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STEEL INSIGHTS™

STEEL BUYER'S GUIDE

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Essar Steel India

Essar Steel springs a surprise with Q1 numbers

STEEL'S COMEBACK KID

Essar Steel springs a surprise with Q1 numbers

STEEL'S COMEBACK KID

In November 2015, Essar Steel reported a `30,000-crore debt on its books and production at its flagship plant dwindled to 200,000 tons. Closure talks were even doing the rounds in the market. A number of banks classified the company as a non-performing asset (NPA) in the October-December period. And a June deadline was served by the banks to find a buyer for the majority equity stake in the company, failing which, the banks said they would find a buyer themselves.

Cut to July 27, 2016: Essar Steel Ltd published its first quarter (April-June) results – which showed a 12 percent jump in revenues backed by a nearly 50 percent surge in output, zero finished goods inventory, development of 3 new grades of steel, and a lot more!

But wait! If the statements coming from the top management are anything to go by, this low-cost flat carbon steel-maker has lined up many more milestones for the current year, an output growth of 58 percent and capacity utilisation of 80 percent being the top agenda in that list.

So, what drove the company to stage a strong come-back? How did it plan to beat the recession blues? Rakesh Dubey of Steel Insights, on a recent visit to Hazira, looked for answers and got clues that may infuse some fresh blood into the beleaguered steel market.

Point of inflexion?

Essar Steel, the flagship company of the Essar Group, is never short on two aspects: curiosity (for new technology) and self-confidence.

In 2012-13, when the company's net loss doubled to ₹2,785 crore, the management still exuded confidence in returning to profit, which it did, within a couple of years. So, when the banks gave it a deadline of June 2016 to find a buyer, the company just prepared for yet another comeback. Which it did, as early as in the first quarter.

With more than a 12 percent rise in revenues and 15-18 percent EBIDTA margin, what made the Q1 results special was the growth in physical performance. A 48 percent jump in flat steel production (year-on-year), 58 percent growth in pellet production and 52 percent increase in liquid steel – all these, coupled with almost zero inventory of finished goods – makes the company further confident of beating the recession blues.

Total sales grew 41 percent to 1,201,000 tons during the quarter, compared to 852,000 tons in the same period last year. Also, the company's downstream facilities in Pune and Hazira clocked impressive performances, adding to the overall high growth.

Commenting on the stellar performance, Dilip Oommen, Managing Director & CEO, said, "Over the last few months, we have taken several steps to strengthen our operations. We have also been able to maintain higher operating margins. In addition, the markets have been stable and customer response has been encouraging. This gives us the confidence to aim for full production, going forward."

Contributing factors

While the measures taken by the company have had its impact on the quarterly results, there is no hiding the fact that the minimum import price (MIP) imposed by the NDA government in February 2016 played a pivotal role.

According to a company spokesperson, "Over the last few months, introduction of the MIP and BIS standards by the Government of India has been beneficial in curbing imports of steel at predatory prices. The oversupply situation that was prevailing in the market till recently has been contained to a large extent, and Indian steel companies are now able to achieve better sales realisation in the domestic market."

Oommen, on his part, couldn't but agree. "Why we were suffering before the MIP was implemented is that one country after another started putting trade and non-trade barriers against Chinese products. Starting with the US. It propagates free trade and all that stuff, but slapped the maximum amount of protection! So, the US, Indonesia and so many countries started putting restrictions and that is what was making it difficult or the opportunity left for China was minimum. Wherever the opportunity existed, it started dumping. Thankfully, the MIP came in at the right time," he stressed.

However, the MIP came as a generic medicine that benefitted one and all, but Essar's performance reflected its multi-faceted initiatives that helped the company outplay competition.

De-commoditisation & value-added grades

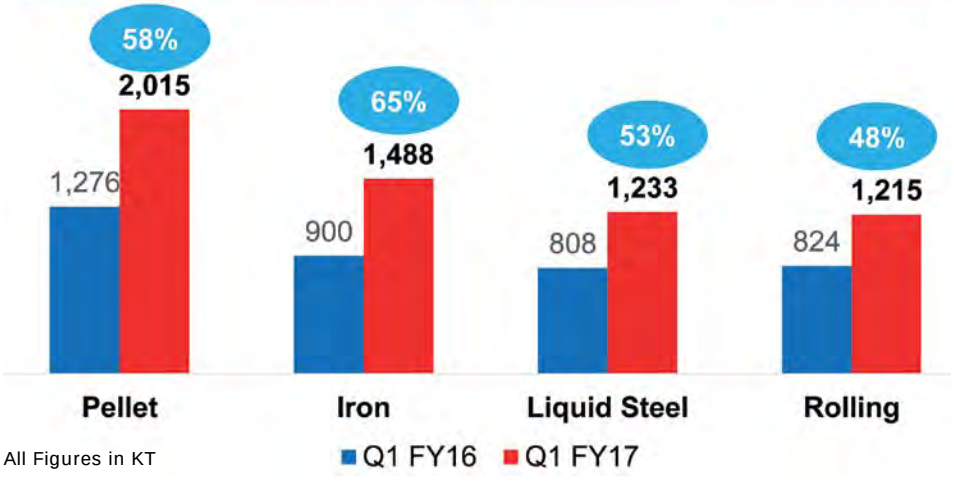
Much of the credit for zero finished goods inventory goes to Essar Steel's effort to "de-commoditise" steel and focus on value-added grades (VAG) and tailor production to suit customer requirements.

"Over 300 grades of steel that we produce give us flexibility to alter the product mix, depending on market demand. Actually, steel is produced as per customer needs. Hence, finished goods inventory is zero," said Subhajyoti Mukherjee, Deputy CEO, Hazira Assets.

In the last one year, Essar Steel has developed 17 new grades, which have given it a first-mover advantage in many industrial segments. In the quarter ended June 30, 2016, it developed three new grades – one each in the automobiles, yellow goods and Defence segments, he said, adding that 23 percent of revenues comes from products developed in-house.

