India's overseas investment
An eye opener for policy planners

- By Dilip Kumar Jha

Despite having tremendous potential in Indian iron and steel industry due to rising budgeted investment on infrastructure, the integrated steel producers are scouting for overseas investments. The idea floated by the first generation steel producer i.e. Tata Steel by announcing setting up of its ferro-chrome plant, first of its kind at Richards Bay in South Africa in 2002 and carried forward happily by the second generation steel producers including Ispat Industries and Essar Steel. Now, the question arises why these steel producers are crazy about overseas investments? Has it become a necessity or a prestigious matter? Do they have concrete plan for earning sufficient return or they are setting up steel plants because others, rather their competitors, are doing so? Several such questions arise and need to be answered from respective companies.

Companies going abroad

Tata Steel's South African unit

The announcement of ferro-chrome plant of Tata Steel, the private sector steel behemoth, was the response of a number of delegations' visit and subsequent invitation to Indian industrialists to benefit from the rich natural resources. Cheap electricity was the only inducement factor for Indian industrialists. Tata Steel had planned to set up a 120,000 tpa ferro-chrome smelter at Richards Bay in partnership with Industrial Development Corporation (IDC) of South Africa at an investment of over Rs 300 crore. It eventually intends to double the plant's capacity to 2,40,000 tpa and the plant is to be fully operational by 2008-09. The company planned to produce high carbon ferro-chrome with a 64 per cent chrome content and supply to stainless steel producers in Western Europe, Taiwan, Korea and India, but the project was being delayed in absence of environmental clearance.

Surprisingly, no other industrialists turned up with positive response. In 2002, when this announcement was made by Tata Steel, the company was planning to start trial run on this plant by 2005. But, sources close to the situation said that if the current speed of working goes on, the company would be able to begin trial production only after 2010.

The company faced enough hurdles apart from financial constraints which include objections to the plan over environmental issues from the local residents. Although, Tisco took it lightly and said that 'there are some competitors, who are trying to send this kind of message. They feel that our presence is threatening to them.' 'It (the objections) is not a cause of worry. Our project incharge had recently visited the area and the project is quite on time,' Tisco sources said. Concerns on environmental grounds could prolong the approval process, potentially delaying Tisco's plans to start construction.

Tata Steel's Singapore acquisition

Apart from celebrating its tercentenary in 2007 by capacity expansions, Tata Steel is all set to reach the 15 million tons capacity by 2010. Notably, keeping its ferro-chrome plant in back burner, the company announced a series of acquisitions in Asian region in order to cash in on the potential thrown open by Chinese infrastructure development and planned such growth in India. The company looks to have learned a lot from the success story of steel tycoon L N Mittal who began his career with the acquisition of a small Indonesian unit and today leads the world with more than 5 per cent of the world production under its fold.

The Tata Steel signed Definitive Agreements with NatSteel Limited of Singapore to acquire all of NatSteel's steel business for cash subject to regulatory approvals. NatSteel decided to spin off its entire steel business into a wholly owned subsidiary, NatSteel Asia Pte Ltd subsequent to which Tata Steel proposed to acquire 100% of the equity interest in NatSteel Asia. The enterprise value of the acquisition is Singapore $ 486.4 million (approximately Rupees 13,130 million). Under the terms of the agreement the enterprise value is subject to certain adjustments including those for any net debt, minority interest, other liabilities and for working capital variance relative to S$ 225 million.

NatSteel is the dominant steel producer of Singapore and owns steel mills in China, Thailand, Vietnam, the Philippines and Australia. The business is focused on long products and has a cumulative capacity to produce about 2 million tons per annum of rebars, wire rods, pre-stressed concrete wires and strands. The acquisition also includes a 26% equity interest owned by NatSteel in Southern Steel Berhad, a 1.3 million ton steelmaker in Malaysia. The transaction is expected to close in 5-6 months after obtaining all regulatory approvals. For the year 2003, the steel business reported a turnover of S$ 1.4 billion (Rupees 38.2 billion) and a profit before tax of S$ 47 million (Rupees 1.27 billion).

The acquisition is a significant step in Tata Steel's globalisation initiative and will act as a beachhead investment for Tata Steel in the high growth geographies of China and South East Asia. Through this transaction, Tata Steel will increase its manufacturing footprint to 7 new countries in Asia. The acquisition has a strong strategic fit with Tata Steel's current expansion plans and there are likely to be significant synergy benefits in the future as a consequence of the transaction.

In Bangladesh

Tata Steel signed a deal for a planned $2 billion investment in Bangladesh — the biggest single investment in the country. Bangladesh — despite its poverty, bouts of political turmoil and natural disasters — offered good potential. Tata plans to build a power plant, steel mill and fertilizer factory as part of the $2 billion investment package. Under the planned deal, Bangladesh has agreed in principle to guarantee a 20-year supply of natural gas for the Tata

projects: a 1,000 megawatt power plant with $700 million investment, a 1 million-tonne per-year fertiliser plant with $600 million investment and a 2.4 million-tonne steel mill with $700 million investment. To run all three plants, Tata would require up to 600 million cubic feet of gas per day.

