The Budget leaves Steel Sector unattended

- Steelworld Research Team

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The government's renewed emphasis on the country's infrastructure which was again enumerated in the Union Budget 2009 - 10, cheered steel sector partly. The supportive factor is the extensive allocation of infrastructure spending while the negative factor is the negligence of the industry's demand. According to industry experts, a boost in infrastructure spending is estimated to bolster steel demand through public-private partnerships (PPPs) model. The government's proposed Bharat Nirman and other affordable housing projects may also create additional demand in coming months. The budget would enable easier financing for infrastructure firms and allocated more funds to the country's highways, urban and irrigation projects but the market viewed that as insufficient. Experts feel that proposed investments in new roads, highways and ports will bolster demand for both construction - grade and flat steel.

No Change in Duty

The industry's demand to raise import duty from five percent now to 15-20 percent or impose about 25 percent safeguard duty has been remained unattended in the Budget. The Finance Minister Pranab Mukherjee, however, left all corporate tax rates unchanged. Justifying the Finance Minister's decision, Union Minister of Steel Virbhadra Singh said, "The

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country has no immediate plan to raise import tax on steel. However, we will encourage domestic use of iron ore rather than exports." Steel firms had demanded curbs on import of cheap steel to support local prices and imposition of a 15 percent export tax on iron ore to ensure supplies to local companies. Concerned over dumping of steel into the domestic market, where demand has been on the growth path, steel makers had appealed to the Ministry to increase duty to protect domestic players from cheap imports. There is already a 5 percent import duty on most steel items while iron ore lumps attract a tax of 5 percent.

Meanwhile, steel imports have declined by 5.3 percent to 1.41 million tons from 1.49 million tons in April-June period of this fiscal over the year-ago period. In June alone imports fell by 23 percent. Steel exports also went down by a steep 38 percent to 0.64 million tons as against 1 million tons in the same period last year. "Now dumping of steel is possible from CIS countries and China. That is one worry," Manoj Agarwal, managing director of Adhunik Metaliks, said. "The Budget did not talk about any public-private model for infrastructure. There is not much for infrastructure and it's not clear how to reduce the fiscal deficit," he added.

"Except the national highway project, no infrastructure benefits have been announced. No action has been taken even though the government wants to achieve infrastructure spends of 9 percent of GDP by 2014," B. K. Goenka, chairman of Welspun Group, which owns steel pipe manufacturing unit Welspun Gujarat and Welspun India, said.

Industry officials were concerned over the fiscal deficit, which could affect India's credit rating, making fund raising tougher, but Arvind Parekh, director, strategy, Jindal Stainless reads it as a "long-term" budget, calling it tax neutral. Fiscal deficit in FY10 is seen at 6.8 percent of GDP against a target of 5.5 percent, while total spending during the year was seen at Rs 10.2 trillion, up 36 percent from 2008-09. It's the first year of the 5-year period. For steel, it is going to be a demand-driven growth. Steel growth will come from the growth in the economy, Parekh added. Ispat Industries Executive Director (Finance) Anil Surekha also supported Parekh's view.

A Major Gain for Producers

Steel majors such as Steel Authority of India Ltd (SAIL), Rashtriya Ispat Nigam Ltd (RINL), Tata Steel, JSW Steel, Ispat Industries as well as mid-sized companies are likely to gain from the proposal of increasing spending on infrastructure. As proposed in the Budget, a 23 percent hike in allocation for highway development and Rs 5,000-crore increase in budgetary support to railways augurs well for the industry. RINL CMD P.K. Bishnoi said, "A step-up in infrastructure spending, higher allocation for highways and railways will raise steel demand. This has its own multiplier effect on the economy."

"This Budget has emphasised infrastructure building through substantially higher allocations for Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Bharat Nirman, national highways, railways and housing for paramilitary forces, apart from an initiative for funding PPP projects through India Infrastructure Finance Company Ltd (IIFCL) and banks," SAIL chairman S K Roongta said.

The railway is a huge consumer of steel through investment in new tracks and rolling stock. According to Binani Industries MD Vinod Juneja, the decision to remove excise duty from site fabrication is good news for the industry.