Financial highlights Q1 2016 -17

Highlights	Q1 FY17	Q1 FY16	Increase
Revenue	Rs 4482 Cr	Rs 4006 Cr	12% ↑
Production	1.22 MT	0.824 MT	48% ↑
Pellets	2.02 MT	1.28 MT	58% ↑
Liquid Steel	1.23 MT	0.81 MT	52% ↑



All Figures in KT

The new grades enable Essar Steel customers to substitute imported products with indigenous Made-in-India steel, and make substantial savings. The adoption of multi-modal transport to move its products has helped the company achieve better price realisation and improved logistics.

The wide range of products also enables the company to spot the pockets of demand and dynamic changes in customer preference. For instance, close to 50 percent demand is currently from auto and general engineering and the balance is from infrastructure, construction, pipes and tubes, hydrocarbon and rerolling.

Low cost operation & raw material security

Essar Steel takes pride in being what it calls "first quartile producer", essentially meaning that the company is among the lowest cost producers not only in India but, globally.

"We are with the bottom 25 percent of the lowest cost producers of steel in the world," Oommen said, "Right now with our existing volume, the cost of production per ton is close to $330 per ton and now with production going up, we will be at about $300 per ton in this quarter (July-September 2016)."

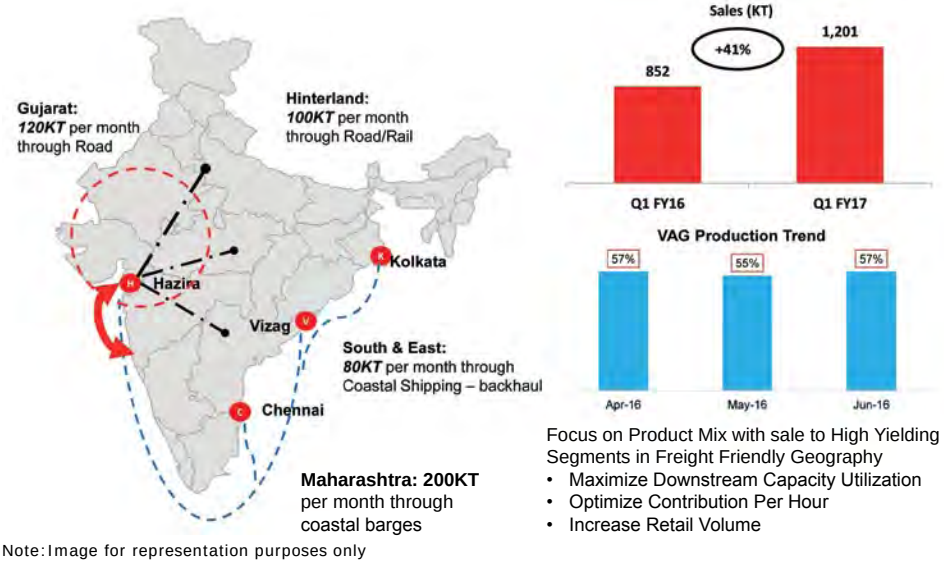
This low cost operation has enabled the company to achieve high EBIDTA margins in the recent past. In 2014-15, Essar Steel witnessed a phenomenal growth of 188 percent in its EBIDTA. During the first quarter (Q1) of fiscal 2016-17 (FY17), EBIDTA was almost double at 15-18 percent from 7-8 percent in the same period of the previous year.

The major reasons for the improvement in margin were lower input costs, better operational efficiencies and higher volume of production. Of these, low cost production assumes very great significance. The main factors behind low cost operations are: reduced raw material costs, efficient logistics (dedicated port infrastructure) and low inventory (resulting in saving on working capital).

The decrease in raw material costs and raw material security has helped the company to increase its production during the last quarter. According to a company official, "With the natural gas price plummeting to US$6/mmbtu (from a high of US$20/mmbtu), Essar Steel has been able to contain cost, improve margins and ramp up production. The company is looking at restarting all its gas-based DRI units in the current fiscal."

As for raw material security, the company recently won an iron ore mine in Odisha through the auction route. Asked to comment on raw materials, Oommen said, "It is a very good thing that we won the auction. The work has already commenced and we have to make arrangement for transportation of fines from the mine, which is some distance away from our beneficiation plant so that it can be transported through a slurry pipeline to Paradip. So, work has commenced and we have started applying for ROE for putting up a slurry pipeline. We expect the environment clearances etc, but these can be a little difficult sometimes."

Sales Growth & VAG Production



Focus on Product Mix with sale to High Yielding Segments in Freight Friendly Geography

- Maximize Downstream Capacity Utilization
- Optimize Contribution Per Hour
- Increase Retail Volume

Note: Image for representation purposes only

With estimated reserves of 99 million tons (mt), the iron ore mine will meet 50 percent of the annual ore requirement of the company's Paradip pellet facility, Oommen said. Both the pellet plants at Paradip and Vizag are now operational and ensure consistent supply of pellets to the Essar Steel plant in Hazira.

Apart from availability of low cost raw material, completion of projects at competitive cost is another factor adding to its low-cost operations. Essar Steel has completed all its upstream and downstream projects at a competitive cost to achieve 10 mt of integrated capacity. All its units, including many of the gas-based DRI modules, are now operational. Utilisation of captive gas from the Corex unit and the blast furnace is further aiding operational efficiencies.

Essar Steel's low cost operation finds evidence in the high productivity level at its plants. Overall, annualised productivity (crude steel production per employee) has increased by 107 percent to 1,308 tons in Q1FY17 against 633 tons in Q1FY16.

Performance of downstream units

Both the downstream units of Essar Steel at Pune and Hazira have consistently been outperforming their previous highs.