Apart from setting up afore mentioned plants, Tata Steel is planning to invest around Rs 600 crore in a new pellet plant. The plant with a capacity of about 4 million tonne may either be set up in India or Bangladesh. The pellet plant will cater to the requirements of the steel project to be set up in Bangladesh as a part of the $2 billion that the Tata group is planning to invest in Bangladesh.

Tata Steel to acquire more steel plants abroad

Tata Steel will do whatever is possible by it for reaching the production capacity of 15 million tonne and the company will not hesitate acquiring another overseas steel plant to augment the capacity of the company. The company is looking for a suitable silo to set up a three-million tonne steel plant in the country.

Walking on the footsteps of LNM Group, Tata Steel too is scouting central and east European countries to pick up steel mills that may be up for privatization. State-controlled steel making capacities in countries like Czech Republic, Poland, Romania, Ukraine, Slovakia or Serbia are being slowly privatised. Few like the Lakshmi N Mittal controlled LNM Group, US Steel and the Corus group, have jumped into the privatisation spree to pick up steel mills. Some more mills in central and east Europe are on the privatisation anvil. Scope of consolidation of steel business in domestic market through the acquisition route is still a distant reality. This has prompted Tata Steel to start looking at some serious take-over options in central and east European countries.

The company is eyeing at privatisation of state-owned Kryvorozhstal Kryvy Rih in Ukraine, which has the world's largest deposit of iron ore reserves, along with integrated ore processing and steel making facility. Kryvy Rih region, one of the four iron ore deposit belts in Ukraine, is estimated to hold about 90 per cent of the country's 27bn tonnes of high grade ore. For this acquisition, Tata Steel is said to be ready with a war chest of about $1bn of investible fund. After some initial study, the company has approached the Ukrainian government showing interest in participating in the privatisation process of Kryvorozhstal. The state-owned ferrous company also has a steel making capacity of about 5m tonne per annum. Tata Steel, a 4.5 mt company, has also been in talks with China 's 19 mt Baosteel for alliances. The alliance could be strategic in nature in which Tata Steel may swap some of its existing surplus iron ore for supply of machinery or may even pick up strategic minority interest. Tata group chairman Ratan Tata visited Beijing mainly looking at investment opportunities in China including that in steel business. In Thailand, Tisco was once in talks with state-owned steel firm, Thai Union Steel (Tusco) for a takeover. Tata Steel is also planning to acquire some mines in South East Asia for which the company has already short listed the potential companies.

JSL widens its horizon

Lured with the acquisition of a cold-rolling mill in Indonesia last year for $30 million, the Ratan Jindal-controlled Jindal Stainless Ltd is scouting for more cold-rolling capacity in Taiwan, Vietnam and Thailand. This acquisition may be much larger than the one company did in Indonesia. This is worth mentioning that Jindal Stainless Ltd concluded a deal to buy a 40,000 tonne per annum steel plant in Indonesia. With the acquisition of the plant, the Jindal Stainless' cold rolling steel mill capacity will go up to 130,000 tonne per annum. The acquisition is part of the company's plan to ramp up production capacity to 400,000 tonne per annum and a turnover of Rs 6,000 crore by 2006.

Essar and Ispat may invest in Iranian firm

Ispat Industries and Essar Steel are holding parleys with the Iranian government for a possible investment in a state-owned steel company. Both the Mittals and Ruias are learnt to be open to the idea of either a stake acquisition or a management take-over of the Iranian firm. The Iranians are in look out for a technological collaboration for upgradation and expansion of their company and not 'ready for offering any stake in the company yet'. But, Indian sources are confident that was the Iranian side that has approached the domestic steel majors separately with offers for a possible 'collaboration'. In the beginning, the talks failed to make much headway because of the Iranian stand. This is part of Iran's larger plan of courting Indian sector to build their manufacturing base. Besides steel, they are in touch with Indian companies in other sectors also, such as automobile, energy and cement sector. The Iranian government is now planning a roadshow to attract foreign investment in their country.

The Iranian steel rolling venture currently has a capacity of under 1m tonnes per annum. It requires both capacity expansion and technology upgradation if it is to be made economically viable. Iranian government has an ambitious plan for its steel sector. In '02, Iran commissioned a direct reduction steel plant at Zamzam with a capacity to produce 8 lakh tonnes per year. More than 40 steel projects at various stages of planning or construction were underway by subsidiaries of the National Iranian Steel Co (Nisco). The combined capacity of these plants is estimated to over 8m tonnes of steel per annum. In addition, Nisco is working on cold roll mills, tinplate mills, large-diameter pipe mill. Some of the increased domestic demand for steel was to be generated by the automobile sector. But, the government and bureaucrats are in constant touch from both sides for possible deals. In near future, deals signed by Indian companies can not be denied.

