

# The TISCO SAGA

Continuing its growth saga, Tata Steel has signed four pacts with the state government to invest Rs.530 billion (\$12.1 billion) in the steel sector in order to consolidate its presence in Jharkhand. India's leading steel firm would set up a greenfield integrated steel plant with a capacity of 12 million tonnes per annum in Manoharpur and Chandil regions of the state with an estimated investment of Rs.420 billion (\$9.5 billion). Moreover, the Tata group firm will double the capacity of the existing plant to 10 million tonnes per annum with an investment of Rs.110 billion (\$2.5 billion). Four memorandums of understanding (MoUs) were signed recently by the state's Chief Secretary P P Sharma and Tata Steel managing director B. Muthuraman in the presence of Chief Minister Arjun Munda and Tata Sons chairman Ratan Tata.

"We have been present in the state since our inception (in 1907) and the

singing of the MoUs reaffirms our commitment towards the development of the state," Muthuraman said in a statement. Two of the MOUs were related to co-operation in the area of human resource development by upgrading polytechnics and industrial training institutes (ITIs) in the state through expert assistance.

## Plants to be completed in two phases

The greenfield integrated steel plant will be set up in two phases,

the first of which will come up within 36-54 months, according to the MoU. The project will also include development of iron ore mines and other raw material sources including coal and logistic linkages for the plant, the release said. The expansion project for the existing plant will also be taken up in two phases, the first of which is already underway and the second is expected to be completed by 2008. The Rs 45,000-55,000 crore plant would be completed in nine years in two phases. It will be a greenfield plant with an eventual capacity of 10 million tonnes a year.

The first phase of the plant, targeting 5 million tonnes of steel a year, will be completed in four years at a cost of Rs 15,000-20,000 crore. The second phase will consume the subsequent five years and Rs 30,000-35,000 crore to take the total capacity to 10 million tonnes a year. Tata Steel will immediately commence a detailed study to identify a suitable location for such a



steel plant, the infrastructure to be created, captive raw materials required and the requirement of other facilities and clearances.

The study for the proposed plan is expected to be completed very soon after which the formal proposal of the plant would be sent to the state government. The company would like to sign a formal memorandum of understanding in this respect. The decision to set up a second plant in Jharkhand comes amid a slew of expansion announcements by Tata Steel, whose target is to increase its total capacity to 15 million tonnes by 2015. In recent times, it has talked about setting up a 6-million-tonne-a-year plant in Dhubri, Orissa, and a 3-million-tonne-a-year plant in Chhattisgarh. Besides, the capacity at its Jamshedpur plant, 5 million tonnes a year now, is slated to go up by 2 million tonnes by 2008.

### **Mega Investment in Chattisgarh**

Tata Steel has earmarked Rs 12,000 cr for plant in Chattisgarh in its 5 million tonne per annum greenfield steel plant in the state. Stating this, Tata Steel managing director B Muthuraman said that the company had signed a memorandum of understanding with the state government to this effect in June this year. Muthuraman said the company

was looking to acquire a steel plant in South Asia but no details were presently available. Tata Steel is becoming world class. The company was also looking forward to buying coal mines. The company is open to buying coal mines anywhere in the world. The possible site for the second plant is not yet finalized but plans are afoot for Manoharpur or Chandil in Jharkhand.

### **Favouring no iron ore exports**

Oposing exports of iron ore, Tata Steel favours the country using natural resources judiciously and conserve them for future purposes. The natural resources are limited in quantity. All

the industrialized nations in the world conserve their own reserves and in fact, import from countries, which have lesser utility for the ores. India is poised towards industrialisation and it is even more imperative for the country to use its iron ore reserves more judiciously.

"The demand for ores are going to rise manifold in the years to come. Since the resources are limited, we should conserve our resources and not open them for use by people whose sole purpose is to have control over the ores," Muthuraman said.

### **Few hurdles ahead**

Tata Steel's Jharkhand may not face any difficulty in raising Rs 55,000 crore for the project. But, equipment supplies and project management could be a hurdle the company may need to overcome.

Over the next 10 years, Tata Steel expects cash flows anywhere between Rs 60,000 crore and Rs 80,000 Crore "on conservative price assumptions". Enough for putting up 20 million tonnes of steel capacity, at a debt-equity ratio of 1:1.

The hurdles for the expanded project could be equipment supplies and getting people for project management.

The company is eyeing to import equipment from China. As per the company's plan, the first phase of the plant, targeting 5 million tonnes of steel a year will be completed in four years at a cost of Rs 15,000-20,000 crore. The second phase will take the subsequent five years and Rs 30,000-35,000 crore to enhance the capacity to 10 million tonnes a year.

Tata Steel has plans to grow its capacity to 25-30 million tonnes over the next decade. It proposes to set up a 6-million tonnes plant in Dhubri, Orissa, and a 3-million tonnes plant in Chhattisgarh.

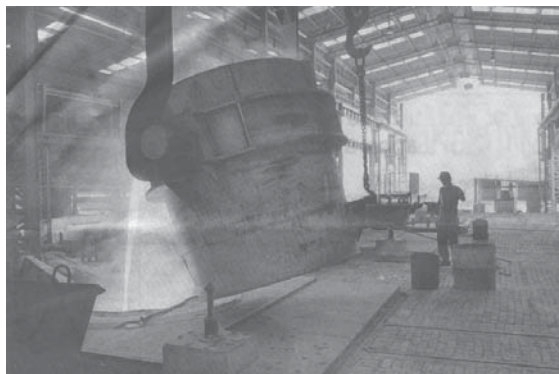
### **To start construction of SA plant**

Tata Steel would begin construction of its ferro-chrome plant

in South Africa in December and expects to commission it by the end of 2007 or the beginning of 2008. The company has finalised a new location for the unit, away from the previous site, Richards Bay, after resistance from local manufacturing units. The company is also planning to acquire coal mines in Australia to increase its fuel reserve. The company is looking at a few coal mines in Australia, but nothing has been decided yet. The company is planning to acquire a steel plant with a capacity of two to three million tonnes (mt) in South-east Asia, but nothing has been finalised.

The ferro-chrome plant in South

Africa will have a capacity of 1.2 lakh tonnes in the first phase with an investment of approximately Rs 300 crore. The company will be setting up



two furnaces with a capacity of 60,000 tonnes each. Ferro-chrome is manufactured from chrome ore and is used for making steel stronger and

less corrosive. The company has decided to put up its plant in South Africa to take advantage of cheap power, which accounts for around 50 per cent of the cost of production for ferro-chrome. However, the company expects a fall in its ferro-chrome sales during the current year by around 10 per cent because of declining demand. Last year, the company has sold 1.35 lakh tonnes of ferro-chrome. The ferro-chrome market is on a cyclical downswing globally with prices falling to 55 cents per pound of chrome, and is expected to recover only by 2008 when the company's South African facility would be ready for production. □□□

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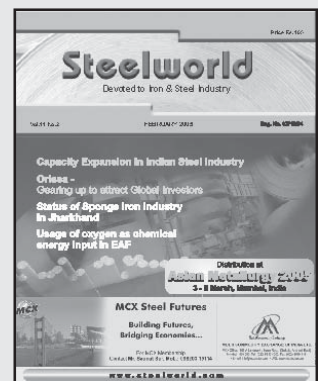
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