In Q1FY17, the downstream facility in Pune clocked its highest-ever quarterly production. The Pune facility has India's first and largest single location pre-painted galvanised iron (PPGI) manufacturing plant, based out of Sanaswadi near Pune. This is a 400-ktpa colour coated facility, a market leader with a 51 percent share in the domestic PPGI market. The PPGI production of 78,000 tons in Q1 was higher by 55 percent than that the production recorded in the same period last year. This facility is also a key stakeholder in the domestic construction industry with over 25 years' experience in a market growing at a compound annual growth rate (CAGR) of 35 percent since 2010-11. Currently, this facility is operating at 100 percent capacity utilisation.

Similarly, in Hazira, the downstream facilities are running all-out.

Among downstream products, colour-coated sheets warrants a special mention. As Ravi Singh, CEO, Essar Hypermart, said, "Colour-coated is an aspirational product. We see a definite shift from the players using corrugated to galvanised to colour-

Improving margins

EBIDTA Margin	Q1 FY 17	Q1 FY 16
	15~18%	7~8%

EBIDTA Margin improved due to :

- Lower input prices
- Better operational efficiencies
- Higher volume of production

Lower Input Costs

	Q1 FY 17	Q1 FY 16
Iron Ore	Rs1,660/t	Rs2,053/t
Coke (BF)	$150/t	$205/t
Coal	$80/t	$107/t
Gas	$7/mmbtu	$9/mmbtu
Logistic cost	$5/t	$7/t

Amongst the lowest 25% of steel producers in terms of cost

coated. That is where the demand is coming from. Historically, roofs in rural areas were thatched, then these moved to tiles, followed by cement sheets and eventually these moved to gavanised sheets, where the majority of this country remained till 6-7 years ago and that's where colour-coated sheets started coming in. This entire shift is happening based on the per capita GDP. As people have more money, they don't want to use that same thing … So they want colour-coated. My roof could be red, someone else's could be blue, or green! That's where the colour coated sheets come in."

He further said that the company is looking for revenues of around ₹3,000 crore from the colour-coated business.

Essar Hypermart

Essar Hypermart, the steel retail chain headquartered at Mumbai, provides a definitive edge to the company with its wide reach and penetration.

According to Singh, the retail chain has recorded a 40 percent growth in sales volumes during Q1FY17. The strategic business unit (SBU) sold 289,000 tons of finished steel products, as against 207,000 tons in the same period last year. The Hypermart expects to earn US$1 billion in revenues by the end of the current fiscal, and contribute close to 30 percent of Essar Steel India's consolidated sales.

Essar Hypermart's fabrication division and eHypermart, the company's online B2B marketplace, are 2 SBUs that are also expected to contribute significantly to overall sales, he said.

"Revenue generated from Hypermarts was about ₹4,000 crore last year and this year we are expecting ₹6,000-₹7,000 crore," said Singh, adding that Hypermarts have a presence in 90 percent of the main consumption centres.

Elaborating on the process of selling through Hypermart, Singh said, "It is an online facility where a customer decides the grade, thickness, width and length of the product. We will search the material where it is available closest. It picks up from his IP address and if he gives his delivery address, he can check the availability from there, whether it is readily available or how much time it will take to get delivered etc. Then it takes him to the payment gateway where he makes the payment etc. It gives 2 options. You can either pick up the material from the delivery point or you may like us to deliver. It gives invoice immediately wherein the cost of freight is also mentioned."

Asked if the company faces any difficulties in selling through hypermarts or popularising

Essar pioneers in bullet proof steel

Essar Steel has become the first in India to launch high performance bullet proof steels, making it part of an elite club to produce this grade. There is good and growing potential for this product as it can be used in light armoured vehicles and protective shields or structures. The steel is ideal for bullet proofing of civilian vehicles and for security personnel.

Today, manufacturing bullet proof steel is a highly specialised technology. In India, such steels have either been manufactured under the restrictive technology transfer agreements with foreign countries, or simply imported.

The newly developed bullet proof steel at Essar absorbs the impact of bullets traveling at speeds of 700 m/sec with barely a dent on the surface. This steel has hardness levels above 500 BHN and is extremely tough. Ballistic performance of this product was successfully tested in India and in Germany, at the Gujarat Forensic Science Laboratory (FSL), as well as at IABG, an internationally renowned German laboratory.

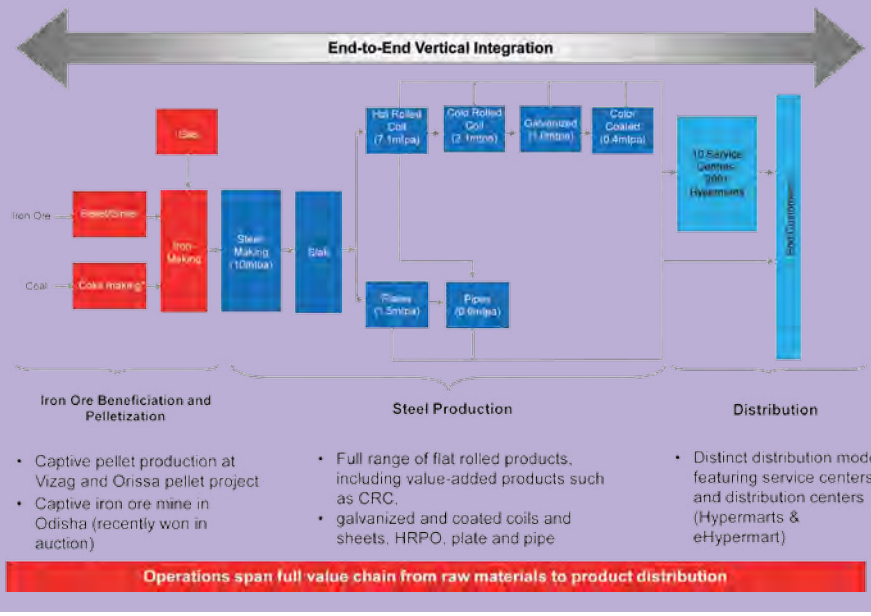
Commenting on the product, Vikram Amin, Executive Director (Strategy & Business Development), Essar Steel, said, "This product adds another feather to Essar Steel's cap which in known for developing high grade import-substitute steel products. The Government of India has emphasised indigenisation of the Defence sector and involving private players under the banner of 'Make in India'. This excellent success story at ESIL is a proof of the organisation's commitment towards our nation's 'Make in India' campaign."