Ispat has already taken up long-term lease and co-management of a 1.5mt finished steel plant in Libya — Libyan Iron & Steel Co (Lisco) on a profit sharing basis with the Libyan government. Lisco also has a 1.75 mt capacity sponge iron plant. But these plants never produced at more than 50 per cent of the rated capacity. During the last three months their capacity utilisation has gone up to 80 per cent. In August 2004, Ispat took over operations and management control of the 2.3mt Ajokuta Steel Plant in Nigeria, also on a profit-sharing basis with the Nigerian government. Ispat had also completed the process of acquiring 3mt National Steel Corp in the Philipines. The plant has been renamed as Global Steelworks International Inc and has started commercial production. The plant makes hot rolled coils, cold roll coils and tinplate. In Bosnia, it has acquired a 1.4mt coke plant.

JVSL to acquire blast furnace from Danieli

Jindal Vijayanagar Steel Ltd (JVSL) is planning to acquire a 1.3 million tpa blast furnace from the Netherlands-based steel major Danieli for its proposed capacity expansion plan, for Rs 350 crore. This is out of the overall expansion plan of Rs 1,275 crore which was to raise the capacity from 2.5 million tonne to 3.8 million tonne. The blast furnace will be installed at the JVSL plant in the Bellary Hospet region of Karnataka. The project is expected to be commissioned by March 2006. The company had, in August 2004, commissioned its blast furnace with a capacity of 0.9 mtpa from Euro Ikon Iron & Steel Pvt Ltd. The expansion of Rs 1,275 crore is likely to be carried out with low specific investment cost per tonne of Rs 9,800 thus reducing the overall interest and depreciation cost per tonne. Meanwhile, the company has also recently bought a second steel meltshop from the Llanwern works of Danieli Corus. The meltshop, equipped with basic oxygen furnaces, has a capacity of two million tpa and will be instrumental in achieving steel capacity by March 2006. JVSL and Jindal Iron & Steel Co fall within another branch of the OP Jindal Group called Jindal South West, whose chairman and managing director is Sajjan Jindal. Apart from the expansion in capacity, the company is actively looking at acquiring coal mines in Australia. The company has plans to reduce its debt to Rs 3,500 crore by March 2005 from the current Rs 4,100 crore. The debt will further be reduced to Rs 3,000 crore by March 2006, despite additional debt for expansion. The debt-equity ratio will then be reduced to 1:1 by March 2006.

Jindal Strips eyes assets in Thai, Indonesia and Malaysia

O P Jindal group company Jindal Strips is in talks with companies in Thailand, Indonesia and Malaysia for a possible acquisition by end of the current fiscal. Jindal is looking at acquisitions which would add a manageable capacity of 40,000-60,000 tonnes. Jindal Strips, which has been focussing aggressively on overseas markets, is also in the process of setting up offices in China, Vietnam and Europe. While these offices will be representative offices initially, they will be gradually converted into marketing offices.

$3m acquisition by Usha Beltron in Dubai

Usha Beltron (UBL), the country’s largest steel wire rope company, has acquired a wire rope plant in Dubai to serve its growing customer base in that region at an investment of $3m. This 40,000 tonne facility will now be used to cater to UBL’s markets in Saudi Arabia, Iran, Iraq and Pakistan. Usha Beltron, which is also the third largest producer in the world, exports more than half of its wire rope production. Usha Beltron previously had a distribution centre in Dubai and similar centres in Houston (US), Copenhagen, London and Singapore. This would be the second time that the company has made an acquisition abroad. In ’01, UBL bought out the UK-based Brunton Shaw, another wire rope unit, for 2m pounds. The aim is apparently to increase realisations from export markets, where the prices of wire ropes have gone up more than that in India. The move will help UBL cater to markets in the Middle East and in Pakistan as it takes longer to ship products from their Ranchi plant. Pakistan is a growing market and consumes about 4,000 tonnes. It is by the same logic that UBL has a plant in Bangkok, which uses 1,000 tonnes. Wire ropes are used in mining, oil exploration, ropeways and structural systems and also in automobiles, construction and engineering sectors.

Conclusion

Thus, India has been sending its huge investments abroad. The government and other agencies are making their extreme efforts for bringing foreign investors to the Indian shore but the government should also make an effort to facilitate steel producers with all possible means to restrict them within Indian territory. India, which is said to be the land potentials, is losing huge foreign reserves besides limiting job creations within the country through this.

The steel producers’ move overseas is mainly intending to supply their customers comfortably. They assume that easy supply can be made from close ambience. But, setting up plants abroad is not the only option through which the supply can be made smooth. The government of India can ease norms and reduce custom tariff for exports through which steel exporters can play safe and send their output abroad and bring foreign reserves to India.

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