

# India is among the fastest Growing Economies in the World.



M.K. Deshmukh, Director (Engineering), MECON

After graduation in Mechanical Engineering in 1971, Shri Deshmukh started his career as Mechanical Engineer at SAIL, Bhilai Steel Plant. Subsequently his services were transferred to MECON. He also obtained MBA degree in 1978 with highest marks and also acquired LL.B qualification in 1993.

Shri Deshmukh has so far been awarded seven gold medals for engineering excellence. Besides this, he was also awarded first prize by Ministry of Steel for the original book in Hindi on the subject of "Techno-economic Analysis of Steel Projects". Shri Deshmukh is a fellow and chartered engineer of the Institution of Engineers (India), life member of Indian Institute of Metals, Corporate Member of Indian Value Engineering Society, Chairman of CII, Ranchi Zonal Council and working President of Town Official Language Committee, Ranchi.

Over past more than 35 years, Shri Deshmukh has handled many prestigious assignments in Metals, Power and Infrastructure sectors in the country and abroad. His main forte has been Project Management & Technical Services, Project Formulation and Appraisal,

Turnaround Studies, Market Research, Contract Management, Human Resource Management, Corporate Planning, Value Engineering, etc. He has also visited countries like Netherlands, Nigeria, Saudi Arabia, Zimbabwe and Bahrain on official assignments.

Following is an in-depth conversation with M.K. Deshmukh,

**1. How do you see short-term as well as long term prospect of Asian Steel industry, in general and the Indian steel industry, in particular?**

**Asian steel industry**

Global steel industry has been booming since 2003 and Asia has become the epicenter of growth. Asia is now the main hub for the global steel industry. Global production of crude steel has grown from 752 million tones (Mt) in 1995 to 1,244 Mt in 2006, representing an average annual growth rate of 4.7%. Crude steel production is projected at 1,355 Mt in 2007 and 1,973 Mt in 2017. Of the total global crude steel production during the year 2006, China accounted for 34%, followed by Japan (9.3%). Global crude steel production witnessed a definite shift from Western hemisphere to Eastern hemisphere since the beginning of 1995.

The share of EU in global crude steel production has dropped by nearly 8% over the period and that of North America has dropped by around 6%. Asia has turned out to be the largest producer of steel aggregating 672 Mt in 2006 and commanding a share of about 54% of the global production. With GDP growth in China as well as India projected to exceed 9% per annum in coming years, the prospects for short-term as well as long-term are very bright.

**Indian steel industry**

India produced around 26.9 Mt of crude steel during 2000-01 which increased to 45 Mt by 2006-07. Steel demand has grown from 8 Mt in 1980-81 to 48.7 Mt by 2006-07 registering an annual growth rate of 7% during the past 26 years. The effects of globalization of steel industry, consolidation etc. is clearly reflected by the very high growth in demand in the recent years. Demand of finished steel has registered about 12.3% annual growth from 2002-03 to 2006-07 and this trend is expected to continue in the coming years. However, India's low per-capita steel consumption has been a matter of concern. As per the recent projections, per capita steel consumption is likely to increase to

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123 kg by 2019-20 from the present level of 42kg.

From the supply side, huge capacity expansion programme is on the cards. As per the proposals, total crude steel production capacity is going to increase by 57 Mtpa by 2010-11 and further 123 Mtpa created by 2019-20. With existing capacity of 56 Mtpa, total crude steel capacity will be around 230 Mtpa. Therefore, it can be reasonably argued that for both the demand side as well as the supply side of the Indian steel industry the outlook is bright.

## 2. Indian steel demand for 2020 has been revised to 180 Mt. Comments

India is among the fastest growing economies in the world. During 2006, India ranked second in terms of economic growth performance. Indian economy grew by around 8.5% in 2006 which is just below that of China (9.4%).

Other major demand drivers of steel, i.e., rate of savings and investment, industrial growth, growth of capital goods & consumer durables etc., have been showing excellent performance. As a result, the projections were revised. It will be worthwhile to go through a comparison of different estimates with the latest government statement on steel demand to understand things better. The Ministry of Steel, Government of India, foresees a demand to the tune 180-200 Mt BY 2020 while JPC-ERU forecasted a figure in the range of 184-200. IISI has estimated a demand figure of 180 Mt by 2020 (an optimistic scenario). MECON has independently carried out a rigorous forecasting exercise, using econometric modeling technique, on future steel demand and arrived at a figure of 200 Mt by 2020. Therefore, it is felt that the projected steel demand is likely to be 180--200 Mt by 2020.

## 3. Do you think India has sufficient consulting / contracting companies & manpower to build such huge capacity? What needs to be done?

The country today is capable of rendering total plant engineering services covering design of plant concept, basic engineering,

procurement services, detailed engineering, project monitoring, construction engineering for civil & structural work and supervision of erection & commissioning, for a modern large steel plant, or a mini steel plant, or a merchant coke ovens plant or a re-rolling mill. There are two major firms viz. M/s MECON Ltd. and M/s M. N. Dastur & Co. who are engaged in rendering such services, both within and outside the country. In addition, CET, the design wing of SAIL is providing consultancy and engineering services primarily to SAIL plants. Besides, a few private consulting firms have also emerged which provide consultancy services for selected units of the steel plants.



Though the challenges for both consultancy and contracting firms are going to be immense in view of large and rapid expansion of indigenous steel industry, through modernization, up-gradation technology absorption and adaptation, the challenges can be met to a large extent. However, the gestation period to train and consolidate knowledge base in a consulting firm is pretty high. Certain initiatives to attract talent especially from mechanical, metallurgical, electrical, instrumentation, chemical and mining engineering fields has to be taken.

Education and training institutions would need increased and better facilities provided to ensure availability of trained and skilled manpower for the steel industry. Moreover, the issue of creating

conducive environment to attract young talent in core industries including steel sector in the country would also need to be addressed adequately.

## 4. What role you see MECON playing in coming years to ensure seamless growth of Indian steel industry

There is a global resurgence in the steel sector led by Chindia (China and India). It is expected that in order to meet the steel demand in the country, the anticipated crude steel capacity addition of around 30 Mt and additional 85 Mt would be required by the terminal years 2011-12 and 2019-20 respectively. The corresponding order of investment required would be around Rs 1,20,000 crores by 2011-12 and additional Rs 3,80,000 crores by 2019-20 thus aggregating to total investment of around Rs 5,00,000 crores by 2019-20.

To-day, all the major steel giants (SAIL, TATA, JINDAL, BHUSAN, POSCO, ESSAR, MITTAL etc) have embarked upon ambitious capacity addition plans either through brownfield expansion or through the greenfield route. MECON being the prime consultant in the steel sector in the country is expected to play a key role especially in design, engineering, consultancy and project management of major steel projects in the country.

## 5. Your expectations from the forthcoming budget.

As the 11th Five Year Plan emphasizes an industry-led growth, significant changes are expected in the budget. Industry sectors, specifically the core sectors like steel, power, petroleum, oil and gas, infrastructure are likely to be give priority. Fiscal incentives are expected for the investors in these sectors. Moreover, special emphasis may be given on FDI so as to attract foreign investors. Indian steel industry has already become an attractive area for domestic and global investors and therefore, it is expected that government will take necessary steps through the budget to provide full support to industry, in general and steel in particular.