Essar Steel is well known for its diversified and value added/niche flat products. Its 10 mmtpa Hazira facility offers a wide product mix ranging from softest to toughest steels made in India. Grades include cold rolled IF-steel used in car bodies, ultra-pure steel for soft magnets used in neutrino research and electrical lamination steels.

Essar Steel in a snapshot

- One of India's leading integrated steel producers with an annual production capability of 10 million tons per annum (mtpa) supported by a 20 mtpa pellet facility.
- The state-of-the-art facilities comprise iron ore beneficiation, pellet-making, iron-making, steel-making, and downstream facilities, including a cold rolling mill, a galvanising and pre-coated facility, a steel-processing facility, an extra-wide plate mill and 3 pipe mills with coating facilities.
- Produces over 300 grades of steel conforming to quality standards of international certification agencies like API, ABS, NACE, Lloyd's Register to name a few
- Captive pellet production at Vizag and Orissa pellet project
- Captive iron ore mine in Odisha (recently won in auction)
- Distinct distribution model featuring service centres and distribution centres (Hypermarts & eHypermart)
- Full range of flat rolled products, including value-added products such as CRC, galvanised and coated coils and sheets, HRPO, plate and pipe
- Operations span full value chain from raw materials to product
- Sustainability has been given due importance and the company is on course to becoming a zero-waste company

Integrated Facilities –Capturing The Value Chain



consumption of steel in a country where most of the people are not tech savvy, he said, "We too thought similarly, that people in mandis do not understand technology. But interestingly we found that the first generation is perhaps not that technology evolved savvy, but a whole lot from the second generation is entering the business and they are very tech savvy. They are, in fact, more tech savvy than most of us. So that barrier seems to have been broken!"

"The barrier that still needs to be broken in this country is that an industrial product can be bought with the same convenience as any consumer product. It is a development phase," Singh said.

"And, in this country, the next growth of the e-commerce businesses, we believe, will be e-tailing. That is generally well understood. So generally the growth is going to be in industrial product because the distinction between the brick and mortar and technology platforms is getting blurred. A few good laws or legislations by the government which ensures that you will not be defrauded while buying on the internet will ensure that everybody will buy more from internet platform because it is convenient and cheaper," Singh said.

Product innovation

Apart from the low cost of production and the retailing arm, another major differentiator for the company is its continuous effort for product innovation and R&D. A major thrust area is the development of import-substitute products.

"Essar has always had a history of innovation when we started making hot DRI long ago," said Mukherjee, adding that the company recently developed and commercialised a number of steel products for the first time in the country.

These include:

- Hot rolled high strength steel, ie, S650 MC and S700MC for the automotive and yellow goods segment.
- Stretch Flangable Steel -JSH 590B for automotive passenger vehicles.
- Hot forming grades of steel for automotive structural components and precision tubes, ie, 20MnB5, 22MnB5, 26MnB5 etc.
- Hot forming grades of steel for agricultural equipment, ie, 28MnB5, 30MnB5 etc.
- ArmPro 500 steel protection plates for armoured vehicles for Indian Defence.
- Ultra high strength plates with strength of 2 GPaas DMR 1700 for battle tanks.
- High strength steel plates (890. QL1) for structural application.

Commenting on the new innovations, Oomen said, "The ultra-high strength steel plates were not available in India and with some difficulty one could import the same. This steel plate has been developed totally as an in-house innovation." In fact, the company is considering patenting the product, he said.

Tapered steel, which is a different type of steel, is another in-house innovation, said Oommen, "Basically, Essar can make whatever type of steel is made anywhere in the world's best steel plants."

Asked about automotive CR coils and CRGO steel, company sources said, "In plates, we have covered most of the ranges

which the world's best can produce. In HR, we can definitely go higher. If something is not available it can definitely be done. As far as CR is concerned, yes, as of now, there is a small limitation that we don't have the continuous annealing facility, which will come up in future. But that is why instead of having a continuous annealing line, we have spot forming, which is a very cost-effective replacement. It is a win-win situation for the customers as well as the suppliers. It is a substitute for continuous annealing and high strength steels. For example, a particular chassis requires high strength steel. And a company is sourcing it from us in Jamshedpur."

Oommen said the company was not looking for foreign collaboration for CRGO at present, but may do so at some point in future. "As of now, we are not looking for foreign collaboration because we want to focus on consolidation, existing assets, sweating the assets etc."

He further said: "If you look at the electrical steel market, everybody finds it attractive, but its size is only 3-3.5 lakh tons, out of which 50 percent is CREGO and 50 percent CRGO because motors and transformers fit into this. How much will it grow to? May be 1 mt. How many players are there? It's a business proposition where angels fear to trade."

In this regard, he said, the fact that Essar Steel has signed a MoU of 850,000 tons per annum with POSCO Maharashtra shows its competence. "They scouted around and finally settled with Essar Steel... They want to substitute their imports with domestic supply from Essar and 850,000 is not a small figure."

India: the only bright spot

Aspiring to capture the export markets with its value-added products, Essar Steel is keenly observant of the dynamics in the global steel market.

Asked about his views on the current global market scenario, Subhajyoti Mukherjee, Deputy CEO, Hazira Assets, said, going by the World Steel Association, world steel demand is expected to grow by a mere 0.4 percent. With the Chinese threat looming large – the country has an export surplus of around 120 mt, higher than India's annual production – a number of countries, including the US, Brazil, European countries and Malaysia have raised trade barriers to protect their domestic steel industries.

