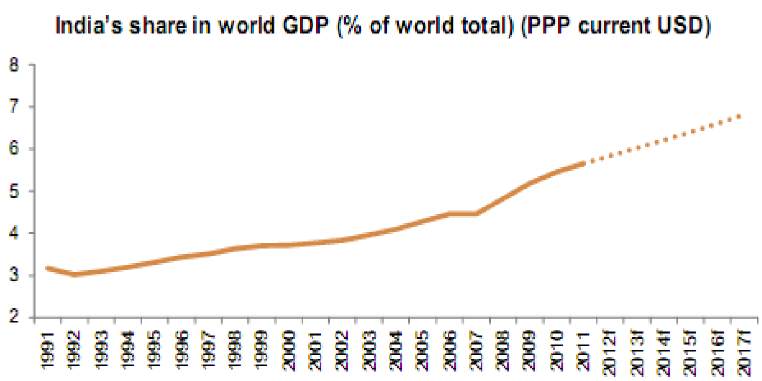
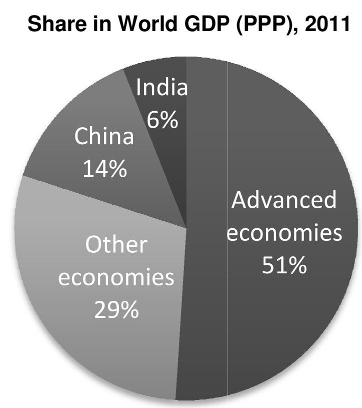
INTRODUCTION

Overview of Indian Economy:

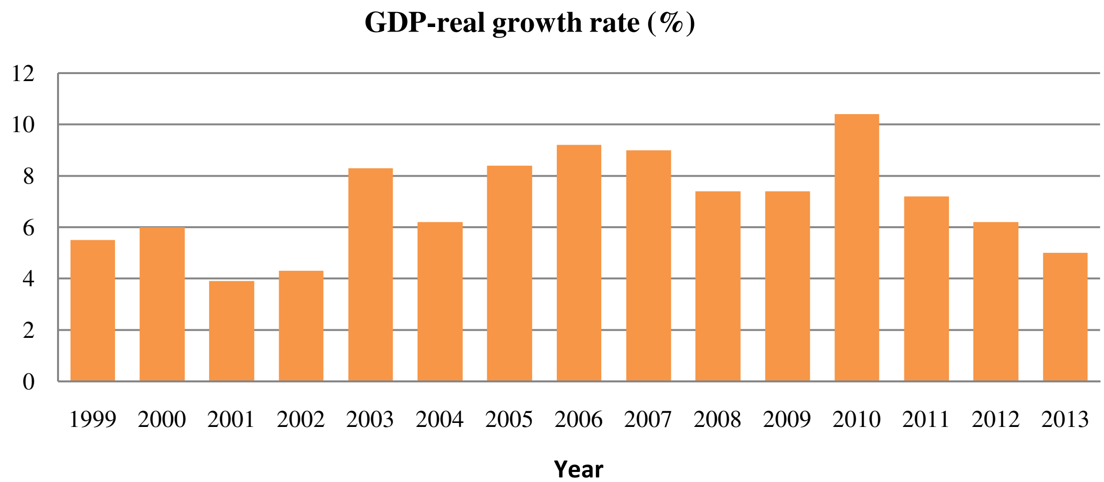
India, the world's largest democracy in terms of population (1,220 million people) had a GDP on a purchasing power parity basis of approximately INR 58 trillion in June 2013. This makes it the fourth largest economy in the world after the United States of America, European Union and China. The outlook for India's medium-term growth is positive due to a young population and corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. (*Source: CIA World Fact book as on April 22, 2013 & http://eaindustry.nic.in/Key_Economic_Indicators/Key_Economic_Indicators.pdf*)
(Source: https://www.cia.gov/library/publications/the-world-factbook/geos/in.html)





(Source: "Fact Book" from Department of Economic Affairs, Ministry of Finance, Government of India, June 2012)