Sajjan Jindal, MD of JSW Steel, feels that this year's Budget can be referred to as the 'vision document' as it focused on rural, agrarian and social sectors, which will create a huge demand for goods and services for India Inc. The Finance Minister has drafted the roadmap to achieve the target of 9 percent GDP growth. The enhanced emphasis on infrastructure projects shows the determination of the government to boost domestic demand. This will further incentives other industries in the medium-term including steel."

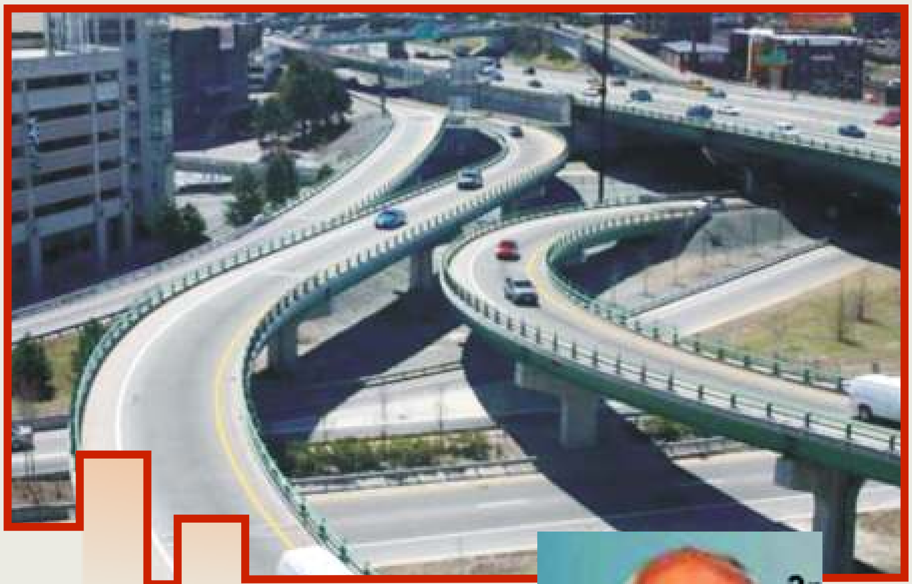
The government is clearly expecting increased PPP projects. The availability of Rs 100,000 crore of refinances from IIFCL and banks will ensure greater degree of sustainability to infrastructure projects in coming years. At a time when the government is under severe pressure to reduce the fiscal deficit, the abolition of FBT, surcharge on personal income tax and commodities transaction tax are especially welcome features. These measures would leave a lot of money in the hands of the spender, which is a good sign for the economy.

Tata Steel managing director B Muthuraman has termed the Union Budget as balanced and high on vision. He said the Budget provided the roadmap of government's priority in the second term. "The finance minister's commitment to restore the growth rate to nine percent in my view is the highlight of the Budget," Muthuraman said. He lauded the finance minister for his vision and clearly acknowledging the need for more private sector participation and government's focus in removing bottlenecks for investments and projects.

"The government's performance in the past gives us confidence that various ministries and departments will work towards achieving this growth target," Muthuraman said, adding, "The government's commitment to introduce GST (Goods and Services Tax) by 1st April, 2010 is indicative of its desire to reform the indirect tax system." At the same time, the Tata steel MD expressed disappointment over the government's stand on corporate tax rate and abolition of surcharge. "Industry was expecting a drop in corporate tax rate or at least abolition of surcharge. No change in corporate tax has disappointed the industry," he said. However, he termed the decision to leave indirect taxes untouched as a "positive" sign.

Loss on Cenvat Misuse

According to the latest report by the Comptroller and Auditor General of India (C&AG), the government has lost about Rs 1,374 crore in financial year 2007-08 due to misuse of central value added tax (Cenvat) credit facility in iron and steel sector alone.



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The payment of duty through Cenvat rather than by cash is excessive indicating possible misuse of Cenvat credit, said the CAG report presented in Parliament on July 10. Products, which are cleared from the stockyards (not factory gates where duty is paid), even after undergoing value additions escape duty as cutting and bending has not been declared as "manufacture". Hence, the CAG has recommended an amendment in chapter notes to allay this. Also, some manufacturers avail of quantity discounts to buy huge quantities of inputs, which is actually much more than required for manufacturing finished goods and they clear the goods as such at a premium. Absence of a restrictive clause on the quantity of inputs cleared and used in manufacturing of final products lead to misuse of the cenvat scheme, said the CAG report. It recommended amending the Act and rules to put restrictions on the percentage clearance of inputs cleared as such, which have been procured by manufacturers.