While the global installed capacity is estimated at 2,260 mt, China's crude steel production stood at 1,598 mt in 2015. "In such a scenario, India remains the only bright spot, with a high economic growth and higher steel consumption growth than any other major country."

About the domestic industry, he said the country is set to topple Japan as the second largest global steel producer with production of 100 mt in FY17. Although the per capita steel consumption remains low, the drive for 'Make in India' can push the same from 60.6 kg to 175 kg, with the share of manufacturing going up from 17 percent to 25 percent. Overall, India's steel demand, he said, is expected to go up to 160 mt by 2025.

The scope for steel demand growth would come from mainly 5 segments: Make in India, Smart cities, Railways, infrastructure (road and highways), housing and renewable energy.

Domestic Steel Scenario - Market Projection

Note: GDP from 2011-12 is with 2011-12 as base

In this growth-oriented scenario, "with all upstream facilities fully operational, there is huge opportunity for Essar to increase its market share", he said.

Future plans

The year 2016-17 could be a watershed for Essar Steel, if the company succeeds to perform as per expectations.

"This year, we are targeting 6 mt, which is a 58 percent increase over 3.8 mt we achieved last year. But we hope it will be more," Singh said about the production target set for FY17.

"This 6 mt is only Essar's volume and does not include the third party sales that we do through Hypermart. We aspire to sell about 150,000 tons of long products. May be it will be done mainly through the Hypermarts. We have set a target of 250,000 tons for sales through Hypermart, but it would be around 200,000 tons. We are taking long products from outside as we do not have a long products making facility," Singh added.

As for revenues, he said it would depend on pricing. "We are moving towards 100 percent capacity utilisation. But revenue will depend on prices of steel. In Q1, we reported certain revenues, but whether it will be same or higher will depend on prices," he said.

Although aiming for 100 percent capacity utilisation in the coming years, by the end of FY2016-17, Essar Steel India expects to achieve 80 percent of its rated capacity, Oommen said.

Along with increased output and capacity utilisation, Essar Steel is continuously striving to achieve higher productivity through automation. In recent years, the company's manpower has decreased by around 2,000, which has helped improved its margins.

Asked about the reduction in manpower, Oommen said, "It indicates that we are trying to make our business more profitable. Earlier, we did not have MIP etc and that is something that we had to see. You need a little bit of MIP, otherwise for a business to survive, it has to keep on tightening its belt and which has a social cost to it. And we keep crying that why should there be protectionism for a large industry. People don't realise the social cost benefit analysis for any large infrastructure industry and if this gets hurt, everybody gets hurt."

Steel for Defence requirements

In order to take advantage of emerging demand for steel from the Defence sector,

Essar's heavy plates: Exploring new horizons

Catering to a niche segment that requires optimised thickness-to-strength combination, Essar heavy plates, designed for specialised applications, are redefining the plate industry and widening horizons for manufacturers and end-users.

At first glance, a warship, an underwater reservoir, a wind tower and Asia's longest bridge have nothing in common.

But look closely, and the answer is evident: Essar Steel Plates.

This comes as no surprise as Essar Steel, one of the leading suppliers of plates, caters to a diverse range of industries for various applications, including construction, engineering equipment, yellow goods, large-diameter pipes for oil and gas, ship-building and pressure vessels.

The market need

With rapid industrialisation, the demand for thicker, wider and ultra-high strength steel plates – essential for certain applications – has steadily increased over the last few years. Steel plates, until recently, were imported into the country but customers were plagued with challenges, including issues of minimum order quantity, forecast accuracy, inventory redundancy and forex complexities.

Having foreseen the emerging demand for plate products, Essar Steel set up an extra-wide 1.5 mt plate mill at Hazira – the first of its kind in the country – which can manufacture plates up to a width of 5 metres with finishing facilities for quenching and tempering.

Essar Steel is one of the country's largest flat steel producers and, with the addition of steel plates, it now manufactures the complete range of flat steel products. Its facilities include a 10-mt plant comprising a pipe mill, cold rolling, galvanising, colour coating and steel processing facilities.

The plate mill is backed by an integrated steel facility and is well connected by port facility, rail and road connectivity to ensure timely delivery of plates to customers.

What differentiates the Essar Steel Plate Mill from its competitors is its strategic approach to value chain integration. Like with its other Essar counterparts, Essar Plate Mill has complete control over the entire plate-making process right from making steel to rolling coils due to its various integrated facilities and capabilities.

World-class facilities

Essar's high-tech plate mill features world-class processes and ultra-modern facilities. Coupled with advanced steel-making facilities, the mill can produce plates with extremely low sulphur content and tramp elements which guarantee extremely high toughness values of up to -80°C.

Essar plates are also supported by the best manufacturing practices and testing facilities to ensure clean steel with low inclusion. Each final plate has a unique identification mark that ensures proper traceability right from the stage of heat making to the final product.

The competitive advantage

With complete control over the entire integrated plate milling process, Essar Steel can ensure a consistent delivery of the highest quality of steel products.

The steel plates conform to international standards, including ASTM, EN, JIS and IS. The company has also gained quality approvals for plate supply from Det Norske Veritas, Germanischer Lloyd, American Bureau of Shipping, American Petroleum Institute and the Indian Navy. It is also the first Indian company – and 6th in the world – to get approval for the use of the American Petroleum Institute monogram on steel plates meant for the hydrocarbon industry.

Essar is also one of the few Indian steel companies to be LEEDs compatible. The entire Hazira complex is LEEDs certified and produces the Greenest plates as compared to other steel plants.

Research and Development

Essar Steel is equipped with a strong research and development arm, which works hand in hand with the steel plant and rolling mill to produce innovative, tailor-made plates.