The Indian economy's performance in FY 2012-13 and Q1 FY 2013-14 was marked by slowing growth and widening fiscal and current account gaps. The slowdown was partly rooted in external causes, while domestic causes like higher inflation, supply side constrains and policy inaction also put a drag on the economy. With GDP growth of 4.4% in Q1 FY13-14, the economy grew at its slowest quarterly pace in four years with mining, manufacturing and construction dragging growth down. Weakening of both domestic and external demand contributed further to the slowdown. Post 2008 crisis, Reserve Bank in response to the high inflation persisted with tightening till October 2011 and paused before easing in April 2012. The inflation has eased in last year though slowing growth, and widening twin deficits on the back of policy inaction along with global flight to safety amidst a deepening euro area crisis put pressures on the financial markets and the exchange rate during the year. As a result, Rupee has depreciated significantly in last one year further widening India's macro-economic problems.



(Source: http://www.indexmundi.com/g/g.aspx?v=66&c=in&l=en)

The Indian economy was one of the fastest growing economies in the post-crisis period. During 2012-13, however, there was continuous deceleration of economic activity in each of the four quarters which pushed the expansion of the economy to below potential and the economic growth hit 4.4% in Q1 of FY 2013-14.

Growth slowed down due to multiple factors. One of the reasons was the persistence of inflation at a much higher level than the threshold for two successive years. Persistent and high inflation necessitated continued tightening of monetary policy. Even after reducing inflation in recent time, widening twin deficits has prevented RBI to pursue aggressive monetary easing. Recent research suggests that real interest (lending) rates explain only about one-third of GDP growth.

This suggests that non-monetary factors played a bigger role and accentuated the slowdown to beyond what was anticipated while tightening the monetary policy. Recession in the euro area and general uncertainty regarding the global economic climate chipped the external demand as well. Domestic policy uncertainties, governance and corruption issues amidst lack of political consensus on reforms led to a sharp deterioration in investment climate. Structural constraints emerged in key investment drivers in the infrastructure space – telecom, roads and power – which increased the disinflationary costs. High inflation kept aggregate demand and business confidence subdued.

Overview of Steel Industry

India's economic growth is contingent upon the growth of the Indian steel industry. Consumption of steel is taken to be an indicator of economic development. While steel continues to have a stronghold in traditional sectors such as construction, housing and ground transportation, special steels are increasingly used in engineering industries such as power generation, petrochemicals and fertilisers. India occupies a central position on the global steel map, with the establishment of new state-of-the-art steel mills, acquisition of global scale capacities by players, continuous modernization and up gradation of older plants, improving energy efficiency and backward integration into global raw material sources.

India has become the world's fourth-largest producer of crude steel. The country is slated to become the second-largest steel producer by 2015 as large public and private sector players strengthen steel production capacity in view of the rising demand.

The total market value of the steel sector in India stood at US$ 57.8 billion in 2011 and is expected to touch US$ 95.3 billion by 2016. Total crude and finished steel production grew at a compound annual growth rate (CAGR) of 6.6 per cent and 4.2 per cent over FY08-11 to reach 69.6 million tonnes (MT) and 66 MT respectively.

Steel consumption is expected to grow at an average rate of 6.8 per cent to reach 104 MT by 2017 driven by rising infrastructure development and growing demand for automotives. The infrastructure sector is India's largest steel consumer, accounting for 63 per cent of total consumption in FY11. Attracted by the growth potential of the Indian steel industry, several global steel players have been planning to enter the market. The Government of India (GOI) has allowed 100 per cent foreign direct investment (FDI) in the sector through automatic route in order to attract foreign investments.
(Source: www.ibef.org)

Steel industry is heavily dependent on raw material and bulk movement. For every tonne of steel produced about four tonnes of raw materials requires to be transported. Indian steel industry is facing difficulties and delays caused due to inadequate infrastructure for transportation and handling bulk materials. Most of the steel plant does not have proper connectivity through rail network to mines and ports. Bulk handling facility at majority of the ports, mines and steel plants are of low capacity causing delays in loading & unloading. In most cases road networks connecting steel plants to mines and ports are congested leading to delays in supply and delivery of raw material and other items.