Mega steel PSUs merger in the making

Indian Iron and Steel Company's merger with Steel Authority of India Limited facilitated the latter to gain direct control of over 2.3 bn tonnes of iron ore reserves and over 400 mt of coal of the former with the cabinet committee on economic affairs (CCEA) clearing the merger proposal recently. The CCEA recently approved the proposal, which will now have to be cleared by the department of company affairs. SAIL will also need clearances from BIFR to complete the merger. Although, Iisco is a loss making unit, the company has valuable assets in the form of iron ore reserves and coal reserves which will be of great value to SAIL to achieve it's corporate plan which aims at raising production capacity to 20 mt by '12 with an overall investment target amounting to around Rs 25,000 crore. The availability of iron ore and coal in the right quantity and quality at the right cost remains the biggest concern of the steel major in achieving its corporate plan, an analyst said. To raise its hot metal capacity to 20 mt, SAIL will have to increase it's iron ore mining capacity to at least 35 mt. While its metallurgical coking coal requirement will increase from 13 mt to 16 mt, SAIL's raw material strategy '12 envisages development of Iisco's Chiria mines to produce 10 mt per annum. The merger will greatly facilitate the mine development programme.

Iisco's status

Despite having the loss making venture for a long time, Iisco has mining leases for some of the best and largest iron ore mines in the country. The Gua and Chiria mines under Iisco has reserves of over 2.3 bn tonnes of iron ore. While the collieries, which will, come under Sail's direct control has coal reserves of over 400 mt. The Chasnalla coal mine has reserves of 40 mt, Jitpur coal mines has a reserve of 16m tonnes, Tasra mines have reserves of over 285 mt and Ramnagore coal mines have reserves of 76 mt. Since Iisco was a subsidiary earlier, the former could not directly infuse funds into the company. However, the merger will allow SAIL to infuse funds into the entity for its revival, to increase the production capacity and develop the mines. Sail has already drawn up plans to invest Rs 3000 crore in Iisco to increase the steel production to 2 mt from 1 mt. The company presently manufactures not more than 40,000 tonnes of steel.

Jain's future plan

SAIL chairman V S Jain was very much excited with the Cabinet's nod to the merger in affirmation. "We are glad to know that the Cabinet has decided to merge Iisco, a subsidiary of SAIL, with its parent company", he said. Now, this will be followed with the required process and SAIL will accordingly take up the matter with the Department of Company Affairs and other agencies concerned. With this approval, SAIL is now in a position to finalize and implement future plans for further growth of Iisco. SAIL would invest in upgrading various facilities of Iisco at Burnpur as well as its collieries and mines. The Burnpur plant, which produces around 0.3 mt of steel at present, will be upgraded to enhance its capacity to around 2 mt by 2011-12. With SAIL's financial and managerial capabilities and availability of potentials with Iisco like mines/ collieries, large infrastructural facilities and good work culture, there would be greater synergy for capacity expansion and technological upgradation of the plant.

Iisco needs infusion of manpower from various SAIL units to strengthen it to meet the requirement of absorption of new technology, and also to bridge the gap in skills that have eroded over time. Inter se, transfer of skilled manpower between plants is easier than amongst separate companies. Iisco has infrastructure like land, mines, etc., which can be synergically used by SAIL more objectively. This would help both Iisco and SAIL in their respective growth plans. Inter-plant synergy and optimisation can also be achieved in many other areas like marketing, mines, sourcing of raw materials, financial matters, etc.

SAIL's suffering

Bokaro Steel Plant of Steel Authority of India Ltd could run out of iron ore from its captive mines at Kiriburu and Meghatuburu in West Singhbhum district of Jharkhand. The Kiriburu and Meghatuburu mines were left with meagre geological reserves of less than 80 mt and would be exhausted within ten years at the current rate of consumption. Among domestic mines, the most viable available mine appeared to be the Chiria iron ore mines as an alternative source of supply. However, further development of Chiria as a captive mine would be needed. This would also mean taking the mines away from its current leaseholder, Indian Iron & Steel Co Ltd (Iisco). The mines were ideally located to be utilised as an alternate source for sustained supply of iron ore to BSL at a competitive price. However, all the leases for the mine had historically been with Iisco, now also a subsidiary of SAIL. Limited mining was being done there by Iisco for many decades. Iisco had acquired the mine when it was a private company controlled by the Mukherjee family of Kolkata.