"The application engineering function of R&D is to bridge the knowledge gap between the customer's requirements and the steel mill's capabilities to offer a value-added solution to the customer," said Dr M Venkatraman Senior Vice President and Head R&D, Product Development & Application Engineering. "Keeping the customer in mind, Essar has developed various new-generation plate products since the commissioning of the plate mill," he added.

"All these products were possible due to the expert R&D manpower that works on 2 concepts - reverse engineering for import substitution and innovative engineering for development of new steels to completely design for both import substitution and new-generation innovative engineering products," added Dr Venkatraman.

Essar was the pioneer in developing high-strength structural grades with 780 MPA in Q&T (quench & tempered) conditions, which were, till date, imported and not available in the country. In terms of new-generation products, Essar has developed steel for battle tanks and has already won a massive contract from Mazagaon Docks Ltd for building warship materials. Other plate products includes high performance bridge steels, weather-resistant steels, Q&T wear-resistant steel, corrosion-resistant plates and special alloy high strength steel for constructions.

Marketing

Essar Steel has a definite plan for marketing its plate mill products in the domestic and international markets.

"In the domestic market, we continue to look at import substitute products for hydrocarbon and Defence sectors," said Maneesh Moti, Head of Marketing, Plate Mill Product & Infrastructure, Marketing. "In the overseas market, we will focus on Central Asian and South American countries. Our products have been well accepted by both domestic and international markets. Being a port-based steel plant, we have better accessibility to international markets. Not only do our products conform to international quality standards of various industry bodies, we also have approvals from leading buyers of plate products globally and locally," added Moti.

Essar Steel has geared itself up by creating necessary infrastructure and developed products to meet this requirement. Currently, India imports over 100,000 tons of high grade steel to meet the country's Defence needs.

Essar Steel has set up extra wide plate mill which has an annual production capacity of 1.5 mt. Equipped with state-of-the-art equipment and controls the mill is the only one of its kind in the country capable of producing the widest plates conforming to global standards. The plate mill is capable of producing 5 metre wide plates suitable for ship building, including war ships.

The R&D centre, which was set up in 2006, is fully equipped with talented human resource, and the best facilities to carry out research. The centre, which has been approved by the Department of Science and Technology, Government of India, for carrying out in-house research, is one-of-its-kind in India. It supports the steel business by developing new products and processes to create competitive advantage, better environmental performance and enhanced sustainability.

Steel grades developed for the Defence sector are approved by the Directorate of Naval Architecture (DNA), the Defence Metallurgical Research Laboratory (DMRL) and the Director General of Quality Assurance (DGQA) of the Ministry of Defence, Government of India.

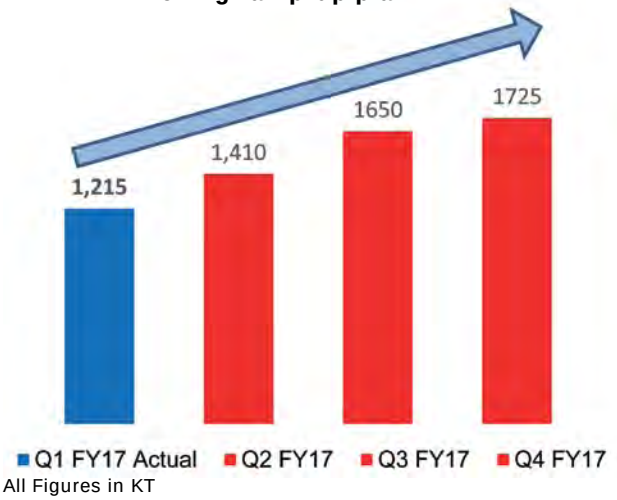
India currently imports over 100,000 tons annually to meet Defence requirements. Essar Steel's efforts are towards reducing imports and making the country self-reliant in this critical sector.

Essar Steel has developed quenched and tempered (QT) special alloy plates for ballistic applications, for battle tanks. Going forward Essar can meet the entire requirements for Navy, including submarine-class steels, steels for aircraft carriers, super ballistic steels for making battle tanks, and steels for super critical boilers. Essar has already supplied its products to Nuclear Power Corporation, the Indian Navy, Mazagon Dock, Cochin Shipyard, to name a few. Last year, Essar successfully executed the order for Mazagon Dock for building warships. Special ultra-high strength QT plates were rolled for Mishra Dhatu Midhani for the first time in the country. Recently Essar has also won prestigious orders from major ship-builders for building modern fast patrol vessels and ships.

ESIL is not a new entrant in the Defence segment. It had been supplying DMR 249A grade, a special steel for building warships, from its hot strip mill since 2001. After commissioning of its 5-m wide plate mill with sophisticated heat treatment facilities in 2009, several new grades were developed and the product range for the existing grades were enhanced.

The Essar team had collaborated with the Defence sector to produce grades like CDA-99, EN10025-6-S690QL, very tough steels used in heavy armoured vehicles. However, the crowning glory has been the production of DMR-1700, an ultra-tough steel of yield strength 1500 Mega Pascal designed by the Defence Research Development Organisation (DRDO). All of these products had been stabilised and commercialised through the dedicated in-house R&D and operations efforts of its engineers.

Rolling ramp-up plan FY17



All Figures in KT

Eyeing export markets

It is not only about increasing production, the company is also looking for new markets. A logical extension of Essar Steel's increased focus on value-added products is its search for suitable opportunities overseas.

This plan has further got a boost from the fact that the domestic steel market growth in recent years has not been in proportion with the GDP growth rate, as some industry experts point out.

"We are optimistic. You know there are lots of projects which have not taken off the ground…I am sure these will take do so sooner rather than later. But the point is that the steel industry as a whole needs to export. We all need to be disciplined about a 15-20 percent growth in exports of our hot rolled production," said Oommen.

