

# **ASSOCHAM INVESTMENT METER**

**“Steel players announce capacity expansion plans of 31 mt in Q4”**

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## **Steel players announce capacity expansion plans of a whopping 31 million tonne in Q4: ASSOCHAM**

With the steel prices increasing by more than 30 per cent in 2008, the industry announced capacity expansion plans of 31 million tonne in the last quarter of 2007-08 in order to meet the fast growing demand, stated the readings of ASSOCHAM Investment Meter (AIM).

According to the corporate announcements tracked by AIM over the quarter ending March 2008, the industry majors lined up investments of as much as Rs. 89,240 crore in the steel sector during the three months.

While the steel production grew at only 5.2 per cent in 2007-08, consumption grew at 11.72 per cent. The total production of finished steel in the country was about 55.26 million tonne in 2007-08, as against consumption of almost 51.80 million tonne. More than expected growth in demand coupled with rising raw material prices has been pushing the steel prices up.

“Even if two-third of the investment announcements materialize, the resultant capacity expansion would be instrumental in easing the pressure on prices in long run”, said Mr. Venugopal N Dhoot, ASSOCHAM President.

The findings of the study suggest that the capacity augmentation plans announced by the Corporate India during Jan-Mar 2008 alone may increase the production capacity to about 85 million tonne.

The study found that iron ore and coal rich state Orissa attracted almost half of the total capex announcements made in the steel sector with planned investments of about Rs. 45,000 crore.

### Capex Announcements in Steel Sector in Jan-Mar 2008

State	Planned Investments (In Rs. Crore)	Planned Capacity Expansion (In million tonnes)
Orissa	45,000	18.5
Chhattisgarh	16,000	5
West Bengal	11,900	3.7
Jharkhand	7,000	3

Data Source: Corporate Announcements, Jan-Mar 2008

Other prominent destinations chosen by the steel companies to build steel plants are Chhattisgarh, West Bengal and Jharkhand. The amount of capital expenditure involved is pegged to be around Rs. 16,000 crore, Rs. 11,900 crore and Rs. 7,000 crore respectively.

As the economy is expected to expand at 7-8 per cent in coming years, the demand of steel would also increase correspondingly. According to the working group on steel for the 11<sup>th</sup> five year plan, the demand of steel is expected to be 66-70 million tonne in 2011-12. The meeting of increasing demand at reasonable prices would depend on the extent of capacity expansion.

“It is imperative to maintain investment friendly environment in order to ensure that planned investments are actually made and capacity gets enhanced as quickly as it is possible”, stated Mr. Dhoot.

With the corporate India planning to install nearly 18.5 million tonne of steel plants in the state of Orissa, it has led in terms of capacity addition plans also. Other states viz. Chhattisgarh, West Bengal and Jharkhand are expected to host 5 million tonne, 3.7 million tonne and 3 million tonne steel plants respectively.

Bhushan steel has divulged the most ambitious investment plans by earmarking Rs. 26,000 crore for building 12 million tonne capacity in the states of West Bengal, Jharkhand and Orissa.

Taking note of the growing consumption of steel in India, Vedanta Resources plans to spend Rs. 24,000 crore to enter into the steel sector. The plant would be located in Orissa with a capacity of 5 million tonne.

Tata Steel also intends to build a 5 million tonne plant in Chhattisgarh with an outlay of around Rs. 16,000 crore. MESCO Steel proclaimed to deploy Rs. 10,000 crore for expansion of two of its steel plants situated in Orissa.

The sector had already attracted a whopping Rs. 1,22,950 crore of capex announcements in the third quarter of the fiscal 2008. Thus, the India Inc. has committed a total of Rs. 2,12,190 crore in capacity expansion over October 2007-March 2008. However, few of the announcements made could be an overlap of previous months.

The study further found that almost 90 per cent of the total investments planned by the steel majors would be made in building up of new steel plants, thereby generating fresh employment. The remaining 10 per cent would be utilized in expansion of existing plant capacity and building up of steel processing units among other activities.

### **Production & Consumption of Finished Steel**

<b>Financial Year</b>	<b>Production (in '000 tonne)</b>	<b>Growth (in per cent)</b>	<b>Consumption (in '000 tonne)</b>	<b>Growth (in per cent)</b>
2005-06	46,566	-	41,433	-
2006-07	52,529	12.81	46,783	12.91
2007-08	55,260	5.20	51,800	10.72

Data Source: Answer to Unstarred Question no. 3535, Rajya Sabha