The mines passed into SAIL ownership when Iisco was nationalised in the era of state socialism and nationalisation. Owing to the limited requirements of the old Iisco plant and lack of investment in the company over the years, the capacity of infrastructure like power, rail lines and roads were limited at Chiria. To develop infrastructure at Chiria, involvement of several agencies like state governments,Indian Railways and state electricity boards would be essential. Detailed exploration work was done at Chiria by Mineral Exploration Corporation (MECL) in 1970-72.

Later, the Centre for Engineering & Technology (CET), the in-house consultant of SAIL, in a feasibility report, had estimated the mineable reserves in the Chiria North Block at 277 million tonnes up to 498 mRL at a cut-off 57 per cent iron content. MEL had divided the entire deposit into four blocks while undertaking the exploration work in two phases. Rest of the Chiria deposit needed to be studied further to establish their feasibility before the entire deposit could be certified as a techno-economically viable project capable of sustained supply to BSL on long-term basis. The Kiriburu and Meghatuburu mines have been operated for over 25 years. Identification and development of an alternate iron ore source had become a major issue for the Bokaro Steel Plant as it was planning to raise production of hot metal by 40 per cent by 2012 and therefore would be required to mine greater quantities of iron ore from now on. This could reduce the life span of the Kiriburu and Meghatuburu mines further. BSL is producing about 4.5 mt of hot metal as finished product every year at present and this required about 7 mt of iron ore annually. The entire iron ore came from the two mines at Kiriburu and Meghatuburu. The problem was a critical one and as of now, there appeared to be only two alternatives for BSL to secure supply of iron ore. The steel plant could either have gone in for procurement of iron ore from an external source to keep its furnaces running. Alternatively, it could have secured a fresh lease for development of additional domestic sources for use as captive iron ore mines. The price of purchased ore from external market would be much higher than that the unit's present cost of captive ore and the prices could fluctuate as well. External sources could not be relied upon so far as sustained and consistent supply of ore in required quantity and quality was concerned. The requirement of iron ore for BSL would increase from existing seven mt per annum to about 12 mt per annum to produce the increased volume of hot metal by 2012. Only Chiria appeared to be suitable at present. Hance, the current merger would have three-pronged benefits to

Iisco, SAIL and the government.

Mega merger of other steel PSUs on card

The ministry of steel is examining the pros and cons of merging all steel-producing PSUs on the one hand, and all mining PSUs on the other. If the government decides in favour of such a merger, it would lead to the creation of two state-owned behemoths in the steel and iron ore sectors. The steel giant, Steel Authority of India (SAIL) would then have a turnover of nearly Rs 43,000 crore and an annual production of crude steel of 17m metric tonne. The creation of such a mega-steel company would be in line with the consolidation-taking place globally in the steel sector. Yet, SAIL may at best move up from its 16th position to 12th or 10th position in the list of top steel-producing companies of the world as per '04 rankings. On the domestic front, though, SAIL would retain its second slot among the best performing PSUs (next to ONGC). Profit after tax for SAIL was at Rs 6800 crore while that of Indian Iron and Steel Company recorded at Rs 46 crore. Short of Rs 10,000 crore, the steel giant may even edge past Reliance in the consolidated list of profitable Indian companies. While the matter is at an initial stage, the idea is to align all steel companies on one platform and iron ore companies on another. The proposal to merge smaller companies with the SAIL was also being considered. Also, a proposal to merge Vizag Steel Plant or RINL is taking shape. SAIL's plans to acquire Neelachal Ispat Nigam are also known. Based on these, SAIL's turnover of Rs 31,800 crore, plus RINL's tunover of Rs 8182 crore, Iisco's turnover of Rs 1500 crore and NINL's Rs 1100 crore promises solid growth. Since the steel minister has also hinted at merger of subsidiaries with SAIL, Maharashtra Elektrosmelt's Rs 262 crore may be factored in. On the production front, SAIL's crude steel stood at 12,103 tonnes, while Iisco's was 357 tonnes and VSP's 3452 tonnes. If NINL scales up operations to produce crude steel as well, another 1m mt may be added on, taking the production of the proposed mega steel company to 17 mt.

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