Asked how Indian companies could find a market when China is dumping steel all over the world, he said, "We are already exporting. In fact, in June, we exported more than 150,000 tons. It is a big market out there. We are mainly dealing in value-added products and in June supplied plates even to Germany. We are also exporting rolling and weaving products. All these are niche markets where Chinese products are not accepted."

Singh said the company is also aiming to export colour-coated sheets. "Before the barriers were put in, China would dump all the colour-coated products here. Fortunately, that dumping has come down and this is one of the reasons why there is increased focus on the domestic market. Having said that, I must say that significant exports are taking place from our colour-coated facility in Pune. It could be in small lots. For example, in the month of August, it would be 22-23 percent of total sales."

Oommen said, "It should not be difficult to look at various target markets. If you look at the export basket, there are around 54 countries which are our potential customers. Of these 54, obviously the Middle East is the proximity market, Europe is always a good market but right now the entire world is open for exports. With container movement, there is no more restriction on exporting to any country."

Pointing out that there would be no significant impact of Brexit on the global steel market, a company spokesperson said, "Now many countries have raised anti-dumping barriers against Chinese imports. So those markets are still available to us. And not only strategical, steel going from Hazira to eastern parts of the country or the Gulf region, the cargo can sail within 5 days. You will be surprised that 10,000 tons of HIC grade, probably the single largest consignment that might have been exported, had gone to a refiner in Kuwait and they were so happy that the steel has reached them within 7 days."

If the initiatives being undertaken by Essar Steel succeed, these would not only change the fortunes of the company but may also give a new identity to the beleaguered Indian steel industry a few years hence. ■

'Value-added grades insulate us from market vagaries'

Seldom has it happened that a company has thrived big time when the industry's prospects have gone for a toss. Essar Steel has not only survived the strong headwinds of the time, but has scaled unprecedented heights in the last one year. And, there is much more to come, asserts Dilip Oommen, CEO & MD. In an exclusive interview with Rakesh Dubey of Steel Insights, he charts out how the company is targeting more than 50 percent growth in a market that is struggling to achieve even a 6-7 percent increase in sales. Excerpts:

How do you view the current scenario in the global steel industry? Where does India stand?

The global steel industry is marked by overcapacity, subdued demand and rising export surpluses from China. Many of the leading steel producing countries have raised trade barriers and anti-dumping measures to protect their domestic turf. Global steel demand is growing at mere 0.4 percent, according to the World Steel Association (WSA). Many of the leading economies are also growing at a very slow pace.

India is the only bright spot (in this grim scenario) which is slated to grow at over 7 percent. At this point, 3 things are required to be done to boost the Indian market:

a) control dumping of steel in the country;
b) boost infrastructure spending; and
c) improve steel usage/steel intensity, especially in the rural market.

It is said most of the problems facing the Indian steel industry would be resolved if spending on infrastructure projects is increased and transportation costs, particularly of rail, are reduced. What are your view on these prescriptions?

The government has planned a massive $1-trillion spend on infrastructure. This will definitely give a boost to steel demand in the country.

However, it is important to generate demand for steel on a sustained basis. Hence, creating a strong manufacturing base is important. In this regard, the 'Make in India' initiative is a step in the right direction.

As for the logistics costs, I think, the scenario will improve if India invests in road and rail infrastructure and uses the sea routes extensively.

Hence, apart from upgrading road and rail infrastructure, port connectivity is also critical. Also, rationalisation of railway freight can encourage cargo movement by rail and decongest the road network.

Do you see any improvement in infrastructure spending in the country in recent months?

Yes, there has been some improvement, but a lot more needs to be done. The Smart City campaign launched by the government is a good initiative which will have a multiplier effect.

Similarly, construction of roads and highway, which has seen significant progress, will support creation of better infrastructure.

Normally, the process of infrastructure creation precedes the process of (industrial) development, but in India the situation has been quite different.

Here, infrastructure succeeds development and hence, today, we are awfully short on infrastructure. If the situation is not improved, faster urbanisation will make things worse.

What is your take on the minimum import price (MIP)? For many, it was an important short-term measure, but not a suitable long-term strategy. Do you think it should be extended and why?

In India, anti-dumping investigations take much longer time than in many developed countries. Hence, there was a need for the MIP.

While the Indian steel-makers are competitive in terms of operating costs, guarding against dumping is essential to protect the investments made and save the jobs in the long-term interest of the nation. We advocate extension of the MIP for the time.

How effective was the MIP in stabilising prices? The initial euphoria over MIP seems to be fading and prices are currently off recent peaks. Your comments?

The MIP has definitely helped in stabilisation of steel prices. However, the abuse of the lacuna in the MIP notification has impacted prices in the domestic market. Over 70 percent of imports have come

below the MIP which is a matter of concern. This not only results in loss of revenue to the national exchequer, but also hurts the domestic steel industry.

Actually, as long as there is a level playing field for the steel industry, we are fine. The point is that China is exporting at a price which is lower than its domestic market price, not only lower but much lower than domestic prices. So, we need to guard against that. It is a clear case for anti-dumping.

How do you see the scenario, going forward?

We are still optimistic that the MIP will continue for at least another 6 months. But what exactly will happen, we will come to know shortly. The good thing is that anti-dumping is also on the anvil. So, we feel that the steel industry will be adequately protected.

People have seen the damage that has been inflicted on the steel industry, in particular, and the Indian economy as a whole. If things are allowed to go on like before, the situation would be worse than what it is today.

So many countries have put in trade and non-trade barriers. If those countries throw their markets open, it will be a disaster for them.

The recent surge in commodity prices – iron ore, manganese ore, coking coal, steam coal, pet coke etc – suggests that demand for steel in China is increasing, but people always look at China with a pinch of salt because of its opaque systems. Do you think Chinese demand has indeed improved or is it just a bubble that will burst once again?

Our understanding is that the sudden spurt in input prices is temporary and not sustainable.

