



IIMC CASE RESEARCH CENTRE (IIMCCRC)

PREETAM BASU, NILADRI CHATTERJEE

MARCH 2015

SECURING RAW MATERIALS: A CASE ON THE INDIAN STEEL INDUSTRY

“Economy is bleak without infrastructure. Hence the prime focus of my government is infrastructure.”

-Narendra Modi, Prime Minister, India 2014.

“With the new government in place, there will be a thrust on development of infrastructure and housing which would provide more avenues for steel consumption. This certainly augurs well for the Indian steel industry.”

- C.S. Verma, Chairman, Steel Authority of India Ltd, 2014.

The formation of the new government and its pledge to accelerate the Indian economy post the sixteenth Lok Sabha elections has given a positive impetus of growth in the infrastructure and manufacturing sectors, which in turn has fostered positive reactions, especially in the Indian steel industry. Since 2009, India has been ranked fourth in the list of largest steel producing countries of the world and has been expanding rapidly since, putting a stiff competition to its closest competitor, the US for the third position. Though the top three steel producing nations have remained unchanged in the last 5 years and have somewhat been stagnant in terms of their growth, the Indian steel industry has shown an impressive growth rate of 29%, which is second only to China, where the steel sector grew at a rate of 36%¹. It is interesting to note that the USA's steel production in the same period has been on the decline, and thereby it is highly probable that by the end of 2016, India will be the third largest steel producing country and will start to give serious competition to Japan. **(Exhibits 1-3).**

“With a per capita steel consumption in India of around 50kg and with the world average being around 180kg, India has not been able to realise the full usage of steel as compared to other countries.”

-H.M .Nerurkar, Ex-Chairman, Tata Steel Group

¹ http://en.wikipedia.org/wiki/List_of_countries_by_steel_production

This case was written by Professor Preetam Basu and Niladri Chatterjee at the Indian Institute of Management Calcutta. The case was prepared solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation.

Per capita steel consumption is often used as an indicator of development and modernisation of a country. It has been observed that as countries develop, they start to consume more steel. On an average, the global steel consumption per capita stands at 180 kilograms; for China, it is 477 kilograms; whereas South Korea, leading the pack has the highest steel consumption per capita in the world at 1140 kilograms. In comparison, India's steel consumption per capita is 50 kilograms for urban areas² and 17 kilograms for rural areas. In terms of revenue, India's steel sector accounts for 4.5% of the GDP, whereas in USA, it accounts for 15.1% of the GDP, with China close on its heels at 11.3% of the GDP (**Exhibit 3**).

However, the figures are just indicative of what has been the scenario so far; it is certain that the Indian steel industry is poised for a big leap in the next few years. There are many opportunities to witness an exponential growth in steel production and consumption in India. We present below some of the key indicators:

- \$1 trillion infrastructural investment plan envisaged to fulfil 9% GDP growth under the 12th five-year plan (2012-2017)³.
- New manufacturing policy 2013 released by the Ministry for Commerce and Industry which focuses at increasing the share of manufacturing in GDP to 25% from the current level of 15%.
- Large scale implementation of Government programmes like Pradhan Mantri Gram Sadak Yojna, the Golden Quadrilateral project, and Indira Awas Yojna.
- Proposed increase in the steel to cement ratio in construction from the current level of 0.3:1 to the global standards of 1.2:1.
- Rapid urbanization and creation of new cities and towns. Development and expansion of Tier 2 and Tier 3 cities in India.
- Tremendous growth potential for all the demand driving sectors for the steel industry, viz. automobile, consumer durables, real estate, energy and power utilities due to rapidly growing middle class and the massive purchasing power that they possess⁴.

These indicators are surely symbolic for the Indian steel makers. However, there are many challenges that confront the Indian steel industry. According to industry experts such as, H.M. Nerurkar and C.S. Verma, it all depends on how this thriving industry copes with the challenges and shapes the future of this crucial sector in unlocking its true potential and establishing its dominant role in the economic development of India. What are these battles that the Indian steel companies are fighting? What are the major issues that are ailing the Indian steel sector?

² <http://www.cptgl.com/steel-industry-in-india-2013-report.pdf>

³ [http://www.deloitte.com/assets/Dcom-](http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Images/Thumbnails/infra/Deloitte%20Background%20Paper_27Jan_Final2.pdf)

[India/Local%20Assets/Images/Thumbnails/infra/Deloitte%20Background%20Paper_27Jan_Final2.pdf](http://www.deloitte.com/assets/Dcom-India/Local%20Assets/Images/Thumbnails/infra/Deloitte%20Background%20Paper_27Jan_Final2.pdf)

⁴ <http://forbesindia.com/article/checkin/the-national-steel-policy-could-be-a-nonstarter/35713/1?utm=slidebox>