The report has also revealed a few systems as well as compliance deficiencies related to service tax on business auxiliary services. As many as 1,193 active unregistered service providers are escaping from the service tax net, which is resulting in actual loss of service tax of Rs 124 crore and an estimated service tax loss of Rs 15 crore, which is about six percent of the total revenue collected from this service. According to the report, the direct additional revenue, which could come to government, is Rs 893 crore. Likewise, the CAG audit found deficiencies in design, application and validation controls of the Indian customs electronic data interchange system (ICES), which led to incomplete capture of data leading to manual interventions and consequently incorrect levy of customs duty to the tune of Rs 220 crore.

Consumption flat

Total finished steel consumption was almost flat (-01 percent) at 52.05 mt for 2008-09 compared to the previous year. The imports for 2008-09 of 5.72 mt were down by 18.7 percent compared to the previous year, and exports at 3.66 mt down by 27.9 percent. The first half of 2008-09 had seen a rapid rise in consumption. Prices and profits of steel producers, spurred by these huge investments, were planned for capacity expansion accordingly. However, with the onset of the global economic crisis since September 2008, there had been a subsequent fall in the international steel prices. Domestic demand had also been impacted, in particular, by the sharp reduction in demand in some of the leading end-user segments of steel dependent on credit financing. On the supply side, the liquidity crunch negatively impacted steel investors' sentiments. The annual rate of 9.2 percent growth of crude steel production 2003-04 to 2007-08 came on the back of capacity expansion, mainly in the private sector plants, and higher utilization rates. Despite having diversified product mix to include sophisticated value-added steel for the auto sector, heavy machinery and infrastructure, Indian steel suffers from the high ash content of locally available metallurgical coal.

Range bound output by SAIL

India's largest steel maker Steel authority of India Limited has managed to sail through the global economic meltdown in 2008-09, retaining its steel production almost equivalent to the previous fiscal year 2007-08 at 12.5 million tons. It produced 13 million tons of saleable steel in 2007-08, 0.5 million tons higher than the last fiscal. It achieved the highest special steel production at 3.72 million tons, recording growth of 11 percent over the previous year. Its overall sales volume stood at 11.57 million tons, of which the contribution of long steel products used by the construction sector was 4.45 million tons.

Tata Steel production up

Tata Steel, a leading steel maker of the country, said its production surged by nearly 14 percent to 6.25 million tons in 2008-09 fiscal on the back of robust demand from sectors like auto and construction. In 2007-08, the company's hot metal production stood at 5.50 million tons, a statement from Tata Steel said. During the fiscal under review, the world's sixth largest steel producer also saw its sales volumes rise by 9 percent to 5.23 million ton as against 4.78 million ton. The sale of long products, mainly used in construction sector, was increased by 25 percent to 2 million ton from the earlier 1.60 million ton. In the segment of flat products, used by sectors like automobile and consumer durables, the company saw a marginal 1.25 percent rise in output at 3.22 million ton. Overall, Tata Steel's saleable steel production grew by 11percent to 5.37 million tons from 4.85 mt. Its crude steel output too went up by 13 percent to 5.64 million ton as compared to 5.01 million ton. The steel major's production and sales volumes registered an impressive double-digit growth in March also. Its saleable steel output increased by a maximum of 28 percent to 5.7 lakh tons while hot metal and crude steel volumes went up by 20 percent and 17percent respectively.

Better days ahead

The demand for steel in India is likely to go up further in the current fiscal backed by a healthy demand from long steel products used in construction, the activity of which is set to pick up due to low interest rates and fall in property prices. Steel prices, however, according to economic watchdog Centre for Monitoring Indian Economy (CMIE), would remain weak due to the subdued global economic environment. The steel minister, however, has hoped that India could very soon come out of the economic slowdown mainly boosted by the various timely measures taken by the government. Steel consumption will continue to grow at a pace varying between six and eight per cent during the current financial year fully supported by the fiscal, monetary and administrative measures exercised by the government from time to time, the minister said.

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