The Chinese economy has slowed down and its export surplus is rising. With such overcapacity in the global market, China has to take steps to ensure that some amount of its inefficient steel capacities is taken out. It is said that it is continuing to produce at a higher pace to keep its people happy by ensuring jobs.

But, finally there has to be an outlet for selling that steel. The country cannot just go on making steel and building up inventories, or even exporting 100-110 million tons (mt) of it, which is more than the actual production of the world's third-largest steel producer, ie, India. So that has to be curbed.

Coming to Essar's performance, the company has recorded stupendous growth in the first quarter (Q1). Production of crude steel was up more than 50 percent year-on-year at 1.217 mt, versus 0.797 mt last year, while finished steel sale was up by around 24 percent to 1.833 mt. What was the trigger for such an improvement?

We have doubled our production in the last six months. This was possible on account of the availability of inputs, including natural gas, at an economic cost. Further, we have ramped up production in our pellet-making facility which rose by 58 percent in Q1 of 2016-17 (FY17).

We are also able to sell whatever we have produced. We produce steel based on our customer orders and carry minimum finished goods inventory. This gives us confidence to ramp up production and be competitive.

Our current year's production target is 6 mt, up from 3.83 mt produced last year (2015-16), which translates into an increase of 58 percent.

What measures are being taken by Essar to tackle the current fluctuations in the steel market?

Our focus is very clear: Move away from commodity grade steel to high value-added grades. This largely insulates us from the market vagaries.

Essar Steel claims to be a 10 mt per annum plant, but it has never produced more than 3 mt. It is said that financial constraints had a bearing on the consistently below capacity operations. Your comments.

Lower capacity utilisation is the single most important reason for financial constraints.

I think two things contributed to this below capacity operations. First, the contracted gas supply was cut off by the government. Since 50 percent of our iron making capacity is based on natural gas, this affected our production performance.

Second, the slurry pipeline between Dabuna and Paradip could not be completed in more than 2 years for want of environmental approval and hence we could not start pellet production.

However, we have left these things behind. We are in talks with our lenders to address past issues. Currently, we are ramping up production. Last year, out production was 3.83 mt.

Essar Steel Colour Coated Coils

What is your roadmap to ramp up production to 10 mtpa?

We expect to achieve the target within the next couple of years.

What will be your product mix and where will these be sold?

Essar Steel produces over 300 grades of steel. Last year alone we developed 17 new grades. Clearly, our focus is on value-added grades of steel. This gives us the flexibility to adjust our product mix to suit market demand.

Essar has 3 varieties of iron making facilities – Midrex, BF and Corex. While this gives you flexibility, it may prove to be a liability too. What is your view?

This is not correct. Definitely, the flexibility gives us freedom to use different raw materials and improve cost efficiency, depending on the prices of coal, coke and natural gas.

Essar is one of the major suppliers to the auto sector and is slowly creating a space in the high-end market. Your coated products are also well accepted in the international markets. How do you plan to leverage these advantages in the coming years?

While we continue to be a preferred supplier to the auto segment, we keep an eye on other segments as well. This is absolutely necessary given the volatility in the market. Dependence on one segment is not advisable.

In such a competitive industry where there are so many established players, how does Essar Steel differentiate itself from competition?

As I said, our products differentiate us from other players in the industry. We continue to work with our customers closely to develop new grades of steel to meet their quality and service expectations as well as future requirements.

When we were ramping up volume, we were quite apprehensive about our inventory levels, because we were re-entering the market and had to evacuate a lot. Today, we have one of the lowest inventory levels in the industry. This was possible due to the quality of our products, which is a big differentiator for us.

Essar Steel produces over 300 grades of steel. Last year alone we developed 17 new grades. Clearly, our focus is on value-added grades of steel. This gives us the flexibility to adjust our product mix to suit market demand.

In fact, when we ramped up production, the customers were happy that quality product has finally come to them and the industry was lapping it up. Today, our stock has remained where it was while competition's stock is going up.

The second differentiator is the quality of our sales and marketing team and the third is our range of products and delivery schedules.

Our range of products is the broadest and widest in India. We have all the products that you can think of in flats category, except CRGO.

The third differentiator is our wide market outreach through Hypermart. We are aiming to cover the entire country soon.

The fourth differentiator is our locational and logistical advantage. Being located on the west coast, we are physically close to most of our customers.

Besides, we have multimodal transport facility. Even on the east coast, we can reach our customers much faster through the sea route than road mode.

For example, for transportation of pipes to the east coast, we use a multi-modal transport system. We take the pipes by coastal movement to the nearest port on the east coast and from there we use roadways to take the same to the customer's place.

And we do it all in the most cost-competitive manner. We are just as competitive as players who have plants nearby on the east coast.

Also, for supplying steel to any of the markets in the north-east, we are as competitive as any of the plants located in the eastern region.

All the steel-makers in India are fully stretched at present. What is the situation in Essar?

The stress is only on account of past issues. We are working with our lenders to address this.

Both CDR and SDR have not helped Indian steel industry and it is felt that unless fresh funds are pumped in, on a case-to-case basis, almost all loans to steel producers will turn non-performing assets (NPAs). What could be the solution to this problem?

The root cause for this situation is dumping of steel at cheap rates by China and other countries impacting financial performance of our domestic steel-makers. With the introduction of MIP and "safeguard duties", this has been largely addressed. We have also asked the government to levy anti-dumping as a long-term measure to support the industry.

Since introduction of the MIP, the performance of the steel industry has dramatically improved. Support from the lenders and the government is crucial until the steel producers are completely out of stress.

What should be the government's role in addressing the issues in hand?

For the government, supporting the steel industry is necessary in the long-term interest of the nation. There is no doubt that the Indian steel industry is competitive in terms of operating expenses, but we need to guard against dumping of the material.

Furthermore, the government has to kick-start the economy by creating a conducive atmosphere that will encourage manufacturing so that steel demand gets a boost in future. ■