



UNION BUDGET 2014-15 Analysis- Iron and Steel Sector

I. Industry scenario:

Globally the steel industry is witnessing a slowdown in the steel demand due to reduced demand from Chinese economy as its being transformed from investment-driven to consumption-driven economy which consumes around 45% of the global steel production. Further with respect to India, the delay in execution of construction projects and lower demand of automobiles & consumer durables have led to a drop in the growth rate of steel sector in the Indian economy.

The prevailing over capacity in the industry and staggering demand from the end-user industries is leading to a constant pressure on the prices of steel products. Further, the steel companies in India are experiencing a rise in operating costs due to shortage of iron ore on the account of restriction in mining and hike in power rates. Eventually, the pressure on prices of steel products coupled with rising operating costs has led to declining operating margins.

II. Previous Budget proposal:

- ✓ Decrease in custom duty for bituminous coal from 5% to 2% and CVD from 6% to 2%.
- ✓ Increase in custom duty on steam coal from nil to 2% and CVD from 1% to 2%.
- ✓ Flat rolled products of iron or non-alloy steel, plated or coated with zinc to be exempted from export duty retrospectively from March 1, 2011.

There were no major announcements for the steel industry in the Budget 2013-14 as well as the interim budget 2014-2015 due to which the overall impact on the steel sector was neutral.

Steel industry is a capital intensive industry which is majorly dependent on banks for its capex finance as well as working capital finances. Thus, due to continuous slowdown in demand, rising operating cost and decreasing operating margins, the companies across the industry faced huge pressure on their credit profile which led to tightening of liquidity from the banks.

Thus, many of companies in the Steel Products industry were downgraded by credit rating agencies during the past one year.

III. Expectations from Budget 2014-15:

- ✚ To protect the domestic stainless steel manufacturers, it was expected to increase the basic customs duty on the stainless steel final products from 5% currently.
- ✚ To reduce the steel imports of final products and protect the domestic steel manufacturers, it was expected to remove the steel products from ambit of free trade agreements (FTA) with Japan and South Korea which presently carries lower import duty as per the agreement.
- ✚ On the back of restriction in iron ore mining, it was expected to remove the custom duty on iron ore imports (from 2.5% to 0%)
- ✚ In order to protect the domestic stainless steel industry from rise in procurement, cost of stainless scrap as well as mild steel scrap and maintaining its viability and promote its long term growth and development, it was expected to the withdraw the hike in basic custom duty on scrap imports of 2.5%.
- ✚ To increase the efficiency of operations, divestment of government stake in PSUs was expected with clear timelines and procedures.
- ✚ To improve the return on investment in the steel industry and to attract fresh investments, and to optimise the capital expenditure in steel business, it was proposed by the Industry faculty to provide the weighted deduction of 150% of the expenditure under section 35AD of the Income Tax Act.

IV. Union Budget 2014-15 proposal:

Budget Proposal	Impact on industry
✓ Rationalised custom duty on all grades of coal to 2.5% i.e. Anthracite coal, bituminous coal, coking coal, steam coal and other coal to attract 2.5 % basic customs duty and 2 % CVD	Positive Process of importing the coal becomes simpler
✓ To Increase custom duty on Imported Flat Roll stainless Steel from 5% to 7.5%	Supports flat stainless steel manufacturers
✓ Launch or various infrastructure initiatives like opening of more avenues for funding of infrastructure, urban development, formation of smart cities, revival of SEZ etc.	Positive in long run as infrastructure development results into increasing demand of steel and allied product
✓ Investment linked deduction allowed to slurry pipelines for transportation of iron ore.	Positive as it will encourage steel players to setup slurry pipelines and will reduce transportation cost and wastages

Except increasing the import duty on flat stainless steel product, all other direct demands of the industry were not fulfilled by the budget. However, we consider the budget slightly positive for steel sector as Government has given huge momentum towards infrastructure reforms which in long run will result in increasing demand of steel products.

About XMPUS:

- ✚ XMPUS is a Financial Advisory firm specializing in Credit Risk Assessment.
- ✚ Set up on July 25, 2013, by first generation entrepreneurs having over 20 year experience in finance industry, including 13 years of Credit Rating Industry.
- ✚ Set up with an Aim :
 - ✓ To act as Internal Credit Risk Assessment desk for the corporates
 - ✓ To achieve deserving long term sustainable Credit Rating for the corporates
 - ✓ To channelize company resources in a profitable and efficient way
 - ✓ To help the management streamline operations with a view to improve financials



About Partners:

Mr. Mahendra Patil, FRM -

- ✚ Co-founder of XMPUS Financial services has a Master's Degree in Commerce and M.M.S. (MBA) from Jamnalal Bajaj Institute of Management Studies. Besides, he is a Certified Financial Risk Manager (FRM) and has completed CFA-II (USA).
- ✚ He has overall experience of about 12 years in various fields, of which 7 years is in Credit Rating Industry.
- ✚ He has worked on 500+ rating assignments from various industries ranging from Power, Steel, Shipping, Shipbuilding, Ports, Logistics, Real Estate, Roads, Power Transmission Structures, Retail, Tyres, etc.
- ✚ Prior to starting XMPUS, Mahendra Patil was a part of CARE's Internal Rating Committee.

Mr. Umeshpratap Singh, FRM, CFA –

- ✚ Co-founder of XMPUS Financial Services is an Engineering Graduate and M.M.S. (MBA) from Jamnalal Bajaj Institute of Management Studies. Besides, he is a Chartered Financial Analyst (USA) and Certified Financial Risk Manager.
- ✚ He has an Overall Experience of about 8 years in various fields, of which 6 years' experience is in Credit Rating Industry. He has worked on 500+ rating assignments from various industries ranging from infrastructure, construction, real estate, textile, hotel, Gems & Jewellery etc. He acted as one of the Rating Heads in CARE and handled a team of 20 analysts.
- ✚ Prior to starting XMPUS, he had collected valuable experience of over two years in corporate finance field with one of the largest corporate groups in India.

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