on the same. What sort of government policy incentive is required?

As per ISSF’s May projections, Indonesia may overtake India as the second-largest stainless steel producer in the world in 2021. Indonesia presently ranks fourth in global stainless steel production and is poised to overtake Japan and India with a total production of 4.2 mt, a rise of 75 percent over last year, by the end of 2021.

Huge melt capacity addition in Indonesia via Chinese investments in the past 2-3 years has changed the trading dynamics of the world. Indonesia now has about 5.5 mtpa capacity installed. This is 25

times more than its domestic consumption of just 0.2 mtpa. This is a big concern for Indian producers. Being the second-largest consumer, India remains a high potential dumping ground for Indonesian imports.

India has a capacity to produce 5 mt stainless steel flat products annually. Out of this installed capacity, about one-third lies in the MSME sector and the balance in public and private sectors.

Out of the total installed capacity in the country, gross capacity utilisation is just about 60 percent. This lies largely unutilised in the fragmented MSME sector, due to significantly subsidised and dumped imports from FTA nations like Indonesia.

Government’s decision to temporarily suspend the existing countervailing duty (CVD) on China and revocation of provisional CVD on Indonesia in the Union Budget 21-22 has left the domestic industry under stress. The decision may have been taken in good faith, but it is likely to have adverse consequences for domestic stainless steel manufacturers.

It is expected to open flood gates for sub-standard stainless steel flat products at subsidised prices from China and Chinese investments in Indonesia. Such a situation will push MSME manufacturers to opt for trading instead of manufacturing goods. It will hamper potential investments and employment generation. Such a scenario will defeat the national ambition of ‘Make in India’ and ‘Atmanirbhar Bharat’.

We urge the government to support the Indian stainless steel sector to reach a level-playing field, much like our global competitors. The need of the hour is to swiftly impose trade remedial measures for the ongoing/concluded cases, where it is established that subsidised stainless steel is being dumped into India. We believe such measures will help improve profitability of domestic producers and will lead to increased re-investment within the country. This is expected to trigger generation of jobs and increased contribution to the exchequer. ■